



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Communities and Local Government

Investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership

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Department for Communities and Local Government

Investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 28 November 2017

This report has been prepared under Section 6 of the
National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

27 November 2017

This investigation was prompted by concerns raised about Greater Cambridge Greater Peterborough Local Enterprise Partnership. We used the concerns to test the Department for Communities and Local Government's oversight and the operation of the Local Enterprise Partnership National Assurance Framework.

Investigations

We conduct investigations to establish the underlying facts in circumstances where concerns have been raised with us, or in response to intelligence that we have gathered through our wider work.

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Contents

What this investigation is about 4

Summary 8

Part One

Background 11

Part Two

The framework for Local Enterprise
Partnership assurance 15

Part Three

Governance of Greater Cambridge
Greater Peterborough Local
Enterprise Partnership 22

Appendix One

Our investigative approach 28

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What this investigation is about

1 In March 2017, Mr Stephen Barclay MP wrote to the Comptroller and Auditor General, raising concerns about the Greater Cambridge Greater Peterborough Local Enterprise Partnership (GCGP LEP).¹ Mr Barclay also shared his concerns with the Department for Communities and Local Government (the Department). These included:

- the way GCGP LEP managed conflicts of interest;
- a perceived lack of transparency about the way GCGP LEP made decisions on investment; and
- a perceived lack of clarity about GCGP LEP's relationship with local developers and lobbying groups.

2 The Department carried out an internal review in response to the concerns raised by Mr Barclay. In March 2017, it temporarily withheld funds from GCGP LEP, pending the completion of a more extensive review.

3 In this investigation we have considered the concerns raised about GCGP LEP. We have also used Mr Barclay's concerns to test and investigate the extent to which the Department can rely on the Local Enterprise Partnership National Assurance Framework (the national framework) to manage delegated government funding effectively. Our remit under the National Audit Act 1983 (as amended) does not extend to scrutinising the activities of individual Local Enterprise Partnerships (LEPs), but GCGP LEP has cooperated with this work.

4 We undertook our investigation between March and July 2017. The Summary sets out our findings; Part One sets out the background; Part Two the local assurance framework; and Part Three the governance of GCGP LEP. Our methods are set out in Appendix One.

¹ Available at: www.gcgp.co.uk/

What is a Local Enterprise Partnership?

5 LEPs are business-led partnerships between the private sector and local authorities that are established to drive economic growth in local areas. There are 38 LEPs in England. Each operates across more than one local authority, and is designed to cover a local functional economic area.² Through the Local Growth Fund, the government is committing £12 billion to local areas in England between 2015 and 2021. The government has awarded £9.1 billion of this through Growth Deals with LEPs. The remaining £2.9 billion is being awarded via separate funds.³

6 The Department relies on the national framework to assure itself that funds allocated to individual LEPs are being managed appropriately.⁴ The national framework is designed to guide local decision-making to support accountability, transparency and value for money. It sets out what the government expects LEPs to cover in their own local assurance frameworks. Its purpose is to “...ensure LEPs have in place the necessary systems and processes to manage delegated funding from central government budgets effectively”.

7 We have previously assessed the effectiveness of LEPs’ own assurance frameworks. Our March 2016 report, *Local Enterprise Partnerships* set out a number of concerns about the operations and accountability of LEPs. We recommended specifically that the Department:

- “tests the implementation of local assurance frameworks before confirming future funding allocations, and works with LEPs to ensure that the required standards of governance and transparency are being met.”⁵

The Department put in place actions to meet our recommendations including revising the national framework in November 2016.

8 In **Figure 1** on pages 6 and 7, we set out a timeline of key events from July 2016 to November 2017.

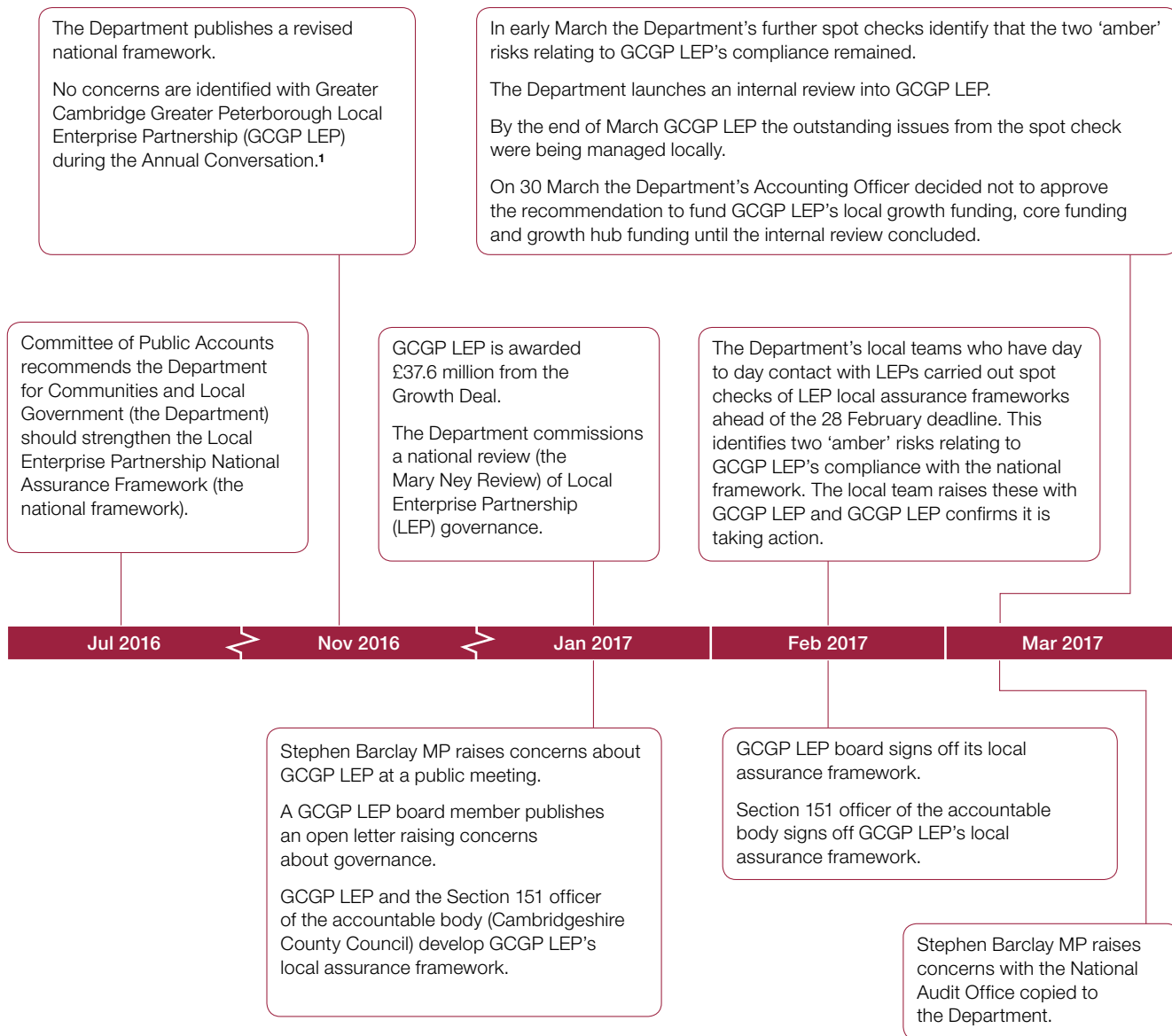
² A functional economic area is one which covers a relatively coherent and cohesive network of trade.

³ The Local Growth Fund is a single pot of funding that draws together existing government skills, housing and transport budgets from 2015-16 onwards. Central government asked LEPs to develop multi-year strategic plans detailing funding proposals for the Local Growth Fund (and EU structural funds) covering 2015-16 to 2020-21. These plans are used as the basis for negotiating Growth Deals between central government and each LEP. The Growth Deal is the partnership between central government and each LEP that aims to achieve economic growth.

⁴ Department for Communities and Local Government, *Local Enterprise Partnership National Assurance Framework*, November 2016, available at: www.gov.uk/government/publications/local-enterprise-partnership-national-assurance-framework

⁵ Comptroller and Auditor General, Department for Communities and Local Government, *Local Enterprise Partnerships*, Session 2015-16, HC 887, National Audit Office, March 2016.

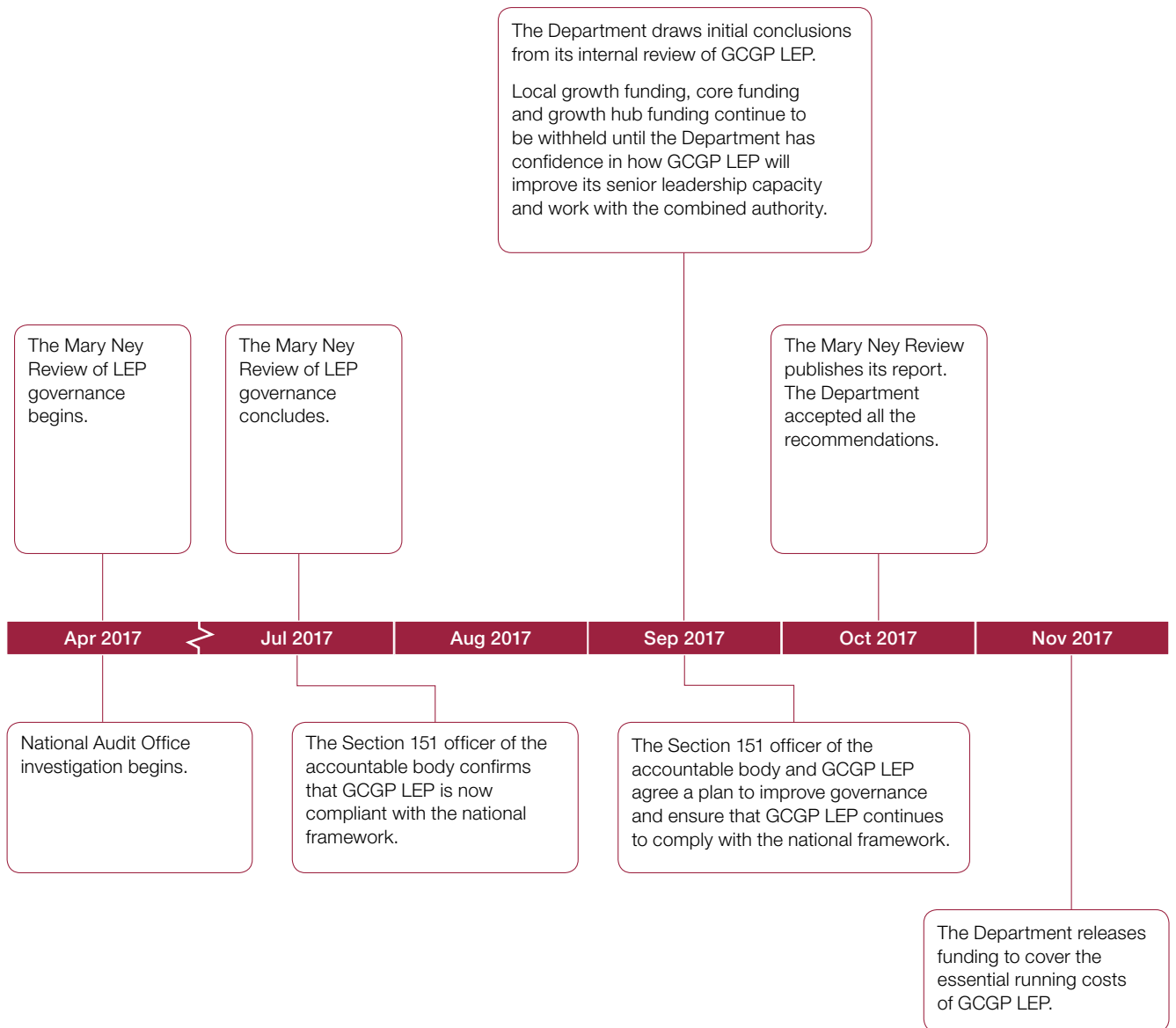
Figure 1
Timeline of key events



Note

¹ Annual Conversations are a formal discussion between government and each LEP to review performance and discuss priorities and challenges for the year ahead.

Source: National Audit Office analysis of Department for Communities and Local Government documents



Summary

Key findings

On the Local Enterprise Partnership National Assurance Framework

1 The Department for Communities and Local Government (the Department) has taken a 'light touch' approach to working with Local Enterprise Partnerships (LEPs) because its intention was to devolve funding decisions to local areas.

The Local Enterprise Partnership National Assurance Framework (the national framework) is designed to be 'light touch' and the Department relies on practices and standards designed to ensure that LEPs spend their funding with regularity and propriety and that they achieve value for money. The Department carries out spot checks of the local assurance frameworks. It relies on its local relationship managers to manage emerging risks and issues. (paragraphs 2.6 to 2.10).

2 The national framework sets out the key tasks that accountable bodies and statutory officers must carry out when certifying that LEPs have complied with the national framework. However, the framework does not set out how the accountable body and statutory officer should fulfil their roles in terms of the level of detail required. In addition, the national framework does not set out what a Section 151 officer should do if they have concerns about the way an LEP is operating, nor how they should escalate any concerns they may have. (paragraphs 2.11 to 2.17).

3 The Department does not have the same intervention powers for LEPs as it does for local government. As LEPs are private bodies, the Department's powers do not extend to them and so the government's ability to respond to failure is limited. The government's main sanction over LEPs is to put conditions on funding, or to withhold it. (paragraph 3.16).

On the governance of the Greater Cambridge Greater Peterborough Local Enterprise Partnership

4 Concerns about the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership (GCGP LEP) had been raised locally in January 2017. In early 2017, a public sector member of the GCGP LEP board raised concerns about deficiencies in GCGP LEP's local assurance framework. Mr Stephen Barclay MP also raised concerns about the management of conflicts of interest in January 2017. (paragraph 3.2).

5 In February 2017, the Section 151 officer of the accountable body (Cambridgeshire County Council) certified GCGP LEP’s local assurance framework as compliant with national requirements, without fully checking all supporting documentation. In February 2017 the GCGP LEP Executive considered the local assurance framework was compliant with the national framework and could be approved by the board. On this basis the Section 151 officer of the accountable body certified the local assurance framework as meeting the requirements of the national framework, but did so without reviewing the adequacy of all supporting documentation. Before Growth Deal funds can be released, the Section 151 officer of the relevant accountable body has to write to the Department certifying that its LEP’s local assurance framework has been agreed by the LEP board, is being implemented, and meets the standards set out in the national framework. (paragraphs 3.3 to 3.5).⁶

6 The Department carries out spot checks of LEP’s local assurance frameworks to ensure that they comply with the national framework. In early March 2017, the Department’s spot check identified that GCGP LEP had two ‘amber’ risks. The Department asked its local team, which has day-to-day contact with GCGP LEP, to work with the LEP to ensure compliance over time. (paragraphs 3.6 to 3.10).

7 In early March 2017, Mr Stephen Barclay MP wrote to the Comptroller and Auditor General, the Minister of State at the Department, and select committee chairs raising concerns about governance in GCGP LEP. Foremost among Mr Barclay’s concerns was that the chair of GCGP LEP might have benefited from investment in GCGP LEP’s area of operation. The chair is a shareholder and chairman of the board of directors of a construction company that secured a contract for constructing and designing a new facility in one of GCGP LEP’s enterprise zones. The LEP obtained independent legal advice. This concluded that there was no conflict of interest within the scope of the enquiry but the chair’s commercial interest may have been disclosable as a private interest under the Nolan Principles, which set out the ethical standards expected of public office holders. (paragraphs 3.11 to 3.13).⁷

8 The Department carried out a full internal review of GCGP LEP and found that its local assurance framework did not comply with the national framework and that it was unable to respond effectively to the concerns raised by Mr Stephen Barclay MP. Mr Barclay’s concerns were the main trigger for the Department conducting an internal review of GCGP LEP’s local assurance framework. GCGP LEP was unable to rely on its policies, procedures and records to respond to the concerns raised by Mr Barclay. The Department was also concerned about the timeliness and availability of board papers and the management of conflicts of interest. The internal review is ongoing, however, the initial findings of the review found no evidence that public funds had been misused. (paragraph 3.17).

6 GCGP LEP has been allocated three tranches of money through Growth Deals: Growth Deal One (July 2014): £71.1 million, Growth Deal Two (January 2015): £38 million, Growth Deal 2017-18 allocation (January 2017): £37.6 million, total: £146.7 million.

7 Committee on Standards in Public Life, *The principles of public life*, May 1995, available at: www.gov.uk/government/publications/the-7-principles-of-public-life

9 Following a review of Mr Barclay’s concerns and an internal review of the operations of GCGP LEP, the Department withheld funding from the LEP.

Although the Department had assessed GCGP LEP’s local assurance framework as not meeting the national framework’s requirements, the initial findings of the Department’s internal review did not find evidence that public funds had been misused, albeit that this had not been the focus of the concerns raised by Mr Stephen Barclay MP. On 30 March 2017, the Department’s Accounting Officer decided not to approve the recommendation to fund GCGP LEP’s 2017-18 Growth Deal allocation, growth hub funding nor the LEP’s core revenue funding until the internal review concluded. Before releasing the funding, the Department required GCGP LEP to demonstrate that it was improving its transparency and had developed a comprehensive conflict of interest policy. It also required GCGP LEP’s board members to demonstrate that they are complying with the roles and responsibilities set out in the national framework. Finally, the Department asked the chair to respond formally to allegations of a personal conflict of interest. (paragraph 3.17).

10 GCGP LEP have published a revised local assurance framework and conflicts of interest policy, and has updated the board members’ conflicts of interest declarations.

In April 2017, GCGP LEP published a revised conflicts of interest policy.⁸ And in May 2017, the LEP published a revised local assurance framework.⁹ To support the revised policy it delivered conflicts of interest training to directors prior to the June 2017 board meeting. The LEP has also updated and published its board member register of interests.¹⁰ The Section 151 officer of the accountable body wrote to the Department on 25 July 2017 to state that GCGP LEP was now compliant with the national framework. (paragraph 3.19).

11 The Section 151 officer of the accountable body and GCGP LEP have developed an implementation plan to ensure the LEP’s ongoing compliance with the national framework.

They are also working with the Department to ensure that the LEP continues to comply with the national framework. (paragraph 3.21).

12 The Department asked Mary Ney, one of its non-executive directors to carry out a national review of LEP governance and transparency (the Mary Ney Review).

This was to assess whether the Department’s systems provide sufficient assurance to the accounting officer and ministers. The Mary Ney Review began in April 2017 and was completed in July 2017. The Department published the review on 26 October 2017. It has accepted all the recommendations and is producing guidance to implement the recommendations. (paragraph 1.6).

8 GCGP, *Greater Cambridge Greater Peterborough LEP: Register of Interests and Conflicts of Interest Policy, April 2017*, available at: www.gcgp.co.uk/wp-content/uploads/2015/10/GCGP-LEP-Conflict-of-Interest-Policy-FINAL-For-Approval.pdf

9 GCGP, *Greater Cambridge Greater Peterborough Enterprise Partnership: Assurance Framework*, available at: www.gcgp.co.uk/wp-content/uploads/2017/05/GCGP-Assurance-Framework-May-2017.pdf

10 GCGP, *Greater Cambridge Greater Peterborough LEP: Register of Interests, July 2017*, available at: www.gcgp.co.uk/wp-content/uploads/2015/10/GCGP-LEP-Register-of-Interests-190717.pdf

Part One

Background

1.1 This part of the report sets out background information about Local Enterprise Partnerships (LEPs) and previous work on this topic by the National Audit Office (NAO) and Committee of Public Accounts, including the Department for Communities and Local Government's (the Department's) non-executive director review. It also gives information on Greater Cambridge Greater Peterborough LEP (GCGP LEP).

Local Enterprise Partnerships and previous NAO work on this subject

1.2 Central government in England has sought for many years to stimulate economic growth and rebalance it between different regions. Key to the plans for local economic growth are LEPs. These are business-led partnerships between the private sector and local authorities. They were established to steer growth strategically in local communities following the abolition of the Regional Development Agencies in 2010. There are currently 38 LEPs in England, each designed to represent a functional economic area.

1.3 The government responded to Lord Heseltine's 2012 review, *No stone unturned: in pursuit of growth*, by announcing the creation of the £12 billion Local Growth Fund for the period 2015-16 to 2020-21.¹¹ The government awarded £7.3 billion to LEPs through the first two rounds of Growth Deals in 2014 and 2015. In early 2017, it announced that it would award a further £1.8 billion through a third round of Growth Deals. This brought the total allocation to £9.1 billion, with the remaining £2.9 billion of the Local Growth Fund being awarded via separate funds.

¹¹ The Rt Hon Lord Heseltine of Thetford CH, *No stone unturned: in pursuit of growth*, October 2012.

1.4 Our March 2016 report on LEPs, *Local Enterprise Partnerships*, found that since their formation in 2010 LEPs have taken on increased responsibility for significant amounts of central government funding.¹² We also found that:

- LEPs were not as transparent to the public as we would expect, especially given that they are now responsible for significant amounts of taxpayers' money;
- the Department had not tested the implementation of assurance frameworks; and
- some LEPs did not fully comply with the Department's national framework requirements, for example, at the time of the report, 16% had not published a conflict of interest policy and 42% had not published a register of interests.

1.5 In July 2016, following an evidence session based on our LEP report, the Committee of Public Accounts recommended that the Department should:¹³

- enforce the existing standards of transparency, governance and scrutiny before allocating future funding to LEPs. LEPs themselves also need to be more transparent to the public by, for example, publishing financial information;
- revise the Local Enterprise Partnership National Assurance Framework (the national framework);
- ask the Section 151 officer to confirm that the local assurance framework complies with the national framework; and
- ask the LEPs to update their engagement plans and websites.

The government agreed with these recommendations and put in place actions to meet them.

Non executive director's review – the Mary Ney Review – of LEP governance

1.6 Mary Ney carried out a review of LEPs' governance and transparency to assess whether the Department's systems provide sufficient assurance to the accounting officer and ministers. The review was commissioned on 25 January 2017 and began on 28 April 2017. The report was published on the 26 October 2017.¹⁴ The review found that the LEP national framework could be strengthened and recommended that:

- the LEP chair and chief executive officer should produce a formal annual assurance statement;
- each LEP should have a code of conduct that includes formal adoption of the Nolan Principles;

¹² Comptroller and Auditor General, *Local Enterprise Partnerships*, Session 2015-16, HC 887, National Audit Office, March 2016.

¹³ HC Committee of Public Accounts, Treasury Minutes, *Government responses to the Committee of Public Accounts on the Thirty Seventh and the Thirty Ninth reports from Session 2015-16; and the first to the nineteenth reports*. Cm 9351 November 2016. Sixth Report of Session 2016-17.

¹⁴ Department for Communities and Local Government, *Review of Local Enterprise Partnership governance and transparency*, October 2017.

- LEPs should have a bespoke pro forma for collecting and publishing a register of interests;
- the role of the Section 151 officers should be made clearer and the Section 151 officer should produce a report on their work for the LEP and their opinion on issues relating to governance and transparency as part of the Annual Conversations;¹⁵
- LEPs should publish their accounts;
- Annual Conversations should include an examination of the LEP's approach to governance;
- risk-based analyses of individual LEPs should be carried out by someone with no direct involvement with the LEP; and
- the government should set out its approach to addressing non compliance in LEPs.

The Department has accepted all the recommendations and is implementing them and issuing guidance. On 27 October 2017, it sent all LEPs new guidance for the 2017 Annual Conversations that reflected the Mary Ney Review recommendations.

Greater Cambridge Greater Peterborough LEP

1.7 GCGP LEP consists of 15 separate local authorities. It includes all of Cambridgeshire along with districts in Norfolk, Suffolk, Essex, Hertfordshire and Lincolnshire, plus the unitary authorities of Rutland and Peterborough. GCGP LEP overlaps with four other LEPs: New Anglia, Greater Lincolnshire, South East and Hertfordshire.

1.8 **Figure 2** overleaf shows the constituent local authorities of GCGP LEP along with overlapping LEPs.

1.9 LEPs can have different corporate structures. GCGP LEP is a private company limited by guarantee, meaning that there are no shares. Our 2016 report found that this is the most common structure (51% of LEPs), followed by unincorporated voluntary partnerships between private sector representatives and local authority leaders (41% of LEPs). A further 8% feature a variety of unincorporated arrangements and committees.

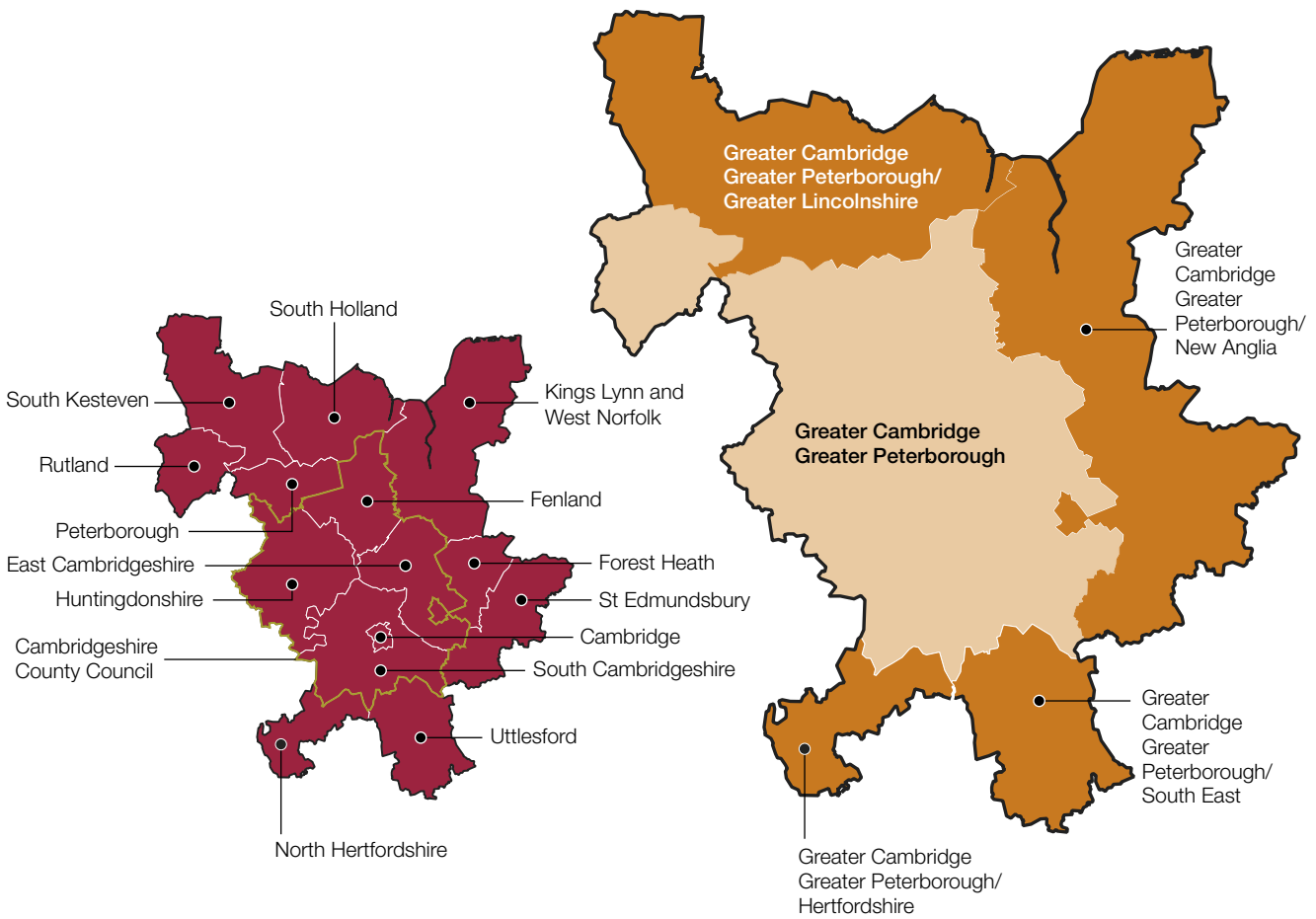
¹⁵ Annual Conversations are a formal discussion between government and each LEP to review performance and discuss priorities and challenges for the year ahead.

Figure 2
Greater Cambridge Greater Peterborough Local Enterprise Partnership

GCGP LEP overlaps with four other LEPs

Local Enterprise Partnerships

- Non-overlapping part
- Overlapping part
- GCGP LEP outline
- LEP constituent authorities



Notes

- 1 In 2016, GCGP LEP's area grew, as both South Holland District Council and South Kesteven District Council joined the LEP. Although the Office for National Statistics have these authorities sitting outside the LEP boundary, ONS have confirmed via email that they should be included in both LEPs.
- 2 Contains National Statistics data © Crown copyright and database right 2017. Contains OS data © Crown copyright and database right 2017.

Source: National Audit Office analysis of Office for National Statistics data

Part Two

The framework for Local Enterprise Partnership assurance

2.1 This part of the report sets out the Department for Communities and Local Government's (the Department's) assurance framework for Local Enterprise Partnerships (LEPs) and the role of Section 151 officers and accountable bodies within the framework.

The accounting officer system statement

2.2 The Department's accounting officer system statement (system statement) set out the responsibilities of the Department's accounting officer, who is accountable to Parliament for the proper stewardship of the resources allocated to his or her department.¹⁶

2.3 The system statement includes the accounting officer accountability system statement for the Local Growth Fund, which explains that the accounting officer is responsible for allocating and paying the Local Growth Fund to LEPs through Growth Deals, and for monitoring LEPs' use of the fund. The accounting officer is accountable to Parliament for the elements of the fund awarded to LEPs from the Department's departmental expenditure limit. Accounting officers are also responsible for the Growth Deal delivery system within which LEPs invest the fund.

2.4 In our 2016 report, we stated that accountability to Parliament for taxpayers' money is an inextricable part of good public management and democratic government.¹⁷ It can provide assurance over the government's activities, highlight improvement actions, improve policymaking, and engage stakeholders and service users in decision-making. Effective accountability can also identify who is responsible if something goes wrong, and enable redress.

¹⁶ Available at: www.gov.uk/government/publications/dclg-accounting-officer-system-statement

¹⁷ Comptroller and Auditor General, *Accountability to Parliament for taxpayers' money*, Session 2015-16, HC 849, National Audit Office, February 2016.

2.5 In our report we also found that funding and powers to local areas, cities and regions are being devolved rapidly, but central oversight arrangements (such as those required to ensure overall value for money) have yet to catch up. Since publication of our report, the Department has updated its central oversight arrangements including updating the systems statement in July 2016 and the Local Enterprise Partnership National Assurance Framework (the national framework) in November 2016. The Department has also told us the LEP Annual Conversations due to take place towards the end of 2017 will take account of the recommendations of the Mary Ney Review.

Local Enterprise Partnership National Assurance Framework

2.6 One of the elements of the system statement for the Local Growth Fund is a national framework. This was first published in December 2014. In November 2016, the Department published an updated version. The Department's approach remains 'light touch', the revised version was intended to provide greater clarity and set out where expectations have increased since 2014.

2.7 The national framework sets out requirements and standards on transparency, accountability, and value for money with which each LEP must comply in composing its own local assurance framework. The national framework sets out requirements such as having a published conflicts of interest policy and publishing information in a timely fashion.

2.8 The system statement sets out what government expects LEPs to cover in their local assurance frameworks including:¹⁸

- a** the LEP's constitution and, within that, the arrangements for taking and accounting for decisions, including a clear description of roles and responsibilities;
- b** transparent decision-making and ways of working – ensuring that LEPs engage effectively with the public, that key documents and decisions are made public in line with the requirements placed on local authorities, and that LEPs have an agreed process for managing conflicts of interest;

¹⁸ Available at: www.gov.uk/government/publications/dclg-accounting-officer-system-statement

- c** the responsibilities of the accountable body – ensuring that the local system established through each LEP’s local assurance framework supports effective decision-making; and
- d** a clear and transparent process for identifying, appraising and prioritising projects and programmes, including an appropriate methodology to assess value for money, with business cases developed in line with government guidance.

2.9 Neither the system statement nor the national framework states explicitly what LEPs must do to meet the standards or requirements of the national framework. In accepting the recommendations of the Mary Ney Review, the Department intends to provide further advice and guidance on its expectations. The Department’s monitoring of LEPs focuses on ensuring that LEPs spend funds with regularity and propriety and that they achieve value for money. LEPs are monitored through:

- monthly discussions with the Department’s relationship manager;
- quarterly monitoring returns;
- quarterly reports from the relationship manager; and
- an annual performance review.

2.10 Departmental officials may attend LEP board meetings as observers, and there is a relationship manager for each LEP. The Department’s relationship managers provide LEPs with day-to-day advice and support. They are also responsible for ensuring that a regular dialogue is maintained between the LEP and the Department so that emerging risks and issues can be dealt with early. The relationship between the relationship manager, the Department and the LEP is not set out in detail neither in the system statement nor in the national framework. However, the Department told us it provides training guidance to area leads on these relationships.

The role of the accountable body

2.11 A local authority within each LEP's geographical area acts as the accountable body for the LEP. These accountable bodies are responsible for ensuring that LEPs spend their funds with propriety, and regularity, and that they achieve value for money.

2.12 As LEPs are not statutory bodies, they cannot receive grants directly. The Local Growth Fund and other public funds are paid to the accountable body. The accountable body receives these funds on the LEP's behalf, and ensures that they are properly accounted for alongside other funding for local government.

2.13 The accountable body is responsible for ensuring that the LEP makes decisions in accordance with its local assurance framework. Their role includes ensuring that funds are used in accordance with the conditions of any grant, and that the LEP complies with the local assurance framework.

2.14 **Figure 3** (on pages 20 and 21) illustrates the funding and accountability for GCGP LEP and the relationships with Cambridgeshire County Council, the Cambridgeshire and Peterborough Combined Authority and the Greater Cambridge Partnership.

Section 151 officer and the monitoring officer

2.15 The Section 151 officer (or Section 73 officer in the case of a combined authority) has specific tasks in the national framework. Specifically, these are to:

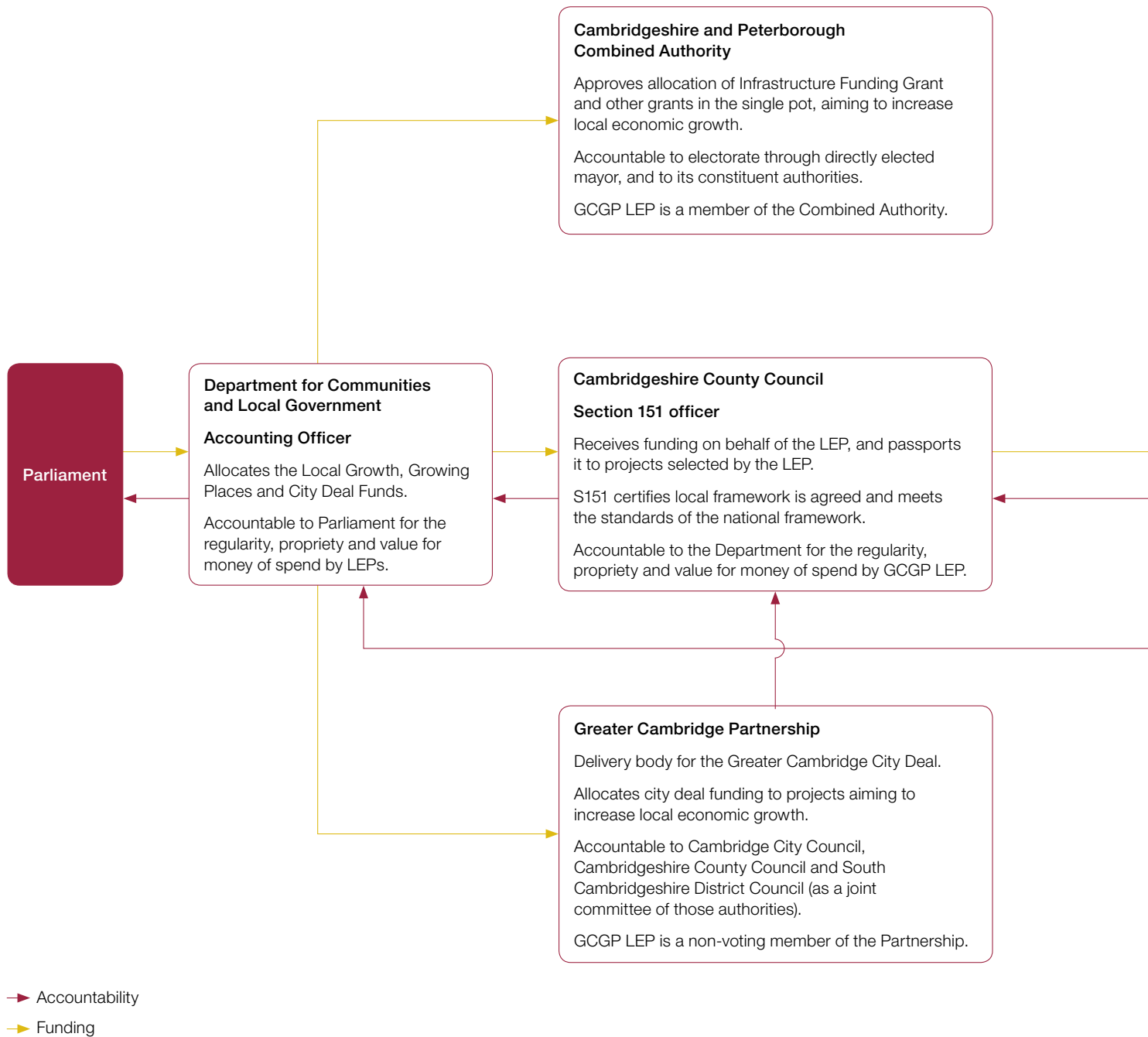
- certify to the Department that the local assurance framework has been agreed, is being implemented, and meets the revised standards set out in the national framework; and
- ensure that the use of resources is subject to the usual local authority checks and balances.

2.16 While the national framework sets out these two key tasks it does not, as a 'light-touch' regime, provide any further advice on how the accountable body and the Section 151 officer, in conjunction with the LEP, should determine the extent of the certification, and how they envisage checks and balances should apply. In addition, the national framework does not set out what a Section 151 officer should do if they have concerns about the way an LEP is operating, or how to escalate their concerns. In accepting the Mary Ney Review's recommendations, the Department has told us it will provide greater oversight and support for Section 151 officers.

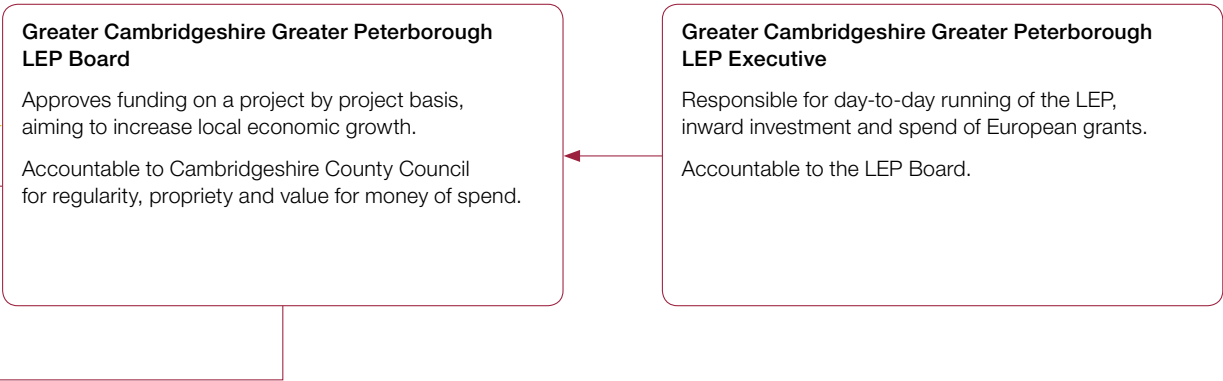
2.17 The role of the Section 151 officer in a local authority focuses on good financial management.¹⁹ The role of the monitoring officer focuses on issues or actions that may give rise to illegal activity, maladministration, or breach of statutory codes. This complements the financial management focus of the Section 151 officer and provides a more rounded oversight of the LEP's decision-making and behaviour.

¹⁹ Available at: www.cipfa.org/policy-and-guidance/reports/the-role-of-the-chief-financial-officer-in-local-government

Figure 3
Funding and accountability for Greater Cambridge Greater Peterborough Local Enterprise Partnership



Source: National Audit Office analysis of Department for Communities and Local Government documents



Part Three

Governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership

3.1 This part of the report sets out the concerns raised by Mr Stephen Barclay MP and other local stakeholders, the extent to which the Greater Cambridge Greater Peterborough Local Enterprise Partnership (GCGP LEP) was governed in accordance with the Local Enterprise Partnership National Assurance Framework (the national framework), and the Department for Communities and Local Government's (the Department's) actions in response to the concerns.

Concerns raised by Mr Stephen Barclay MP and others

3.2 In January 2017, concerns about the governance of GCGP LEP were emerging locally. In early 2017, Cambridgeshire County Council suggested areas for improvement in GCGP LEP's local assurance framework. Mr Stephen Barclay MP also raised concerns about conflicts of interest in early January 2017. In January and February 2017, one of the public sector GCGP LEP board members wrote to the chair and the board of GCGP LEP, raising concerns about conflicts of interest and the need for a published register of interests, along with other concerns they had about the governance of GCGP LEP. Concerns were reported in the local press. These centred on:

- how conflicts of interest were managed, including whether policies and disclosures were complete;
- a lack of transparency about how GCGP LEP reached investment decisions; and
- a lack of clarity about GCGP LEP's relationship with local developers and lobbying groups.

Sign-off of the local assurance framework

3.3 As set out in Part Two, the Section 151 officer of Cambridgeshire County Council, (the accountable body), is responsible for certifying that the local assurance framework meets the national framework. The GCGP LEP board considered their local assurance framework at an extraordinary board meeting on 21 February 2017. The board was advised that the GCGP LEP Executive considered that the local assurance framework complied with the national framework and could be approved, subject to any additional amendments at a later date. One of the board members was concerned that the board had not been given sufficient time to consider GCGP LEP's local assurance framework before the date by which the Department required it to be signed off by its accountable body: 28 February 2017. Nevertheless, the LEP's board approved the local assurance framework in order to meet the Department's deadline. The Section 151 officer was not present at the extraordinary board meeting.

3.4 Cambridgeshire County Council's Section 151 officer had reviewed elements of the local assurance framework against the requirements of the national framework before the February deadline for certification and signed it off, but did so without fully reviewing all supporting documentation. The Section 151 officer considered they had done sufficient work to certify the local assurance framework met the national framework. It was not clear to them the extent that the national framework required them to assure all the supporting documentation at the point of certification. The Section 151 officer's view was that Cambridgeshire County Council could continue to work with GCGP LEP to enhance and strengthen the local assurance framework. This is consistent with the Department's approach, which is to work with LEPs to improve their compliance with the national framework over time.

3.5 Cambridgeshire County Council, as the accountable body for GCGP LEP, did not consider that the national framework set out clearly enough the Department's expectations of the role of the Section 151 officer. So far the Department has not given any advice on the level of resource that accountable bodies should allocate in order to meet its expectations. Following the recommendations of the Mary Ney Review the Department has told us it will develop, with the Chartered Institute of Public Finance and Accountancy, guidance on the role of the Section 151 officers.

The Department's checks on the local assurance framework

3.6 Each year the Department holds a formal meeting with each LEP (the Annual Conversation) to review performance and consider priorities and challenges for the year ahead. The meeting for GCGP LEP took place in November 2016. It did not highlight any concerns about governance or the external profile of GCGP LEP.

3.7 The local team carried out spot checks before the 28 February deadline for signing off the local assurance framework. In the case of GCGP LEP, this check identified two risks relating to non-compliance with the national framework. These were that the LEP did not have a diversity statement and that it had not published a conflicts of interest policy at the time of the checks. The local relationship manager for GCGP LEP flagged these areas of risk with the Department and had been working with the LEP to ensure compliance over time. The Department has adopted this approach with other LEPs when its spot checks have identified non-compliance with the national framework.

3.8 By mid-February 2017, the Department was confident that GCGP LEP would address the risks before the 28 February deadline. The local team was not concerned about progress towards addressing them.

3.9 In March 2017, the Department carried out a further round of spot checks of LEP local assurance frameworks, including that of GCGP LEP. GCGP LEP was one of 13 LEPs that this spot check identified as having minor outstanding issues. A further five LEPs were subsequently contacted to ensure their local assurance frameworks complied with the national framework, and two more had serious or 'red' issues. This further spot check of GCGP LEP highlighted the same two areas of risk, now rated as 'amber':

- being able to locate a policy on conflicts of interest; and
- demonstrating the LEP's commitment to diversity.

3.10 At the end of March 2017, the Department advised its accounting officer that all LEPs, including GCGP LEP, had made significant progress towards complying with the national framework. However, a small number, including GCGP LEP, had outstanding issues (the amber risks referred to in the paragraph above), which were being managed locally.

Mr Stephen Barclay MP was the trigger for the Department's further investigation

3.11 In early March 2017, when the Department was conducting its spot checks of local assurance frameworks, Mr Stephen Barclay MP wrote to the Department and to the Comptroller and Auditor General, the Local Government Minister, and select committee chairs raising concerns about governance in GCGP LEP. His concerns were the main trigger for further investigation by the Department, which highlighted specific concerns with GCGP LEP's compliance with the national framework.

3.12 A specific concern raised by Mr Stephen Barclay MP was in relation to any interest the chair of GCGP LEP had in MM(UK) Limited's commitment to invest in a new facility in a local enterprise zone called the Alconbury Weald Enterprise Campus.

3.13 The chair of GCGP LEP is a shareholder and chairman of the board of directors of a construction company, Chalcroft Limited, which secured the contract for the design and construction of the new facility. After Mr Barclay wrote to the Comptroller and Auditor General and to the Department, GCGP LEP engaged an external law firm to investigate whether the chair had any conflict of interest. The law firm concluded that there was no conflict of interest, although the commercial interest between Chalcroft Limited and MM(UK) Limited may have been disclosable as a private interest in relation to the Nolan Principles. The Department's own advice agreed with the advice GCGP LEP received.

3.14 LEP board members may have business interests in the local area. Indeed, this is a likely consequence of such business-led partnerships. Our 2015 report *Conflicts of Interest*, defined a conflict of interest as:²⁰

“a set of circumstances that creates a risk that an individual's ability to apply judgement or act in one role is, or could be, impaired or influenced by a secondary interest. The perception of competing interests, impaired judgement or undue influence can also be a conflict of interest”.

3.15 Our 2015 report summarises the key elements of good practice. These are based on generally accepted standards that focus on prevention and then detection and management responses. All organisations need to take a proportionate approach to managing conflicts of interest and develop their approach to taking risk into account.

²⁰ Comptroller and Auditor General, Cross-government, *Conflicts of Interest*, Session 2014-15, HC 907, National Audit Office, January 2015

Withholding of funding

3.16 The accounting officer system statement explains that there are a range of external systems in place should councils fail in their functions. Specific service failure may be addressed by the Department's improvement regimes. As a last resort, government has powers to investigate and if necessary intervene; for example, by directing a council to undertake certain actions or by imposing a commissioner to manage or take over responsibility for a service or services. As LEPs are private bodies, the Department's powers do not extend to them. Therefore the government's ability to respond to failure is limited. The government's main sanction over LEPs is to put conditions on funding, or to withhold it.

3.17 The Department acknowledges that Mr Barclay's concerns were the main trigger for it to conduct an internal review of the GCGP LEP's local assurance framework. The internal review superseded the ongoing work with the LEP to address the amber issues identified in the spot check and the Department assessed GCGP LEP's local assurance framework as not meeting the national framework's requirements. On 30 March 2017, the Department's accounting officer decided not to approve the recommendation to fund GCGP LEP's 2017-18 Growth Deal allocation, growth hub funding and the LEP's core revenue funding until the internal review concluded. In order to have GCGP LEP's funding released back to it, the Department required it to:

- improve transparency by publishing board papers, minutes and decisions in a timely way;
- develop a comprehensive conflict of interest policy ensuring that the board members and the GCGP LEP Executive understand their obligations fully; and
- comply with the national framework ensuring that board members understand their roles and responsibilities.

The Department also asked the chair to formally respond to allegations of a personal conflict of interest.

GCGP LEP response

3.18 GCGP LEP was unable to rely on its policies, procedures and recorded documentation to provide the evidence to respond to the concerns raised by Mr Stephen Barclay MP. Rather it has, for example, needed to strengthen its policies around conflicts of interest, obtain specific legal advice and has put in place improved procedures to record and publish board minutes and papers in a timely fashion.

3.19 GCGP LEP recognised it needed to improve its processes. It has published a revised local assurance framework which includes amendments to ensure that papers are published in a timely fashion. It will publish board papers at least five clear working days before the meeting and all board decisions will be recorded and published within five clear working days after the meeting. Any exceptions to this will be explained. It has published a conflicts of interest policy and register of interests. These are both available on GCGP LEP's website.²¹ To support this policy a conflicts of interest training session, provided by GCGP LEP's legal advisors, took place before the June 2017 board meeting. In response to the issue of GCGP LEP demonstrating its commitment to diversity it has recently published a diversity statement and tasked its recently formed remuneration and nominations committee with reviewing and improving diversity on the GCGP LEP board.

3.20 The Section 151 officer of the accountable body wrote to the Department on 25 July 2017 to state that GCGP LEP was now compliant with the national framework. The Department continued its dialogue with the LEP and drew initial conclusions as part of its internal review in September 2017, confirming that the review had not found any evidence that GCGP LEP had misused public funds. However, the Department continued to have concerns about the LEP's executive leadership capacity. The Department agreed to provide funds for essential running costs subject to these costs being robust and suitably evidenced. Funding to cover these essential costs was provided to the LEP by the Department on 20 November 2017. As of November 2017, local growth funding, core funding and growth hub funding had not been released and the Department is in continuing dialogue with the LEP.

3.21 GCGP LEP and Cambridgeshire County Council have developed an implementation plan to drive improvements in their governance and in the Council's oversight of GCGP LEP by its Section 151 officer. The improvement plan covers:

- end-to-end compliance and governance; and
- transparency, decision-making, and value for money.

The plan identifies the current controls, the proposed improvement, and an expected completion date for each of the 22 identified improvement areas. As of September 2017 the plan shows four completed actions. The plan aims to make decision-making more transparent, and to improve the oversight by the accountable body and the Section 151 officer.

²¹ Available at: www.gcgp.co.uk/yourlep/corporate-governance/

Appendix One

Our investigative approach

Scope

1 We conducted an investigation into the extent to which the Department for Communities and Local Government (the Department) can rely on the Local Enterprise Partnership National Assurance framework to meet its purpose of ensuring that LEPs have in place the necessary systems and processes to manage delegated funding from central government budgets effectively. We focused on the concerns raised by Mr Stephen Barclay MP, and used these to test the framework. The report considered:

- the role of national and local assurance frameworks in LEPs' funding and assurance;
- the Department's oversight of the system of national and local assurance frameworks; and
- the Department's response to concerns raised by Mr Stephen Barclay MP relating to GCGP LEP.

Methods

2 We interviewed key individuals from the Department, GCGP LEP and Cambridgeshire County Council, and reviewed documents. The documents included information on websites, minutes of meetings, and correspondence between the Department, GCGP LEP and Cambridgeshire County Council.

3 We drew on previously published reports. These include: *Devolving responsibilities to cities in England: Wave 1 City Deals*; *Conflicts of Interest*; *English devolution deals*; *Progress in settling up combined authorities* and *Local Enterprise Partnerships*.^{22,23,24,25,26}

22 Comptroller and Auditor General, *Devolving responsibilities to cities in England: Wave 1 City Deals*, Session 2015-16, HC 266, National Audit Office, July 2015.

23 Comptroller and Auditor General, Cross-government, *Conflicts of Interest*, Session 2014-15, HC 907, National Audit Office, January 2015.

24 Comptroller and Auditor General, Department for Communities and Local Government and HM Treasury, *English devolution deals*, Session 2015-16, HC 948, National Audit Office, April 2016.

25 Comptroller and Auditor General, Department for Communities and Local Government, *Progress in settling up combined authorities*, Session 2017-2019, HC 240, National Audit Office, July 2017.

26 Comptroller and Auditor General, Department for Communities and Local Government, *Local Enterprise Partnerships*, Session 2015-16, HC 887 National Audit Office, March 2016.

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National Audit Office

Design and Production by NAO External Relations
DP Ref: 11525-001

£10.00

ISBN 978-1-78604-158-6

