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Dear Kellie

Investment Framework review

As part of our 2021-22 audit, we recently completed our review of the Cardiff Capital Region City Deal (CCRCD) Investment Framework. This review followed on from our previous review of the Investment Framework in 2020-21.

Our recent review sought to:

- get assurance that investments are considered in line with the Investment Framework;
- understand any developments to the investment process since our review in 2020. This would include any changes in light of the improvements we suggested in our January 2021 letter;
- get assurance about the arrangements to monitor the progress of agreed investments in line with intended benefits; and
- gain a better understanding of the totality and nature of the investment programme.

We agreed that we would consider a sample of investments to cover:

- An investment proposal which was rejected or not taken forward between January 2021 and March 2022 (Investment 1)
- An investment agreed by the Joint Cabinet between January 2021 and March 2022 (Investment 2); and
- An investment agreed by the Joint Cabinet which is now in operation to enable us to explore the monitoring arrangements (Investment 3).

Overall, we are assured that the investments we looked at were considered in line with the Investment Framework and that CCRCD has put in place arrangements to monitor progress of its investments. We have however identified some areas for

improvement. One of these relates to declaring and managing conflicts of interest. This was one of the areas for improvement we raised previously. We also raised it in our May 2019 Review of Governance Arrangements report¹ where we said that the nature of the City Deal is such that there is significant involvement with private organisations and third parties. It is important, therefore, that there is a clear and robust process for declaring and managing conflicts of interest.

Investment Framework

The proposed Investment 1 did not proceed through the Investment Framework and its consideration was done in accordance with the stated process.

The Investment 2 proposal went through the Investment Framework in accordance with the stated process.

Overall, we are assured with the rigour with which the Investment 2 proposal was considered at the various stages of the Investment Framework process.

We found the following areas for improvement which the CCRCDC needs to address and make related recommendations:

Accuracy of minutes

- Investment Panel minutes of 27 April 2021 - It is not clear from the minutes that the Investment Panel recommended that Investment 2 proceeded to the next stage of the Investment Framework process. The outcome of the discussion appears to be that a 'mini challenge session' be held with the University and other involved organisations. The minutes do not record that Investment Panel agreed that the investment proceed to the next stage. However, the related Recommendation Log from the same meeting is clear that the investment should proceed to the next stage. It is important minutes accurately reflect the recommendations made by the Investment Panel.

Audit Wales recommendation 1 – CCRCDC should ensure that the minutes of Investment Framework meetings are clear about what recommendation has been made.

¹ https://www.audit.wales/sites/default/files/1280A2019-20_CCRCD_Review_Governance_Arrangements_English_11.pdf

Declarations of interests

- Investment Panel minutes of 27 April 2021 – a member of Investment Panel made a declaration of interest about the Investment 2 item. The minutes do not record if the nature of that interest meant that they had to withdraw from discussions or not. The minutes record that same member as participating in discussions.
- Joint Programme Board and Regional Economic Growth Partnership minutes of 7 December 2021 – three attendees declared an interest in respect of the Investment 2 item. The minutes do not record if the nature of those interests meant that they had to withdraw from discussions or not. The minutes record one of those attendees as participating in the discussion.

Audit Wales recommendation 2 – CCRC D should ensure that minutes of meetings record whether a declaration of interest means that the individual withdraws from discussions of that item, and if they do not withdraw from discussions, that it is set out why in the minutes.

Accurate reporting to Cabinet

- Report to Cabinet 24 May 2021 on Investment Panel recommendations – the report does not refer that it was agreed that two members of the Investment Panel would hold a ‘mini challenge session’ referred to in the Investment Panel minutes of 27 April 2021. In our view, this should have been mentioned.

Audit Wales recommendation 3 – Ensure Investment Panel reports to Cabinet fully reflect the Investment Panel recommendations.

CCRC D have made changes to the Investment Framework process recently with a view to increasing its efficiency. There was a general recognition amongst interviewees that the Investment Framework process is very resource intensive. The recent changes to the Investment Framework include taking a more proportionate approach to the business case process. This means that the three-stage business case process of Strategic Outline Case, Outline Business Case and Full Business Case be streamlined depending on the size and complexity of the proposed investment. CCRC D took account of Treasury guidance in making these changes.

Our January 2021 letter stated that CCRCD consider the merits of developing a high-level tracker, briefly setting out where further information was requested by a particular forum, before it proceeds to the next stage of the framework. CCRCD have recently developed a tracker that provides a helpful overview of the overall pipeline of investments. It also provides detail on what stage individual investments are at. The tracker draws on the minutes of meetings to inform what stage investments are at. This emphasises the need for accurate minutes.

Investment Monitoring findings

We are assured by the monitoring arrangements in place for Investment 3. Investment 3, as is the case with all live investments, has a project lead who receives quarterly reports on the project. The project lead has regular meetings with key contacts. CCRCD have internal monitoring meetings every two weeks. They have also recently introduced periodic 'deep dives' into specific investments. The investment monitoring information that Cabinet receive as part of the quarterly information reports is reasonable. It is colour coded (Red, Amber, Green) for risk. Any high risks may be reported to Cabinet in more detail on an exceptions basis.

Our January 2021 letter touched on capacity concerns in that, at that time, CCRCD had been unable to recruit an Investment Manager. That remains the case, but CCRCD hopes to recruit into that post shortly. Nevertheless, CCRCD has sought to increase capacity in the intervening period and has had some success doing so. However, while there is budget available for additional fixed-term posts, recruitment overall has been difficult. CCRCD is taking forward initiatives that should help to alleviate capacity concerns. These include the creation of the Innovation Investment Fund and the appointment of fund managers to run that. CCRCD have also appointed a consultant to look at the efficiency of the investment framework process (as referenced above). Based on the small sample of investments that we looked at, at this point, we are not seeing a detrimental impact on CCRCD's ability to both manage the investment framework or to monitor live investments, despite the recruitment challenges. However, we recognise that this may change as the level and complexity of investments agreed increases. Given the amounts of public money invested, it will obviously be paramount that arrangements continue to evolve and strengthen as the investments increase. We also recognise that the CCRCD wants to absorb the city deal arrangement into the South East Wales Corporate Joint Committee (CJC) as it hopes this would give it greater flexibility to manage the investments. We are aware of the ongoing discussions to resolve the financial status issues around the CJC.

I hope you find this useful but would be happy to discuss further. Thank you for your cooperation with this work.

We will be in touch again to further discuss what the focus of our 2022-23 performance audit work may be.

Yours sincerely

Sara-Jane Byrne
Audit Manager