Management of the Local Enterprise Growth Initiative

London Borough of Croydon
Audit 2008/09
March 2009
The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.
1 The Local Enterprise Growth Initiative (LEGI) aims to release the productivity and economic potential of the most deprived local areas and their inhabitants through enterprise and investment, thereby boosting local incomes and employment opportunities. The Department for Communities and Local Government (DCLG) has awarded Croydon £40.3 million of Government funding for five years from 2006 to 2011.

2 The current economic climate has raised the profile of LEGI and the Council's responsibility for ensuring that the grant is spent as intended and it delivers the planned outputs and outcomes. This review focused on the Council's governance arrangements for managing the LEGI.

3 We have found that the governance arrangements for LEGI are robust. Governance structures are clear and integrated with community priorities. LEGI targets are aligned to the Local Area Agreement (LAA) and Local Strategic Partnership (LSP) priorities and targets in the sustainable community strategy. Decision-making and performance reports are provided on a regular basis to the CE Cabinet Committee and, through the CE Advisory Board, to the LSP. Such measures ensure that achievements and progress are recognised within the LSP and the LAA reporting arrangements.

4 Scrutiny arrangements are effective and local businesses, voluntary groups and community groups are closely involved in the CE programme through membership of the CE Advisory Board and four sub-groups. Risk management is a robust and integral part of the programme. Annual delivery plans are required from projects and these plans include budget(s), a risk plan, and outputs and outcomes achieved each quarter. These measures provide assurance that mechanisms are in place to monitor decision-making including expenditure in respect of LEGI.

5 The Croydon Enterprise Framework arrangements are clear. The Council has adopted a sound evaluation framework for CE and LEGI. The project evaluation framework used which evaluates the whole programme is based on the model employed by Regeneris Consulting, a specialist economic development and regeneration consultancy, commissioned by DCLG. In Croydon the national framework is being used as the basis for local evaluation of LEGI ensuring that mechanisms are in place to provide a complete learning circle for the programme.

6 The performance management arrangements are sound. Councillors show effective leadership of the LEGI programme. The Cabinet Member with responsibility for Economic Development and Regeneration jointly chairs the Economic Development Partnership, facilitates the Steering Group for the development of the Economic Development Company and is a member of the Croydon Enterprise Advisory Board. There is an effective performance management framework in place. Regular reports, spot checks and annual visits feature as part of the monitoring processes. Finance and performance reviews are carried out; ad-hoc and annual visits are carried out and
reported upon. In addition, all projects are monitored on a quarterly basis against project Delivery Plans.

7 There is a robust Croydon Enterprise Strategy 2008-2011 in place. In June 2008 this revised strategy was presented to the Croydon Enterprise Cabinet Committee for approval having previously been endorsed by the Advisory Board in May 2008. The Council is responsive to external pressures. The programme has been redefined to address the prevailing financial climate. CE is now responding to the downturn in economy by refocusing the LEGI initiative efforts towards stabilising recently developed businesses and working with the increasing numbers of Croydon residents who are seeking to use redundancy payments and other lump sums to develop local business opportunities. The emphasis for the project team has been to respond to these differing needs in order to continue to fulfil the delivery strategy requirements and support Croydon residents in their efforts to develop new sustainable businesses.

8 Feedback mechanisms are in place e.g. Advisory Board, Advisory Sub Groups, Delivery Partner co-ordination workshops/networking events, business support co-ordination meetings, independent evaluation, activity evaluation, stakeholder briefings, etc. The CE strategy identifies a need to further develop mechanisms to harness feedback and much of this was implemented in 08/09. The establishment of formal feedback arrangements will enhance overall programme provision.

9 The Council secures good value for money through its procurement practices. There is well developed procurement expertise within the team which is being utilised to let delivery agreements, ensuring that value for money is secured.

10 However, the monitoring of value for money is inconsistent and robust judgements about value for money are prevented by the absence of a consistent format for challenging costs and outcomes. The Council does make use of the CE evaluation framework and reported performance data to make a judgement about the overall efficiency of a programme, but this is not systematically applied. Delivery plan guidance clearly states that achieving value for money is an integral part of the process and quarterly and annual monitoring of value for money is undertaken and projects are reviewed at the end of each year. There is an absence of identified targets and indicators for monitoring of value for money consistently. As a result councillors and officers are not confident that value for money is being consistently delivered by the programmes.

11 The Council is working to build a lasting legacy with projects which, after funding ends, continue to be self sufficient. Work has begun on developing the physical infrastructure through establishment of Enterprise Opportunity Centres (EOCs). The Council is also working to develop a new business-led Economic Development Company (EDC). An EDC will seek to improve the delivery of economic development activity in the borough. The Company which would be both private and public sector funded would provide a long term sustainable delivery model, helping to unify and streamline existing business development arrangements.

12 The Council is developing an effective bank of intellectual capital through the LEGI programme. Partners and stakeholders have a long term commitment to promoting inward investment and business growth in the area. Through the CE programme in
Summary

addition to providing a wide range of skills training, and supporting business start ups, it also provides mentoring and one-to-one opportunities.

13 The Council has procedures in place to secure the financial management of the LEGI procurement process however; currently these are not complied with consistently. The Council should consider including in the evaluation procedures a requirement for the submission of previous year's accounts where available and where a project is considered to be relatively high risk. This would provide assurance to all parties involved about the processes in use for the selection of partners for LEGI funding.

14 The Council has processes in place for financial and performance monitoring of projects. The annual review procedures require CE staff to complete forms reporting their documentary review findings and simple sampling methodologies are used as part of the on-site documentary review of delivery partners. However, there is no requirement to increase the sample sizes to take account of high risk projects. All partners are subject to an annual monitoring review process, this is in addition to the quarterly reviews and any ad-hoc reviews carried out.

The way forward

15 Our report is aimed at supporting the Council in strengthening its arrangements for managing LEGI. Included in this report are a small number of focused and pragmatic recommendations for improvement. The Council's response is brought together in the action plan at Appendix 3.
Scope of the review

Background

16 In 2005 the government launched the Local Enterprise Growth Initiative (LEGI). The aim of LEGI is to release the productivity and economic potential of the most deprived local areas and their inhabitants through enterprise and investment, thereby boosting local incomes and employment opportunities. LEGI funds amount to £200 million nationally, £50 million in 2006/07, rising to £150 million per year by 2008/09.

17 In the first bidding round (December 2005) Croydon was successful in its bid and was initially awarded £20.3 million over a three-year period, with the potential to receive up to £77 million over a ten year period. In December 2007, the Department for Communities and Local Government (DCLG) clarified that funding would be available to 2011 but would not necessarily continue to cover the full 10 years. The programme has been awarded £40.3 million of Government funding for the first five years from 2006 to 2011.

18 Croydon Enterprise (CE) a department of the Council and the delivery brand to deliver Croydon’s LEGI programme was established in 2006. Croydon Enterprise is advised by an Advisory Board which includes a wide range of businesses, public sector and voluntary sector organisations. It is chaired by the Cabinet Member for Economic Development and Regeneration. Croydon Business Limited is the Council’s strategic business and marketing partner and evolved to meet the demands of businesses small, medium and large to help them grow and prosper. Croydon Business is partly funded by Croydon Council, by private member subscriptions and special projects.

19 As the accountable body, the Council is responsible for:
   • ensuring that there are effective controls in place on expenditure with other organisations
   • ensuring that the grant is spent as intended; and
   • LEGI delivers the planned outputs and outcomes.

20 In 2007 we agreed with the Council that the management of meeting these objectives was a business and audit risk. We are required to consider risks which come under our responsibilities under the Code of Audit Practice.

21 The Council’s LEGI Delivery Strategy, has three main planned outcomes and objectives.
   • Outcome 1 - To increase the entrepreneurial potential of all communities across Croydon and in particular key target groups.
   • Outcome 2 - To support the creation and survival of new businesses, the sustainable growth of existing businesses and reduce the failure rate of business across Croydon.
Scope of the review

- Outcome 3 - To support the development of an economic environment that attracts new inward investment and franchising opportunities into Croydon, making the best use of local labour resources.

22 Target groups for the programme are:

- Black and minority ethnic (BME) Communities;
- Women;
- Lone parents;
- Young people;
- People with disabilities;
- Older People (over 50s);
- those not in education, employment or training (NEET); and
- People on long term benefits.

23 LEGI funding is £40.3 million over 5 years. In 2006/07, spend was £4.7 million, in 2007/08 spend was £7.3 million and in 2008/09 the indicative spend was £8.6 million.

Audit scope and objectives

24 The aim of this audit was to review the processes in place to ensure the effective management of the programme. This covered the governance, performance management and financial management arrangements and how these ensure optimum outputs and outcomes, underpinned by robust financial controls.

Audit approach

25 As part of our work we interviewed key Council staff and councillors and also some of the Council's key partners. We reviewed relevant documents and carried out more detailed work on a sample of two projects.

26 This work was carried out over the period June to December 2008 due to the unexpected long term sickness absence of an Audit Commission team member.
Governance

27 Governance structures are clear and integrated with community priorities. Croydon Enterprise (CE) is the delivery brand for the Council and the LEGI programme and it sits within the Local Strategic Partnership (LSP) Board governance structure. Cabinet has set up the Croydon Enterprise Cabinet Committee to steer the Council’s involvement in developing the programme in Croydon. Decision-making and performance reports are provided on a regular basis to the Cabinet Committee and through the CE Advisory Board to the LSP. The CE targets are aligned to the Local Area Agreement (LAA) and LSP priorities and targets in the sustainable community strategy. Such measures ensure that achievements and progress are recognised within the LSP and the LAA reporting arrangements. The services offered under the CE Programme contribute to a range of targets set by the LSP in the renewed LAA for 2008 to 2011.

28 Scrutiny of the CE programme is effective. The scrutiny function is through the Council’s formal scrutiny processes and systems and is an essential element of the programme monitoring processes. In addition to the quarterly reports covering overall expenditure of the programme, progress against the LAA targets etc., the CE Programme is also subject to review by the Scrutiny committee and questions from councillors; and decisions may be called in. This provides assurance that mechanisms are in place to monitor decision-making including expenditure in respect of LEGI.

29 In September 2006, the Cabinet approved the amendment of the Council’s procurement rules for the LEGI programme to enable it to fast track expenditure decisions. The Cabinet Member for Economic Development and Regeneration has the role of being champion for economic prosperity for Croydon. The Council has also restructured its Senior Management Team to create a new position of Executive Director for Planning Regeneration and Conservation. All expenditure decisions under £100,000 are approved in line with the Council’s Scheme of Delegation; decisions between £100,000 and £500,000 are agreed jointly by the Cabinet Member for Economic Development and Regeneration and the Executive Director of Resources and Customer Services. Decisions relating to expenditure over £500,000 require the agreement of the Croydon Enterprise Cabinet Committee.

30 The Council effectively engages with local businesses, voluntary groups and community groups and are closely involved in the CE programme through membership of the CE Advisory Board and the four sub-groups:

- Potential Entrepreneurs.
- Business Creation and Business Growth.
- Business Environment.
- Business Premises.
31 The membership of the Advisory Board and the sub-groups comprises a broad range of organisations providing expertise to those participating in the programme. They include: the BME Forum; South London Business; Croydon Voluntary Action; Jobcentre plus; and the Learning and Skills Council. In addition, there are over 20 local companies delivering the enterprise programme. This has led to a strong partner powerbase which will be of long term benefit to the business community in the borough.

32 Risk management is a robust and integral part of the programme. Annual delivery plans are required from projects and these plans include budget(s), a risk plan, and outputs and outcomes achieved each quarter. This is then input into a monitoring template and checked by the Programme manager during their quarterly visit and also annually by the Programme Evaluation Team to confirm invoices; overheads, payments and other issues. Each project has a risk register included in their Delivery Plan and projects are expected to identify risks to the project and countermeasures to minimise risks. In addition the initial programme had included as an area of focus the development of franchise opportunities. This proved to be difficult to establish and the initial project was closed and is now merged in to the main generic business development programme. CE has also moved the focus for the next 12 months away from promoting business start ups in deprived areas and towards providing support to keep existing businesses afloat. Having a robust approach to risk management for CE has enabled the programme to be refocused, in light of the current financial climate, with the efforts of staff redirected in line with the needs of applicants and beneficiaries.

Croydon Enterprise Framework

33 The Council has adopted a sound evaluation framework for CE and LEGI. The project evaluation framework used which evaluates the whole programme is based on the model employed by Regeneris, commissioned by DCLG. It was adopted by CE in January 2008. The Regeneris study aimed to provide a robust and comprehensive baseline study of the current situation and conditions relating to local enterprise in deprived areas, as a starting point for a national evaluation. In Croydon the national framework is being used as the basis for local evaluation of LEGI and ensuring that the following steps are in place to provide a complete learning circle for the programme:

- Review of individual projects
- Review of programme milestones; tracking changes compared to the baseline positions and against established benchmarks
- Performance summary based on research; beneficiary and key stakeholder interviews
- Core outputs that contribute to the LAA targets;
- Aligned outputs that contribute to programme outcomes;
- Achievement of activity and outcomes;
- Evidence of targeted work both geographically and in terms of clients from targets groups;
- Financial Summary;
• Review of the risk register; and to complete the loop; and
• Recommendations and action plan.

For example: An evaluation of a project delivered by the South London and Maudsley NHS Foundation Trust which had guaranteed funding until March 2008 was carried out. The purpose of the evaluation was to determine if funding should be allocated for a further year based on the success of current activities. Recommendations from the independent evaluation resulted in the project making adjusting to bring outputs in line with new programme outcomes and funding for a further year was then agreed.

This process ensures consistency when providing comparable data for internal review, and reporting against the LAA targets. It also allows benchmarking and measuring the success of the LEGI programmes across all LEGI areas nationally, and helps to identify best practice.

There are clear member and officer structures for delivery. The Cabinet Member for Economic Development and Regeneration chairs the Advisory Board and Executive Director Resources and Customer Services oversees the regular performance and financial monitoring arrangements.

Leadership for CE and the LEGI programme is robust. A project team has been set up, employed by the Council under the branding of CE. It is responsible for all the day to day management and delivery of the LEGI programme. The project team is advised by the CE Advisory Board (the partners are detailed in Appendix 1). There is a clear link between the priorities for CE and those for the LAA; with CE contributing directly and indirectly to all the priority areas, measured against local indicators and the National Indicator set. This provides a clear record of good progress with the programme to date.

There is a clear decision making process. Decisions are taken by the Council based on recommendations of the advisory board. To date there have been no recommendations from the advisory board which have not been accepted by the CE Cabinet Committee. The Advisory Board meets every three months and is chaired by the Cabinet Member with Regeneration responsibilities and considers all relevant strategies, plans and key decisions on projects for example funding of enterprise centres. Adherence to this process provides assurance that CE is following good practice principles.

Performance management

Councillors show effective leadership of the LEGI programme. The Cabinet Member with responsibility for Regeneration jointly chairs the Economic Development Partnership, facilitates the Steering Group for the development of the Economic Development Company and is a member of the CE Advisory board. In addition one of the three Members for Selhurst ward is also a member of the Steering Group.

There is a robust Croydon Enterprise Strategy 2008-2011 in place. In June 2008 this revised strategy was presented to CE Cabinet Committee for approval having previously been endorsed by the Advisory Board in May 2008. Building on a review of
Detailed report

the previous years' performance, outputs and identified areas of weakness, the Advisory Board developed new areas of focus for the future:

- Business Survival
- Business Support
- Inward Investment
- Geography
- Evaluation and Monitoring
- Co-ordination
- Reaching Clients
- Programme Sustainability

These areas are structured around the key objectives and goals of the programme.

40 The focus of the programme is outcome based. An external evaluation of the District Centre managers, carried out by Russell Webster partners and commissioned by the Council found that the local performance management framework could be made more effective. The evaluation found that whilst the project’s performance had been good, as set out in Appendix 2, stakeholders felt that output measures did not adequately record the effectiveness of this project. Following the revision of the Croydon Enterprise Strategy 2008-2011, the programme will be evaluated in light of two key sets of targets:

- Local Area Agreement indicators/targets; and
- Croydon Enterprise programme indicators/targets.

41 There is an effective performance management framework in place. Regular reports, spot checks and annual visits feature as part of the monitoring processes. Finance and performance reviews are carried out; ad-hoc and annual visits are carried out and reported upon. In addition, all projects are monitored on a quarterly basis against project Delivery Plans. At the end of each quarter, pre-populated CE Monitoring forms are sent to the Project Manager at each Delivery Partner organisation. Completed monitoring forms are returned to the Evaluation Manager by the published deadline. Delivery partners report against the following headings:

- Finance
- Outputs/Outcomes
- Project Risk Register
- Milestones
- Summary of Quarterly Progress
- Capital Asset Register

42 Where there are significant variances between planned and actual spend and/or output, delivery partners are required to provide an explanation. Delivery partners are required by the Delivery Plan, Service Level Agreement or Grant Agreement to achieve set targets each quarter. The impact of failure to reach targets by more than
10 per cent and/or to provide the data required may delay payment and can result in the withdrawal of funding for the project.

43 The Council is responsive to external pressures. The programme has been redefined to address the prevailing financial climate. CE is now responding to the downturn in economy by refocusing the LEGI initiative efforts towards stabilising recently developed business and working with the increasing numbers of Croydon residents who are seeking to use redundancy payments and other lump sums to develop local business opportunities. Many of these people are highly skilled and come with ideas about where they see their future; the emphasis for the project team has been to respond to those differing needs. The Economic Development Partnership has developed a recovery plan and CE has realigned projects to ensure services continue to respond to the needs of clients with a focus on sustaining businesses and supporting the newly unemployed to ensure there is a package of options available. The emphasis for the project team has been to respond to these differing needs in order to continue to fulfil the delivery strategy requirements and support Croydon residents in their efforts to develop new sustainable businesses.

44 The Council through the CE Delivery Strategy effectively aligns the programme performance against the LAA targets. The 2007/08 Croydon Enterprise Annual Report reports performance against those LAA targets. The table at Appendix 2 demonstrates that the 2007/08 CE programme performance, as reported in the 2007/08 CE annual report, was overall very positive and targets were achieved. The 2008-2011 LAA reports that many of these targets are subject to review and were due to be set in autumn 2008. Data from the two LAA targets and one local target at the end of the first complete year were used to set baselines and in February 2009 new targets were set for the 2009/10 and 2010/11 years.

45 Feedback mechanisms that engage with beneficiaries and others to gather views on the quality and timeliness of services provided by the Council and its delivery partners are now in place e.g. Advisory Board, Advisory Sub Groups, Delivery Partner co-ordination workshops/networking events, business support co-ordination meetings, independent evaluation, activity evaluation, stakeholder briefings, etc. The CE delivery strategy which was presented to Cabinet in June 2008 after endorsement by the CE Advisory Board in May 2008 identified a need to further develop mechanisms to harness feedback from entrepreneurs, beneficiaries and other stakeholders. Much of the work undertaken on feedback mechanisms has been during 2008/09. These new mechanisms provide the basis for formal feedback arrangements which would enhance overall programme provision.
**Recommendation**

<table>
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<tr>
<th>R1</th>
<th>Develop further the feedback mechanisms for the following groups:</th>
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<tr>
<td></td>
<td>• Beneficiaries</td>
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<td>• Stakeholders</td>
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<td>• Partners</td>
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Benefits: Collection and analysis of such information can be used to inform future CE plans and long term enterprise initiatives.

Cost: The implementation of this recommendation will have high impact with low costs.

Suggested timing: This should be implemented by April 2010.\(^1\)

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\(^1\) Low cost is defined as less than 1 per cent of the annual service cost, medium cost is between 1 and 5 per cent, and high cost is over 5 per cent
Value for Money

46 The Council demonstrates the positive impact of LEGI against LAA priorities. LEGI funding forms part of the new Area Based Grant and the programme should now demonstrate its impact across a number of priorities contained within the LAA. CE contributes to a range of LAA targets which illustrate progress towards improving Croydon, both economically and socially.

47 The Council secures good value for money through its procurement practices. There is well developed procurement expertise within the team which is being utilised to let delivery grant agreements, ensuring that value for money is secured. This is also supported by rigorous monitoring processes on agreements to ensure no profits are accrued by delivery partners. However, our Financial Management review, reported in detail under the Selection of Partners sub-heading below, revealed that the awarding of agreements through open competition is inconsistent.

48 The monitoring of value for money is inconsistent. The Council makes use of the CE evaluation framework and reported performance data to make a judgement about the overall efficiency of a programme, but this is not systematically applied. Delivery plan guidance clearly states that achieving value for money is an integral part of the process and quarterly and annual monitoring of value for money is undertaken and projects are reviewed at the end of each year. There is however, an absence of identified targets and indicators for monitoring of value for money consistently. Partners are challenged to make improvements through streamlining and improving working practices and outcomes. Croydon Business for example, is undertaking the same work this year for £400,000 less than last year, and the Commensse project was benchmarked against other social enterprise agencies to assess if the project is achieving value for money. An independent evaluation of the Commensse project has also been carried out. Robust judgements about value for money are prevented by the absence of a consistent format for challenging costs and outcomes. As a result Councillors and officers are not confident that value for money is consistently delivered by the programmes.

Recommendation

<table>
<thead>
<tr>
<th>R2</th>
<th>Develop a systematic framework for evaluating value for money which builds on current practice and learning from others to develop best practice and includes value form money targets and indicators</th>
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<td></td>
<td>Benefits: A systematic framework will support the delivery of value for money.</td>
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<td></td>
<td>Cost: The implementation of this recommendation will have high impact with low costs.</td>
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<td>Suggested timing: This should be implemented by December 2009.</td>
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Legacy

49 The Council is working to build a lasting legacy with projects which, after funding ends, continue to be self sufficient. Work has begun on developing the physical infrastructure through establishment of Enterprise Opportunity Centres (EOCs). The centres will be located at:

- Broad Green - scheduled for completion October 2009.
- South Norwood - site identified but no scheduled completion date yet.
- New Addington - scheduled for completion late 2010.

50 When the EOCs are complete they will provide a lasting legacy to entrepreneurs in Croydon after the LEGI programme has ended. By offering space to trade at an affordable rent and offering facilities such as fully-equipped offices to local start-up ventures and young companies, new entrepreneurs will continue to benefit from the CE initiatives.

51 The Council is also working to develop a new business-led Economic Development Company (EDC). An EDC will seek to improve the delivery of economic development activity in the borough. The Company which would be both private and public sector funded would provide a long term sustainable delivery model, helping to unify and streamline existing business development arrangements. This should ensure that Croydon is well placed for long term business development when the financial climate improves; and be in a strong position for European Funding as post LEGI funding the EDC will have access to multiple income streams.

52 CE is establishing a business mentoring scheme. The scheme has engaged with some high profile businesses who have offered to be mentors, including Nestlé. However, the scheme is currently struggling to recruit enough mentors to meet demand. There is a matching process and training for mentors, but currently the scheme is not externally evaluated or recognised. The benefits of gaining external accreditation for the mentoring scheme include:

- Recognition for good practice.
- Gaining a benchmark accepted by government departments and other funding bodies.
- Providing a ‘health check’ of the mentoring programme.

53 The Council's vision for creating a legacy is relatively short term. The development of the EOCs is up to 2010 and there is a continuing need to build in long term capacity. Commitment over the long term needs to be clearly articulated for the benefits of the programme to be fully realised. This also needs to be aligned to the developing long term vision for the borough. Benefits of this would be to raise aspirations and provide opportunities for securing more sustainable investment.

54 The Council is developing an effective bank of intellectual capital through the LEGI programme. Partners and stakeholders have a long term commitment to promoting
inward investment and business growth in the area. Through the CE programme in addition to providing a wide range of skills training, and supporting business start ups, it also provides mentoring and one-to-one opportunities. Many beneficiaries of these services are now becoming part of the ongoing support mechanisms for new clients. Through this ongoing development of people there is a developing intellectual capital within the borough.

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<tr>
<td><strong>R3</strong> Establish a framework which will lead to an external evaluation of the mentoring scheme to seek to gain external accreditations to:</td>
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<tr>
<td>• Gain recognition for good practice;</td>
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<td>• Gain a benchmark accepted by government departments and other funding bodies; and,</td>
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<tr>
<td>• Provide a 'health check' of the mentoring programme.</td>
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<tr>
<td>• Allowing partners and others providing mentoring skills to be formally accredited mentors.</td>
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<td>Benefits: External accreditations will help to attract mentors to the programme.</td>
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<tr>
<td>Costs: The implementation of this recommendation will have high impact with low costs.</td>
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<tr>
<td>Suggested timing: The framework should be established by September 2010.</td>
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| **R4** Develop a long term vision for the legacy of the CE programme, aligning it to the long term vision for the borough. |
| Benefits: Raising of aspirations and providing opportunities for securing more sustainable investment. |
| Costs: The implementation of this recommendation will have high impact with low costs. |
| Suggested timing: This should be implemented by December 2009. |

**Financial management**

55 We reviewed the financial management arrangements for LEGI and tested two projects (one large and one small) to see how these worked in practice. These were Commensse and Generic Business Support, delivered by Croydon Voluntary Action (CVA) and Croydon Business Limited respectively. Both projects that were selected for testing were appointed on a preferred provider basis. CVA was appointed because it already had established links with the community and voluntary organisations. Croydon Business Limited was appointed because of the wish to purchase additional volumes of an existing service. Also, the Council did not want to set up a service that might duplicate the service already available to the same client group.
Selection of projects and partners

56 The CE Cabinet Committee should satisfy itself that level of delivery agreements procured via open competition is in line with their expectations.

57 The Council has procedures for the selection of providers and projects in place. The selection of providers of services is by an open competitive process wherever possible, or by preferred provider. The circumstances where single proposals from preferred providers will apply are set out in the Procurement Procedures in the Delivery Strategy 2006-09.

58 The CE Cabinet Committee dated 13 September 2006 anticipated that the majority of delivery agreements would be procured via open competitive tendering. However, out of the 46 projects in 2007/08, 19 were procured by a preferred partner and 8 were procured by open tender. Croydon Council was the Delivery body for 12 projects, and 7 projects had delivery partners other than the Council, for example, the limited company Croydon Enterprise Loan Fund Ltd. Officers reported that once the areas of work had been designed and established it was clear that open competitive tendering processes would prevent the very beneficiaries that programme was being developed to help from seeking funding.

59 General Information packs are provided to potential bidders and include; selection criteria for judging proposals. With the explanation that 20 per cent of the scoring relates to the track record of the organisation and the people responsible for delivering the work.

60 There are currently no formalised processes to identify who should be on the selection panel. However the LEGI programme has also been the subject of Internal Audit evaluation and the following recommendation has been agreed:

"The LEGI evaluations panel should formally agree upon the minimum attendees for an evaluation meeting to be quorate.

A minimum of four members should be present, namely the Programme Manager, Evaluation Manager and two independent panel members. Where a second independent panel member cannot be sourced due to conflicts of interest, this should be appropriately recorded"

Formalising panel membership would help to ensure that all parties involved in application selection have a clear and transparent understanding of the processes being applied.

61 The Council’s due diligence processes are not consistently applied and do not include clear instructions about reviewing previous year’s accounts. Currently the Programmes processes require that project proposals must include:

- Short description of proposed project;
- Proposed delivery approach;
- Plans for sustaining the project after funding ends;
- Indication of target market;
- costing for each area of activity;
- a spreadsheet giving a planned cash flow, with a planned profile of outputs/outcomes over the period of the agreement;
- Public liability, Professional indemnity and Employers liability insurance cover(s);
- Equal opportunities and health and safety policies;
- References; and
- Curriculum Vitae of the principal personnel to be involved in the delivery of the project.

62 The due diligence checks do not include a review (where appropriate) of previous years’ accounts, as most payments are made in arrears. But as some payments are made in advance and some projects are higher risk than others there is a weakness in the current processes. Requiring previous years’ accounts to be submitted where appropriate, would provide the Council with greater assurance in terms of projects considered to be higher risk.

63 The CE programme evaluation processes are being complied with. For the two projects we tested, Commensse and Generic Business Support, there was a proper evaluation in compliance with Council selection processes. The two proposals from the prospective delivery partners were reviewed by the evaluation panel and were based on the Council's comprehensive standard service specification. Our testing of the two projects showed that they were approved in line with the Scheme of Delegation. The CVA's grant of £0.48 million was approved by the Cabinet Member for Regeneration and Finance and Croydon Business Limited's grant of £3.4 million was approved by the LEGI Cabinet Committee 20 November 2006. The compliance with the evaluation processes provides assurance to all parties about the selection processes in use.

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<td><strong>R5</strong> Ensure that the Internal Audit recommendations in respect of the membership of the selection panel are implemented as soon as possible.</td>
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<td>Benefits: Formalising the membership of the selection panel will strengthen the transparency of the process.</td>
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<td>Costs: The implications of this recommendation will have a medium impact with low costs.</td>
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<td>Suggested timing: This should be implemented by December 2009.</td>
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</table>

**Contractual arrangements**

64 The Council has a comprehensive standard grant agreement which has been used in respect of the two tested projects. This includes sections on duration; the role of the accountable body (the Council); the role of the delivery body; assignment; eligible/ineligible expenditure; reduction and repayment of grant; variation of project cost; project management; and contract management. For the two delivery partners, CVA and Croydon Business Limited, there is a hard copy of the signed grant agreement signed by the Executive Director of Resources and Customer Services.
Monitoring

The CE programme monitoring guidelines do not include a requirement for increased levels of monitoring aligned to increased risk(s) of a project. The Council has clear monitoring guidelines in place but these do not take account of the risks associated with specific projects by for example increasing sample sizes for higher risk monitoring. Project risks might include the potential to not meet planned outcomes, the increased need to develop relevant work related skills or the value of the funding provided. Delivery bodies are required to report on six areas, Finance; Outputs/Outcomes; Project Risk Register; Milestones; Summary of Quarterly Progress; and Capital Asset Register. All projects are monitored on a quarterly basis against figures identified in the project’s Delivery Schedule. At the end of each quarter, pre-populated Croydon Enterprise Monitoring forms are sent to the Project Manager at the Delivery Body organisation. Completed monitoring forms are then returned to the Evaluation Manager by the published deadline. The procedures in place are the same for all projects and do not take account of the value or risk of each project. Therefore in theory high value/high risk projects could receive the same level of monitoring as low value/low risk projects.

There are established monitoring processes for delivery partners in place. Monitoring of delivery partners is carried out both quarterly and annually. Delivery partners may also be subject to ad-hoc monitoring reviews. Current processes are:

- Quarterly monitoring forms include the certification sheet and the six areas on which delivery partners are required to report. The forms are submitted electronically to the Council’s Programme Manager for sign off by the quarter deadline and copied to the Evaluation Manager. A hard copy of the original signed certification sheet is sent to the Evaluation Manager, no later than five days after the quarter deadline. From our testing we noted that for two projects, quarterly Monitoring Certificate and Reports (i.e. Certification Sheet plus Forms A to E) were supplied in line with the guidelines. There was no Form F: Capital Asset Register as there is no capital expenditure per the Certification Sheet.
- All delivery partners are also subject to annual monitoring visits by a programme officer at the premises of the organisation
- Delivery partners may also be subject to ad hoc monitoring visits.

Project Monitoring Records are completed after the monitoring visit by the Evaluation Manager providing assurance information about the delivery partners' progress against finance, output and outcomes targets.

Recommendation

R6 Put in place arrangements to ensure that project monitoring is proportionate to the level of risk.

Benefits: This will improve the efficiency and effectiveness of project monitoring.
Costs: The implementation of this recommendation will have medium impact with low costs.
Suggested timing: This should be implemented by March 2010
Payments and audit arrangements

The Council has satisfactory procedures in place for making payments to delivery partners. There are two types of reimbursement. The majority of delivery partners are paid in arrears following receipt and approval of the quarterly monitoring return and other prescribed information. However, five partnerships are paid in advance. These are mainly small independent organisations that could experience cash flow problems if they had to make payments in advance.
The following organisations are members of the CE Advisory Board:

**Private sector Organisations**
- Croydon Economic Development Partnership
- Croydon Business Support Network
- South London Business
- Business Creation and Growth Sub Group
- Business Environment Sub Group
- Business Premises Sub Group

**Voluntary and community sector representatives**
- Croydon Voluntary Action
- BME Forum
- Community representative: New Addington
- Community representative: North West Croydon

**Public sector representatives**
- London Borough of Croydon
- Jobcentre Plus
- Learning & Skills Council

**Observers**
- GOL
- London Development Agency
## Appendix 2 – LEGI reported performance

### Table 1  Croydon LAA 2007/08 Targets and Performance

<table>
<thead>
<tr>
<th>Local Area Agreement Targets</th>
<th>Target</th>
<th>Performance Achievement</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase the number of people considering going into business</td>
<td>4,000</td>
<td>7,082</td>
<td>+3,082</td>
</tr>
<tr>
<td>Increase enterprise in Neighbourhood Renewal Areas</td>
<td>62</td>
<td>146</td>
<td>+84</td>
</tr>
<tr>
<td>Number of new businesses created and demonstrating growth after 12 months</td>
<td>250</td>
<td>448(^I)</td>
<td>+198</td>
</tr>
<tr>
<td>Number of schools involved in enterprise activities</td>
<td>7</td>
<td>52</td>
<td>+45</td>
</tr>
<tr>
<td>Increase enterprise activity amongst key target groups</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Women</td>
<td>2,000</td>
<td>3,237</td>
<td>+1,237</td>
</tr>
<tr>
<td>• BME</td>
<td>1,800</td>
<td>4,025</td>
<td>+2,225</td>
</tr>
<tr>
<td>• Lone parents</td>
<td>400</td>
<td>789</td>
<td>+389</td>
</tr>
<tr>
<td>• People with disabilities</td>
<td>400</td>
<td>205</td>
<td>-195</td>
</tr>
<tr>
<td>• NEET/teenage parents</td>
<td>120</td>
<td>268</td>
<td>+148</td>
</tr>
<tr>
<td>• Over 50’s</td>
<td>400</td>
<td>629</td>
<td>+229</td>
</tr>
<tr>
<td>Self-employment rate (% of economically active)</td>
<td>11.3%</td>
<td>13.6%</td>
<td>+2.3%</td>
</tr>
<tr>
<td>Net change in VAT registered businesses stock (^II)</td>
<td>Net growth of 52 (0.50%)</td>
<td>Net growth of 575 compared to 2003 baseline (6.76%)</td>
<td>Net growth of 523 (6.26%)</td>
</tr>
</tbody>
</table>

\(^I\) Important explanatory note – As there have been difficulties capturing this data for 07/08 an interim data set has been used provided by the ‘beta model’. This is an incomplete data set which only includes those businesses that have a business telephone line captured in the Yellow Pages or Thomson Local directories. The data does not specify if the 448 businesses demonstrating growth started in 2006/07 or in previous years.

\(^II\) VAT registered business stock’ is the total number of VAT registered businesses in Croydon at the end of each year, once registrations and de-registrations are taken into account.
## Appendix 2 – LEGI reported performance

<table>
<thead>
<tr>
<th>Local Area Agreement Targets</th>
<th>Target</th>
<th>Performance Achievement</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase the number of businesses assisted to improve their performance</td>
<td>2,000</td>
<td>3,009</td>
<td>+1,009</td>
</tr>
<tr>
<td>Increase the number of businesses attracted to Croydon</td>
<td>15</td>
<td>33</td>
<td>+18</td>
</tr>
</tbody>
</table>

Source: Croydon Enterprise Annual Report 2007/08
## Performance Management

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Priority</th>
<th>Responsibility</th>
<th>Agreed</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1 Develop further the feedback mechanisms for the following groups: • Beneficiaries • Stakeholders • Partner</td>
<td>1</td>
<td>Croydon Economic Development Company (CEDC) Economic Development Team (ED), Croydon Council</td>
<td>Yes</td>
<td>The co-ordination function currently delivered by Croydon Business Ltd will be transferred to the new CEDC. Feedback mechanisms in respect of beneficiaries and delivery partners will continue to be developed as part of this function. The Council will have a clear agreement with the CEDC which includes specific performance objectives in line with audit recommendations. This will be monitored by the ED function to ensure that feedback mechanisms are developed to agreed deadlines. Communications, lobbying and PR to key decision makers and local stakeholders will be co-ordinated by the CEDC. This will be delivered in partnership with the Council to ensure that the Economic Development Partnership and sub-groups are appropriately involved in developing the CE programme.</td>
</tr>
</tbody>
</table>

**Benefits:** Collection and analysis of such information can be used to inform future CE plans and long term enterprise initiatives. **Cost:** The implementation of this recommendation will have high impact with low costs. **Suggested timing:** This should be implemented by April 2010.

## Value for Money

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Priority</th>
<th>Responsibility</th>
<th>Agreed</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>R2 Develop a systematic framework for evaluating value for money which builds</td>
<td>2</td>
<td>CEDC</td>
<td>Yes</td>
<td>The evaluation and theme support functions currently delivered by Croydon Enterprise</td>
</tr>
</tbody>
</table>
## Appendix 3 – Action Plan

<table>
<thead>
<tr>
<th>Page no.</th>
<th>Recommendation</th>
<th>Priority</th>
<th>Responsibility</th>
<th>Agreed</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>on current practice and learning from others to develop best practice and includes value form money targets and indicators</td>
<td>Priority 1 = Low 2 = Med 3 = High</td>
<td>Responsibility</td>
<td>Agreed</td>
<td>Comments</td>
</tr>
<tr>
<td></td>
<td>• Benefits: A systematic framework will support the delivery of value for money</td>
<td>CEDC</td>
<td>Yes</td>
<td>The co-ordination function and generic business support agreement currently delivered by Croydon Business Ltd will be transferred to the new CEDC. Accordingly, this work will be undertaken by the CEDC as mentoring forms part of the generic business support project. The Council has a grant agreement with the</td>
<td></td>
</tr>
<tr>
<td>Legacy</td>
<td>Establish a framework which will lead to an external evaluation of the mentoring scheme to seek to gain external accreditations to:</td>
<td>2</td>
<td>CEDC</td>
<td>Yes</td>
<td>Sept 2010</td>
</tr>
<tr>
<td>16</td>
<td>• Gain recognition for good practice;</td>
<td></td>
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<tr>
<td></td>
<td>• Gain a benchmark accepted by government departments and other funding bodies; and,</td>
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</tbody>
</table>

The Commissioning Team will be transferred to the new CEDC. Given the nature of the work conducted by the programme, i.e. working with disadvantaged communities, a unit cost or other simple calculation is not an appropriate measure of value for money in terms of the achievement of outcomes. Accordingly, this framework will build on learning from other LEGI authorities and similar initiatives delivered through publicly funded programmes. The Council will have a clear agreement with the CEDC which includes specific performance objectives in line with audit recommendations. This will be monitored by the ED function to ensure that these issues are addressed and that recommendations are implemented to agreed deadlines. The ED function will also develop a framework for evaluating value for money in respect of the portfolio of projects delivered by the CEDC.
<table>
<thead>
<tr>
<th>Pageno.</th>
<th>Recommendation</th>
<th>Priority</th>
<th>Responsibility</th>
<th>Agreed</th>
<th>Comments</th>
<th>Date</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>1 = Low</td>
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<td></td>
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<td>2 = Med</td>
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<td>3 = High</td>
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<td></td>
<td></td>
<td></td>
<td>Economic</td>
<td></td>
<td>CEDC which includes specific performance objectives in line with this recommendation. This will be monitored by the ED function to ensure that a suitable framework for mentoring is established and that options for external accreditation are explored and implemented to agreed deadlines.</td>
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<td></td>
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<td></td>
<td>Development Team (ED), Croydon Council</td>
<td>Yes</td>
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<tr>
<td>16 R4</td>
<td>Develop a long term vision for the legacy of the CE programme, aligning it to the long term vision for the borough.</td>
<td>3</td>
<td>Economic Development Team (ED), Croydon Council</td>
<td>Yes</td>
<td>This work is already in progress and is aligned to Croydon’s long-term vision. This will continue to be delivered by the Council’s Economic Development function. A review of the capital portfolio will be undertaken in 09/10 to ensure that the programme’s capital resources are aligned to the LDF. The CEDC is a key milestone in establishing the legacy of the programme and has been positioned to maximise both public and private sector investment.</td>
<td>Dec 2009</td>
</tr>
<tr>
<td>18 R5</td>
<td>Ensure that the Internal Audit recommendations in respect of the membership of the selection panel are implemented as soon as possible.</td>
<td>3</td>
<td>ED Team, Croydon Council</td>
<td>Yes</td>
<td>This work is underway and will be continued as part of the work to review the governance arrangements for the CE programme in line with the transition of functions to the CEDC.</td>
<td>Dec 2009</td>
</tr>
</tbody>
</table>
### Appendix 3 – Action Plan

<table>
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<td></td>
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<td>Priority</td>
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<td></td>
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<td>1 = Low</td>
<td>2 = Med</td>
<td>3 = High</td>
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<td></td>
<td>the selection panel will strengthen the transparency of the process.</td>
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<td></td>
<td>Costs: The implications of this recommendation will have a medium impact with low costs.</td>
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<td></td>
<td>Suggested timing: This should be implemented by December 2009.</td>
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<tr>
<td>Monitoring</td>
<td>19</td>
<td>R6</td>
<td>Put in place arrangements to ensure that project monitoring is proportionate to the level of risk.</td>
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<td></td>
<td>Benefits: This will improve the efficiency and effectiveness of project monitoring.</td>
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<td></td>
<td>Costs: The implementation of this recommendation will have medium impact with low costs.</td>
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<td>Suggested timing: This should be implemented by March 2010</td>
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<tr>
<td></td>
<td>3</td>
<td>CEDC</td>
<td>Yes</td>
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<td></td>
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<td>The evaluation and theme support functions currently delivered by Croydon Enterprise Commissioning Team will be transferred to the new CEDC.</td>
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<td></td>
<td>The CEDC will be responsible for monitoring all projects delivered through CE funding and will be required to ensure that this is proportionate to the level of risk.</td>
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<td></td>
<td>The Council will have a clear agreement with the CEDC which includes specific objectives in relation to performance management of projects. This will be monitored by the ED function to ensure that these issues are addressed and that recommendations are implemented to agreed deadlines.</td>
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<td></td>
<td></td>
<td></td>
<td>March 2010</td>
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</table>