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21 September 2014

Bruce West
Head of Strategic Finance
Argyll and Bute Council
Kilmory
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Dear Bruce

**Argyll and Bute Council 2013/14
Review of the funding to support the Scottish Submarine Museum**

Following receipt of correspondence to Audit Scotland, we carried out some targeted audit work on the governance arrangements over the council's involvement with the proposed Scottish Submarine Museum in Helensburgh. Our findings are detailed below.

Background

In February 2014, as part of the 2014/15 budget approval discussions the council made provision for £140,000 funding to the Scottish Submarine Trust to support the opening of a Scottish Submarine Museum in Helensburgh. The funding request from an external organisation, was included as a 'Cost and Demand Pressure.' The Council approved release of these funds at its meeting in March based on a supplementary report 'Scottish Submarine Museum-Evaluation of Funding Request'.

The Council is of the opinion that this proposal has the potential to add a significant new visitor attraction to Helensburgh and support the investment made in the town through CHORD and proposed future works such as the regeneration of the Pier.

Approval of the funding

A report by the Executive Director of Customer Services, Head of Strategic Finance and Head of Economic Development and Strategic Transportation to the Council, in March, acknowledged that it did not follow its own procedures in considering the submarine museum funding request, from an external organisation. The report states that; "Officers fully accept that this proposal contains an element of risk attached to it given the project has not been subject to normal gateway procedures and lack of available time for further scrutiny."

In response to concerns raised by members regarding the evaluation of this funding request, officers presented a supplementary report to the council meeting in March. Members agreed that a number of additional conditions would need to be satisfied prior to any release of the funding, in three tranches.

Since we completed our audit work, the Head of Strategic Finance has confirmed that officers have now reviewed the evidence required to satisfy the conditions set by the Council for the release of the first instalment of £50,000 as follows:

- A valid 20 year lease of the Church Hall premises in favour of the Scottish Submarine Trust in terms deemed satisfactory by the Executive Directors of Development and Infrastructure, Customer Services and Head of Strategic Finance.
- A Business and Project Plan in respect of the formation and operation of the Museum in terms in terms deemed satisfactory by the Executive Directors of Development and Infrastructure, Customer Services and Head of Strategic Finance.
- Invoices for works or services provided to or for the Scottish Submarine Trust to the value of £50,000.

On this basis the Head of Strategic Finance's view is that the conditions have been met and the relevant officers are now in a position to exercise the delegation and release the £50,000 to Scottish Submarine Trust.

Following discussion of our findings in relation to this funding request, the council agrees that there needs to be a more formalised process for considering external funding requests.

We have not reviewed the evidence referred to in the three bullet points above as it has been compiled after our audit work was concluded.

Delay in opening the museum

The funding for the museum was approved to facilitate early release of the funds so that the museum could be opened to coincide with the Commonwealth Games. However the museum was not opened at all during the period of the games and it is still not open to visitors.

It is acknowledged that the Council's decision to award the grant was on the basis of the longer-term impact the facility would have on tourism, economic development and town centre activity/footfall. This is in line with the council's Single Outcome Agreement and its Economic Development Action Plan. These objectives may still be achieved by the museum, despite it not being opened to the original timetable. However the original reports provided to councillors were based on media interest and visitor expectations linked to the Commonwealth Games. There is a risk that because the submarine museum will be opened late, it may not attract the visitor number required for it to be sustainable.

The council recognise this risk and have recently received a revised business plan incorporating revised visitor expectations. Based on this revised business plan, officers have taken the decision to release the first tranche of funding in accordance with the conditions outlined above.

Council's responsibilities for an MOD grant

The Report of 20 March 2014 to the Council refers to the Scottish Submarine Trust obtaining £200,000 funding from the MoD Armed Forces Covenant Fund as part of the submarine museum project. An award letter of 7 January 2014 from the Armed Forces Community Covenant Grant Scheme Panel states that the Treasury have agreed to fund £200,000 for the project and requests return of a signed acceptance, to be countersigned "by the Community Covenant Representative in your local authority." The letter also states that "... funds (will be) transferred to your Local Authority, who will be managing the financial aspects of your project with you."

The Community Covenant Grant Scheme states that: "The Community Covenant Partnership will be responsible for ensuring that the grant is used for the purpose stated in the business case; funds are managed prudently and deliver value for money; a full account of expenditure is retained for accounting purposes; and that they are satisfied the project manager has the required skills to

manage the project. Ultimately, the MoD is responsible for accounting for money released via this scheme. It is therefore necessary to put a number of steps in place, including reporting requirements outlined in the Terms and Conditions, to ensure that we are able to fulfil this duty. '

Acceptance of the funding was signed by the Trust's project manager on 18 January 2014 and countersigned by Councillor Corry, on 20 January 2014 'for Local Authority'.

Officers originally told us that in their opinion, the council's only responsibility regarding the covenant is to arrange payment of grant monies to the recipient, and no additional responsibilities arise from the signing of this covenant. However, in our opinion it may be the case that according to the Grant Scheme conditions, the Council, as a member of the partnership, could be required to carry out tasks to assure themselves that the £200,000 MoD grant is used for the purpose stated in the business case.

If this is the case, this would include responsibility for ensuring the funds are managed prudently and deliver value for money; a full account of expenditure is retained for accounting purposes; and that they are satisfied the project manager has the required skills to manage the project. The parties must also inform the MOD of any delay to timescales or milestones as set out in the project bid as soon as slippage is identified as is the case with this project.

In response to our comments the council has confirmed with the Scottish Administrator for Covenant Awards that it is meeting its legal responsibilities with regard to this covenant.

Role of Elected members

On 31 October 2013, as part of its review of political arrangements, the council agreed 11 policy lead councillors and ten depute policy leads. The expectation is that these councillors take a special interest in staying informed on issues within their remit and take a lead role in the development of policies. The role also includes being appointed to relevant external bodies and representing the council at external meetings. The role has the potential to make an important contribution to ensuring effective communication between the different layers of the political management arrangements. For these lead councillors to fulfil this role effectively they will require good support and engagement from officers and from other councillors.

The recent Audit of Best Value and Community Planning Follow-Up Audit published in July 2014 reflects on the new political management arrangements and acknowledges the significant role that the Policy Lead system could play in making the new arrangements effective. It says that; 'For the new political arrangements to function effectively the council needs to ensure there is clarity and shared understanding in practice about the roles and responsibilities of each committee, subgroup and individual role (such as policy lead and shadow lead) within the arrangements. How well each of the parts of the new arrangements works and interacts with others will be equally important. Good intelligence about common issues and information flows across the committees, groups and lead roles, is fundamental to the new structure meeting its potential as an effective and transparent governance framework. '

Under these new arrangements, the council has said that it considered this project as initially falling into the remit of Councillor Ellen Morton who is Policy Lead for Roads, Amenity Services, Infrastructure, Asset Management and Special Projects given its close tie into the Helensburgh CHORD project.

The council has said that to clarify responsibility for specific projects, it now records the appropriate Policy Lead on all council reports.

Overall Conclusion

In the March report, senior officers acknowledged that the council did not follow its own procedures in considering the submarine museum funding request, from an external organisation. In response to members concerns, a more stringent set of conditions were introduced over release of the funds. The Head of Strategic Finance has confirmed that the evidence has been reviewed, required to satisfy the conditions set by the council for the release of the first funding instalment.

The museum was not opened to coincide with the Commonwealth Games. Accordingly there is a risk that it may not attract the visitor number required for it to be sustainable. Officers have taken the decision to release the first tranche of funding based on a revised business case.

The council has said that to clarify Policy Lead responsibilities for specific projects, it now records the appropriate Policy Lead on all council reports.

Next steps

A draft of this letter was issued to officers for comment on 18 August and comments have recently been received and reflected in these findings. This letter should now be presented to the council's Audit Committee on 26 September for consideration.

We will include a summary of our findings in the 2013/14 Annual Audit Report in October 2014. We will also copy it to correspondents who have contacted Audit Scotland about this issue.

Please do not hesitate to contact Fiona Mitchell-Knight or myself if you have any queries on this management letter.

Yours sincerely



David Jamieson
Senior Audit Manager