Crawley Borough Council

Report to the Audit Committee

2nd October 2018

Progress Report: Internal Audit and Risk Management

Report of the Audit and Risk Manager – FIN 455

1. Purpose

1.1 The Committee has a responsibility to review the Internal Audit Progress report to ensure that action has been taken by relevant managers on risk based issues identified by Internal Audit.

2. Recommendations

2.1 The Committee is requested to receive this report and note progress to date, as at 14th September 2018.

3. Reasons for the Recommendations

3.1 The Committee has a responsibility to ensure that action has been taken by relevant Managers on risk based issues identified by Internal Audit.

4. Background

Work Completed

4.1 Since the last report, as at 12th July 2018, the following review has been completed.

Audit Title	Audit Opinion
Procurement – Use of ICT Consultants	Limited Assurance

4.2 Work in Progress

4.2 The reviews in progress and other work that we have undertaken in the period are shown at Appendix A. .

4.3 High priority findings in this period

We have identified 1 high priority finding in this period which were as follows:

Procurement – Use of ICT Consultants 2018/2019 - 1 High priority finding

We have recently undertaken a review of the use of Consultants in the ICT department, to confirm that the Procurement Code had been followed and that the Contracts Register updated.

We have raised one high priority finding which relates to non-compliance with the Procurement Code where we identified two examples. One related to the supply of a consultant to the value of £63,225 where ICT did not obtain three written quotations, or follow any other aspects of the Procurement Code, for the work and recruited the individual when they learned that the person was available.

The second related to the supply of a Project Manager, where expenditure totalled £118,845 (to March 2018). ICT made an initial estimate of £30,000 and three bids were obtained. However the value of this work has been permitted to exceed the initial budget with no reassessment of the costs. We have been advised that this consultant's services were required by with the Council for a further three months and that the value would increase.

We have also raised findings during this review in relation to the absence of Procurement training and the Procurement Toolkit which needs to be updated.

Actions have been agreed to improve the control environment and we will confirm that they have been implemented at the next meeting of this Committee in November.

4.4   Follow up Audits

Data Centre Migration Project Audit 2018/2019

The final report for this audit was issued in July 2018 and the outcome reported to this Committee on 24th July. In that report, 20 high priority findings were identified, and action to address these was agreed with management, most of which are not yet due for implementation.

During the audit of this project, it was established that a total expenditure of £937,281 had been charged to the Data Centre, being both capital and revenue. We did this by reviewing the capital and revenue codes in the Financial Management System (FMS).

We were, however, advised from discussions with IT Management when discussing our findings, that some costs have been incorrectly charged to the Data Centre Migration Project as they relate to other IT projects and that the actual costs as at 31st May 2018 for the Data Centre Migration Project were £703,668.78. I sought to confirm the accuracy of this revised figure prior to the last meeting but was unable to do so.

It was therefore agreed that I would undertake further work in this area and advise the Committee of the outcome at this meeting.

In order to do this, I have met with the Infrastructure Manager who has been involved in the project since its inception. The outcome of these meetings and discussions is that a figure of £262,549.23 has been identified as being incorrectly coded to the Data Centre, with the total expenditure on the Data Centre being £715,271.08. These costs however, with the exception of the reported overspend of £100,753 have been met within the IT budgets.

This is shown in the table below:

Spend on Data Centre -	977,820.31
Not data centre - coded to data centre but within overall IT budget	- 262,549.23
Data centre costs	715,271.08
Made up of -	
Approved budgets to date including revenue	540,612.50
Reported overspend at Outturn 2017/18	100,753.00
Absorbed within IT (lost opportunity)	73,905.58
	715,271.08

Member Action

The Minutes of the last meeting of this Committee state as an Action:

In taking all issues into account, and in accordance with the suggestion of the Chair, the Committee considered that a clear end date for the project be provided within 6 weeks, and that prior to the next meeting of the Committee, and in approximately 6 weeks from the date of this meeting, an update report should be circulated to Members by the Head of Digital and Transformation to update Members on costs and where we were in arranging the review on the Project as a whole to confirm value for money / fitness for purpose / the way forward (ACTION).

To address this, the Head of Digital and Technology has circulated a paper to all Members of the Audit Committee, which outlines current options for the Data Centre, and makes a recommendation to CMT of the preferred option. The report includes and end date for the project and costs associated with its completion.

With regards to a post project review, to review value for money / fitness for purpose / the way forward, the Head of Digital and Transformation confirmed that that in preparation for new ways of working and the New Town Hall, it will be necessary to develop a clear strategy that includes all of our infrastructure plans, and so the fit for purpose and way forward elements of the work to date and the continued validity of the initial business case will be reviewed as a part of that exercise. It is anticipated that the value for money element will be considered at this time.

4.5   Freedom of Information (FOI) Requests

Between 1st July and 31st August 2018 we have processed 175 requests, and of these, 11 responses were sent to the requester outside of the 20 working day deadline. This was largely due to the complexity of the requests.

5.   Strategic Risks Update

The following have been identified as strategic risks for the Council at 30th June 2018.

Failure to deliver key infrastructure projects as planned, on time and within budget, such as:

- **Town Hall and District Heat Network**
  The Council are in discussions with Westrock regarding a potential mixed use development which would see the provision of a new town hall, commercial office space and residential units on the town hall and adjacent car park site. A recommendation on the preferred option was presented to Cabinet early in 2017 and was approved at Full Council on 22nd February 2017. This proposal will require a partial demolition of the current building to allow for the development of a new Town Hall within the site. Planning permission for the scheme was granted on June 5th 2018 and the majority of staff have now been decanted from the proposed demolition area. A risk register for the scheme, attached at Appendix B, is updated by the project team on a fortnightly basis and will be shared with the Audit Committee.

- **LEP Infrastructure – Crawley Growth Programme**
  CBC, together with WSCC (the lead body) was successful in securing £14.6 million of Local Growth Fund from the Coast to Capital LEP in autumn 2017, as part of the Crawley Growth Programme – a £60m package of public and private sector funding. These resources are being invested in sustainable transport, highway and public realm infrastructure in the town centre and Manor Royal. The Worth Park Avenue cycle path, the Crawley town centre signage scheme and the Real Time Passenger Information upgrades at bus shelters across Crawley have already been completed.

  The principle purpose of the Crawley Growth Programme investment will be to help bring forward regeneration sites to achieve new homes, jobs and commercial space. The Programme is being delivered over the period 2017 to 2021, founded on dialogue and active partnership working with stakeholders such as Metrobus, the Manor Royal BID, Gatwick Airport Ltd, Network Rail and site developers. It is being overseen by the Crawley Growth Board, chaired by CBC's Chief Executive and CBC key decisions on schemes going forward will be subject to Cabinet approval and associated due process.

  Part of the Crawley Growth Programme, includes the Queensway and The Pavement public realm improvement scheme (the next phase of town centre regeneration after Queens Square). The contractor, Blakedown, has been appointed to undertake the works for this scheme and is due to commence on site in January 2019 through to October 2019. . Design work has begun on several other Crawley Growth programme schemes, including Station Gateway and Manor Royal Gatwick Road sustainable transport improvements. An update on the programme was reported to Cabinet in June 2018 PES/298

- **Three Bridges Railway Station**
  On 11th February 2015 SHAP/43, Cabinet approved the allocation of £430,000 of S106 funding towards the delivery of improvement works to the Station Forecourt. Network Rail have formally agreed to extend the S106 funding spend deadline to end March 2021.

Member approval has been granted to reallocate £1.5 million of Borough Council capital programme funding, originally earmarked for the Queens Square regeneration scheme, to the Three Bridges station improvements programme. These funds are being combined with the above S106 resources along with over £1 million of Community Infrastructure Levy (approved by Cabinet on 7th February2018).

The Three Bridges station scheme Programme Manager has been working closely with GTR Southern and Network Rail in order to progress delivery of the scheme to detailed design stage with the aim of submitting a planning application next year. GTR Southern and Network Rail have both joined the Three Bridges Project Steering Group alongside Crawley Borough Council and West Sussex County Council. On 21st March Cabinet approval was secured to commence work on the detailed design stage and to undertake comprehensive traffic modelling to determine the impact on traffic flows of the scheme, taking account of the recently upgraded traffic lights infrastructure outside Three Bridges station on Haslett Avenue East.

- **Delivering the affordable housing programme**
  The Administration has pledged to build as much affordable housing for local people as possible. Delivery is being programmed through the Strategic Housing Board and scrutinised at CMT and through the Corporate Projects Assurance Board. Current projections for the next 4 year delivery period (2018-2021) indicate that delivery can be maintained at a similar level to the previous 4 year monitoring period at just over 1000 new affordable homes. Approximately 2/3rds of this delivery will be by the Council and the remainder by other Registered Providers of affordable housing.

  The 2017/2018 Budget Monitoring – Quarter 2 FIN/427 report to Cabinet on 29 November 2017 identified in section 9 that over £7.7m of 1-4-1 receipts had been used to partially fund purchase of properties. However there had been delays on some housing schemes that had resulted in £1.4m being repaid back to Government. The 9 January 2018 Councillors Information Bulletin provided more detail on these delays. The officer Strategic Housing board meet on a regular basis and review the use of 1-4-1 receipts; any future risks will be highlighted through the Quarterly monitoring reports to Cabinet and on the Councillor Information Bulletin. Spend is currently on track.

  Mitigating actions have been taken to address the impact of the four year 1% rent reduction on the HRA to ensure the delivery programme can be maintained. These included setting affordable rather than social rents for new development, discounted sale as an alternative tenure option, a reduced capital programme for existing stock and re-profiling the delivery programme. HRA and 1.4.1 receipt funding is currently fully committed. The Council is awaiting the outcome of a bid to secure additional funding via the HRA Additional Borrowing Programme. If successful this will enable schemes to be brought forward and the pace of delivery increased.

  The decision to leave the EU may impact upon the costs of housing schemes as future restrictions may increase labour costs, this will be monitored over the coming years.

Future Income Streams and Transformation Agenda
In preparation for the New Town Hall the Council has agreed a wider transformation programme to prepare the organisation for a new era and to help us meet future demand, needs and financial pressures. The pillars (in additional to the New Town Hall) within the plan are Digital Transformation, New Ways of Working, Values and Behaviours, Redesigning Services, Commercial Approach (a separate risk is being created for this) and Blitz on Bureaucracy. At a high level the key risks are:

- The interdependencies between the areas of work are not managed putting at risks key elements of the plan
- The capacity required by the transformation programme takes resources away from core delivery impacting negatively on performance, finance and reputation
- Services are not prepared for the move to the new town hall putting performance at risk, impacting negatively on service provision and/or creating non-planned for additional costs (or reduced income)
- Staff are not prepared for the move to the new town hall impacting on motivation recruitment and retention
- Technology does not support the desired ways of working impact on performance, finance and morale

To begin to manage these risks, a new Transformation Board at CMT level has been created that brings together a high level plan to ensure coherence, manage interdependencies and change, allocate resources and ensure delivery. Since July, this group has been receiving regular updates. A full risk analysis is to be undertaken once current negotiations on the New Town Hall are completed as outcomes will affect analysis. A further senior management group – Corporate Project Assurance Group - has also been created and the first meeting will be held on 20th September 2018. This group will identify the key projects and risks beyond the transformation programme to oversee delivery and manage any negative impact from the constraint of capacity and resources. Agendas are being driven by an initial risk analysis. Both bodies will undertake a more detailed risk analysis for their respective areas in the coming weeks.

Disaster recovery and business continuity.
A report to Cabinet on 9th September 2015 recommended a more resilient hosting of data by providing a resilient, energy efficient, cost effective and available hosting environment for the IT systems to support our services. A partnership contract has been agreed with Surrey County Council for them to host at the data centre. Since June 2017 80% of Virtual servers and 70% of data has been migrated to the Surrey Data Centre.

A 2nd Phase of work is now being planned to move additional Physical infrastructure to the Surrey Data Centre, including additional storage to support EIM and backups. This 2nd phase will also include infrastructure upgrades at remote sites, further deployment of wifi services and remote data backups at the Town Hall, utilising the space, capacity and resilience of the new ground floor comms room.

The Bewbush Centre has been designated as the Council's main alternative site should there be no or limited access to the Town Hall building. There is a link to this centre so that systems will remain operational in the event of the Town Hall being out of operation but the network still running and it is possible for staff to get into the CBC network via this link. Once the move to the SCC data centre is complete then staff will be able to access the CBC network in the event of a network failure in the Town Hall.

Wi fi will allow access for up to 70 users at the Bewbush Centre using laptops and a small number of desktop network points.

Terrorist Attacks
In the wake of recent attacks, in May 2017 the UK terror threat level was raised to its highest level of "critical", amid fears that more attacks may be imminent, however this has now been reduced back to "severe". There are no specific threats to Crawley or West Sussex, and CBC is in regular contact with community stakeholders and the police, monitoring for any community tension and providing support where we can.

A balanced budget is not achieved in the medium term resulting in an increased use of reserves, which is not sustainable.
The Budget and Council Tax 2018/19 FIN/434 report to Cabinet on 7th February 2018 showed that we achieved a balanced budget despite a 44.54% reduction in revenue support grant, efficiencies were identified and the Budget Advisory Group scrutinised growth bids which were accepted including investment town wide in shrub bed removal. The budget Strategy report was approved by Cabinet on 6th September 2017, projections are being constantly updated. Projections will be refined when the outcome of Town Hall listing / tendering is known.

The Corporate Management Team continue to work with staff and contractors to identify and implement improved ways of working and to focus on the aim of dealing with matters first time. The refreshed transformation programme of service improvements and efficiencies achieved through systems thinking and other types of review continue with the aim of continual streamlining of internal processes to reduced waste and duplication, and also to focus on the defined purpose of each service. The transformation programme includes an increased focus on achieving new sources of income.

The impact of the decision to leave the EU may have a detrimental impact on the Council's objectives and finances, this will be reviewed as part of the budget strategy.

Recruitment and retention
Recruitment and retention of key specialist and professional roles is challenging. The impact of a period of pay restraint in the public sector combined with an increase in salary levels generally in the South East has led to problems with recruitment and retention in roles such as Finance, IT, Project Management, Legal, and some Housing roles. HR officers are working with managers to ensure we promote these roles effectively. The Council promotes the use of apprenticeships and trainee roles to grow our own skills. There is a recruitment and retention scheme which will allow time limited salary uplifts on appointment but this is only a temporary incentive and it does cause pay inequality within teams. We are exploring other ways of mitigating this risk. The Job Evaluation Scheme has been amended to create a further grade at the top of the scale to assist with the recruitment and retention of third tier managers.

Summary of Current Strategic Risks

- o   Failure to deliver key infrastructure projects as planned, on time and within budget;
- o   Delivering the affordable housing programme;
- o   Future Income Streams and Transformation Agenda
- o   Disaster recovery and business continuity;

- o Terrorist attacks;
- o A balanced budget is not achieved in the medium term resulting in an increased use of reserves, which is not sustainable;
- o Recruitment and retention.

6 Background Papers

6.1 Risk Management Strategy FIN/364 Audit Committee 24th June 2015.
Risk Management Strategy – update 24th September 2015 FIN/371
Internal Audit Plan 2018/2019 FIN/438
Internal Audit Reports 2017/2018 and 2018/2019

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