Crawley Borough Council

Report to the Audit Committee

27th November 2018

Progress Report and Risk Management

Report of the Audit and Risk Manager – FIN/458

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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 9th November 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 2nd October 2018, the following review has been completed.

Audit Title	Audit Opinion
Fraud Risk Assessment	Substantial Assurance
Community Grants	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 2 high priority findings in this period which were as follows:

Community Grants 2018/2019 - 2 High priority findings

We have recently undertaken a review of the award of Community Grants to ensure that all grants awarded were supported by relevant documentation and met the laid down criteria.

Whilst we were satisfied that there was sufficient documentation to confirm eligibility for the grants awarded, we were unable to see evidence to confirm the process followed when making the grant award, in verifying that all documentation and evidence had been received from the organisation, and that they met the eligibility criteria.

In addition, we identified that adequate segregation of duties are not in place, with one officer making the decision to award the grant, but with no secondary check, even on a sample basis, to confirm eligibility.

Action has been agreed to improve the controls in the award of Community Grants and we will report progress on implementation at the next meeting of this Committee.

4.4   Follow up Audits

Procurement – Use of ICT Consultants 2018/2019 - 1 High Priority Finding

During this audit, which we reported at the last Audit Committee, we raised one high priority finding in respect of the importance of ICT improving the accuracy of the estimates that they use to select the appropriate Procurement route for the hire of consultants or contractor staff in line with the Procurement Code.

It has been confirmed with the Head of Digital and Transformation that since the action was agreed, no consultant or contractor staff have been procured in the ICT department.
The Digital and Transformation team are now clear on the process of estimation and the various procurement routes that need to be adhered to having discussed this with the Procurement Team. This issue will be covered in more detail at a Procurement training session on 27th November, and will also cover precise processes that support rolling licencing contracts and how they are managed appropriately.

We also raised a finding in respect of the Contracts Register not having been updated with relevant ICT contracts and we have confirmed that these are now included. The 16 contracts identified in the audit report were during a four year period, and 13 are closed. It is not possible to put closed procurements on the register. The three that remain current have a total value of £78,170 and have been added to the register.

Another issue that we identified was in respect of Procurement training in the ICT department, and we have confirmed that the Digital and Transformation management team have met with the Procurement lead within the Procurement Team to clarify some of the existing requirements and a further training session

has been arranged with the Procurement Team. This is scheduled for the 27th November and will involve the entire Digital and Transformation management team.

Data Centre Post Project Review

Significant work continues to both complete the project and to address the weaknesses identified around project management and governance.   The project remains on track to be completed in February 2019 with 90% of servers and 94% of applications now migrated against the schedule. Discussions are underway with suppliers to provide a post-implementation review once the project is complete.   A referral has been made to Scrutiny seeking further information about the causes and accountability for this project. Officers are preparing a response in anticipation which will be made available to the Audit Committee.   Substantial activity is being undertaken to ensure there is an appropriate level of project management and governance around other IT projects and programme. The terms of reference and membership of the IT Board have been reviewed to this end following a recommendation from the Corporate Project Assurance Group (see below).

4.5   **Corporate Project Assurance Group**

The Corporate Project Assurance Group has been established to provide assurance that project management and governance arrangements for the Council's key projects are sufficiently strong. The need for this group had been established by the Chief Executive prior to the issue of the Data Centre report. This Group consists of the Chief Executive, the Deputy Chief Executive, the Section 151 Officer (Head of Corporate Finance), supported by officers from the Transformation Team and the Audit and Risk section.

The Group has now met twice and considered a range of projects across IT, Housing and Capital Programmes. It meets monthly and looks in depth not only at the current status of the projects, but also how it is overseen and how key decisions are taken in order to test project management and wider governance arrangements.   Project Sponsors and Managers attend having completed an initial questionnaire that is used to guide discussions. The Group will use this to form decisions about the project itself but crucially also the governance arrangements for overseeing these projects on an ongoing basis. Once fully established, this group will also assess new projects to ensure that such governance arrangements are in place at the outset.

4.6   Freedom of Information (FOI) Requests

Between 1st September and 9th November 2018 we have processed 154 requests, and of these, 3 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.

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. Some additional town centre signage will be installed before the end of 2018-19.

  The principal 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, Eastern 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. The modelling / detailed designs are due to complete in spring 2019.

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 IB/906 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 in 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, however, the HRA debt cap has been abolished providing the opportunity for additional Prudential borrowing. This will enable The Council to proceed with a number of sites to maintain its own build programme. .

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 90% of Virtual servers and 94% 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.

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 from this building to the Surrey Data Centre so that most IT systems will remain operational in the event of the Town Hall being out of operation and it will be possible for staff to access the CBC network via this link. There is corporate Wi-Fi installed at Bewbush which will allow access for up to 70 users at the Bewbush Centre using laptops or tablets together with a small number of desktop network points.

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.

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 31st October 2018, in addition projections are being constantly updated. The Fair Funding Review from 2020/21 makes it very difficult for all Local Authorities to project forward as the outcome will not be known until December 2019. As a result there will be the need to transfer either to or from reserves in 2020/21.

Projections will be updated when the outcome of Town Hall tendering is finalised. 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. In addition the Chief Executive together with the Head of Corporate Finance have undertaken a 'challenge of budgets' with all Heads of Service – this has resulted in savings and efficiencies which will assist in meeting future budget gaps.

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 future budget strategy reports and the annual budget report.

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, and some Housing roles. HR staff are working with managers to ensure we promote these roles effectively, HR have supported on a number of interview assessments to ensure the best possible outcome.

With the introduction of the apprenticeship levy an area where the Council are in direct competition with organisations who can offer greater levels of remuneration in the way of benefits and incentives. To mitigate the risk of low recruitment levels the HR team have worked with recruiting managers to design tailored apprenticeships and have expanded the range of professions for which apprenticeships are available. HR have undertaken a comprehensive rewrite and redesign of apprenticeship promotional materials, the website, vacancy adverts and job descriptions. HR have increased the activity promoting apprenticeships by visits to schools and attendance at career fairs. The apprenticeship levy will require continuous resourcing and ongoing promotion and will be an area of continued challenge for the Council in attracting apprentices.

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. There are a number of benefits available to employees and by raising the profile to prospective employees and raising the profile to existing staff of incentives including different ways of working can support with recruitment incentive and retention.

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.

<u>Summary of Current Strategic Risks</u>

- 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 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.

The risk of Terrorist Attacks has been removed. The UK terror threat level has recently been reduced from "critical" to "severe".

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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