



# DRAFT INTERNAL AUDIT REPORT

Brexit Preparation 2019/20

21 August 2019

Number of issues	
High	2
Medium	2
Low	2
Advisory	1

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**Audit information**

Fieldwork started	9 July 2019
Fieldwork completed	17 July 2019
Draft report issued	14 August 2019
Auditors	Phil Brown Rhys Hutchings
Audit Manager	Amy Hall

## **EXECUTIVE SUMMARY**

This review was undertaken as part of the 2019/20 Audit Plan as agreed by the Council's Audit Committee on 20 March, 2019. This plan was developed following an assessment of the main risks facing the Council.

### **Introduction and background**

The UK was due to leave the European Union (EU) on 29 March 2019 two years after initiating the leaving process through triggering Article 50. Without UK parliamentary approval of the negotiated Withdrawal Agreement, the UK would have left the EU without a transitional deal on 29 March, resulting in significant disruption impacting on Brent Council (the Council) and its citizens.

The Council undertook a Brexit Risk Assessment finalised in February 2019 which identified material Brexit risks to the Council, their impact and probability, opportunities and mitigating actions. The Council's objective was to ensure service continuity and minimise the impact on residents via the design and implementation of controls and processes to mitigate the risks associated with Brexit.

Brexit governance was formalised in February 2019 with the establishment of a Brexit Coordination Group which first met on 14 February 2019, consisting of senior Council stakeholders with responsibility for its Brexit response. The Group met weekly for most of the period up until 8 April 2019 when an extension of Article 50 was agreed until 31 October 2019. At this point the Council's Brexit response was suspended, although some activities have continued such as EU Settlement Scheme outreach.

At the time of this review in mid-July, no deal is the legal default on 31 October unless a deal is agreed or there is a further extension. The Council intends to resume Brexit no deal preparations in late July/early August.

The framework for this review was a Brexit risk diagnostic methodology adapted for local government. Fieldwork consisted of interviews with the Council's Brexit coordinator and Brexit lead and the other members of the Brexit Coordination Group (see Scope and Approach). As a value-added (and not a formal output), the review team has provided an outline action plan to support the next phase of the Council's Brexit response.

### **Objective**

The objective of this audit was to provide assurance over the effectiveness and robustness of the Council's current Brexit plans. The audit assessed if there were any gaps in the Council's approach to Brexit preparation, whether risks identified had been under or over-played, the appropriateness and adequacy of any mitigations implemented and the overall governance of the Council's Brexit response.

### Scope

The focus of this audit was to provide assurance on the key controls in place in relation to the sub-processes and control objectives:

- Governance and Mobilisation, and
- Brexit Impact Areas.

### Summary of findings

The Council's analysis of Brexit risks in the event of no deal, as set out in the Brexit Risk Assessment, was good and no gaps in coverage were identified. Risks appear to have been appropriately assessed using value at stake and probability, although value is difficult to judge due to the uncertain impact of Brexit and because many of the risks are indirect; for example, the impact on suppliers or the nature of EU nationals' response.

Mitigations were relevant, although they were not always aligned to the identified risks. Actions had been taken against the vast majority of identified mitigations, although in most cases they were insufficiently SMART to assess the appropriateness of the response or to track implementation rigorously.

The Brexit Coordination Group had appropriate senior leadership and membership, with regular reporting to the Council Management Team (CMT) and Cabinet. Looking ahead to the remobilisation of the Council's no deal planning, it will be important to build on the strong analysis and membership of the Coordination Group by increasing project management rigour, focusing on the effective implementation of a prioritised set of mitigations.

We identified two high risk issues:

- Brexit governance and tracking and
- risk identification, assessment and alignment;

Two medium risk issues relating to the specific Brexit impact areas of:

- EU workers and EU Settlement Scheme and
- supplier risk;

Two low risk issues:

- modelling implications for budgets and business plan and
- Brexit continuity and wider emergency response;

One advisory issue of targeted external communications.

### Follow up

Agreed management actions will be followed up to ensure the actions have been implemented and are operating effectively. We would like to thank all those who were involved in and contributed to this audit.

## **DETAILED FINDINGS – HIGH RISK ISSUES**

### **1. Brexit governance and tracking**

#### **Context and good practice:**

The quality of the analysis in the Risk Assessment was high. It was produced by the Core Team (Strategic Director Customer and Digital services and Senior Policy Officer) with input from area leads to co-create the assessment. There were varying levels of co-development and ownership, with mostly the highest impacted areas, such as Social Care and Children and Young People (CYP), demonstrating the strongest ownership of the analysis and actions.

Accountability for implementation was delegated. In some areas, such as CYP, responsibilities for reporting and implementation was embedded within divisional structures, but this was not universal.

The focus on no deal planning helped to focus attention on short-term contingency measures and was appropriate.

We identified the following steps in regards to Brexit Risk Assessment development and creation:

- The Council's first Brexit assessment went to the Equalities Committee in February 2017;
- An updated version to the CMT in June 2017, with subsequent reports to the CMT after that;
- The Council's Brexit response began to scale-up in late 2018/early 2019 as the London Resilience Forum intensified its response, including its communications on Brexit preparations and data requests. Prior to that, Brexit work had been led by individual areas and the Senior Policy Officer liaised with leads regularly;
- The full Brent Council Brexit Risk Assessment was completed in early/mid-February 2019, and was submitted to the CMT and the Council;
- The Council established a Brexit Coordination Group in February 2019 which met bi-weekly from 14 February 2019 until 8 April 2019. After this it was demobilised in light of Article 50 extended until the end of October 2019;
- The Brexit Coordination Group consists of senior staff (mostly director level) with responsibility covering all material Brexit impact areas;
- Brexit responsibilities were assigned at an appropriate level (seniority and function), with strong analytical, interpretive and coordination support from the Senior Policy Officer, and
- The Brexit Coordination Group consisted of the appropriate senior leaders and expanded over time as new risks were identified.

#### **Observation:**

Feedback from interviewees was positive about the value of the Brexit Coordination Group and governance, in particular, its role in sharing wider sources of information on Brexit and insights. Data requests from the London Resilience Forum focused on civil contingency metrics and were extensive and demanding. Interviewees reported that the Council provided the requested information to deadline, although it provided constructive comments on several occasions.

We noted that the core controls supporting the Brexit Coordination Group could be improved, for example:

- there were no formal agendas or records of the meetings, and
- the format for the Brexit Assessment and reporting requirements did not provide the controls needed to enable effective monitoring or tracking of the implementation of the identified mitigating actions (see also finding 2).

This could mean mitigations are not implemented as intended and the Council may have gaps in its no deal contingency planning.

The use of data could also be further strengthened. Data requests from the London Resilience Forum focused on civil contingency metrics and were extensive and demanding; interviewees reported that the Council provided the requested information to deadline but did not cite examples of the data, most of which was already being collected, as providing valuable insights to support their Brexit response. It can be anticipated that if no deal looks likely in the lead up to 31 October, activities and data requests will be at least as intensive as during the lead up to 31 March. It will be important that sufficient resources are in place at all levels.

As well as communicating with Coordination Group members, information and updates were also shared with a wider group. Interviewees suggested that this could be strengthened further in the future, including communications around the resumption of Brexit planning.

### **Next steps & recommendations:**

1. Increase the project management rigour of the Council's Brexit response and, already having a strong grasp of the risks (albeit they will not be static), increase the emphasis on implementation. It is recommended that it is structured around a robust internally-focused Brexit action plan that enable implementation of the Council's Brexit response to be tracked centrally to include risks, aligned mitigations with SMART indicators, risk owners, timing, status of implementation and interdependencies (the accompanying action plan provides an input into this). To make best use of the meetings, it is recommended that the action plan is updated in advance of meetings and risk owners continue to provide an update on

their risks at the meeting, as well as any new emerging risks. Meetings should have a clear agenda circulated in advance and agreed actions should be recorded and reviewed.

2. Make sure sufficient resources are allocated to Brexit lead/coordination group and in directorates, and - if no deal looks probable in early-mid October - identify surge resources to support the Council's and potentially key partners' emergency response.
3. Continue to report regularly to CMT and the Cabinet and increase their oversight and involvement if no deal looks probable in early-mid October.
4. Review and formalise Brexit reporting, communications and accountabilities within directorates.
5. Communicate internally the resumption of Brexit planning, and provide regular updates to all staff as well as those working directly on Brexit.

**Management action plan**

Agreed action	Action owner	Due date
Create site on intranet and publish minutes from Brexit Co-ordination group meetings and any other agreed updates	Anne	12 Sep 2019
Update report to CMT (and then PCG)	Peter	03 Sep 2019

## 2. Risk identification, assessment and alignment

### Context and good practice:

The Risk Assessment contains an assessment of Brexit risks by probability and impact, consistent with the Council's approach to risk management. These risks are described in the narrative section and opportunities and mitigating actions are identified.

Identified risks under each policy area were assessed for impact and probability, consistent with the Council's risk management approach. Given the nature of Brexit and the risks themselves, this is difficult to do. The approach helped to prioritise risks in a standardised way.

There are a large number of risks identified (78). Of these, there are risks with either very low probability (24 classified as either >1% or >10% chance of occurring) or impact (24 classified as either £100k or £200k financial impact), which could be managed at directorate-level and escalated appropriately.

### Observation:

There is considerable uncertainty about how Brexit impacts and risks are continuing to evolve. However, based on our risk diagnostic approach and experience from other Councils, all material risks appear to have been considered. The following more detailed observations on risk identification, assessment and alignment were noted:

- The focus on 'no deal' can explain the limited focus on longer-term strategic and operational issues - for example the implications of Brexit on capital investment and revenues;
- There were also some inconsistencies in the assessment; for example: in Section 7: Community Engagement, 'Food Shortages' has been listed twice in the key threats and been given two different financial impacts, while 'Increase in Far Right Extremism' has been listed as a key risk, but it is not included in the graph within the assessment;
- Not all risks have mitigations in place and there is variable alignment between the risks and mitigating actions, resulting in the risk that not all areas have appropriate mitigations in place, and
- Few mitigations are SMART, which means that they lack the specificity needed to assess their appropriateness for controlling for Brexit risks or the completeness of their implementation.

### Next steps and recommendations:

1. Rationalise and prioritise risks tracked and managed through the Brexit Coordination Group and manage lower level risks at directorate level.
2. Review mitigating actions to ensure they are aligned to risks and make them SMART.

3. Once Brexit outcome is clearer, consider longer-term impacts and the Council's response, building these into strategy, operations and the budget setting process.

**Management action plan**

Agreed action	Action owner	Due date
Continue to update risk assessment	Anne	Ongoing
Put together risks and actions in one document for monitoring purposes and assign actions to be monitored by the Brexit Co-ordination Group and for lower level risks, as directorate monitoring	All	29 Aug 2019

## DETAILED FINDINGS – MEDIUM RISK ISSUES

### 3. EU workers and EU Settlement Scheme

#### Context and good practice:

The risk of a skills shortage is identified as a priority risk for the Council and for most areas of the Council's responsibilities through the impact on service providers, businesses, citizens, revenues and the demand for services. With 67,000 EU Nationals (reported in the Risk Assessment), the Council has the highest number of EU nationals of any London borough, some of which are hard to reach. There has been extensive outreach to the community, and the Council has chosen to provide registration services that has included purchasing Android phones to register with, although uptake has been limited, as it has been across all local authorities

Approximately 10% of the Council's staff are EU nationals, rising to around 20% in Customer Services and CYP. The focus of the HR team has mostly been on the impact on its own staff. This has included efforts to establish the nationality of its staff. Attention has also been given to workforce planning with explicit consideration of Brexit impacts on EU nationals.

EU Settlement Scheme outreach has been pursued with energy. Considerable effort has been made to reach out to the Community, including two major outreach events and a number of engagements with community groups. Two future media campaigns were planned: the first when the new Prime Minister was announced in late July and the second at the start of 2020 when there will be a year left to register if there is no deal.

The Registration and Nationality Service have offered to provide workshops for frontline staff, but so far this has only been taken up by private sector housing and housing the homeless teams.

Council departments have also communicated with key stakeholder organisations on the EU Settlement Scheme, such as schools.

Interviewees considered the risk of the immediate loss of workforce to be very low as indicated in the risk assessment (this should be downgraded as a risk).

The key risk is skills shortages in the longer-term and the risk of wage increase impacting on the affordability of services in the shorter term. The impact will vary. Recruitment in shortage areas such as social workers may become even more challenging.

Measures being taken on Learning and Development (L&D) and workforce planning could help to mitigate the Brexit impact, although this is constrained by the limited information about employee nationality (the Council only holds nationality information about 171 employees of which 10 are EU nationals). These include recruiting from outside the EU for difficult to fill roles, such as

social workers, and focusing workforce planning on hard to recruit or retain posts and using higher skilled apprenticeships to develop relevant capabilities.

Workforce risks are considered to be a key risk across most areas of the business, particularly in suppliers (see finding/recommendation 4 below). Given the risk and activities impacting across most areas, there could be value in further sharing of best practice and leveraging capabilities, experience and channels across the Council.

There has been discussion about writing out to EU nationals on the electoral register, although this has not happened yet.

### **Observation:**

Despite the extensive efforts made in regards to communication around EU workers and the EU Settlement Scheme, in reality direct outreach can only reach a limited proportion of affected EU nationals. There is a risk that if EU nationals do not register for settled status in time (by end of 2020 in the event of no deal) and therefore have to leave the UK, there will be extensive implications for suppliers' viability, community cohesion, revenues and service demand.

Around 10% of Council staff are EU nationals, but there is limited knowledge of which specific employees they are. There is a risk that they may not register for settled status or receive the support they need, and lose critical staff if this is not understood more fully.

### **Next steps and recommendations**

1. Continue efforts to capture the nationality of Council staff and more importantly provide regular updates, reminders and offers of advice through varied communications channels, accelerating activity in 2020 (leading up to cut off for registrations at the end of 2020 in the event of no deal).
2. Review approach to reaching EU nationals, particularly the hardest to reach. It may be appropriate to reduce the focus on direct outreach and invest more in building on the engagement to date with civil society organisations and front-line service delivery staff.
3. If agreed, this should include a resourced plan for scaling-up efforts to empower and incentivise alternative providers, such as community groups and diaspora media, to support outreach. While not urgent, this is one of the few Brexit impacts that will take effect with or without a deal, so well-targeted investment is unlikely to be wasted. If there is a deal, this could be a good use of the £210,000 central Brexit funding.
4. Rollout compulsory training on the EU Settlement Scheme to all frontline staff and track the impact of frontline outreach and feedback to inform the approach.

5. Organise an internal meeting focused on outreach on EU Settlement to share experience and planned activities to learn lessons and enhance join up.

**Management action plan**

Agreed action	Action owner	Due date
Hold an information session and workshop for our third sector agencies who work with EU residents to find out more about the EU settlement scheme and to work out barriers etc. for our residents	Anne	03 Sep 19
Continue to provide training to frontline staff and record this on the action plan	Anne and Mandy Brammer	Ongoing
Circulate list of teams who have completed training in longlist of all teams – include adults social care training and LAC team	Anne and Mandy Brammer	31 Dec 2019

#### 4. Supplier risk

##### **Context and good practice:**

The Council outsources a large proportion of its services, spending around £220m per year on goods and services from over 4,000 suppliers. It is typically large multinationals providing the bulk of services in areas such as refuse collection and the provision of adult care. These employ a very large proportion of EU nationals: about 50% of staff working in social care are from outside the UK, and half of these are EU nationals. The exposure of certain key suppliers is even greater; for example, Veolia which provides recycling and refuse services (£18m p/a contract value), has over 50% EU nationals, rising to over 70% of its agency staff. The contract with Veolia comes to an end in March 2023 and the procurement process for the next contract is already under preparation.

This makes a number of critical suppliers highly exposed to Brexit impacts, particularly the ability to fill posts and the risk of wage escalation, both of which could impact on their viability. For these reasons, a failure of care providers is the only red risk as assessed in the Brexit Assessment, and a number of mitigations are in place to mitigate this risk.

Mitigations relating to supplier risk in Adult and Children's care were relatively extensive and action had been taken. This has included speaking to major suppliers about the risk of the Brexit and their response, writing to adult care providers sharing Department of Health guidance, receiving Business Continuity Plans (BCPs) from a limited number of providers, and trying to work through provider managers.

Brexit impacts will be built into the normal procurement processes and due diligence for new supplier contracts.

The Adult Social Care BCP has been updated recently in response to Allied Healthcare collapsing before Christmas, so it is up to date and relevant to the risk of the failure of a major provider.

##### **Observation:**

Failure of key services suppliers, particularly in the care sector, is the highest no deal risk (noting that EU nationals are a longer-term risk).

While mitigations have been taken and the Council has limited direct control, it is important that the Council's efforts to control for failure are robust, since unless suppliers are prepared for no deal they may not be able to provide the services needed by the Council or fail altogether.

While the Council has done some thinking around this, there is an opportunity to strengthen this further.

**Next steps and recommendations:**

1. Refresh mitigating actions and increase the rigour with which they are implemented to test supplier readiness robustly. This could include requesting and reviewing all major supplier BCPs and testing these during an upcoming Provider Forum (with engagement from emergency response).
2. Continue to engage statutory partners (e.g. Care Quality Commission) on intelligence about large providers, and Council teams about smaller providers. Where risks are identified, approach the supplier directly to assess their resilience.
3. Build in Brexit questions and contract monitoring for officers visiting providers, taking a risk-based approach.

**Management action plan**

Agreed action	Action owner	Due date
Review all adult social care supplier BCPs concentrating on those which will have the biggest impact	Andrew Davies, Chris Whyte and Brian Grady	
Look at top suppliers work and see what would be appropriate to do	All	29 Aug 2019
Build in Brexit questions	Andrew Davies, Chris Whyte and Brian Grady	

## **DETAILED FINDINGS – LOW RISK ISSUES**

### **5. Modelling implications for budgets and business plans**

#### **Context and good practice:**

The budget setting process for 2020/21 has just started. It needs to be set by February 2020 which means consultations need to start by October 2019 when the Brexit outcome is likely to remain uncertain.

Brexit could impact on the Council's budget and plans in a number of ways including:

- Contract inflation;
- Demographic decline;
- Property values;
- Council borrowing and interest rates;
- Reduction in the property tax base; and
- Business rate reductions (an estimated 50% of SMEs are EU owned).

Sensitivity analysis and risk assessments have been built into modelling in some of these areas; for example, as part of financial modelling for the property purchasing programme a fall in property prices was factored in, and Brexit is starting to be considered in capital programmes.

The Council also has significant reserves to manage one off costs, but not the sustained impact of cost escalation (including those contracts linked to the Consumer Price Index) or revenue reduction.

#### **Observation:**

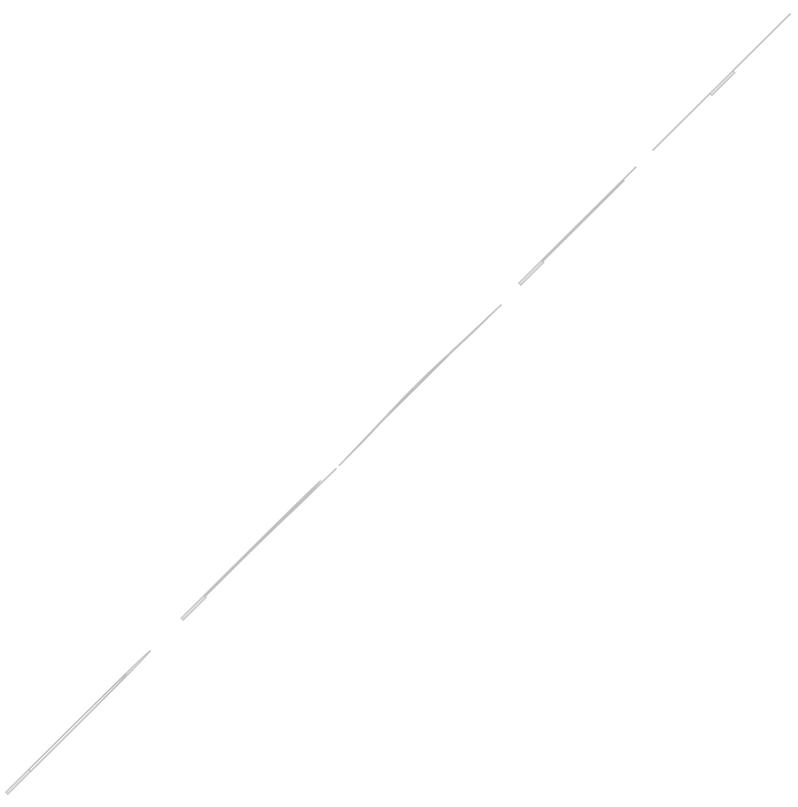
At present Brexit is not being built into the 2020/21 budget setting process, other than for specific projects. If a no deal Brexit scenario is not modelled, a no deal Brexit could mean that plans are unaffordable or services are not aligned to demand.

#### **Next steps and recommendations:**

1. Take a proportionate approach to building Brexit assumptions into budget modelling, using a scenario-based approach (e.g. orderly deal, no deal) to inform sensitivity analysis.
2. In doing so, review affordability of contracts that are linked to the Consumer Price Index (CPI).

**Management action plan**

Agreed action	Action owner	Due date
Build Brexit assumptions into budget modelling	Ravinder Jassar	31 Oct 2019



## 6. Brexit continuity and wider emergency response:

### Context and good practice:

The focus of the Council's emergency planning has been on fuel disruption risks, where it assesses the risk as being relatively low as there are well-rehearsed contingency plans in place. The other main risk considered is a failure of gas or electricity supply, where the Council's focus is on reaching vulnerable people.

The Council's Civil Contingency Manager chairs a quarterly Brent Resilience Forum (BRF), consisting key civil contingency organisations, including the emergency services. Brexit has been a standing item on the agenda, where each organisation has given a verbal and in some cases written update.

### Observation:

The Borough's emergency planning teams and the London Resilience Forum have established mechanisms and reporting in place for civil contingency planning which has been the focus of attention.

While Brexit has been considered by the BRF and civil contingency plans are well developed and tested, Brexit no deal readiness plans have not been tested robustly which could lead to a failure of Brent's emergency response in the event of no deal.

### Next steps and recommendations

1. At the next BRF meeting and before early October 2019, review Brexit contingencies in detail and test response plans robustly.
2. For the highest risk areas, such as key suppliers (see finding/recommendation 4 below), it is recommended that the civil contingency manager works with directorates to review and stress test Business Continuity Plans (BCPs).

### Management action plan

Agreed action	Action owner	Due date
Business continuity plans are currently being reviewed and assurance will be sought from each Head of Services that their plans are robust in case of a no deal Brexit	Daryl Jooste	31 Oct 2019
Partners for Brent – 17 September – will determine continued response	Anne	17 Sep 2019



## DETAILED FINDINGS – ADVISORY RISK ISSUES

### 7. Targeted external communications

#### Context and good practice:

It is good practice to have made the Risk Assessment available on the website as it demonstrates the strength of Brent's response and it is accessible to all interested stakeholders.

Considerable communications have been targeted at EU nationals on registering for the EU Settlement Scheme, as well as communications to stakeholders through directorates.

#### Observation:

The Risk Assessment is available on the Council's external website. Targeted communications have also been carried out, particularly on the EU Settlement Scheme.

While the Risk Assessment is an impressive piece of work, it is principally an internal document (noting recommendation in 'Brexit governance and tracking' to replace this with a Brexit action plan going forward), which means that it does not provide targeted messaging to stakeholders. This increases the risk that the analysis and recommendations not reaching the intended external stakeholders.

#### Next steps and recommendations:

1. Identify key target stakeholders and target communications to these groups, covering the risks, the Council's response and what they need to do. In doing so (and in light of recommendation 1), consider the merits of continuing with the Risk Assessment as a standalone document.

#### Management action plan

Agreed action	Action owner	Due date
Hold a Partners for Brent meeting about Brexit with the focus on a no deal Brexit. As part of this meeting determine how we work together on Brexit and keep informed in the future.	Anne	17 Sep 2019
Update the webpage to include hyperlinks for suppliers, businesses, etc.	Anne	30 Aug 2019

**APPENDIX 1 – Distribution list**

Peter Gadsdon	Strategic Director Customer and Digital services
Anne Kittappa	Senior Policy Officer
Carolyn Downs	Chief Executive Officer



## APPENDIX 2 – Basis of Classifications

### Individual Finding Ratings

#### Critical

A finding that could have a:

- Critical impact on operational performance; or
- Critical monetary or financial statement impact; or
- Critical breach in laws and regulations that could result in material fines or consequences; or
- Critical impact on the reputation or brand of the organisation which could threaten its future viability.

#### High

A finding that could have a:

- Significant impact on operational performance; or
- Significant monetary or financial statement impact; or
- Significant breach in laws and regulations resulting in significant fines and consequences; or
- Significant impact on the reputation or brand of the organisation.

#### Medium

A finding that could have a:

- Moderate impact on operational; or
- Moderate monetary or financial statement impact; or
- Moderate breach in laws and regulations resulting in fines and consequences; or
- Moderate impact on the reputation or brand of the organisation.

#### Low

A finding that could have a:

- Minor impact on the organisation's operational performance; or
- Minor monetary or financial statement impact; or
- Minor breach in laws and regulations with limited consequences; or
- Minor impact on the reputation of the organisation.

#### Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.