

Internal Audit Report

Regeneration Benefits Realisation

October 2017

To: Operations Director, Re
Director of Place, Re

Copied to: Deputy Chief Executive, LBB
Strategic Lead, Development and Regeneration, LBB
Commissioning Lead, Regeneration and Development, LBB
Strategic Lead, Performance and Programmes, LBB
Head of Performance and Risk Management, Re
Business Director – Regeneration, Re
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From: Head of Internal Audit, LBB

We would like to thank management and staff of the Regeneration programme for their time and co-operation during the course of the internal audit.

Executive Summary

Assurance level	Number of recommendations by risk category				
Limited	Critical	High	Medium	Low	Advisory
	-	2	-	-	-
Scope					
<p>This report sets out the findings of our work undertaken during July and August 2017 to review the operating effectiveness of benefits management and benefits realisation controls in place for three key Regeneration projects (Grahame Park, West Hendon and Granville Road). This in line with our agreed terms of reference dated 11th July 2017. The scope of the work and controls tested as part of the review are documented in Appendix 3.</p>					
Summary of findings					
<p>Barnet's Growth and Regeneration Programme aims to support the Council in becoming financially sustainable by maximising local sources of revenue, including council tax, business rates and capital receipts. The programme hopes to see £6 billion of private sector investment over the next 25 years, which will create over 27,000 new homes and up to 30,000 new jobs. It also aims to generate £17 million of additional income annually for the Council by 2020 through additional council tax receipts and business rates; and one off income of £55 million generated from capital receipts. Outcomes from the Growth and Regeneration Programme impact not only the Council but a number of its partner organisations.</p> <p>The Council has a Corporate Project Management Toolkit which includes guidance, tools and templates to utilise with the aim of ensuring that project benefits, both financial and non-financial, are clearly identified, monitored and managed during the project to ensure the planned benefits are realised. Whilst we did not identify issues with the underlying tools and templates in place to support effective management and governance of projects we did identify issues relating to the understanding and application of benefits management tools by those responsible for project and programme management, which is linked to a lack of formal training in benefits management for regeneration project managers. Issues were identified in relation to the management of the whole cycle of benefits identification, monitoring and realisation: it is not being delivered in line with the toolkit and therefore does not support effective benefits realisation. There is a need to upskill project managers to enable them to embed the Council's benefits management tools effectively into business as usual project and programme management.</p> <p>The Council's Growth and Regeneration Programme includes ambitious objectives which are key to the Council's strategy. To achieve these aims for the overarching programme, benefits identification, monitoring and realisation must be carried out effectively for individual projects within the programme. Failure to realise benefits at an individual project level can mean that the benefits identified for the overarching programme are no longer achievable and the Council cannot justify its investment decisions and maximise outcomes from them.</p> <p>We identified the following issues as part of the audit:</p> <ul style="list-style-type: none"> • Benefits identification and definition – We found that planned benefits for the three projects reviewed had not been fully defined and were therefore unable to determine how the Council would be able to fully articulate the planned benefits of projects and fully justify its investment decisions (Finding one, high rated); and • Benefits monitoring, measurement and realisation – We found controls were not in place for benefits to be effectively measured and monitored to ultimately demonstrate realisation. We were therefore unable to determine how the Council would be able to fully determine whether projects were on track to deliver the intended benefits and therefore whether the projects remained viable (Finding two, high rated). 					

2. Findings, Recommendations and Action Plan









Ref	Finding	Risks	Risk category	Agreed action
1.	<p><u>Benefits identification and definition</u></p> <p><i>Control design and operating effectiveness</i></p> <p>The Corporate Project Management Toolkit requires planned benefits to be outlined in business cases / project initiation documents and fully defined within benefit profiles. The toolkit includes a benefit profile template which contains all of the required fields for benefits to be fully defined, which projects are required to utilise.</p> <p>We reviewed the benefit profiles in place for all three schemes (full detail is contained within Appendix 3) and noted the following:</p> <ul style="list-style-type: none"> • A number of the planned benefits listed across the three schemes were in fact outputs, for example the provision of a home or community facility and it was therefore not explicitly clear what the actual benefit of these outputs to residents or the Council would be. • For 44% of Grahame Park and West Hendon planned benefits we were unable to identify a clear link between the benefit and the method and source data to be used to measure realisation. For example the sale of new homes being used to demonstrate an increase in resident satisfaction. • 98% of Grahame Park and West Hendon benefit owners were incorrectly listed as being the new or existing residents. Benefit owners in this context are not the intended end recipient but the person responsible within the programme / wider Council for ensuring the benefit is ultimately realised. • 78% of planned benefits for the three schemes reviewed were not supported by specific baseline figures by which realisation of the planned benefit could be easily measured. • 86% of planned benefits for the three schemes reviewed were not supported by sufficiently detailed targets by which realisation of the planned benefit could be easily measured. • No potential dis-benefits had been identified or captured within profiles. For example the regeneration of certain areas could result in areas no longer being affordable for current residents, 	<p>If benefits are not clearly defined before investment into a project, it will be difficult for the Council to demonstrate their realisation at the end of the project and ensure the best investment decisions have been made with available funds.</p>	<p>Limited</p>	<p>Agreed Actions:</p> <p>a) Management will provide project managers with training on how to fully define project benefits and the level of information they are expected to produce and maintain. This will include ensuring project managers understand:</p> <ul style="list-style-type: none"> • The difference between an output and a benefit and how to fully describe planned benefits / dis-benefits. • How to determine methods of measurement for planned benefits and the source data required. • How to assign owners to specific benefits to ensure they are realised • How to determine baseline measures by which progress of realisation can be measured • How to determine sufficiently detailed targets by which realisation can be measured. <p>Responsible officer: Programme Support and Controls Manager, Re</p> <p>Target date:31 January 2018</p> <p>b) Following training Project Managers will review and update project benefit profiles for the three schemes reviewed and ensure they contain all the required information to fully define planned benefits.</p> <p>Responsible officers:</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>which may lead dissatisfaction and pressure on other Council resources. During our fieldwork Regeneration Managers expressed a lack of clarity regarding how to approach dis-benefits, especially those which may be seen as contentious or political in nature.</p> <p>We were therefore unable to determine how the Council would be able to fully articulate the planned benefits of the projects and fully justify their investment decisions.</p>			<p>West Hendon Regeneration Programme Manager Graham Park Regeneration Programme Manager Granville Rd Regeneration Programme Manager</p> <p>Target date: 31 January 2018</p> <p>c) The Council and Re will consider whether this recommendation is applicable to other projects across the Regeneration Programme.</p> <p>Responsible officers:</p> <p>For Regeneration Programmes: Programme Support and Controls Manager, Re For Strategic Planning: Growth Manager, Re For Brent Cross: Brent Cross Programme Director, Re</p> <p>Target date: 28 February 2018</p> <p>d) The Council and Re will agree guidance to assist Regeneration Managers in the identification and reporting of dis-benefits. This will be reported to the LBB/Re Growth and Regeneration Operations Board.</p> <p>Responsible officers:</p> <p>Strategic Lead, Development and Regeneration, LBB Director of Place, Re</p> <p>Target date: 31 January 2018</p>
2.	<p><u>Benefits monitoring, measurement and realisation</u></p> <p><i>Control design and operating effectiveness</i></p> <p>The benefit profile template within the toolkit contains all of the</p>	<p>If effective reporting on the progress against defined benefits is not in place, it will be difficult for</p>	<p>Limited</p>	<p>Agreed Actions:</p> <p>a) As part of the above management will provide project managers with training on how to plan for and fully monitor the realisation of planned</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>required fields for benefits to be measured and monitored to ultimately demonstrate realisation.</p> <p>We noted clear issues in benefits measurement and monitoring. These areas were clearly impacted by the lack of clarity in the benefits defined for the projects (see finding 1), demonstrating that effective benefits management is dependent on planning and identification of benefits in line with the approach laid out in the toolkit.</p> <p>This finding focuses on those benefits which were identified correctly during the planning process.</p> <p><u>Benefits Measurement</u></p> <p>We reviewed benefit profiles in place for all three schemes (full detail is contained within Appendix 3) and noted the following:</p> <ul style="list-style-type: none"> Benefit profiles state that realisation will be monitored on an annual basis, however we found that this had not consistently occurred in practice. In a number of cases realisation is scheduled to be considered at the end of the project's lifecycle as opposed to the completion of each building phase, for example for Grahame Park. In this instance, this may mean realisation is not fully considered until 2032. To date 100% of annual planned benefit information for the three schemes reviewed had not been documented in order to be able to determine whether the project was progressing as planned. For Grahame Park and West Hendon to date 74% of actual annual monitoring information had not been recorded. In addition, as set out in finding one, we noted that monitoring the number of homes built in total may not fully demonstrate realisation of the planned benefits. <p><u>Benefits Monitoring</u></p> <p>We were unable to identify where monitoring and reporting on benefits occurs: we reviewed the minutes of the project board meetings and noted that benefits realisation was not explicitly discussed. Similarly, we reviewed the most recent Growth and Regeneration Operations Board minutes and while there was a discussion of progress for key regeneration projects, this did not include any assessment of progress against benefits identified for</p>	<p>management to assess whether projects are on track to deliver the intended benefits and therefore whether the projects remain viable and further investment is justifiable.</p>		<p>benefits, including the level of information they are expected to produce and maintain.</p> <p>Responsible officer: Programme Support and Controls Manager, Re</p> <p>Target date: 31 January 2018</p> <p>b) Following training Project Managers will review and update project benefit profiles for the three schemes reviewed and ensure that:</p> <ul style="list-style-type: none"> Wherever possible phase-specific benefits are identified within benefit profiles so that for closed phases the realisation of benefits is fully assessed at the point of closure and any failure to realise benefits can be understood and inform future phases. Measurement criteria within benefit profiles are reassessed to ensure that they support benefits monitoring and realisation. This should logically allow progress from the baseline point towards the target to be measured and articulated. A clear schedule for planned benefits monitoring activity and governance updates is agreed, for example the benefits tracker should be updated to include planned information on an annual basis and progress reported to the Growth and Regeneration Operations Board. Profiles are aligned with the information contained within Annual Growth and Regeneration Programme Report to ensure that benefits are consistently and fully defined and monitored.

Ref	Finding	Risks	Risk category	Agreed action
	<p>those projects.</p> <p>An Annual Regeneration and Growth Programme Report is produced which summarises the progress of the Council's regeneration schemes. We reviewed the 2016/2017 report and noted that it contained significantly more detail around the number of homes built by type and those planned and other outputs which could relate to the benefits for the three projects reviewed, for example the delivery of retail space. However this information was not contained within the benefits profile and it was unclear how the delivery of these outputs directly linked back to the planned benefits for the projects.</p> <p>We were therefore unable to determine how the Council would be able to fully determine whether projects were on track to deliver the intended benefits and therefore whether the projects remained viable.</p>			<p>Responsible officer:</p> <p>West Hendon Regeneration Programme Manager Graham Park Regeneration Programme Manager Granville Rd Regeneration Programme Manager</p> <p>Target date: 31 January 2018</p> <p>c) The Council and Re will consider whether this recommendation is applicable to other projects across the Regeneration Programme.</p> <p>Responsible officer:</p> <p>For Regeneration Programmes: Programme Support and Controls Manager, For Strategic Planning: Growth Manager, Re</p> <p>For Brent Cross: Brent Cross Programme Director, Re</p> <p>Target date: 28 February 2018</p>

Appendix 1: Definition of risk categories and assurance levels in the Executive Summary

Risk rating for individual findings	
Critical 	<p>Immediate and significant action required. A finding that could cause:</p> <ul style="list-style-type: none"> Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance (eg mass strike actions); or Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high profile civil action against the Council, members or officers; or Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members & Senior Directors are required to intervene; or Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences.
High 	<p>Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause:</p> <ul style="list-style-type: none"> Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff; or Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium-term difficulties; or High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.
Medium 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff; or Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences.
Low 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or Minor impact on the reputation of the organisation; or Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or Handled within normal day to day routines; or Minimal financial loss, minimal effect on project budget/cost.
Level of assurance	
Substantial 	<p>There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.</p>
Reasonable 	<p>An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.</p>
Limited 	<p>There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.</p>
No 	<p>There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.</p>

Appendix 2 – Analysis of findings

Area	Critical		High		Medium		Low		Total
	D	OE	D	OE	D	OE	D	OE	
Benefits identification and definition	-	-	1		-	-	-	-	1
Benefits monitoring and realisation	-	-	1		-	-	-	-	1
Total	-	-	2		-	-	-	-	2

**Includes two findings relating to control design and operating effectiveness*

Key:

- Control Design Issue (D) – There is no control in place or the design of the control in place is not sufficient to mitigate the potential risks in this area.
- Operating Effectiveness Issue (OE) – Control design is adequate, however the control is not operating as intended resulting in potential risks arising in this area.

Timetable					
Terms of reference agreed: 11/07/2017	Fieldwork commenced: 26/07/2017	Fieldwork completed: 09/08/2017	Draft report issued: 06/09/2017	Management comments received: 17/10/2017	Final report issued: 18/10/2017

Appendix 3 – Identified controls

Area	Objective	Risks	Identified Controls
Benefits Identification	<p>Ensures that ongoing project viability can be tracked through a clear understanding of project aims which underpin the investment decision and allow the Council to demonstrate benefits realisation.</p>	<p>The planned benefits of the project may not have been identified, be supported by baselines and targets and agreed with service owners to allow the Council to demonstrate benefits realisation.</p>	<p>The Corporate Project Management Toolkit requires planned benefits to be outlined in business cases / project initiation documents and fully defined within benefit profiles. The toolkit includes a benefit profile template which contains all required fields for benefits to be fully defined, which projects are required to utilise.</p> <p>Benefit Profiles were in place for each of the three schemes reviewed, which contained fields to capture all the information required to fully identify and define planned project benefits.</p> <p>We observed that a number of the planned benefits of the three schemes reviewed were in fact outputs, for example the provision of a home or community facility and it was not explicitly clear what the actual benefit of these outputs would be and how those would be measured, in addition we noted the following:</p> <p><u>Grahame Park</u></p> <ul style="list-style-type: none"> • Measurement calculation and data source – for five of the 13 planned benefits we were unable to identify a clear link between the benefit and the method and source data to be used to measure realisation. For example benefit one’s description is to ‘increase resident satisfaction, with a good reputation, so that private buyers will choose to live on the new estate, the method of measurement for this benefit is the sale of new homes which will not in itself demonstrate realising this benefit. • Benefit owners - 11 of the planned benefit owners are incorrectly listed as being the new and or existing residents. Benefit owners in this context are not the intended end recipient but the person responsible within the programme / wider Council for ensuring the benefit is ultimately realised. • Baseline figures - Six of the planned benefits were not supported by specific baseline figures by which realisation of the planned benefit could be easily measured. • Targets - 11 of the planned benefits were not supported by sufficiently detailed targets, for example, benefit nine’s description is ‘promoting safety and security through the design and management’ with a target for realisation as ‘a safe place to live’ which may be difficult for the Council to quantify or measure. <p><u>West Hendon</u></p> <ul style="list-style-type: none"> • Measurement calculation and data source – for four of the eight planned benefits we were unable to identify a clear link between the benefit and the method and source

			<p>data to be used to measure realisation. For example benefit seven's description is to 'Supporting sustainable communities through the provision of infrastructure to support growth and the changing demographic make-up of the area'. The method of measurement for this benefit is listed as 'delivery of necessary infrastructure e.g. new School to be built' which will not in itself demonstrate realising this benefit.</p> <ul style="list-style-type: none"> • Benefit owners - Seven of the planned benefits owners are incorrectly listed as being the new and or existing residents. Benefit owners in this context are not the intended end recipient but the person responsible within the programme / wider Council for ensuring the benefit is ultimately realised. • Baseline figures – Seven of the planned benefits were not supported by specific baseline figures by which realisation of the planned benefit could be easily measured. • Targets – Six of the planned benefits were not supported by sufficiently detailed targets, for example, benefit eight's description is 'achieving a financial income' and the target for realisation is 'possible profit to be made' is not measurable. <p><u>Granville Road</u></p> <ul style="list-style-type: none"> • Measurement calculation and data source – all six planned benefits have a clear link between the benefit and the method and source data to be used to measure realisation. • Benefit owners – All six benefit owners are correctly listed as the programme / wider Council for ensuring the benefit is ultimately realised. • Baseline figures – None of the planned benefits were supported by specific baseline figures by which realisation could be measured. • Targets – all targets are incorrectly listed as the year 2020 as opposed to a specific target figure by which benefit realisation can be measured. <p>See Finding One</p>
<p>Benefits Realisation</p>	<p>Ensures that project benefits are handed over to the service area in a structured way and that controls are in place to ensure benefits realisation is monitored over time.</p>	<p>The delivery and achievement of planned benefits may not have been monitored and managed throughout the project lifecycle in order to allow the Council to demonstrate realisation.</p> <p>The project may not have handed over to the business unit in a structured way, in particular monitoring or realisation of</p>	<p>Benefit Profiles were in place for each of the three schemes reviewed, which contained fields to capture all the information required to fully plan and monitor the realisation of benefits throughout the projects' lifecycles. We noted the following:</p> <p><u>Grahame Park</u></p> <ul style="list-style-type: none"> • Monitoring arrangements – the benefit profile states that the realisation of planned benefits will be monitored on an annual basis from 2011 to project completion in 2032. • Planned monitoring information had not been completed for all 13 benefits in order to

		<p>benefits post project may not have been clearly handed over to the service area.</p> <p>The service area may not regularly monitor and manage the planned benefits to ensure they have been fully realised.</p>	<p>determine whether the project is progressing as planned.</p> <ul style="list-style-type: none"> • Actual monitoring information had not been recorded for eight of planned benefits. For the remaining five the number of homes built is recorded within the profile, however as set out above this information alone may not fully demonstrate realisation of the planned benefits. • An Annual Regeneration and Growth Programme Report is produced which summarises the progress of the Council's regeneration schemes. We reviewed the 2016/2017 report and noted that it contained significantly more detail than around the amount of homes built by type and those planned and other outputs which could relate to the benefits for Grahame Park such as the delivery of retail space. However this information was not contained within the benefits profile and it was unclear how the delivery of these outputs directly linked back to the planned benefits for the scheme. • We reviewed the minutes of the Grahame Park project board meetings and could not identify discussions around benefits realisation. • We reviewed minutes of the Growth and Regeneration Operations Board (GROB) and whilst other scheme benefits were discussed we could not identify references to Grahame Park. <p><u>West Hendon</u></p> <ul style="list-style-type: none"> • Monitoring arrangements – the benefit profile states that the realisation of planned benefits will be monitored on an annual basis from 2011 to project completion in 2030. • Planned monitoring information had not been completed for any of the eight benefits in order to determine whether the project benefit realisation was progressing as planned. • Actual monitoring information had not been recorded for seven of planned benefits. • We reviewed the 2016/17 Annual Regeneration and Growth Programme Report and noted that it contained significantly more detail than around the amount of homes built by type and those planned and other outputs which could relate to the benefits for West Hendon. However this information was not contained within the benefits profile and it was unclear how the delivery of these outputs directly linked back to the planned benefits for the scheme. • We reviewed the minutes of the West Hendon project board meetings and could not identify discussions around benefits realisation. • We reviewed minutes of the Growth and Regeneration Operations Board (GROB) and whilst other scheme benefits were discussed we could not identify references to
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			<p>West Hendon.</p> <p><u>Granville Road</u></p> <ul style="list-style-type: none">• Monitoring arrangements – for two of the six planned benefits the profile states that the realisation will be monitored on an annual basis starting in 2020. The monitoring arrangements for the remaining four benefits have not been determined.• Planned monitoring information had not been completed for any of the six benefits• On-site work has not yet commenced there is currently no formal mechanism for reporting on benefit management and realisation.• The Annual Regeneration and Growth Programme Report produced contains more detail around proposed scheme benefits for Granville road. <p>See finding Two</p>
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Appendix 4 – Internal Audit roles and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of *Regeneration Benefits Management*, subject to the limitations outlined below.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.