

AUDIT AND GOVERNANCE COMMITTEE

26 JULY 2018

COMMISSIONING

Recommendations

- 1. The Chief Financial Officer recommends that the issues arising from internal audits on commissioning issues are noted.**

Purpose of Report

2. At its meeting on 8 December 2017 the Committee considered, as part of the routine internal audit progress report, the outcome of an audit of the Bromsgrove rail project (Minute no. 443 refers). It was requested that the Director of Economy and Infrastructure be invited to a future meeting to discuss the Committee's concerns about the original reporting of the costs of the scheme. At its meeting on 16 March the Committee requested that a more detailed summary of the findings of the audit review of the lessons learned report into the Evesham Abbey Bridge project should also be reported to the next Committee meeting (Minute no. 453 refers). This report provides a high level summary of the outcome of these audits as the basis for the Committee's deliberations and also summarises the results of three other related audits (contracting, procurement and Place Partnership) to give a more rounded picture of key governance, control and risk issues relating to commissioning and contracting activity generally.

Bromsgrove Rail

3. The County Council signed an agreement on the 29 April 2014 with the West Midlands Passenger Transport Executive (CENTRO) to jointly fund the Bromsgrove Railway Station Relocation Project, designed to generate economic benefits for the Local Community. Bromsgrove railway station was proposed to be relocated and the line from Barnt Green was to be electrified.
4. The original forecast cost for the entire project, as per the Cabinet approval in December 2013, was £17.4 million with Worcestershire County Council's contribution being £5.5 million, £1.5m from the Integrated Transport Block grant and £4m through prudential borrowing. In October 2015, further funding of £1.2m was approved by Cabinet to cover the anticipated additional costs that had been forecast. At the time of the audit the latest forecast cost to Worcester was £7.725 million.
5. The key issues arising from the review include:
 - The total projected cost of the project was £17.4m with Worcestershire funding £5.5m but the report to Cabinet was not clear that this was an open-

ended agreement and that the Council was responsible for at least 30% of all implementation costs, irrespective of any cost overruns.

- The Council has committed to paying costs associated with the project in different proportions for the development and implementation phases in line with the various agreements. The Cabinet report does not accurately reflect the agreements made. In addition, there is no evidence available to support how any of these cost-sharing proportions were arrived at. It has been suggested by the Project Manager that at one stage Centro were prepared to pay 100% of the costs, although, this view is not shared by the Programme and Commissioning Manager.
- Although the works have now been completed the final costs are still not known but the latest forecast of £7.725m suggests that the final costs will exceed the amounts approved by Cabinet of £6.7m. This increase in costs has not yet been reported to Cabinet.
- Within the original Business Case a Financial Appraisal was undertaken which demonstrated that the project should generate a surplus at the end of the 30 year period but this has not been re-worked yet to take into account increased costs and actual car park income now that the station has fully opened, although this is currently being worked on.

Evesham Abbey Bridge

6. This contract was signed on the 28 September 2012. The contract value was £3,692,098.34. A contract completion certificate was signed off on the 30th September 2014, this indicates an actual completion date of the 18th August 2014. Over the course of the contract 16 variations were logged with a combined value of £1,305,687. At the time of the audit 31 interim certificates have been issued and paid for the sum of £5,834,217.54.

7. The objective of the audit assignment was to review the report (Appendix) by the Director of Infrastructure and Environment on the lessons to be learnt and validate its accuracy and completeness. Review of the arbitration process and settlement of the final account is outside the scope of this audit as this was still ongoing. **Please note that the Appendix to this report contains exempt information (on salmon pages) and should members wish to discuss the information included in this Appendix they would need to consider passing the appropriate resolution and moving into exempt session.**

8. The audit concluded that the lessons learnt report is accurate and supported by the events, facts and documentation reviewed and verified during the course of the review. The Internal Audit view is that the seriously under-priced bid exposed the absence of skills in commissioning and as such this project shows the risks in accepting under-priced tenders i.e. those which offer the contractor no or little financial margin.

Place Partnership

9. Place Partnership Limited (PPL) is the first multi-agency joint property vehicle of its kind. A new, private company wholly owned by a number of public sector bodies, including Worcestershire County Council, was formed in 2015 to deliver various

property services and to jointly manage the estate and property services of a number of local authorities.

10. Services provided range from strategic property management and technical services to asset, facilities and project management. For Worcestershire County Council (WCC), it is important that contract monitoring arrangements are robust to ensure that benefits, both financial and quality, originally identified are being achieved.

11. Issues identified during the audit included:

- Although performance levels in a number of areas have been unsatisfactory, at the time of the audit the Council had not utilised the formal processes, as detailed within the Service Agreement to seek the improvements required. However, the Council has now issued a notice of improvement.
- The Service Definitions and Key Performance Indicators in the Service Agreement are incomplete. Alternative KPI's have been informally agreed upon, but this change has not been formalised and incorporated into the Service Agreement.
- The financial level of savings should have been defined in the Service Agreement so that all parties were aware of these targets and could be held to account for them.
- Checks have not been conducted periodically to ensure that the appropriate insurances are held to the appropriate levels as outlined in the Service Agreement.

12. The Council needs to ensure that for all contracts service definitions and KPIs are agreed before contract commencement and are included in the formal agreement.

Procurement and Contract Management audits

13. These two audits, which are currently being finalised, considered the end to end procurement process and the effectiveness of contract monitoring arrangements. The contract management work focussed on arrangements which are the responsibility of strategic commissioners within individual directorates.

14. Areas of good practice identified include:

- Useful market intelligence is obtained to inform procurement plans and specifications (market share, key players and service benchmarks);
- Although some anomalies were noted in general detailed testing confirmed the majority of processes from pre-bid assessment to award followed the Procurement Code, including scrutiny and moderation where necessary;
- A checklist exists and is helpful in managing key activities and particularly large or complex procurements;
- Exemptions were adequately supported, with evidence of challenge, justification and Strategic Procurement Manager approval;

- Retrospective orders are monitored and targeted action was being planned to hold managers to account.
- There was evidence of good engagement between WCC officers and contractors with performance being challenged where appropriate.
- Where performance data was obtained from the contractor, there was evidence that this was verified for accuracy.
- Appropriate Key Performance indicators had been established and were documented within contracts.

15. However, a number of non-compliances were noted on specific contracts / purchases. These tended to be specific to the contract involved but general themes arising from the two audits included:

- Some contracts / contract variations had been signed retrospectively.
- Compliance with insurance requirements specified in the contract not being checked.
- Safeguarding checklists need expanding to capture the Council officer responsible for completion and date.
- The Commercial Contracts Officer checklist should capture overall confirmation of assurance that related external funding or legislative requirements for items being procured have been met at the appropriate gateway stage.
- Evaluation scores, including pricing should be signed and dated by at least two members of staff.
- A process requires implementing to finalise contracts more promptly and copy to the Commercial Team, with timescales set to monitor outstanding items and escalate to management.

16. The underlying issues are that procedures need to be tightened and in particular overall guidance regarding contract management needs to be made available to officers managing contracts. Although some training courses and workshops are made available attendance on these is not mandatory.

Conclusion

17. Sound commissioning and contract management arrangements are fundamental to achieving the Council's objectives, delivering quality services and ensuring value for money is obtained.

18. The report to Cabinet on the Bromsgrove project did not clearly set out the financial implications of the project and did not reflect the agreements made with partners. The key issues on the Evesham project were the Contractor's seriously under-priced bid and a skills deficit within the Council and as such this project shows the risks in accepting underpriced tenders i.e. those which offer the contractor no financial margin, especially where the contractor is also taking on significant cost risks. It also exposes the need for further skills development particularly around business case development and tender evaluation.

19. It is important that contract monitoring arrangements are robust to ensure that benefits, both financial and quality, originally identified are being achieved and contractors held to account for poor performance. The audits identified a range of non-compliances and need for additional guidance and support, whilst some non-compliance is inevitable given the scale of procurement activity within the Council, the audits indicate that improvements in processes and overall levels of compliance are required.

20. The audits taken together with known issues arising from other significant contracts (Liberata) suggest that more guidance, support and training (particularly around service specification, business case development and tender evaluation) and better quality assurance / compliance monitoring is required. Making attendance at training mandatory could be considered.

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Supporting Information

- Appendix – Evesham Abbey Bridge – lessons learnt. (**Exempt information – Salmon pages**)

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.