



MANAGEMENT AND GOVERNANCE OF PARTNERSHIP WITH MOUCHEL

Final Distribution

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EXECUTIVE SUMMARY

1 INTRODUCTION

1.1 Background

The Public Private Partnership (PPP) is a long-term service delivery agreement through which Mouchel Business Services (Mouchel), previously Hyder Business Services supplies the council with a range of services (16 separate Service Level Agreements are in operation).

The PPP commenced in January 2004 for a period of 12 years (expires 2016) and in 2008/9 cost approximately £21 million. In the same period, additional work of approximately £7 million was awarded to Mouchel. This equated to approximately 16% of the council's net spend or 5% of gross spend. *

The partnership has a shared set of values and objectives and was set up to achieve benefits beyond that of a traditional contract (key aims were identified in the 2003 Cabinet report as financial benefits, investment, potential improvement in services and service delivery leading to cultural change).

This is not an audit of the Partnership Delivery Team but is an audit of the corporate governance of the whole partnership throughout the council.

The Partnership Delivery Team (PDT) within the Finance and Risk Management Directorate manages the contract on behalf of the council and supports each of the Client Officers (COs). A Partnership Strategy Board (PSB) oversees the Partnership at the highest level within both organisations (i.e. is made up of MKC members and senior officers from both MKC and Mouchel).

At the time of the audit, there were 15 COs whose role is to manage and monitor the operational performance of each service area, ensuring continuous service improvement, quality assurance, review of spend, resolution of any issues arising/customer complaints, etc.





The audit has been carried out as part of the Annual Audit Plan. The partnership is a valuable part of the council, which requires our partner to provide a high quality of service to meet our customers need.

* 2008/09 Gross Expenditure of £604m and Net Costs of £170m. (Source: Budget Book 2008/09),

Payments to Mouchel totalled approximately £28m in 2008/9.

1.2 Objectives and Scope

The objectives of the audit were to ensure that:

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| a) | Payments are processed correctly (Finance). |  |
| b) | The operation of the partnership complies with relevant statutory legislation and contractual obligations (Law). |  |
| c) | The PPP has achieved the initial benefits that the council set out to achieve. |  |
| d) | The Partnership changes appropriately to reflect the changing structure and objectives of the council (Policies and Plans/Service Improvement). |  |

Audit work was undertaken during the period 17th September 2008 to 24th July 2009 and testing covered the period from the commencement of the Partnership to July 2009.

This is not an audit of the Partnership Delivery Team but is an audit of the corporate governance of the whole partnership throughout the council.

2 AUDIT OPINION

Limited Assurance - Controls exist but inconsistency in application. Some risk of loss, fraud, impropriety or damage to reputation.

3 CONCLUSIONS

3.1.1 Since the PPP contract commenced over 5 years ago the council's expenditure to Mouchel has increased considerably - the contract commenced at £16m in Jan 2004 and a total of £28m of purchase orders were issued in 2008/9 to Mouchel. Payments to Mouchel may double the original contract value this financial year if the increase in purchase orders continues at the same rate. This can be seen at section 5.1.1. of this report. However, not all of this expenditure directly relates to the contract (e.g. services not included in the contract may also choose to procure goods/services from Mouchel).

3.1.2 The governance of the contract is a fundamental weakness (the structure stipulated in the contract has not been put in place and the informal structure which replaced it has mostly been suspended pending a review or is not operating effectively). The responsibility for

governance lies not only with the PDT but the council as a whole and COs in particular. Consider this with

- poor performance management (many KPIs were found to be ineffective and very few are spot checked - audit testing failed in some instances to verify the stated performance as no evidence was available);
- a lack of up-to-date service level agreements (all SLAs now need refreshing);
- inadequate risk management (44% of individual service risk workshops have not been undertaken)

and the council may not be in a position to promptly respond should the contract start to fail or to keep it in line with corporate priorities and objectives.

N.B. There is no evidence to suggest that services are currently failing but the council needs to ensure continuous improvement and that value for money is obtained.

3.1.3 Internal Audit is concerned that value for money is not always being sought (where required) for purchase orders issued to Mouchel. This is of particular concern where orders are nearing/exceeding European procurement rules (approximately £140K for services and £3.5m for goods/works).

3.1.4 Financial Regulations require that the Partnership Delivery Manager is consulted on all orders for additional spend before the order is placed. However, the evidence suggests this rarely happens. There is a risk that work may be procured in an incorrect way or that the goods/services are already included (and therefore paid) within the unitary charge. There is also a control weakness in the segregation of duties as Mouchel were found to have ordered, goods receipted and authorised some expenditure to itself without the involvement of MKC officers.

Note: Both of these findings were stated in previous Internal Audit reports – PPP Contracts Payments report dated Jul 2006 and Creditors report dated Jul 2007.

3.1.5 Since the start of the contract there is little, if any, evidence that demonstrates routine, periodic or embedded processes to test and ensure that individual services are providing value for money.

3.1.6 The council has failed to robustly monitor/verify that it has to date received the level of investment detailed in the contract (£9.5m to date, £16m over the life of the contract which has 6 years to run, for ICT, property development and refurbishment and training) and paid for within the unitary charge. Mouchel assert that they have verified that the level of spend has met the investment schedule, and that it exceeds the

stated values. Mouchel have said that an immediate meeting with the relevant Director will be held to resolve this.

3.1.7 The Audit Commission publication For Better, For Worse states “we would anticipate that ... Councils should expect to invest at least 3% of the contract value to resource client-side management”. The costs of managing this Council’s PPP contract, which is fundamental to the delivery of *all* Council services, equated to only approximately 2% of the contract value (unitary charge) in 2007/8. When taking overall expenditure into account (£26m) and not just the unitary charge (£20m) this figure is even lower (1.5%). If the contract is not effectively managed it may not achieve the desired outcomes.

3.1.8 The costs stated above include the Partnership Delivery Team (PDT) which has a key role in supporting and managing the PPP yet has been staffed by officers who have other major responsibilities. A new Partnership Delivery Manager has been appointed from 13/07/09 but both the previous manager and his predecessors were consultants who had been carrying out the role on an interim basis for almost 2 years. Based on testing, it was audit’s opinion that the PDTs role was only partially being met.

Note: The PDTs budget was reduced in 2008/9 by £16K (a report to cabinet on 19/02/08 reported “cease KPI reviews, spot checks, workshops, meetings and surveys”).

3.1.9 To date the contract appears to have achieved 8 of the 9 key elements required in addition to the operational services

3.1.10 Following the exit meetings the PDT have acknowledged many of the issues raised in this report and have been quick to proactively commence work to strengthen the governance arrangements. Therefore, audit are pleased that some of the recommendations identified in our action plan are already in progress.

3.1.11 Although the audit scope did not cover the delivery of services through the partnership, no evidence was found to suggest that the services are not being adequately delivered.

4 WAY FORWARD

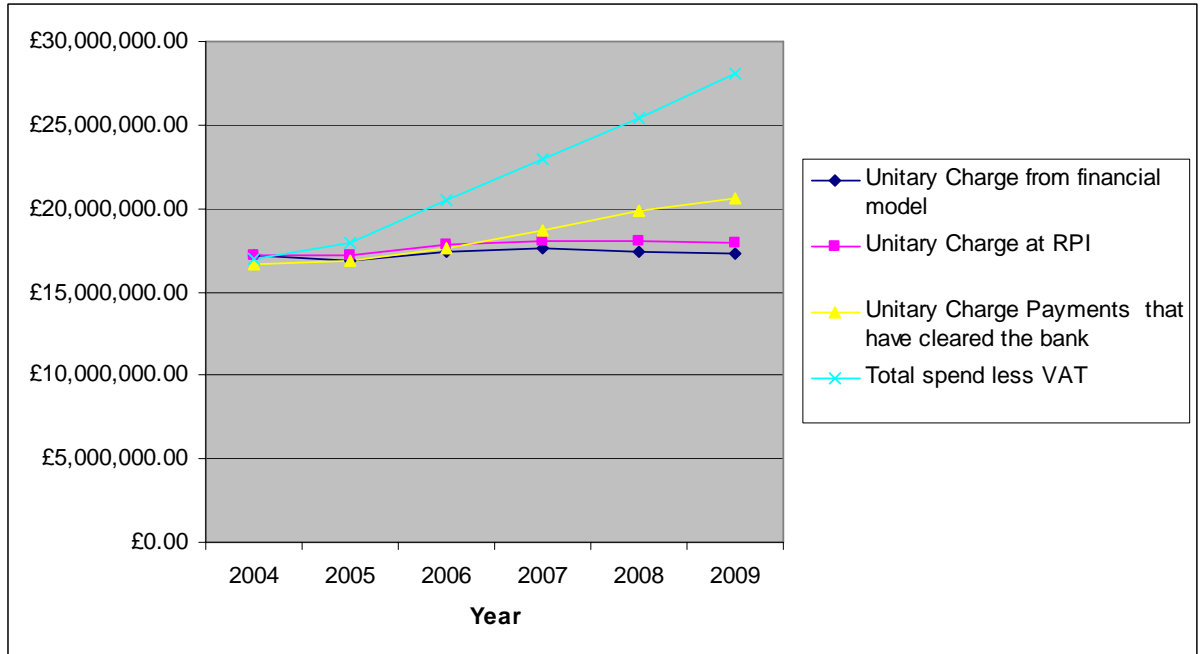
- 4.1 The council should ensure that they have the resources (both in respect of time, skills and expertise) available to manage the contract effectively. This should be throughout the council including Corporate Leadership Team (CLT) to PDT and COs.
- 4.2 There should be a dotted reporting line from COs to PDT to enable PDT to manage the contract more effectively in a holistic manner.
- 4.3 Robust processes should be developed for procurement from Mouchel, including increased involvement of PDT and Legal Services where appropriate to ensure that work is clearly specified, value for money is obtained and procurement is legal.
- 4.4 SLAs and KPIs should always reflect current requirements of the council/contract.
- 4.5 At the time of the audit the council were recruiting a Partnership Delivery Manager .This post has now been successfully filled.
- 4.6 Management have agreed to commission a Value for Money review of the PPP (Terms of Reference have been agreed) to be undertaken by an independent company this financial year.

FINDINGS SUMMARY

5. FINDINGS

5.1 Finance

5.1.1 The following graph represents the unitary charge payments (i.e. excluding the additional payments) made to Mouchel each year since the commencement of the contract on 01/01/04. The graph also includes an indication of what the payments would have been if the original contract value would have increased only in line with inflation (i.e. Retail Price Index).



The figures used in this graph for years 2004 and 2005 have been taken from information given by the Partnership Finance Manager and have not been verified as limited information is available from the previous accounting system (AS400 - Masterpiece). The figure for 2004 was for the first three months of the contract and for the purpose of the graph these have been annualised. Figures for all other years are based on the payments that have cleared the bank. The unitary charge has increased due to additional service provision within the contract and volumetric increases. The Retail Price Index (RPI) is based on the month of February which is the RPI used by the Partnership Finance Manager.

5.1.2 Unitary Charge recharges to a sample of cost centres were reviewed and confirmed as correct with the exception of bridges. This is an internal overhead allocation and does not affect the council's cash flow.

Note: An audit in 2009/10 is planned to review the council's internal recharging system as a whole.

5.1.3 Overall, Audit is pleased to report that the majority of Service Level Agreements have not prompted penalties to arise. Those few penalties that arose were offset for compensating events, e.g. the delay in providing the Business Centre for Mouchel. The settlement of penalties was found to have been negotiated and agreed between individual senior officers of MKC and Mouchel. Given the original objective of such penalties (i.e. to provide a control framework to enable Client Officers to manage services) it seems appropriate that any "trade" involving penalties is overseen by PDT. Whilst Audit is not saying PDT must have the final say it is prudent that PDT be consulted on the application of any penalty so that any larger corporate picture is understood.

5.2 Law

- 5.2.1 There is no effective system in place to ensure that procurement through Mouchel is always compliant with legislative requirements. We have been unable to obtain assurance that some procurement is in accordance with statutory legislation and/or council policy.
- 5.2.2 A contract of this length and complexity must remain flexible to meet the council's needs, the changing legal framework the council operates within and the legal status of the original agreement. This requires periodic review to ensure the council and the contract stays within the relevant legal boundaries.
- 5.2.3 The contract let in 2004 has been kept under review and continues to provide a sufficient legal framework for the current Partnership activities. Because of the changing nature of procurement legislation and domestic and European case law, however, the law on this subject has never been fully crystallised and there are still many unsettled areas. In reviewing each proposed new project, therefore, Legal Services must seek to reconcile how, or indeed whether, a new project or business proposal sits with the current Partnership Contract and with the current law.
- 5.2.4 Legal advice is that where an unscoped variation is intended or a new project is desired to be passed on to the PPP Partner, the matter in the first instance shall be referred to Legal Services for their scrutiny and review.
- 5.2.5 Managers should also consider value for money issues and consider whether or not potential or new Partnership business or projects should be required to be market tested with other suppliers for best value.
- 5.2.6 Following the audit the PDT has begun to work on some clear guidance for officers when procuring from Mouchel.

5.3 Policies and Plans

5.3.1 In addition to the basic operational services to be delivered by the PPP, a report on the PPP to council on 11/11/03 listed 9 key elements. All but one (£21m of investment) have been achieved:

- The 40 seat contact centre, supported by a SAP Customer Relationship Manager, has been achieved.
- The new financial management system (SAP Enterprise Resource Management system) has been implemented.
- The council's e-govt obligations have been met (see audit report ref. E184-07 Implementing E Government, dated February 2007).
- Services are being delivered in accordance with the needs of the council (no financial penalties have been imposed and service delivery is meeting the needs of the client officers).

Note: Service Level Agreements as mutually amended between MKC and Mouchel are not always strictly adhered to by Client Officers in day to day practice. KPIs are also in need of a review.

- Financial savings of £1.8m were provided for in the contract. A key element of this is the Procurement Savings (£3.7m over the life of the contract) which are currently on target (although there are some concerns about whether targets will be achieved in future years). This is monitored on a regular basis by the Procurement Client Officer.

Note: This area is currently being jointly reviewed by both the partner and MKC.

- A guaranteed Royalty Payment of £50K per annum has been received by the council. This income is already included in the £1.8m financial savings mentioned above.
- An approach to additional procurement savings was introduced, but the bonus levels have not yet been reached.
- Office Accommodation has been improved.

- 5.3.2 Mouchel produce a monthly performance report. It is issued to the PDT and a few key officers/members and a copy is posted on the intranet.
- 5.3.3 Performance meetings with Service Delivery Managers (SDMs) are regularly held by all COs. The majority (13/15) of COs stated that they felt they had a good relationship with their SDM or their deputy.
- 5.3.4 The majority of COs (12/15) stated they were happy with the action taken by Mouchel regarding any shortfalls in performance (a mechanism is in place to deal with such instances). Two concerns were raised regarding the lack of replacement cover when key officers were absent long term, e.g. maternity leave.
- 5.3.5 COs stated that they were aware of the Client Officer Handbook (A Guide for Partnership COs).
- 5.3.6 SDMs felt that they had an involvement/were listened to in future planning, service delivery improvements, etc.

5.4 Service improvement

- 5.4.1 The majority (11/15) of Client Officers stated that Mouchel change readily with the needs of the service.

6 GOVERNANCE

6.1 Policies and Plans and Structures – Governance

6.1.1 The mission statement and values were last reviewed in September 2007.

6.1.2 The governance arrangements (Schedule 15 of contract) have not been put in place and an alternative structure has not been formulated and agreed (a Change Control/Variation will then need to be completed).

Key member and officer groups did not meet regularly: In 2008/9 the **Partnership Strategy Board (PSB)** and the **Client Officer Forum (COF)** both only met twice and the **Partnership Operations Group (POG)** did not meet as it was disbanded pending a review (last met in March 2008).

6.1.3 The Terms of Reference for the PSB do not clearly state its responsibilities.

6.1.4 Ad hoc reports are presented to Corporate Policy Development Committee and Audit Committee as requested. Periodic strategic reports are presented to Corporate Leadership Team/Members by the PDT on the strategic issues/concerns/performance of the PPP. Routine reporting is done by Mouchel, i.e. “monthly report”, and there have been two reports by MKC officers to Cabinet - 2004 and 2006.

6.1.5 Communication is poor. The intranet and internet WebPages were not up-to-date (although it is understood that some action has now been taken to correct this) and some Client Officers stated that they were unaware what the PSB’s role/purpose was and what decisions were made. Some Client Officers stated that they operated in silos. The Partnership Communications Group no longer exists. However, some Client Officers stated that communication was good.

SEE EXCEL SHEET – GOVERNANCE STRUCTURE

7 SERVICE LEVEL AGREEMENTS (SLA) AND KEY PERFORMANCE INDICATORS (KPIs)

7.1 SLAs

7.1.1 All of the SLAs need to be reviewed. Since the commencement of the contract in January 2004 only 5/16 services have reviewed their SLAs, and those that have been reviewed should have been reviewed again since.

7.1.2 The contract provided for a Contract Review Group to initiate and monitor their reviews but this group was never set up. This role has partly been provided by the PDT.

7.1.3 60% of Client Officers stated that their SLAs were out-of-date. It is the responsibility of the Client Officer to ensure their SLA is up-to-date and reflects changes (and to ensure continuous improvement).

Since audit testing was undertaken an initial meeting has taken place to review SLAs and KPIs. All SLAs and KPIs are planned for review within the financial year.

7.2 KPIs

- 7.2.1 Put simply KPIs are a measure to ensure that services are delivering to required standards and continuous improvement.
- 7.2.2 When KPIs were initially introduced some service managers put forward suggestions that were easy to measure and did not necessarily effectively measure performance. Five years on a number of these remain. It is the responsibility of the Client Officer to ensure their KPIs are up-to-date and reflects changes (and to ensure continuous improvement) and that the PDT ensures that reviews are undertaken.
- 7.2.3 25% of KPI's (52 out of 205 as at March 2009) have been switched off (i.e. do not effect the Price Performance Mechanism). Some of these have been switched off for some time - one instance was found where the KPI had been switched off for 3 years but is still listed in the latest monthly KPI report "pending review of description and activity".
- 7.2.4 Some areas (i.e. parking and street lighting) did not have any live KPIs for some considerable time.
- Note: It is understood that some of these have very recently been turned back on.
- 7.2.5 40% (6/15) of COs stated that their KPIs did not support/reflect all essential/key elements of their service.
- 7.2.6 47% (7/15) of COs stated their KPIs were not challenging or did not reflect year on year improvement.
- 7.2.7 47% (7/15) of COs stated that their KPIs did not readily change with the needs of the service.
- 7.2.8 Key areas such as quality and customer opinions were not always provided for.
- 7.2.9 Spot checks on KPIs are not undertaken (some COs thought that the PDT or Internal Audit regularly undertook spot checks).
- 7.2.10 Audit sample testing found that 50% of the evidence required to support reported performance was not available (it is the CO's responsibility to retain this). Assurance could therefore not be given on the accuracy of reported KPIs.

SEE EXCEL SHEET – SLAs and KPIs (to be inserted into final PDF report)

MANAGEMENT ACTION PLAN

The recommendations are categorised on the following basis:

- Essential** - Implementation is required with immediate effect to address a weakness that fundamentally undermines the control/objective of that system.
- Important** - Implementation is required within a short period of time to address weaknesses that seriously undermine the control/objective of that system.
- Standard** - Management need to take recommended action within a reasonable period to address weaknesses that may undermine controls/objectives.

| Ref | Findings | Risk/ Implication | Agreed Action | Management Comments | Manager Responsible & Target Date |
|-----|--|---|--|---------------------|---|
| 1 | <p>Policies and Plans - Governance</p> <p>Governance is weak (see report para. 6 for details)</p> | <p>Service failure/poor service provision.</p> <p>Contract is not delivering what it should/no clarity about what it should deliver.</p> <p>Lack of direction.</p> <p>The council is not in control of the contract.</p> <p>Officers act outside their remit.</p> <p>Managers/members not kept informed and decisions are not made in a timely manner.</p> <p>Important issues not resolved expeditiously.</p> <p>Low staff morale.</p> | <p>Essential</p> <p>The format and content of the monthly report will be reviewed with agreement from Mouchel and Client Officers.</p> <p>Communication methods will be reviewed.</p> <p>PDM is reviewing Governance (to be ratified by PSB).</p> <p>PDM also in process of reviewing and updating data on intranet and internet.</p> | Agreed | <p>Partnership Delivery Manager 31/10/09</p> <p>Partnership Delivery Manager 30/09/09</p> <p>Partnership Delivery Manager 30/12/09</p> <p>Partnership Delivery Manager 31/12/09</p> |

| Ref | Findings | Risk/ Implication | Agreed Action | Management Comments | Manager Responsible & Target Date |
|-----|---|--|--|--|--|
| 2 | <p>Policies/Plans and Service Improvement – SLAs and KPIs</p> <p>Testing showed the majority of SLAs and KPIs have not changed or been reviewed since the start of the contract. Significant proportions of KPIs (and indeed PIs) are not switched on. The partnership is a key strategic means to deliver and support the council's corporate priorities and objectives. Therefore, the partnership must be able to demonstrate that it delivers its defined outcomes aligned to the council's priorities and objectives. Evidence shows that the some of current KPIs (both switched off and on) do not provide effective measures to determine that defined outcomes, required standards and continual improvement are being delivered.</p> | <p>Poor service provision. Performance is not effectively measured (and any under performance promptly identified and remedied). Changes in key personnel may result in disputes in service levels provided and lead to service problems, additional costs, etc. Performance cannot be independently verified.</p> | <p>Essential</p> <p>A review of SLAs has commenced and will be continually reviewed.</p> <p>A process will be developed to ensure the accuracy of KPIs.</p> <p>PDM and Partnership Director are to jointly sign off SLAs. Latest version to be put on intranet.</p> | <p>Agreed</p> <p>The PDTs involvement in KPI spot checks and annual reviews was ceased as a result of budget cuts from 2008/9 onwards.</p> | <p>Client Officers Co-ordinated by the Partnership Delivery Manager 31/12/09</p> <p>Partnership Delivery Manager 31/12/09</p> <p>Partnership Delivery Manager 31/12/09</p> |
| 3 | <p>Service Improvement - VFM</p> <p>The Business Improvement Project Board has not been set up (whose duties include initiating and monitoring Projects – see contract 5.3.4) and no projects have yet been undertaken (the contract provides for up to 6 outline cases per annum which include projects bringing community benefits and/or those which may result in savings).</p> | <p>Full value and objectives of the contract will not be achieved.</p> | <p>Essential</p> <p>The council should ensure that Mouchel provides business cases as outlined in the contract.</p> | <p>Agreed</p> <p>PSB are now considering some Business Cases discussed in meeting 3rd June 2009.</p> | <p>Corporate Manager (Improvement) 31/12/09</p> |

| Ref | Findings | Risk/ Implication | Agreed Action | Management Comments | Manager Responsible & Target Date |
|-----|---|--|--|---------------------|---|
| 4 | <p>Finance/Policies and Plans - Investment</p> <p>The original contract (para. 6.1.3.) requires Mouchel to invest £15.9m in ICT, property development and refurbishment and training over the life of the contract. Up to 31/03/09 this totalled approximately £9.5m. However, minimal monitoring has taken place (a start was made in 2007 to monitor this although no real progress was made and nothing been done since then). In addition to this, no provision has been made to plan and account for future changes to assets.</p> <p>Note: Mouchel have delivered at least some of this but the full extent is not known by the council.</p> | <p>The minimum investment as stated in the contract is not achieved.</p> <p>Ownership of such assets is unclear.</p> | <p>Essential</p> <p>The investment schedule will be reviewed and assurance given that the necessary investment will be received.</p> <p>A periodic review will be undertaken in future years.</p> | <p>Agreed</p> | <p>Corporate Manager (Improvement) 31/12/09</p> |

| Ref | Findings | Risk/ Implication | Agreed Action | Management Comments | Manager Responsible & Target Date |
|-----|---|--|--|---|---|
| 5 | <p>Policies and Plans – Contract Management</p> <p>The Audit Commission publication For Better, For Worse states “we would anticipate that ... councils should expect to invest at least 3% of the contract value to resource client-side management”. The costs of managing the contract are £461K which equates to only approximately 2% of the contract value (unitary charge) which is low in comparison to the recommended 3% and considering this partnership is fundamental to the delivery of all council services.</p> <p>At the time of the audit the Partnership Delivery Team is a small team consisting of 3 officers who have other responsibilities outside the PPP. The role of the PDT is set out in the Client Handbook and based on testing it is audit’s opinion that these requirements are only partially being met.</p> <p>Some responsibilities are not being met (e.g. co-ordination of annual SLA and KPI reviews, risk management of overall partnership, despite the fact that the PDT arranged an introduction to risk management talk for COs this has not been taken forward by the COs and PDT., guidance on business cases/projects, etc.) or are unclear (e.g. consultation of all Mouchel orders before being placed in accordance with Financial Regulations). Although the PDT does undertake risk management of the partnership as a whole, the risks identified have not been entered onto the corporate risk register (GRACE) therefore when</p> | <p>The PDT is unable to provide the appropriate leadership. Contract not fully delivered. Issues/concerns may not promptly be addressed. Low staff morale. Tensions arise that are not quickly resolved.</p> | <p>Essential</p> <p>Sufficient resources should be available to fully support the management of the contract.</p> | <p>Agreed Permanent post of Partnership Delivery Manager now filled – commenced 13/07/09. KPI and SLA reviews has commenced, initial meetings have taken place.</p> | <p>Directorates DMT to be co-ordinated by</p> <p>Corporate Manager (Improvement) 31/01/10</p> |

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| | <p>the councils risk are reported the partnership risks are not accounted for.</p> <p>A third of Client Officers stated that they did not feel proactively fully supported by the PDT and some stated that they would appreciate help with introducing effective KPIs.</p> | | | | |
| <p>6</p> <p>Policies and Plans - Risk Management</p> <p>A Risk Management workshop has been undertaken for the PPP contract as a whole. 44% of individual service risk management workshops have not been undertaken. For the remaining individual services that have started to formally identify and manage risks (where possible), the process is not fully embedded and ongoing. Again, some known risks were not considered. However, some risks identified in this audit are not evident within the risk data produced by the relevant workshop, e.g. risk of not meeting future procurement savings and lack of monitoring of ICT investments. Similar to the issue identified above relating to KPIs and SLAs risk workshops should be framed around the defined outcomes for the council and thus identify the measures/actions to manage the risks so that the outcome is demonstrably achieved.</p> <p>N.B. The process should include business continuity.</p> | <p>Risks not formally identified and managed leading to disruptions in service delivery and loss of reputation to council.</p> | <p>Essential</p> <p>Liaison to be maintained with council's Risk management Officers. Identified risks to be recorded in GRACE.</p> <p>PDT to invite Risk Management officers to attend next Client Officer Forum. Workshops to be set up for outstanding service areas.</p> | <p>Agreed</p> <p>PDT had arranged for the Risk Management Officer to attend a CO forum which included an introduction to risk management and that subsequently arrangements would be made for another meeting to develop their risk profiles.</p> | <p>Corporate Manager (Improvement) 30/09/09</p> <p>Partnership Delivery Manager 31/12/09</p> | |

| Ref | Findings | Risk/ Implication | Agreed Action | Management Comments | Manager Responsible & Target Date |
|-----|---|---|---|--|--|
| 7 | <p>Finance</p> <p>Financial Regulations state "For any additional work (goods and services) from the HBS contract, officers must make sure that the correct procedure is followed including formally consulting the Partnership Delivery Manager of ALL orders BEFORE the order is officially placed". This issue was raised in the previous audit report dated June 2005 and July 2006 however testing showed this issue remains outstanding and some Client Officers and MKC officers were still not aware of this requirement. Payments in addition to the unitary charge in excess of £5m were made in each of the financial years 2007/8 and 2008/9.</p> <p>The PDT does not have robust processes in place to identify and monitor additional payments to Mouchel to ensure compliance with Financial Regulations. This issue was raised in the audit report dated June 2005.and July 2006.</p> | <p>Work commissioned that is already provided for within the contract.</p> <p>Best Value/VFM not obtained.</p> <p>Procurement rules circumvented.</p> | <p>Essential</p> <p>The updated version of the Client Officer Handbook will clearly explain the procurement process to Client Officers.</p> <p>Managers throughout the council will be informed of the processes to be followed when procuring through Mouchel (awaiting advice from Legal services). This will include that Mouchel will not be a conduit through which third party suppliers are paid where MKC has procured the work.</p> | <p>Agreed</p> <p>On 21/07/06 an email was sent to all COs by the Delivery Manager requesting that any additional work commissioned from HBS should be agreed by the PDT.</p> | <p>Partnership Delivery Manager 31/12/09</p> <p>Head of Strategic Procurement 31/12/09</p> <p>Corporate Manager (Improvement) 31/12/09</p> |
| | <p>PDT will introduce a sign off sheet to formally record that they have been consulted on the additional spend before an order has been placed. This will then be passed to the Procurement Team to ensure that the correct procurement process will be followed.</p> | | | | |

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| <p>7 cont. Mouchel officers were found to have authorised Purchase Orders to Mouchel Business Services (this issue was raised in the previous Creditors audit report dated July 2007). The key control of segregation of duties between ordering, goods receipting and authorising (i.e. the same person must never undertake all 3 tasks) allows Mouchel officers to participate in the processes relating to Mouchel. However, it is audit's opinion that a council officer must be involved in at least one of the three tasks (ideally authorisation) where the purchase order is to Mouchel. Put simply, it is a control weakness if only Mouchel officers are involved in an order procuring from Mouchel spending council money.</p> <p>From sample testing, 3 instances totalling £29K were identified where Mouchel officers had undertaken all 3 functions in relation to orders placed with Mouchel (i.e. there was no involvement by an MKC officer).</p> <p>Audit could not give assurance that value for money had been obtained for all of the sample of purchase orders issued to Mouchel (i.e. that the required numbers of tenders and quotes had been sought in accordance with Financial Regulations and the Contracts, Tenders and Quotations Handbook). There were no authorised waivers by the S151 Officer (or Corporate Director/Head of Service where purchases are less than £50K) to justify why procedures had not been followed. In one instance officers have to date failed to provide evidence to prove that OJEU rules were complied with.</p> | <p>Corporate Director - Finance Risk Management to review Financial Regulations to ensure the arrangements for payments to Mouchel are still both appropriate and operationally sound.</p> | <p>Agreed</p> | <p>Corporate Director - Finance & Risk Management 31/12/09</p> |
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| Ref | Findings | Risk/ Implication | <u>Agreed Action</u> | Management Comments | Manager Responsible & Target Date |
|-----|--|---|--|---------------------|--|
| 8 | <p>Finance</p> <p>Purchase orders (PO) are raised once an invoice is received for the unitary charge.</p> <p>Different vendor numbers were used for monthly payments. The profit centre and the cost elements were wrong on a number of payments along with wrong PO text for example June 2008 was entered on two POs.</p> | <p>Possible overspend Not commitment accounting. Not following council Financial Regulations.</p> | <p>Essential</p> <p>One PO should be raised for the annual unitary charge to ensure that a commitment to expenditure has been made and is in line with Financial Regulations requirement.</p> <p>PFM to ensure that one vendor to be used and correct profit centre and cost elements are used.</p> | Agreed | <p>Partnership Finance Manager (PFM)</p> <p>30/09/09</p> <p>Overseen by Corporate Director - Finance Risk Management</p> |
| 9 | <p>Finance – Change Controls</p> <p>MKC do not hold original change controls (copies were provided to auditors).</p> | <p>Copy documents can be more easily changed than an original.</p> | <p>Important</p> <p>PDT now put process in place whereby MKC will retain an original copy of all change controls.</p> | Agreed | <p>Partnership Delivery Manager</p> <p>31/12/09</p> |

| Ref | Findings | Risk/ Implication | Agreed Action | Management Comments | Manager Responsible & Target Date |
|-----|---|---|---|---------------------|---|
| 10 | <p>Finance/Policies and Plans – Contract Changes</p> <p>The original signed and sealed contract included £16.2m investment in ICT, property development and refurbishment and training. An incorrect figure of £15.9m figure had been manually amended to £16.2. However, later signed and sealed amendments of the contract did not pick up this manual correction and the lower figure of £15.9m was included – a potential loss of £290,770 to the council if Mouchel do not agree to a correction.</p> <p>Important Note: No work has been undertaken to determine if other such changes have been missed and what affect this may have on the council.</p> | Financial loss to the council. | <p>Important</p> <p>The council should ensure that any future changes made to the contracts have been correctly updated and the amended version is kept.</p> | Agreed | Head of Legal and all officers Immediately |
| 11 | <p>Finance - Project Mandates</p> <p>Project Mandates are issued in order to detail additional <i>temporary</i> work to be carried out by Mouchel.</p> <p>No evidence was found to confirm that the PDT had been consulted prior to the award of the project as specified by Financial Regulations.</p> <p>Start and end dates of the project were not stated.</p> <p>Where projects became a permanent feature no change control was completed.</p> | <p>Work commissioned that is already provided for within the contract. Work commenced without being properly authorised.</p> <p>Breach of Financial Regulations.</p> <p>Total cost of project not identified.</p> <p>Possible duplicate payments being made.</p> <p>No Segregation of duties.</p> | <p>Important</p> <p>Portfolio Office have now issued a set of standard documents to be used within the MK approach.</p> <p>If the project is to become a permanent feature a change control should be completed.</p> | Agreed | Corporate Manager (Improvement) 31/12/09 |

| Ref | Findings | Risk/ Implication | Agreed Action | Management Comments | Manager Responsible & Target Date |
|-----|---|--|---|---------------------|---|
| 12 | <p>Law- Risk of Conflict of Interest</p> <p>The Procurement Service was contracted out as part of the PPP. In the day to day running of the service, Mouchel have access to business data submitted by other tenderers who may be competitors. This information could arguably be used to inform future bids submitted by Mouchel at this site or any other. Mouchel are also involved in the whole tendering process – they could potentially write a specification, select tenderers (including themselves) and evaluate returns (although MKC would approve the specification and award the contract).</p> <p>However, it is recognised that there is a process in place where Mouchel staff dealing with contracts/procurement do not share information with Mouchel staff wishing to procure.</p> <p>It is Audit's opinion that reliance upon Chinese walls within Mouchel is inadequate to protect both the council and Mouchel given the risks and exposure in this area.</p> | <p>Conflict of interests. Possible legal action, loss of reputation.</p> | <p>Important</p> <p>Mouchel and MKC should ensure that there is a process in place whereby data cannot be accessed or passed onto individuals who are not directly involved in that process. Officers should be made aware of the reasons why confidentiality is necessary and how they should report any concerns.</p> <p>Head of Procurement should oversee contracts where Mouchel provide specification of a contract to which they are tendering.</p> | <p>Agreed</p> | <p>Head of Strategic Procurement 31/12/09</p> |

| Ref | Findings | Risk/ Implication | Agreed Action | Management Comments | Manager Responsible & Target Date |
|-----|--|---|--|---|---|
| 13 | <p>Policies and Plans – Role of Client Officer</p> <p>The roles and responsibilities of the Client Officer are not included in all relevant job descriptions. Where it is, it varies enormously in detail (from a few words to almost a full page annex).</p> <p>Some officers expressed that they lacked skills in some areas.</p> <p>The client handbook has not been reviewed since July 2006 and is now out-of-date and is not easily accessible.</p> <p>Officers have a range of opinions on what the Client Officer role should entail which is something that needs clarification so that Client Officers have clarity regarding their responsibilities.</p> | <p>Inexperienced or inadequately trained staff may be tasked with essential roles in the contract monitoring process. This could affect service provision.</p> | <p>Standard</p> <p>PDM will review Client Officer handbook and it should be placed on the intranet making it available to all.</p> <p>Roles and responsibilities of the CO should be adequately provided for in all the relevant job descriptions to be reviewed and discussed with MKC managers.</p> <p>Training should be periodically offered to CO to improve skills.</p> | <p>Agreed</p> <p>PDM will discuss this possibility.</p> | <p>Partnership Delivery Manager to co-ordinate with COs and their line managers</p> <p>31/12/09</p> |
| 14 | <p>Policies and Plans – Client Officer Forums</p> <p>Client Officers feel that there insufficient forums to discuss issues independently.</p> <p>The council needs to be able to consider its position in relation to PPP issues and thus Client Officers, PDT and indeed senior council officers need to be able to discuss such matters in private.</p> <p>Client Officer Forums are not held on a regular basis (2 were held in 2008/9 in September and November).</p> | <p>No consistency in managing the contract, supporting other key officers, sharing best practice and ideas, planning for the future, etc.</p> <p>Bigger problems not identified. Issues not addressed promptly.</p> | <p>Standard</p> <p>CO forums should be undertaken on a regular basis.</p> | <p>Agreed</p> <p>This will depend on the outcome of survey to be undertaken by the PDM.</p> | <p>Partnership Delivery Manager</p> <p>31/12/09</p> |

| Ref | Findings | Risk/ Implication | Agreed Action | Management Comments | Manager Responsible & Target Date |
|-----|---|--|---|---------------------|--|
| 15 | <p>Finance - Recharges The method used to apportion recharges in respect of the original contract has not been reviewed since the start of the contract, e.g. administration costs are apportioned on the number of FTE staff in a service area, even when the service does not use any admin support. Also, the amount of recharge is not always correct, e.g. the bridges recharge should be approximately £180K, not £100K and this will affect the proportion of other recharges.</p> | <p>Unfair basis of apportionment. Recharges do not reflect the benefit received.</p> | <p>Standard This should be included in the corporate review of recharges.</p> | <p>Agreed</p> | <p>Corporate Director - Finance Risk Management 31/12/09</p> |
| 16 | <p>Finance/Policies and Plans - Staffing Investment A report to full council (on 11/11/03) stated that a key element of the proposal is "£21m investment in technology, systems and processes". £12.4m of this related to staff implementation costs and transition and management costs. However, this £12.4m was not provided for in the contract and it remains unclear as to whether this was actually provided. (Although this is no longer relevant for the current contract as this related to set up costs, it needs to be taken into account for the future.)</p> | <p>The does not receive the full level of investments initially expected. Future contracts may be evaluated on the same basis.</p> | <p>Standard Consideration of future contracts should only include tangible objectives.</p> | <p>Agreed</p> | <p>Implemented</p> |

| Ref | Findings | Risk/ Implication | Agreed Action | Management Comments | Manager Responsible & Target Date |
|-----|---|--|--|--|--|
| 17 | Finance – Pension Price MKC are unable to verify that the breakdown of pension payment is accurate and relates to the Partnership. | Incorrect payments. | Standard Obtain a listing from Buckingham County council and verify it still applicable. | Agreed Data is required from Buckingham County council so implementation will depend on this information being available. | Deputy Head of Finance 31/12/09 |
| 18 | Policies and Plans - Re-tender Exercise One of the lessons learnt from the original tender exercise was that there was a lack of resources and time to fully consider all issues. Although the contract does not expire until 2016, it is suggested that an outline plan should be determined. This includes ensuring the PDT or other appropriate body is adequately resourced to manage the closure of one large contract and the procurement of its replacement. | Financial risks. Unresolved issues before contract signed. No exit strategy plan if required. | Standard The council should have an outline plan in place. This should include ensuring that the PDT or other appropriate body is adequately resourced to manage the closure of one large contract and the procurement of its replacement. | Agreed | Corporate Director - Finance Risk Management 31/3/10 |

NB. Any cost implications arising from implementation of the recommendations by Mouchel must be agreed in advance with the appropriate Client Officer and the Partnership Delivery Manager.

Glossary

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| Abbreviation: | |
| CO | Client Officer |
| KPI | Key Performance Indicator |
| MKC | Milton Keynes Council |
| PDT | Partnership Delivery Team |
| PPP | Public Private Partnership |
| PSB | Partnership Strategy Board |
| SDM | Service Delivery Manager (Mouchel) |
| SLA | Service Level Agreement |
| PDM | Partnership Delivery Manager |
| PFM | Partnership Finance Manager |