

November 2009

# Milton Keynes Council

## Mouchel Strategic Partnership

Value for Money Study

Draft (v3) Report for Comment

The services and deliverables are provided solely for the internal benefit and use of Milton Keynes Council, and then only for the purpose set out in the engagement letter. They are not intended to be relied upon by any other person. We do not accept any liability or responsibility to any third party to whom our report is shown or into whose hands it may come. Other than as set out in our report we have not verified or otherwise audited the documentation and information supplied to us by Milton Keynes Council and others. The services do not constitute assurance and we have not been engaged to, and we have not, perform an audit or a review, the objective of which would be the expression of an opinion. Accordingly, we do not express such an opinion.

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# 1. Introduction

PricewaterhouseCoopers LLP (PwC) has undertaken a Value for Money review of the out-sourcing arrangements between Milton Keynes Council (the Council) and HBS, now Mouchel Business Services Limited (Mouchel). The contract was signed on 24 December 2003 and commenced on 1 January 2004 on a Partnership basis. The Partnership provided for the out-sourcing of 20 service areas (subsequently reduced to 18) to Mouchel and Service Level Agreements (SLAs) were agreed for each service area setting out the responsibilities of both the Council and Mouchel. The Council retained strategic responsibility for corporate services such as Human Resources, ICT and Finance. Mouchel is responsible for the operational delivery of these services.

The requirements of the review were to understand and investigate the following three areas:

- Overall Value for Money that the Partnership provides
- Any “pinch points” and areas of concern that exist, and
- Identification of areas of opportunity for improvement and enhancement to inform future arrangements within the Partnership.

This review is the initial stage of the Council’s review of the Value for Money provided by the Partnership. It was designed as a high level review of the Partnership landscape, the primary output of which would be a report setting out our findings and recommendations for selected areas to focus on for future improvement, opportunity and efficiency.

It is envisaged that during the subsequent phase, action plans will be formulated and refined to implement solutions and achieve improvements. This will be based on demonstrated benefits on an “invest to save” basis. This second phase will be procured separately and did not form part of our current work.

The Council decided to initiate a Value for Money review of the Partnership because it has been operational for over five years and, in accordance with good contract management practices, decided that a comprehensive review to inform the future direction of the Partnership was timely.

External factors such as the economic downturn and reduction in government income will force parts of government, including local government, to review and reduce expenditure across the board, with a particular emphasis on discretionary expenditure.

A final contributing factor may be the changes in Chief Officers (including two out of three statutory officers) over recent months. The new Corporate Leadership Team has a mandate for change and improvement. In its recent Comprehensive Area Assessment, the Audit Commission recognises that the Council has ‘a clear agenda for change and robust plans to deliver further improvement’.

This report sets out our findings and recommendations relating to the objectives of the review and suggestions for further investigation.

## 2. Executive Summary

The overall impression that we have of the Partnership is that in theory, it can provide a valuable and tangible benefit to the Council and the residents of Milton Keynes. However, in practice, the operational structure has led to unresolved problems and the progression of the Partnership has plateaued.

The general view is that the Partnership has brought benefits and improvements and possibly a focus and drive that the Council may not have achieved on its own. There is willingness and a desire to make this Partnership work and improve. Nevertheless, initiatives have tailed off and there is a perception that the Partnership has stagnated. Furthermore, there is a lack of transparency and understanding about the Value for Money that certain areas and services are delivering. The most striking example of this is the ad hoc work that is procured from Mouchel.

### Pinch points and areas of opportunity

#### 1. Governance

The governance structure as prescribed in the contract has not been implemented and this has left gaps in the oversight and management arrangements of the partnership. It was intended that four boards would be put in place to ensure the effective stewardship and management of the partnership. However, only the Partnership Strategy Board exists as a forum for discussion of issues and exploration of ways to strengthen the Partnership.

The contract operates between individuals and the Partnership Delivery Team (PDT) is not (and historically has not been) sufficiently resourced to monitor the overall performance of the contract effectively. However, the PDT recognise that partnership governance needs to be revisited and, as a reinvigorated team, are currently working to strengthen it.

Council Client Officers are of varying grades and have varying amounts of time to give to the role. This results in inconsistent and unequal relationships with Mouchel Service Delivery Managers.

We recommend that the Partnership governance framework is revisited, appropriate governance arrangements are agreed to support the strengthening of the partnership and these arrangements are reflected in the contract. The altered structure of the Council should be considered as part of these discussions. The PDT requires additional resources to effectively manage the performance of the contract centrally.

We recommend that the role of Client Officer is reviewed so that they are appropriately equipped, of a suitable grade and empowered to perform the tasks that are required of this role. This should be replicated within Mouchel so that there is a balance in the relationships between Client Officer and Service Delivery Manager.

#### 2. Scope and responsibilities

Service level agreements (SLAs) are in many instances out-dated. They are largely input driven,

describing a process that is not reflective of how services are delivered and not fully reflective of what is paid for under the unitary charge. As a result, few are considered relevant by management within service areas, and it is unclear what is within scope of the core contract when the decision is taken to procure additional work with Mouchel.

We recommend all SLAs are reviewed and revised so that they better reflect the services and activities delivered by Mouchel and the needs and requirements of the Council. Following this exercise, the Partners may wish to re-baseline the services so that the unitary charge more accurately reflects the SLAs. This may result in an increase or decrease in the unitary charge but should accurately provide for the services required by the Council.

### 3. Value for Money

We were unable to establish the full financial costs for each service areas over the past five years (for example, ad-hoc spend, and temporary and agency staff). In addition, SLAs do not reflect the service currently being delivered. Therefore for the Value for Money being delivered is unclear in many areas.

Value for Money levers within the contract are not fully utilised by the Council to ensure that the Partnership delivers Value for Money and services are delivered to a satisfactory standard, for example:

- Customer satisfaction surveys (clause 25.6.1) are performed to varying degrees by different services
- There is a lack of timely and centralised benchmarking (clause 25.1.1)
- It is unclear how the price performance mechanism (schedule 17) is driving performance
- We have had difficulty in obtaining information using the open book access clauses (please see Appendix 4)
- There is limited centralised evaluation of contract changes and ad hoc projects
- Performance reports are not user-friendly and informative (clause 24.2)
- There is inadequate evidence of market testing of ad hoc work.

It is unclear how Key Performance Indicators (KPIs) are driving behaviours for the benefit of customers or driving the continual improvement of service delivery. Furthermore, at the time of our fieldwork, it was agreed between Client Officers and Service Delivery Managers that 48 out of 205 KPIs would not be monitored or reported against.

We recommend that management operate the Value for Money levers provided within the contract. KPIs should be revisited and redefined so that they incentivise the right behaviour of Council and Mouchel staff, represent the needs of customers and drive improvement and efficiency.

### 4. Internal Control

We were unable to obtain assurance (due to the lack of evidence and audit trail from Client Officers) that internal controls relating to the contract operate effectively. Indications of a weak internal control environment are, for example:

- Documentation related to contract changes and project mandates have not historically been stored centrally within the Council and in some cases, could not be found
- Procurement of additional services is not monitored by the Council to ensure Council procurement rules and EU procurement rules are adhered to and Value for Money is achieved.

Internal control has been weakened by Client Officer's lack of compliance partnership protocols and their

lack of engagement with the PDT.

We recommend that a comprehensive review of internal controls relating to the contract is undertaken. This should inform the development of a new control environment to support changes to governance arrangements and SLAs. Compliance of Client Officers with the new internal control environment should be tested and non-compliance should be escalated.

Additionally, during the course of our review we were informed that Internal Audit does not have consistent and appropriate access to personnel and documents relating to services provided by Mouchel (except for audits required by District Audit).

## 5. Continuous Improvement

Continuous improvement in the quality and efficiency of services delivered is a fundamental objective of the Partnership. An active process for monitoring and implementing continuous improvement is currently not in place. Mouchel has a key role to play in this regard.

We identified the following opportunities for improvement:

- The telephone system, which users report does not provide the full range of functionalities required, and the Tiger reporting software which does not provide reliable management data
- Optimising the number of software systems used to provide economies of scale for license fees, reducing interfacing software systems required and accompanying risks, and ensuring appropriate access rights
- Implementation of a documents management system to enable centralised access to all Partnership documentation
- Use of Milton Keynes facilities to provide shared services to other local authorities on a profit share basis for Mouchel and the Council in accordance with the projects schedule, once the Partnership is content with the operation of the service for Milton Keynes customers.
- Increasing the range of services provided from the Public Access areas.

## 6. Benchmarking

The following conclusions were provided by the PwC Saratoga department. Saratoga performed a benchmarking exercise of four metrics on our behalf, comparing Milton Keynes data with a Local Authority sample, a UK public sector sample and a UK cross sector organisation sample. The results are as follows:

- **HR Department Costs/Total Costs** (0.35) ranks below the 25th percentile for the Public Sector and the UK sample. MKC reports the lowest result on this metric relative to the Local Authority sample. This indicates that HR spend as a proportion of the Total council expenditure is low compared to the benchmark organisations
- **HR Department Costs per FTE** (£837) ranks at 85th place against the Local Authority sample and is at the furthest from our target quartile. This benchmark position is consistent across the broader public sector sample as well as the UK cross sector sample indicating that HR Department Cost per FTE is high relative to the benchmark organizations

The HR metric results demonstrate an unusual relationship and this may be as a result of the TUPE of a large number of staff to Mouchel who are not serviced by the Council HR department. However, the Partnership should investigate these results further.

- **Finance Department Costs/Total Costs** (0.17%) ranks low against the Public Sector sample and is in the bottom quartile against the European database sample. This indicates that Finance spend as a proportion of the Total council expenditure is low compared to the benchmark

organisations

- **Finance Costs per FTE** at £403 ranks within the recommended quartile for both the samples. This indicates that the Finance Function Costs per FTE are low relative to the benchmarks.

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# 3. Our approach

The key stages of our approach to this Value for Money review are as follows:

## *Stakeholder management and engagement:*

We identified key stakeholders and their respective interest in and influence on the Partnership. We interviewed all Client Officers, Service Delivery Managers, Chief Officers and other Council and Mouchel management.

Throughout our review we liaised regularly with the PDT. We also hosted weekly updates with the PDT and Mouchel management.

## *Commercial investigation and initial high level assessment:*

We gathered information and investigated the overall current operation of the Partnership and related services. We considered each of the 16 services in addition to the ad hoc out-of-scope work delivered by Mouchel, covering the following areas:

- Services: details of the actual services delivered; customer satisfaction and quality; where contracted services have expanded, changed or contracted since the contract was signed; investment and efficiencies achieved
- Processes and control: day to day delivery and working practices employed; applicable KPI's; relevant financial and delivery processes, procedures and controls
- Commercial: contractual terms and SLAs; charging mechanisms; prices and spend; procurement and applicable purchase orders or project mandates.

## *Focused investigation and deeper assessment:*

We conducted deeper reviews into the priority service areas which were agreed as the areas of highest expenditure and greatest opportunity (see Section 6).

Internal comparison and benchmarking:

We obtained data from the Council for two corporate services, HR and Finance, and from this data PwC Saratoga performed a benchmarking exercise of four metrics, comparing Milton Keynes data with a Local Authority sample, a UK public sector sample and a UK cross sector organisation sample.

We would like to thank the staff of Milton Keynes Council and of Mouchel Plc who assisted us throughout this review. It is greatly appreciated.

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# 4. Annual Partnership Expenditure by Service Area per Month, 2004 – 2009.

	Revenues & Benefits	Finance	IT, E-Gov & Print	Admin	Building Services	HR	Facilities Mgt	Public Access	Passenger Transport	Property	Street Lighting	Asset Data Mgt	Highways	Procurement	Parking Services	Bridges	Total per annum
Unitary charge p/m per financial model	£253,339	£225,692	£215,301	£194,320	£164,105	£113,961	£64,186	£59,640	£31,333	£27,652	£18,062	£12,868	£12,697	£10,880	£7,896	£14,174	£17,113,290
Unitary charge March 05	£246,975	£220,023	£210,244	£189,439	£159,982	£111,099	£62,573	£58,142	£30,546	£26,957	£17,608	£12,545	£12,378	£10,607	£7,698	£13,818	£16,687,637
Unitary charge March 06	£259,211	£234,705	£223,298	£196,636	£169,915	£115,802	£66,458	£61,752	£32,442	£28,631	£18,701	£13,324	£13,147	£11,266	£8,176	£14,676	£17,617,685
Unitary charge March 07	£292,996	£244,931	£233,027	£205,131	£177,319	£120,847	£69,354	£64,443	£33,856	£29,879	£19,516	£13,905	£13,720	£11,757	£8,532	£15,316	£18,654,309
Unitary charge March 08	£311,629	£261,130	£238,272	£211,958	£181,310	£123,567	£70,915	£65,893	£34,618	£30,551	£19,955	£14,126	£14,028	£12,021	£8,724	£8,365	£19,284,767
Unitary charge March 09	£353,181	£276,588	£252,376	£229,203	£192,042	£130,882	£75,113	£69,794	£36,667	£32,359	£21,137	£14,962	£14,859	£12,733	£9,241	£8,861	£20,759,980
FTEs filled posts transferred	86	89	80	125	51	41	30	0	9	9	5	5	2	2	4	5	543
FTE vacant posts transferred	10	11	6	34	12	8	9	0	0	7	0	0	0	2	0	2	101
FTEs at September 2009	107	91	68	112	36	56	31	18	5	8	4	6	0	8	5	10	565

Ad-hoc spend to date £20,836,017.33

Notes on table:

- 1 Unitary charge is defined as the value paid to Mouchel each month for the outsourced services delivered.
- 2 The unitary charge March 2005 equates to the monthly payment due to Mouchel for each service area, as provided by the Finance Manager within the Partnership Delivery Team.
- 3 The financial model is provided within schedule 18 of the contract and prescribes the split of the unitary charge for each service area for the period 1 January 2004 to 31 March 2004.
- 4 FTEs are the full time equivalent staff numbers working for Mouchel as at September 2009.
- 5 Ad-hoc spend is defined as the value of invoices received from Mouchel for work performed outside of the contractual terms. A SAP report was obtained from Mouchel Finance that detailed all purchase orders and invoices paid to Mouchel. Deducted from this was £87m worth of invoices that related to the unitary charge volumetric increases, pension elements of the service charge and related adjustments.
- 6 According to a report provided by the Council, the precise number of filled posts transferred was 543.12 and the precise number of vacant posts transferred was 99.76, but due to rounding of individual service totals, the totals shown differ slightly.

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# 5. Detailed findings and recommendations

## 5.1 Value for Money

### Achieving efficiencies / Value for Money

One of the fundamental objectives of the financial model within the contract is that Mouchel will create efficiencies within service areas that will equate to 35% efficiency savings by year 12 of the Partnership (2015).

By the end of year five, the financial model assumes that Mouchel will have made 28.5% efficiency savings on staff costs. Mouchel have reported the number of FTEs as at September 2009 as 565, and the Council provided information that reported the number of FTEs TUPE-ed in January 2004 as 543 filled posts and 101 vacant posts. Thus it is unclear how Mouchel is achieving efficiency savings for the Council.

The Council is responsible for paying pension contributions for all staff TUPE-ed to Mouchel and staff recruited by Mouchel to work on the Milton Keynes contract. Contributing further to the lack of clarity is that the Council pays pension contributions for only 467 Mouchel employees.

**Recommendation:** The Partnership should consider undertaking a comprehensive, in-depth review of the responsibilities of Mouchel staff, in accordance with service needs and consider future staffing levels required over the remainder of the contract to inform financial and service planning.

### Ad hoc expenditure

An area of concern is the cumulative ad hoc expenditure of £20.1m to date over the lifetime of the contract. It seems, based on the evidence we have seen that goods and services procured on an ad hoc basis are not always subject to a competitive tender as required by the Council's procurement rules and legislation. This questions the Value for Money of the purchases.

Both the Procurement function and the Council's PDT did not have full and clear knowledge of the extent of ad hoc expenditure because projects were not evaluated and procured centrally. We are informed that their assistance was not always sought by Directorates to help secure Value for Money as most procured directly from their Mouchel counterparts.

We reviewed 12 high value purchase orders relating to ad hoc expenditure to obtain:

- Invoices linked to the sample of purchase orders
- Supporting business cases for spend and details of charges
- Justification for why the project is out of scope
- Evidence to demonstrate adherence to procurement guidelines (detailed in Appendix 5)
- Authorisation and approval evidence.

The results of our testing is contained in Appendix 6. Client Officers and their colleagues were unable to provide the required documentation; we were informed that this was due to turnover of staff and decentralised document storage. The exercise highlighted that for the sample selected, procurement guidelines may not have been followed by Council staff to ensure Value for Money was obtained before purchase of goods and services from Mouchel.

**Recommendation:** Management seeking to procure goods and services should engage with the corporate procurement function to explore best value opportunities and ensure the procurement is in accordance with relevant rules and legislation.

Following engagement with Procurement, should management decide to procure goods or services required from Mouchel, the Partnership Delivery Team should be informed.

Client Officers should maintain appropriate records of all procurements. Additionally, they should provide the PDT with copies of project mandates to facilitate a centralised control and the maintenance of appropriate records.

### **Opportunities to improve Value for Money through continuous improvement**

Continuous improvement is a fundamental principle of the Partnership. There is a perception that Mouchel has not been proactive in providing suggestions to Chief Officers for how they can improve the efficiency and effectiveness of their services.

Questions have been raised by stakeholders about what should be provided be under the contract in order to keep the Council 'up-to-date' as opposed to what should be provided as innovative measures, and who pays for the innovation.

**Recommendation:** An active process for monitoring and implementing continuous improvement should be established. Mouchel has a key role to play in this regard.

### **Opportunities to improve Value for Money through joint business ventures**

In accordance with the contract, Mouchel has a working area within a Council building (Saxon Court), a large proportion of which is unused. Both the Council and Mouchel have a valuable asset which is under-utilised. There is an opportunity for the Council and Mouchel to generate income from this space through a joint business venture, as provided for within the projects schedule.

**Recommendation:** The Council and Mouchel should explore ways to generate joint income streams through providing outsourced services to other public sector bodies and perhaps small – medium local businesses.

## 5.2 Value for Money levers within the contract

There are a number of commercial levers built into the Partnership contract to ensure that it delivers Value for Money to the Council. These are described below, together with our understanding of how they have been applied historically and our recommendations to better utilise them. Please see Appendix 3 for related clauses within the contract.

Overall we believe that the Council has not actively used levers at its disposal to improve the Value for Money provided by the Partnership.

### Customer Satisfaction Surveys

The contract states that Customer Satisfaction Surveys (CSSs) should be performed annually by each service area. However, the extent to which CSSs are carried out varies across service areas, for example: CSSs are performed by Revenues and Benefits eight times per year; in Business Support bi-annual forums are held to address strategic concerns and in Finance CSSs are not performed.

Mouchel management provided evidence of Directorate staff surveys carried out in September and October 2007. These were performed by an independent organisation and reported to CLT in February 2008. However, the results provided do not provide evidence that the surveys were directed at the 16 service area customers as per the contractual provision.

**Recommendation:** In accordance with the contract, surveys of customers of each service area should be conducted annually. This is the responsibility of Mouchel and the Partnership Delivery Team should engage with Mouchel to ensure that surveys take place annually.

### Benchmarking

The contract provides for the Council to initiate a benchmarking process when it deems necessary. Management have informed us that the Council has not engaged in any comprehensive benchmarking to date. Strategic ICT engage in annual benchmarking submissions to the Society of Information Technology Management (SOCITM), and the Human Resources function submits annual benchmarking data to CIPFA.

**Recommendation:** The Council should regularly assess the Value for Money provided by the Partnership through benchmarking. An annual exercise would not be required, but the Council should seek to benchmark costs of service areas every two to five years.

### Price Performance Mechanism

The purpose of a Price Performance Mechanism (PPM) is to encourage the Partner to deliver services to agreed levels of performance as defined by KPIs set out in the SLAs. When performance falls below the agreed target level the Council is entitled to make a deduction from the contract payment due to the Partner.

We understand that there have been no performance deductions in accordance with the PPM for the last year. The Partnership Finance Manager endeavours to monitor potential deductions by requesting Client Officers to submit a return with the details of any deductions he should process. We were informed that local agreement is often reached about poor performance, effectively bypassing the PPM. We have also been informed that the achievement or otherwise of some KPIs can be determined by 3<sup>rd</sup> parties, For example, Mouchel can only process invoices that they are aware of. If Council staff retain invoices, these cannot be processed.

Mouchel management expressed concern that whilst there were PPM deductions in place, there are no incentives built into the contract for over-achievement. This might be a way to drive performance further.

**Recommendation:** The Council should monitor and measure performance monthly so that, if applicable, deductions in fees to the contractor can be made in accordance with Schedule 17.

Client Officers should be reminded of the benefits to the Council of ensuring PPM are recorded and applied centrally.

The Partnership could look further into a PPM for over-achievement so as to incentivise the services to out-perform the SLA. The success of this, and the price performance mechanism deductions will be dependant on suitable measures of performance and SLAs that represent operational practice.

### Open book access

There are a number of clauses within the contract that provide for open book access to Mouchel's contract management records. These are set out in Appendix 4.

However, in practice, the contract has not been operating on an open book basis, and we encountered difficulties in obtaining information about current FTEs within the service areas and operating cost information for ICT. We have also been informed that Internal Audit has faced barriers in undertaking audits and investigations that the open book provisions should generally enable.

**Recommendation:** To check for on-going Value for Money, the Council should exercise its rights under the open book clauses on a regular basis. We recommend that a process and format of open book reports is agreed and that open book information is disclosed to the Council on a regular basis.

### Monthly performance reporting:

The contract states that monthly service reports should be produced that:

- Compare the Partner's performance of the services to the SLAs, the Services Levels, the Performance Indicators, the KPIs and Best Value PIs
- Identify any areas of poor performance of the services and determine remedial action required
- Present the information required for the operation of the PPM.

A monthly report is produced by Mouchel which contains a summary of the commercial and financial performance of the contract for the previous month, summaries of activity within each service area and key areas of concern. KPIs are reported for each service area.

We concluded that the monthly management reports are not an effective lever for Value for Money because

- Critical information is not presented in a user-friendly, informative format
- KPIs are ineffective. Approximately 25% are no longer reported against and some reports are consistently reported as 'amber' because metrics cannot be agreed / the KPIs are obsolete
- There are instances where sections of the report do not change from one month to the next, suggesting that problems are not resolved and progress is not made
- Key areas of concern are not accompanied by action plans and owners, thus progress to address areas of concern is not monitored.

**Recommendation:** The following amendments are made to improve the report format and content:

- The report format is revised to include an executive summary and highlights and there is more use of tables and graphs to illustrate points and trends, and less narrative explanation of progress.
- Key concerns reported in the previous month are reported the following months with an update on progress made to resolve each issue and any outstanding actions.

### Service Level Agreements (SLAs)

Most of the SLAs were drafted in late 2003 and many are input focused. This can lead to Partners focusing on what is or is not in scope, rather than achieving the outputs and outcomes required. We were also

informed that few SLAs are adhered to as they do not represent current practice. This causes confusion for management when ad hoc services are required by the Council; it is not easily determined if the work required is in or out of scope.

There has been an acknowledgement from both the Council and Mouchel that the finalisation of the contract was hurried and as a result, some gaps remained within the signed contract. These have become apparent as time has elapsed, and inappropriate SLAs and KPIs are evidence of such gaps.

**Recommendation:** All SLAs are reviewed and revised so that they better reflect the services and activities delivered by Mouchel and the needs and requirements of the Council. This may increase or decrease the unitary charge. Following this exercise, the Partners may wish to re-baseline the services so that the unitary charge more accurately reflects the SLAs.

SLAs should be clear, concise, outcome focused, and clearly state what is in-scope, flexible, and out-of-scope.

We understand that a schedule to review all SLAs has been put in place and should be concluded in March 2010.

### **Performance standards in relation to Peers**

The contract states that Mouchel shall assist the Council to achieve upper quartile performance. We consulted our internal benchmarking club and were informed that Milton Keynes Council is ranked 22<sup>nd</sup> out of 31 Unitary Authorities. This is an improvement on prior year where Milton Keynes Council were ranked 41<sup>st</sup> out of 46, however there is still a great deal of progress to be made. 29 National Indicators (NIs) were in the lowest quartile, 36 NIs were in the third quartile, 36 NIs were in the second quartile and 30 NIs were in the top quartile. The Partnership is therefore not achieving one of the key aims that the contract envisioned.

**Recommendation:** For Performance Indicators in which the Council is in the third and fourth quartile and where the service provided by Mouchel has a significant influence over the Indicator, the Council and Mouchel should produce detailed joint action plans to improve performance. In the context of the efficiency agenda, the Partnership should bear in mind what investment is required to improve the performance against each National Indicator to an acceptable level, not necessarily a top quartile level. Performance Indicators should be considered individually in relation to this issue.

Council management should be responsible and need own the performance improvement agenda.

## 5.3 Governance

Appropriate governance arrangements are required for the effective functioning of the Partnership. We believe there is scope to improve the governance of the Partnership which in turn will contribute to the provision of greater Value for Money, improvements in Partnership operations and reduction in Partnership 'pinch points'.

### Partnership Framework

The Partnership framework is clearly defined in schedules 15 and 24. It provides for four committees for the discussion of strategic and operational matters, sets out the roles and responsibilities of each committee and membership of each committee. Appendix 1 sets out the governance structure prescribed within the schedules.

During the course of our review we were made aware that the Partnership governance infrastructure was not implemented as intended. The Partnership Strategy Group is the only committee which meets, and it meets quarterly rather than monthly as originally intended.

It is likely that contractor time to attend each Partnership committee was built into the original unitary charge. As this cost is difficult to identify within the unitary charge, the Council may not be receiving services in lieu of participation at Partnership committees.

Mouchel have further added that with no agreed governance model in place, they are expending more time and therefore money liaising on an ad-hoc basis.

We understand that the Partnership Delivery Team holds regular service review meetings with the Mouchel Finance Manager and Commercial and Communications Manager. Five meetings have been held to date and minutes are available online.

**Recommendation:** The Council should consider the Partnership governance arrangements required for the optimal management of the Partnership; agree the participation required by Mouchel for effective governance arrangements.

### Partner Senior Management

Mouchel has recently appointed a new Partnership Director who will attend the Corporate Leadership Team meetings. At the time of our fieldwork there was a perception of a lack of clarity of the roles and responsibilities of Mouchel management and lines of engagement with the Council, particularly in relation to the:

- Regional Director
- Partnership Director
- Operations Director
- Finance Manager
- Commercial and Communications Manager.

At the time of fieldwork, agreement had not been reached within the Partnership as to the most appropriate governance structure and interaction between the Council and Mouchel.

**Recommendation:** Mouchel should present their proposed management structure for agreement to the PDT, clearly setting out roles and responsibilities of each member of management. Once agreed, the PDT should determine who in the Council needs to be aware of this structure and communicate it to them.



## Role of Partnership Delivery Manager

Schedules 15 and 24 of the contract state that the Partnership Delivery Manager and Partnership Director should liaise directly at a number of forums (which are stated within contract schedules). The schedules could be interpreted as indicating an equal level of seniority of both positions.

However, the Partnership Director believes they should liaise directly (although not exclusively) with the Chief Executive and the Corporate Director of Finance and Risk Management. Thus it is not apparent who the point of liaison for the Partnership Delivery Manager is within Mouchel.

**Recommendation:** The Council should review the communication channels between the PDT, particularly in relation to the Partnership Delivery Manager and Mouchel and agree channels of communication to support good governance.

## Role of Client Officer and Service Delivery Manager

The roles of the Client Officer and Service Delivery Manager are defined in the Partnership Handbook draft version 2. This version had not been ratified at the time of fieldwork but a previous version was also provided that also defined the role of the Client Officer. Please see Appendix 2 for more detail on the responsibilities of each role.

During the course of our review we noticed variety in:

- Levels of seniority in Client Officers from Assistant Directors with a strategic focus (e.g Public Access) to junior and middle management with an operational focus (e.g Parking)
- Allocation of service areas to Service Delivery Managers (most have one area of responsibility, one has ten areas of responsibility)
- The Client Officer's point of contact within Mouchel, which ranged from Service Delivery Managers to service area operational management.

Mouchel management also raised concerns about the variety of seniority of Client Officers and how it impacts on their ability to agree and implement service improvements.

**Recommendation:** The Council should consider the role of Client Officer and level of experience required for the role. Client Officers should have the responsibility, authority and time to fulfil their obligations.

Also, the Council and Mouchel should review Partnership engagement for each service area, making changes where required to ensure that there is alignment in the seniority, responsibility and authority of Client Officer and Service Delivery Manager for each service area.

## Partnership Delivery Team

The PDT is working with renewed vigour to regain centralised management of the Partnership and to understand and resolve current issues. Central management and control of the Partnership had weakened as the Council did not have a dedicated Partnership Delivery Manager in post for approximately 18 months.

We understand that the Council's contract management costs are running at approximately 2% of contract expenditure. In our experience the cost of appropriate management of a contract of this scale and complexity is typically in the range of 6-12% of the total contract value.

At present, the Council's Partnership Delivery Team includes two full time roles (Partnership Delivery Manager and Partnership Finance Manager), one of which is has been part-time seconded to another role, and a part time support role. However, if the team is to properly manage the contract and regain control over matters such as ad hoc expenditure, the team will require more resource, who are appropriately skilled and experienced to perform this role effectively.

**Recommendation:** The PDT should be appropriately resourced to manage the Partnership for the Council, monitoring service standards, performance against key indicators and monitoring and challenging additional expenditure.

DRAFT

# 6. Findings and recommendations - Service Areas

We undertook a high level review of the Value for Money, pinch points and opportunities for improvement relating to all service areas.

In areas of greatest expenditure or of strategic importance to the Council we undertook a further, more detailed assessment. Our key findings and recommendations for improvements are set out as follows:

## 6.1 Revenues and Benefits

The Revenues and Benefits service receives the largest proportion of expenditure under the unitary charge. In recent years it has experienced a considerable demand for services, due to the economic downturn and growth in the population of Milton Keynes, which has grown from 212,710 in 2001 to 233,830 in 2009 per the Milton Keynes Council Population bulletin 2008/09.

### Value for Money

- Throughout our review, many interviewees cited Revenue and Benefits as an example of where the Partnership works well and the Client Officer and Service Delivery Manager have a good working relationship. Partly because of the flexibility this strong professional relationship engenders, this service area is widely perceived as providing Value for Money.
- Mouchel has introduced what was described to us as a customer-centric approach to processing benefits claimants, reducing the average time taken to process claims. Council management acknowledge that the Audit Commission described the approach as two-tier and recommended improvements, and the PwC benchmarking club report places NI 181 'time taken to process benefit claims and changing events' as bottom quartile. Nonetheless the Council is pleased with the processing times achieved by Mouchel.
- The reduction in the Local Authority (LA) error of overpayment has resulted in the Council being able to claim an incentive from Central Government for the first time in 2008. The Revenues and Benefits service aimed to achieve the incentive through consistent system improvement so that the incentive could be retained once reached. This is the first year that the subsidy incentive has been claimed, however the LA error of overpayment has reduced from 1.702% in 2003/04 to 0.48% in 2008.
- A project was initiated by the service for £89,000 which involved the review of a number of Single Person Discounts in issue. 2,564 Single Person Discounts were subsequently removed from accounts and this resulted in an increase in Council's Net Collectible Debt by £570,674.
- We were also informed by both the Client Officer and the Service Delivery Manager that when the service transferred to Mouchel, there was a backlog of work that Mouchel had not provided for, but which was cleared at no extra cost to the Council.

## Pinch points

Matters which may be compromising Value for Money include:

- The service suffers from problems with the technology supporting the service, such as the telephone system and network speed. This issue was noted following conversations with the Service Delivery Manager and an issue log of service problems obtained subsequently. Northgate software was also mentioned as being problematic and contributed to inefficiencies within the processing system.
- A benefits volumetric claim was put forward by the Service Delivery Manager on 19 January 2006. Whilst this was agreed as a sensible way to move forward considering the severe increases in caseloads, it does not appear to have been calculated in accordance with the contract. Schedule 6 specifies that Mouchel would only be entitled to submit a volumetric claim if the original caseload of 32,457 increased by over 5%, so if an extra 1,623 or more cases were being processed. Below 5% or 1,623, cases would not incur a volumetric claim. The calculation above multiplies the unit cost per case to the entire trigger caseload, not to the trigger caseload minus the 5% margin, so it appears that the 5% margin is being charged for as part of the volumetric claim. It is understood that the calculation of this volumetric claim is subject to legal consultation and a conclusion has not been reached to date.
- Management informed us that the department is understaffed to deal with the increasing volume of caseloads. This is aggravated by the cost and time it takes to train an employee to a suitable standard. The Service Delivery Manager has tried to recruit permanent staff and hire agency staff to meet the demands placed on the service. However, permanent staff require up to 18 months training to gain enough experience to be considered fully competent. Mouchel absorb the additional cost of agency staff.

## Areas for improvement and opportunities

Based upon the pinch points identified above, we have provided recommendations to increase the Value for Money that the contract provides for the Council:

- A comparison is performed with other authorities to understand what telephone systems work well, and ensure that the software used to support management reporting is corrected and works satisfactorily going forward. It is acknowledged that these are Council-purchased systems but will require co-operation and discussion from both Partners on how best to move forward.
- The Partnership should consider the possibility of provision of shared services to other local authorities, such as the Revenues and Benefits service. There is capacity within Mouchel floor space of some Council buildings to provide services to other authorities and this would provide financial benefits for both Mouchel and the Council.

## 6.2 ICT

Investment in the Council's ICT function was a primary motivator for the Partnership. Mouchel agreed to invest £16m in the ICT infrastructure over the lifetime of the contract and provide ongoing operational support under the unitary charge.

We understand that there is a high degree of commercial tension and drive to achieve value for money in the area of ICT.

### Value for Money

- The Council is to benefit from £16m proposed ICT investment by Mouchel over the lifetime of the contract. This includes approximately £6m of capital investment and £9m of operational expenditure. We were told that without this investment, the contract would not be cost-effective for the Council. Based on information provided by Mouchel, Mouchel has overspent or front loaded the budgeted ICT investment, having spent £6.3m instead of £5.8m. The investment in ICT has resulted in the implementation of SAP and the one-stop shop within Public Access, which has greatly improved the public's access to Council services.

## Pinch points

Due to a large number of pinch points the Council is not achieving best value from its ICT function, for example:

- Strategic ICT have developed a high level ICT strategy but it is not sufficiently detailed and is not supported by an operational plan which specifies how the strategy will be achieved. The Client Officer and Service Delivery Manager did not collaborate on the development of the strategy and use of the investment funds and the development pool. Consequently many ICT projects are commissioned reactively, impacting the Partnership's ability to procure a Value for Money solution.
- There is a lack of transparency of Mouchel's expenditure of the £16m ICT investment fund. We obtained a breakdown of capital ICT spend against budget. However, we were unable to obtain a breakdown of operational ICT spend, which represents approximately £9m of the £16m investment.
- The development pool is a source of 17.5 FTE ICT employees who can allocate their time to the development of ICT projects. Payment for the development pool is included in the unitary charge and therefore prepaid by the Council. If the Council 'overspends' their allocation of hours, Mouchel are entitled to charge the Council for the resource provided. Therefore to obtain Value for Money, the Council must effectively utilise exactly 17.5 FTE resources per annum. The Council does not have any control over the skills and experience of members of the development pool provided by Mouchel.
- SAP development is not provided for under the development pool. This exclusion is not specified in Schedule 13, the ICT SLA or elsewhere in the contract. SAP development is undertaken by Mouchel's SAP team and the Council pays for their services in addition to the contract.
- We have been told that relationships between the Client Officer and current Service Delivery Manager are strained due to the desire to achieve Value for Money services in this area. Relationships have typically been poor in this service area.
- In reviewing the number of software and systems used by the Council we identified that many software solutions are bespoke, designed (we understand) to provide specific solutions. We were not able to review the security of these systems in terms of:
  - Security of personal details maintained on the systems
  - Appropriateness of user access to the systems
  - Date integrity i.e. could data integrity be compromised easily or compromised when data on one database interfaces with another interface.

## Areas for improvement and opportunities

- There is a need for a comprehensive medium-term ICT strategy and annual operational plan, developed collaboratively by the Council and Mouchel. This should provide the link between the ICT business systems strategy and the development pool resource for the period and indicate the ICT needs of each directorate for the period, the investment required to achieve this, and the projects that will be undertaken as a result.
- In order to maximise the Value for Money that the Council obtains from the development pool, we recommend that there is scope for the reimbursement of under-utilised development pool resource to the Council in an agreed form. This will ensure that all of the prepaid development pool resource creates benefits for the Council. Use of the development pool should be planned annually and reviewed at quarterly intervals so that under runs can be carried forward to the following year (provided other projects are not identified) and overruns addressed.
- As a critical ICT system for the Council, SAP development should be provided for within the development pool as far as possible.
- There should be transparency of the ICT capital and operational spend. The Council should be able to monitor spend against budget and against the timeframes originally provided for within the

financial model. This will enable the Council to monitor whether the main benefit that the Partnership brings to the Council is being delivered by Mouchel.

- The Council and Mouchel should look to undertake an in-depth review of ICT capital investment to establish where investment has taken place as planned, where delays have occurred, where changes in needs have arisen, and where movements in funding have taken place. A further element of this review should be to reconcile the ICT operating spend with the ICT capital structure in place to ensure that the operating costs are appropriate and unspent funds, if any, are allocated elsewhere.

## 6.3 Procurement

The outsourced procurement service envisioned a Commercial Procurement Unit (CPU) whose responsibilities per the SLA are as follows:

*“(The Partner’s) main responsibility is to advise the Council directorates on all procurement or purchasing activity.*

*The CPU will, as described within this service level agreement:*

*1.2.1.1 undertake all agreed procurement activity*

*1.2.1.2 be responsible for the delivery of savings*

*1.2.1.3 undertake all procurement change management*

*1.2.1.4 advise the Council directorates on the operational management of all suppliers and sub contractors.”*

This remit should ensure that Value for Money is achieved by Directorates and appropriate procurement guidelines are followed. This has not occurred; the CPU has become a reactive service, is under utilised by Directorates and non-compliance with Council procurement guidelines is common.

### Value for Money

- The Contracts and Procurement Manager and Partnership Delivery Manager are both aware that goods and services are regularly procured outside this function by Directorates and services. Therefore the service is not performing as anticipated and is not providing the Value for Money that was originally anticipated. There is a perception from within Mouchel that Directorate staff do not contact the CPU because it is they who understand the procurement needs, not the CPU. However Mouchel are keen that Council employees understand that it is the market perspective and procurement knowledge that they would bring to the relationship.
- The Council is losing further Value for Money because it is evident that some procurement that is occurring outside of the CPU is not being performed by the Directorates in accordance with Council procurement guidelines, therefore increasing the risk that the Council is not obtaining Value for Money.

### Pinch points

- Management and staff within the Council are not aware of or are not adhering to the Council's procurement rules and consequently may be in breach of legislation.
- We viewed non-compliance notices issued to Council employees in respect of procurement guidelines set by either the EU or by the Council. The last letter was issued on the 27 May 2009 to six Council Officers for not performing quarterly evaluations of suppliers. However, the Procurement Manager suggested that these are often not acted upon by recipients. There was no evidence to support that those who operate in conflict of procurement rules and legislation are held to account.
- There is concern about the independence of the CPU. Mouchel are theoretically in a position to influence procurement procedures in order to ensure, for example, contracts are not awarded to competitors or to obtain market information about competitors. The Procurement Manager explained that Mouchel could not gain access to price information because the electronic Intend system does not allow access to bids until a specified date. However, he admitted that confidential correspondence related to a bid could, in theory, be communicated to Mouchel. To his knowledge, this has not happened.



- The CPU is contracted to deliver savings for the Council for a fee of £350,000 per year. The savings forecast provided by Mouchel for 2008/09 was £1,375,698 per a savings schedule provided by the Client Officer, but the guaranteed savings target was agreed as £666,000. At the time of fieldwork, £265,235 of savings had been agreed between the Client Officer and Service Delivery Manager and £267,824 was not agreed due to lack of or incorrect information provided by Mouchel and disagreement around calculations of savings. This is further evidence of the struggle that the procurement function faces in making an impact for the Council.

#### Areas for improvement and opportunities

- We recommend that the Council consider the actual and perceived conflict of interest for the CPU and implement strategies to mitigate these risks. Mouchel have stated that they recognise that the Council are unhappy with the procurement governance and management arrangements at present and are engaged in order to move forward.
- The Council must ensure that procurement above the Council de minimus of £25,000 or above takes place through the procurement function.
- The Council should improve awareness of the CPU throughout the Council and the value they can bring to large and / or complex procurements, for example investigating the increased use of framework contracts and promoting the importance of strategic suppliers.

## 6.4 Human Resources

As a corporate service, Human Resources (HR) serves all of the Council's Directorates. The Council has maintained responsibility for strategic services such as the Human Resource strategy and Mouchel provide operational services such as recruitment services. .

#### Value for Money

- There appears to be a commitment from the HR staff to provide a good service. This is apparent in the relationship between the Client Officer and the Service Delivery Manager, who work closely together to try to achieve priorities and meet stakeholder needs, even if in practice, this isn't achievable all of the time. They meet weekly, engage in monthly performance meetings and regularly review larger HR projects as necessary.
- [In benchmarking the HR function we established that the cost of HR services (including the unitary charge to Mouchel) per Council FTE is £837 which places it in the upper cost quartile compared to the suggested cost of £273 per FTE. It is ranked 85<sup>th</sup> for cost in our Local Authority sample.
- HR function costs as a proportion of total Council expenditure is in the lower quartile for the Public Sector and the UK sample. The Council reports the lowest result on this metric relative to the Local Authority sample. This indicates that HR spend as a proportion of the Total council expenditure is low compared to the benchmark organisations. (Note: these conclusions are based on FTE and cost information provided by the Council. We do not give an opinion on an appropriate level of expenditure in comparison to total Council expenditure; this information provides context for the Council when assessing spend per service going forward.)]

#### Pinch Points

- During the course of our fieldwork we were regularly informed of bottlenecks and errors in recruitment processes. It was referred to as inadequate by stakeholders interviewed and was accepted by the Service Delivery Manager as a weakness in the delivery of the service.
- Many Chief Officers, particularly those new to the Council, have stated that they require a more strategic HR service as operational support is no longer adequate. In Children and Young People's Services (CYPS) in particular, this need is apparent. HR have created a steering group in order to assess how best the HR function can serve CYPS.
- Both the Client Officer and Service Delivery Manager agree that the service suffers from inadequate

quantity and quality of resource to achieve all of the stakeholder needs. It is accepted that the service requires a greater number of higher skilled HR professionals. Chief Officers noted an inconsistency in skills and a high turnover of HR staff which has historically prevented consistency of relationships.

- There is agreement by both the Client Officer and the Service Delivery Manager that performance management is inadequate to ensure that staff employed within the Council are performing to a satisfactory standard, are fulfilling the requirements of their role, and are receiving support where necessary.

#### Areas for improvement and opportunities

- Two HR services were identified as inadequate by many interviewees; Performance Management and Recruitment. Mouchel should seek to improve these services and seek customer feedback to verify increased satisfaction.
- The Council, in collaboration with Mouchel, should undertake a comprehensive review of the HR support it requires, identifying skills and experience required by each directorate. This review should inform a restructuring and re-costing of the HR service provision. The SLA should be updated to reflect the change in service provision.

## 6.5 Finance

Per the SLA, The Council retained the strategic control over finance, and the operational finance support was to be provided by Mouchel. There has been a recent demand from Directorates for more strategic support from Mouchel in contrast with previous arrangements and the service is striving to uplift the skills of the finance staff to meet this need.

#### Value for Money

- Both the Client Officer and Service Delivery Manager agree that they have a good working relationship and work closely to achieve what stakeholders require from the finance service. The Service Delivery Manager has also worked well with the Director of Finance and Risk to date.
- [In benchmarking the Finance function we established that the cost of Finance services (including the unitary charge to Mouchel) per Council FTE is £403 which is within the recommended quartile of spend. It is ranked 16<sup>th</sup> for cost in our Local Authority sample.
- Finance function costs as a proportion of total Council expenditure is in the lower quartile for the Public Sector and the UK sample. (Note: these conclusions are based on FTE and cost information provided by the Council. We do not give an opinion on an appropriate level of expenditure in comparison to total Council expenditure; this information provides context for the Council when assessing its spend per service going forward.)]

#### Pinch Points

- The service is attempting to uplift the skill levels of its staff to cope with the requirements for a more strategic finance representative within each Directorate, however the Service Delivery Manager acknowledges that the skill set within the service at present is not suited to that role and will take time to develop.
- The Service Delivery Manager acknowledges that budget monitoring and financial reporting functions are inadequate. This was also referred to by a Chief Officer and the Chief Executive as a historical problem.
- The Service Delivery Manager further believes that whilst the Council received the SAP system that was requested and paid for, the functionalities and co-ordination that SAP is capable of is not in use at the Council and could provide great benefits and efficiencies if invested in.
- The SLA is unclear about the roles Mouchel and Strategic Finance originally held in the preparation of the financial statements and therefore it is unclear whether the unitary charge accurately represented practice before the following change control was implemented:



The Council shall “on an interim basis transfer responsibility for, and activity relating to, the financial accounts process and the capital accounting elements of the finance function to Mouchel, working in Partnership and supported by the Council’s Strategic finance function” per change control 208 reviewed during fieldwork. Yet, according to the Finance SLA, Mouchel shall “co-ordinate and produce the Council’s Draft and Final Statement of Accounts in accordance with Statutory requirements and agreed format and timetable.”

The Client Officer explained that while Mouchel were responsible for preparing the final accounts, Strategic Finance had the ultimate responsibility for approval of these and ensuring that they meet financial standards. The change control confirmed that preparation of the Statement of Accounts was wholly an Mouchel responsibility. However, this is not clear from the SLA.

### Areas for improvement and opportunities

- The Council and Mouchel should investigate the possibilities of broadened functionality that SAP could provide for the finance team and other service areas. This would also help to reduce the number of free standing and bespoke ICT systems in use by the Council.
- As recommended above, the SLA should be reviewed and the finance services re-baselined so that the SLA and unitary charge accurately reflect the roles and responsibilities of Mouchel and the Council, and it is therefore clearer to establish whether work required is in-scope or out-of-scope.
- A consistent approach is taken with regard to the level of support and skill that the Mouchel finance staff provide to Directorates and agreement as to whether this support will be operational and/or strategic in nature.

## 6.6 Public Access

The Public Access service was designed to operate as the first line of contact with the public and is collectively regarded as one of the main benefits that the Partnership has brought to the Council. The service includes, for example, the switchboard, the helpline, and MKDirect. The Civic Centre was physically transformed with Mouchel investment and the public have a greater access to services provided by the Council in a one-stop-shop format. This subsequently expanded to the first floor of the Civic Centre to accommodate more services, highlighting the success of the concept.

### Value for Money

- The Public Access service benefited from substantial investment from Mouchel and the reception and front desk of the Civic Centre was transformed for the public.
- The Client Officer and Service Delivery Manager have a close relationship and meet monthly to discuss the service report and work through issues. There also appears to be a commitment from the Client Officer to experience the Public Access service as a front-line employee by performing different roles for short periods of time. This adds to management’s understanding of what is required to provide Value for Money to the customers of the service.

### Pinch points

- Management have raised concerns about the systems that lie behind the Public Access service, specifically the telephone systems and the connections between front and back office for the environment helpline. This was mentioned by both the Client Officer and Service Delivery Manager and appears to be an unresolved and long-standing issue that is causing inefficiencies within this and other services.
- It is difficult to measure the performance of the Public Access service because the public’s experience is key and is a qualitative measure so the Client Officer and Service Delivery Manager base their assessments of performance on their perceptions and customer/staff comments feedback to ascertain performance, not KPIs. Therefore it is difficult to quantitatively gauge if the service is providing Value for Money, and whether performance deductions are required.

- The Client Officer, Service Delivery Manager and Chief Officer complained of a lack of communication between other Council departments to the Public Access service. This results in Public Access staff being unaware of forthcoming increases in caseload due to a marketing campaign, for example, and unnecessary pressures placed on staff at late notice.
- The Client officer is an Assistant Director and therefore does not have the capacity to give the Client Officer role the time it requires. The Client Officer is currently working with HR to create a post to perform this role on their behalf.

### Areas for improvement and opportunities

- Improved communication between Council Directorates and the Public Access service. This would allow the Public Access service to plan and increase their resources as necessary. It would consequently improve the experience of customers by decreasing the wait times that they experience on helplines, and possibly result in more effective phone calls with service representatives who are less pressurised to answer and solve large volumes of calls.
- Increased representation by Directorate services within the front office so that more customer needs can be met via the Public Access service. The Public Access service was expanded to the first floor of the Civic Centre because it was seen as beneficial to increase the public's access to services. Dependant on capacity, this could be expanded further at a cost and allow customers more face-to-face access to Directorate services. This would hopefully result in more customer queries and issues being solved at the first attempt, increasing customer satisfaction.
- A comparison is performed with other authorities to understand what telephone systems work well, and ensure that the software used to support management reporting is corrected and works satisfactorily going forward. It is acknowledged that these are Council-purchased systems but will require co-operation and discussion from both Partners on how best to move forward.

## 6.7 Business Support

This is an out-sourced service area that, according to the Client Officer, is unique to Milton Keynes. Business support for Directorates was transferred as a central service rather than business support employees transferring with the service area that they serve.

### Value for Money

- The original proposal provided for the creation of two business support hubs that would create efficient business support practices for the Council. This was not implemented due to resistance from staff who did not want to lose their administrative support to a central pool. Thus, it is unclear how the Council is achieving efficiencies from this service model.
- It has been recognised that the Service Delivery Manager strives to manage the service as efficiently as possible within the constraints and practicalities that the service faces. The Service Delivery Manager is currently restructuring the Mouchel team so as to provide a more efficient service for the Council.
- There are examples cited of good practice:
  - An ICS project team was set up to help implement the new Social Care system and the team were given a GEMS award in recognition of work that they performed and continue to perform.
  - The team also organised and archived over 15 years worth of social care filing that was previously unorganised within Saxon Court.

### Pinch points

- It has been mentioned to us by some stakeholders interviewed that a business support employee has two line managers: the Service Delivery Manager and the Assistant Director of the Directorate that the employee is placed within, and this arrangement can cause problems and inefficiencies. If a

task is required, it is not clear which manager has ultimate authority for enforcing the timeframe and method in which the work is completed.

- Cover arrangements are unclear. Per the SLA, the cover arrangements are as follows: *“In the event of absence of other retained admin staff, pre-existing arrangements for providing short-term cover for service based administrative staff will be provided by the Partner (Mouchel) by agreement with service managers.”* The understanding of this element of the SLA is unclear and in practice has been interpreted in different ways by the Council and Mouchel. This impacts on Value for Money because where work needs to be completed and staff are unavailable, agency staff have to be hired in order to complete the work, which has a cost implication.

### Areas for improvement and opportunities

- It is unclear from the above points therefore how the Business Support service provides added value to the Council. We recommend that a number of options are considered to increase the Value for Money that the Business Support service provides:
  - 1 There is a re-evaluation of the unitary charge so that the service provided is accurately reflected within the payment made to Mouchel.
  - 2 Control of services is brought back-in house so that each Directorate holds the responsibility for the management of the support staff and the business support employee does not have to negotiate between two managers; or
  - 3 Business Support as a service area is abolished and staff are moved to service area that they work in, either in-house or outsourced. This should eliminate the difficulty of business support staff being managed by two people, but will require time and effort to incorporate the business support functions into each service level agreement and baseline the service provided by Mouchel.

# 7. Other Service Areas

The service areas below are considered to be of lesser significance than those previously discussed, either due to the size of the unitary charge or the specific nature of the service. We have provided comments about Value for Money, pinch points and opportunities for improvement for each service area but in lesser depth than for the previously discussed service areas.

Service Area	Comments
<p><b>Parking</b></p>	<p>Value for Money</p> <ul style="list-style-type: none"> <li>Management explained that Mouchel are not legally empowered to deal with some elements of management of the parking contract. This has led to a reorganisation of the previously separate Council and Mouchel parking teams under one line management structure to create more efficient working practices.</li> </ul> <p>Pinch Points</p> <ul style="list-style-type: none"> <li>It has been brought to our attention that Mouchel intend to bid for the parking contract when it becomes available for tender. Under the current out-sourcing arrangement, if Mouchel were to win the parking contract, Mouchel will be in a position of self-review, which would give rise to an independence concern</li> <li>We have also been informed by management that NCP did not complete over £100,000 worth of credit card transactions; income that was due to the Council. NCP informed the Council and the income was recovered, but Mouchel did not discover this as part of their performance monitoring, a key element to the SLA. Mouchel have informed us that the error was not discovered because it was not paid into an account that was visible to them.</li> <li>Furthermore, the Client Officer informed us that there have been differences between the hours that parking attendants have reported versus the hours that they patrolled. Over 3 months, this is estimated as £20,000 worth of payments to the attendants from the Council</li> <li>The Client Officer does not liaise with the Service Delivery Manager; instead working with Mouchel operational management to ensure the satisfactory performance of the service.</li> </ul> <p>Opportunities for improvement</p> <ul style="list-style-type: none"> <li>Taking the above points into account, it is unclear where added value is being provided by Mouchel, and it is recommended that given the possibility that Mouchel may tender for the parking contract, and there have been problems with performance monitoring, that a review is undertaken as to whether this service is effectively delivering Value for Money</li> <li>Please refer to section 5.3 Governance for details of recommendations surrounding the roles and interaction of Service Delivery Managers and Client Officers.</li> </ul>
<p><b>Streetlighting</b></p>	<p>Value for Money</p> <ul style="list-style-type: none"> <li>The Client Officer is new to the role and could not comment on the Value for Money that the service provides, but the Service Delivery Manager and Commercial and Communications Manager were very positive about the energy efficiencies that the service is striving to implement. Evidence of this innovation includes the fact that the Council and Mouchel were finalists for the LocalGov.co.uk MJ awards 2009: Efficiency</li> </ul>

Service Area	Comments
	<p>Achievement of the Year for their Low Carbon lighting project.</p> <p>Pinch Points</p> <ul style="list-style-type: none"> <li>The Client Officer does not liaise with the Service Delivery Manager, instead liaising with Mouchel operational management.</li> </ul> <p>Opportunities for improvement</p> <ul style="list-style-type: none"> <li>Please refer to section 5.3 Governance for details of recommendations surrounding the roles and interaction of Service Delivery Managers and Client Officers.</li> </ul>
<b>Highways Maintenance</b>	<p>Value for Money</p> <ul style="list-style-type: none"> <li>Management informed us that Mouchel deliver highways projects to time and on budget, and therefore fulfil the requirements of the SLA.</li> </ul> <p>Pinch Points</p> <ul style="list-style-type: none"> <li>The Client Officer explained that a TUPE-ed member of staff originally performed a full time role, monitoring the capital programme. This role has since reduced from full time to part time. Discussions are currently taking place whether to move the post back to the Council after the current employee retires</li> <li>The Client Officer does not liaise with the Service Delivery Manager, instead liaising with Mouchel operational management.</li> </ul> <p>Opportunities for improvement</p> <ul style="list-style-type: none"> <li>Please refer to section 5.3 Governance for details of recommendations surrounding the roles and interaction of Service Delivery Managers and Client Officers.</li> </ul>
<b>Asset Data Management</b>	<p>Value for Money</p> <ul style="list-style-type: none"> <li>The asset data management system has been under-utilised in the past but according to both the Client Officer and Service Delivery Manager, since the transfer of the service the service has expanded via project mandates, such as plotting of trees and routes to school. There is a commitment from the Service Delivery Manager to ensure that initiatives do not represent a snapshot in time, but are updated continually from implementation</li> <li>The Client Officer believes the team works well and efficiently to achieve service performance and thinks that the KPIs are fit-for-purpose.</li> </ul> <p>Pinch Points</p> <ul style="list-style-type: none"> <li>The Client Officer does not liaise with the Service Delivery Manager, instead liaising with Mouchel operational management</li> <li>A Positional Accuracy Information initiative was originally scoped and costed by Mouchel as £250,000 for rectification of 300,000 entities. Upon further investigation by the Council as to the appropriateness of the scope, the work required was agreed at 12,500 entities and would cost between £20,230 and £27,030.</li> </ul> <p>Opportunities for improvement</p> <ul style="list-style-type: none"> <li>Please refer to section 5.3 Governance for details of recommendations surrounding the roles and interaction of Service Delivery Managers and Client Officers</li> <li>Continued rigorous assessment of Value for Money being provided by Mouchel for ad hoc spend within this service area.</li> </ul>
<b>Property</b>	<p>Value for Money</p> <ul style="list-style-type: none"> <li>The Service Delivery Manager and Client Officer have a good working relationship and meet weekly and monthly regularly to discuss operational issues.</li> </ul> <p>Pinch Points</p> <ul style="list-style-type: none"> <li>The Council is currently claiming approximately £70,000 from Mouchel in respect of late notices issued</li> <li>The Client Officer suggested that there has been a high degree of agency staff and</li> </ul>

Service Area	Comments
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turnover in 2006-2008 resulting in varying levels of skills.

### Bridges

#### Value for Money

- The Client Officer is new to the post so was not able to comment on the Value for Money that the service provides
- The Service Delivery Manager believes that volumetrics will need to be revisited in light of the discovery of additional of bridges since the transfer of the service. She also explained that the service suffers from an inadequate Council budget to perform substantial capital works, and therefore performs maintenance work that is more costly in the long term. This will be more important in a city such as Milton Keynes where the infrastructure was built at approximately the same time, and will therefore require maintenance at the same time.

#### Pinch Points

- The Client Officer does not liaise with the Service Delivery Manager, instead liaising with Mouchel operational management.

#### Opportunities for improvement

- Please refer to section 5.3 Governance for details of recommendations surrounding the roles and interaction of Service Delivery Managers and Client Officers.

### Building Services

#### Value for Money

- The Client Officer and Service Delivery Manager both believe that the Building Services service operates well for the following reasons:
  1. The service works with four major contractors on a co-habiting basis and work together as partners, not client and contractor
  2. Mouchel bring strong and sound management structure and direction and the team is flexible
  3. Prior to the contract, the Council always under-spent the capital budget; now it is always spent to within the required KPI %
  4. There are fewer complaints from customers and these are managed well.
- Mouchel will perform some work that may go beyond the SLA. For example, Mouchel provided help to the Client Officer when he was creating and managing a large tender.

#### Pinch Points

- It is recognised that there is a tendency to perform patchwork repairs due to an inadequate Council budget, and the client officer is also concerned that the unit cost of voids is increasing. However, the Council cannot obtain a breakdown of the costs from the contract MITIE and are currently trying to solve this problem
- The Client Officer does not liaise with the Service Delivery Manager, instead liaising with Mouchel operational management.

#### Opportunities for improvement

- Please refer to section 5.3 Governance for details of recommendations surrounding the roles and interaction of Service Delivery Managers and Client Officers.

### Passenger transport

#### Value for Money

- The Client Officer is of the view that the service has benefited from wider skills drawn in from wider Mouchel and the team perform the responsibilities that the SLA dictates
- The Client Officer further believes that the customers receive a good service from the Partnership; Mouchel staff are very helpful and have achieved an increased level of workload delivery.

#### Pinch Points

Service Area	Comments
	<ul style="list-style-type: none"> <li>• Mouchel manage transport contracts on behalf of the Council. The Council holds an SLA with Mouchel and, for example, the Local Education Authority who procure the transport arrangements. In the Client Officer's view, this overcomplicates operations</li> <li>• The Client Officer does not liaise with the Service Delivery Manager, instead liaising with Mouchel operational management.</li> </ul> <p>Opportunities for improvement</p> <ul style="list-style-type: none"> <li>• Please refer to section 5.3 Governance for details of recommendations surrounding the roles and interaction of Service Delivery Managers and Client Officers.</li> </ul>
<b>Facilities Management</b>	<p>Value for Money</p> <ul style="list-style-type: none"> <li>• The Service Delivery Manager explained that Mouchel Plc hold health and safety procedures in extremely high regard. Mouchel management have therefore tried to stress the importance of this within the Council. Furthermore, Mouchel want to encourage joined up working, for example by integrating two different health and safety policies into one.</li> </ul> <p>Pinch Points</p> <ul style="list-style-type: none"> <li>• Both the Client Officer and Service Delivery Manager agreed that the wider Council staff are unclear about what responsibilities fall to the Facilities Management service. For example, where rooms are not cleared of waste after meetings, there is a perception that this is the responsibility of Facilities Management, but in reality, it is the responsibility of the waste department</li> <li>• There are also infrastructure problems that affect the Facilities Management service, due to an inadequate Council budget, such as the inadequate air conditioning within Saxon Court, and the roof which leaks</li> <li>• The Client Officer does not liaise with the Service Delivery Manager, instead liaising with Mouchel operational management.</li> </ul> <p>Opportunities for improvement</p> <ul style="list-style-type: none"> <li>• The Service Delivery Manager is currently looking into the opportunity for centralisation of meeting room bookings so to increase the efficiency of that area of service</li> <li>• Please refer to section 5.3 Governance for details of recommendations surrounding the roles and interaction of Service Delivery Managers and Client Officers.</li> </ul>

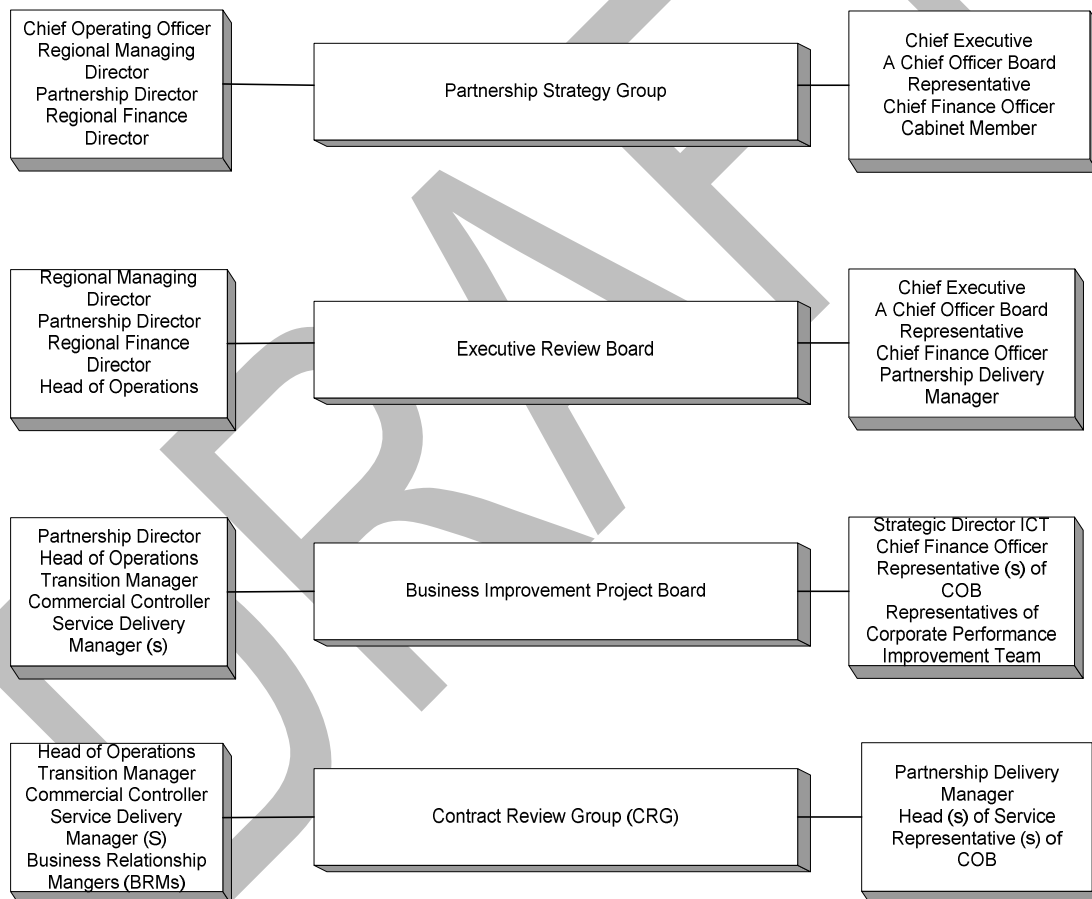


# Appendix 1

The diagram below is extracted from schedule 24 and summarises the four forums of discussion for the Partnership Management and the representatives from each Partner who should attend each forum. Schedule 24 also provides more information about the roles, responsibilities and outcomes of each forum

HBS (now Mouchel)

Milton Keynes Council



## Partnership Strategy Group

The Partnership Strategy Group's key functions are to:

- Establish the mission and culture of the Partnership
- Ensure that the Partnership vision, objectives and strategies are and remain in line with those of the Council;
- In accordance with the Partnership vision and objectives, set priorities for all improvement activity;



- Communicate joint objectives and fit with strategic development plans
- Ensure compliance with Partnership goals
- Assess and authorise opportunities for Partnership growth
- Authorise business cases
- Oversee the rolling three-year development programme;

Frequency	Inputs	Outputs
Bi-monthly	Business Cases as submitted by Executive Board	Actions Log
	Actions log from previous meeting	Decisions on matters arising
	Highlight reports from Executive Review Board	Authorisation of report to Members

### Executive Review Board

The Executive Review Board's key functions are to:

- Provide executive management of all aspects of the Partnership;
- Formally review and authorise reports in respect of Partnership performance
- Review and approve Outline Business Cases (OBC's) and Full Business Cases (FBC's) prepared by the Partner;
- Authorise change control and variations to contract

Frequency	Inputs	Outputs
Monthly	Executive Review Board Report	Actions Log
	Business cases for approval and review	Approval for Business cases
	Minutes / Actions from previous months Business Improvement Project Board, Contract Review Group and Executive Review Board.	
	Change requests as required	
	Summary report to Members	

### Business Improvement Project Board

It is proposed that the Business Improvement Project Board is formed as a sub-set of the Executive Review Board. Its key functions are to:

- Commission and approve Project Initiation Documents in accordance with the Prince2 methodology and under the direction of the Partnership Strategy Group;
- Identify and ensure all enablers (i.e. resources, leadership) are in place to facilitate a successful project.
- Agree investment and sources of finance for projects;
- Allocate and monitor the project development resource;

- Monitor, report and evaluate progress and performance of projects (through reports from both Project Sponsors and Project Managers);
- Oversee the delivery of Outline Business Cases (OBC) and Full Business Cases (FBC) and the implementation of business-cased projects.

Frequency	Inputs	Outputs
Monthly	Monthly Operations Report	Actions Log
	Actions from previous meeting	Additional off-line meetings as required
		Highlight report for Strategy Group

### Contract Review Group

The Contract review Group's key functions are to:

- Monitor and evaluate progress in the performance of Partnership service delivery against Partnership goals (through reports from the Partner Head of Operations and Transition Project Manager);
- Monitor and evaluate the performance of the SLAs and initiate their review at least annually
- Review KPIs and report upwards on the results
- Oversee the delivery and implementation of transition projects
- Evaluate and initiate requests for change control or variations to contract.

Frequency	Inputs	Outputs
Monthly	Monthly Operations Report	Actions Log
	Actions from previous meeting	Additional off-line meetings as required
		Monthly KPI report including service report and transition update

# Appendix 2

The roles and responsibilities of the Client Officer and Service Delivery Manager are defined below. This information was extracted from the Partnership handbook draft version 2, supplied by the Partnership Delivery Team at the time of the fieldwork.

The role of the Client Officer is as follows:

- Monitor Mouchel' operational performance in their service area through the review and joint sign off of monthly performance reports with the SDM.
- Resolve issues escalated by service users and other customers
- Ensure that quality assurance against the requirements of the SLAs takes place
- Ensure that any Best Value Performance Indicators are met
- Ensure the review of new spend or continuation of existing spend under the SLA meets Value for Money criteria as laid down in the Council's procedures.( see 10 Procurement advice)
- Ensure continuous service improvement and Value for Money.
- Participate in the Partnership Operations Group, Customer Satisfaction Surveys and all other areas surrounding the governance of the Partnership as appropriate
- Monitor volume increases/decreases in the service and make appropriate provision in the budget accordingly
- Conduct Key Performance Indicator (KPI) sample testing
- Undertake periodic reviews of the KPIs
- Participate in training in respect of the role as required
- Ensure Client Officer duties are included in Job Descriptions
- Identify a MKC Officer to deputise as Client Officer as necessary and to notify the same to the Partnership Delivery Team

The role of the Service Delivery Manager is as follows:

- Manage operational performance in their service area
- Liaise with the CO to review performance
- Resolve issues escalated by the CO or direct from service users and customers
- Periodically review the SLA to ensure its appropriateness as the service evolves, grows and develops
- Ensure that any Best Value Performance Indicators within the SLA are achieved
- Liaise with the CO regarding potential new spend or changes to existing spend under the SLA ( see

## 10 Procurement Advice)

- Ensure continuous service improvement and Value for Money
- Participate in the Partnership Operations Group, Customer Satisfaction Surveys and all other areas surrounding the governance of the Partnership as appropriate
- Monitor volume increases/decreases in the service and liaise with the client officer regarding accommodating these changes into the contract
- Participate in Key Performance Indicator (KPI) sample testing process
- Undertake periodic reviews of the KPIs
- Participate in training in respect of the role as required
- Identify a manager/team leader to deputise as SDM as necessary and to notify the same to the Partnership Delivery Team

This handbook had not been ratified at the time of fieldwork. The previous handbook defines the following roles and responsibilities for Client Officers:

“To act as Client Officer for xxxxxxxx Service Area where the role is to :

- Act as the first point of contact for the service area both internally and as the HBS liaison point, resolving any issues escalated by service users and other customers. To work with the HBS Service Delivery Manager (SDM) to facilitate buy-in to changes and new ways of working. To ensure continuous service improvement and adherence to the Council’s Customer Care Policy.
- Meet with the HBS SDM to discuss and agree the content of the monthly performance report and any other issues relating to service delivery and service development including recording decisions/action points. To jointly sign off the monthly performance report.
- Receive the monthly performance report from the Partnership Delivery Team (PDT). To check the content of the monthly performance report and, where necessary, return comments to the PDT or a nil return on the agreed form. To escalate any unresolved items to the forthcoming Partnership Operations Group (POG) meeting.
- Develop systems for analysis of performance information including Key Performance Indicators and Performance Indicators for the service area. To participate in reviews of the same and to notify the PDT of any changes.
- Monitor and evaluate the operational performance of the service area including performing quality checking and recording of the findings. To advise the PDT of any Price Performance Mechanism deductions due to the Council. To agree changes to volumetrics and make an estimation to ensure the appropriate budget provision for the impact of cost variations.
- Ensure that performance is monitored where HBS has a responsibility in terms of delivering services or any part of services that are included in the Council’s Best Value Performance Plan. To ensure that HBS provides appropriate assistance where Best Value Reviews impinge directly or indirectly on HBS services.
- Ensure the continuation of existing spend under the SLA meets value for money criteria as stated in the Council’s procedures. To propose an out of scope change, and associated budget, if in doing so the service may be improved or made more effective, efficient and economic. To identify areas where an out of scope change is not appropriate as “flexible working” will apply.
- Participate in POG, partnership surveys, both as a customer (service specific) and on the partnership as a whole, at least once a year, and all other areas surrounding the governance of the partnership. To undertake training in respect of the role as required.
- Undertake adhoc duties as required by the Partnership.”

# Appendix 3

The following clauses provide more information and detail about the commercial levers built into the contract to ensure service performance is satisfactory.

## **Customer Satisfaction Surveys (clause 25.6.1):**

“The Partner shall at least every Year (and at other times in order to enable the Council to comply with the requirements of Best Value) and in relation to other Statutory service Reviews carry out a survey of customer perception and satisfaction, in relation to each service Group (“Customer Surveys”).”

## **Benchmarking (clause 25.1.1):**

“The Council and the Partner intend that the service Reviews will be the principal driver of performance within the Partnership. However the Council reserves the right to, itself or procure a Third Party to, propose, manage and implement a benchmarking process based on the principles set out in clauses 25.2 and 25.3...”

## **Open book access (clause 49.1.6):**

“...any books, accounts, records and original documents (excluding Partner board minutes) of the Partner relating to this Agreement and/or such information as is relevant to verify changes to the Contract Price and/or Project pricing including access to the calculation of the original Contract Price as at the Commencement Date insofar as relevant to enable the verification or any other charges due from the Council to the Partner under this Agreement to the extent that such books, accounts, records and documents enable the Council to track the invoices and reports submitted by the Partner pursuant to **clause 49.1.6** so that these can be verified on an open book auditable basis by the Council.”

## **Performance reporting (clause 24.2):**

“The Partner will conduct a review of the services at the end of each Payment Period and at the end of each calendar year on the basis set out in the following provisions of this **clause 24**.” The Service Reviews shall:-

24.2.1 assess the Partner’s performance of the Services when compared with the outcome and output based service descriptions in the SLAs, the Services Levels, the Performance Indicators, the KPIs and Best Value PIs;

24.2.2 identify any areas of poor performance of the Services which require improvement, and to determine the remedial action to be taken by the Partner as a result;

24.2.3 collect the information required for the operation of the Price Performance Mechanism and to present that information to the Council to enable the Council to verify the accuracy of the Default Values calculated by the Partner for each Payment Period, and which are to be applied on a monthly basis in accordance with **clause 41**;

# Appendix 4

The following clauses were extracted from the contract when a search was performed for explicit 'open book' references. Clause 49: Audit Rights has been included in full to illustrate the extent of the Council's rights of access to the Partner's books and records.

1. "4.3.2 ...provide to the Council a detailed breakdown and justification (on an open book, justifiable and auditable basis in the case of financial matters) in relation to all aspects of the Extension Notice; and..."
2. "6.2 If requested by the Council, the Partner shall provide to the Council, on an open book, auditable and justifiable basis, full written details of the investments made pursuant to **clause 6.1**, to enable the Council to assess and verify the Partner's performance against each of the commitments."
3. "28.3.2.10 provide to the Council a detailed breakdown and justification (on an open book, justifiable and auditable basis in the case of financial consequences) of the matters referred to in the Proposal;"
4. "28.4.2 Such Reprioritisation Proposal shall contain reasoned and detailed information on an open book basis regarding the Partner's proposed reprioritisation including:"
5. "35.2.1.10 provides a breakdown on an indicative basis of the costs to the Council of purchasing the new Retained Function ICT on an open book, auditable basis which meets the Council's stated needs and requirements including requirements as to functionality; and..."
6. "42.8.5 Upon Council approval of the written statement the Partner shall procure the ICT Assets on behalf of the Council in the Council's name and the Council paying for such ICT Assets. The Partner shall provide to the Council upon request detailed information and supporting documentation on an open book and justifiable basis recording the ICT Assets purchased and such assets shall be owned by the Council. The Council shall make the ICT Assets available for use by the Partner for the purposes contemplated by this Agreement as if such assets were Existing Assets."
7. 49.1.6 "any books, accounts, records and original documents (excluding Partner board minutes) of the Partner relating to this Agreement and/or such information as is relevant to verify changes to the Contract Price and/or Project pricing including access to the calculation of the original Contract Price as at the Commencement Date insofar as relevant to enable the verification or any other charges due from the Council to the Partner under this Agreement to the extent that such books, accounts, records and documents enable the Council to track the invoices and reports submitted by the Partner pursuant to **clause 49.1.6** so that these can be verified on an open book auditable basis by the Council."
8. "53.5.2...As soon as possible following service of the Council's notice pursuant to **clauses 53.1**, the Partner shall notify the Council if it wishes to terminate the remainder and provide detailed reasoning and financial assessments (on an open book, auditable, justifiable basis). In the event of a dispute over this the matter may be referred by either party to a third party independent expert in accordance with **clauses 50.10** and **50.11**."
9. "57.1.5 Any monies drawn by the Council under any bond delivered pursuant to this **clause 57.1** shall be applied by the Council in payment of its costs, losses, liabilities and expenses properly payable under this Agreement arising in the event of the Partner terminating this Agreement without cause or the Council terminating this Agreement under the provisions of **clauses 53 or 54** (the date upon which such termination occurred being the "Relevant Termination Date"). The Council shall keep a full record of all such amounts applied on an open book, justifiable and auditable basis and shall make available a copy of such record

(including reasonably detailed copies of supporting documentation where available subject to no confidentiality being breached by disclosure of such documents) to the Partner, on reasonable request provided that the Council uses reasonable endeavours to negotiate terms of confidentiality to permit such disclosure.”

10.”58.1.3.2 the aggregate of those parts terminated exceeds 25% (twentyfive per cent) or more of the Contract Price payable by the Council (gross of Default Values or other deductions) to the Partner in either the first 12 months of this Agreement or the 12 months immediately preceding with the notice of termination of part, whichever is the greater. The Partner shall be entitled to serve a notice to the Council within 3 months of the date of the Council’s notice to terminate stating that it wishes to terminate the remainder and in such notice the Partner shall provide details of reasoning and financial assessments (on an open book, auditable, justifiable basis, demonstrating that the conditions stated are satisfied. In the event of a dispute over this the matter may be referred by either party to a third party independent expert in accordance with **clauses 50.10 and 50.11.**”

11. “59.1.9 The compensation payable by the Council to the Partner pursuant to **clause 59.1.7** shall become payable 30 Business Days after receipt by the Council of an invoice for the amounts owed, together with reasonable supporting documentation and calculations, on an open book, justifiable, auditable basis. Any dispute in relation to the compensation payable other than sums payable pursuant to **clause 59.1.7.2** shall be referred to the Fast Track Dispute Resolution Procedure and pending resolution of such dispute the Council shall be liable to pay by the due date referred to above the undisputed part of the invoice. For the avoidance of doubt the Partner shall ensure no double counting in the calculation of compensation pursuant to **clause 59.1.7.**”

#### 12. “66.1 **Asset Base Accounts/Records**

66.1.1 Without prejudice to the Partner’s obligation under **clause 35.4.5** in relation to asset registers, the Partner shall keep full, adequate and accurate accounts and records in connection with the Asset Base, which shall include a register of those assets and valuations of them showing the net book value of those assets calculated on the basis of the Write Down Policy (the “Accounts”). The Partner shall keep the Accounts on an open book basis so that they can be audited and verified by the Council from time to time and the Partner shall update the Accounts annually.”

#### 13. “82.5 Severance for Setting Aside the Agreement

82.5.1 Where the Agreement cannot be brought intra vires under clause 82.3, the Agreement shall be set aside and the Partner shall be entitled, subject to its duty to mitigate, to be paid by the Council such sums as would have been payable by the Council as if the Council had terminated the Agreement at will pursuant to clause 58 and the Partner shall provide a breakdown of such sums on an open book justifiable auditable basis.”

14. “27.2.1 The Partner shall employ sufficient Personnel (appropriately qualified, skilled and competent and having received appropriate training) to ensure that the Services are provided in accordance with this Agreement at all times. Within 10 Business Days of written request from the Council from time to time the Partner shall provide to the Council a detailed and comprehensive written report of the numbers and types of Personnel (in terms of their job description, seniority, skills and experience) engaged or otherwise deployed by the Partner in relation to each of the Service Groups as at the date of the report.”

#### **AUDIT RIGHTS (clause 49):**

“The Council, and such other persons as may be authorised by the Council in writing from time to time (including persons from the Council’s internal audit team, external audit and Best Value audit), shall during normal office hours and upon notification to the Partner’s Partnership Manager have access to:-

- all sites from which the Services are being provided for the purpose of inspecting performance of the Services and compliance with the Partner’s other obligations under this Agreement;
- all premises occupied by the Partner (including the Licensed Premises, Council Premises and Business Centre) for the purpose of inspecting records and documents in the possession, custody or control of the Partner and kept in connection with the provision of the Services, including the Service



Information (including the right to copy and remove such documentation, and if reasonably necessary, remove originals of such documentation).

- any Personnel for the purpose of interviewing any such person in connection with the carrying out of all or any part of the Services (including the right to keep written or taped record of such interview) provided always that the Partner shall be entitled to have one of its representatives present at such an interview;
- all technology, resources, equipment, systems, software and procedures used by the Partner or proposed to be used in connection with the performance of the Services (including the Asset Base);
- the Accounts (as defined in **clause 66.1.1**) and the Service Information; and
- (without prejudice to **clause 49.1.5**) any books, accounts, records and original documents (excluding Partner board minutes) of the Partner relating to this Agreement and/or such information as is relevant to verify changes to the Contract Price and/or Project pricing including access to the calculation of the original Contract Price as at the Commencement Date insofar as relevant to enable the verification or any other charges due from the Council to the Partner under this Agreement to the extent that such books, accounts, records and documents enable the Council to track the invoices and reports submitted by the Partner pursuant to **clause 49.1.6** so that these can be verified on an open book auditable basis by the Council.

The right of the Council to carry out an audit pursuant to this **clause 49** shall be subject to the overriding rights and duties of the Partner of legal privilege and/confidence and/or obligations of the Partner to Third Parties of the Partner to Third Parties. The Council shall ensure that all persons authorised by the Council to access the Partner's sites pursuant to this **clause 49.1.1** (other than the Council Premises and the Licensed Premises) comply with the Partner's reasonable site instructions during such access. The Council shall ensure that such persons who exercise the audit rights granted pursuant to this **clause 49.1.1** are bound by obligations to keep confidential all information so gleaned, subject always to the provisions of **clauses 72.7** and **72.12**.

The Partner will provide to the Council, and/or such other persons as may be authorised by the Council in writing from time to time, all reasonable assistance and facilities that they require in connection with audits and inspections, including copies of any documents and records and any and all audit reports prepared by Third Parties insofar as they relate to the Services and/or this Agreement.

Without prejudice to the foregoing and any other right or remedy which the Council may possess in respect of such failure (under this Agreement or otherwise), if any audit or inspection reveals any over payment by the Council under this Agreement against an amount actually invoiced, the Partner shall within 5 Business Days provide the Council with a credit equal to the amount of such overpayment against the Partner's next invoice if any. Where there is any underpayment the Council shall pay to the Partner 5 Business Days following receipt of an invoice.

Upon the request of the Council, the Partner will make reasonable changes recommended or required by such audit or inspection to achieve full compliance with the provisions of this Agreement taking into account the recommendations of the audit or inspection in respect thereof.

Any such audit or inspection, or failure to audit or inspect, will not in anyway release the Partner from any of its obligations under this Agreement.

Any audits, inspections or reviews carried out pursuant to this **clause 49** are in addition to the service reviews carried out by the Council pursuant to its duty of Best Value and the provisions of this **clause 49** are without prejudice to the requirements of **clause 24** and **clause 25** inclusive in relation to information, reporting and review procedures in relation to Service Reviews, Best Value Service Reviews, and the benchmarking process.

If requested to do so by the Council from time to time the Partner shall provide to the Council any relevant information, documentation and statements that will enable the Council to verify any royalty and/or shared income payments and/or guaranteed procurement savings it receives from the Partner."



# Appendix 5

The following information describes the Council's procurement procedures and was extracted from "Procurement Procedures Rule 2009: a quick guide...", drafted in August 2009 and provided to us at the time of our review by the Partnership Delivery Team.

- Up to £2000 - Three telephone quotations is acceptable. More quotations may be obtained where it is practical and beneficial.
- £2001 - £25000 - A minimum of three written quotations. Invitations to quote should be prepared on a standard form/letter that clearly states the works/service/supply required.
- £25,000 - EU threshold - EC guidance advises best practice for publishing/advertising tenders is achieved through the use of an electronic portal. Contact the Contracts Group for further instructions.
- Over EU threshold - All contracts over £139,893.00 for services or Supply or £3,497,313.00 for works. Officers must contact and work with the Contracts & Procurement Group.

# Appendix 6

The table below draws together all of the information that we received in relation to the sample of purchase orders that we requested documentation for and highlights where information was not received during fieldwork.

Ref.	PO number and date	PO description	PO value £	Detail of the scope of work, supporting business cases/mandates for spend and details of charges	Justification for why the work is not in-scope	Evidence to show adherence to procurement guidelines	Authorisation and approval evidence
1	7200143008 21.05.2008	Consultancy for J14 M1	429,732	Per project mandate 2.1 dated 21 Sept 2007 : - HBS to provide additional resources for site monitoring of construction including supervision, contract administration, budget and cost control; design review; health and safety; project board; quality assurance; consideration of risk; road safety; consultation and meetings. Total cost £486,220	Per Highways SLA: "Exclusions:...Supervision of some maintenance and specialist contracts as agreed with HBS on an annual basis when programmes of work and budgets are finalized."	<b>No evidence provided</b>	Signed by MKC Client officer for Highways and HBS programme officer in Sept 07.
2	7200143010 21.05.2008	Consult for New Coach Terminal	121,840	<b>No evidence provided</b>	<b>No evidence provided</b>	<b>No evidence provided</b>	<b>No evidence provided</b>
3	7200157332 03.10.2008	Professional Services	96,504	Per project mandate v1.0 dated 22 Sept 2008 – Mouchel, with MKC's input, to research and prepare a business case for submission for DfT funding. Budget of 105,792 (usual schedule of rates do not apply as the project requires specialist skills).	Per Highways SLA: "Exclusions:...Supervision of some maintenance and specialist contracts as agreed with HBS on an annual basis when programmes of work and budgets are finalized."	Per project mandate v1.0: "MKC approached Mouchel to help prepare a business case." <b>No further support provided</b>	Signed by MKC client officer, MBS programme officer and MBS BRM on 1/10/08

Ref.	PO number and date	PO description	PO value £	Detail of the scope of work, supporting business cases/mandates for spend and details of charges	Justification for why the work is not in-scope	Evidence to show adherence to procurement guidelines	Authorisation and approval evidence
4	7200144630 05.06.2008	Spinal Road Works Commission	58,722	<p>Per project Mandate v1.1 dated 16 May 2008: Provision of a project team to deliver road design and package of construction drawings to enable spine road to be constructed by Milton Keynes Council to an adoptable standard, including associated project management of the design process.</p> <p>The estimated fee for delivery of these works is £58,722.00.</p>	See item 8	<p>Per email from MKC employee on 8 October 2009: "Our in-house Mouchel team were approached as this was works of an engineering nature and our understanding at the time was that all design services were to be procured via our Partner."</p> <p><b>No further support provided</b></p>	<p>Project mandate to be signed by MKC CO, MBS Programme Manager, MBS BRM, Mouchel Project Manager, but mandate received did not contain signatures.</p>
5	7200149999 22.07.2008	Loughton Bridge Strengthening	38,000	<p>Per Mouchel employee on 16 October 2009: Bridge Capital Maintenance projects are covered by the Service Level Agreement but the budget for undertaking this work did not transfer across at the start of the Partnership. Capital budgets are not ring fenced and are fluid as they are different from year to year and we may not get funding at all.</p> <p>Although the services are defined the funds for this work are not part of the unitary charge.</p> <p>Per Mouchel employee on 13 October 2009: "Last year the MKC client officer had taken the view that undertaking capital projects was part of the current SLA and therefore a project mandate did not need to be prepared. However, as the funding for them was from capital PO's had to still be raised and accounted for. This was certainly done."</p>	See previous column	N/A	N/A

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6	7200145069 10.06.2008	ID Card Project	30,000	Introduction of ID cards to all staff at MKC, as per paper to CLT written 21/11/06 by previous PDM.  Costed at £31,813 one off cost and £2,921 p/a there onward for lost badges.	Per Facilities Management SLA: "The Council will retain responsibility via the Admin buildings budget for all expenditure such as repairs of equipment, purchase of new equipment and payments to contractors under current contracts."	Per MKC employee on 21 October 2009: "CLT agreed to HBS undertaking this project because (a) they had the capacity to do so; (b) they were on site and they new the structure and locations of the organisation, (c) they would be responsible for managing the ID card arrangements for new/temp staff going forward; and (d) they thought the price reasonable."  <b>No further support provided</b>	CLT approval of ID cards in minutes of 23/11/06 meeting
7	7200163600 28.11.2008	Capital works - consultants	24,885	Part of item 8's project mandate	See item 8	See item 8	See item 8

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8	7200168326 19.01.2009	Radcliffe school road design	24,481	<p>Extended project mandate v1.2 from Spinal Roads Works Commission (item 4), dated 17 November 2008:</p> <p>Costs:            Stage 1 : Optimum Spine Road Design            Initial Estimate: £58,722.00.            Additional work estimate: £28,556.00</p> <p>Stage 2 : Alternative Spine Road Route            Additional Work Estimate: £49,103.00</p> <p>Total = £136,381.00</p>	<p>Per Highways SLA: "Exclusion... Supervision of some maintenance and specialist contracts as agreed with HBS on an annual basis when programmes of work and budgets are finalized."</p> <p>Per Kevin Monkton on 7 October 2009: "I believe the requirement for the road was not covered within the existing contract requirements. The road is largely on Radcliffe School land (foundation school, not MKC ownership), and is required to assist a land disposal rather than being a highway requirement."</p>	<p>Per MKC employee on 6 October 2009: "As the appointment impacted on MKC procurement rules, the Council Finance (\$151) Officer approval was obtained to depart from the normal procurement procedures, arising from the urgency involved in the scheme."</p> <p>Seen email from S151 Officer, on 10 November 2008 confirming scope of extended project mandate on and approval of extra work directly to Mouchel.</p> <p><b>No further support provided</b></p>	See previous column

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9	7200171150 12.02.2009	Professional Services	22,000	<p>Per project mandate dated 19 March 2009: "The aim of this mandate is twofold:- 1. To transfer the remaining operational capital finance arrangements from strategic finance MKC to the Mouchel finance team. 2. Following an Audit Commission report highlighting that there needed to be clear lines of operational activity for capital, it was determined to move the operational elements to Mouchel finance. The Service Level Agreement (SLA) is to be redrawn to reflect the changed arrangements.....</p> <ul style="list-style-type: none"> <li>• Transition period 1 February 2009 – 31 July 2009</li> <li>• £88,000 per annum</li> <li>• Payment on a quarterly invoice basis in advance commencing at project start date."</li> </ul>	<p>There is no mention of capital accounting functions within the SLA.</p>	<p>Per MKC employee on 7 October 2009: "This purchase order was for a part-year payment for the transfer of certain capital functions to MBS. These activities were previously undertaken by Strategic Finance and the transfer arose from a reorganisation of the capital function across the authority. It was a decision of the then Director of Finance, Ian Frost, that the reorganisation was necessary following an adverse Audit Commission report on capital. As such, no other party could have undertaken the role."</p>	<p>See previous column. Also, mandate provides for authorisation from Project Sponsor, Project Manager, Partnership Delivery Manager, Corporate Manager (Improvement), and Partnership Director, although these signatures were not visible on mandate provided.</p>

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10	7200141459 08.05.2008	Sustainable School Travel Strategy	21,000	Seen Project brief for consultants, detailing cost of consultant to be 20k and a timescale of Jan - Sep 08 assumed to prepare, write and present a report making clear costed recommendations that, if adopted, will ensure the Council meets its obligations under the Education and Inspections Act 2006 to assess the travel and transport needs of all pupils and promote sustainable means of travel to school.	Per SLA: "The following elements of the service are excluded from the scope of the service... • Strategic input into the longer term public transport options for Milton Keynes and the provision of professional guidance on passenger transport requirements as part of the Central Milton Keynes Development Framework"	Per MKC employee on 2 October 2009: "I had wanted the work to be tendered but was dissuaded from this, but the figure quoted by Mouchel for the work was compared with similar work carried out by other organisations and Mouchel's quote was reduced to come in line with these. Therefore I believe this complies with the Council's Financial Regulations... The reasons for going with Mouchel included the following:-  There was a limited amount of time available to spend the money which was for a specific piece of work required by legislation with a tight timeframe;  No one was available at MKC to manage the work; and  Tendering the work would have taken time and money and again no one at MKC was available to manage the process.  <b>No further support provided</b>	<b>Evidence not provided</b>



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11	7200150996 31.07.2008	IT hardware	20,516	Per project mandate v1 dated 22 May 2008: "Develop & modify Housing Business Object queries, some using the Broadcast Agent function, including any tailoring needed to extract the data in the required format"  Total cost £20,516	No mention of Business Objects within ICT SLA,	Per MKC employee on 14 October 2009: "The Housing IT Business Improvement budget is approved by Heads of Service and Councillors. As Information Manager for the Housing Service I am responsible for managing the IT Budget All orders for IT products and services are made through Mouchel with approval from the Head of Service and endorsed by the Head of Corporate IT, the orders are authorised using the SAP procedures and appropriate nominees according to expenditure level.  As Mouchel are our IT Partner, all my IT development work is done by them. I do not use any other provider.  I manage the projects jointly with my IT Partner to ensure schedules are adhered to and costs do not over-run.	Mandate requires approval from Programme Office Mgr, IT Service Delivery Mgr, Housing Information Mgr, but signatures were not present on the electronic copy provided
						<b>No further support provided</b>	

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12	7200156113 24.09.2008	Professional Fees	272,214	<p>Per email from MKC employee on 13 October 2009: "... it was agreed that the scope of the work ... clearly fell within the Partnership Framework Agreement.... a Mouchel Best Value review (was carried out) of the ICT equipment by allowing three/four companies to demonstrate equipment suitable to meet client needs and purpose and provide best pricing based on the volume of sales.</p> <p>After consideration of all company proposals we chose to use Toshiba products matched with some of their back office support for security tagging etc... and our team for onsite and remote support.</p> <p>Mouchel services for schools/educational Establishments are reviewed annually and reviewed in line with the market place and competitors to ensure best value is provided. A review of our service proposal ... was carried out to benchmark our proposals and ensure that we were providing Best Value in all areas.</p> <p>A full and detailed document was submitted... outlining every area including reviews/SLA etc - a copy to be sent over</p> <p>This document was then internally reviewed by MKC and a Purchase Order raised and released as appropriate by the appropriate MKC Finance officer so that we could then place the equipment orders and recruit staff to deliver the services as agreed. MKC have signed the authorisations on this document..."</p> <p><b>Further information requested by PwC to clarify this information but no further evidence provided before the reporting deadline.</b></p>	<b>No evidence provided.</b>	<b>No evidence provided.</b>	<b>No evidence provided.</b>