

**Report to the Audit and Standards Committee in January 2019 on the actions taken in relation to key recommendations made in the Multi Services Contract Follow Up internal audit report**

**Lead Officer: Mike Hammond (Head of Community Services)**

**Presenting Officer: Mike Hammond**

**Summary of Audit Area**

At the full Council meeting on 6 November 2014 the Members approved Ubico Ltd (not for profit making organisation) to deliver and provide for the Council's waste and recycling provision, street cleaning, grounds maintenance, fleet management and maintenance services.

The cost of providing this service to Stroud District Council (the Council) in the first year of operation, as per the contract was approximately £5m. The budget for 2018-19 indicates that the cost for the financial year will be approximately £5.6m.

As part of the 2017-18 Internal Audit work plan, Internal Audit provided professional advice and support to the Service area to develop a control framework that ensured there were adequate arrangements in place to effectively manage and monitor the contract with Ubico Ltd. This consultancy review focused upon the following five key areas:

- Governance arrangements;
- Risk identification and management;
- Cost control and management;
- Change control; and
- Monitoring and management of performance.

The Internal Audit consultancy review completed in 2017-18, concluded that although Public Spaces had successfully introduced three new chargeable waste collection services during the second half of 2015-16, and the new waste and recycling services during 2016-17, alongside managing the closure of the multi services contract with the previous contractor and the procurement of the service to the new provider there were found to be key governance issues with the management of the current contract.

These issues related to the lack of documented Terms of Reference for the board and key service meetings, delegation of authority and receipt of timely budgetary updates, etc.

**Summary Terms of Reference of the Audit**

This audit sought to provide assurance that the recommendations raised in the 2017-18 consultancy review of the multi services contract had been fully implemented or there was an approved action plan to show how and when they will be implemented.

## Risks

The specific risks to the management of the multi services contract are as follows:

- Lack of clarity around roles and responsibilities, decision making powers, effective management and control of the contract resulting in poor performance, ineffective decision making, and / or potential unforeseen, unbudgeted additional costs;
- Non-compliance with the contract terms and conditions resulting in poor customer service, potential unforeseen, unbudgeted additional costs and adverse publicity;
- All risks from both parties affecting the multi services contract are not fully identified and managed resulting in unforeseen exposures significantly impacting on service delivery, reputation and potential increased financial costs;
- Loss of service due to a temporary or long term disaster or event resulting in limited or no customer service, adverse publicity, health and safety issues and increased costs;
- Excessive costs are paid for the service provision resulting in financial losses, reduction in finance available to other services of the Council and / or increase in charges to householders;
- Ambiguity between the service provisions expected to be delivered against what is delivered resulting in a shortfall in service, increase in costs, poor customer services and adverse publicity;
- Unauthorised changes / variations to the service provision are made resulting in excessive unplanned costs;
- Contractor performance and risks are not fully understood or managed resulting in poor service delivery and poor customer service being detected; and
- Fundamental disagreements with the contractor resulting in early termination of the contract or provision of a poor service.

## Key Findings

Five high and four medium priority recommendations were raised by Internal Audit in the 2017-18 consultancy review of the multi services contract to support management in the provision of a robust and effective governance framework and for the effective delivery of the contract.

Community Services was subject to the Workforce Plan – Change Programme during the fourth quarter of 2017-18 and first quarter of 2018-19. During that period two of the three experienced Public Space Officers resigned and the Public Space Manager was made redundant. Other changes to personnel with responsibility for managing and supporting the operation of the multi services contract were also introduced.

The above has resulted in a loss of key personnel who were responsible for the multi services contract and with it a significant reduction in the level of

knowledge and skills in this area. The Community Services Manager has taken over day to day management of the contract but the majority of his time has up until now been mainly spent on another Council high priority project. This has all resulted in a significant adverse impact on the delivery of the recommendations raised by Internal Audit.

As a result of the above, there has been a delay in the resolution of eight of the nine recommendations that were raised and agreed by management in the November 2017 consultancy review.

Following review and consideration of the Multi Services Contract Follow Up audit outcomes, Audit and Standards Committee requested that management attend the January 2019 Committee meeting to provide an update against the audit recommendations.

**Action taken as at January 2019 and/or proposed****Review area: Governance arrangements**

<b>Recommendation 1 – terms of reference</b>
<b>Original recommendation (November 2017)</b>
A detailed Terms of Reference for each of the contract management meetings should be created and implemented to formalise the purpose, scope / responsibilities and authority of each of the boards / groups.
<b>Original management response</b>
A Terms of Reference has been formulated for and agreed by the Environmental Services Partnership Board (ESPB). A Terms of Reference for client/contractor operational meetings will also be agreed. Completion date: 30/11/17
<b>Audit follow up position (September 2018): Action plan developed</b>
Draft Terms of Reference for the ESPB and Client / Contractor operational meetings have been written but have not been subject to formal ESPB members' approval. In addition the Terms of Reference for the Client / Contractor management meeting has not been drafted.
The Head of Community Services advised that the original governance structure for the service provision, with the exception of the ESPB, is to be reviewed and updated where appropriate to ensure the structure is robust and effective. A Terms of Reference will then be written / updated and all submitted to the ESPB for approval by 31 January 2019.
<b>Management update – action taken as at January 2019 and/or proposed</b>
A Terms of Reference has been created and circulated to Environmental Services Partnership Board members. At the January meeting members of this board ratified the draft TOR proposal, further to this the terms of reference for the monthly management meetings was also ratified. - MH
<b>Recommendation 2 – review of contract</b>
<b>Original recommendation (November 2017)</b>
A full review of the contracts performance should be undertaken to formally identify all key actions / requirements to ensure compliance with the contract provisions, particularly in relation to the creation and agreement of a Communications Protocol, Ubico Ltd submission of a quarterly reconciliation invoice or credit note and production of an annual service report.
<b>Original management response</b>
A full performance review of the Multi Service Contract will take place over the coming months and will cover the key points identified within this report. Completion date: 31/03/18
<b>Audit follow up position (September 2018): Action plan developed</b>
The Head of Community Services provided a revised completion date of 30

November 2018 for a full review of the contract to establish Ubico Ltd duties and responsibilities and subsequently to confirm their compliance.

**Management update – action taken as at January 2019 and/or proposed**

A review of the contract provision has been undertaken, including the creation of a Communications Protocol.

Ubico are now reporting key service data via a monthly report that will form the basis for a more comprehensive annual report. These monthly reports are presented at the monthly management meetings.

Detailed financial data is being provided monthly, illustrating budget and actual figures for increased scrutiny. SDC staff are attending Ubico finance meetings to better understand the detail that sits behind the figures and to have questions answered at source. This has been a hugely positive step.

**Review area: Risk identification and management**

**Recommendation 3 – risk register**

**Original recommendation (November 2017)**

Undertake a full joint review of the risks facing the delivery of the multi service contract to confirm that the risks are still current and valid, update where appropriate, correctly evaluated, ensuring mitigating controls have been identified and documented.

The joint risk register should be a ‘live’ ‘dynamic’ document which forms part of the ongoing management and monitoring arrangements. The key red residual risks are then reported to the relevant boards / groups to enable challenge and inform decisions and priorities.

**Original management response**

Risks associated with the Multi Service Contract were jointly identified and co-managed by the Council and Ubico Ltd over the past 2-3 years; this was necessary to ensure the full, timely and successful implementation of each of the services. It is appreciated that whilst the joint risks were not updated on the Council’s own risk register through ‘Excelsis’, more general risks covering the Multi Service Contract services were recorded. Joint risks had been reported regularly, pre and post service implementation to both the ‘Task and Finish Group’ of cross party Members and Officers and the ‘Environmental Service Partnership Board’ (ESPB) as a ‘live and dynamic’ process.

In future, key service risks emanating from the joint risk register will be reported through the Council’s risk management register ‘Excelsis’.

Completion date: 30/11/17

**Audit follow up position (September 2018): Action plan developed**

Updates to the Council’s risk management register for the multi services contract risks have been undertaken by management resulting in a reduction in operational risks from five to three.

A review by Internal Audit of the remaining risks highlighted that they required

updating to reflect current information and further work was required to identify all potential risks to the service provision are recorded and managed.

The Head of Community Services advised that an appropriate review will be undertaken and the risk register updated accordingly by 30 November 2018.

**Management update – action taken as at January 2019 and/or proposed**

Although Ubico’s risk register is reviewed at management meetings and at ESPB meetings, Excelsis has been updated to reflect SDC risks. These have been updated and will be reviewed going forward. - MH

**Recommendation 4 – Business Continuity Plan (BCP)**

**Original recommendation (November 2017)**

Obtain a copy of the Ubico Ltd business continuity plan and confirm in conjunction with Emergency Planning that it is fit for purpose and that the plan adequately covers and manages for the loss of service(s) on a temporary basis and over the long term in the event of a disruption.

**Original management response**

The Business Continuity Plan (BCP) will be reviewed over the coming months. It should be identified that the decision to use Ubico Ltd for the delivery of this new contract was in part made due to the flexibility the contracting arrangement had over the conventional relationship with a private sector company. It stands to reason that to move forward on this matter constructively and ensure emergency situations are well managed in future, the BCP should remain as flexible as possible.

Completion date: 31/03/18

**Audit follow up position (September 2018): Action plan developed**

A review of the Ubico Ltd BCP was undertaken by the previous Public Space Manager during December 2017, which resulted in further updates being made to the BCP. In addition he requested a copy of the Emergency Management Plan referred by Ubico Ltd in the BCP, which details how the company would respond to an emergency situation. Internal Audit cannot confirm that this has been provided, however, the updated BCP does not refer to this document.

The BCP without the Emergency Management Plan does not in Internal Audit’s opinion provide sufficient detail to enable management to confirm that Ubico Ltd’s emergency planning arrangements are, for Council purposes, robust and effective to adequately manage a short or long term disaster event(s).

Arrangements are being made by the Senior Community Services Officer to contact other authorities that commission Ubico Ltd for similar operations. This is to gain an understanding of their BCP arrangements with Ubico Ltd and to use their experience and knowledge to ensure that the Ubico Ltd BCP for the Council is effective, robust and fully co-ordinated with the other authorities and service providers.

A revised resolution date of 30/11/2018 has been given by the Senior Community Services Officer to fully implement this.

**Management update – action taken as at January 2019 and/or proposed**  
 Ubico updated their Business Continuity Plan in October 2018. This has been reviewed and in the opinion of Emergency Planning is suitable for the needs of SDC. Further this the plan discussed at ESPB.

**Review area: Cost control and management**

**Recommendation 5 – financial and risk reporting**

**Original recommendation (November 2017)**

Ubico Ltd should be formally instructed to provide detailed, up to date financial and risk reports to the Client / Contractor meetings and quarterly to the ESPB, which clearly show actual spend against budget, explanations for variances and spend forecasts to the end of the financial year and any potential and emerging risks associated with service delivery.

These financial and risk reports should be presented to officers and Members in advance of the meetings to enable them to be fully scrutinised and ensure that there is effective discussion and robust challenge.

**Original management response**

Council officers, alongside the direct support provided by Members and Chief Officers, have over this past year encouraged Ubico Ltd to provide more detailed, accurate and timely financial information relating to the Multi Service Contract. Whilst there have been improvements in Ubico Ltd financial reporting, it is clear that greater progress is needed. Both Public Space Services and the Council's Finance service continues to press Ubico Ltd in this respect. A further meeting is being arranged between SDC and Ubico Ltd Finance teams to finalise improved finance reporting.

Completion date: 30/11/17

**Audit follow up position (September 2018): Recommendation completed**

Finance has taken a leading role in ensuring regular monthly financial reports relating to budget setting and budget monitoring are received and actively scrutinised, which has provided a positive impact. In addition frequent meetings are being held between Finance, Community Services management and Ubico Ltd to discuss the financial position of the multi services contract and aspects of the service provision.

Ubico Ltd have not always provided timely answers to all Finance queries over the reported financial information and some queries still remain outstanding at the point in time of this audit follow-up review.

The above said, Internal Audit can provide reasonable assurance that the recommendation has now been implemented. However, Finance and Community Services management should continue their focus on ensuring the accuracy and timeliness of the financial information from Ubico Ltd and query resolution to ensure effective budget monitoring and management.

**Management update – action taken as at January 2019 and/or proposed**

N/A – Recommendation implemented

**Recommendation 6 – service specification****Original recommendation (November 2017)**

Update the service specification that is included in the appendices to the contract so that they clearly and fully detail Ubico Ltd roles and responsibilities and expected service delivery.

The updated service specification should be approved by Public Space management and Ubico Ltd.

**Original management response**

Owing to the level of service changes and their successful implementation, it is clear that in the main, the distinction between council and contractor responsibilities are reasonably well established. However, a review will be undertaken albeit with the recognition that there will be minor issues that will have arisen, some as a direct result of service changes made after the contractor's original service proposal was made and others that have arisen as a direct result of increased service demand beyond either the council's or Ubico Ltd control and expectations. The latter are being closely monitored.  
Completion date: 31/03/18

**Audit follow up position (September 2018): Action plan developed**

The services of the Association of Public Service Excellence (APSE) has been commissioned by Community Services management during July 2018 to independently review the waste and recycling service provision, in order to establish whether the Council is receiving value for money and to identify additional savings. This review does not include other elements of the multi services contract such as street cleaning, grounds maintenance, etc.

A formal report of their findings is expected to be issued in October 2018 and early indications, verbally communicated to Internal Audit by the Head of Community Services, are that the Council is receiving value for money.

The information and work performed by APSE in establishing the waste and recycling service being delivered by Ubico Ltd is to be used by Community Services to benchmark against current Community Services management expectations, contract and to use as the basis for the service specification going forward.

Community Services officers will also commence a review of the remaining services to fully detail Ubico Ltd roles and responsibilities and expected service delivery. The street cleaning service provision review will be commenced in September 2018 followed thereafter by the other activities with full completion of the recommendation by 31 March 2019.

**Management update – action taken as at January 2019 and/or proposed**

Work on this recommendation is ongoing and although the timescale is



ambitious, a dedicated resource will be given in the first three months of 2019 to ensure completion.

The APSE report has now been finalised and as reflected above, concludes that: 'Ubico is providing value for money but is reliant upon the goodwill, creative and flexible use of resources and good management'. - MH

### Review area: Change control

#### **Recommendation 7 – service provision change / contract variation**

##### **Original recommendation (November 2017)**

Details of officers who have been delegated with authority to submit and approve a change / variation to the service provision including their financial limit of authority should be documented and approved by the Strategic Head (Customer Services). The approved schedule of authorised officers and their delegated financial limits should then be provided to Ubico Ltd as part of the Communications Protocol.

All changes / variations to the service provision as per the contract should be documented and include the financial cost and implication to the annual contract sum so that the Council is fully aware of the financial effect of the change, effect on budgets and can verify the additional charge(s) from Ubico Ltd. Variations to the annual service charge should therefore, where appropriate, be supported by an approved change / variation schedule. In addition Ubico Ltd should be clearly advised that any changes that they wish to make to the service must go through the change control process as per the contract.

##### **Original management response**

Notwithstanding two pieces of additional work that has been separately charged for, outside of the Multi Service Contract, changes made to the contract within the last twelve months have constituted only minor variations, the majority of which have limited or no adverse impact on the use of the contractors resources as the changes are accommodated within the contractors daily workload without the requirement for additional resource. There are also other relatively minor changes that require additional work resulting from for example land adoptions through Section 106 Planning Agreements and additional domestic properties coming online; the council is obligated to accommodate the additional work these issues generate.

It is recognised that the processing of contract variations is critical to maintaining control over contract expenditure. However, the council no longer uses a private sector contractor and therefore has no in-built mechanism to evaluate each contract variation on a cost basis. Decisions on the impact of contract variations are now determined by whether they can be accommodated within the contractor's existing resources. This will be tracked and reported over time to monitor the cumulative effect.

Completion date: 30/11/17

##### **Audit follow up position (September 2018): Action plan developed**

A change / variation flowchart, forms and registers to capture all changes to the contract or service provision have been developed, but not fully introduced at the point of this review. Internal Audit has raised six observations following a review of the proposed process and documents to further strengthen the procedures, risk management and control, which has been accepted by the Community Services Senior Business Support Officer.

In addition two elements of the recommendation detailed below had not been implemented at the time of this review:

- Details of officers who have been delegated with authority to submit and approve a change / variation to the service provision including their financial limit of authority should be documented and approved by the Director of Customer Services. The approved schedule of authorised officers and their delegated financial limits should then be provided to Ubico Ltd as part of the Communications Protocol; and
- Ubico Ltd should be clearly advised that any changes that they wish to make to the service must go through the change control process as per the contract.

The Head of Community Services advised that Internal Audit observations and the identified remaining parts of the recommendation will be completed by 30 November 2018.

**Management update – action taken as at January 2019 and/or proposed**

This recommendation has now been implemented and reference to approval is contained within the Communications Protocol, this has been ratified by all ESPB members at the January meeting, this included Ubico management. - MH

**Review area: Monitoring and management of performance**

**Recommendation 8 – Key Performance Indicator (KPI) reporting**

**Original recommendation (November 2017)**

The current reporting of the KPIs should be improved to include the following:

- Clearly present and give prominence to the KPIs within the reporting schedule;
- Targets for each of the KPIs should be clearly shown against the actual performance result;
- Performance results should be subject to verification by Public Spaces to confirm the information reported is correct; and
- Where adverse variances to targets are highlighted detailed explanations for the reasons are reported

**Original management response**

KPIs are regularly monitored and reported to Environment Services Partnership Board (ESPB). Meaningful targets exist for the waste indicators and the minutes do reflect Officers comments on this matter; targets for non waste related services will be identified. Changes to performance verification should ensure a more consistent and accurate reporting. The absence of a

narrative on poor performance is noted and will be improved.

Completion date: 31/12/17

**Audit follow up position (September 2018): Action plan developed**

A review of the KPIs by the previous Public Space Manager was undertaken, which resulted in the number of KPIs being increased from six to 21. However, they have not been implemented as at the point in time of this audit follow-up review.

The Head of Community Services advised that the KPIs have not been approved by Ubico Ltd or the current Community Services management and they are not now considered appropriate. A review is to be performed by Community Services officers, including Ubico Ltd to establish and agree on performance measures that effectively demonstrates and evaluates how successful the company is in achieving the service provision targets / objectives. The reporting format of the KPI results to the ESPB will also form part of this review.

The Head of Community Services advised that the review would be completed and KPIs approved by 31 January 2019 and be effective from 1 April 2019.

**Management update – action taken as at January 2019 and/or proposed**

At the time of writing nine KPI's have been put forward as an effective tool to monitor performance, this is a reduction from twenty one. Discussions with Ubico are being undertaken to agree aspirational but achievable targets. These will become operational from 1<sup>st</sup> April 2019. - MH

**Recommendation 9 – review of KPIs**

**Original recommendation (November 2017)**

A review (annually thereafter) of the KPIs should be undertaken by Public Space management to ensure that they remain fit for purpose and provide a broad and effective assessment of Ubico Ltd performance across all the services that form part of the multi service contract. In addition, relevant KPIs should be introduced to ensure that the Council's current objectives and priorities are also being met.

Any changes to the KPIs following the review should be discussed and formally agreed with Ubico Ltd with the decisions being taken via the relevant governance board / group or officer with delegated authority.

**Original management response**

KPIs form part of the Multi Service Contract but it is recognised that they centre mainly on the waste services. KPIs are less well developed for the other services and so this will be a key area to improve upon whilst ensuring they present clear benefit and understanding of performance. New KPIs will be presented to ESPB for approval.

Completion date: 31/12/17

**Audit follow up position (September 2018): Action plan developed**

As for recommendation 8.

**Management update – action taken as at January 2019 and/or proposed**

As above, but it should be noted that the whole service (inc. Neighbourhood

Wardens) will be trained in the use of a new monitoring system in January 2019. This Land Audit Management System is a quality inspection system, which can be used to assess street cleaning and grounds maintenance standards. In the fullness of time, the results of these inspections will be integrated in to a new KPI. - MH