

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager

TO: Head of Neighbourhood
Services

C.C. Chief Executive
Deputy Chief Executive (BH)
Head of Finance
Contract Services Manager
Senior Contract Officer

SUBJECT: Refuse Collection & Recycling

DATE: 19 March 2015

1 Introduction

- 1.1 In accordance with the Audit Plan for 2014/15, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate. The topic used to be covered under two separate audits, with Refuse Collection having last been covered in December 2010 and Recycling Services last being audited in January 2012.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

- 2.1 The waste and recycling services contract was let as part of a large exercise covering a number of different services provided by Neighbourhood Services. The new contract was awarded to Sita and commenced in April 2013. The current value of the contract is around £2m a year.
- 2.2 Client side management of the contract is carried out by staff in the Contract Services section of Neighbourhood Services.

3 Scope and Objectives of the Audit

- 3.1 The audit was undertaken to test the management and financial controls in place.
- 3.2 In terms of scope, the audit covered the following areas:
- Contract award
 - Service provision and monitoring
 - Contract amendments and variations
 - Finance
 - Contingency planning and risk management.

3.3 The audit programme identified the expected controls. The control objectives examined were:

- The contracts were awarded to the most appropriate company following appropriate tendering exercise
- Staff are aware of what the council aims to achieve in relation to the services that are being provided
- Contractors are aware of the services to be provided
- Customers receive the additional services as requested
- Works are undertaken to agreed standards
- Permanent changes to the contract (i.e. areas to be covered) are formally agreed
- The council only pays for work that has been previously agreed
- Budget variances are limited as the budgets are set appropriately in line with known areas of income and expenditure
- The council is aware of any potential budget variances
- Payments are valid and accurate and processed in accordance with the appropriate conditions of contracts
- All income due to the council is received
- Contingency plans exist to ensure that the service continues to be provided
- The council would not be financially disadvantaged should the contractor fail to provide a service
- The council will not be liable for any claims received due to the work of the contractor
- The council is aware of the risks in relation to the collection of waste and recycling it is responsible for and has taken steps to address them
- The contractor is aware of the risks in relation to undertaking the contracted services and has taken steps to address them.

4 Findings

4.1 Contract Award

- 4.1.1 The waste and recycling services contract was let following a large tendering exercise covering a number of different lots. The process followed was considered to be appropriate.
- 4.1.2 A detailed specification document is in place, that covers all of the services to be provided under the contract, along with the bills of quantities for the contract and appendices detailing, amongst other things, all of the areas to be covered under the contract.
- 4.1.3 Detailed spreadsheets are held showing all of the scores that were awarded for both the price and quality aspects of the bids received, with the documentation supporting these scores also being held. Sita (the successful tenderer) submitted both the lowest priced bid and had the highest quality score.
- 4.1.4 The evaluation spreadsheets also showed the outcomes in relation to discounts offered where companies had bid for more than one lot. None of these combinations proved successful.
- 4.1.5 Letters were also held, advising the successful companies that they had been awarded the different lots as well as letters to the unsuccessful companies. These included details of how the company had scored in relation to the quality aspects of their bids, along with comparisons to the successful company's score where appropriate.
- 4.1.6 A deed of agreement is in place for the contract. This is signed and sealed by the council and signed as a deed by a director and a witness from Sita Holdings UK Limited.

4.2 Service Provision & Monitoring

- 4.2.1 The council is a member of the Warwickshire Waste Partnership who have established the Warwickshire Municipal Waste Management Strategy. The strategy includes a number of objectives and targets.
- 4.2.2 At a local level, there is the service area plan for Neighbourhood Services which includes a number of measures and other references to waste and recycling.
- 4.2.3 There are three specific measures within the service area plan which are relevant to the provision of these services: the percentage of waste collections completed as scheduled; the percentage of missed collections rectified within a specific time period; and the number of joint contractor and officer inspections completed to a satisfactory standard. Other measures, such as service request response times, are relevant to all services provided by the department.
- 4.2.4 Figures are entered onto a spreadsheet and these have recently been reported to the Overview & Scrutiny Committee as part of the Portfolio Holder update reports.

- 4.2.5 The contract specification document and appropriate appendices include the full property lists (as at the time of the tendering process) which covers the type and frequency of each collection. It also sets out the working times for the contract and this highlights that changes to the collection schedules (as per the previous contract) should be limited and would need approval from the contract administrator.
- 4.2.6 Performance standards are also set out in the formal contract and specification documents that are in place. These are supported by agreed method statements that were submitted by Sita, one of which includes a specific section on the 'method of ensuring that work is fully completed to the required standard'.
- 4.2.7 The Senior Contract Officer (SCO) advised that Contract Officers are undertaking regular joint inspections with staff from Sita to identify if any problems have occurred on the rounds. One of the Contract Officers provided sample copies of completed inspection forms which highlighted the issues that had been identified along with the actions required to rectify them and the timescale for completion.
- 4.2.8 Liaison meetings are also held with Sita each month to discuss the contract, and any performance issues will be covered in these meetings. Sample copy minutes were provided which confirmed that relevant issues were being discussed.
- 4.2.9 The SCO indicated that customer satisfaction surveys were no longer performed. However, he advised that some feedback had been received from Website Service Manager regarding information and processes available on the council's website that were relevant to the services provided.
- 4.2.10 One of the issues raised related to the amount of time being taken to deliver red boxes. The SCO highlighted that this had been raised with Sita at the recent liaison meeting and they had been made aware that they had five days to rectify the situation, otherwise a default against the contract would be raised (see below).
- 4.2.11 The SCO advised that all formal complaints would be logged on Flare and that there is a two day response time to investigate them. A report was produced of all complaints that were logged against waste management during the current financial year.
- 4.2.12 The report produced included 104 records, although 21 of those did not include any text to show what the complaint related to and another 19 just showed 'complaint'. It was also noted that a number did not relate to the relevant services (grass cutting etc. as opposed to waste collection matters).
- 4.2.13 A sample of those complaints thought to be relevant was chosen from the report and these were followed up with one of the Customer Services Advisers (CSA).
- 4.2.14 One case had erroneously been assigned to the contractor as opposed to a council officer, so this had not been investigated. In relation to the other cases sampled, details on Flare highlighted the action taken although, again,

the level of details varied in each case, with responses from one officer generally not including relevant details to show whether anything had been done to address the issues raised. It was also noted that a number of the sampled cases had not been closed on the system.

- 4.2.15 The issues regarding the level of detail being recorded and the categorisation of complaints have been raised in previous audits of the service (grounds maintenance and street cleansing carried out in 2013/14), but these appear to have not been resolved. The SCO advised that staff had been made aware of the issues following the previous audits, but this had obviously not had the desired effect.

Risk

Staff will not be able to ascertain whether an issue has been resolved.

Recommendations

Staff should again be reminded of the need to ensure that an appropriate level of detail is recorded on Flare so that anyone else reviewing the case can ascertain exactly what has been done to resolve the issue.

A review should be performed of the complaints that have not been closed on the system to ensure that action is, or has already been, taken as appropriate to investigate the issues raised.

- 4.2.16 The SCO advised that the Contract Officers should, in theory, identify any sub-standard work during the joint inspections that are performed and the issues identified will be raised directly with Sita with actions being agreed at the time.
- 4.2.17 The contract in place allows for penalty charges to be imposed in the event of sub-standard performance. As highlighted above, Sita had been given notice that there was a potential default in relation to the delivery of red recycling boxes. At the time of audit testing the Contract Services Manager (CSM) advised that Sita had assured him that they had caught up with these deliveries, although he had not had a chance to verify this based on the figures shown on the system.

4.3 Contract Amendments & Variations

- 4.3.1 The SCO advised that new areas would generally be identified when Development Services contacted them regarding new developments. These are included on the Sita rounds spreadsheet on a separate tab so that they can be tracked.
- 4.3.2 The new properties would formally be added to rounds when the new owners / tenants contacted the council to ask for their waste to be collected or when site meetings were held with relevant developers that highlighted whether any properties have been occupied.
- 4.3.3 Once staff are aware that new collections need to be included on the rounds, one of the CSAs will email Sita to advise that the properties need to be added.

- 4.3.4 The contract includes a buffer for growth in the number of properties, with the contractor only receiving additional payments once these thresholds have been breached. The SCO advised that he informally checks the bottom line figure every couple of weeks to check whether the thresholds are being approached and he would take appropriate action should this be the case.
- 4.3.5 The monthly payment valuations include both core elements and variable items. The variable items include the bulky waste collections and bin deliveries as well as formal contract variations set out in variation orders (VOs).
- 4.3.6 The amounts included in respect of bulky collections and bin deliveries are based on prices included within the bill of quantities agreed as part of the contract. The numbers of properties are obtained from Flare each month by a CSA who emails the SCO to inform him of the numbers to include on the invoice.
- 4.3.7 VOs should be formally agreed and authorised before being included on the monthly valuations. Upon review of the VOs held and the summary spreadsheet maintained it was noted that all copies held had been signed and authorised. However, a number of issues were identified:
- One VO related to changes to the number of bring sites that were to be collected from. The SCO provided supporting correspondence showing how the figures had been arrived at, but it was noted that the figure for April 2014 onwards had not been appropriately reflected in the valuations for the current financial year (overpaid by 81.76 per month).
 - Of those relating to the current financial year, one VO had not been included on any of the monthly valuations. It was subsequently highlighted by the SCO that Sita had also flagged up another that had not been included (raised in March 2014). The total underpayment in relation to these two variations was £3,554.88.
 - The network folder where the documents are stored did not include two VOs that were included on the summary spreadsheet. These could not be produced at the time of the audit.
 - A number of issues were raised with regards to the calculations included on the VOs and discrepancies between the numbers of additional operatives being charged for and the corresponding number of hours that additional vehicles were being used for. These queries remained unresolved at the end of the audit testing.
 - One VO was not included on the summary spreadsheet and did not appear on any of the valuations. It was thought that this work had not been required so had been cancelled, although this could not be confirmed at the time of the audit.

Risk

Incorrect payments may be made.

Recommendation

The issues identified in relation to the variation orders are investigated and are resolved as appropriate.

4.4 Finance

- 4.4.1 The SCO advised that the budget would be set in line with the contract. These figures are covered in the monthly valuations.
- 4.4.2 The budget, as per TOTAL, was checked to the latest valuation spreadsheet provided. This highlighted a variance of just over £5,000 between the budget for other agency services on TOTAL and the core invoice annual amount on the latest valuation. The SCO advised that this amount was to allow for variation orders being processed during the year.
- 4.4.3 The relevant Assistant Accountant advised that meetings are held with the CSM at which the budget position as per TOTAL will be discussed, with queries being raised as appropriate. She highlighted that the meetings cover all relevant contract services codes, not just refuse and recycling, and that they are generally held on a monthly basis, but these have not been quite as regular this year due to changes in responsibility within the department.
- 4.4.4 No specific checking is undertaken prior to the payment of individual invoices to ensure that works have been performed to the required standard. The SCO highlighted that the performance checking is undertaken at an earlier stage (see above), and only if penalties were to be deducted would the payments be differed.
- 4.4.5 During the testing undertaken on the approval of contract variations (see above), testing was also undertaken to ensure that the invoices had been appropriately authorised. The testing confirmed that all invoices were signed by the SCO who is an authorised signatory.
- 4.4.6 The SCO advised that payments in respect of chargeable services (i.e. collection of bulky items and delivery of additional green and nappy bins) are generally taken on-line or over the phone, although some will be taken at the One Stop Shops. In all instances, this is undertaken in advance of the service being provided.
- 4.4.7 The fees for these services are agreed by Executive each year as part of the general fee setting for the council, with the new fees (where appropriate) coming into force in January each year.
- 4.4.8 Upon review of the fee-setting report for 2015 it was noted that the majority of fees remained the same as those for the previous year, but the fees for bulky item collection for those receiving the concessionary rate should have increased from 2 January 2015.
- 4.4.9 These changes had not been reflected on the relevant page of the council's website at the time of the initial audit review (14 January), despite IT having flagged the issue in an email on 2 January. However, upon subsequent review (19 January) the website had been amended. Testing on payments received also highlighted that the old prices were being charged up to this point.
- 4.4.10 One of the CSAs advised that when payments are taken by the Customer Service Centre, a receipt email is generated. However, no receipts are provided when the customer books the service themselves on the internet or

when the customer visits the One Stop Shops where they pay by cash or cheque.

- 4.4.11 A sample receipt email and the corresponding Flare entry were seen. However, apart from the name and address, there is nothing else to link the payment to the actual request on the system.
- 4.4.12 Similarly, upon review of the income received against the relevant codes on TOTAL, there was nothing that linked the Capita (internet payment) reference to the Flare records, with the details on PARIS (cash receipting system) also being limited. Therefore, no detailed testing was possible.
- 4.4.13 However, upon review of the relevant ledger codes on TOTAL, a number of credits were noted which did not tie in with the amounts that should have been charged. Some of these appear to be miscodes between the two services (i.e. bulky collections and extra bins), but some did not tie in with any relevant fees.
- 4.4.14 The CSA was not sure how the income could have been miscoded, as he advised that the process followed would take the contact centre staff down different routes on the system. Possible explanations were suggested for some of the other odd amounts but, based on the limited information available on the reports, it was not possible to resolve these queries.
- 4.4.15 Whilst no formal recommendation is to be included in relation to the miscoding of income (as the income is still being received), it is suggested that the system should be investigated to ascertain how (or if) the income is being allocated to the incorrect codes.
- 4.4.16 Other income is received by the council in relation to recycling credits. The SCO receives monthly figures from Sita and from other providers of recycling banks. These figures are then collated and Warwickshire County Council are sent an invoice for the relevant amount. Invoices for the first two quarters of the current financial year were found to have been appropriately raised based on the information held.

4.5 Contingency Planning & Risk Management

- 4.5.1 No specific contingency plan document is in place. However, the method statement submitted by Sita regarding the timing of operations includes a section on the process for rescheduling work. This covers the main issues that are expected to be encountered, namely inclement weather and road closures, and the processes that will be adopted to deal with them.
- 4.5.2 The need for a performance bond is set out in the contract. This is set at ten percent of the contract value. Evidence was held suggesting that this had been put in place but a copy of the bond could not be located at the time of the audit. It was believed that this should have been held in the Document Store, but upon examination of the relevant contract envelope, it could not be found.

Risk

The council will be financially disadvantaged in the event that there is a breach of contract by the contractor.

Recommendation

A copy of the performance bond in relation to the contract should be obtained.

- 4.5.3 The contract document also includes a section on the level of insurance that the council requires the contractor to hold. Evidence was provided which confirmed that the contractor holds appropriate levels of insurance.
- 4.5.4 The Neighbourhood Services risk register includes a number of specific risks relating to the provisions of waste collection and recycling services. These include issues such as service disruption, the loss of the contractor's depot, failure to meet waste regulations and failure to provide appropriate waste disposal sites.
- 4.5.5 Also, within the more generic aspects of the register, there are a number of risks related to the performance of the contractor, including the failure to deliver services and their ability to deliver services if the service grows. The risks detailed, along with the mitigation measures suggested seem appropriate.
- 4.5.6 It was also noted that the risk register is a working document within the department, with notes to suggest where further work was required to update the position shown. This was considered to be an example of good practice.
- 4.5.7 The Waste Policy & Performance Officer also highlighted that the copy provided needed further updating to incorporate other services that have been brought under the remit of the department, advising that this was a work in progress.
- 4.5.8 As part of the tender submission, one method statement included details of risks that the council had identified in relation to the provision of the services. Tenderers were asked to submit details of who they thought the risk should be allocated to, along with the mitigation measures that they would implement and any additional risks that they thought were relevant. This had been appropriately completed.
- 4.5.9 Sita has also submitted copies of their detailed risk assessments for all relevant areas of operation covered by the contract.

5 Summary & Conclusion

5.1 Following our review, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place for the management of Refuse & Recycling Services are appropriate and are working effectively.

5.2 A number of minor issues were, however, identified relating to:

- the level of detail recorded on Flare in relation to complaints received relating to these services and the closure of these complaints on the system.
- incorrect payments made in relation to variation orders.
- unresolved queries relating to the detail included on other variation orders.
- missing evidence in relation to the performance bond.

6 Management Action

6.1 Recommendations to address the issues raised are reproduced in the Action Plan together with the management response.

Richard Barr
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