

## Environment Overview & Scrutiny Committee

### Single Issue meeting: Management of the Carillion Contract for Highway Maintenance

10.00am on 21<sup>st</sup> November, 2005

#### Consolidated Terms of Reference

*(Following consultation with PTES, Treasurers and Environment O&S Committee)*

#### 1.0 Background to the Carillion contract

A Best Value Review of the management of routine and structural maintenance was undertaken in 2001. The need to have contracts that could demonstrate continuous improvement was identified as an area for improvement. The outcome of this review led to a strategy being developed for a new highway maintenance contract that was agreed by Cabinet in September 2001.

The contract was awarded to Carillion in February 2004 and commenced on the 5<sup>th</sup> May 2004, using the NEC Engineering and Construction Contract, 2nd Edition, Option C (target costs with activity schedules). The key to successful operation of the contract is as stated in the first core clause of the contract:

*"The Employer, the Contractor, the Project Manager and the Supervisor shall act as stated in this contract in a spirit of mutual trust and co-operation."*

#### 2.0 Contract review history

Six months after the contract began, PTES commissioned a report from external consultants on progress with the implementation of the contract. The findings of the consultants, and the actions proposed by PTES in response, were reported to this Committee in February 2005.

An internal audit review was conducted by the Treasurer's Department in 2004/05. It was carried out in two parts:

- An external specialist in contract audit examined the procurement process used to award the contract, determined the extent to which it represented best practice and examined the contractual arrangements entered into
- Internal Audit evaluated the arrangements for managing the contract. This primarily concentrated on the financial controls in place.

The final report was based upon a series of meetings with staff in PTES and Carillion involved in the operation of the contract and was supported by limited testing.

### 3.0 Background to the scrutiny exercise

In February 2005 The Environment & Rural Affairs O&S Committee resolved:

*'to note the Consultants' work for the Highway Maintenance Review and agree to a further progress report on the highway maintenance contract being made to the Committee as soon as practicable after the May elections.'*

Following the publication of the internal audit report in September, the Environment O&S Committee on 27<sup>th</sup> September, 2005 requested that they consider progress at a single issue meeting.

The internal audit report was subsequently circulated to all members of the Environment O&S Committee who in turn were asked to forward suggestions for potential areas of scrutiny to Gereint Stoneman.

The Chairs, Spokespersons and Virtual Team for the Environment O&S Committee met to discuss the feedback and agree a provisional Terms of Reference. These were shared with Dave Clarke and John Deegan and a consolidated version agreed with the Vice Chair (Cllr Chattaway will chair the meeting because of the decision made by Cllr Browne to withdraw given his prior role as portfolio holder).

### 4.0 Single issue meeting Objectives

Following the single issue meeting the Environment O&S Committee members will:

- Have an understanding of the Carillion Contract particularly:
  - open book accounting
  - communications and targets
  - the performance management framework
  - critical success factors used to measure improvement
- Have an understanding of the issues which have been encountered with the implementation of the contract
- Understand the improvement actions proposed
- Consider whether the improvement actions are/will be effective
- Reassure the Standards Committee that appropriate action is being given to the issues by the County Council, when the Standards Committee undertakes its quarterly review of audit matters on 20<sup>th</sup> December.

## 5.0 Single issue meeting Outputs

Following the single issue meeting the Corporate Review Team, in consultation with the Chair and Spokespersons and using feedback from the Standards Committee meeting in December, will draft a publicly accessible report with a view to adoption by the Environment Overview & Scrutiny Committee in January, 2006.

## 6.0 Single Issue Meeting Parameters

- The Committee will focus on the management of the Carillion contract, using, but not re-investigating the audit and external consultant report.
- The forward looking nature of the scrutiny exercise makes scrutiny of the procurement process unnecessary (and no suggestion has been made that the process was not robust)
- The meeting will be held in private based upon paragraph 7 of Schedule 12A to the Local Government Act 1972: likely disclosure of information relating to the financial or business affairs of a person other than the County Council (i.e. Carillion).

## 7.0 Risks

Risk	Remedial action
The single issue meeting will have a detrimental effect on the relationship between WCC and Carillion over next 6 years of the contract	The meeting will be held in private and in a "spirit of mutual trust and co-operation". The Chair can assure participants that the single issue meeting will not encourage or facilitate lines of enquiry based upon blame to any party or individual.
Environment O&S is not the most appropriate place to review the contract management	Environment O&S Committee received a report in February 2005 outlining recommendations made following an external review of the Carillion Contract. The Committee undertook to receive an update report following the May elections and the single issue will facilitate this, using the internal audit report as an additional piece of information.
The single issue meeting will duplicate the work and role of the Standards Committee	Representatives from Legal Services, Corporate Review Team, Committee Administration, PTES and Treasurers met with Cllr Chattaway to agree the TOR with the aim of minimising the risk of duplication. The findings of the single issue meeting will inform any decisions taken by the Standards Committee when reviewing the quarterly report on internal audits, which will include reference to the audit of the Carillion contract.
That the Committee lacks objectivity, particularly given the involvement of members of the former ruling group	The legislation establishing the scrutiny function envisages that overview and scrutiny committees will include, and may be chaired by, non-Executive members of the ruling group and to this extent a degree of self-scrutiny by "backbenchers" is accepted by Parliament as being sufficiently objective. The involvement of non-Executive members of the ruling group, or former ruling group, is also acceptable under the Code of Conduct. However, a member of the Executive is deemed to have a prejudicial interest in any action or decision which they took or helped to take. Although Councillor Browne is no longer a member of the Executive, and he took no specific decision or action concerning the management of the contract, he has nonetheless decided not to participate. No other member of the Committee is or was a member of the Cabinet at the relevant times and thus there is no actual or apparent conflict of interest warranting further measures such as an independent chair.

## 8.0 Key lines of enquiry

The table below outlines the proposed key lines of enquiry for Members and are based upon the consolidated issues raised by:

- The independent review conducted by Dr Neil Jarrett
- The internal audit report on the Carillion Contract

<b>Contract management</b>	<ul style="list-style-type: none"> <li>• Clarity of the management structure and decision making process</li> <li>• Partnership approach and ability of PTES to move away from a traditional approach to contractors</li> <li>• Partnering workshops</li> <li>• Engagement of the PTES finance team</li> <li>• Clarity of roles and representation on the Core Group</li> </ul>
<b>Open book accounting</b>	<ul style="list-style-type: none"> <li>• Integrity and suitability of Carillion's cost recording system (SCRAPS)</li> <li>• Open book accounting for key suppliers</li> </ul>
<b>Performance management</b>	<ul style="list-style-type: none"> <li>• Establishment of Performance Indicators and arrangements for data collection</li> <li>• Rationale behind targets</li> <li>• Staff understanding of targets</li> <li>• Audit trail for changes to targets</li> <li>• Monitoring of targets and performance management arrangements</li> </ul>
<b>Communication</b>	<ul style="list-style-type: none"> <li>• Staff understanding of the contract/contract administration and of senior managers' roles and responsibilities</li> <li>• The adequacy of strategic policies and procedures</li> <li>• The quality of communications between PTES staff and between PTES and Carillion staff</li> </ul>
<b>Staff</b>	<ul style="list-style-type: none"> <li>• Understanding of roles and responsibilities</li> <li>• Training and support arrangements for staff</li> <li>• Staff morale and team building</li> </ul>
<b>Continuous Improvement</b>	<ul style="list-style-type: none"> <li>• Barriers to improvement</li> <li>• Action being taken to overcome the barriers</li> <li>• Progress made to date on improvements</li> </ul>

## 9.0 Meeting format

### 9.1 Pre-meeting

- ToR shared with all stakeholders and all members of the Environment O&S Committee
- Report to the Environment & Rural Affairs Overview & Scrutiny Committee in February, 2005, entitled, 'Best Value Implementation Plan for Routine and Structural Maintenance – Progress on the Highway Maintenance Contract' shared with all members of the Environment O&S Committee (Confidential)
- Confidential WCC Internal audit report shared with all members of the Environment O&S Committee on a Confidential basis
- Joint progress report from Treasurers and PTES circulated to all members of the Environment O&S Committee
- Key Lines of Enquiry/Potential questions provided for all members of the Environment O&S Committee

### 9.2 Actual Meeting

- ½ day single issue meeting to be held at 10.00am on 21<sup>st</sup> November, 2005
- The session should be carried out in a "spirit of mutual trust and co-operation" to complement the spirit of the Highways Maintenance contract.
- Invitees will be asked to attend the meeting and answer questions put to them by members of the Environment Overview & Scrutiny Committee. These sessions should last approx 30min and include an opportunity for invitees to address the Committee.

## 10.0 Invitees

	Invitees	Area to be addressed
1	Ian Marriott, Peter Samwell & Garry Rollason	<ul style="list-style-type: none"> <li>• Key concepts, Terms and Contract principles</li> </ul>
2	David Clarke, County Treasurer Garry Rollason,	<ul style="list-style-type: none"> <li>• Findings of the Internal audit report on Carillion Contract conducted between Oct 2004 and April 2005.</li> </ul>
3	Ali Mafi, Lean Thinking Ltd	<ul style="list-style-type: none"> <li>• Issues with, and potential of the contract.</li> <li>• How 'continuous improvement' is being achieved and what further actions are required</li> </ul>
4	John Deegan, Director of PTES Peter Samwell David Lynn	<ul style="list-style-type: none"> <li>• Management of the contract relationship</li> <li>• Action taken to address issues raised</li> </ul>
5	David Tong, Carillion representative	<ul style="list-style-type: none"> <li>• Management of the contract relationship</li> <li>• Action taken to address issues raised</li> </ul>

**NB.** Dr Neil Jarrett, Collaborative Working Centre, Warwick University is unable to attend the event

## 11.0 Support required by the Virtual Team

Solicitor	<ul style="list-style-type: none"> <li>• Advice on whether meeting should be held in public or not</li> <li>• Advice on contractual issues/commercial sensitivity</li> <li>• Advice on the relationship of the issue with the Standards Committee</li> <li>• Guidance to chair on parameters of questioning during the meeting</li> </ul>
Corporate Review Officer	<ul style="list-style-type: none"> <li>• Generation of Agreed Terms of Reference</li> <li>• Provision of briefing note for members</li> <li>• Provision of suggested key lines of enquiry</li> <li>• Arrangement of guest speakers</li> <li>• Liaison with stakeholders</li> </ul>
Committee Administrator	<ul style="list-style-type: none"> <li>• Agenda management/liaison with guest speakers</li> <li>• Management of facilities</li> <li>• Documentation of meeting</li> </ul>

## 12.0 Timescale

Date	Actions
W/c 17 <sup>th</sup> October, 2005	<ul style="list-style-type: none"> <li>• Chair and Spokespersons comment on ToR</li> <li>• Share ToR with stakeholders</li> </ul>
W/c 24 <sup>th</sup> October, 2005	<ul style="list-style-type: none"> <li>• Receive feedback on ToR from stakeholders</li> </ul>
W/c 31 <sup>st</sup> October, 2005	<ul style="list-style-type: none"> <li>•</li> <li>• Contact identified guest speakers</li> <li>• Draft reports into system (8<sup>th</sup> Nov)</li> </ul>
W/c 7 <sup>th</sup> November, 2005	<ul style="list-style-type: none"> <li>• Agree consolidated ToR with stakeholders</li> <li>• Confirm attendance of guest speakers</li> <li>• Final reports to Jean Hardwick (8<sup>th</sup> Nov)</li> <li>• Circulate agenda (11<sup>th</sup> Nov)</li> </ul>
W/c 14 <sup>th</sup> November, 2005	<ul style="list-style-type: none"> <li>• Circulate Glossary of Terms</li> </ul>
10.00am Monday, 21 <sup>st</sup> November, 2005	<ul style="list-style-type: none"> <li>• Conduct single issue meeting</li> </ul>