

Minutes of the Meeting of the Environment Overview and Scrutiny  
Committee held on 21 November 2005

Present: -

**Members of the Committee:** Councillor Richard Chattaway (Vice Chair in  
the Chair)  
“ George Atkinson  
“ Gordon Collett  
“ Jose Compton  
“ Eithne Goode  
“ Katherine King  
“ Nina Knapman  
“ Joan Lea  
“ Bryan Levy  
“ Frank McCarney  
“ Brian Moss  
“ Morris-Jones

**Officers:** Elaine Bettger, Group Assistant, Chief  
Executive's Dept.  
David Clarke, County Treasurer  
John Deegan, Director of PTES.  
Graeme Fitton, Head of Engineering, PTES.  
Stuart Feasey, Improvement Management,  
Warwickshire Engineering, PTES.  
Jean Hardwick, Principal Committee  
Administrator, Chief Executive's Dept.  
Ian Marriott, Principal Solicitor, Chief  
Executive's Dept.  
Carol Pattison, Corporate Review Manager,  
Chief Executive's Dept.  
John Robinson, Financial Services  
Manager, PTES  
Gary Rollason, Audit Services Manager,  
County Treasurer's Dept.  
Peter Samwell, Policy Manager, County  
Highways, PTES  
Gerient Stoneman, Corporate Review  
Officer, Chief Executive's Dept.  
Caroline Williams, Principal Auditor, County  
Treasurer's Dept.

**Also present:** David Lynn, formerly Head of Warwickshire Engineering, PTES.  
Ali Mafi, Lean Thinking Ltd.  
David Tong, Carillion representative.

**1. General**

**(1) Apologies for absence**

Apologies for absence were received from Councillor Ken Browne, Chair of the Committee, who decided not to participate in this scrutiny exercise, because he was portfolio holder when the Highways Maintenance Contract was agreed, and Councillor Martin Heatley, Portfolio Holder for Environment.

**(2) Members Declarations of Personal and Prejudicial Interests**

None

**2. Exclusion of the Public**

Resolved that members of the public be excluded from the meeting for the agenda item below on the grounds that their presence would involve disclosure of exempt information as defined in Paragraph 7 of Part 1 of Schedule 12A to the Local Government Act 1972.

**3. Select Committee - Highways Maintenance**

Introductions were made and the Chair outlined the format of the meeting, advised about the potential consequences of making allegations that could not be backed up by evidence and asked Members to restrict the first part of the meeting to questions only.

The following reports were considered in connection with this item –

- Terms of Reference;
- Joint progress report from County Treasurer and Director of PTES;
- WCC Internal Audit Report;

A glossary of terms was circulated and in this connection –

- Ian Marriott explained the nature of the “pain-gain” mechanism and that it required fully precise and quick knowledge of costs;
- Peter Samwell, highlighting questions frequently asked, explained the meaning of Compensation Events, Performance Indicators and Unallocated Costs;

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- Gary Rollason explained the meaning of Open Book Accounting and “SCRAPS” and “WORMS”.

David Clarke, County Treasurer

David Clarke referred to the contention surrounding the Audit report, which he said had not been produced under normal circumstances and in the end had to be issued without the agreement of PTES. He explained that the reasons for this related to –

- Price Waterhouse Cooper (PWC) had begun work on the final accounts for WCC and was having significant difficulty reconciling the figures and assessing whether the contract management was providing value for money.
- PWC concerns were escalating for it to be, potentially, an issue of public interest (which started as an issue of establishing value for money).
- Agreement with PTES could not be reached on the Audit report, which was seen by PWC as evidence of WCC failing to take their concerns seriously.
- PWC probably would not have issued a public interest report but could have criticised this issue in the Auditor’s Statement.
- As a consequence the Audit Report was issued to the Leaders Liaison Group in September 2005.

Since issuing the Audit Report significant progress had been made by PTES working with Carillion. There were still issues around SCRAPS but Peter Samwell was doing a considerable amount of work to resolve them.

Questions

In reply to questions David Clarke said that –

- The Audit report was made available to Leaders Liaison and Spokespersons in September 2005 but the draft report had been produced in March 2005.
- There had been much improvement between March and September and the situation continued to improve.
- He was not satisfied that a robust accounting system was in place and Carillion had appointed an external consultant to help understand how SCRAPS’ reports feed into WORMS. According to Carillion this should be resolved by January/February 2006.
- It was difficult to say at this stage whether there had been over payment of the accounts. The audit process involved checking 30% of accounts. It was impossible to say what was outside that 30%. There was likely to be underpayment as much as overpayment. John Deegan added that this was being picked up as a general issue.

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Peter Samwell added that WCC would withhold payment of the accounts unless evidence of expenditure was provided (invoices) by Carillion. If evidence was produced there was approximately £300,000 set aside for Year 1. This related to costs on the system and unallocated costs, which unless invoices were produced would not be paid.

In reply to further questions about the style and nature of the contract David Clarke said that –

- WCC took the decision to move away from the traditional form of agreement. The contract with Carillion was not unique and this type was commonly used for construction projects and sought to create a situation where both sides had an incentive to reduce costs. However, this contract was different because it concerned ongoing maintenance and had significant teething problems but had the potential long term to be cheaper.
- A significant factor to prevent Carillion exploiting this new type of contract was that, if they did not operate in the spirit of the contract, it would not be extended beyond the first phase of the 7-year contract.

In reply to questions about sharing of the Internal Audit David Clarke said that –

- The reason why the Internal Audit report was not issued for 6 months was because there was an enormous amount of officer work involved in pulling it together.
- His Department had been aware of the need to audit the contract well before PWC took up the issue and that was why the Internal Audit report was already drafted in March.
- The Internal Audit report had not been reported to full Council. This Committee meeting was the first time the report had been presented to Members and it would then be reported to Standards Committee.
- The normal practice was to make the Portfolio holder aware of a report of this type and to report it to Standards Committee. It was not normal to make the report available to all Members.

With regard to questions as to whether a risk assessment was carried out and the extent of the involvement of County Treasurer's Department David Clarke said that –

- He could not say that a risk assessment had taken place as such but a substantial amount of work was done around the contract. It should be noted that the contract was a nationally published standard contract. He would expect his Financial Services Manager (John Robinson) to report on the contract.
- WCC employed 300 finance staff of which 200 were located in departments. All financial management was carried out within departments with his department providing specialist advice. Most

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areas of risk were audited every 3 years and the high-risk areas every year.

- County Treasurer's staff did not manage departments' accounts but rather they checked the management of the accounts. The Audit report was produced following an audit from outside PTES.

John Deegan said that no formal risk assessment was carried out but 'de facto' the procurement process covered this.

In reply to further questions David Clarke said that –

- Contract issues were picked up early in the year, by Internal Audit when the 2004/05 accounts were being examined and following comments by PWC in March 2005. The other source of information was the quarterly meetings that he had with departmental Finance Managers.
- The general practice for making Senior Members aware of issues was after reports had been considered by Standards Committee.

John Deegan said that he had quarterly briefings with the Environment Portfolio Holder and had had an informal briefing with the then portfolio holder at the start of the Carillion contract. He thought that he would have made the previous and current portfolio holders aware of the Internal Audit report and of the concerns in terms of the performance of the contract.

Ali Mafi, Lean Thinking Ltd.

Peter Samwell, introduced Ali Mafi, Lean Thinking who had been recruited following one of the recommendations in the Dr Neil Jarrett report to Committee in 15 February 2005. The purpose of the appointment of the consultant was to advise and help with the introduction of new processes and management controls.

Ali Mafi said that he had been involved in 'Rethinking Construction' and had worked for 21 years for the most aggressive contractors. He said that any contract was capable of being exploited by the contractor and there was a major assumption that creating a contract would get things done but, unless a methodology was provided, things would not improve.

Ali Mafi then explained the concept of Lean Thinking as applied to construction based on the principle of lean delivery - more for less (better value). The idea of lean manufacturing was based on the Toyota Production System approach to the elimination of waste in every aspect of a company's performance. The significant key to the elimination of waste was to create a continuous flow. This methodology required a change in the way people thought. The focus was not on cost but what was preventing the process from working and this meant working backward – from the end of the product and assessing what prevented flow. Carillion and WCC needed to work jointly to reduce this waste.

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Questions

Peter Samwell in reply to questions –

- Said that Members were not made aware of this new philosophy before the contract was signed because Ali Mafi was only appointed in April of this year, as a result of Dr. Neil Jarrett's report.
- The County Council would not be able to recover the consultancy fee for the employment of Ali Mafi. Carrillion had also bought in additional staff. The benefits would be shared.

In reply to further questions Ali Mafi –

- Commented on the opportunities for efficiencies and said people would be encouraged to see how the whole system worked to enable them to identify opportunities for efficiencies. Outputs could be benchmarked regardless of the form of contract.
- Confirmed that barriers to improvement had been identified and were being reduced. Carillion considered that they were getting more outcomes and were reducing waste. There was a willingness to change from the old 'male driven' environment. Changing to a modern type of contract would take time but the underlying principle could be applied to all types of work;
- Said that the majority of meetings he attended were with both Carillion and WCC staff. There was scope for improvement e.g. batching of work (which detracted from workflow). Performance management was currently being looked at as were the accuracy of information and the involvement of more front line people in improving flow. There was a separation between the Managers (those making the decisions) and the workers (doing the work). More time was being spent at management level rather than with the workers who were closer to the problems. Weather conditions were also an issue which affected the release of work as was the way in which the WCC released its budget.

With regard to the Council's budget David Clarke said that producing an annual budget was an issue for Members. However, slippage into the next year could be allowed if not used in the current year.

The Chair commented that, if the principles of Lean Thinking were not embedded in the County Council and Carillion, there was a problem.

John Deegan commented on the following issues -

(1) Internal Audit

John Deegan said he understood why the Audit report had been produced but, as a consequence, there had been some collateral damage. The Audit report related to what was happening in January 2005 and many of the issues had been picked up in the management of the contract subsequently.

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Members should, therefore, make a judgement in the context of what was happening now rather than 12 months ago.

He recognised two priority areas for change -

- Concerns about the financial information systems especially the limitations of SCRAPS and WORMS;
- The need for changes in cultures and attitudes.

(2) Nature of the Contract

At the procurement stage, the alternative nature of the contract had been looked at, not only by officers (including PWC at the request of the Chief Executive), but also by the Overview and Scrutiny Committee and Cabinet because it was radically different from previous contracts.

(3) Performance of the Contract

Early into the contract he was made aware of concerns about performance and difficulties relating to street lighting, surface dressing and replacement of white lines had been highlighted. However, the contract came into operation in May 2004 (Carillion was not involved in the preplanning) and these issues were resolved throughout the year. There was also an issue about the response of the Area Teams.

On structural maintenance Carillion's performance in the first year was excellent and relationships good. There had been a significant improvement this year in performance in terms of delivery on costs and time.

(4) Performance

In Year 1, PTES faced a £450,000 overspend which was met by a £350,000 budget overrun and a £100,000 reduction in structural maintenance. This outcome was better than had been anticipated earlier in the year. The "direction of travel", if not back on track, was looking at spending significantly less this year than last year.

The contract with Carillion was still showing significant savings as compared with nearest lowest tender. Comparison with the previous contractor, WARCO was not possible because they had been working on a very old contract, which generated little profit and was due for change.

In conclusion, whilst not being complacent, he personally felt happy with the progress but acknowledged that there were some aspects of performance that could be improved.

Questions

In reply to questions John Deegan said that –

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- He believed that the standard of work being carried out by Carillion Contractor had improved and monitoring was in place. Listening to comments from Members he had not detected the same level of problems that had been reported earlier on.
- The industry recognised that the traditional, confrontational, form of contract did not work well. The philosophy of the new contract, putting in the contractor's profit as a residual, gave the opportunity to drive out waste. There was, however, need for tight financial and project management of the system. He had confidence in Peter Samwell's Project Team.

Peter Samwell added that –

- Performance indicators for the current quarter were showing an improvement, the only area of concern was public satisfaction. The contract was a standard contract with some variations to make it applicable to highways maintenance and was very good at defining what should/should not be paid. There might have been issues around lack of understanding of what the contract said but he was convinced it was a very good contract.

In reply to further questions John Deegan said that –

- Measures relating to public satisfaction also related to the size of the budget, which meant that some schemes could not be carried out in the current budget cycle.
- Whilst Members might consider that they were getting mixed messages about the state of the contract, both PTES and County Treasurer's officers were happy with the management process. They were, however, far from happy about the accounting system and old fashioned working practices.

David Clarke supported this view and said he was satisfied about progress being made and the way in which the contract worked. PWC had, independently, formed their own views but used WCC information as part of their assessment, and would be reported to the Standards Board.

John Deegan, Peter Samwell and David Lynn then answered further questions on aspects of Dr. Neil Jarrett's findings and assurances were given that the difficulties relating to introducing a new type contract, costs and productivity, and collaborative working were being addressed. It was stressed that the way in which the new contract was set up allowed opportunity for improvement, flexibility, and continued improvement and efficiency savings.

David Tong, Carillion representative

David Tong explained that WCC, when inviting tenders for this contract, was 'ploughing a new furrow', no one else in the country operated a similar contract. The contract was right but partnership and collaboration was very difficult because so much trust was required. Since his involvement in March



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2005 there had been a tremendous amount of willingness to make the contract a success. Both sides had looked at the contract, starting with a blank sheet of paper, looking at the ideal setup and things had moved on greatly in 18 months. There was still much to do on collaborative working and applying a corporate approach to making a mark on the way the contract operated. There were many experienced people who had transferred from WARCO and much had been done, and was continuing to be done to instil a different approach to this new way of working.

David Tong then answered questions and said –

- There was no significance in him being asked to attend the meeting rather than another Carrillion representative who might have been present at the start of the contact. He had been seen a lot of change since his appointment and was working with people who were very experienced;
- This was an evolving contract and he had already attended two “milestone” workshops, which were held as a follow-up to the first year of operation. Those who attended represented a “slice” through the organisation. (David Lynn added that workshops had been held at the beginning of the contract).
- For Carillion, which had a turnover of £148m, this type of contract would represent 78% of its work;
- Whilst there was always room for improvement in collaborative working the workforce was generally happy and had a greater understanding of what was trying to be achieved and give them ownership and involvement in what they did.
- There were other authorities where ‘best practice’ of this type of contact could be seen but none that could say that they had “cracked it” because partnership was very difficult to achieve as it depended so much on individuals.

In reply to a question from the Chair Members confirmed that they had no more questions to ask or points to raise of the officers and invitees who had attended the meeting.

With the exception of Gary Rollason (on behalf of David Clarke) and John Deegan, the officers and other speakers left the room for the remainder of the meeting.

During discussion Members –

- Commented that the concerns surrounding the financial systems and management of the contract had been acknowledged and were being addressed but disappointed that robust accounting systems were not yet in place.
- Welcomed the work being done by Ali Mafi generally and in addressing traditional working practices.
- Noted the willingness of Mr Tong to make the contract a success and get the workforce on board with the new working practices.

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- Asked for regular update reports on progress being made and the need ensure that the shortcomings identified would not be repeated.

Discussion centred on whether the outcome of Committee's meeting should be made public and/or reported to Standards Committee. In this respect Gary Rollason reported that the Internal Audit report would be presented to Standards Committee on 20 December 2005, as part of the normal quarterly reports. The Chair undertook to attend Standards Committee and to report on the outcome of the Committee's debate of this issue if requested. He considered that there was little that could be reported to the press following the meeting other than to say that a full scrutiny had been undertaken and processes were in place to improve performance. Members generally supported this view and that a press statement should not be issued because assurances had been given, and Members were satisfied that action had been taken, to address the areas of concern. It was considered that that the findings of the Internal Audit report provided historical background information and that the report to Standards should contain updated information about assurances given and action taken since it had been published.

In conclusion the Chair said that—

- It should be recognised that there had been problems with the contract with Carillion and that action had been taken to address the problems.
- It should be recognised that John Deegan had brought the issue before Committee on his own initiative.
- His confidence in the County Treasurer's and PTES' staff was not shaken and they were working well together;
- He was satisfied as to progress and that there would be a report back in an appropriate space of time.
- The scrutiny exercise had been useful in enabling all issues to be put on the table in an honest and open fashion.
- Clarity as to responsibilities for contract governance was desirable.

The Committee agreed that the conclusions on the meeting should be brought together and agreed by the Chair and spokespersons, and presented to a future meeting of the Overview and Scrutiny Committee, and should incorporate the following sentiments -

- (1) Recognising mistakes/issues.
- (2) Recognising that this does happen when something new and different is tried.
- (3) Recognising that mechanisms have been put in place to tackle the areas of concern.
- (4) That a progress report be brought to the Committee in 6 months time based upon the joint action plan contained within the joint report of the Director of PTES and County Treasurer and follow-up work by Internal Audit.

4. Any Other Items

There were no items of urgent business.

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Chair of Committee

The Committee rose at 2:00 p.m.

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