



St. Helens Council

Internal Audit Report 2014/15

Merseyside Recycling and Waste Authority Interim Waste Treatment Contracts

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Ref:	MWDA 06/10
Status:	FINAL

February 2015



St. Helens Council

Merseyside Recycling & Waste Authority

Interim Waste Treatment Contracts

1.1 Introduction

An audit review of the arrangements in place for the management of the Interim Waste Treatment Contracts with FCC Waste Services (UK) Ltd and the Greater Manchester Waste Disposal Authority (GMWDA) for the treatment of residual Municipal Solid Waste (rMSW) was undertaken as part of the 2014/15 Internal Audit Plan. The objective of the Audit was to provide an assessment of the adequacy of the control environment established, to ensure that the objectives are achieved and risks are adequately managed.

1.2 Scope

The review considered the arrangements in place for:-

- the establishment and approval of contractual arrangements;
- payment processing; and
- contract monitoring.

1.3 Background

Context

The Recycling and Waste Authority currently handles approximately 400,000t of rMSW (i.e. household and commercial waste that cannot be otherwise reused, recycled or composted) each year.

The Resource Recovery Contract with SITA Sembcorp (UK) Ltd is due to be operational from 2016. For the intervening period, the Authority has entered into separate arrangements with FCC Waste Services (UK) Ltd and the GMWDA for the treatment of an agreed minimum tonnage of waste at a cost that is less than the total cost of landfilling the waste. The basis of the arrangements is as follows:-

FCC Waste Services (UK) Ltd

The arrangement with FCC is in the third year of operation. The contract has been awarded on an annual basis following a process of mini-competition in accordance with the Authority's Interim Waste Management Services Framework. For the current contract, covering the period 1st October 2014 to 30th September 2015, FCC has given a

commitment to receive a minimum of 45,000t of rMSW.

GMWDA

The Recycling and Waste Authority has entered into an Inter Authority Agreement with GMWDA for the treatment of 80,000t of rMSW per annum for two years with an option to extend for a further year. The Agreement commenced on 1st April 2013 and hence is nearing the second year of operation. Whilst it is envisaged that the guaranteed minimum tonnage will not be achieved in the second year, GMWDA have given a commitment to process the outstanding balance at the second year's rate per tonne.

The expenditure in relation to the above two contracts equates to approximately £9.8m over three years for FCC and £11.5m for GMWDA. The anticipated savings to the Authority for both contracts combined have been estimated by MRWA to equate to approximately £2m over three years.

1.4 Audit Opinion

Internal Audit contribute to the overall governance of the Authority by providing an opinion on how effectively risks are being managed and the adequacy and effectiveness of internal control in relation to the areas under review.

Our opinion is based on the work performed as described in the above scope, which was agreed with management prior to the commencement of the review.

Our overall opinion, following this review is as follows;

High Assurance

All expected controls are in place and being applied consistently and effectively and there is a sound system of control designed to ensure the achievement of the service or system's business objectives.

1.5 Key Issues

There are no key issues arising from this review.

1.6 Agreed Action

No recommendations have been made following this review.

Merseyside Recycling & Waste Authority

Interim Waste Treatment Contracts

To gain assurance that the following control objectives are being achieved within an appropriate framework of control:

- 1.** To confirm that the interim contract arrangements with FCC and GMWDA have been formalised and approved by the Authority.
- 2.** To confirm that payments in respect of interim arrangements are correct, in accordance with contract / IAA requirements and have been correctly accounted for.
- 3.** To ensure that appropriate contract monitoring arrangements are in place to confirm contractor compliance and to ensure the optimum benefits are achieved from the interim arrangements.

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Findings

3.1 **Control Objective: To confirm that the interim contract arrangements with FCC and GMWDA have been formalised and approved by the Authority.**

We established that all expected controls under review were in place and working effectively.

There are currently two interim arrangements in place for the diversion of residual Municipal Solid Waste (rMSW) away from landfill, pending the commencement of the Resource Recovery Contract in 2016.

The arrangement with FCC is in the third year of operation. The contract has been awarded on an annual basis following a process of mini-competition in accordance with the Authority's Interim Waste Management Services Framework. The Authority has approved the annual awards. The award of the current year's contract, covering the period October 2014 to September 2015, was approved by the Authority on 25 April 2014.

The arrangement with GMWDA has been formalised by way of an Inter Authority Agreement (IAA). The IAA was approved by the Authority on 1 February 2013 for a two year term spanning April 2013 to March 2015 with an option to extend, by mutual agreement, for a further year.

During the current, second year of the IAA, due to difficulties GMWDA were experiencing in providing access to their facilities, it became apparent that the anticipated Guaranteed Minimum Tonnage (GMT) of 80,000 tonnes per annum would not be achievable. Consequently, in anticipation of a significant year end shortfall, it has been agreed with GMWDA that the shortfall can be rolled forward into a third year at the current year's agreed rate per tonne. We have confirmed that the extension of the IAA on this basis has been formalised and subject to approval by the Authority, on 24 October 2014. The extent of the shortfall is such that at the end of December 2014, only 32,000 tonnes had been diverted against a target of 60,000 tonnes.

No recommendations have been made.

3.2 **Control Objective: To confirm that payments in respect of interim arrangements are correct, in accordance with contract / IAA requirements and have been correctly accounted for.**

We established that all expected controls under review were in place and working effectively.

The data received from FCC and GMWDA in support of their respective claims is subject to a thorough verification process. We were able to confirm from sample testing three months of data for FCC and two months of data for GMWDA that the data had been suitably scrutinised and payments were correct. The verification process entails undertaking a data matching exercise to confirm that the tonnage leaving the transfer station (as per Veolia's data) matches the tonnage claimed as being delivered to FCC and GMWDA's processing plants (as per the respective contractor's submitted data). Queries that had been raised as part of the routine verification process had been suitably addressed and resolved.

We confirmed that the invoices submitted by FCC and GMWDA have been subject to appropriate checks prior to certification by the Contracts Manager. We verified that the correct rates, as specified in the contract with FCC and the Inter Authority Agreement with GMWDA,

had been correctly applied and that payments had been accurately coded for budget monitoring purposes.

No recommendations have been made.

3.3 Control Objective: To ensure that appropriate contract monitoring arrangements are in place to confirm contractor compliance and to ensure the optimum benefits are achieved from the interim arrangements.

We established that all expected controls under review were in place and working effectively.

Separate Contract Manuals have been produced for each of the two interim arrangements. The manuals specify the obligations and responsibilities of each party and provide the basis on which the contracts are managed.

The primary concern for both interim arrangements is to maximise the potential tonnage that can be diverted from landfill. We confirmed that appropriate measures are in place to monitor the throughput for each contract, albeit the GMWDA arrangement is currently under-achieving due to their own operational difficulties. We have, however, confirmed that day to day procedures provide for the available capacity for each of the interim arrangements to be maximised.

We have confirmed that appropriate contract performance data is reported to senior management to enable high level monitoring and that the budget reporting process appropriately highlights the position on each contract and the associated financial implications.

We examined the Quarterly Performance Management Report (Qtr 2, July to September 2014) which was presented to the Authority on 28 November 2014. Whilst the report included performance for interim waste treatment in relation to the FCC contract (which had exceeded target by 4%) it did not include performance in relation to the IAA with GMWDA. However, in the preceding month, on 24 October 2014, a report was taken to a Special Meeting of the Authority to report on the under-achievement of the GMWDA contract and the proposals to carry forward the shortfall into a third year of operation.

We have been informed that a new reporting framework is to be implemented in April 2015 which will provide for issues of non-performance in relation to the interim contracts to be reported to the Authority in the quarterly performance reports. In addition, annual performance reports will provide the position in respect of both contracts.

No recommendations have been made.

Conclusions

Internal Audit contribute to the overall governance of the Authority by providing an opinion on how effectively risks are being managed and the adequacy and effectiveness of internal control in relations to the areas under review. Our opinion is based on the findings of the work performed as described above.

Our overall opinion, following this review is as follows;

High Assurance	✓ All expected controls are in place and being applied consistently and effectively and there is a sound system of control designed to ensure the achievement of the service or system's business objectives.
Substantial Assurance	The majority of expected controls are in place but there is some inconsistency in their application. Whilst there is basically a sound system of controls, there may be weaknesses in the design and/or operation of these and recommendations have been made to enhance the control environment further.
Limited Assurance	A number of expected controls do not exist or are not applied consistently or effectively. There are weaknesses in the design or operation of controls that could impact upon achievement of the service or system's business objectives and these may have resulted in the emergence of key issues.
Minimal Assurance	A significant number of expected controls are not in place or there are significant weaknesses in the control system that may put the service or system's business objectives at risk. A number of recommendations have been made and / or key issues identified.

