

# Argyll & Bute Council - Internal Audit Report

April 2018

Final

## Waste Management

Audit Opinion: Limited

	High	Medium	Low
Number of Findings	2	4	1

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## Contact Details

Internal Auditor: **David Sullivan**

Telephone **01546 604125**

e-mail **david.sullivan@argyll-bute.gov.uk**

# 1. Executive Summary

## Introduction

1. As part of the 2017/18 internal audit plan, approved by the Audit & Scrutiny Committee in March 2017, we have undertaken an audit of Argyll & Bute Council's (the Council) system of internal control and governance in relation to waste management.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and we would like to record our appreciation for the cooperation and assistance we received from all officers over the course of the audit.

## Background

4. Sending waste to landfill is not a sustainable or environmentally friendly solution. Legislation and guidelines have been established aimed at reducing the level of waste sent to landfill. One of the national measures introduced is the Scottish Landfill Tax which currently costs the Council £86.10 per tonne of waste sent to landfill. The Council currently have three separate contractual arrangements in place for waste collection across Argyll and Bute. These are:
  - mainland (except Helensburgh and Lomond) - 25 year Public Private Partnership (PPP) scheme with Renewi (formerly known as Shanks)
  - Helensburgh and Lomond - waste disposed of at third party sites outside Argyll and Bute
  - island sites - operated directly by the Council.
5. A Microsoft Excel based financial model (the Model) covering the three separate contractual arrangements has been developed to enable assessment of the waste strategy. The total waste budget for 2017/18 is £11.6 million, of which £7.2 million relates to the PPP contract with Renewi. This audit focused primarily on that PPP contract.

## Scope

6. The scope of the audit was to ensure there are appropriate controls and governance over the management of the Renewi PPP contract and the maintenance of the Model.

## Audit Opinion

7. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
8. Our overall audit opinion for this audit is that we can take a **limited** level of assurance. This means that internal control, governance and the management of risk are displaying a general

trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weaknesses must be addressed within a reasonable timescale with management allocating appropriate resources to the issues raised.

## Key Findings

9. We have highlighted two high priority recommendations, four medium priority recommendations and one low priority recommendation where we believe there is scope to strengthen the control and governance environment. These are summarised below:
  - Procedures should be established for the maintenance of the Model including ensuring the underlying assumptions in the Model are subject to periodic review.
  - Restoration and ongoing maintenance costs of the Renewi sites should be assessed and provided for.
  - Accuracy of monthly performance reports from Renewi should be periodically confirmed by Council personnel.
  - Sites operated by Renewi should be subject to regular site inspections by Council personnel.
  - A risk register should be established which documents mitigating actions for identified risks.
  - A business continuity plan should be established.
  - Income collected by Renewi on the Council's behalf should be checked.
10. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

## 2. Objectives and Summary Assessment

11. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

### Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Assessment	Summary Conclusion
1	The Model is subject to regular review to reflect changes of circumstances.	Limited	The Model was last reported to the Environment, Development and Infrastructure (ED&I) Committee in April 2016. There are no formal procedures regarding the maintenance of the Model nor clarity on how often the underlying assumptions in the Model should be reviewed. The current Model uses 2014/15 and 2015/16 data.
2	Performance reporting is effective with appropriate contract monitoring arrangements in place.	Reasonable	There is a comprehensive PPP contract in place. The accuracy of monthly performance reports from Renewi are not subject to review by Council personnel and inspections of sites operated by Renewi are not being regularly carried out. There are regular meetings between the Council and Renewi to discuss operational and contractual issues.

			There is quarterly reporting of key waste performance targets within Pyramid.
3	The PPP contract is subject to effective financial monitoring.	Reasonable	Payments are made monthly to Renewi based on a unitary charge linked to prior year tonnages which is subject to a reconciliation prepared by Renewi and checked by Council staff. Income collected by Renewi on the Council's behalf is not verified.
4	Appropriate measures are in place to ensure risks are effectively managed.	Limited	Restoration and ongoing maintenance costs for Renewi sites have yet to be assessed. There is no risk register or business continuity plan in place to manage risks associated with the contract or provide alternative service delivery in the event of an operational failure.

12. Further details of our conclusions against each control objective can be found in Section 3 of this report.

### 3. Detailed Findings

*The Model is subject to regular review to reflect changes of circumstances.*

13. The Model covers the 25 year period from 2015/16 to 2039/40 and incorporates the PPP Renewi contract which ends on 3 September 2026.
14. Strategic Finance are responsible for maintaining the Model however there are no documented procedures to support the maintenance of the Model or clarity on how often the Model should be reviewed to ensure that underlying assumptions and/or data remain appropriate. The Model uses data relevant to both the 2014/15 (e.g. 3<sup>rd</sup> party payments) and 2015/16 (e.g. Waste Manpower budgets) financial years. The Model also includes a wide range of assumptions including landfill tax and retail price index inflation. The current Model projects a cumulative deficit of £9.2 million against budget by 2039/40 on the assumption that the waste strategy does not change during that period. If assumptions are not reviewed timeously there is a risk the Model will generate projected Council liabilities which are materially different from actual liabilities incurred in future years.

#### **Action Plan 1**

15. An update on the Model was last reported to the ED&I Committee in April 2016. In February 2018 the Head of Roads and Amenity Services submitted a paper to the Council's Chief Officer Group which confirmed that the waste strategy needs to be updated to reflect the Scottish Government policy ban on non- biodegradable waste to landfill in 2021.
16. The Model reflects the two variations agreed with Renewi in regard to the PPP contract. The first related to the retention of island sites and the second to the introduction of co-mingled waste collection to enable the Council to meet its requirements in terms of the zero waste regulations.
17. The waste strategy paper presented to the ED&I Committee in April 2016 summarised a number of options open to the Council once the PPP contract comes to an end in September 2026. Discussions with management indicated that more detailed work on these options will be

carried out once the new waste strategy project manager is in place post March 2018. The Model will then be updated to reflect the agreed strategy.

*Performance reporting is effective with appropriate contract monitoring arrangements in place*

18. The PPP contract in place between the Council and Renewi outlines performance indicators and financial penalties which will be incurred in the event that Renewi fail to meet the agreed indicators. Renewi provide a monthly performance report based on the criteria outlined in the contract. Whilst issues arising from the performance reports are discussed at management meetings between the Council and Renewi there was no evidence that the Council perform periodic checks on the accuracy of the data in the reports.

**Action Plan 3**

19. Operational issues are discussed at quarterly operational meetings attended by appropriate personnel from the Council and Renewi. The Argyll and Bute Contract Development Group meets bi annually and is attended by the Head of Roads and Amenity Services and directors from Renewi.
20. Waste Management report contains various waste performance outcomes against targets on a quarterly basis within the Pyramid Performance Management System. This includes:
- percentage of waste recycled and composted
  - percentage of waste recovered e.g. landfill
  - combined percentage of waste recycled, composted and recovered
  - percentage of waste to landfill
  - tonnes of bio degradable municipal waste to landfill.
21. A recycling performance paper was presented to the ED&I Committee in March 2017 which outlined the Council's recycling and landfill diversion performance along with national policy, targets and regulations which are likely to impact on future performance.
22. Included within performance reporting is data on the number of inspections of Renewi sites carried out by council officers. Although the PPP contract does not specify the frequency of inspections by council officers a review of performance reports confirmed they are infrequent with only one carried out in the previous six months. Council inspections relate only to Civic Amenity sites which are carried out by local amenity wardens and predominantly focus on ensuring proper management of issues such as the disposal of trade/commercial waste.

**Action Plan 4**

*The PPP contract is subject to effective financial monitoring*

23. Renewi prepare an annual reconciliation as agreed in the project agreement. The purpose of this is to determine any under/over payments due to/from Renewi for the previous financial year as well as the basis of the unitary charge for the following year. The agreement details eight separate criteria to be included within the reconciliation such as actual tonnage delivered and the actual total landfill tax paid. This is checked and agreed by council officers. The Head of Roads and Amenity Services then formally confirms with Renewi that the reconciliation is in accordance with the project agreement.

24. The Council receive 50% of all recycling income collected by Renewi on the Council's behalf. At the year-end Renewi provide council officers with a copy of all income invoices raised during the year however there is no reconciliation carried out between the income actually received and the copy invoices.

**Action Plan 7**

25. The Council's year-end financial statements include appropriate information on the PPP contract as required by accounting standards.

*Appropriate measures are in place to ensure risks are effectively managed*

26. The Council's 2016/17 audited financial statements include a provision of £1.12 million to reflect the Council's total future liability for the restoration and aftercare costs in respect of landfill sites operated by the Council at Glengorm, Gartbreck and Gott Bay (based on the net present value of estimated future costs). Potential liabilities for sites currently operated by Renewi have yet to be assessed. It was noted that the 2018/19 budget pack included a cost demand pressure of £254k for 2018/19, £560k for 2019/20 and £560k for 2020/21 for projected overspends against the waste budget however this is to reflect projected annual deficits rather than restoration costs.

**Action Plan 2**

27. There is no risk register in place to help manage any risks identified in relation to the provision of the Renewi contract.

**Action Plan 5**

28. There is no business continuity plan in place to provide alternative service delivery in the event of a material operational disruption.

**Action Plan 6**

## Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	<p><b>Procedures and Periodic Model Review</b></p> <p>There are no documented procedures in place to support the maintenance of the waste management financial model or clarity on how often the model should be reviewed to ensure that underlying assumptions and/or data remain appropriate.</p>	<p>Failure to have agreed procedures and processes in place may lead to loss of knowledge when staff members leave.</p> <p>If the Model is not subject to periodic review and update there is a risk that financial projections based on it are unreliable.</p>	<p>A waste model periodic review process is being drafted and will form part of the Waste Strategy.</p> <p>Details of the model review process will also be included as an annex to the upcoming waste ED&amp;I Committee paper.</p> <p>It has been agreed with strategic finance that the model should be reviewed on an annual basis or in the event of any major structural/ regulatory/ contract change.</p>	<p>Fleet, Waste and Infrastructure Manager</p> <p>31 May 2018</p>



High	2	<b>Restoration and Ongoing Maintenance Costs</b>  Assessment of future restoration costs and ongoing maintenance costs of Renewi sites should be carried out and financial provisions made where appropriate.	Failure to assess and provide fully for restoration and ongoing maintenance costs may lead to financial pressures not budgeted for.	A new asset management plan is being produced by 1 June 2018 and will detail all financial provisioning necessary for the on-going maintenance and restoration costs of Renewi sites. Details from this asset management plan will be included in the waste model.	Fleet, Waste and Infrastructure Manager  30 June 2018
Medium	3	<b>Performance Reporting</b>  Renewi provide a monthly performance report based on the criteria outlined in the PPP contract. Whilst issues arising from the performance reports are discussed at management meetings between the Council and Renewi the Council do not perform periodic checks on the accuracy of the data in the reports.	Failure to periodically check performance reports may lead to inefficient service delivery or incorrect application of financial penalties.	Further periodic checks will be carried out and will be discussed with Renewi at the next contract management meeting. This will include the introduction of a balanced scorecard by the 9 <sup>th</sup> of each month. The balanced scorecard will also be discussed at regular team meetings.	Fleet, Waste and Infrastructure Manager  31 May 2018

Medium	4	<p><b>Renewi Site Inspections</b></p> <p>Though the PPP agreement does not specify frequency of site inspections by the Council it was noted from a review of performance reports that they are infrequent.</p>	<p>Failure to regularly check sites run by Renewi may lead to the disposal of trade waste not being managed appropriately.</p>	<p>Amenity sites are currently checked by amenity wardens and will be discussed at the monthly operations meeting.</p> <p>Checks of Renewi landfill sites are conducted by the Performance Manager and Service Officer. These will be linked with the roving quarterly meetings. An increase in the frequency of periodic inspections is planned by linking this to quarterly meetings.</p>	<p>Fleet, Waste and Infrastructure Manager</p> <p>31 May 2018</p>
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Medium	5	<p><b>Risk Register</b></p> <p>There is no risk register in place to help manage any risks identified in relation to the provision of the Renewi contract.</p>	<p>Failure to identify risks with corresponding mitigation may lead to financial loss or inefficient service delivery.</p>	<p>A risk register is currently being produced. An internal risk workshop was held on the 28 March 2018 which included strategic finance.</p> <p>A monthly review of the register has been agreed and details of top risks and/or new risks will be included in a monthly highlight report.</p> <p>A further risk workshop with the whole waste team and strategic finance has been scheduled for mid-May at the latest.</p>	<p>Fleet, Waste and Infrastructure Manager</p> <p>31 May 2018</p>
Medium	6	<p><b>Business Continuity Plan (BCP)</b></p> <p>There is no BCP in place to provide alternative service delivery in the event of a material operational disruption.</p>	<p>Failure to have a BCP in place may lead to failure to achieve recycle target tonnages in the event of operational disruption.</p>	<p>A BCP is currently being produced and outline of the BCP will be included in the June ED&amp;I Committee paper.</p>	<p>Fleet, Waste and Infrastructure Manager</p> <p>30 June 2018</p>

Low	7	<b>Income Reconciliation</b>  The Council receive 50% of all recycling income collected by Renewi on the Council's behalf. At the year-end Renewi provide council officers with a copy of all income invoices raised during the year however there is no reconciliation carried out between the income actually received and the copy invoices.	Failure to verify income received by Renewi on the Council's behalf may lead to financial loss.	A reconciliation between the income actually received and the copy invoices will be carried out by the waste admin team.	Fleet, Waste and Infrastructure Manager  30 June 2018
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In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
<b>High</b>	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
<b>Medium</b>	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
<b>Low</b>	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

## Appendix 2 – Audit Opinion

Level of Assurance	Definition
<b>High</b>	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
<b>Substantial</b>	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
<b>Reasonable</b>	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
<b>Limited</b>	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
<b>No Assurance</b>	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.