



Conwy Internal Audit Services *Denbighshire Internal Audit Services*

Home to School Transport

October 2012



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Purpose & Scope of Review

Conwy County Borough Council's (CCBC) S151 Officer requested a joint internal audit review of Home to School Transport due to his concerns over financial management of the collaboratively delivered service.

CCBC's internal audit service led the review that included:

- financial management
- collaboration
- operational management & performance
- regulatory compliance

As the Home to School Transport is still going through the integration process, we found it difficult to provide a report on the integrated service in some areas. Where there are risks or issues clearly relating to only one of the local authorities, we have identified this. We have also provided separate Assurance Ratings below.

Assurance Rating (Based on areas reviewed)

	High Assurance	Risks and controls well managed
DCC	Medium Assurance	Risks identified but are containable at service level
	Low Assurance	Risks identified that require meeting with Corporate Director/Lead Member
CCBC	No Assurance	Significant risks identified that require member / officer case conference

Audit Opinion

The home to school transport service has been through a turbulent period because of collaboration and still has a significant way to go to deliver an effective and efficient service. Our review has raised several operational issues that need to be addressed, including critical and major risk areas to improve the governance of the collaboration arrangements and service performance.

Although Denbighshire County Council's (DCC) service was previously seen as an area of good practice, it is clear that the collaborative working arrangements between Conwy County Borough Council (CCBC) and DCC have suffered through poor project planning, a lack of information, and resource issues at the commencement. By not using a project management methodology, the collaboration lacked clear direction and decision making prior to implementation. From the outset, there have been resource issues and lack of accurate information due to the ONE system not being up to date and the loss of CCBC's contract files.

Although the Joint Collaboration Board (JCB) and the Collaboration Officer Group (COG) provide the opportunity for robust governance arrangements to monitor the collaboration, they have not held the service accountable by reviewing progress reports and have not therefore provided effective challenge and monitoring.

This review was commissioned to identify the reasons for the budget overspend in CCBC, and it is clear that financial management in both DCC and CCBC has not been effective. We are unable to provide an informed opinion on DCC's processes due to the absence of the relevant Finance Officer during our review. CCBC's home to school transport financial management relies on the ONE system but, as this system has not been regularly updated, poor management information has significantly contributed to the projected overspends for 2011/12 and 2012/13 not being identified and reported promptly.

The service has implemented some good management processes, in particular relating to procurement and it generally complies with regulatory and corporate requirements. However, overall, operational management needs to improve and we have raised several risks in this area, in particular, staff resources issues. The service needs to improve its management of contracts, make sure that safeguarding, performance management and health and safety procedures are robust, and ensure that operators have the required insurance cover and comply with VAT regulations.

As the service is still integrating, we have provided separate Assurance Ratings for DCC and CCBC. The 'No Assurance' rating for CCBC is due to the poor management information supply impacting upon financial management, resulting in weakened budgetary control.

Action Plan

Audit Review of: Home to School Transport
Date: October 2012
Action Plan Owner: Joint Head of Highways & Infrastructure

Corporate Risk/Issue Severity Key	
	Critical – significant CET and Cabinet intervention
	Major – intervention by SLT and/or CET with Cabinet involvement
	Moderate – containable at service level. Senior management and SLT may need to be kept informed

Risk/Issue No.	Risk/Issue	Action	Who	When
1.	Budgetary control in the Home to School Transport service in CCBC will not improve unless: 1. there is liaison between the Section Manager: Passenger Transport and the Systems Analyst to arrange specific training on the ONE system for all relevant employees; 2. all outstanding training issues are addressed; 3. the ONE system is updated promptly so that data is accurate and comprehensive; and 4. operator invoices are closely checked to contract prices on the ONE system. 5. reporting of budgetary performance is undertaken on a monthly basis.	1. Training complete 2. No outstanding training issues 3. ONE is updated for all new requests and during the school review process. This does not account for historic inaccuracies. 4. This will require additional resources 5. Budgetary meetings programmed and commenced	1. Section Manager 2. Section manager 3. Joint Head of Service (JHOS) 4. JHOS 5. Principal Accountant/ Section Manager	1. Completed 2. Completed 3. April 2013 (end of RFQ process) 4. Dependent upon business case (below) 5. On-going

Risk/Issue No.	Risk/Issue	Action	Who	When
2.	Due to a restructure within Finance and some members of staff being on maternity leave, DCC was not able to provide adequate staffing resources and cover in its Accountancy service to ensure that the school/college transport budget was monitored effectively. If this situation reoccurred in the future, it may result in inadequate budget monitoring and a lack of up to date accurate information to facilitate management intervention where needed.	<p>The situation that happened at the time of the review was exceptional. Contingency plans existed but, due to the number of vacancies within Finance and people on maternity leave, we could not put these plans in place. Prior to the officer going on maternity leave, forecasting was up-to-date and the budget was significantly underspent; therefore, we deemed the risk around a budget deficit occurring during the period as minimal.</p> <p>Cover was provided from February 2012 until the officer returned from maternity leave in September 2012.</p> <p>The new Finance structure is in place to provide this resilience. In future, work will be more standardised and there will be opportunity to train more employees in specialist areas such as home to school transport.</p>	DCC Chief Accountant	March 2013
3.	The service has not agreed a clear, unambiguous and measurable method of apportioning costs of managing the service between CCBC and DCC in a SLA. Lack of a recharging method may result in the levying of disputed charges and undermine confidence in the collaboration principle, in both this joint service and any future collaborative opportunities.	<p>Corporate methodology awaited for collaboration projects.</p> <p>In the interim, officers will continue to assess percentages of time spent on each authority's transport periodically</p>	<p>JHOS and S151 officers</p> <p>Section Manager</p>	<p>Before March 2013</p> <p>Before March 2013</p>

Risk/Issue No.	Risk/Issue	Action	Who	When
4.	CCBC did not increase its home to school transport budget for 2012/13 in light of the 2011/12 outturn. If the service does not take immediate steps to identify where it can reduce expenditure and avoid or minimise future increases, it is inevitable that 2012/13 budget will be overspent.	RFQ & subsequent tender programme in place from June 2012. T & F Group established	JHOS	On-going to April 2013
5.	Although governance arrangements are in place in the form of the JCB and the COG, these bodies have not held the home to school transport service accountable due to a lack of progress reporting. The JCB and COG have not therefore provided effective challenge and monitoring of the service.	Reporting to JCB and COG for guidance	JHOS	October 2012
6.	Not using a project management methodology for the home to school transport collaboration means that future projects will not benefit from lessons learned and may fail to deliver desired outcomes and drive improvement.	Lessons learned to inform any future integration or collaboration	JHOS	On-going
7.	Documented procedures are not in place for all areas of the service, e.g. inspections and the network officer's role, which could lead to a lack of clarity, compliance and consistency in service delivery. When procedures are in place, the service will need to ensure that it has a robust process to ensure staff awareness.	The existing draft Network Officer's procedure is forming the basis for a regional procedure in terms of tendering and contract management via Value Wales, to be agreed. Monitoring & payments procedures complete. All other procedures extant. Most reviewed	Section Manager	Nov 2012 (subject to Value Wales) Completed
8.	Transport operators are not always returning signed contracts, so agreements are not formalised in the event of dispute and the service may not be able to enforce its terms and conditions effectively. There is no indicator on the ONE system to show cases where operators have failed to return signed tender documents and no robust process to chase up the operators to ensure that they return signed contracts.	In progress	Section manager	Autumn half-term

Risk/Issue No.	Risk/Issue	Action	Who	When
9.	<p>Transport operators are able to terminate contracts early and subsequently re-tender for the same contract at a higher price. If this practice continues and becomes common, it will have a significant financial impact on the service.</p> <p>The service may need to seek legal advice to determine the possibility of excluding operators from tendering for contracts that they have surrendered when the subsequent re-tendering exercise is undertaken.</p>	Legal advice now sought	Section Manager	Completed
10.	The Conditions of Contract stipulate that operators should “ <i>risk assess all transport operations and routes before the start of a contract</i> ”. These risk assessments are not in place in all cases, increasing the likelihood of risks not being identified, legal challenge and Health & Safety Executive intervention in the event of an incident or accident.	Suppliers requested to sign any outstanding paperwork (noting that there remains written confirmation in place and claims are signed stating they are bound by terms)	Section Manager	November 2012
11.	Regular bus pass inspections are not being undertaken to ensure that only eligible pupils travel on school buses. Operators need to ensure that their drivers only allow eligible pupils to travel, as there is a potential financial cost to the service of having to provide additional transport if buses are full of ineligible pupils.	Disagree with audit recommendations. Requires discussion at TOWG	TOWG	October 2012
12.	The majority of DCC Passenger Assistants’ ID badges expired in 2010, so they do not hold current ID badges. There is no record of badge holders to ensure that expired badges are renewed on time and only authorised people are acting as Passenger Assistants.	All ID badges are up to date	Section Manager	Completed

Risk/Issue No.	Risk/Issue	Action	Who	When
13.	Our testing found one instance of a Passenger Assistant's CRB dated 2006 in CCBC. Although controls are generally good in this area, this instance highlights the need to improve procedures to ensure that safeguarding controls are watertight and that this employee's CRB is updated as soon as possible.	This related to a single renewal. In the continued absence of guidance corporately on renewals, all CCBC CRBs are up to date in line with DCC's policies	Section Manager	Completed
14.	In CCBC, the service is not measuring its performance as required in the SLA with Education and, in DCC, there is no SLA to allow measurement. By failing to monitor the various service standards, quality of provision and performance indicators, etc., the service will be unable to measure how well it is performing against predetermined targets.	CCBC SLA requires redrafting to reflect capacity issues and parameters No requirement for DCC SLA but in discussion over customer service standards	TOWG Section Manager	October 2012 March 2013
15.	Some operators are not insured at the required levels for both Public (£5m) and Employers (£10m) Liability, and the service does not always chase operators promptly to provide evidence of their insurance renewal. In the event of an incident or accident, the local authority would become liable for any insurance claim, with potentially significant financial and reputational implications.	All insurance is up to date at time of passing payments. Suppliers being checked to ensure correct limits (note some CCBC contracts are expired)	Section Manager	Complete November 2012
16.	In DCC, the service has processed invoices where the operator provided proforma invoices rather than legitimate VAT invoices. This means that the operator receives VAT income to which they are not entitled and the local authority reclaims VAT to which is it not entitled. Regulations state that VAT must only be paid to operators submitting VAT invoices bearing a unique VAT registration number.	Suppliers using old forms have new ones sent with space for VAT number (as appropriate)	Section Manager	Complete

Risk/Issue No.	Risk/Issue	Action	Who	When
17.	The home to school transport service collaboration has been under-resourced, resulting in established procedures being set aside. There is, therefore, a need for the service to review its business plan to include the identification of any resource shortages and report any issues to the Joint Collaboration Board.	Review of business plan (to include risk 1.4 above)	JHOS	November 2012
18.	Contracts relating to Conwy service users have expired and not been re-tendered as planned. The service does not have a phased programme for re-tendering of contracts to avoid a situation where all contracts expire simultaneously.	Agreed RFQ programme in place from June 2012 with a view to full tender around Eastertide 2013	Section Manager	On-going

Background & Context

In February 2012, CCBC's S151 Officer expressed his concerns over an apparent budget overspend in excess of £290k within the service in CCBC and requested a joint internal audit review to establish the reasons. As both CCBC and DCC were already considering full internal audit reviews of home to school transport, they agreed to carry out a full operational review of the service together, with CCBC leading the review.

In 2008/9, the Wales Audit Office (WAO) and CCBC's Internal Audit Service carried out a joint review of CCBC's home to school transport service and rated it as 'unsatisfactory'. A subsequent follow up found some improvement and changed the rating to 'adequate', as several improvements were still outstanding. As this service had not been audited in DCC, there are no previous audit opinions available; however, regionally and nationally, DCC's service had received recognition as demonstrating good practice.

Highways & Infrastructure initially managed the school transport service in CCBC before it transferred to Community Development, and then returned to Highways & Infrastructure. It returned without managerial support, so CCBC appointed an interim, part-time manager. In June 2010, DCC seconded an officer to CCBC, who produced an action plan that identified the need to update all contract information on the ONE System. The target date for completion of this critical task was 31 July 2010, but other day-to-day demands of her role meant that she could not meet this target, so the ONE system was not fully updated. The service manager confirmed that no action was taken to assess the status of data then held in the system.

To address these problems, and following a report to both organisations' Cabinets in December 2010, CCBC and DCC established a collaborative working service in relation to home to school transport in February 2011. CCBC's Education service and the Highways & Infrastructure service drew up a service level agreement (SLA), setting out roles and responsibilities.

From the start, there were resource issues, with the only two remaining CCBC employees transferring to DCC and management being unable to appoint further employees promptly due to the need to comply with the job evaluation process. In January 2011, an agency worker was employed to contact all Conwy operators to confirm contract details due to the disappearance of contract files during the formation of the joint service and the fact that the ONE system had not been updated and maintained. That agency worker left in July 2011, and it is unclear how much of the task had been completed. This left the Transport Section unable to undertake a tendering exercise prior to September's pupil intake and, therefore, unable to achieve identified savings.

Note: The ONE system is a database used by CCBC that provides information relating to the home to school transport service in respect of routes, operators, contracts, journeys linking pupils to routes, drivers and passenger assistants, contract payments and can link to the Geographical Information System to determine free transport eligibility.

Review Outcomes & Risks Arising

Financial Management

Opinion	Financial management in both DCC and CCBC gives cause for concern. We are unable to provide an informed opinion on DCC's processes due to the absence of the relevant Finance Officer. The failure by the service to improve and maintain the ONE system data has resulted in incomplete and inaccurate information, preventing prompt identification and reporting of the budgetary deficiency in the CCBC home to school transport service.
Key Areas Managed Well	The Transport Officers Working Group meets regularly and includes budget discussions within its agenda; however, there was a failure in the regular reporting of financial information. It has discussed the current overspend at its last few meetings but is awaiting the outcome of our review before taking any action.
Risk/Issue 1 Critical	CCBC's home to school transport budgetary control relies on the ONE system being up to date. DCC also intends to use the system to manage its home to school budget as the collaborative service develops. However, there is a lack of understanding of and confidence in the system, which has contributed to it not being regularly updated, despite the difficulties this causes, as a demand led service, being made known to the service manager. This has contributed to the projected overspend for 2011/12 and its increase to £549k in 2012/13 not being identified and reported promptly.
Risk/Issue 2 Moderate	DCC's Accountancy Section did not monitor its home to school transport budget between November 2011 and March 2012 due to staffing shortages within the Section. The Chief Accountant explored various options in order to provide this cover. If the situation was to reoccur in the future, a lack of succession planning and cover within the service could lead to budget deficiencies not being identified and reported promptly.
Risk/Issue 3 Major	There is no agreement in place to determine how DCC should recharge CCBC for work undertaken on its behalf. With no mechanism for identifying/quantifying costs, DCC is unable to justify charges. Similarly, CCBC cannot justify expenditure.
Risk/Issue 4 Critical	CCBC did not increase its current year's budget for home to school transport in light of the 2011/12 outturn. Unless the service implements immediate steps to reduce expenditure, it is inevitable that 2012/13 budget will be overspent.

Collaboration

Opinion

The failure to adopt a project management methodology contributed to a lack of clear direction and decision making prior to implementing the home to school transport collaboration. Although robust governance arrangements are in place for monitoring the collaboration, the service is not being adequately held to account in terms of progress towards operational effectiveness.

Key Areas Managed Well

A Joint Collaboration Board (JCB) comprising elected members and senior managers from both local authorities oversees collaboration between DCC & CCBC. In addition, there is also a Collaboration Officers Group (COG), which considers issues relating to all aspects of collaborative working. These groups are evidence of good governance arrangements.

Risk/Issue 5 Critical

Although governance arrangements are in place in the form of the JCB and the COG, these bodies have not held the home to school transport service accountable due to a lack of progress reporting. The JCB and COG have not monitored progress in this collaboration effectively.

Risk/Issue 6 Moderate

Not using a project management methodology for the home to school transport collaboration means that there has been no post-project review to learn lessons for future projects of this kind. Employees were not clear of their responsibilities and there was a lack of planning in establishing what resources, procedures and systems were needed and what contracts were in place.

Operational Management & Performance

<p>Opinion</p>	<p>Some good processes are in place and the service is developing operational procedures; however, there are several areas where the service needs to improve. In particular, we have raised several risks relating to management of contracts, and the service needs to make sure that its safeguarding, performance management and health and safety procedures are robust.</p>
<p>Key Areas Managed Well</p>	<p>The service has developed new operational procedures for most areas of the collaborative arrangements, although it needs to ensure that all relevant employees are aware of them.</p> <p>Following the September intake, Network Officers review the capacity of each vehicle to see if it is cost effective to run, depending on the size of the vehicle and pupil numbers.</p> <p>Robust procedures are in place for licensing of drivers.</p> <p>Overall, controls to ensure that Criminal Record Bureau (CRB) checks are in place and kept up to date are good.</p> <p>The service has adopted the Welsh Government's Travel Behaviour Code, which came into force in January 2010.</p> <p>The service has an Operational Plan 2012/13, although this needs developing to determine the future position of the service and the resources required to deliver this.</p>
<p>Risk/Issue 7 Moderate</p>	<p>Documented procedures are not in place for all areas of the service, e.g. inspections, which could lead to a lack of clarity, compliance and consistency in service delivery.</p>
<p>Risk/Issue 8 Moderate</p>	<p>Transport operators are not always returning signed contracts, so agreements are not formalised in the event of dispute and the service may not be able to enforce its terms and conditions effectively.</p>
<p>Risk/Issue 9 Moderate</p>	<p>Transport operators are able to terminate contracts early and subsequently re-tender for the same contract at a higher price. If this practice continues and becomes common, it will have a significant financial impact on the service. Although some improvement is evident in the commissioning of individual service delivery by use of the Request for Quote system, that system also provides operators the opportunity to inflate prices disproportionately.</p>
<p>Risk/Issue 10 Moderate</p>	<p>The Conditions of Contract stipulate that operators should "<i>risk assess all transport operations and routes before the start of a contract</i>". These risk assessments are not up to date in all cases, increasing the likelihood of risks not being identified, legal challenge and Health & Safety Executive intervention in the event of an incident or accident.</p>

Risk/Issue 11
Moderate

A recent inspection of bus passes highlighted that a significant number of ineligible pupils were using the service. We understand that drivers may be unwilling to challenge pupils but this increases the risk of the system being abused at a potential financial cost to the service of having to provide additional transport if buses are full of ineligible pupils.

Risk/Issue 12
Moderate

The majority of DCC Passenger Assistants' ID badges expired in 2010. Although they have been asked to apply for a new badge, there is no record of badge holders, so no control to ensure that expired badges are renewed on time and only authorised people are acting as Passenger Assistants.

Risk/Issue 13
Moderate

Our testing found one instance of a Passenger Assistant's CRB dated 2006 in CCBC. Although controls are generally good in this area, this instance highlights the need to improve procedures to ensure that safeguarding controls are watertight.

Risk/Issue 14
Moderate

The service is not measuring performance and is not, therefore, able to recognise where it needs to improve. This is a requirement of the SLA in place with CCBC, but, there is no SLA in place at DCC. This is particularly important as the service has two client departments in two authorities and needs to demonstrate consistency of performance between them.

Regulatory Compliance

Opinion	The service is generally complying with regulatory and corporate requirements, but needs to ensure that operators have the required insurance cover and comply with VAT regulations.
Key Areas Managed Well	<p>Appropriate tendering procedures are in place and the service applies financial penalties when operators breach contract conditions.</p> <p>The service is successfully using the Request for Quotes system, which brings greater transparency to the procedures for awarding contracts at short notice. However, we are aware of some concerns amongst Taxi Operators regarding this process.</p> <p>The service is applying eligibility criteria for free travel that complies with The Learner Travel (Wales) Measure 2008.</p> <p>Several employees within the Transport Section can carry out inspections to ensure contract compliance. The service maintains a record of these inspections.</p> <p>Our testing found that both CCBC and DCC are meeting taxi licensing requirements.</p>
Risk/Issue 15 Moderate	<p>Our testing found instances where operators did not have either the Employers or Public Liability insurance or the Employers Liability insurance was less than the required minimum £10m. In addition, we also found three cases where the service did not chase up operators promptly to provide evidence of their insurance renewal. This increases the risk of operators working without insurance, with a potential legal and financial impact on the service in the case of an accident or incident.</p>
Risk/Issue 16 Moderate	<p>In DCC, two operators are claiming VAT but submitting proforma invoices rather than legitimate VAT invoices. The service is therefore incorrectly processing payments, which will lead to the Council submitting an incorrect VAT return.</p>
Risk/Issue 17 Major	<p>The Section Manager, Public Transport stated that due to the additional work involved in delivering the CCBC home to school transport service with an under resourced workforce, the service has suffered as a result, with a number of embedded procedures having to be set aside in order to deal with the new service provision.</p>
Risk/Issue 18 Major	<p>A planned re-tendering of CCBC expired contracts during 2011/12 was not undertaken and the projected savings of £60k were not realised. In addition, expired contracts have been extended with an uplift of between 2% - 5% being paid to operators.</p>

Overspend on CCBC Budget

Opinion

Home to school transport is a demand led service, which relies upon accurate, complete and up-to-date information to enable effective budgetary monitoring and control. It is apparent that the joint service has experienced resource issues that have resulted in a failure to improve and maintain the ONE system effectively. This has resulted in the late identification of a budget deficiency, leaving little or no time to instigate remedial measures during 2011/12 or plan appropriately for 2012/13.

**See Risk/
Issue 1
Critical**

During the period June to December 2011, the number of home to school transport service delivery arrangements has increased, and some existing arrangements had variances applied to them, resulting in an increase in the value of daily committed budget as follows:

SEN	£1496
Taxi/Minibus	£1636

	£3132 x 126 days (Sep-Mar) =£408,940

The figures above include £19k in payments for inflationary pressure on expired contracts that had been extended. Due to the ONE system not being maintained, this information was not available / identified until January 2012.

Report Recipients

- Joint Head of Highways & Infrastructure – Stuart Davies
- Head of Operations – Mike Hitchings
- Section Manager: Passenger Transport – Peter Daniels
- Corporate Director: Economic & Community Ambition – Rebecca Maxwell
- Corporate Director: Customers – Hywyn Williams
- Lead Member for Public Realm – Cllr David Smith
- Lead Member for Finance & Assets – Julian Thompson Hill
- Chair of Performance Scrutiny Committee – Cllr Colin Hughes
- Performance Scrutiny Member – Cllr Peter Owen
- Corporate Governance Committee members
- Democratic Services Manager – Steve Price
- Scrutiny Support Officer – Rhian Evans

Key Dates

Review commenced	March 2012
Review completed	April 2012
Proposed date for 1 st follow up review	November 2012
Report to Corporate Governance Committee	14 November 2012