

**Bolsover, Chesterfield and North East Derbyshire District  
Councils'**

**Internal Audit Consortium**

**Draft Internal Audit Report**

<b>Authority:</b>	<b>Bolsover District Council</b>
<b>Subject:</b>	<b>Stores (B004)</b>
<b>Date of Issue:</b>	<b>3<sup>rd</sup> August 2015</b>

<b>Report Distribution:</b>	<b>Assistant Director – Community Safety and Head of Housing Strategic Repairs Manager Operational repairs Manager Principal Accountant (Capital) Principal Senior Solicitor Joint Assistant Director – Finance, Revenues and Benefits Joint Executive Director of Operations</b>
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**CHESTERFIELD  
BOROUGH COUNCIL**



## INTERNAL AUDIT REPORT

### HOUSING SERVICES

#### STORES 2015/16

#### Introduction

The Internal Audit Consortium has performed an audit of the perceived risk areas of the outsourced Stores function as provided by Travis Perkins for which the Housing Department are charged with contract management issues. Given that projected expenditure levels of £1.2 million, this constitutes the largest Housing contract and is crucial to service delivery and financial performance.

#### Scope and Objectives

For the purposes of this Internal Audit Report, the primary objective of the audit review was to determine the following: -

- The Stores contractual arrangements are completed, signed, appropriately managed and the contractual obligations provide for the optimum service delivery provision.

#### Conclusion

The overall conclusion of the audit based on the specific element of the Stores function examined is **Marginal** (A number of areas have been identified for improvement); see Appendix A for definition of conclusions.

#### Findings

1. The original contract with Travis Perkins (TP) for the outsourced Stores service provision was dated December 2009 for a five year period ending in December 2014. Following the completion of a recent tender exercise, notification has been provided to TP that they have successfully tendered for the new contract. A draft contract document has been prepared although at present, this remains unsigned by the contractual parties. The contractual period of the draft agreement is for a five year period with an option of extending for two further periods of five years each. The Senior Principal Solicitor has stated that the basis of the current service provision is that the new contractual terms and conditions are applicable.
2. The previous contract with TP specified an annual turnover of £900,000 with a profit element of 9%, this resulted in a profit share position if actual profits exceeded £81,000 (9%). The recent Bolsover DC invitation to tender refers to

an annual spend of £1,200,000 in support of building maintenance and refurbishment. Consequently, the TP tender submission and current draft contract states an agreed annual turnover of £1,200,000 with a proposed net profit of 7.5%. This revised contractual position of a 7.5% return on a turnover of £1,200,000 produces a profit level of £90,000. This position represents an increased level of sales to achieve the agreed return and profit share scenario. Although TP have proposed a 60% / 40% profit share of excess profits in favour of Bolsover DC, if this is not achieved however, a 50% contribution by Bolsover DC is a contractual obligation.

3. The invitation to tender refers to an annual spend of £1,200,000. This annual spend level would appear to be optimistic however as the Principal Accountant has confirmed that the annual Stores expenditure in 2014/15 was £1,113,000 of which £1,063,000 relates to Housing Revenue Account (HRA) expenditure.
4. Following the departure of the previous Voids and Welfare Manager, the Strategic Repairs Manager assumed responsibility for completion of the specification for the invitation to tender. The invitation to tender is considered to be soundly based and includes all relevant the service provision requirements. The procurement process was also appropriately undertaken in conjunction with Joint Procurement and incorporated under a recognised Framework Agreement. However, due to the potential extent of the contractual period, it is considered beneficial that a thorough review should be undertaken after four years to facilitate potentially going out to tender again if this is considered to be necessary.
5. In respect of the previous contract term, the TP management accounts for the operational year 2014/15 include a year-end sales shortfall of £49,800 which would have contractually resulted in a 50% contribution payable by Bolsover DC of £24,900 (50%). This contractual obligation to pay 50% of the shortfall was also confirmed in writing by the TP Project Manager – Managed Services in April 2015. However, when challenged the contribution was waived and the reason provided by TP was stated as due to; ‘Our successful and continued relationship’. TP have alleged that the decrease in profitability in 2014/15 is due to reduced rebates received from suppliers and have suggested that some items are profitable and others are not. The actual Bolsover District Council expenditure in 2014/15 of £1,113,000 represents a shortfall of £87,000 on the £1,200,000 annual turnover as stated in the invitation to tender. If the previous contractual profit share / contribution of 9% were applicable to the Bolsover District Council financial position then the actual contribution would be £7,830 (9% of £87,000) as compared to the overall amount claimed by TP of £24,900 originally stated as being owed. The financial impact for Bolsover District Council of such a reduced level of contribution would clearly not be as significant. Based on the management information presented, it is unclear how the higher contribution initially requested in 2014/15 relates to the financial position of the Council. The basis of the contractual obligations and

the subsequent impact on the profit share contribution resulting from the Council's financial position should be fully understood and the related management information should be clear and transparent.

6. The TP management accounts for 2014/15 disclose increases in staff costs and overtime payments. TP establishment costs relating to head office interest charges and regional charges have increased overall by £20,000 in 2014/15 as compared with the 2013/14 financial year. There would not appear to be any justification for the increase in these charges or any clear understanding of why these costs have increased. The TP management accounts are not transparent and the basis of the profit levels is unclear.
7. Guidance relating to the tender preparation requirements was included within the previous Internal Audit Consortium Stores report, dated October 2013, as stated in the following recommendation:-
  - 'The client monitoring role and management information requirements should be fully considered and defined in preparation for the re-tendering of the Stores contract'.
8. Within Finance, sample checking is undertaken of collection advices to the consolidated invoice to confirm materials issued reconcile to items charged. Additionally, checks are also completed within Finance to ensure all credit notes are accounted for on the consolidated invoice. Also, as part of the operational checks undertaken by the previous Housing Voids and Welfare Manager, monthly purchases by user was reviewed to identify expenditure by purchase card-holder to determine highest spends or unusual spend patterns for further investigation. It is also acknowledged that there was a period during the previous contract where a key member of staff who had operational responsibilities for Stores had left the employment of the Council.
9. The invitation to tender refers to the contract being primarily with Bolsover District Council. However, there is also reference to being available for use by any other local authority in Derbyshire and further options for the partners at Chesterfield Royal Hospital to join the managed services at any point during the term of the contract. The invitation to tender also includes a reference to Chesterfield Royal Hospital stock value of approximately £100,000. TP have confirmed in writing that actual spend for Chesterfield Royal Hospital in the period July 2014 to May 2015 totalled £152,691. The tender submission received from TP includes details of the assistance provided in the partnership with Chesterfield Royal Hospital through the involvement with the TP Assistant Store Manager and proposals to develop this partnership further which are clearly stipulated in the tender submission. It is acknowledged that TP are contractually liable for all stock holding at Riverside Stores.

10. The value of stock issues as recorded in the HRA account on the General Ledger (GL) in 2014/15 amounted to £1,063,245 which equates to an average monthly purchase level of £88,603. This can be compared to the purchase level in quarter 1 of 2015/16 which for the months of April and May provides an average monthly spend of £81,554. Through extrapolation, this level of spend would only generate £978,648 of stock issues in respect of Housing associated stock items and would require a spend level in excess of £220,000 from General Fund to equate to the £1.2 million quoted in the invitation to tender. It is also acknowledged that an increased level of stock is generated as a result of the agreed partnership which utilising the TP Stores at Riverside Depot and this will increase turnover and profit share potential. However, it is considered that there is a risk to the attainment of target turnover and profit share due to the average monthly expenditure in 2014/15 and 2015/16 to date.
11. It is noted that partner contributions to overheads do not form part of the specification or draft contractual documentation, this position has also been confirmed during discussions with the Principal Accountant. Consequently, the increased overhead costs incurred by TP as a result of increased stock throughput at the Riverside Depot from purchasing by partnership organisations are solely chargeable by TP to Bolsover DC.
12. Overall, it is considered that the contractual obligations and service provision demands including; income and expenditure levels, turnover and profitability and the attainment of value for money have not been fully considered or arrangements to deliver these objectives have not been embedded. There is considered to be a need for the establishment of a wider client management function which constitutes a mix of operational, financial and legal representation to ensure that contractual obligations provide value for money.

### Recommendations

<b>R1</b>	The Council should ensure that the contractual arrangements are completed and finalised as a matter of urgency in order to protect the Councils position. <b>Priority: High</b>
<b>R2</b>	Effective management and monitoring arrangements need to be put in place with regular dialogue with TP concerning overall performance <b>Priority: High</b>
<b>R3</b>	A client management group should be established to ensure that the necessary range of skills and experience are available to manage the contract. <b>Priority: High</b>
<b>R4</b>	The reason for the overhead costs increase of £20,000 in comparison with the previous year and the basis of the operating profit is unclear from the management accounts. It is imperative that the management accounts are

	<p>transparent and clearly understood to enable detailed and regular monitoring to be undertaken and regular dialogue regarding financial performance to be established with TP.</p> <p><b>Priority: High</b></p>
<b>R5</b>	<p>Management need to ensure that there are appropriate arrangements in place in relation to third parties using the Riverside Stores facility. In particular the potential increase to our costs is recognised and this needs to be balanced against the risk that service to our own employees in terms of waiting times increase and stock availability diminishes.</p> <p><b>Priority: High</b></p>
<b>R6</b>	<p>At the time of the audit there was clearly an issue that the role and responsibility of the previous Voids and Welfare Manager had not been fully assimilated into the new structure. It is important that management has a full understanding of these contractual arrangements in order to ensure that the contract is effectively managed.</p> <p><b>Priority: High</b></p>

### Internal Audit Report – Implementation Schedule

<b>Report Title:</b>	Stores 2015/16	<b>Report Date:</b>	3 <sup>rd</sup> August 2015
		<b>Response Due By Date:</b>	24 <sup>th</sup> August 2015

	Recommendations	Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
<b>R1</b>	The Council should ensure that the contractual arrangements are completed and finalised as a matter of urgency in order to protect the Councils position.	H	Y	Hsg Strategic Repairs Manager / Client Group	Oct 2015			While the final contract has not yet been signed there is written agreement in place that both parties are working to the previously agreed contractual arrangements. Once clarification of outstanding issues around third party use of the stores and profit sharing is resolved then the contract will

Recommendations	Priority (High, Medium, Low)	Agre ed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
			Officer	Date			
							be finalised.
<b>R2</b>	Effective management and monitoring arrangements need to be put in place with regular dialogue with TP concerning overall performance.	H	Y	Hsg Strategic Repairs Manager / Client Group	Sept 2015		Qtlly Strategic Meetings and monthly operational meetings have now been put in place.
<b>R3</b>	A client management group should be established to ensure that the necessary range of skills and experience are available to manage the contract.	H	Y	Asst Dir Hsg	Sept 2015		A Client Monitoring Group has been established chaired by the Asst Director Housing and including reps from legal and finance.
<b>R4</b>	The reason for the overhead costs increase of £20,000 in comparison with the previous year and the basis of the operating profit is unclear from the management accounts. It is imperative that the management accounts are transparent and clearly understood to enable detailed and regular	H	Y	Client Group	Oct 15		The delay in agreeing the final contract is in part due to negotiations concerning overhead apportionment and to ensure



Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
	monitoring to be undertaken and regular dialogue regarding financial performance to be established with TP.							that BDC benefits from 3 <sup>rd</sup> Party use of the stores facility. See also response to R 3 (above).
<b>R5</b>	Management need to ensure that there are appropriate arrangements in place in relation to third parties using the Riverside Stores facility. In particular the potential increase to our costs is recognised and this needs to be balanced against the risk that service to our own employees in terms of waiting times increase and stock availability diminishes.	H	Y	Client Group	Oct 15			Officers are currently negotiating the contractual arrangements to ensure BDC secures an appropriate 'profit share' from these arrangements. Officers will monitor the position to ensure that 3 <sup>rd</sup> party use is not detrimental to BDC services.
<b>R6</b>	At the time of the audit there was clearly an issue that the role and	H	Y	Asst Dir Housing	Sept 2015			The audit was undertaken

Recommendations	Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
			Officer	Date			
responsibility of the previous Voids and Welfare Manager had not been fully assimilated into the new structure. It is important that management has a full understanding of these contractual arrangements in order to ensure that the contract is effectively managed.							during a period of transition in both the contractual arrangements and in the service structure. The structure is now resolved and a robust Client group is in place.

Please tick the appropriate response (✓) and give comments for all recommendations not agreed.

Signed Head of Service:		Date:	
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**Appendix A**

<b>Definitions of Conclusions:</b>	
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.