

Southend-on-Sea City Council

Agenda
Item No.

Report of the Deputy Chief Executive and Executive Director Finance and Resources

To

Audit Committee

20 July 2022

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and John Burr, Interim Executive Director of
Neighbourhoods and Environment

Vecteo update

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made in delivering the work required in respect of the special educational needs and disability (SEND) passenger transport provision provided by Vecteo, that was agreed by resolutions of Council on 25 November 2021.
- 1.2 To provide a summary overview of the findings of the work that has been undertaken, including the main themes and the key actions planned to improve the current service and to ensure improvements for any such service delivery vehicles used in the future, and to note the progress that has been made with the Council's arrangements for working with the company.

2. Recommendations

- 2.1 **The Audit Committee notes (i) the findings from the review work requested in respect of the SEND passenger transport contract, and (ii) the progress that has been made with the Council's arrangements for working with Vecteo.**
- 2.2 **That the Audit Committee requests that a further update on progress and delivery of the agreed actions contained within the different reports as detailed at Council minute 486 of the 25 November 2021 be brought back to the Audit Committee in January 2023.**

3. Background

- 3.1 Further to the report that was presented to the Committee on 23 March 2022, audit work has been continuing to review the actions and revised arrangements that the Council's is undertaking with Southend Travel Partnership Limited, otherwise known as Vecteo.
- 3.2 As was previously reported to the Committee new transport arrangements commenced to transport around 350 SEND students to and from their respective educational establishments. This new service performed poorly with some serious incidents occurring in the first few weeks. As a result of difficulties that had been experienced by service users, at Council on 25 November 2021 four resolutions were agreed (Minute 486).

3.3 Of the four resolutions work was required from internal audit in respect of resolutions two and three, and work was required from other departments of the Council in respect of resolution four. The findings and status of those pieces of work are reflected in this report.

3.4 The report to Audit Committee on 23 March summarised the major themes from the different pieces of work, so these will not be repeated in this update report, however it will provide the latest position in respect of the work requested by the Council resolutions.

4. Council Resolution 2: PricewaterhouseCoopers (PwC) investigation into delivery of the contract

4.1 In this review, PwC directly interviewed Vecteo staff and inspected records to understand Vecteo's systems processes and controls. In particular, PwC assessed Vecteo's ability to demonstrate whether it is meeting the contract's Minimum Service Requirements (MSRs), as well as Vecteo's regular Management Information reporting to the Council.

4.2 The key findings were included in the report to the Committee on 23 March, but at that time the report had not been fully finalised. The report has now been agreed with Council management and with the Vecteo Board at their meeting on 4 May 2022, when they agreed to deliver their elements of the management actions, specified individual officers that would work with the Council to do so and the timelines within which this would be done.

4.3 The full report is attached at **Appendix 1** for the Committee's information.

5. Council Resolution 3: Internal Audit (Mazars) investigation into awarding of the contract

5.1 Work has been undertaken by the procurement specialist auditor from Mazars reviewing the following areas of the award of the contract:

Area 1: Strategic Assessment and Business Justification (Strategic Outline Case)

5.2 A report from Corporate Procurement was presented to the then People Directorate Management Team on the 14 July 2016 and recommended that:

'... SBC changes the current way it runs passenger transport to address day to day issues, improve operational inefficiencies and lower the cost of service delivery.'

5.3 The July 2016 report was taking forward an earlier '*Passenger Transport Services Review*' that had itself been informed by earlier feedback sessions held with both the then current providers of the services and service area of the Council that had identified several issues.

5.4 This work was brought forward in two separate reports to Cabinet on 7 November 2017:

- Passenger Transport – Policy Changes: setting out the proposed changes that would be introduced in respect of the Council's policies for providing passenger transport
- Passenger Transport – Operating Model and Procurement Process: setting out the proposed approach to implementing a new operating model for passenger transport and the procurement process that would be followed to deliver that.

- 5.5 The business justification for making changes to the Council's passenger transport arrangements was clearly set out in 2016 and has remained consistent to date.

Area 2: Procurement Governance (including Change Authority)

- 5.6 A formal governance structure was first noted in the '*Passenger Transport (PT) Procurement Review Group*' report on 22 December 2016.
- 5.7 Of three options, it recommended that as the Department of People has the remit for passenger transport as a business area, that its Major Project Board was an appropriate governance structure to oversee the procurement. However we have not been provided with any evidence of involvement of the Major Project Board.
- 5.8 Various iterations of documents identified key project team and procurement roles throughout 2016 to 2018, including the appointment of an external transport consultant 'STAR'. Various iterations of documents have identified project and procurement timelines that have needed to be revised on a number of occasions.
- 5.9 One issue has been identified in respect of the oversight provided by the Major Project Board.

Area 3: Contract Strategy

- 5.10 To develop detail for the strategic outline case, an external transport consultant was appointed to review existing practices and undertake an in-depth analysis.
- Phase 1 Consultation*
- 5.11 A Phase 1 review was undertaken during the latter half of 2016 by the external transport consultant. This involved in-house consultation with all service areas that commissioned and procured transport, and external consultation with some other Local Authorities, some then current transport providers and potential transport providers. The review identified a number of key issues, including a lack of strategy and policies related to eligibility to receive services and a need to address the balance between price and quality of service provision.
- 5.12 A '*first communication*' with Schools, Day Centres for Adults with Learning Disabilities, Users for Dial-a-Ride and Parents / Carers of those using those facilities was undertaken to inform them of the review, intention to streamline and improve the service, review existing policies and invite feedback as part of Phase 2.
- Phase 2 Consultation*
- 5.13 A Phase 2 consultation exercise was undertaken between 14 July 2017 and 10 October 2017 and was reported in a '*Consultation – Users and Stakeholders Feedback Report*'. The document noted responses to key questions, identified key concerns and made recommendations to take forward into policy reviews. Annexes to the report note the then current status of the service provisions and then clearly sets out the proposed changes for each of them.
- 5.14 The results of this work and detailed policy documents for the four areas under review were set out in the report to Cabinet on 7 November 2017 '*Passenger Transport – Policy Changes*'. The initial policy documents are consistent with the outcomes of the consultation document.

- 5.15 Cabinet resolved to approve all four policies without amendment. The decision was called in to Policy and Resources Scrutiny Committee on 30 November 2017. It noted that it had a number of issues concerning impact on vulnerable people; changes to Dial-a-Ride service and operating times and was concerned that the matter had not been considered by the People Scrutiny Committee. Therefore the committee resolved that the matter be referred back to Cabinet for reconsideration and that following that, the matter be eligible for call in to People and Policy & Resources Scrutiny Committees.
- 5.16 The policies were reconsidered by Cabinet on 9 January 2018 where it was noted that it had considered a revised report, although we did not note any discernible differences in the report or appendices (that contained the policies) to it.
- 5.17 Cabinet resolved that all four policies be approved, concluding the policy consultation and designs with no amendment from the original policy documents proposed, those having been consistent with the outcomes of the '*Consultation – Users and Stakeholders Feedback Report*'.
- 5.18 No issues have been noted in this area of work.

Area 4: Market Building

- 5.19 On its appointment in 2016, the external transport consultants undertook a Phase 1 Consultation with current and other economic operators which led to the '*Passenger Transport (PT) Procurement Review Group*' report in December 2016 noting the output of the review and making provision for a further Phase 2 consultation.
- 5.20 The phase 2 consultation included undertaking further research and analysis of three recommended delivery models as well as exploring other options with six potential alternative suppliers. Nine current suppliers were informed of the intention to tender the service provision. The Phase 2 consultation was therefore wide and included a variety of larger and smaller service providers.
- 5.21 Prior to the procurement phase starting in July 2018, a '*Provision of an Integrated Transport Solution Supplier Information Event*' was held on 9 March 2018.
- 5.22 No issues have been noted in this area of work.

Area 5: Procurement Strategy (Outline Business Case, Options Appraisal and Authorisation to Proceed to Procurement including Scheme of Delegation and Authorisation of Exemptions / Waivers)

- 5.23 As a precursor to recommending and deciding an appropriate procurement route, it was necessary to determine a preferred passenger transport operating model.
- 5.24 The '*Passenger Transport (PT) Procurement Review Group*' report in December 2016 presented five operational models identified by the external transport consultants each of which would require specific procurement processes to realise. Three were taken forward for further consultation and consideration.
- 5.25 The Phase 2 consultation with then current and some other transport suppliers took place between 1 January and 14 April 2017 and considered the three sustainable delivery models previously identified.

- 5.26 The report to Cabinet on 7 November 2017 '*Passenger Transport - Operating Model and Procurement Process*', resolved that a partner be procured 'to develop a 'For Profit' JV partnership as the recommended operating model for providing all its passenger transport services' and that a 'full procurement procedure (either competitive dialogue or open procedure)' be used to procure that.
- 5.27 This confirmed the delivery model as recommended by the Passenger Transport Review. The decision was called in to Policy and Resources Scrutiny Committee on 30 November 2017 at which it noted the decisions of Cabinet.
- 5.28 The confirmed procurement procedure was reconsidered by Cabinet at its meeting on 9 January 2018 where it resolved that competitive dialogue be used as the procurement route to secure a preferred JV partner.
- 5.29 The approved procurement route of competitive dialogue is what was used for the procurement, and therefore no approvals of exemptions were required.
- 5.30 No issues have been noted in this area of work.

Area 6: Procurement (Advertising and Selection of Economic Operators)

- 5.31 A Contract Notice, '*United Kingdom-Southend-on-Sea: Repair and maintenance services 2018/S 130-296719*' was published in the Official Journal of the European Union on 10 July 2018 in accordance with the Public Contracts Regulations 2015.
- 5.32 The Contract Notice is complete and consistent with the requirements as detailed in the Council's contract strategy. The estimated value and type of procurement were accurately stated. The procurement was managed within the ProContract e-procurement portal and was transparent. Economic operators were financially and technically evaluated in accordance with the supplier qualification requirements. All elements of the tender documentation were made available to all the selected bidders at the same time via the ProContract e-procurement portal. Economic operators opting out were given the opportunity to provide their reasons for doing so via the ProContract e-procurement portal.
- 5.33 No issues have been noted in this area of work.

Area 7: Procurement (Assessing Value for Money) and Authorisation to Proceed to Award of Contract (Full Business Case)

- 5.34 Tender receipt, opening, recording reporting and tender evaluation was conducted by officers in a transparent manner. All tender evaluation records were retained and are available in the ProContract e-procurement portal.
- 5.35 A report to Cabinet on 12 March 2019 '*Passenger Transport - Operating Model and Procurement Process*' reported the results of the procurement.
- 5.36 The decision was called in to the People Scrutiny Committee on 9 April 2019 and the Policy and Resources Scrutiny Committee on 10 April 2019.
- 5.37 The People Scrutiny Committee noted a number of questions about the report and the Cabinet Member for Infrastructure agreed to provide further information on the delivery and operation of the passenger transport services. The committee recommended that the matter be referred back to Cabinet for reconsideration. However, the decision to refer the matter back was then referred up to Council.
- 5.38 Likewise, the Policy and Resources Scrutiny Committee resolved that the matter be referred back to Cabinet for reconsideration. However, the decision to refer the matter back was then referred up to Council.

- 5.39 Council subsequently approved all the previous recommendations on 17 April 2019 and a motion for reference back was not carried.
- 5.40 The successful bidder was notified on the 18 April 2019 of its being the preferred bidder subject to satisfactory conclusion of the mandatory Standstill period and compliance checks.
- 5.41 A Contract Award Notice was published in the Official Journal of the European Union on 16 March 2020 in accordance with the Public Contracts Regulations 2015.
- 5.40 No issues have been noted in this area of work.

Area 8: Contract Variations

- 5.41 Whilst clause 2.7 of the 'Strategic Partnering Agreement between Southend-on-Sea and London Hire Community Services Limited' makes provision for continuous improvement, it is negated by the effect of clause 2.8 noting the non-binding nature of the entirety of Section 2 due to its being explained at clause 2.2 as *'The aim of this clause 2 is to identify the high level principles which underpin the delivery of the parties' obligations under this Agreement and to set out key factors for a successful relationship between the parties'*.
- 5.42 The 'Strategic Partnering Agreement between Southend-on-Sea and London Hire Community Services Limited' makes provision for additional services and new projects to be provided and the manner in which they are to be provided.
- 5.43 However no contract variations have been implemented since the inception of the contract.

Area 9: Financial Arrangements

- 5.44 Section 9 of the 'Strategic Partnering Agreement between Southend-on-Sea and London Hire Community Services Limited' makes provision for payment mechanisms.
- 5.45 The Council's financial management system has been adequately configured with cost centres and subjective codes to be able to monitor payments made to the JV and regular and timely monthly management accounts for the JV have been produced since March 2020.
- 5.46 No major issues with the arrangements put in place were noted, however it is recommended that financial indicators to compare between the cost for current service delivery under the current contractual arrangements compared to the cost for service delivery under the immediately preceding contractual arrangements is undertaken in this area to better understand the cost factors causing the current financial performance, recognising the significant changes that have occurred in input costs over the period since the contract began.

Area 10: Key Supplier Relationship Management, Risk Management and Business Continuity Management

- 5.47 The 'Strategic Partnering Agreement between Southend on Sea and London Hire Community Services Limited' makes provision for continuity of service delivery in a number of scenarios, however no business continuity plan was able to be provided and it has been recommended that business continuity plans and exit strategies and plans are produced. The Council has been working on business continuity plans, exit strategies and alternative service delivery options.
- 5.48 The results reported through section 5 above reflect the findings of the work that has been completed, as extracted from the draft report of detailed findings and recommendations that has been provided by Mazars.

6. Council Resolution 4 (i): A customer satisfaction survey be commissioned to establish how the service is currently performing

- 6.1 A survey was sent out to the email addresses of the families receiving SEND transport on 2 December 2021 and a hard copy was sent out via post with a self-addressed envelope for ease of return on 9 December 2021.
- 6.2 The results were included in the report to the Committee on 23 March, so have not been repeated here.
- 6.3 A further survey is planned to take place in August.

7. Council Resolution 4 (ii): A report on monitoring Vecteo's performance under the Contract be submitted to each ordinary meeting of the People Scrutiny Committee

- 7.1 Reporting to the People Scrutiny Committee was undertaken at the meeting on 30 November 2021 (see minute 502), however this has not been continued due to the lack of accurate performance information being able to be provided by Vecteo, as referenced in the internal audit report at Appendix 1.
- 7.2 Performance information has been agreed as part of the response to the internal audit report and reporting has re-commenced with effect from the People Scrutiny Committee meeting on 6 July 2022. The report to that Committee acknowledges that further work is required to enhance the key performance indicators (KPIs) to both include subcontractors and to fully reflect the KPI reporting lines included in the Services Agreement.

Internal Audit report reviewing the Council's arrangements (September 2021)

- 8.1 This piece of work assessed the robustness of the Council's planned arrangements, as they were being developed, to ensure the delivery of an efficient, reliable, punctual & safe service that meets the needs and delivers the required outcomes for the vulnerable adults and children relying on the service, and is delivered at the right contractual price.
- 8.2 The audit considered the adequacy of the contract management team's processes and controls across five key areas: systems and processes; performance monitoring; governance; complaints; and payments. The Contract Management team had begun establishing the contract management processes and controls necessary to oversee the company's delivery of core services. However, at the time of the audit significant work remained to be completed to be able to robustly assess whether the provider was delivering the services to the required standard.
- 8.3 The full report is attached at **Appendix 2** for the Committee's information.

9. Additional actions undertaken to drive further improvements

- 9.1 It was clear in early September 2021 that there were significant issues with the Vecteo service delivery, and the Council therefore agreed to second the Highways contract management team into Vecteo to assist with improvements. This secondment lasted several months (approximately 4FTE) with the costs being fully recovered from Vecteo.
- 9.2 The scope of the Vecteo service delivery was due to be widened shortly after the start of the Autumn term but the decision was taken by Education and Highways that this should be deferred until the existing service scope could be delivered correctly.
- 9.3 Following the difficult start to the Autumn term both Michael Marks (Executive Director (Children & Public Health)) and John Burr (Interim Director of Highways & Parks) attended weekly meetings with the Southend SEND Independent Forum group, which was a task and finish group set up to assist with the service improvement.
- 9.4 A Vecteo Gold command group was set up which met weekly to ensure a consistent and service wide approach to driving improvements. This group consisted of the Executive Director (Children & Public Health) and the Executive Director (Neighbourhoods & Environment), as well as attendees from Legal, Procurement, Communications, Highways and Education.
- 9.5 The manager of Vecteo left the company and a senior manager, from LHCS has been seconded into the role until a permanent replacement can be recruited.
- 9.6 Glyn Halksworth (Director of Housing) from March 2022 and Pete Bates (Interim Director of Financial Services) from April 2022 have been appointed as new SBC Directors to the Vecteo company board.
- 9.7 Giles Gilbert (Assistant Director for Legal Services) has attended one of the Vecteo company board meetings to ensure that any corporate governance matters that need to be completed are so done, including the filing of the company's audited financial statements for the period ended 31 August 2021 that took place on 5 May 2022.
- 9.8 The Council's People Scrutiny Committee met on 20 April 2022 to consider the audit findings and the current situation in respect of the services and the company, and made resolutions to drive further consideration and challenge of the situation aimed at improving the services and identifying the optimum delivery structure for the service.
- 9.9 Andrew Barnes (Head of Internal Audit and Counter Fraud) attended the Vecteo Board meeting on 4 May 2022, to present, obtain agreement and commitment to delivery of the recommended management actions.
- 9.10 The Shareholder Board meeting on 12 July is considering the alternative structure and company options that can be explored whilst improvements to existing arrangements are being implemented.

10. Updates to Council arrangements

10.1 The Council has also made amendments to the arrangements that it has in place to manage its relationship with the company. This involves:

- clarifying the roles and responsibilities within the Council, recognising the separate roles as owner and client
- the recognition of a corporate owner to have the necessary delegations from the Shareholder Board to deliver this role effectively on behalf of the Council
- replacement of both of the Council's Directors on the Vecteo Board, to enhance the representation that can be provided to the Board, with that change in personnel also enhancing the resource available within the Council for contract management of Vecteo, so that the Council can hold the company to account for delivering in accordance with the services agreement.

10.2 These changes have helped to address some of the issues that have been identified through the different pieces of work that needed to be resolved. However these improved arrangements need to continue to with the work that is being done to achieve the improvements to service delivery and financial performance that is being sought by all stakeholders.

11. Summary

11.1 It is clear that the service has significantly improved since the major and serious challenges in early September 2021. This is due to the extremely hard and urgent work of all those involved (both the Council and Vecteo). This work has most often been reactive to circumstances and has not always been in a planned and structured way.

11.2 The different views on service expectations and contractual requirements between the Council, Vecteo and LHCS are being worked through to address the challenges that have been experienced.

11.3 If the necessary improvements (both contractual and reputational) are to be achieved, all stakeholders will need to have a similar understanding as to the service levels required from the contract, and how differing views and requirements can be considered and resolved.

12. Reasons for Recommendations

12.1 Internal audit is an assurance function providing assurance to assist the Audit Committee to effectively discharge its responsibilities as per its Terms of Reference. The Audit Committee should recognise the assurance that can be taken from the work that has been completed to date, but request that an update to provide further assurance be provided at the January 2023 Audit Committee meeting.

13. Corporate Implications

13.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes. This work contributes in particular to Safe & Well and Opportunity & Prosperity.

13.2 Financial Implications

The Council has set a budget for the planned expenditure on this service activity that is currently being exceeded. This situation will not be sustainable into the long term and work is being undertaken between each of the parties to address this.

13.3 Legal Implications

The Council has a statutory duty to provide a home to school travel and transport service and is guided by statutory guidance for local authorities in respect of that provision.

13.4 People Implications

Many of the customers of this service are vulnerable children and adults, and therefore this needs to be taken into account in any decisions that are reached by the Council.

13.5 Property implications

The service utilises a fleet of vehicles that are required to transport the service users.

13.6 Consultation

Various consultation about the service has been undertaken as part of the understanding service provision and the potential market for delivery.

All terms of reference and draft reports are discussed with the relevant Managers, Directors or Deputy Chief Executive before being finalised.

13.7 Equalities and Diversity Implications

As the JVC proposals involved a re-modelling of service delivery there was a requirement for the procurement and service area leads to conduct an Equality Analysis that was undertaken on the basis of the proposed policies.

13.8 Risk Assessment

There was always a degree of risk in setting up a JVC with a third party. In the context of this service there is risk to users if the service is not delivering in an effective manner and in accordance with the policies set out in the service agreement.

It was considered unlikely that the creation of the JVC would cause significant financial risk to the authority other than the loss of one-off set up costs should the company fail at an early stage, however there are other financial risks arising if the JVC is unable to deliver the expected service and the costs become higher than was anticipated.

There is also the potential for risk to reputation through negative media campaigns and dissent from incumbent suppliers or users, such as parents who would have preferred to retain the previous transport arrangements, and in the event of the service not delivering in accordance with requirements.

13.9 Value for Money

The creation of the JVC aimed to enhance value for money through streamlining service delivery and reducing the number of current external contracts and in-house services.

The JV model was also expected to offer an improvement in quality and ultimately the potential for income generation and profits to be split between shareholders.

13.10 Community Safety Implications

The JV partnership aimed to provide a comprehensive service that ensures access to suitable transport as required by clients.

13.11 Environmental Impact

Improved route planning and the reduction in need for transport across the borough was expected to lead to a reduction in traffic and travel, which would lower the environmental impacts generated compared to the previous arrangements.

14. Background Papers

- Audit Committee 23 March 2022 agenda item 3: Vecteo Update
- People Scrutiny Committee 20 April 2022 agenda item 4: Vecteo update
- Shareholder Board 12 July 2022 agenda item 8: Part 2 private agenda item: London Hire Community Services (LHCS) and Southend Travel Partnership Ltd (T/A Vecteo) Update

17. Appendices

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| Appendix 1 | Internal Audit report (PWC): Transport Joint Venture – Contract Management of Core Services (May 2022) |
| Appendix 2 | Internal Audit report (PWC): Transport Joint Venture – Contract Management of Core Services (September 2021) |