



...Making the Difference...

[Click here to go to the Management Summary](#)

Use the keyboard keys Ctrl+Home to return to this page at any time

**Audit and
Investigations Division**

Report on the Audit of Waste Recycling Improvement Project

December 2005

To save your time and as our contribution to helping the environment this document is designed to be read on-screen. Please click on one the links below:

[Management Summary](#) From there you can click on further links if you wish to see the relevant sections of the Detailed Report.

[Summary Report to Audit Committee](#)

[Recommendations and Action Plan](#)

[Full list of Contents](#) From there you can click on any of the items it lists to see the relevant parts of the Detailed Report.

Report on the Audit of Waste Recycling Improvement Project

Contents

Summary Reports..... 2

- Report to Audit Committee..... 2
- Management Summary (with hyperlinks to Detailed Report) 3
- Recommendations and Action Plan 4
- Detailed Report 4
- Detailed Report 5
- Acknowledgement..... 5
- Audit Methodology 5
- Introduction and Background 5
- Project scope and funding arrangements..... 6
- Financial Control 7
- Risk Management 9
- Project Outcome 11
- Roles and Responsibilities 12
- Project Planning 13
- Procurement 13

Appendix A: Terms of Reference22

Report on the Audit of Waste Recycling Improvement Project**Summary Reports****Report to Audit Committee****Background Information**

This review was undertaken at the request of the Executive Director Environment and Safety. The objective was to review project implementation and confirm compliance with Grant conditions, HBC procedures, obtaining of Best Value and efficient use of resources.

The audit approach has been to review files and hold discussions with relevant Officers. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Audit (Institute of Internal Auditors, 2003).

Overall Audit Assessment: D: Poor.

Some controls are in place and functioning; however, some major issues relating specifically to the project were noted. The project is now nearing completion, too late to recommend improvement on all control weaknesses identified, however a small number of improvements are still possible and some High / Medium recommendations have been made to address these issues.

Key Findings

- Late approval of the bid resulted in very little time being available to ensure the project was completed in a sufficiently well controlled manner. Approximately 10% of the grant was not spent.
- A contract for the installation of the Material Reclamation Facility (MRF) was not finalised sufficiently soon enough to minimise risk to the authority.
- The budget has been exceeded by approximately £220k primarily due to the need to purchase additional sacks and transport of materials to Rye and temporary storage. Further costs may be incurred in disposing of these materials.
- Officers have taken several procurement decisions that were not within their delegated authority. There is a possibility that in some single tender cases alternative options could have been pursued, possibly at less cost to the authority. Control improvement (through training and closer supervision) is required to ensure future compliance with standing orders.
- Project file documentation is not comprehensive and this has weakened the audit trail.

Management Response

The Executive Director Environment and Safety has agreed an improvement action plan.

Report on the Audit of Waste Recycling Improvement Project**Management Summary (with hyperlinks to Detailed Report)****Overall assessment: D**

Some controls over project deliverables are in place and functioning. However some services for which grants were received were not completed by target dates and approximately 10% of the DEFRA / Waste and Resources Action Programme grants has not been claimed. Some major issues were noted. There has been a substantial increase in expenditure due to the failure to have the recycling facility operational by 1/4/2005. Contract arrangements based upon the authorities conditions need to be finalised before work commences. Control over compliance with Standing Orders needs to be significantly improved.

Risk management measures to identify and control risk: D

No project risk assessment was undertaken. Contingency amounts were not included in bids for external funds. Health and safety aspects of the Recycling facility have not been adequately considered. Business continuity arrangements for recycling should be reviewed.

Quality Controls to ensure effective project delivery: D

A detailed project plan was not prepared. Supervision of temporary appointees / consultants to ensure quality of work provided has been poor. Contracts with Suppliers were not based upon the authorities conditions, a key contract was not in place before work commenced and copies of some contracts were not held on project files.

Controls to ensure value for money: D

There is evidence that best value has been obtained on some services, however several instances were noted where there had been no competition and delegated authority for exemption had not been obtained. There has been substantial unplanned expenditure incurred resulting from the need to temporarily store materials whilst awaiting project completion.

Financial controls to ensure accuracy and probity: D

Regular meetings took place between Financial Services and the Waste Team to discuss financial progress however no specific Account Code was set for the project. Substantial revenue costs have been incurred as a result of the project and these should have been made known to the Deputy Chief Executive.

Measures taken to ensure the efficient use of resources: D

Approximately 10% of the DEFRA / Waste and Resources Action Programme grants has been lost. Errors have occurred in goods ordered which has resulted in a loss of grant money. Control over some aspects of sack ordering and distribution has been weak and resulted in additional expenditure that is not recoverable. A significant increase in expenditure has occurred due to the late commissioning of the Recycling facility.

[Go to the Recommendations and Action Plan](#)

[Go to the Report to Audit Committee](#)

[Show the full list of Contents \(then click on the items you wish to see\)](#)

Report on the Audit of Waste Recycling Improvement Project

Recommendations and Action Plan

No	Recommendation	Priority	Target Date	Implementation Officer	Management Comment
1	That the circumstances that have led to the increase in expenditure on the budget be reported to Cabinet and virement requested.	High	Jan-06	Executive Director Environment and Safety	Agreed
2	That H & S activity and building risk assessments are undertaken immediately, these should consider current and future arrangements to ensure risk is minimised from the date the equipment is first used. It would be prudent to review these arrangements shortly after full operations commence to ensure the adequacy, of procedures and compliance.	High	Dec-05	Executive Director Environment and Safety	Agreed
3	That Business continuity arrangements for refuse collection, street cleaning and recycling are reviewed for risk and adequacy.	Medium	Jun-06	Executive Director Environment and Safety	Agreed
4	a. That vehicles and plant valued over £10,000 are notified to Financial Services at year end for recording on the asset register	Medium	Apr-06	Executive Director Environment and Safety	Agreed
	b. That smaller items of plant and the cabin are recorded as inventory items pending their possible transfer to the new waste operator.	Medium	Apr-06	Executive Director Environment and Safety	Agreed
5	That an early decision is reached on the disposal of materials stored at Rye.	High	Dec-05	Executive Director Environment and Safety	Agreed

Priority Classifications:

High = Fundamental System Weakness - Action is Essential

Medium = Potential Control Weakness - Action Required

Report on the Audit of Waste Recycling Improvement Project

Detailed Report

Acknowledgement

1. Audit Services thank the staff and management of the Environment and Safety Directorate for their co-operation and assistance throughout the audit.

Audit Methodology

2. The audit approach has been to review files and hold discussions with relevant Officers.

Introduction and Background

3. The audit was undertaken at the request of the Director Of Environment and Safety.
4. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Audit (Institute of Internal Auditors, 2003).
5. In 2003 the Chief Executive expressed concern on what appeared to be failing performance with regard to BVPI 82A – Household Waste Recycled.
6. The relevant performance data for the period in question was:

	2003			2004			2005	
	30/6	30/9	31/12	31/3	30/6	30/9	31/12	31/3
Performance	10.38	10.72	11.05	11.01	10.62	10.98	10.96	10.92
Target	12	12	12	12	12	12	12	12

7. It was generally accepted that the authority was struggling to meet the 12% Central Government imposed target. A number of small bids relating to recycling were submitted, then in late 2003 the Department for Environment, Food and Rural Affairs (Defra) announced a 2 year Waste Minimisation and Recycling Fund and invited bids from local authorities. Councils were in competition for these funds. Brighton University was already actively assisting other authorities in the preparation of their bids and approached HBC to offer their services in the preparation of the HBC bid on a no win no fee basis.
8. The Council's adopted strategy to improve recycling performance required that house holders be asked to separate paper, card, mixed plastic and cans at source. Paper is covered by the existing black box kerb side collection scheme but the collection area would be enlarged, requiring rescheduling of collections and an additional crew. The remaining 3 categories would be catered for by the introduction of coloured coded bags. Householders would be asked to separate at source. The authority needed 2 additional vehicles to collect these bags and a site to accommodate a bag splitter, separator and baler. These capital costs were substantial therefore external funding through the DEFRA 2 year programme would need to be sought.
9. At this point in time the Waste Team was deeply involved in the preparation and invitation of new contract documentation for the Refuse and Street Cleaning Contract, which it was intended to let in November 2005.

Report on the Audit of Waste Recycling Improvement Project**Project scope and funding arrangements**

10. The DEFRA bidding process commenced during 2003 when the Waste Management Team was part of the Leisure and Culture Directorate. The services of Brighton University (who had experience of bids for similar projects elsewhere) were recruited to assist in the submission of the DEFRA bid. The Waste and Recycling Manager also attempted consultation with the authority's External Funding Manager to obtain assistance with the bidding process however the post was vacant at that time and was not filled until several months later. The assistant to the previous External Funding Manager was unable to provide any constructive assistance in the preparation of the bid.
11. Using the services of Brighton University a series of bids were made to DEFRA for funding but these bids failed. No detailed explanations were provided by DEFRA as to why. Then, following the intervention of Michael Foster MP, a meeting was arranged on 20/5/2004 with Elliot Morley MP (minister responsible for waste matters at DEFRA), Michael Foster MP and HBC representatives. Following this, further negotiations were held and a number of amendments made. A grant of £406,250 was subsequently approved by DEFRA on 19th October 2004.
12. Specifically the DEFRA grant provided for:
 - a. The purchase of 2 vehicles
 - b. Ordering, installation and commissioning of a sorting facility for 4 materials.
 - c. Preparation of site for sorting facility.
 - d. Hiring of collection and sorting crews.
 - e. Enhancing of the existing scheme to 4 materials.
 - f. Rolling out of the scheme to new households.
 - g. Installation and commissioning of the sorting facility at the Site.
13. A second application made to the Waste and Resources Action Programme was also successful, resulting in an award of £199,900 for a "Dry Recycling Multi Material Kerbside & Bring Bank Recycling Material Reclamation Facility Communications Campaign.
14. The Waste and Resources Action Programme grant provided for:
 - A Waste Awareness Officer.
 - A Door Stepping Campaign.
 - Expenses for Community involvement.
 - University Lead Lecture Series.
 - Newsletters.
15. Both grants were conditional on all project expenditure being completed by 31/3/2005; the authority undertook to meet this challenging target. (Waste and

Report on the Audit of Waste Recycling Improvement Project

Resources Action Programme has recently audited expenditure and confirmed they are satisfied that grant money has been properly spent). Any other expenditure incurred therefore falls outside of the scope and is a cost to the operational budget.

Audit Opinion

16. Risk of failure to obtain funds might, in our opinion, have been reduced by the early involvement of an experienced External Funding Manager and there is a possibility that the new External Funding Manager could have been involved and helped to achieve a successful bid somewhat earlier. Later in this report we highlight examples of non-compliance, unplanned expenditure and failure to fully utilise funds provided. It is likely that had funds been obtained earlier there would have been less pressure to complete the project within very tight time scales, risks would have been reduced accordingly and greater compliance might have been achieved.

Financial Control

17. The project scope was that detailed in the DEFRA / Waste and Resources Action Programme grants, project completion would be:
 - At the time of commissioning the equipment as ready for use;
 - Having completed the publicity campaign; and
 - Having provided sufficient sacks to the public to enable them to put materials out for collection until November 2005.
18. The DEFRA bid was made at a time when it was considered that a new Refuse and Street Cleaning contract would be in place by November 2005. Events delayed this until July 2006; this delay could not have been foreseen at the time bids were made. Audit and Investigations believe that any expenditure arising due to delay in letting a contract are operational costs and should not be considered as part of the project costs.
19. Testing found regular meetings were held between Financial Services and the Waste Team to discuss financial progress of the project, and assurances were given by the Waste Manager that all grant expenditure would be completed by the year-end. Testing found that the total reclaimed amounts to £545,715 against a grant figure of £606,150, a shortfall of £60,435.
20. Several Accounts codes were established for Recycling within the Waste Management Budget but a separate Account Code was not established for the totality of the Recycling project. Audit and Investigations believe lack of a specific project Account Code has weakened control of project expenditure. The project is now nearing completion and it is too late to establish an Account Code therefore we make no recommendation.
21. Testing found that a small number of project costs had been charged to the wrong Accounts Codes. Financial Services have needed to spend appreciable time identifying these and making appropriate adjustments. This is not an

Report on the Audit of Waste Recycling Improvement Project

effective use of officer time and incorrect coding increases risk of under claiming reimbursement of expenditure.

22. Testing also identified a small number of costs that were not included in the grant bid (and consequently the budget), these include:
 - [Training costs](#) of Supervisor and operating staff .
 - Purchase of a [rest room](#).
 - Ensuring the [Health and Safety](#) of Operating staff.
23. Substantial costs have also been incurred for [Temporary storage](#) of recyclates at Rye. These costs have arisen from the non-availability of the Material Reclamation Facility (Material Reclamation Facility) site to commence operations on time, these could probably not have been foreseen at the commencement of the project. Nevertheless impact upon financial planning, could have been reduced by establishing a contingency amount at the outset of the project.
24. Many elements of the funding bid were based on actual supplier prices and no evidence of an allowance for contingency was seen. Nevertheless it is reasonable to assume that large complicated projects such as this will encounter some unforeseen expenditure and allowance for this should have been made early in the project proposal stage.
25. [Financial regulations 9.6](#) require that excesses of more than 15% or £50k on capital projects be reported to Cabinet, Instructions for Revenue projects are contained in Standing Instructions to Chief Officers. In this particular case substantial additional costs have been incurred (caused mainly by French's failure to provide the Material Reclamation Facility facilities on time), Cabinet need to be advised of the need for virement.

Recommendation 1

26. That the circumstances that have led to the increase in expenditure on the budget be reported to Cabinet and virement requested.
27. The new recycling arrangements introduce changes to working practices that also have an impact on financial planning. Under the old arrangements the authority received payment from Aylesford Newsprint for material it collected from the authority (using its contractor – French's, as its haulage agent). Under the [new draft contractual arrangements](#) the authority may (depending on the final contractual arrangements which are currently being reviewed) incur substantial costs for storage and use of facilities at French's yard, this could continue for 5 years unless all running cost requirements are incorporated into the new waste management contract, even then it is likely that whatever the running costs of recycling are this will ultimately be recovered by the Refuse and Street Cleaning Contractor through contract prices.
28. Testing found that financial implications of the project were considered, assessed at approximately £50,000 per year, reported to Regeneration, Environment and Housing Portfolio Group on 10th December 2004 and

Report on the Audit of Waste Recycling Improvement Project

provision made for within the operational budget. Testing has found however that annual costs have risen substantially to around £250k and the Deputy Chief Executive was not kept informed.

29. Increased waste collection costs are probably inevitable although there should be extra income generated through recycling. The Deputy Chief Executive has now been advised of the circumstances.

Risk Management

30. External consultants (A C Associates Ltd.) were commissioned in 2004 to carry out a review of the Environmental Services Team in order to identify any necessary changes that might be required once the new waste contract was introduced. On 8.10.2004 the consultant expressed concern that, given the pressures on the Waste Team at the time and the amount of effort that would be required to implement the Recycling Project, he doubted that the project could be completed by the DEFRA imposed deadline of 31/3/2005.
31. This concern and the possible effect on the new waste contract were reported by the Environmental Health General Manager to the Director of Environment and Safety on 12.10.04. The true costs of introducing the Recycling Scheme were not fully known at that time and in his opinion there was potential for further costs once the new contract was let.
32. Testing found that despite the Consultants concerns there was no subsequent formal risk assessment of the Project at the proposal stage or when the grant was finally approved. It is also clear to Audit and Investigations that completion by 31/3/2005 would have been very difficult to achieve.
33. The Project is financially substantial and involves many activities, there was dependency upon many suppliers and activity would be at a time when the waste team were deeply involved in the new Waste Contract arrangements. Consequently it was inevitable that it would be subject to several types of risk e.g. delay through human and financial resource requirements, supplier dependency and quality of service provided by them.

Health and Safety

34. The project involves large items of plant, (e.g. sorter, Baler and Fork lift truck) all of which will be operated by operators currently employed by Brighton University, these posts will transfer to the authority as individual contracts with Brighton University expire and then to the new Refuse and Street Cleaning Operator in 2006. There is considerable heavy vehicle activity at the site and the nature of work (Refuse sorting) presents many other potential hazards.
35. Testing found that:
- The contract with Brighton University is based upon their conditions, which favour the supplier. Whilst Brighton University is the employer, much of the responsibility for Health and Safety has fallen to HBC.
 - Activity risk assessments and building assessments have not been undertaken. Whilst we accept that HBC is not the direct employer the

Report on the Audit of Waste Recycling Improvement Project

authority is employing operators indirectly through our contractual relationship. Audit and Investigations believe there is a shared liability along with French's and Brighton University.

- Personal protective equipment has been provided to the operators by the authority, however there is evidence that this is not always being used.

Recommendation 2

36. That Health and Safety activity and building risk assessments are undertaken immediately, these should consider current and future arrangements to ensure risk is minimised from the date the equipment is first used. It would be prudent to review these arrangements shortly after full operations commence to ensure the adequacy, of procedures and compliance.

Business Continuity

37. Audit and Investigations believe there are significant risks to business continuity for the Waste Team. The Civil Contingencies Bill requires authorities to have adequate business continuity arrangements in place. Terms of Reference require us to consider these requirements as applied to recycling however it will be appreciated that similar risks also apply to Waste Management generally. We believe the main risks are:

- Failure of the Refuse and Street Cleaning contractor
- Long-term staff absence.
- Failure of the Waste Transfer Operator.
- Material Reclamation Equipment Facility Failure.

Failure of the Refuse and Street Cleaning contractor

38. The authority is currently arranging for the renewal of the Refuse and Street Cleaning Contractor. In January 2005 Audit and Investigations discussed the need for ensuring Business Continuity arrangements for this activity with the General Manager Environmental Health in January 2005 and the General Manager Environmental Health undertook to review these arrangements.

Failure of the Waste Transfer Operator

39. Under current arrangements the authority is contracted to R French & Son Ltd for waste transfer. We understand that there are other licensed operators in the area but their facilities are said to be limited e.g. they do not have a weighbridge.

Material Reclamation Facility Equipment Failure

40. A further business risk is the possible breakdown of key equipment, notably the Material Reclamation Facility. We discussed this with the Waste Team who advised that they have considered risk and have confirmed that the manufacturer can respond sufficiently quickly to any major breakdown. The manufacturer will also be providing minor maintenance training to employees of French's and this will further reduce risk. Audit and Investigations are satisfied that this aspect has been adequately considered.

Report on the Audit of Waste Recycling Improvement Project*Long-term staff absence*

41. The Waste Team is a small one with a major public interface. Significant absence could have serious implications e.g. political / contract management / performance and customer satisfaction. Audit and Investigations believe therefore it is important that adequate business continuity arrangements are in place. Testing found that the Executive Director Communications and Organisational Development Directorate is reviewing Corporate Business Continuity arrangements. This will inevitably need input from the Operational Director and arrangements should ideally be in place before the new Refuse and Street Cleaning Contract is introduced in July 2006.

Recommendation 3

42. That Business continuity arrangements for refuse collection, street cleaning and recycling are reviewed for risk and adequacy.

Project Outcome

43. The Outcome of the Recycling Project for which funds were provided was to be:
1. Increased community participation. Implementation resulting in the ability of an additional 15,300 households to participate in a kerbside collection scheme which at an estimated 30% participation rate results in an additional 4,590 participating households. The current kerbside collection scheme to 26,660 households will be able to recycle an additional 3 items and it is estimated that this will result in an increased participation from 25% to 35% which is an additional 2,666 participating households.
 2. Increased awareness – the above, combined with an effective communications strategy will have a significant effect on awareness, which is anticipated to further increase the overall participation to the scheme.
44. The existing two crews that collect paper from black boxes would be supplemented by a third and rounds re scheduled to accommodate the extra card and mixed plastic that residents would be asked to segregate and put out for collection. The original bid envisaged two crews for central St. Leonards, Hastings Centre and the Old Town so that this area could have a weekly collection of separated recyclable materials, however the revised bids allowed for a single crew making fortnightly collection. Residents would be asked to use supplied sacks for segregation.
45. Separated materials would be taken to a Material Reclamation Facility. The new equipment would be sited at the premises of R French & Son Ltd., who are the only licensed waste transfer operator in the borough that currently has the required facilities.
46. It was envisaged that the successful delivery of the project would result in increased numbers of participating residents and enable compliance with Central Government recycling performance targets.

Report on the Audit of Waste Recycling Improvement Project**Roles and Responsibilities**

47. Responsibility for Waste Management was transferred from the Leisure and Culture Directorate to the Environment and Safety Directorate in 2003. Day to day responsibility for managing the recycling project was vested in the Waste and Recycling Manager who reported through the Environmental Health General Manager who reports to the Director for Environment and Safety.
48. Due to the very tight timescales for implementation and other commitments within the waste team it was felt necessary to recruit a Waste Awareness Officer to undertake and co-ordinate the many activities that would be required. The Waste Awareness Officer would report to the Waste and Recycling Manager, financial provision for the post was allowed for in the Waste and Resources Action Programme funding bid.
49. Enquiries at the time found that very little external assistance was readily available. However the Waste Team attend a number of local waste forums and through these they became aware of the availability of an officer from another authority, a CV was obtained and the officer appeared to have the relevant experience for the post. There was insufficient time to pursue other options through normal recruitment / procurement procedures therefore employment was arranged for the period December 2004 to March 2005. These arrangements were reported to the Regeneration, Environment and Housing Portfolio Group on 10th December 2004. Personnel have confirmed that a contract was arranged however neither they nor the Waste and Recycling Manager have been able to provide a copy of the contract or a copy of the Job Description. We cannot therefore ascertain with any certainty what the post holders specific responsibilities were.
50. The Waste and Resources Action Programme agreement further stipulated that the authority employ Brighton University to deliver the communications campaign. Accordingly in December 2004 Brighton University were contracted to provide Infrastructure advice and assistance. An agreement based upon their conditions was accepted, this defined their responsibilities as being:
 - To consult with HBC (the client) and equipment manufacturers to design a recycling facility.
 - To provide HBC with draft Tender documentation for the facility.
 - To provide at least 5 addresses of potential tenderers.
 - To assist with formal documentation required by funding organisations.
 - To assist the client with the siting of equipment.
 - To assist with commissioning and installation.
51. The university agreement also provided for “knocking on doors” to promote the scheme and obtain customer feedback. The agreed cost of the arrangement, which was based upon the supplier’s conditions, was £32,400.

Report on the Audit of Waste Recycling Improvement Project**Project Planning**

52. The project required many activities e.g. procurement of goods (vehicles / plant / sacks / publicity leaflets / buildings), procurement of services (officer secondment / project assistance / sack and leaflet distribution), establishing of a long-term contract and reclaiming of expenditure, all of which were foreseeable. The Waste and Recycling Manager advised us that a programme was prepared under the original unsuccessful bids and testing has found a programme of work was laid down in the Waste and Resources Action Programme Grant award.
53. Audit and Investigations believe that in line with best practice a project plan should have been established. Testing found that no comprehensive project plan was prepared covering the key project activities.
54. Audit and Investigations accept that there was urgency to complete by the DEFRA imposed deadlines. However we believe this pressure increased the need for a formal plan that set down all activities; established time scales, identified the critical path and the allocation / acquisition of resources required to achieve targets.

Procurement*Infrastructure Advice*

55. A contract was arranged with Brighton University for infrastructure advice in the agreed sum of £32,400, testing found this was a single tender based upon the clients' conditions. No exemption from competitive tendering was sought.

Marketing

56. The Communications strategy included funding of £94,000 for:
- Leaflets to accompany sack deliveries to house holders
 - A leaflet calendar advising them of collection dates until March 2006.
57. Leaflets were distributed by Brighton University "[Door Steppers](#)" along with the first delivery of sacks. However it transpired that the first leaflet did not advise residents that bags needed to be put out by 7am. Some residents have an afternoon refuse collection and put their bags out then and this probably resulted in recycling bags being collected as general waste. A Black and White print run of the leaflet with correct information was organised costing £375.

Door Stepping

58. A key part of the drive to encourage separation and recycling was the need to educate the public in the new arrangements. This was provided for under the Waste and Resources Action Programme agreement. The agreement further stated (Schedule 1 paragraph 4.1.1) that Brighton University Waste and Energy Group must be employed to undertake these duties. The "door stepping exercise" consisted of personal promotional visits and the leaving of the information leaflets explained in the preceding paragraphs. Brighton University had previous experience of this and considered that this was more effective than simply sending out postal flyers.

Report on the Audit of Waste Recycling Improvement Project

59. Testing found that no request for exemption was obtained for the door stepping and sack distribution activities discussed in preceding paragraphs. The value of the work undertaken by Brighton University amounts to £153,133; this places it above the Authorities and EC thresholds. We appreciate that Grant conditions stipulated that we use Brighton University Waste and Energy Group, however we believe that the formality of requesting exemption should still have been processed.

Sack Estimating, Ordering and Receipt

60. The DEFRA bid requested funding for the provision of £32,000 of sacks. The intention being that sacks of various colours would be provided to householders according to the waste separation requirements (Card, mixed plastic and cans). Sacks would be obtained from a supplier and delivered to households along with the advisory leaflet.
61. Estimates made by the Waste Awareness Officer upon which grants were based assumed that sacks would be pre rolled by the supplier and that methods of distribution would be similar to those adopted by another authority where distributors carried around rolls of sacks, tore off appropriate amounts and posted through letterboxes.
62. The specification for the sacks provided to the HBC supplier should have stated the need for provision on rolls. This requirement was omitted from the specification and resulted in sacks being supplied loose in boxes and this necessitated manual rolling. A significant amount of bag rolling was subsequently carried out by Brighton University and these costs were recovered through Grant. We believe that the rolling and delivery costs subsequently incurred through the employment of Onyx and HBC officers (which was not recoverable) can be attributed to the original error of not providing an adequate specification.
63. The Waste Awareness Officer also made an error in calculating the number of sacks required to November 2005. The shortfall did not become apparent until after 31/3/05 therefore the costs when eventually ordered could not be reclaimed from DEFRA.
64. A further complication arose following the delay of the implementation of the new Refuse and Street Cleaning contract that should have been in place in November 2005. Original estimates for sacks were based upon a new Refuse and Street Cleaning contract being in place by November 2005 and the new contractor assuming responsibility for bag supply and distribution. However about this point in time it became evident that the new contract would not come into operation until Mid 2006, leaving an unforeseen gap of approx 8 months.
65. A request for funds to order more sacks was submitted to the Deputy Chief Executive in July and approved in August 2005. Audit and Investigations believe this remedial action was necessary, if the authority failed to provide sacks in good time this could affect ability to achieve recycling targets by 31/3/2006.
66. The cost of sacks under ordered for the period to November 2005 is estimated by the Waste Manager as being £4,000. The costs of rolling sacks to June 2006

Report on the Audit of Waste Recycling Improvement Project

has been forecasted as being £20,980, some of this includes the cost of rolling the £4000 shortfall. Audit and Investigations estimate the element to November 2005 as being £1,600. The total loss (i.e. not claimed from DEFRA) caused by the under ordering error therefore totals approximately £5,600.

Sack receipt and Stock Control

67. The initial delivery of sacks was made to the Bulverhythe Depot where they were rolled and delivered first by Brighton University and later by Onyx. Review of files identified comments by Onyx expressing concern over the receiving, issuing and security of stocks. Testing confirmed that during this period officers did not undertake delivery checks to confirm accuracy of deliveries. This lack of control weakens invoice certification controls on goods received. Subsequent deliveries were made to an HBC site in Frederick Road and we are advised that officers have undertaken delivery checks of goods delivered to this site.
68. It is possible therefore that failure to examine some deliveries upon receipt could have resulted in delivery shortages and there has been weakness in stock control. Audit and Investigations have considered the risk of theft and whilst we agree this cannot be ignored, the nature of the goods makes them unattractive and we consider this risk was low.
69. A large quantity of stock is currently in storage and more is expected soon. There is therefore the additional risk of loss through damage (e.g. fire) however we consider this risk to be low and it will steadily diminish during the following months.

Sack Delivery

70. The first delivery of sacks to householders was undertaken by Brighton University at the time of the door stepping exercise. Deliveries were made between 19/1/05 and 4/2/05 whereupon they left the area. At the end of their contract a variation order was placed on Onyx to continue rolling / delivery at £36 per hour.
71. Evidence on project files suggests that there were weaknesses in the Brighton University and Onyx delivery systems, resulting in some Households receiving double quantities and others none, this view is supported by comments we have received from some officers who are resident in the borough. Testing found that neither Brighton University nor Onyx were required to maintain records of deliveries. Audit and Investigations believe that this control weakness did not enable quality checks to be made and weakened effective invoice certification on the adequacy of goods and service received / supplied.
72. The Waste Management Team considered that the price charged by Onyx was expensive. An alternative suggestion was put forward to reduce these costs. The proposal put to the Environmental Health General Manager was that it would be cheaper and more effective to offer the work to officers to be done out of hours. Rates proposed were:
 - £15 per box (average time 1 ½ hrs per box) and for a special box of 5 in a roll - £25 per box.

Report on the Audit of Waste Recycling Improvement Project

- Handling charges for delivery and collection etc £20 an hour (evening and weekends).
73. The rate was arrived at by a selection of officers undertaking a trial run of the time taken to roll one box. This equated to an average time of 1½ hours. Delivery to and from homes was achieved by hire of a van and loading / unloading by officers.
74. This proposal was approved by the Environmental Health General Manager and it was agreed that these be charged to Charged to 3410E310 (Recycling Payment – Private Contractors). Payment was to be made through salary. At the time of this review the July Payment had just been made - £8,355 for rolling and £1290 for delivery.
75. Audit and Investigations accept that efforts were being made to reduce cost, that this was being done in officer's leisure time and that appreciable space was required in officer homes to store boxes of unrolled / rolled bags. However it is not possible to state that Best Value has been obtained as a third quotation was not sought (e.g. we could have employed agency staff).

Audit Opinion

76. The authority must meet DEFRA recycling targets. Several people and organisations have been involved in the process of obtaining and distributing sacks and there has been some degree of failure by many of those involved. Audit and Investigations believe that estimating and ordering the correct number of bags and providing an accurate specification at the outset were key activities.
77. Failure to order sufficient sacks resulted in an additional order to rectify the shortfall and the error in not providing an adequate specification resulted in significant bag rolling costs. Most of these costs were not recovered through grant. There is also evidence that officers have not been sufficiently effective in implementing adequate controls over stock receipt, storage, issue to householders and supervising supplier activities. Audit and Investigations believe that many of these problems could have been avoided by closer supervision of the Waste Awareness Officers activities and that responsibility for any loss cannot be attributed to suppliers.

Agreement with R French and Son Ltd.,

78. An agreement was drawn up March 2001 whereby it was proposed that French's would provide a waste paper bulk storage and transportation service. However this was never put into effect. Aylesford Newsprint Ltd approached the authority and suggested an alternative arrangement whereby they would contract with French's for haulage and the authority would invoice Aylesford based upon weighbridge tickets. This arrangement is still in operation. The authority receives income from Aylesford at £15 per ton, and further receives £36 per ton from ESCC by way of Waste Credits.
79. A site for the new Material Reclamation Facility equipment and storage of recyclates was required. Audit and Investigations understand that the Waste Management Team considered licensed operators within the local area e.g. C

Report on the Audit of Waste Recycling Improvement Project

Saunters of Rock Lane whose premises are just outside the town boundary, but none had appropriate facilities (space and a weighbridge). In these circumstances the urgency to have a system up and running and submit claims to DEFRA by 31/3/2005 was a compelling reason to undertake a single quote action on R French & son Ltd.

80. Testing confirmed that the Director for Environment and Safety completed a form "Summary of Delegated Decision" in respect of the provision of facilities by French's for the Material Reclamation Facility equipment on 20th April 2005; this was copied to the Borough Solicitor.
81. The draft contract document is for a period of 5 years with the option of a 2 year extension. The contract value is based upon a minimum of 1,800 tonnes per year at £15 per ton. The agreed rate to include use of buildings, use of weighbridge and welfare facilities. This equated to an annual estimated minimum annual value of £27,000 (i.e. £135,000 over the 5 years). This would place the total value close to the EU threshold of £153,376. Under these circumstances Audit and Investigations believe that it would have been prudent to have applied for exemption from EU tendering under [Contract Standing Orders](#) 1.5 when the contract was being prepared. In practice the materials collected have already exceeded expectations and forecast expenditure for 2005/06 is £55k (approximately double the original annual estimate). Furthermore recycling targets are being steadily increased by central government, expenditure may therefore increase even further.
82. Discussions are however now taking place on the possibility of establishing a tenancy agreement, which, if successful, could reduce expenditure, bringing it below the EU threshold.
83. French's confirmed their willingness to provide the new facilities in September 2004. This offer was accepted in December 2004 with formal contract documentation to follow. Meanwhile orders for equipment to be installed were placed. However it is evident from a meeting held at the end of January and following a visit from the equipment supplier that French's were concerned that they had not been fully briefed on the requirement and there were issues concerning the size of shed required to house the equipment, staffing and staff facilities.
84. Audit and Investigations acknowledge the urgency of the project and that there was only one suitable contractor's premises for equipment installation, nevertheless it is important that financial and operational risks are minimised by providing potential suppliers with complete and accurate information when they are asked to provide a service.
85. Testing found that the 5 year draft contract was arranged in the title of French's Skip and Grab Hire Limited however at the time of this review the company had not yet been registered and the contract had not yet been signed and returned by the contractor. We discussed this with management and were advised that an error had been made in the firms' title, which would be corrected, and that contract details were only finalized during August 2005.

Report on the Audit of Waste Recycling Improvement Project

86. In the meantime we believe there has been exposure to:
- Financial risk - arising from not having the facility operational by 31/3/05 and needing to transport, store and dispose of materials held at Rye.
 - Reputational risk - arising from not completing the project on time, not achieving Central Government Targets and the need to store waste materials outside of the borough.
 - Insurance Risk - as at September 2005 the Material Reclamation Facility had not yet been installed and was being stored at premises rented by French's. This could have had associated insurance risks if damaged.
 - Contractual Risk - significant resources have been committed and the authority has placed appreciable dependence upon a contractor without having adequate / appropriate contractual arrangements in place.
87. Management are now looking into the possibility of a Tenancy Agreement for the Material Reclamation Facility, therefore we do not make any recommendations, however this situation should be avoided in any future authority projects by ensuring key controls / requirements are in place before any large-scale commitment of resources. Project Gateway reviews will be important in ensuring this control is exercised.
88. French's originally proposed to use an existing building to house the Material Reclamation Facility but this required some maintenance before it could be used. Quite reasonably on their part they did not wish to commence until a contract was agreed. They subsequently decided not to use the existing building but build 2 new buildings instead. However the builder employed by them subsequently became bankrupt in March 2005. A new builder was employed and both buildings are now complete, one is used to separate paper from other recyclates. Material Reclamation Facility equipment is being installed in the second building but progress has been slow, procurement of the Material Reclamation Facility equipment is based upon supplier conditions therefore the possibility of recovering any costs through delay in installation is unlikely.
89. Substantial costs have been incurred by the authority as a result of the decision not to use an existing building and this has led to delay in installation of the Material Reclamation Facility. Charges have been made by French's (for weighing and transportation of materials), Rastrum of Rye (for storage) and further charges are likely for disposal of stored materials.
90. Audit and Investigations believe that the period between receipt of grant and DEFRA imposed deadlines did not allow sufficient time for establishing adequate contractual arrangements with French's, for them to erect new buildings for the Material Reclamation Facility and installation / commissioning of the equipment. It is possible that had a risk assessment been carried out early in the project this might have identified that provision of buildings as a risk aspect.

Report on the Audit of Waste Recycling Improvement Project

91. When completed the facility should provide very good recycling facilities, these and the staff operating them will eventually be transferred to the new waste operator, but the authority will retain the equipment as its assets.

Vehicles and Plant

92. Specifications for the 2 vehicles were provided by Onyx who then obtained competitive quotations on the authorities behalf. HBC then raised an order on Onyx who obtained the vehicles on our behalf and invoiced the authority.
93. The value of the order placed was £83,988. Under normal Contract Standing Order arrangements Paragraphs 2.2 & 2.3 this arrangement should have been reported to the Chief Executive, Deputy Chief Executive and Borough Solicitor and subject to competitive tendering or exemption obtained. Testing found that this requirement had not been complied with.
94. This method of procurement was unusual and there may be a case for arguing that Cabinet should have been consulted on the proposed methods.
95. Key items of plant included the need for a Separator and Baler. In principle we are satisfied that individual quotes were sought as this could have enabled purchase from differing suppliers in order to achieve Best Value. Competitive quotations were obtained from 4 companies and two orders were subsequently placed upon the lowest tenders received from Whitham Mills totalling £176,500. Orders of this value should be EU advertised, where they are by passed Cabinet approval should be sought but we were unable to find evidence of submission. Other minor items of plant purchased includes 2 no pallet trolleys, these were of low value and the method of procurement was compliant.
96. The DEFRA bid also included for the purchase of a forklift truck. This was acquired at a cost of £16k plus VAT however testing did not identify evidence of competitive quotes being obtained or exemption being requested.
97. All items of plant will remain the property of the authority when responsibility for operation is transferred to the new waste contractor.
98. An e-mail dated 31 January records that French's would provide a rest room etc. Contract clause 3.11 of the draft contract discussed earlier also requires them to provide welfare facilities. Testing found that this has not happened. The authority has purchased a Jack Leg Cabin, which incorporates rest room facilities at a cost of £2,050. We understand this is because the facilities offered by French's were considered inadequate. This will remain the property of the authority once the new waste contract is let. It is assumed French's would have included the cost of providing facilities in their tender price. Under normal circumstances we would have expected a very small reduction in the contract rate, however the sums involved are minimal and they are still providing the ground area to accommodate the cabin and the utilities.
99. Contract Standing Orders 2.5.1 state that non-competitive quotations can be obtained where the estimated value of the contract is less than £5,000. Testing confirmed that a written quotation had been obtained for the Cabin.

Report on the Audit of Waste Recycling Improvement Project**Recommendation 4**

100. a. That vehicles and plant valued over £10,000 are notified to Financial Services at year end for recording on the asset register
- b. That smaller items of plant and the cabin are recorded as inventory items pending their possible transfer to the new waste operator.

Staffing

101. 3 operatives have been employed by Brighton University as sorting staff for the Material Reclamation Facility. As part of the operations at the site it has been necessary to provide them with a small amount of training in the operation of a fork lift truck. So far however they have been unable to carry out their full range of duties due to non-completion of Material Reclamation Facility installation. These posts will transfer to the authority when the Material Reclamation Facility is operational and then to the Refuse and Street Cleaning contractor in 2006.
102. Delay has occurred in the building of the Material Reclamation Facility accommodation and the commencement of Material Reclamation Facility operations, in the meantime the 3 operatives have been manually extracting paper / card from the materials taken to French's yard, enabling despatch to Aylesford Newsprint.
103. The operatives salaries to the end of November 2005 have been met from DEFRA grants; it is likely however that staff will transfer to the Authority mid September 2005. Brighton University will then reimburse the authority for the period September – November.

Temporary Storage

104. The [failure of French's builder](#) at the Material Reclamation Facility site delayed installation of the Material Reclamation Facility, however it was necessary to commence collection of recyclates in order to comply with the publicity campaign and DEFRA Targets. Delay in Material Reclamation Facility installation led to accumulation of large quantities of recycling waste. The Waste Manager contacted a number of potential suppliers of storage space by telephone but only one supplier enquiry (Rastrum Ltd of Rye) proved successful. At the time it would have been difficult to estimate the likely costs of the service as it depended upon the success of the scheme, completion of the Material Reclamation Facility building, commissioning of the equipment and the speed at which the new operators could process the materials once the facility was operational. Nevertheless this amounted to single tender action and it should have been apparent that this would cost several thousand pounds, thereby necessitating authorisation under the scheme of delegation. Testing found that authority has not been sought.
105. There has been some discussion on the economics of bringing all materials back to Hastings for sorting (incurring further cost) or the possibility of disposing in bulk. This will not affect the ability to include materials in recycling performance figures.

Report on the Audit of Waste Recycling Improvement Project

106. It has recently been found that the materials stored at Rye cannot be easily disposed of and this may result in further expense or loss of anticipated income. Initially only one supplier indicated interest in purchase but the amount realised would only have been sufficient to offset the costs of transportation from Rye to Bury, which would have had to be borne by the authority. Further attempts are now being made to identify other suppliers. An early decision on the course of action is highly desirable in order to keep storage costs down to the minimum.

Recommendation 5

107. That an early decision is reached on the disposal of materials stored at Rye.

Report on the Audit of Waste Recycling Improvement Project

Appendix A: Terms of Reference

Audit Objectives

To confirm compliance with Financial Regulations, Contract Standing Orders, Grant Conditions and Best Practice.

To ensure the adequacy and effectiveness of Project Management to ensure the timely delivery of the Project to specification and within budget.

To test the effectiveness of controls for ensuring probity and value for money.

To identify any opportunities for improvement.

Audit Scope

The review will examine arrangements commencing with Grant Approval through to project completion.

Approach

- Discussion will be held with relevant officers and suppliers as appropriate.
- Documents will be examined.
- Testing will be undertaken as necessary.
- Results will be discussed with the Head of Service prior to issue of the draft report.

Staffing and Supervision

Auditor: Sean Power

Direction and Review: Eileen Masters, Chief Auditor

Reporting

A full draft report will be issued to the Head of Service

A full final report will be issued to the Environmental Health General Manager, Executive Director Environment and Safety, Deputy Chief Executive, Chief Executive and Audit Commission.

A Summary Report will be issued to the Audit Committee