



Staffordshire Commissioner Fire & Rescue Authority

PFI – Contract Management

Internal audit report 2.22/23

Final

16 September 2022

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1. EXECUTIVE SUMMARY

Why we completed this audit

The Service has two contracts in place for the provision of 10 (PFI1) and 11 (PFI2) fire stations. These contracts are with Fire Support (PFI1) and Blue3 (PFI2), who act as Special Purpose Vehicles (SPV) sub-contracting the soft and hard facilities management (FM) services to Equans (PFI1) and Kier (PFI2) (FM Providers). Both Equans and Kier provide services including a facilities helpdesk, energy services, estates management and security (all hard FM), as well as cleaning, portage, grounds maintenance, and pest control (all soft FM).

Each contract consists of an annual unitary charge (AUC) which is indexed for each new contract year. For the 2022/23 financial year, the AUC for PFI1 and PFI2 are approximately £5.98m and £4.43m (excluding VAT), respectively. The Service gains assurance regarding the provision of services through a number of sources, including key performance indicators (KPIs) and availability standards (AS's), which are reported to the Service monthly and discussed in FM performance meetings. Where performance is below standard, the Service can apply a deduction to the monthly unitary charge (MUC).

As part of our audit, we have reviewed the policies, procedures, governance and reporting arrangements in place that the Service utilises to gain assurance regarding the performance of providers and the management of the PFI contracts.

Conclusion

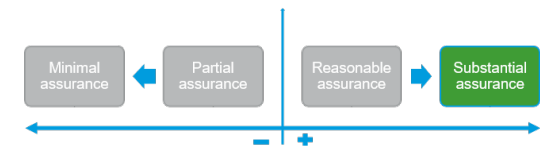
The Service has robust procedures in place regarding the management of the PFI contracts, and signed documentation relating to the contract has been retained. The roles, responsibilities and accountabilities of the PFI Contractors are documented within the sub-schedules of the PFI contracts, and the Service Estate Team's responsibilities are documented within their job descriptions. There are clear governance, reporting and monitoring

mechanisms in place to provide assurance to the Service regarding the PFI Contractor's performance, and there was clear demonstration of scrutiny of performance reports by both the Service and the Contractor to ensure appropriate deductions were applied to the MUC.

We did, however, find instances where formal documentation of the final approval of deductions by the Service and the Contractor was not in place. It was also recognised that a formal Terms of Reference for the FM Meetings was not in place. Therefore, one 'medium' and one 'low' priority management actions have been agreed.

Internal audit opinion:

Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage the identified area are suitably designed, consistently applied and operating effectively.



Key findings

The following areas of improvement were noted for the established control framework:



Facilities Management Meeting Terms of Reference

Although discussion within the FM meetings remained standard across the meetings and between the PFI contracts, there is not currently a Terms of Reference in place for the FM meetings between the

Service and each of the PFI Contractors. We would expect such a document to be in place to ensure the responsibilities of each party are clearly documented. **(Low)**



Formal approval of final deduction amounts

Whilst it was recognised that a robust process for the review and approval of deductions between the Service and each PFI Contractor was in place, testing on the process undertaken for April, May and June 2022 deductions for each PFI contract identified that in 4/6 cases, formal approval of the deduction made was not in place. **(Medium)**

The following aspects of the control framework were found to be operating effectively:



Contract documentation

We confirmed that a formal project agreement was in place for each PFI contract that had been signed by both the Service and Fire Support (PFI1) and Blue3 (PFI2).



Documentation for roles and responsibilities

We reviewed the following Schedules within each contract, confirming they included a detailed breakdown of the service specification covering different service areas such as helpdesk, planned and preventative asset maintenance, security management, cleaning and waste management, caretaker services etc:

- PFI1 – Part 3 – Performance Standards of Schedule 1 and Part 4 – The Services of the main body of the contract; and
- PFI2 – Part 2 of the Output Specification and Part 4 – The Services of the main body of the contract.

We also reviewed the job descriptions for the Business Services (BS) Officer and (BS) Manager who form part of the Service's Estates team. We confirmed these job descriptions adequately stated the individuals' roles and responsibilities with respect to the PFI contract.

Deliverables/ performance parameters

We confirmed through review of each PFI contract that the performance parameters (KPIs and availability standards) were detailed within the contracts as follows:



- PFI1 – Availability standards were included as Part 4 – Availability Standards of Schedule 1 of the contract; KPIs were included within Annex 1 of Schedule 1; and
- PFI2 – Availability standards were included as Section 7 – Availability Standards of the Output Specification; KPIs were included within Annex 1 of Schedule 1.

FM Meetings

We reviewed copies of the April, May, June and July 2022 PFI Contractor performance reports. We confirmed that the performance reports included adequate, detailed updates on general performance, including specific performance data for hard and soft FM services and the corresponding year to date deductions previously agreed between the parties.



Through review of the related FM meeting minutes (April, May, June and July 2022 respectively), we confirmed there was robust evidence of detailed challenge and scrutiny of the performance report, with involvement from both the Service and Contractor. Actions to address any issues arising were clearly set and monitored for completion as part of the meeting.

Project Liaison Group (PLG)

It was recognised that the agenda for PLG meetings is not standard and instead the meetings are used to discuss current issues and any relevant development requirements regarding the PFI contract.

Through review of the minutes for the PLG meetings held for the PFI1 (August 2021 and May 2022) and PFI2 (January and May 2022) contracts we confirmed that discussions regarding performance overviews, overview of current strategic issues and key issues in the next 3-6 months were in place. The discussion of these elements across the meetings clearly demonstrated consideration of strategic and performance issues by all partners and allowed a neutral space for any concerns to be raised for action. Within all meetings there was also clear involvement from all partners (Contractor, PFI Provider and Service) and actions were agreed to address any issues identified within the meetings.

Escalation to Board (where appropriate)

Through review of April, May, June and July 2022 FM meeting minutes for both PFI contracts it was evident that discussion of any local performance issues (including local FM issues) was in place between the Service and PFI Contractor which were resolved at a local level, i.e. within the meetings. This included developing actions with corresponding action owners which were discussed at future meetings.

At the time of audit, we were advised by the BS Manager and Chief Finance Officer that there have been no serious issues / disputes which have had to be escalated through the Dispute Resolution Procedure included within the PFI contracts.

Performance and Unavailability deductions

Notwithstanding the issue noted above regarding the lack of formal documentation of approval of deductions, we confirmed through inspection that a robust review process is in place regarding the assessment and analysis of performance and unavailability deductions.

Through review of email trails and the deductions requested and applied by the Contractor and Service it was clear that both unavailability and performance deductions were consistently and rigorously scrutinised and challenged by the Service, to ensure the Contractor is appropriately penalised for identified shortfalls.

Payment of monthly unitary charge (MUC)

Testing on the July 2021 to July 2022 MUC payments for each PFI contract identified that in all cases:

- The payment had been approved within the Integra system in line with the Scheme of Delegation; and
- The payment had been made on or before the last business day of the month in which the MUC relates.

Reporting of financial elements of the PFI contract

We were provided with the monthly finance packs for June and July 2022 which were sent to the Budget Holders on 18 July and 11 August 2022 respectively. Review of the reports confirmed they contained PFI-related financials (PFI Credits and PFI Reserve Deductions).

We were also provided with the quarterly financial report which was presented to the SGB on 27 July 2022 and the minutes for the 3 May 2022 SGB meeting. Review of the July 2022 report confirmed it contained the same PFI-related financials (PFI Credits and PFI Reserve Deductions). We confirmed that the financial report was presented and approved in the May 2022 meeting.

2021-22 Accounting Model



We confirmed that an Accounting Model was in place for each PFI contract which is updated each year following the end of the financial year. Among other in-depth financial and cost analysis, the document details the AUC for each contract. Through review of the AUC charged across the 21/22 financial year invoices and that recorded within the 21/22 Accounting Model for each PFI contract, we confirmed these reconciled.

We also recognised that an additional reconciliation is completed by the Deputy Director of Finance regarding the actual AUC paid using the agreed base costs and uplifting this by the corresponding Retail Price Index figure, to ensure this figure matched the actual AUC paid.

Annual Report



We received the 2020/21 PFI Contract Management Overview Report which was presented to the Service Management Board (SMB) in June 2021. Review of the document confirmed key information for both PFI contracts relating to unitary charges, deductions and key areas of focus were included.

However, it was recognised by the BS Manager that the detail included within the 20/21 report was only a high-level overview of the contracts and therefore a more in-depth structure is due to be used for the 21/22 Annual Report, which is due to be presented to the Board in September 2022. At the time of audit, the draft version of the report was not completed and therefore no further testing was completed.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: Facilities Management Meetings				
Control	The Service holds a monthly Facilities Management (FM) meeting with each of its PFI Contractors. A Terms of Reference (ToR) for the meetings is not currently in place.			Assessment:
			Design Compliance	Partly -
Findings / Implications	A formal ToR for the FM Meetings is not currently in place. We would expect a ToR to be in place which details the responsibilities with respect to performance monitoring of the PFI contract, contractor, membership, quorum and meeting frequency.			
Management Action 1	A Terms of Reference will be established for the Facilities Management Meetings which will be formally agreed between the Service and the respective PFI Contractors. The ToR will include the following functions as recognised to be the primary functions:		Responsible Owner: Nicola Wallis / Business Services Manager	Date: 31 October 2022 Priority: Low
	<ul style="list-style-type: none"> • Provide a formal monthly meeting for items relating to FM Service Delivery that require a joint review by the Service and PFI provider; • Monitor overall implementation of services and address shortfalls in performance standards (KPIs) and contractual obligations which cannot be resolved at a lower level; • Provide a forum for the joint review of the Monthly Performance Report and approval of any deductions/mitigations; • Provide a forum for joint strategic discussion, considering actual and anticipated changes in the market and business of the Service, and possible variations to the FM Service Delivery to reflect those changes or for the more efficient performance of the Project Agreement; 			

Area: Facilities Management Meetings

- To communicate any material changes in Management Structure, responsibilities and lines of communication between the parties prior to implementation;
 - To maintain a sound audit trail of any formal agreements made between the parties; and
 - Provide a means of resolving low level disputes or disagreements between the parties amicably, including those related to invoicing/payments, or to recommend escalation of such matters in the event that resolution cannot be achieved.
-

Area: Review of Unavailability and Performance Deductions

Control	<p>The checking process carried out by the Service regarding the Monthly Unitary Charge and corresponding availability/ performance standards is as follows:</p>	Assessment:		
		Design	✓	
	<ol style="list-style-type: none"> 1. Spreadsheets detailing the Unavailability deductions and Performance deductions calculations respectively are emailed to the Service's BS Manager and BS Officer for review. These are usually emailed in the first five business days of the month; 2. The email is forwarded to the BS Assistant who undertakes an initial verification exercise and subsequently returns the reviewed documents to the BS Manager and BS Officer; 3. The BS Manager and BS Officer will meet to go through the document and ascertain whether they believe the deductions will apply, whether there are mitigating circumstances and where deductions have not been included by the Contractor; 4. Such amendments are included in an edited version of the document and returned to the Contractor within the next five business days to allow the Contractor to review the comments ahead of the FM meeting; and 5. If approval is not received via email, the deductions are finalised by the Contractor and the Service within the FM meeting. 	Compliance	×	
	<p>Deductions run two months in arrears such that the deductions for month m are reviewed in month m+1 (and confirmed in month m+1's FM meeting where required) and included on month m+2's invoice, e.g, April 2022's deductions are reviewed and approved in May 2022 and are included in June 2022's invoice.</p>			
Findings / Implications	<p>We reviewed the internal review process for the April, May and June 2022 deductions for each PFI contract and identified the following exceptions:</p> <ul style="list-style-type: none"> • In 4/6 cases, formal documentation of the approval of unavailability and performance deductions was not in place. <p>Where formal documentation of the final agreed deductions for each PFI contract is not in place there is risk that deduction values included on invoices are incorrect which may therefore lead to incorrect payments being made. Therefore, the Service should ensure that final formal approval of all monthly deductions, such as via email between the Service and the PFI Contractor, is documented.</p>			
Management Action 2	<p>Final formal approval of availability and performance deductions between the Service and the PFI Contractor will be documented. This may be in the form of final email approval between the parties, and/ or within FM Meeting minutes.</p> <p>The agreed amounts should be explicitly detailed.</p>	Responsible Owner:	Date:	Priority:
		Nicola Wallis / Business Services Manager	31 October 2022	Medium

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
					Low	Medium	High
PFI Contract Management	1	(11)	1	(11)	1	1	0
Total					1	1	0

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

APPENDIX B: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following risks:

Objective of the area under review

Within the PFI contracts there are various reporting requirements and stipulations. The audit will focus on the transparency of reporting and oversight of the PFI contracts to ensure expectations are being met and managed and that any associated risks have been identified, managed and reported.

When planning the audit, the following areas for consideration and limitations were agreed:

The Service has two PFI contracts over a 25-year life span for the development of 10 fire stations and 11 fire stations.

- We will review PFI Contract (1) and PFI Contract (2) and ensure the roles and responsibilities, obligations of each party and set deliverables have been clearly outlined.
- The process for management of the contracts by the Business Services Team will be reviewed.
- We will consider the calculation of monthly payments for lifecycle costs in line with the contract terms and the Service's finance model for the contracts. This will include unitary charge calculations, and any applicable deductions based on set deliverables and supporting KPIs. Additionally, we will confirm review and sign-off for a sample of monthly payments.
- The Annual Report reproduced and presented to the Governance Board for each contract will also be reviewed.

Limitations to the scope of the audit assignment:

- We will consider the governance of the PFI contracts; however, we will not confirm that the Service is achieving value for money or that the set deliverables of the contracts will be achieved.
- The results of our work are reliant on the quality and completeness of the information provided to us.
- Our work will not provide an absolute assurance that material errors, loss or fraud do not exist.

Debrief held 1 September 2022
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Internal audit Contacts **Daniel Harris – Head of Internal Audit**
Daniel.Harris@rsmuk.com
+44 (0)7792 948767

Angela Ward – Senior Manager
Angela.Ward@rsmuk.com
+44 (0)7966 091471

Client sponsor David Greensmith, Chief Finance Officer

Distribution David Greensmith, Chief Finance Officer
Nicola Wallis, Business Services Manager

rsmuk.com

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