

# **Waste Disposal Contract 2016-17**

## **City of York Council**

### **Internal Audit Report**

Business Unit: Economy and Place  
Responsible Officer: Corporate Director of Economy and Place  
Service Manager: Finance Manager  
Date Issued: 11/08/2017  
Status: Final  
Reference: 19080/027

	P1	P2	P3
<b>Actions</b>	<b>0</b>	<b>4</b>	<b>3</b>
<b>Overall Audit Opinion</b>	Substantial Assurance		

# Summary and Overall Conclusions

## Introduction

City of York Council (CYC) and North Yorkshire County Council (NYCC) are engaged in a joint project to build a waste recovery plant at a cost of £1.4bn. The project is split 79:21 between NYCC and CYC, with the latter having a 21% stake.

The plant will divert waste from landfill sites into a more environmentally friendly treatment. When operational, it will reduce the amount of waste being sent to landfill to less than 10% of that collected, enabling NYCC and CYC to exceed their targets of recycling 50% of waste by 2020. It is designed to save the councils approximately £250m on household waste treatment costs over the 25-year life of the contract.

The construction and operations of the plant have been contracted out to AmeyCespa, with a target date to become operational in December 2017. The plant has been built on the site that was formally Allerton Quarry, off the A1 near Knaresborough.

## Objectives and Scope of the Audit

The project will be moving from the initial construction phase into the commissioning phase once the commissioning plan has been agreed. Therefore, the purpose of this report is to highlight areas that need to be addressed in the commissioning phase, ahead of the operational phase of the project.

The focus of this audit was to assess the partnership arrangements currently in place, and analyse their adequacy for the project in future stages. This audit aimed to highlight areas where arrangements could be improved, and these have been issued as findings.

## Key Findings

It was found that the current arrangements were adequate for the project up to this point in time whilst the waste recovery plant was constructed, as well as the operational phase of the project once the plant opens. However, the council now needs to become more actively involved with the project as the construction phase is completed to ensure that the commissioning phase is managed effectively to ensure the plant can start operating at its full capacity on 1<sup>st</sup> February 2018. As part of this, the cost, payment, and usage arrangements for the transitional phase should be reviewed and confirmed as adequate. In addition, there should be a formal review process to take lessons learned from the transitional phase into the operational phase of the project.

There are some additional findings that are less urgent, but should be addressed before the operational phase of the project commences to ensure that the arrangements for the plant during its operational period are satisfactory.

## Overall Conclusions

The arrangements for managing risk were good with few weaknesses identified. An effective control environment is in operation, but there is scope for further improvement in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

# 1 Project involvement

## Issue/Control Weakness

Moving into the commissioning phase of the project, CYC need to be more pro-active in their involvement.

## Risk

CYC would not be able to make the necessary arrangements should the project go over budget or is delayed.

## Findings

As the project moves into the commissioning phase, CYC need to establish a more pro-active level of involvement in the project. There are two elements to this: project co-ordination and information sharing.

1) Project co-ordination - it has been agreed that there will be regular meetings between NYCC and CYC representatives; however more formality would be beneficial. It would be prudent to outline the purpose of the meetings, the role of the representatives, timescales for meetings, and what authority the representatives have. Some agreement should also be reached between CYC and NYCC on a formal, transparent, and fair decision making process.

2) Information sharing - CYC need to ensure they are getting all the information they need in order to be aware of, and mitigate, risks. CYC need to identify the level of information necessary to develop appropriate systems to meet the demands of the project.

## Agreed Action 1.1

The Council has now arranged to be involved in a number of meetings with NYCC / Amey Cespa:

### AWRP Board meeting (6 monthly)

This is the board meeting for the project. In attendance are NYCC, CYC, the contractors (Amey Cespa SPV), the sub contractors (Amey Cespa ODC) and the investors. For CYC the attendees are James Gilchrist (AD for Transport, Highways and Environment) and Dave Atkinson (Programme Manager and CYC lead for the Allerton Park project).

### AWRP Project team meeting (monthly)

This is a team meeting to discuss all aspects of the project in detail. In attendance are NYCC, CYC, the contractors (Amey Cespa SPV), the sub contractors (Amey Cespa ODC). In attendance for CYC is Dave Atkinson (Programme Manager and CYC lead for the Allerton Park project).

## Priority

2

## Responsible Officer

AD for Transport, Highways and Environment

## Timescale

Completed

**NYCC/CYC AWRP meeting (monthly)**

This is a meeting to drive forward the joint working between NYCC and CYC on the AWRP project. In attendance are NYCC and CYC.

In attendance for CYC are Dave Atkinson (Programme Manager and CYC lead for the Allerton Park project) and Patrick Looker (Finance Manager).

## 2 Cost, payment, and usage arrangements

Issue/Control Weakness	Risk
Cost, payment and usage arrangements may not be up to date, and may not be applicable to the commissioning phase.	CYC may not be adequately prepared for the transitional phase which could result in paying more than necessary for waste disposal during this period.

### Findings

The original principles that mediate such elements as payment, cost, and usage arrangements were established during the tender process and give direction on how these processes should work. At the time, there was a focus on the operational phase of the project, and there was not enough consideration given to the particular circumstances of the transitional / commissioning phase.

Once the commissioning plan has been agreed, CYC and NYCC need to agree how the transition arrangements will be arranged to meet these requirements. A plan should be drawn up to ensure that disposal lorries are dispatched to the correct site and that payment is not being made for the disposal of waste from one lorry at both sites. There also should be some formal agreement on the process by which any of these arrangements are to be modified should they be found to be unsuitable.

### Agreed Action 2.1

The monthly meetings referred to in action 1.1 (NYCC/CYC AWRP meeting) are the primary focus for agreeing the principles for the commissioning phase in terms of logistics, usage arrangements, and payments. Management information requirements for the operational phase will also be agreed. Dummy runs with the contractor will be arranged to ensure performance measurements are included in the invoicing.

**Priority**

2

**Responsible Officer**

Finance Manager  
[Economy and Place]

**Timescale**

30<sup>th</sup> September 2017

Reimbursement for commissioning is also being agreed as part of these discussions. This will also need agreement with Yorwaste, to ensure waste is properly identified, as more CYC waste will be delivered into Harewood Whin and then bulked up with other waste.

### 3 Review process

#### Issue/Control Weakness

There is a lack of formal review process in place, particularly for the commissioning phase, which will identify and rectify issues in advance of the operational phase of the project.

#### Risk

Issues that arise during the commissioning phase are not identified and rectified ahead of the operational phase.

#### Findings

There should be a robust review process during the commissioning phase of the project. Currently, there doesn't seem to be a process to analyse and implement necessary operational changes that become apparent during the commissioning phase. In this phase, there may be issues that need to be addressed before the operational phase begins.

#### Agreed Action 3.1

Issues identified within Commissioning will be addressed as part of the arrangements referred to in action 1.1 (see above.)

**Priority**

2

**Responsible Officer**

Programme Manager  
[DA]

**Timescale**

31<sup>st</sup> December 2017

## 4 Partnership agreement

### Issue/Control Weakness

The Partnership agreement between the two authorities needs to be reviewed and updated.

### Risk

Disputes occur between the two authorities because the partnership agreement is out of date.

### Findings

The partnership agreement between the two authorities was agreed in 2011 before the contract to build the waste recovery plant was tendered and should be reviewed to confirm it is still suitable once the plant becomes operational.

### Agreed Action 4.1

It has been agreed between NYCC and CYC that there will be a revision of the Joint Waste Management Agreement. The intention is that the revised document will be in place this calendar year with it being taken to the Executive at CYC in the Autumn. This work is currently being led by Ian Fielding (Assistant Director, Transport, Waste and Countryside Services for NYCC) and Dave Atkinson (Programme Manager and CYC lead for the Allerton Park project) with support from the authorities' legal teams.

#### Priority

2

#### Responsible Officer

Programme Manager  
[DA]

#### Timescale

31<sup>st</sup> December 2017



## 5 Risk Management

Issue/Control Weakness	Risk
Currently, the two authorities do not have a co-ordinated approach to risk management.	CYC are not in agreement with North NYCC about the identification, classification or mitigation of risks, and therefore risks and opportunities are not managed adequately.

### Findings

Whilst there has been good risk management on the contractual element of the project, there needs to be a co-ordinated and cooperative consideration of risk management between the two parties. There should be a shared risk appetite, as well as a unified approach to the identification of overall project risks, individual authority risks, and potential benefits.

Risk management is most important for the operational phase, and does not need to be completed ahead of the commissioning phase. However, the commissioning phase offers a good period to consider risks and so some thought should be given to this before the operational phase commences.

### Agreed Action 5.1

Recently, as there has been an increase in engagement between NYCC and CYC, there has been more sharing and joint development of items. As part of the council's Major project reporting commitments, and the inclusion of the Allerton Park project in that report, there has been a necessity to form a consolidated risk register. That is now in development and will be in place by September 2017.

Priority	3
Responsible Officer	Programme Manager [DA]
Timescale	30 <sup>th</sup> September 2017

## 6 Public engagement

Issue/Control Weakness	Risk
Consideration should be given to developing effective public engagement, as the project is a large investment and a positive strategy in waste management.	Benefits of the project are not appreciated by the general public.

### Findings

There should be some consideration given to how the positive elements of the project can be expressed effectively to the general public, who may not have the technical knowledge to appreciate the significance of the benefits.

Identification of key performance metrics, and how these can be presented in a digestible way, is important. Another element to consider is maximising the benefits provided by the visitor centre, and also how these benefits should be apportioned.

### Agreed Action 6.1

There has been a consistent and controlled campaign of public engagement, both in terms of consultation with residents in the vicinity and more general communications over the lifecycle of the project. This has been led by Amey Cespa and supported by NYCC and CYC.

NYCC and CYC have recently agreed to combine efforts on a number of Waste prevention, reduction type issues and will also work together with Amey Cespa on more communications and public engagement relating to the Allerton Park project and facility as it goes through commissioning (July 2017 to January 2018) into full operation (February 2018 and beyond).<sup>6</sup>

<b>Priority</b>	3
<b>Responsible Officer</b>	Programme Manager [DA]
<b>Timescale</b>	31 <sup>st</sup> March 2018

## 7 Ownership arrangements

Issue/Control Weakness	Risk
Currently, there are no detailed arrangements to govern issues surrounding ownership prior to decommission of the plant.	Lack of clarity over ownership arrangements could lead to disagreements between authorities once AMEY cease to own the plant.

### Findings

Although not an immediate concern, some agreement should be reached on how the ownership arrangements will work once it no longer under the ownership of AMEY, as this has not been addressed in the current partnership agreement.

There is an agreement in place that there will be a minimum of five years of operational life remaining when Amey hand over ownership. The details of the handover need to be agreed between NYCC and CYC, in regards to who will own the plant or how ownership will be split, who will be responsible for the operation of the plant, and how the waste partnership will change.

### Agreed Action 7.1

As part of the discussion around the JWMA, there will be discussion around ownership prior to the decommissioning of the plant.

Priority	3
Responsible Officer	Programme Manager [DA]
Timescale	31 <sup>st</sup> December 2017

## Audit Opinions and Priorities for Actions

Audit Opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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