

Plymouth Citybus Review

Plymouth City Council

28 February 2010

Contents

1	Executive Summary	
2	Introduction and background	
3	Scope of the review	
4	Project Initiation and documentation	
5	Project Management	
6	Financial Monitoring including Budgetary control.	10
7	Review of risk management, including identification, review, mitigation and monitoring of risks.	13
8	Review of arrangements for assessing Value for Money.	16
9	Use of external and internal advisors and specialist advice	21
10	Governance arrangements (including Scrutiny).	22
11	Evaluation of the impact on the local community and other stakeholders	24
12	Communication and reporting to support decision making?	26

Appendices

1	A	Action Plan
3	B	Schedule of meetings and supporting documents
4	C	Documents reviewed as part of this audit

1 Executive Summary

1.1 Introduction and scope of review

The Council, has over the last four years, been collating and reviewing detailed information about all of the assets and investments that it owns in order to establish whether it is obtaining maximum value from them to support the delivery of its local priorities.

One of their investments was the Council's shareholding in Plymouth City Bus Ltd ('Plymouth CityBus'). On 30 November 2009, the Council approved the sale of its 100% share ownership, along with the minority holding held in Trust by the Chief Executive, of Plymouth CityBus to Go Ahead Holding Ltd.

During the lead up to this sale, the Council kept us fully informed and we were satisfied that adequate arrangements were being maintained throughout the process. We agreed with the Council that, upon completion of the project, we would undertake a more detailed review to identify how effective the overall project management was, including governance, risk management, financial control and communication. The aim of this review was to identify those areas where lessons could be learnt for future projects, and where improvements could be made, as well as recognising those elements of best practice.

Our review included discussions with key officers and examination of evidence and key documents produced to support the project as well as the reports provided to Members.

1.2 Findings and recommendations

This was a commercially sensitive project where confidentiality and speed were two critical factors to the successful outcome of this project. Any delays or release of sensitive or confidential information to competitors could have had a significant detrimental impact on the final consideration received. The strong project management skills by the project manager and good use of external advisors resulted in the project being completed within the six month timescale. In addition, the project team were successful in avoiding the unauthorised release of confidential information whilst providing decision makers with sufficient information to make an informed decision.

The Council had sound arrangements in place to ensure that Value for Money (VFM) could be demonstrated for both the initial sale and having regard for future developments.

The impact of the sale of the shares in Plymouth CityBus to users of the service was considered and incorporated into the risk register, where appropriate to do so. This information was used when negotiating the final offer and resulted in a final agreement where risks to post sale services were minimised.

A detailed project risk register was developed and updated throughout the project. Significant risks were identified and the risk register was used as a key driver for the project. Actions were taken throughout the project in response to risk which ultimately resulted in the project being delivered effectively.

Plymouth City Council - January 2010

A budget was established at the start of the project and there was monitoring throughout, with the final outcome being delivered under budget.

Governance arrangements for the project were appropriate and there was regular scrutiny throughout the process. There was considerable oversight by the Chief Executive and we, as the external auditors, were kept informed of progress and any potential issues.

The Council received a large number of correspondence relating to this project, including letters from the public and MPs, emails from the opposition party, a petition and questions from the public at Council and Cabinet meetings. The handling of this correspondence was timely and responded to correspondent's concern.

Whilst we are satisfied that the project was managed well and delivered a successful outcome in the terms presented by the Council, we did identify a number of areas where further improvements could be made. We would recognise that, to an extent some of these arise as a result of the nature of the project and the inherent approach adopted by the Council. These improvements can be summarised under the following key themes:

- improve transparency of the decision making arrangements;
- ensure that robust arrangements are in place for monitoring progress against project plans and for delivery of actual spend against budget;
- projects that impact in the Corporate Improvement Priorities should be considered by the Corporate risk management group for inclusion on the strategic risk register; and
- enhance the documentation around the risk management arrangements.

Further details are included within sections 4 - 12 of the report and there is an action plan in Appendix A.

We would like to take this opportunity to thank the project manager and the Capital project accountant for their assistance with this project.

2 Introduction and background

2.1 Introduction

On 30 November 2009, the Council approved the sale of its 100% share ownership, along with the minority holding held in Trust by the Chief Executive, of Plymouth CityBus to Go Ahead Holding Ltd. This decision concluded a complicated and controversial project in determining the future ownership of the bus company.

As the Council's external auditors, we were advised by officers, at the start of the project, of the scope and key milestones. We have met with key officers during the project to ensure that appropriate arrangements have been in place and to ensure that any areas of concern or issues raised with us could be addressed, with sufficient explanation and evidence.

Due to the significant nature of the project, and its wider implications, we agreed that we would complete a detailed post project review to assess the effectiveness of the arrangements followed throughout the process and to identify where, if any, there was scope to improve on these.

This report sets out our findings from this review which we have discussed with management, with recommendations arising set out within the Action Plan in Appendix A.

The outcomes of this review will also be used to inform our value for money conclusion for the Council in 2009-10 as evidence to support the project management and associated arrangements, such as risk management and financial control for a significant project.

2.2 Background

The Council has, over the last four years, been collating and reviewing detailed information about all of the assets and investments that it owns in order to establish whether it is obtaining maximum value from them to support the delivery of its local priorities. This exercise has considered the future options available to the Council which includes future investment in these assets, opportunities for better joint working and sharing with partners and divestment.

In early June 2009, the Council, following Cabinet approval, established a project to consider the future operation of Plymouth CityBus. The Council wanted to reduce its level of risk within the current economic environment and to consider alternative proposals to its investment. The Council obtained an estimated valuation for the company to determine whether it would be appropriate to explore market interest in either acquiring all, or part, of the Council's shareholding.

In the period June to November 2009, Council officers followed a competitive process to establish interest in the operation of the bus company. Ten companies expressed interest and these were short-listed down to five companies to whom bid documents were issued. All five submitted a bid and three of these were invited to the second stage before a preferred bidder, Go Ahead, entered into final negotiations with the Council.

Throughout the Project, the Council engaged specialist external advice as well as utilising internal resources to evaluate bids and consider the alternative options. Elected Members have also been kept informed through regular updates. On the 20 November 2009 a report was presented to the Cabinet meeting to approve a recommendation to present to full Council, on 30 November 2009, to sell 100% of the Council's shareholding in Plymouth CityBus to Go Ahead Holding Ltd.

3 Scope of the review

3.1 What was covered in the review.

As set out previously, we have maintained an ongoing assessment, through discussion and review of reports and other key documents, of the progress of the project to ensure that appropriate arrangements were in place. In addition, we have considered issues and a number of areas of concern that were raised with ourselves by interested parties.

Upon completion of the Project, we undertook a more detailed review to identify how effective the overall project management was, including governance, risk management, financial control and communication. The aim of this review was to identify those areas where lessons could be learnt for future projects, and where improvements could be made, as well as recognising those elements of best practice.

We have structured our review to consider the following areas;

- project initiation and documentation;
- project management;
- financial monitoring, including budgetary control;
- review of risk management, including identification, review, mitigation and monitoring of risks;
- use of external and internal advisors and specialist expertise;
- governance arrangements including scrutiny;
- arrangements for assessing value for money;
- evaluation of the impact on the local community and other stakeholders;

- arrangements for obtaining, evaluating and taking account of consultation with relevant parties; and
- communication and reporting to support decision making.

Our review included discussions with key officers and examination of evidence and key documents produced to support the project as well as the reports provided to Members.

3.2 Limitation of Scope

This review did not consider the appropriateness of the decision made by the Council in disposing of its shareholding in Plymouth CityBus. This was a policy decision that is beyond the scope of our responsibilities, as external auditor, to challenge. Our review focussed on the arrangements put in place to support that decision and identifying any areas where improvements could be made to support future decisions.

This review is part of a continuing dialogue between the Council and ourselves and is not, therefore, intended to cover every matter which come to our attention. Our procedures are designed to support the specific objectives of the review and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices. The review is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it.

3.3 Audit Fees

This review falls outside the scope of our planned programme of work and, as such, the agreed audit fee for the year does not include this review. We have used appropriately qualified staff to undertake the work and their time charged to the Council at the scale rates set out in the Audit Commission's 'Work programme and scale of fees 2009-10' published in December 2008. The fee for this review has been £19,388 which is within the range (£15,00 to £20,000) we agreed with the Council in December 2009.

4 Project Initiation and documentation

4.1 Summary of findings

We obtained sufficient evidence that a robust business case was developed to support this project. We consider that the level of consultation with Members was appropriate and that the Cabinet was the appropriate body to approve the project. Adherence to the scope of the project was appropriately monitored by Members and senior officers.

We understand that, due to the commerciality of the project, officers, carefully considered what information, should be available to decision makers. Information that was considered commercially sensitive was excluded from the paper presented to Cabinet on the 2 June 2009. In our view, the Council should consider whether it was too cautious over some of the information excluded and if there was scope to have been more transparent, for example with regard to risk assessments and providing greater detail on the different options available to the Council.

4.2 The business case

In March 2008, the Council and Plymouth CityBus jointly commissioned a report that outlined the options available to meet the key requirements for the people of Plymouth.

The partial sale of the Council's shares in Plymouth CityBus was considered to be the preferred option. The reasons for this was that this option would;

- secure private sector investment;
- introduce new expertise, and
- maintain a Council's shareholding ensuring greater integration between the plans of CityBus and the Council.

Both senior management from the Council and CityBus supported this recommendation.

Subsequently, the Council commissioned an independent valuation of the ordinary share capital of Plymouth CityBus in May 2008.

Officers at Plymouth City Council were concerned about the increasingly competitive environment in which Plymouth CityBus was operating and the need for further investment in assets by the bus company, both of which would impact on the value of future dividends and, potentially the diminution in value of the shares in the company.

Because of these concerns and the estimated value of Plymouth CityBus, senior officers at the Council commissioned the project manager to develop a business case for a project to provide information about the potential viability of a sale of all or part of the Council's shareholding in Plymouth CityBus.

The business case was presented and approved by Cabinet on the 2 June 2009. This paper explained:

- the reasons for the project, showing alignment to the Council's corporate improvement priorities;
- options available to the Council regarding its shareholding;
- the expected benefits arising from the preferred option;
- the anticipated risks of keeping the status-quo;
- costs and timescales, including a list of key deliverables; and
- provided an investment appraisal, that considered the cost of not undertaking the disposal compared to doing it.

Whilst we recognise that officers carefully considered the extent of information that went into the public domain, it is our view that, having undertaken a post project review, there was scope for more transparency in the following areas::

- greater detail on all options available to the Council, including the benefits and risks for each option;
- an operational risk assessment on the preferred option;
- a project risk assessment, detailing the risks associated with going ahead with the project (strategic risks);
- a communication plan, which identifies key project stakeholders, the expected communication methods and the frequency; and
- a more robust investment appraisal.

To expand on this last point further, the business case sets out the economic case for the disposal of shares by comparison of estimated future dividends for the Council from Plymouth CityBus with a range of estimated capital receipts, arising from a partial or full sale of the Council's shares. The difficulty was estimating the future dividends and this was done using three different methods, which were simply:

- the average of the last four years;
- the average of the three out of the last four years, and
- the average of the dividend that would be paid under the existing policy using the modest turnover growth figure contained in the latest business plan.

The narrative in the business case stated that increasing competition issues and the need for future capital investment would have a detrimental effect on Plymouth CityBus's profits and hence on the dividend, but did not provide the underlying evidence to support this. Consequently, in our view the investment appraisal could have been strengthened by undertaking further financial modelling and to quantify the cost of 'status-quo'.

4.3 Approval of the business case

The Council's Constitution defines the role of Full Council ('non-executive functions) and Cabinet (executive functions). The Council is responsible for:

- electing and removing the Leader and Cabinet;
- approving the Budget and setting council tax;
- approving the Strategic Plan Framework;
- elections;
- planning;
- licensing;
- staff;
- scrutiny of decisions taken by Cabinet; and
- standards of conduct of councillors.

The Leader and Cabinet are responsible for all other functions, but must operate within the Budget and Strategic Plan Framework approved by Council.

Legal advice was sought from expertise outside of the Council and it was their view that the initial decisions i.e.

- to enter into a project to dispose of part or all of the shares in Plymouth CityBus;
- to appoint advisors for that project;
- to allocate budget for that project (intending to use some of the Transformation Change Programme reserve); and
- to set out the Governance arrangements for that project.

was not outside the budget and policy framework for the Council and therefore was an executive function and the responsibility of Cabinet.

4.4 Member involvement in the decision

As stated above, the decision to enter into a project to dispose of part or all of the shares was made by Cabinet. Prior to development of the final business case that went to Cabinet on the 2 June 2009, discussions were held between the Officers steering group and Cabinet Members. In addition, both the Conservative Group and the Labour Group were briefed prior to the Cabinet decision being made.

4.5 Initial scope of the project

The paper presented to Cabinet on the 2 June 2009 was considered to be the final business case. The initial scope of the project, as described in this paper, was to explore the market interest in acquiring all or part of the City Council's shareholding in Plymouth CityBus in order that the Council could make informed decisions as to whether to retain or sell all or part of its shareholding. In particular to;

- seek and negotiate proposed terms with potential purchasers of shares in Plymouth CityBus subject to full Council approval of any final recommendation for sale;
- appoint professional advisors to assist with the project; and
- consider opportunities in relation to any property or assets currently owned by Plymouth CityBus.

Adherence to the initial scope of the project was monitored by a project board who met four times during the six month period. The members of the project board were the Leader and Deputy Leader of the Council, Director for Corporate Support, Assistant Director of Transport and Highways and Project Manager. In addition, the Director for Corporate Support, as project Sponsor, undertook a review during two points in the project;

- end of Stage 1 ('Advertise for interest in acquiring shares and invite bids') and
- end of Stage 2 (assess bids, negotiate and invite final bids).

The Chief Executive also maintained an active interest in the progress of the project and provided overall challenge and oversight on a regular basis.

Furthermore, a joint task and finish group was established to review the monitoring of the project. Membership was drawn from the Growth and Prosperity Overview and Scrutiny Panel and Support Services Overview and Scrutiny Panel.

The joint task and finish group met on the 1 October 2009 to consider the process to the end of Stage 1 and on the 29 October 2009 to consider the process to the end of Stage 2. This group submitted their findings for consideration by the Overview and Scrutiny Management Board, who reported to full Council on the 30 November 2009.

5 Project Management

5.1 Summary of findings

As stated in the business case, the delivery of the project was complex. The project manager demonstrated effective project management skills as demonstrated by the fact that the project was completed within a demanding six month timescale set out within the business case.

There was evidence of monitoring progress against the plan by the project board and by Members. Efficient monitoring was evident for Stage 1 of the plan however this was less so for stages 2 and 3 of the process. In our view, monitoring of stages 2 and 3 by the project board could have been improved by completion of a formal project plan for both stages and formally presenting this to the project board at the end of Stage 1 and Stage 2 respectively.

We recommend that for future projects that have different phases, a detailed formal project plan is produced for each phase and is clearly approved and monitored by the project board.

5.2 Project plan

The overall project was divided into three distinct phases with key milestones. A summary of these phases was included in the paper that was presented to Cabinet on the 2 June 2009, and are shown in Table 1.

Table 1

Phase no.	planned date	Description of process
-	02/06/09	Cabinet authority to proceed.
1	30/06/09	Advertise for interest in acquiring shares and invite bids.
2	01/09/09	Assess bids, negotiate and invite final bids.
3	27/10/09	Receive final bids, negotiate and make recommendations.
end	30/11/09	Presentation of report and recommendations to full Council

It was anticipated that there would be a formal stage plan written for Stages 1 and 2, which would be reported to and monitored by the Project Board. There was no intention to produce a formal stage plan for stage 3.

Stage 1 (going to Market) stage plan was reviewed and approved by the Project Board on the 3 July 2009. The primary outcome of stage 1 was to receive a number of bids of a sufficient quality that the process can continue into a second round of bids.

A formal stage plan for Stage 2 was partially drafted but was not completed.

Detailed project schedules were produced to support these plans using project software and these were regularly reviewed and updated by the project manager.

5.3 Monitoring and reporting progress against the plan

Stage 1 (going to Market) included a section on 'Monitoring and Control' and 'Reporting', that stated that, 'the stage will be monitored by the Project Manager to ensure that tasks are performed on time and where issues arise these will be reported direct to the Project Manager who will determine if they are of sufficient importance to record in the risk log and escalate to the Project Board.'

Our review of the Project Board minutes and supporting papers provided evidence of monitoring of progress against the plan for Stage 1. However, owing to absence of a detailed stageplan for Stages 2 & 3, and the timings of the Project Board, there was no formal detailed monitoring of the progress for these stages by the Project Board, but we acknowledge that progress against the overall timetable was monitored.

Progress of the project was scrutinised by Growth & Prosperity Overview and Scrutiny Panel with Support Services Overview and Scrutiny Panel. This joint committee were presented with a progress update on the 1 October 2009 , which was at the end of Stage 1 of the project and on the 29 October 2009, the end of Stage 2. A high level project timetable was provided within a project report at both of these meetings supported by a detailed narrative on the process.

6 Financial Monitoring including Budgetary control.

6.1 Summary of findings

The actual cost for delivering the project was significantly under the original budget and the project manager was successful in transferring some of the costs originally planned for stage 1 to stage 2, thereby reducing the financial risk to the Council if they chose not to proceed.

The financial monitoring and budgetary control was undertaken by the project manager and monitored by the project board via the Director for Corporate Support's review of Stage 1 and Stage 2.

We identified that the first budget report received by the Project Board was three months into the project by which time significant costs had been incurred or committed, and consider that this could have been more timely.

We recommend that a budget report is a standing item on the project board's agenda which reports on all costs that have been incurred and committed to as at the date of the meeting.

6.2 Budget setting

Project costs, totalling £946,000 were split between external advisors (£768,000) and internal project costs (£178,000) for the three phases of the project. The costs (including contingency) incurred per stage were estimated to be:

- Stage 1: £499,000

- Stage 2 £144,000
- Stage 3 £303,000

This budget was considered comparable to the budget used for the disposal of Bournemouth shareholding in Yellow Bus, where they spent £882,000.

External and internal costs were split into the following elements:

- External costs - key elements were:
 - financial advice;
 - legal advice;
 - pensions;
 - corporation tax;
 - financial due diligence;
 - data room; and
 - extra's at 5%
- Internal costs
 - project management;
 - internal legal costs;
 - internal technical costs;
 - internal expenses; and
 - environmental survey

External costs were estimated through discussions and receipt of quotes from external advisors. Internal costs were estimated by considering what resources would be required and the associated salaries. Further breakdown of these costs were provided in the Stage 1 project plan and included:

- project manager - 1 x FTE
- project co-ordinator - 1 x FTE
- transport resource - 0.4 x FTE
- legal resource - 0.4 x FTE

Finance resource (0.1 X FTE) and communication costs were not provided for in the budget.

6.3 Approval of budget

The 'officer steering group' gave approval to take the budget to Cabinet. Cabinet approved the use of up to £946,000 for the project from the Transformational Change Programme (TCP) reserve budget, provided that expenditure was incurred in accordance with the financial regulations and contract standing orders.

On the request by Cabinet to scrutinise the process, the budget was considered by the Resources & Performance Overview and Scrutiny Panel on the 10 June 2009. The purpose of this was to scrutinise the allocation of funds from the TCP reserve to the project.

The Panel endorsed the allocation of funds from the TCP reserve budget.

6.4 Monitoring actual delivery against budget

Actual costs were monitored against the external and internal cost headings used in the initial budget setting process.

All project costs were charged to a specific cost centre on the ledger and there were detailed ledger codes within the cost centre for the key costs of the project, as set out in the initial budget. This allowed efficient monitoring of actual costs against budget.

It was the responsibility of the Project Manager to monitor delivery against actual plan.

It was agreed by the project board, that tolerances of +5% should be set for the budget. If exceeded, this should be reported to the Project Board.

The Project Board met four times during the project. A progress report against budget was submitted for the end of Stage 1 review on the 17 September 2009, which identified that the expected spend to the end of Stage 1 was £406,000, producing an underspend of £93,000. This was at their third meeting. Prior to this, no written report was provided at these meetings, although a verbal report was provided at the first meeting, which stated that the budget for this phase (phase one) was £500,000, and that the project was within budget at that time.

We could not identify any evidence of discussion of budget at the second project board meeting nor was it included in the project manager's report. The second project board meeting was held on the 31 July 2009, and was, early in the process. However, by reference to the Stage 1 plan, we would have expected a significant amount of costs to have been incurred, or committed, at this stage. For example, the majority of external advisors had been appointed at this stage.

The stage 2 review by the Director for Corporate Support also included a review of the budget to the end of stage 2. This review was submitted to the Project Board for consultation on the 27 October 2009. The budget review concluded that there was currently an overspend of £3,000 for stage 2, however, it was stated that the costs for this stage were estimated since, at the time of writing, the end stage date had not been reached and the costs would be confirmed at the subsequent project board when all invoices have been processed. A subsequent project board meeting was not held.

The Overview and Scrutiny taskforce received a high level summary of actual delivery against budget at the end of stage 1 and stage 2.

6.5 What was the final actual versus budget position?

The report to Full Council on the 30 November 2009 stated that the project costs would be within the initial budget at completion.

We received an actual outturn versus budget reports from the Project Manager, as a part of our review and this showed an underspend of £294,445.

For Stage one there was a total underpend of £108,753. This was mainly due to an underspend on:

- external costs relating to technical support, £25,015, on corporation tax advice, £12,500 and on financial due diligence, £19,726; and
- on internal costs relating to internal technical costs, £11,661, internal expenses, £11,966 and environmental survey, £19,010.

For stage two, there was a total underspend of £6,253 on a budget of £140,851.

For stage three, there was a total underspend of £172,148. Actual costs were £134,120 against a budget of £306,268. This underspend was mainly due to the following factors;

- budgeted internal costs of £50,812 did not materialise; and
- budgeted external costs relating to financial advice (£91,786), tax advice (£12,500), pension advice (£12,500) and technical support (£32,440) did not materialise. There was an overspend on external legal advice of £26,076.

7 Review of risk management, including identification, review, mitigation and monitoring of risks.

7.1 Summary of Findings

A detailed robust project risk register was developed and updated throughout the project. The risk register identified significant risks and was used as a key driver for the project. No new risks materialised during the project that had not previously been considered although, for completeness, the issue of the pension liability on Plymouth CityBus's accounts should have been included.

This project impacted on two Corporate Improvement priorities and should have been included on the strategic risk register.

We recommend that a process is put in place so that all projects that impact on the Corporate Improvement priorities be considered by the Corporate risk management group and that appropriate risks are included on the Strategic risk register.

The general risk management approach at the Council is strong, and evidence shows that the project was lead by a project manager with good experience on risk management, however, there is scope to enhance this for individual projects specifically;

- a systematic approach should be developed for the identification of risks that incorporates operational, financial, timeliness, quality and VFM considerations;

- the Council should consider if a description of context, event and consequence be included in their risk management strategy for each risk identified and cover this as part of risk management training;
- there should be an assessment made of how risks should be managed i.e. whether to take, terminate, treat, transfer or tolerate and this should be documented on the operational risk register for that project; and
- both the likelihood and impact should be evaluated and separately managed, where appropriate.

7.2 Identification of operational risks

Prior to the Cabinet meeting in June 2009, key officers met for half a day to discuss the project and produce a risk log. Members of this group were officers of the project board, and financial, legal and transport advisors. This was completed as a "brainstorming" session drawing upon the different experience and expertise of the attendees.

The risk log from this session was included in the project viability report which was the precursor to the business case. It was not, however, included in the business case on the basis that it contained confidential information that might prejudice the final outcome.

The risk register categorises the risks into the following areas:

- process;
- staff/management;
- post deal service issues;
- confidentiality;
- political issues; and

- Council transport issues.

These risks were not distinguished between internal and external nor a reflection that the response to these may be different as a result.

A good method in identifying significant risks is to methodically consider the areas of operational, financial, timeliness, quality and VFM considerations. Whilst we appreciate that members of the workshop had good experience of risk management and evidence indicates that significant risks were identified, we do consider that a standard systematic approach should be established to risk identification as stated in the Council's current risk management strategy (RMS).

The risk register provided a brief description of the risk with no further explanation provided with regard to;

- context - without which it is unclear why the risk is relevant;
- event - if it is not clear what it is that might happen it is difficult to judge the relevance; and
- consequence - if what might happen is not known, even the impact on the objectives of the organisation cannot be established.

As the register was developed and monitored by the project board, who had a detailed knowledge of these risks, this information may not have been considered necessary. Furthermore, the red and amber risks were discussed in detail at the first project board meeting.

However, the Council should consider how it could improve its formal documentation of risk, particularly the description of context, event and consequence.

7.3 Assessment of risks

The Council's Risk Management Strategy states that effective risk management ensures that there is an understanding of 'risk' and the

authority adopts a uniform approach to identifying, prioritising and reporting risk that should lead to conscious choices over the most appropriate method for dealing with each risk, whether that is by elimination, reduction, transfer or acceptance.

However, adoption of this approach is not clear from our review of the project risk register. Our discussions with the project manager indicated that mitigating actions were put in place for all risks identified and the resources required to put these actions in place was proportionate to the prioritisation of these risks.

However, it is our view that risk management processes could be improved further to ensure there is clear documentation of the assessment of how risk should be managed and this should be documented on the operational risk register for that project.

7.4 Monitoring and reporting of risks.

This project impacts on two corporate improvement priorities within the corporate plan;

- improving access across the city; and
- providing better value for money.

Therefore, we would expect to see consideration of risks associated with this project on the strategic risk register. However, there is no evidence that this was considered by the Corporate Risk Management Group who are responsible for and monitor the Strategic risk register.

The business case did not explain the process of risk management for this project. For example, there was no description of the responsibility for managing and monitoring the strategic and operational risks. That said, the operational risk register was effectively being monitored by the project board and was maintained at project level. Due to the commerciality of the project, it was decided that

specific risks would not be reported to Members apart from those on the Project Board.

We obtained seven versions of the operational risk register that considered risks up to the 26 October 2009. There was clear evidence that the risk register was being updated, with additional new risks being added and current risks being either upgraded or downgraded as the project progressed. Mitigating actions put in place at the beginning of the project were considered effective and no amendments were made.

Overall, the effectiveness of the risk management process could be demonstrated by the fact that the project proceeded with minimal issues and was delivered on time and under budget and achieved the desired outcome.

7.5 Did risks materialise?

The main risk that materialised was that route flooding, which occurred during Stage 2 of the process. This was cited as one of the reasons for the reduction in the value of the final bid submitted by one of the three final bidders. No subsequent action was required as the preferred bidder did not reduce their bid. Other risks that materialised included staff opposition, opposition from Members and opposition from MPs. However, the impact of this risk was considered low and was managed in accordance with the plan with no subsequent actions being implemented.

Some risks did not materialise due to effective risk management. For example, one of these risks was that there could be significant environmental pollution on the site that could have a detrimental impact on the final sale price. This was successfully managed by the Council commissioning an environment assessment report, which was provided to all short listed bidders, that provided appropriate information to enable well informed bids in relation to this area to be submitted.

We note that the risk of the pension liability on the Plymouth Citybus accounts was not considered as a risk on the project risk register. However a detailed paper on pensions was presented to the Project Board on the 31 July 2009, highlighting the potential issues involved regarding pensions. We would have expected the pension liability issue to be added to the risk register at this point.

7.6 Evaluation of risks

In accordance with the Council's Risk Management Strategy, risks are scored under both likelihood and impact - impact is split into three categories - cost, time and reputation.

Members of the project team decided to introduce mitigating actions to reduce the likelihood score for each risk as they considered it not possible to identify any controls to reduce the impact.

We would encourage the Council to consider whether its arrangements, and guidance to support staff, could be enhanced, to ensure that consideration is given to implementing mitigating actions to both impact and likelihood of a risk materialising.

8 Review of arrangements for assessing Value for Money.

8.1 Summary of findings

The Council's introduced appropriate arrangements to assess whether VFM was going to be achieved. In addition, it was successful in negotiating safeguards to ensure future VFM with the preferred bidder.

We have identified two areas for further consideration by the Council:

- the VFM comparator could have been calculated on a more robust basis, taking into account the Council's reservations about the future of the bus company under the Council's ownership; and
- the Council should consider whether some of the further analysis on the retail value of the land should have been communicated to the decision makers.

8.2 What criteria was used to determine the value for money?

VFM comparator

Three methods were discussed by the project board. They were:

- balance sheet position;
- dividends received; and
- dividends received plus realised costs.

The Project Board agreed that dividends plus realised costs was the preferred VFM comparator. This was agreed by the Project Board in September 2009. This criteria was approved by the project sponsor and was considered the most suitable basis for establishing whether the sale of shares in Plymouth CityBus offered value for money.

The balance sheet method was rejected as it is a very crude method of assessing value for money as it takes no account of potential future financial benefits (dividends) that may be received by the Council.

It was agreed that the actual dividend data should be used rather than projected dividend income. This method was different from the methodology as set out in the initial report to Cabinet seeking approval for the project (2 June 2009 report).

Dividends was calculated by totalling the net present value of historic dividends received over the life of the company (23 years) and the two years forecast dividends. The dividend streams were adjusted to their present value using a discount rate of 3.5%. This gave a net present value of £9.3 m i.e. total financial benefit of owning all of the company.

The following realised costs were estimated;

- net debt of PCB (£1.15m) as of March 2009. The company would be sold on a debt free/cash free basis.
- project fees (stage 2 & 3 (£0.48m) as stage 1 fees had already been incurred; and
- pension transfer liability of £0.7m.. This relates to additional pension liability costs estimated due to sale transfer.

These costs would need to be deducted from the sale consideration. Therefore, the Council determined that VFM would be achieved if the consideration was over £11.6m.

We understand from discussion with officers that this methodology for calculating the VFM comparator was considered appropriate by the Council's financial advisors, however, this advice was not put in writing.

Valuation of company

The Council had received a valuation of Plymouth CityBus in May 2008. This gave a valuation of between £15 m - £17.5m. The valuation methodology used was a multiple of turnover. The authors of this report compared this valuation to a valuation using three other methods and concluded that multiple of turnover was the most appropriate.

The valuation of Plymouth CityBus was considered under four scenarios;

- a full sale of the business with no premium for the development potential in the depot, which gave an estimated overall valuation of £15 - £17.5 m;
- a sale taking account of the future potential enhanced proceeds from the development of the existing depot, which gave an estimated value of £21.4 - £26.9 m;
- the sale of just a 40% or 49% stake in Plymouth CityBus, which gave an estimated value of £4 - £5.5 m; and
- minority disposal of shares (40 - 49%) but keep land for further development - £6.6m - £12.9m.

The external advisor commissioned to undertake the valuation compared the primary valuation methodology to other methods which were:

- multiple of earnings (EBIT);
- discounted cash flows; and
- dividend yield.

All three methods gave a lower value for the company than the preferred option which was the turnover multiple basis.

The valuation of land in the second scenario, which produced an estimated value of £21.4 - £26.9 m, was based on a valuation report dated August 2007. This report quoted that the market value of the freehold interest in the above property, with vacant possession, as at August 2007 is in the sum of £5.4m, with the preferred planning option as mixed use development opportunity. However, the report did state that if the planning use could be changed to all retail then the value of the land could be between £15 m - £20m for that land.

The potential for retail development of the land was investigated further by officers and it was determined that the underlying principles and assumptions regarding the potential value were qualified e.g. planning restrictions meant that the full retail value of the site could not be achieved. In addition, there were likely to be significant costs required to clean up the contaminated land for this use. This would significantly impair the value of the land. As a result, officers considered it misleading to include this potential retail value of the land in the report to Members in the 2 June 2009.

We have considered officers approach to this and conclude that this treatment was appropriate. However, the Council should consider whether some of the further analysis should have been communicated to the decision makers.

The project board did state in Information Memorandum that was provided to the shortlisted bidders that bids could be received with or without the land. Only one bid was returned which included offers for the two scenarios. From this it could be inferred that there was little market interest in acquiring the shares without the land.

At the end of October 2009, a planning appraisal of Plymouth Citybus was commissioned by the Council. The focus of this planning

appraisal was on the potential redevelopment options of the Milehouse Bus Depot for retail uses and in particular food retail uses. This report concluded that retail use is unlikely to be acceptable on a scale that would be accommodated on the full site, which supported the officers decision not to include the retail value of the land as a possible option in the 2 June 2009 report to Cabinet.

A further valuation of the Plymouth Citybus site was undertaken in November 2009 which valued the land at £3.0m. The valuation states that “at the present time we consider that the value of the site in its existing use is in excess of that as a redevelopment opportunity” and this was reported to the Council on the 30 November 2009.

The valuation of Plymouth CityBus was undertaken in May 2008, more than a year before the sale. Therefore, two separate firms of financial advisors were consulted on the likely impact of the recession and availability of credit on the disposal valuation of PCB. Both believed that for the main prospective purchasers of shares, the acquisition of PCB was a relatively small acquisition and they could finance it without difficulties.

Bid process

The Council went through a thorough and robust process to ensure that interest was likely to be expressed by the majority of bus operators and other known interested parties. In the financial viability report, the Council had identified seven likely bidders for Plymouth Citybus. The Council ultimately received 11 expressions of interest, five initial bids and three final bids.

The Chief Executive of the Council received a letter from the financial advisors, KPMG that stated, 'in my opinion the process that has been run can reasonably be considered to have fairly tested the current market appetite for PCC's shareholding in PCB, including both the value at which the sale could take place and the associated undertakings and contract terms.'

Recent disposals of Bus companies

The Council had information regarding the sale price for a number of municipal bus companies that had been sold in the last 15 years. Details of these sales were reported in the paper to the Full Council on the 30 November 2009 and allowed readers of the report to compare these disposals with the offer for Plymouth CityBus. However, no information was provided on the relative size of the companies to put these valuations into context. Whilst there would have been a number of factors that would impact the individual valuations for each of these bus companies, more contextual information would have been beneficial to help inform the Council's decision-makers. For example, it was reported that Bournemouth Borough Council sold their shares in Yellow Buses for £13.8 m in October 2005. This was for a fleet size of over 100, although the actual size is unknown. Both, Preston - fleet size of 81 and Eastbourne - fleet size of 60 resulted in a relatively low receipt of appropriately £6.4 m and £3.7 m respectively. Plymouth CityBus has a fleet size of 190.

8.3 What sensitivity analysis was used?

Discussions with the project manager and the financial accountant who produced the calculation supporting the VFM basis identified that no sensitivity analysis was performed on the final VFM criteria used to determine whether the sale represented value for money. Officers had concluded that there was a stronger probability that dividend income would decrease in the near future, therefore indicating that the future dividend income was the best case scenario. The reasons for this were that the company had the following financial pressures:

- increasing competitive bus market in Plymouth, and
- the need to invest in new vehicles.

Historically, the dividend for the Council had been one third of the profit before tax. Therefore, financial modelling could have been performed using the Plymouth Citybus business plan up to 2012-13 as

a basis. Dividends could have been predicted under zero growth, conservative growth and optimistic growth.

We recognise that this may seem unnecessary given that the preferred bid was substantially over the estimated benefit of maintaining Plymouth CityBus. However, this may not have been the case and a lower offer could have been rejected due to the VFM comparator not being sufficiently robust. We acknowledge that the Council did have an estimated value of the company as a gauge of what value to expect but this valuation was over 12 months old and prior to the route flooding by competitors.

8.4 Was all appropriate risks reported to relevant decision makers including project board, Cabinet and Members in order for them to make a well informed decision?

The project risk register identified the following risks which could have impacted on whether the Council achieved VFM. These include the following:

- purchaser subsequently benefits from significant uplift in land value;
- route/service rationalisation;
- financial stability of winning bidder - key concern here was to ensure that the necessary ongoing investment would be made in the bus fleet;
- poor service provision - possible asset stripping, reduced frequency of service, reduction in staff;
- new owner announces closure of unprofitable activities;
- tension between council's transport policies including social objectives and commercial issues - biggest risk around concessionary fares; and
- new operator increases fares substantially.

It should be noted that these factors were not reported to Cabinet when they were required to make their initial decision on whether to approve the project. In our opinion, these risks should have been reported and this has already been discussed under Section 4.2.

These factors were considered as part of the final negotiations with the preferred bidder and the outcome of these negotiations were reported to Full Council on the 30 November 2009 to inform their final decision. Therefore, all members were aware of the risks before the final decision. The outcome of these negotiations were that the risk to VFM was reduced significantly.

8.5 What safeguards have been used to ensure future VFM - e.g. contract clauses over future disposal?

The Council achieved a number of safeguards to ensure VFM. These were:

- a tapering clause for the future disposal of the land. The Council would receive 50% of the receipt for the first 10 years, 25% for the next 10 years and 10% for the final 10 years;
- the purchaser had agreed to maintain the route network that had historically been run by Plymouth CityBus for a minimum period of six months with no changes. They also agreed that the Council will be provided with 90 days notice of any proposed changes to these routes;
- the purchaser had agreed to maintain the scholars' routes for a minimum period of three years as operated by Plymouth CityBus; and
- the purchaser is committed to a fleet replacement programme that will see the elimination of step entrance vehicles on front line services. Low floor access is particularly important to those with a disability and passengers with pushchairs.

8.6 Have there been appropriate modelling of future considerations such as additional subsidies required to keep uneconomic routes operating?

The Council's transport advisors did recognise that there could be risk of additional subsidies but this had not materialised in recent private bus deals.

In addition, the Council have introduced, and are intending to extend, the use of taxibus services for routes that are either uneconomic, geographically inappropriate to service with larger vehicles, or where it is seeking improved penetration and profile.

The project manager's view is that this transaction, as a sale of shares resulting in a change in ownership, does not necessarily result in a risk of additional subsidies. For example, Plymouth CityBus's competitors won the majority of subsidised routes during the last tender exercise.

Another area that needed considering was concessionary fares. There is a perception that a change in owner could result in an increase in fares resulting in an increase in the Council's concessionary fares budget. The report to full Council on the 30 November 2009 stated, 'it is not expected that the change in ownership will impact on the reimbursements already made by the Council'. We have reviewed the Stage 1 report from the Council's transport advisors. This report states that the Council's transport department has undertaken some modelling. It shows that a 20% increase in fares generates an 8% increase in concessionary payments under the departments reimbursement analysis tool. The amount of concessionary fare income is dependent on the number of concessionary passenger, operator's average fare and the mix of passengers. If fares increase, the fare paying passengers will decrease resulting in a lower reimbursement. We are satisfied that the Council has assessed the impact of this issue, using appropriate modelling, and that it has

formed a view that the change in ownership is unlikely to have a significant impact on the Council's concessionary fare budget.

9 Use of external and internal advisors and specialist advice

9.1 Summary of findings

The external advisors used for this project supplemented the Council's own expertise and contributed to the successful delivery of this project. The selection process of these advisors was in accordance with the Council's contract standing orders.

9.2 On which elements of the project were advisors used?

The disposal of a public shareholding in a company is a rare transaction for a public authority. Therefore, the officers steering group determined that a number of different advisors were required to support the process. These were:

- Financial advisors - to prepare the commercial bid documents, ensure FSMA compliance, develop market interest, support negotiations with bidders and close the sale.
- Legal advisors - to prepare all necessary documents, legal sale documents, complete legal due diligence and advise on specialist law issues.
- Vendor due diligence advisors to advisors conduct an exercise to provide independent reports on Plymouth CityBus for prospective purchasers to enable more accurate bidding by companies.
- Transport advisors -to ensure the Council accurately reflect current and future transport opportunities in the sale process.

9.3 How were they selected and were contract standing orders complied with?

The estimated costs for the advisors were:

- £226k for financial advisors;
- £131k for financial advisors for due diligence;
- £263k for legal advisors; and
- £95k for technical (transport) advisors.

The legal and the financial advisors were procured under the Catalist Framework agreement, a contractual vehicle that allows public sector entities buy services, quickly and easily. The Council was unable to do this for the due diligence work and therefore underwent a tender process.

Tenders were invited for the Vendor Due Diligence work on the Council's procurement portal. There were five bidders and three were invited for interview. An evaluation team was set up, which included the project manager, the chief executive of PCB and a legal representative. The bids were evaluated under a weighted evaluation criteria which was notified to all tenderers in the Invitation to Tender document. This evaluation criteria included consideration of quality (technical ability), experience and cost. The tender was awarded to the bidder with the highest score.

The final total spend for transport was £8,336 and was well under the £75,000 threshold for undertaking the tender process.

All appointments were signed by the Project Manager (Head of Strategic Procurement) in accordance with the Council's financial regulations.

10 Governance arrangements (including Scrutiny).

10.1 Summary of findings

The Governance arrangements surrounding this project were appropriate and the project process was scrutinised regularly. Conflicts of interest were identified and successfully handled.

There was also considerable oversight by the Chief Executive and as external auditor, we were kept fully informed of progress and potential issues throughout the project.

The Members on the Scrutiny panel did consider that their effectiveness was somewhat diminished due to the fact the some information was not made available due to the commercial sensitivity of the project.

10.2 What were the overall governance arrangements for the project?

The governance arrangements were set out in recommendations four and five in Part I of the 2 June 2009 paper to Cabinet. These arrangements included:

- Establishing a Project Board to oversee the delivery of this project. The Project Board comprised the Leader, Deputy Leader, Cabinet Member for Finance, Property, People and Governance (stood down before the first project board meeting), Director for Corporate Support (Project Sponsor), Assistant Director Transport and Highways and the Project Manager.

- Delegated to the Director for Corporate Support, in consultation with the Project Board members, to make a recommendation to Cabinet in due course as to what recommendation Cabinet should make to the Council on the disposal of any or all of the Council's shareholding in Plymouth Citybus, and the terms of any such disposal.
- Authority was given by Cabinet Members to seek and negotiate proposed terms with potential purchasers of shares in PCB subject to full Council approval of any final recommendation for sale.
- The matter was referred to the Overview and Scrutiny Commission.

External legal advice was obtained to advise the Council on the appropriate decision making process for the disposal of some or all of its shares in Plymouth CityBus. This advice considered the initial decision process and the final decision process. The legal advice confirmed that the full Council could make the final decision on the basis that the decision to sell some or all of the shares is outside the budget/policy framework of the council and that the initial decisions are in accordance with the budget and the policy framework and therefore should go to Cabinet. This advice was followed by the Council.

10.3 How were conflicts of interest identified and dealt with?

Prior to Full Council making the decision to sell the shares, the Head of Legal services provided clear advice to all Members on when there would be a perceived conflict of interest. He considered that the conflicts of interest could arise for the following reasons:

- Member of the Plymouth CityBus board;
- Director or employees of Plymouth CityBus;
- Member had a relative employed by CityBus; and/or
- Members had a shareholding in a company which may be a potential rival bidder.

At the meeting there were five declarations of interest from the Members who were directors of PCB, three declarations from Members whose relatives were employed by PCB and one declaration from a Member who was an employee of PCB.

10.4 How was the project scrutinised?

The Overview and Scrutiny Commission considered the item on the 11 June 2009 and recommended that, 'the process of the project by monitored by the Growth and Prosperity Overview and Scrutiny Panel who could consider inviting the Chair and Vice Chair of the Support Services Overview and Scrutiny Panel.'

The project was then called-in under the Council's procedures and was considered at the OSC on the 24 June 2009. The following reasons were given for the call in:

- the process by which the decision was made was deficient;
- the decision maker failed to consider alternative courses of action;
- the decision maker failed to take account of relevant factors.

The OSC voted against referring for further consideration, and the project continued as agreed at Cabinet on the 2 June 2009.

The Joint Growth & Prosperity and Support Services Task and Finish Group met on the 1 October 2009 to consider the process to the end of Stage 1 and again on the 29 October 2009 to consider the process to the end of Stage 2. For the meetings, Members were presented with an updated progress report from the project manager. We have reviewed these reports and consider them to be a true reflection of the position at the date of the meeting.

The task and finish group's conclusion was that, in order to ensure demonstrable oversight of the process, the following recommendations should be approved:

- to note the report and the progress made to date, with special attention to be focused upon assurances from the project board regarding financial, legal and commercial probity; and
- for the whole CityBus shareholding process to be scrutinised following its completion in order for lessons to be learned.

This group submitted their report to the Overview and Scrutiny Management Board, where it was robustly debated and did not consider the second recommendation to be necessary. The amended report was approved and submitted to full Council for the 30 November 2009, for their information.

The subject was also debated at the Extraordinary General Meeting of full Council on the 26 October 2009.

The Chief Executive was involved throughout the project, providing appropriate challenge and oversight that it remained on track and Members were kept appropriately informed. Officers also kept ourselves, as external auditors, informed of the project, key issues as they arose and the milestones. We received documentation on an ongoing basis, supplemented with discussions with key officers, and were satisfied that appropriate arrangements were being maintained.

11 Evaluation of the impact on the local community and other stakeholders

11.1 Summary of findings

The Council had robust arrangements in place to ensure that the sale of the shares in Plymouth CityBus would not have an adverse impact on the users of the services or other stakeholders.

The Council sought agreement with the purchaser on a number of criteria identified at the final bid stage to ensure service continuity and quality.

11.2 What impact assessments had been undertaken on the users of the services?

The development of the second Local Transport Plan (LTP2) involved an extensive consultation programme to establish the desires of stakeholders and the public to determine what they considered to be most important for the transport network over the next five years.

External transport advisors identified key strategic drivers involving the actions included in the LTP2. For example, one of the drivers was the requirement to help meet the MacKay growth vision through the LTP2, and another was the need to deliver social value i.e. the public transport services in Plymouth must be delivered in a manner that maximises socio-economic value. Using these drivers, the advisors were able to identify the impact on the users of the

services for each of the options and this was included in the options appraisal report.

Where the impact was considered to be a risk to the service, then it was included in the project risk register and mitigating actions were put in place to manage the risk.

In addition, the Assistant Director of Transport & Highways was a member of the project board and was able to directly influence the final negotiations with the preferred bidder to ensure that there would be no detrimental impact on the users of the services.

11.3 Consultations with relevant parties

The Council sought external legal advice on consultation arrangements and the advice was that, 'consultation was not required nor should be considered as it is not a change in service or closure of a service but simply a sale of shares. Consultation could raise peoples expectations in something that they have no say in. Consultation is different from obtaining information from stakeholders and considering this when reporting to Cabinet so as to prevent major objections and to manage sensitivities.'

The project manager and the Chief Executive met with staff and union representatives at Plymouth CityBus and the Conservative and Labour group were brief of the project prior to the decision being made by Cabinet to proceed with the project.

Furthermore, Officers at the Council and Members received correspondence and questions from the public which they used as a source of information that was considered by the project board.

There was a signed petition from members of the public and some MP opposition. This was handled by the project team and the issues raised taken into account by the project team, although it did not

change the fundamental outcome of the project - being the sale of the shares.

11.4 Outcome of the impact assessments

Specific criteria were set against which proposals were judged. This was discussed in the project sponsor's review at the end of stage 2. Significant requirements were:

- scholar routes to be maintained;
- existing network to be maintained with limited changes in first 6 - 12 months;
- pension rights to be maintained; and
- property clause.

Other requirements were;

- reduce average age of fleet to 8 years by 2010;
- maintain/improve low floor accessibility;
- invest in smart ticketing;
- participate in punctuality improvement partnership;
- keep 'CityBus' name;
- continue to administer and participate in Green Travel pass scheme;
- operate point of sale in City Centre;
- continue to perform cash counting services and provide minibus parking for PCC;
- continue to participate in PLUSBUS in Plymouth;
- continue to adhere to bus stop infrastructure protocol;
- commitment to keep a depot in the City Centre;
- no compulsory redundancies;
- continue to operate apprenticeship system;
- provide real time passenger information
- produce south west public transport information

- continue to attend network management meetings and operating company liaison meetings;
- continue to operate contracted coach and bus services; and
- develop off bus ticketing.

With regard to the significant requirements the Council was able to successfully negotiate the following provisions with the purchaser:

- to maintain the route network that had historically been run by Plymouth CityBus for a minimum period of six months with no changes;
- to maintain the scholars' routes for a minimum period of three years as operated by Plymouth CityBus;
- commitment to a fleet replacement programme which will see the elimination of step entrance vehicles on front line services.

The Council was also able to get agreement from the purchaser for the majority of the other requirements.

12 Communication and reporting to support decision making?

12.1 Summary of findings

There was a significant number of meetings with different Committees throughout the six month duration of the project and relevant, timely and accurate information was provided to these Committees. Owing to the commercial nature of this project a significant amount of information was excluded on the basis of confidentiality. This resulted in minimal unauthorised release of information to the public and a successful completion to the project.

However, in our view some processes or information could have been included to improve transparency. These improvements are as follows:

- improve the information included in business case as discussed under Section 4 of the report;
- provide verbal update or included in Part II paper to Cabinet noting the key risks to this project;
- improve the level of information to support decision makers. For example, provide all relevant information so that they are able to compare like with like; ensure that they have a full understanding of what options are available to them and why this is the best solution;
- be open and transparent about the risks to the service post disposal and how these have been successfully mitigated against.

The Council received a large number of correspondence relating to this project, including letters from the public and MPs, emails from

the opposition party, a petition and questions from the public at Council and Cabinet meetings. It is our view that the project team responded to correspondence in a timely way and addressed the issues concerned.

12.2 What reports and other communications were produced?

During the project process, there were a significant number of Member Committee meetings where the subject of the Plymouth CityBus project was raised. Project reports were produced for consideration by the executive, non-executive and scrutiny function of the Council. In addition, four Project Board meetings were held. Appendix B provide the details for each individual meeting.

12.3 Did it contain all relevant information in a timely way?

We reviewed the reports provided to Members and the Project Board and agreed to supporting documentation where appropriate to do so. Our review did not find any inaccuracies or omissions, in reports that were produced.

With regard to the paper that was submitted to Cabinet on the 2 June 2009, which is considered to be the business case, our view is that some information was not included. We have addressed this in Section 4 of the report.

In addition, we are aware of the reservations raised by some of the Scrutiny Members that their ability to scrutinise the process was limited due to the unavailability of information which resulted in them relying on assurances from members of the project board. This was reflected in their report to Council on the 30 November 2009.

The reason given for the unavailability of this information was the highly confidential nature of the commercial information contained

within the reports, and we have commented on this in Section 10 of this report.

Project information leaks and maintaining commercial confidentiality of existing information were red and amber risks respectively in the risk register. The unauthorised release of commercial information from the bidders could have had a severe impact on the final offer. The Council was successful in keeping this information confidential.

It was also decided that the project risk register was confidential and therefore was not discussed with Members apart from Members of the Project Board. However, because of this, other Members were unaware of the risks associated with this project. In our view, we feel that at the initial meeting with Cabinet there should have been a verbal update or included in Part II paper summarising the main risks to the project and how they were going to be managed. This is also set out in Section 7 of this report.

12.4 Were communications produced in a timely way?

Members received the reports within the required timescale.

In addition, the Council received over 200 letters objecting to the sale of the company. They also had discussions with MPs and received two freedom of information requests.

We reviewed a number of the letters and the responses and conclude that the letters were responded to in a timely manner and that they addressed the main concerns of the correspondent.

We noted that the majority of the letters from the public were standard letters and therefore a standard reply from the Council was deemed appropriate.

12.5 Were all factors included to support decision making?

Overall, we have concluded that the final report to Members on the 30 November 2009 was sufficient to enable them to make an informed decision. However, we would make the following observations on the key areas of the report.

- Financial terms of the offer, comparing it to other recent disposals. In our opinion, relative fleet sizes of the companies or other contextual information could have been included to aid direct comparison.
- Transport strategy delivery and customer focused services. This demonstrated how the Council negotiated with the preferred bidder so that the service would continue to meet the needs of the citizens of Plymouth.
- Current trading position and fleet position of Plymouth Citybus - this reflected the financial risk of remaining owners of the company.
- Discussion on the valuation of the depot. This could have been expanded to identify that bidders were not interested in acquiring the business without the land and there was no market interest for this option.
- Dividend comparison - this section could have been strengthened by including some sensitivity analysis showing the impact on estimated future dividends if the risks under the current trading position and competition materialised.
- Concessionary fares. The report states that a change in ownership is not expected to impact in the reimbursements made by the Council. This section could have been strengthened further to include a summary of financial modelling undertaken by the Transport department at the Council and the fact that increased concessionary fares has not yet materialised for any other private owned companies.

Plymouth City Council - January 2010

- The report did not recap on the five options initially available to the Council. This should have been included, with explanations for why the 100% sale in shares is the best option.
- The report provides a summary of the Go Ahead company and of other recent disposals within the last five years. It does not include information on the disposal of the Wiltshire and Dorest bus company. This was purchased by Go Ahead and there has been some bad publicity regarding the new bus service. This disposal occurred in 2003 and was not included by the project team as it occurred outside five year period. Given the negative publicity and relevance to the disposal then there may have been merit in reporting it and providing some further information.

A Action Plan

Ref.	Recommendation	Management Response
		<p>Overview Grant Thornton's post project review is welcomed and officers have considered the recommendations carefully. The report will be shared amongst current project managers with the Council to ensure any relevant lessons are learned.</p>
4.1 & 12.1	The Council should consider whether it was too cautious over some of the information excluded and if there was scope to have been more transparent, for example with regard to risk assessments and providing greater detail on the different options available to the Council.	Officers have considered Grant Thornton's findings and considered that in the context of this particular project the risks around commercial sensitivity were handled appropriately during the project. Officers will keep the issue under review for any future project.
5.1	We recommend that for future projects that have different phases, a detailed formal project plan is produced for each phase and is approved and monitored by the project board.	Agreed
6.1	We recommend that a budget report is a standing item on the project board's agenda which reports on all costs that have been incurred and committed to as at the date of the meeting.	Agreed
7.1	We recommend that a process is put in place so that all projects that impact on the Corporate Improvement priorities be considered by the Corporate risk management group for inclusion on the Strategic risk register.	Projects that impact on the CIPS are considered by the Corporate Risk Management Group (CMT) in its capacity as the CIPS Programme Board via individual risk logs for each CIP. Significant projects such as Waste and the BSF Programme are escalated to the Strategic Risk Register, however it is accepted that there is no formal process for this escalation. This will therefore be discussed with CIPS Programme Manager and guidance will be provided for the individual CIPS lead officers.

7.1	The Council should ensure that all key risks are included in the risk register. The issue of the pension liability on the Plymouth CityBus's accounts was not included.	Agreed
Ref.	Recommendation	Management Response
7.1	<p>The Council should consider the following areas to enhance their risk management processes.</p> <ul style="list-style-type: none"> • A systematic approach should be developed for the identification of risks that incorporates the operational, financial, timeliness, quality and VFM considerations; • the Council should consider if a description of context, event and consequence be included in their risk management strategy for each risk identified and cover this as part of their risk management training. • there should be an assessment made of how risks should be managed i.e. whether to take, terminate, treat, transfer and tolerate and this should be documented on the operational risk register for that project; and • both likelihood and impact should be evaluated and separately managed, where appropriate. 	These recommendations will be consulted on, with the Corporate and Operational Risk Management Groups and other stakeholders and any changes to the current strategy will be reflected in guidance and training material and incorporated into the next annual review of the Corporate Risk Management Strategy.
8.1	<p>The VFM comparator could have been calculated on a more robust basis, taking into account the Council's reservations about the future of the bus company under their ownership.</p> <p>There should have been greater use of sensitivity analysis and other comparators to demonstrate how VFM has been established.</p>	The officers have considered Grant Thornton's findings and are comfortable that VFM comparator would have been reduced if Grant Thornton's recommendations had been in place. Officers will however keep the issue under review for any future project.

8.1	The Council should consider whether some of the further analysis on the retail value of the land should have been communicated to the decision makers.	Officers have considered Grant Thornton's findings and in the context of the particular project, that appropriate information was shared at an appropriate time with members. Officers will keep the issue under review for any future project.
-----	--	---

B Schedule of meetings and supporting documents

Date	Committee	Purpose of meeting	Reports produced
2 Jun 2009	Cabinet	Seeking authority to seek and negotiate proposed terms with, potential purchasers of shares in PCB.	PCB Ltd Shareholding - Part I and Part II - <i>'business case for the project'</i> .
10 Jun 2009	Resources & Performance Scrutiny.	Endorsement for the allocation of funds from the TCP reserve budget.	Briefing note providing an update of the project.
11 Jun 2009	Overview & Scrutiny Commission	Resolved that: a) the progress of the project be monitored by the Growth and Prosperity Overview and Scrutiny Panel who could consider inviting the Chair and Vice Chair of the Support Services Overview and Scrutiny Panel; b) a written response be provided by the Director for Corporate Support in respect of the Coypool Action Plan.	Part I report that went to Cabinet on 2 June 2009.
24 Jun 2009	Overview & Scrutiny Commission	Decision called in.	Part I Cabinet report. Cabinet Minute from 2 June 2009.
3 Jul 2009	Project Board Meeting	Oversee delivery of project	High level project timetable Project Manager's report.
31 Jul	Project Board Meeting	Oversee delivery of project	High level project timetable. Penions papers Property Treatment paper Project Manager's report.

Date	Committee	Purpose of meeting	Reports produced
3 Aug	Council	Motions requesting: 1) that a positive vote of full Council will be required before each of stages 2 & 3 can proceed and 2) all decisions concerning and leading to any potential sale of Plymouth City Council's shareholding in PCB will appear in the forward plan as appropriate. Motion declared lost.	none
2 Sept	Overview & Scrutiny Management Board	Arrange work programme for scrutiny function.	PID for the monitoring of the project.
17 Sept	Project Board meeting	Oversee delivery of project	Stage 1 report from Project Manager.
1 Oct	The Joint Growth & Prosperity and Support Services Task & Finish Group	To ensure that the process set out in the original decision is adhered to.	PID Part I of the 2 June Cabinet Paper Progress update report from PM
12 Oct	Council	Consideration of the Forward Plan. "The recommendation from Cabinet to full Council in relation to the sale of any or all of the Council's shareholding in PCB Ltd" This item was a voluntary addition to the Forward Plan. The decision is not considered a key decision.	none
26 Oct	Extraordinary Council Meeting	Motion for: Request that officers to issue immediately a full report giving the up to date status of the valuation and bidding process, including decisions on all bids received, the reasoning behind the decisions, as well as full details of the Cabinet's plans for any profit realised. Motion declared lost.	none
27 Oct	Project Board Meeting	Oversee delivery of project	Stage II report. Project's Sponsor's review.

Date	Committee	Purpose of meeting	Reports produced
29 Oct	The Joint Growth & Prosperity and Support Services Task & Finish Group.	To ensure that the process set out in the original decision is adhered to.	Project progress report from Project Manager.
20 Nov	Cabinet	Recommended that Council approves the sale of 100% of the shares in Plymouth CityBus Limited.	Part I and Part II papers. Part II sets out the commercial aspects including price.
25 Nov	Overview and Scrutiny Management Board	To provide the Council with their recommendations on the process of the project.	Draft report from the Joint Growth & Prosperity and support service task & finish group.
30 Nov	Council	To approve the sale of 100% shareholding in PCB.	Detailed report from Project Manager (Part I and part II reports presented to Cabinet combined). Overview and Scrutiny Management Board recommendations from their meeting on the 25 Nov. Cabinet report.

C Documents reviewed as part of this audit

- 1 Minutes and Part I and Part II papers to Cabinet - 2 June 2009
- 2 Minutes and briefing note to Resources and Performance and Overview and Scrutiny panel - 10 June 2009.
- 3 Minutes from the Overview and Scrutiny Commission, 11 June 09
- 4 Minutes from the Overview and Scrutiny Commission - 24 June 2009.
- 5 Minutes and supporting papers from the Project Board meeting - 3 July 2009.
- 6 Minutes and supporting papers from the Project Board meeting - 31 July 2009.
- 7 Minutes from Council meeting - 3 August 2009.
- 8 Minutes and PID from the Overview and Scrutiny Management Board - 2 Sept 2009.
- 9 Minutes and supporting papers from the Project Board meeting - 17 Sept 2009.
- 10 Report from the joint Growth & Prosperity and Support Services Task and Finish group and the project progress reports presented at the 1 and 29 October 2009 meetings.
- 11 Council meeting - 12 Oct 2009.
- 12 Extraordinary Council meeting - 26 Oct 2009.
- 13 minutes and supporting papers from the project board meeting 27 Oct 2009.
- 14 Minutes and Part I and II papers from Cabinet meeting - 20 November 2009.
- 15 Minutes from the Overview and Scrutiny Management Board - 25 November 2009.
- 16 Council meeting and supporting papers - date 30 November 2009.
- 17 Stage 1 report on Plymouth CityBus - March 2008.
- 18 Options Appraisal report - March 2008.
- 19 Stakeholder analysis - October 2008.
- 20 Valuation report (depot)- August 2007.
- 21 Valuation report (depot) - November 2009
- 22 Valuation of PCB ltd - May 2008.
- 23 Project viability report - February 2009.
- 24 Confidential Project Armada Business Plan - May 2009.
- 25 Stage 1 project plan - June 2009.
- 26 Tender analysis for due diligence work
- 27 Environmental desktop study report - July 2009.
- 28 Communications Strategy for Plymouth CityBus project - draft
- 29 Operational risk registers - seven revised versions.
- 30 DCC Potential admission of new employer following a sale of Plymouth CityBus contract - August 2009
- 31 Press release - May 2009
- 32 Letter from Financial advisors to the Chief Executive - November 2009.
- 33 Planning appraisal CityBus depot, October 2009.
- 34 Master budget doc WIP - 05/01/10.
- 35 Transaction report from the general ledger.
- 36 Reviewed 82 letters from the general public.
- 37 Legal advice received from External advisors on the role of Cabinet and Council and regarding consultations.
- 38 Detailed VFM comparator spreadsheets.
- 39 Five initial bid documents.
- 40 Three final bid documents.
- 41 Unsigned Sale and Purchase Agreement.
- 42 Email correspondence between Director for Corporate Support and External auditor.
- 43 Email correspondence between project manager and external auditor.

- 44 Email correspondence between Head of legal services and external auditor.
- 45 Correspondence between Members, general public and MP and the external auditor.
- 46 Internet Blogs on the subject of Plymouth CityBus.



www.grant-thornton.co.uk

© 2010 Grant Thornton UK LLP. All rights reserved.

"Grant Thornton" means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd (Grant Thornton International). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication