Uniting Care Partnership (UCP) Procurement Review
Commissioned by NHS England

23 September 2016
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# Glossary of terms and abbreviations

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<tr>
<td>CCS</td>
<td>Cambridgeshire Community Services NHS Trust</td>
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<td>CPCCG / the CCG</td>
<td>Cambridgeshire and Peterborough Clinical Commissioning Group</td>
</tr>
<tr>
<td>CPFT</td>
<td>Cambridgeshire and Peterborough Foundation Trust</td>
</tr>
<tr>
<td>CUHFT</td>
<td>Cambridge University Hospitals Foundation Trust</td>
</tr>
<tr>
<td>ISOS</td>
<td>Invitation to Submit Outline Solutions</td>
</tr>
<tr>
<td>ISFS</td>
<td>Invitation to Submit Final Solutions</td>
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<tr>
<td>ITT</td>
<td>Invitation to Tender</td>
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<tr>
<td>MOI</td>
<td>Memorandum of Information</td>
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<td>NHSE</td>
<td>NHS England</td>
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<td>OPACS</td>
<td>Older People and Adult Community Services Contract</td>
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<tr>
<td>OPPB</td>
<td>Older People Programme Board</td>
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<tr>
<td>PQQ</td>
<td>Pre Qualification Questionnaire</td>
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<tr>
<td>PwC</td>
<td>PricewaterhouseCoopers LLP</td>
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<td>SPT</td>
<td>Strategic Projects Team</td>
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<td>UCP</td>
<td>Uniting Care Partnership LLP</td>
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1. **Introduction**

1.1 Cambridgeshire and Peterborough Clinical Commissioning Group (CPCCG or “the CCG”) entered into a contract with Uniting Care Partnership LLP (UCP) in November 2014 for the provision of older people’s services. The Older People and Adult Community Services (OPACS) contract was terminated in December 2015.

1.2 We have been instructed by NHS England (NHSE) to conduct an investigation focusing on:

   a. the role of the CPCCG executive leadership and Governing Body through the procurement and contract period;
   b. the role of external advisors; and
   c. the effectiveness of the Gateway review process.

1.3 The scope of our work is set out in our letter of engagement with NHSE dated 6 May 2016 (“the Engagement Letter”). We have not been commissioned to consider, and this report does not cover, the actions and decisions made by the relevant NHS Trusts who were party to UCP.

1.4 This report has been prepared only for NHSE and solely for the purpose and on the terms agreed with NHSE. We accept no liability (including for negligence) to anyone else in connection with this document.

1.5 This report (or extracts) has been shared with a number of parties for factual accuracy comments prior to finalising this report. Their comments have been considered and, where they provide factual clarity, reflected in this report.

**Publication**

1.6 The disclosure and publication of this report is entirely at NHSE’s discretion. By giving our consent to the disclosure and publication of the report we do not accept any duty of care and deny any liability to NHSE in connection with such disclosure and publication.

1.7 We accept no liability (including negligence) or responsibility to any third party that accesses the report as a result of the disclosure and publication.

**Scope and approach**

1.8 In summary our approach was as follows:

   a. Review the role of the CPCCG executive leadership and Governing Body including: the level of regularity and content of reporting they received; their understanding of risks and issues; and the leadership and assurance they provided at each stage of the procurement and contracting process.
b. Review the role of the three advisors (Deloitte LLP (Deloitte), Wragge & Co. LLP (Wragge) and Strategic Projects Team (SPT)) including: their scope of work; the advice provided compared to the agreed scope; any gaps in the advice; the clarity of roles and interactions between the advisors and the CCG; and the CCG’s capability to manage the advisors, and to interpret and act upon their advice.

c. Review the contribution to the project outcomes of the Department of Health Gateway review process including: the findings and recommendations provided at each stage; and the assurance provided by the process.

1.9 Our work involved:

a. Interviews with:
   i. key members of the CCG executive team and Governing Body; and

b. Review of documentation provided by the CCG and advisors in relation to:
   i. the terms of reference and reports provided by the external advisors;
   ii. evidence of the CCG’s considerations and actions taken in response to these advisor reports;
   iii. the terms of reference and reports provided at each stage of the Department of Health Gateway review process; and
   iv. evidence of the CCG’s consideration of the findings and recommendations in the Gateway reports.
Structure of the report

1.10 The remainder of our report is set out under the following headings:

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2. Observations and recommendations

2.1 This section sets out an overview of the key observations and recommendations from our work. Sections 4, 5 and 6 cover the individual areas of our scope (Role of CCG leadership and Governing Body, Role of advisors and Health Gateway review process). Each of these sections include our PwC view on these individual aspects of the review. Our overarching observations and recommendations set out in this section should be read in conjunction with these views.

2.2 Our findings relate to the CCG and its advisors. We have not been commissioned to consider the actions of the providers involved in the OPACS procurement.

2.3 The OPACS contract was a major novel contract for the CCG with an integrated approach to older people’s services and the use of outcomes based funding. We were consistently told (by those internal and external to the CCG) that the clinical engagement and leadership during the preparation and procurement process was excellent. Stakeholders were motivated and committed to seeing a successful service model implementation.

The nature and significance of the contract brought with it complexities and the need for expertise and support. The CCG engaged three key advisors – Strategic Projects Team (SPT), a business unit of Arden and GEM Commissioning Support Unit, as procurement advisors; Wragge & Co. LLP (Wragge) as legal advisors; and Deloitte LLP (Deloitte), as financial advisors and to conduct due diligence in relation to the existing community services provider.

Key observations

2.4 In the table below, we summarise the key observations from our review:

<table>
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<tr>
<th>Key observations</th>
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<tr>
<td>A silo approach to the evaluation workstreams which reduced the communication of key risks</td>
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The procurement evaluation process was run as a series of workstreams (clinical, legal and financial). The risks and issues identified in the separate workstreams were not adequately pulled together centrally and evaluated to identify cross-cutting risks. For example, the change in UCP’s legal structure to an LLP was identified in the legal workstream but was not communicated to the financial workstream to consider the cost implications (such as VAT) of this; nor was it communicated to the clinical workstream to consider the clinical risks of an unforeseen cost pressure within the contract.

We understand this evaluation methodology and process was agreed in advance by the CCG and further that a “cross workstream” moderation process was the forum to check, challenge and cross reference the evaluations. However this forum lacked structure, and if there were
Key observations

issues or risks raised here we have found no evidence that they were documented and escalated.

2 Lack of clarity for collating, escalating and monitoring emerging risks and issues

It is unclear who had responsibility for collating risks and issues and ensuring these were actioned:

- The CCG’s view is that this was part of SPT’s scope;
- The SPT team told us that this was the CCG’s role; and
- SPT’s scope (Procurement ITT) does not refer to commercial advice.

There was an expectation gap in terms of project risks with SPT focusing on procurement risks whereas the CCG believed SPT were considering procurement and wider project risks. We note that the papers provided and advice given by SPT were very process focused and therefore, it is unclear why the CCG did not question the lack of wider content produced by SPT.

Although the Older People Programme Board (OPPB) maintained a risk register, there is no evidence bidder specific risks were captured in this register. Risks relating to the procurement were included in the CCG’s Assurance Framework. However, we have not seen evidence that the risks relating to the potential insufficiency of the financial envelope or the potential interplay between risks were captured. Risk was not a standing agenda item at the Governing Body, and on the occasions when the OPPB risk register was presented there was limited discussion. The need to update or more formally manage the OPPB risk register was raised in each Gateway report provided to the CCG.

3 A Programme Board which provided limited capability to challenge the procurement process

Wragge and Deloitte were not invited to attend the Older People’s Programme Board (OPPB) and none of the advisors were invited to the Governing Body to present their advice and answer questions. The OPPB relied on the separate workstreams and the process updates provided by SPT and did not ask detailed questions about project risks and mitigations. We understand from the CCG that there were opportunities for some OPPB members to attend forums such a ‘star chamber’ process, dialogue sessions and Board-to-Board bidder sections with opportunities to provide challenge; however we have not seen formal reporting of these meetings back to the OPPB or Governing Body.

The focus of the OPPB was on the novel clinical elements of the contract without challenge of the wider issues, including the financial and legal risks. There is little evidence of OPPB members extending their focus beyond their own areas of expertise and taking a corporate role in the procurement discussions.

The OPPB was a large forum, with over 30 members, bringing together a number of stakeholders (internal and external) including representation from CCG leadership. The size and make-up of this board meant it was not an appropriate forum for challenging the details of the bidder submissions.

4 Diluted reporting to leadership which reduced the ability to make informed decisions on key risks

The Governing Body received summarised information from the named SRO (Assistant Director, Improving Outcomes) which consisted of SPT branded reports with covering papers prepared by the SRO. The SPT reports were high level and focused on process updates. Where applicable, detailed appendices prepared by Wragge, Deloitte and other workstreams were attached to these papers. The effect of the summarisation was that some key points made by the advisors, for example in relation to the requirement for parental guarantees, were made available to the Governing Body but their attention was not drawn to them nor were the implications explained. Deloitte and Wragge were not asked to present
Key observations

their findings and articulate the risks and implications of these to either the OPPB or Governing Body.

The Governing Body ratified recommendations provided by the OPPB and did not provide challenge. Reliance was placed on the OPPB and the work done in each workstream to identify and mitigate key risks.

Outsourcing ownership of concerns about financial sustainability despite these being raised consistently during the procurement process

Concerns were raised about the financial envelope from a number of sources (bidders, the Gateway review team).

Although the CCG commissioned a vendor due diligence report, Deloitte noted significant limitations in the financial information provided for due diligence and recommended that further due diligence be undertaken but the CCG did not commission this.

The Gateway review conducted in December 2013 recommended that the “CCG undertake its own high level assessment and sensitivity modelling... to help provide its own assurance on the viability of the financial envelope.”

The CCG’s perspective was that the financial risk rested with the successful bidder, as the bidder had confirmed they could provide the services within the envelope, and therefore they had no shared risk in this respect. This was not a commercially sound position to take given the limitations in the available financial information and the risks to the CCG of entering into a financially unviable contract. In our view the CCG did not fully consider the financial envelope risks or implications of bidder financial failure. The challenge to the financial assumptions underpinning each bid was limited due to the failure to fully understand the cost of delivering the existing service and, whilst none of the advisors were specifically requested to provide VAT advice, it is surprising that that the issue was not raised and understood prior to contract signature.

Parental guarantees were not communicated as a condition in the preferred bidder notification letter; three opportunities to put guarantees in place were missed

The requirement for parental guarantees was identified twice during the tender evaluations by Wragge who confirmed with both of UCP’s parents, at both ISOS and ISFS stages, that guarantees would be provided.

Wragge advised in their evaluation report that parental guarantees should be included in the preferred bidder letter as a condition but this was not included in the letter subsequently drafted by Wragge. In interview Wragge acknowledged that, given their earlier advice, the requirement for parental guarantees should have been included in the preferred bidder letter. Given that Wragge had identified in both their ISOS and ISFS Legal Evaluation reports that parental guarantees should be a condition of UCP being identified as preferred bidder, we would have expected Wragge to have included a condition in the preferred bidder notification letter or raised with the CCG that such a condition needed to be included if the CCG failed to instruct them to draft the parental guarantees. We have seen no evidence that this occurred.

Parental guarantees were not put in place at the point of contract signing; once it was identified that the guarantees had not been obtained, Wragge advised the CCG that these could be retrospectively sought and drafted the relevant documents. Wragge further advised the CCG that guarantees could be made a condition of the cash advances made to UCP in autumn 2015. The CCG did not pursue the guarantees on any of these occasions. From our review it appears that the failure to seek and put the parental guarantees in place at the preferred bidder/contracting stage was an oversight but we have not been able to ascertain why the CCG did not pursue them at the two later dates.
Key observations

Differing views of roles and responsibilities of SPT

SPT told us that their scope was to focus on the procurement process and that the SRO led the reporting to the OPPB, however, the CCG told us that SPT was responsible for providing both procurement support and commercial advice. We note that SPT’s own internal report on their involvement in the procurement process refers to providing commercial advice although their agreed scope does not include commercial advice.

Limited advisor input was retained by the CCG after preferred bidder selection when fundamental negotiations were occurring

The scope of the advisors’ work and the duration of their engagement did not cover all areas where the CCG needed advice. For example tax advice was not included in the financial scope; and there was no top-up due diligence commissioned on the financial information relating to the year ending 31 March 2015, although the financial envelope was renegotiated to reflect this. Contract variations were agreed post contract signing in relation to termination and legal advice was taken in relation to these but advice was not taken in relation to the commercial and financial risks that arose as a result of the late variations.

Had the financial advisors been retained and undertaken additional work in the period between contract signing and service commencement the financial pressures that ultimately caused the project to fail might have been identified and escalated earlier and potentially mitigated.

Cultural appetite and push to achieve a successful appointment within the tight delivery timeframes

We were told about a number of behavioural factors that influenced the decision making process:

- There were issues with the existing community services provision and stakeholders were keen to put in place better arrangements.
- There was external interest in the outcomes-based commissioning features of the contract which encouraged a focus on the clinical content, with legal and financial risks were not given equivalent attention locally. There was no recognition of the clinical risks that would arise if the service became compromised by non-clinical risks.
- The CCG believed it was transferring the financial risk to the bidders by identifying the financial envelope it was spending and confirming with bidders throughout the evaluation process that they could deliver the contract within this envelope.
- There was un-evidenced expectation held by some external stakeholders that additional funding would be made available in order to achieve the new elements of the contract regardless of the agreed contract sum given it’s possible wider applicability.
- Decision-makers trusted the winning bidder, UCP, to deliver the service and work collaboratively with the CCG based on their established relationships and because UCP was an NHS organisation.
### Recommendations

2.5 In the table below, we summarise our recommendations for NHS England and the CCG to consider in relation to the procurement and implementation of similar contracts in the future:

<table>
<thead>
<tr>
<th><strong>Role of the CCG executive leadership and Governing Body</strong></th>
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<tbody>
<tr>
<td>1. CCG ownership of decisions should be retained despite outsourcing procurement functions and/or obtaining independent advice.</td>
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<tr>
<td>2. Where advice is brought in or work is outsourced, the CCG needs to ensure it is able to evaluate and challenge the quality of the advice received and outputs delivered.</td>
</tr>
<tr>
<td>3. Decision makers, i.e. the whole of the Governing Body, should be provided with full information in an accessible way. This means that summaries, which can be helpful, should contain a clear articulation of risks, issues and potential consequences so that decisions are made with full knowledge and understanding of the associated risks.</td>
</tr>
<tr>
<td>4. The Governing Body should ensure it has assurance that it is making fully informed decisions, both through the written information it receives from internal and external sources and through the opportunities it has to challenge and test this information. In particular, The Governing body and oversight committees/boards should consider having advisors present their findings and articulate the risks and implications.</td>
</tr>
<tr>
<td>5. Relationships with advisors should be held by the members of the CCG Executive team rather than through another advisor, in this case SPT.</td>
</tr>
<tr>
<td>6. A governance structure that enables effective scrutiny and decision making should be established. In this case the OPPB was too large a forum and did not have sufficient skills (e.g. the CFO did not sit on the OPPB) to scrutinise the procurement on behalf of the Governing Body. Whilst an executive structure was in place, it should have included the CFO and formalised its focus on the whole project risks to ensure these were brought together and mitigated.</td>
</tr>
<tr>
<td>7. The CCG should ensure that it has adequate risk management and assurance processes in place to holistically oversee and mitigate risks during the contract procurement process. Project risk management needs to take place throughout the entire project lifecycle. Risk registers should be used to capture strategic and operational commissioner, provider and shared risks.</td>
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<tr>
<td>8. Due weight needs to be given to the non-clinical aspects of procurement and specifically to the clinical risks arising from unidentified non-clinical risks.</td>
</tr>
<tr>
<td>9. Where decision makers are unaccustomed to evaluating financial/clinical/legal information then training should be given in advance. Advisors should be invited to attend meetings of the decision makers to present their advice and answer questions.</td>
</tr>
<tr>
<td>10. Regulators and NHS England should be approached at an early stage in relation to procurement exercises of this scale and complexity in order to access additional constructive challenge and support.</td>
</tr>
<tr>
<td>11. For a contract of this scale, comprehensive commercial advice and support should be commissioned in addition to procurement, legal and financial advice where the commissioner does not have these skills in-house.</td>
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Role of the CCG executive leadership and Governing Body

Governing Body members need to understand the corporate element of their role and consider decisions from a broader perspective than their own area of expertise.

The formal Senior Responsible Officer (SRO) should be sufficiently experienced and senior for a project of this scale and complexity. For example, appointing an Executive as SRO would allow for increased access to decision-makers.

A clear understanding of the financial risks associated with novel contracts is needed and therefore the CFO or a lead senior finance person should be embedded in core team/oversight committee.

The CCG needs to ensure that it understands the provider/bidder economics and be able to quantify the financial risks associated with the proposed contract. This will also help inform non-clinical risks.

Role of the advisors

The scope of work commissioned from advisors should cover all areas where the CCG does not have the experience, expertise or capacity in-house to address a risk area without external support. The scopes of work for advisors should be fit for purpose and comprehensive.

Advisors should not be kept at arms’ length and should be retained throughout the whole process, beyond the preferred bidder stage, to provide support through mobilisation.

Advisors should not be managed in silos: whilst it may be appropriate to evaluate key elements of a bid through a workstream structure, advisors need to also consider the impact on their area of risks identified in other areas.

The scope of work commissioned from advisors should be reviewed in response to emerging risks and, where appropriate, extended to address these.

Contribution to the project outcomes of the DH Gateway review process

There is a need for overarching review and support for novel procurement projects from an independent source to ensure independent check and challenge before key decisions are made. The Gateway review process identified some areas where further work was required, but there was no mechanism for ensuring that these were addressed.

In the event that a Gateway type review process is re-established, the reporting lines for this should be to the Governing Body (with the full report to be presented, instead of an extract of recommendations), rather than to the SRO, where the purpose of the review is to provide assurance to decision makers.
3. **Background**

**Background**

3.1 Cambridgeshire and Peterborough Clinical Commissioning Group (CPCCG or “the CCG”) entered into a contract with Uniting Care Partnership (UCP) in November 2014 for the provision of older people’s services. Uniting Care Partnership was an LLP formed by two Foundation Trusts – Cambridge University Hospital Foundation Trust (CUHFT) and Cambridgeshire and Peterborough Foundation Trust (CPFT).

3.2 The services commenced on 1 April 2015, with transition and mobilisation activities taking place between contract signing in November 2014 and 1 April 2015. The contract was terminated in December 2015.

3.3 In response, NHSE commissioned David Stout to conduct an initial review into the circumstances leading up to the termination of the contract. The review “NHS England Review of Uniting Care Contract” (hereafter “the David Stout report”), published in April 2016, sought to identify the root causes and contributory factors that lead to the termination of the contract, as well as specific and wider lessons to be learned.

3.4 The David Stout report recommended a review of the role, function and effectiveness of each of the advisors involvement in the procurement. We have been instructed by NHSE to conduct a follow up investigation focusing on:

   a. the role of the CPCCG executive leadership and Governing Body through the procurement and contract period;
   
   b. the role of external advisors; and
   
   c. the effectiveness of the Gateway review process.

**Advisors involved**

3.5 During the procurement process, the CCG engaged three main advisors to provide support, and the advice they provided is the subject of this report. The three advisors are as follows:

   a. Strategic Projects Team (SPT) a business unit of Arden and GEM Commissioning Support Unit – as procurement advisors;
   
   b. Wragge & Co. LLP (Wragge) – as legal advisors; and
   
   c. Deloitte LLP (Deloitte) – as financial advisors and for due diligence in relation to Community Services.
Timeline of events

3.6 The procurement was run in three stages:

a. An OJEU advertisement including a Pre-Qualification Questionnaire (PQQ) and Memorandum of Information (MOI);
b. An Invitation to Submit Outline Solutions (ISOS); and
c. An Invitation to Submit Final Solutions (ISFS).

3.7 We have included at Appendix 1 a timeline of the procurement, including the engagement of advisors and receipt of gateway reports. The key dates of the procurement are:

a. Publication of the PQQ – 3 July 2013
b. PQQ return – 29 July 2013
c. Publication of ISOS – 7 October 2013
d. ISOS return – 6 January 2014
e. Publication of ISFS – 10 March 2014
f. ISFS return – 21 July 2014
g. Announcement of preferred bidder – 1 October 2014
h. Signing of contract – 11 November 2014
i. Service commencement – 1 April 2015
j. Contract termination – 3 December 2015

Contract variations

3.8 The contract was signed between CPCCG and UCP on 11 November 2014. During the mobilisation period up until service commencement five variations were negotiated (however, a number had not been jointly signed at contract termination):

a. OPACS001 Transition Variation
b. OPACS002 Local Variation – which includes variations to allow for negotiation of price adjustment and defines the failure of the CCG and UCP to agree a price variation to be considered a “Force Majeure” (under Schedule 2 Part 1 Section 5). This allowed either party to use this disagreement to trigger a No Fault Termination (under General Conditions CG17.5)
c. OPACS003 National Variation
d. OPACS004 UC variation August 2015
e. OPACS005 Force Majeure variation Oct 2015 – which required a notice period of two months in the event of No Fault Termination by reason of Force Majeure.
### Contract collapse and termination

3.9  On 2 December 2015 UCP issued a notice of their intention to terminate the contract. Notice was given under the Special Circumstances provision of the Contract Particulars and GC 17.5 (Termination: No Fault).

3.10  The CCG responded in a letter dated 3 December 2015 agreeing to terminate the contract. The CCG disputed the notification of termination given by UCP. In their view the only right of termination was for Provider Default under GC 17.7 and/or for repudiatory breach by reason of UCP’s wrongful purported termination of the OPACS contract.

3.11  A final termination settlement was agreed 18 December 2015 between UCP, CPCCG, CUHFT and CPFT. In this agreement, support and contribution from each party was agreed with no reference to the termination provisions within the OPACS contract.

### Reasons for the contract collapse

3.12  The David Stout report sought to identify the root causes and contributory factors that lead to the termination of the contract. In summary the report identifies that the contract collapsed for financial reasons and this was the result of a number of factors [David Stout report pg. 7]:

- “There were too many information gaps around community services,
- The financial envelope of the CCG for these services could not be reconciled to current expenditure levels,
- There was an additional VAT cost,
- The mobilisation period was not sufficient to make the planned financial savings that were required in the first year,
- The contract value was not absolutely agreed at the date the contract commenced.
- The contract should not have commenced on 1 April 2015. It should have been delayed until these issues were resolved.”

3.13  In this report, and in the context of the issues raised in the David Stout report, we have considered whether there were any gaps in the scope of the advice commissioned by the CCG and/or whether there were any areas where the advisors did not fulfil their agreed scopes.
4. Role of CCG leadership and Governing Body

Governance structure of the procurement

4.1 From documents provided to us by the CCG we note that the CCG’s formal Senior Responsible Officer (SRO) and Project Lead throughout the procurement process was the Assistant Director, Improving Outcomes. However, we have been told by the CCG that given the scale and complexity of the project an executive structure was also put in place. This comprised the following:

a. Executive Lead – Chief Operating Offer;
b. Clinical Lead – OPPB Chair; and
c. Management Lead – Assistant Director, Improving Outcomes.

Further we were told the CCG did not use the term SRO internally and the Executive Lead in practice performed this role.

4.2 The procurement governance arrangements can be summarised as follows:

<table>
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<tr>
<th>Forum</th>
<th>Role</th>
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<tr>
<td>Procurement workstreams</td>
<td>Throughout the procurement process, submissions were evaluated against criteria in a series of workstreams. We have outlined these below.</td>
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<td>The role of the SPT Project Director was to oversee the management of the procurement process. This involved organising and attending the majority of the individual workstream meetings. These meetings were also attended by the CCG’s SRO.</td>
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<td>Workstream</td>
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<td>Financial – Quantitative and Qualitative</td>
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<td>• Deputy Chief of Finance, CCG</td>
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<td>Legal</td>
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<td>Quality</td>
<td>• Assistant Director for Safeguarding (adults &amp; children)/Designated Nurse Safeguarding Children</td>
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<td>• NHS Property Services Ltd, Strategic Lead - Cambridgeshire</td>
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<td>• Assistant Director of Commissioning &amp; Contracting (Comm serv/QEH)</td>
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### Reporting to Governing Body and OPPB

4.3 From a review of the Governing Body minutes (for the period April 2013 to December 2015) and our interviews with members of the Governing Body we make the following observations:

- There were active discussions on the contract update papers submitted by the OPPB on the status of the procurement process indicating the Governing Body members were engaged with the process. However these discussions were focused on the more novel and clinical aspects of the
contract such as the outcomes-based funding mechanisms rather than the selection of preferred bidders or project risks.

b. The meetings were not attended by representatives of the Strategic Projects Team, Wragge or Deloitte. Further, a number of members told us that they did not have any direct contact with the advisors during the procurement process and relied solely on information reported in meetings.

c. The content of reporting (on matters relating to the procurement process and contract) was at a high level and often process focussed with little or any detailed consideration of risks and potential mitigations. For example:

i. Where outcomes of the evaluation process were raised the proposed recommendation (e.g. for bidders to proceed or selection of UCP as preferred bidder) was ratified with minutes showing limited discussion or challenge of the bid details;

ii. Minutes show no evidence of discussion of risks or issues raised in advisor reports e.g. challenge of financial assumptions or the requirements, given the LLP structure, for parental guarantees;

iii. The Evaluation Report prepared by SPT was appended to Governing Body reports presented by the SRO, with individual workstream reports (including Legal and Financial reports) further appended behind this report; and

iv. Feedback from a Governing Body member was that any discussions around finance tended to be handled by a subset of the members (CCG Chair, Chief Operating Officer and the SRO without a representative from the Finance team), such that not all Governing Body members were aware of, or understood, the financial issues and risks.

d. Some members have no recollection of any risks being presented in Governing Body meetings and told us that updates on the procurement were generally positive progress reports. Where issues arose these were reported as relatively minor and solvable.

4.4 From a review of the OPPB minutes (for the period December 2012 to March 2015) and discussions with the CCG we make the following observations:

a. Representatives of neither Wragge nor Deloitte were requested to attend any OPPB meetings;

b. SPT attended all meetings in the period June 2013 to March 2015;

c. The OPPB meetings had a large membership and the breadth of their scope resulted in extensive agendas;

d. The procurement decisions raised for approval at the OPPB meetings were a progress or not progress option for each bidder:

i. SPT tabled and presented the Evaluation Reports at each stage of the procurement and summarised the process including the workstream consolidation meeting and clarification questions for applicants.
ii. When the ISFS Evaluation Report was presented in August 2014 it was not raised in the covering paper or minutes that there were any unresolved issues with either the preferred or reserve bidder (e.g. the recommendation to seek parental guarantees from UCP).

iii. The minutes show little explicit challenge or questioning regarding the detail of the bidder’s submissions or evaluation.

iv. In our interviews with members of the OPPB one interviewee commented that they felt they were not encouraged to challenge, with the focus of the meeting being on the contribution from clinical stakeholders.

e. Clinical leaders on the OPPB told us that their role was to focus on the development of the clinical model and they did not take a wider, corporate role considering the broader project risks.

f. The OPPB risk register was a standing agenda item. New or updated risks were highlighted for discussion. We make further observations about the CCG’s understanding of risks and issues below.

The CCG’s understanding of risks and issues

4.5 The OPPB Risk Register was maintained by the CCG; SPT told us that they agreed the procurement risks, their rating and mitigation plans. SPT provided us with a copy of the “NHS Cambridgeshire & Peterborough CCG: Integrated Older People's Pathway & Adult Community Services Project Risk Register” (hereafter ‘project risk register’) and the CCG provided us with a copy of the “Older People Programme: Mobilisation Risk Register” (hereafter ‘mobilisation risk register’) which we understand was maintained post contract signing.

4.6 From a review of the project risk register (last modified 23 July 2014) and the mobilisation risk register (last modified 28 January 2015) we make the following observations:

a. The project risk register is very process driven focusing on threats and vulnerabilities such as “Information not provided for ISFS”;

b. The mobilisation risk register is extensive and included risks which were shared, CCG specific risks and provider specific risks;

c. There is no evidence that bidder specific risks were captured on these registers such as the need for parental guarantees and the VAT implications of UCP’s LLP status;

d. We have found no evidence that the uncertainty around the cost of the existing service provision was identified as a risk from the CCG’s perspective, although this uncertainty was acknowledged by those we interviewed; and

e. The project and mobilisation risk registers were not maintained throughout the mobilisation period.
4.7 Further, the CCG provided us with the CCG’s Assurance Framework ‘CAF’ for 2014/15, 2015/16 and the confidential section on OPAC risks for January and March 2016. ‘Risks to the mobilisation of the OPAC contract’ appeared in 2014/15 and ‘failure to implement major service and contract change’ appeared in 2015/16. In addition, a number of discrete risks relating to the contract appear in the OPAC risk register (e.g. risk to the CCG’s financial position; reputational risk of failure; risks due to financial challenges of UCP’s parents).

4.8 The SRO provided Older People’s Programme Updates to the Governing Body and these papers periodically included an update on the OPPB risk register (there was not a standing section on risks included within these reports). We note:

a. In the Governing Body meeting on 2 July 2013 an extract of the High Risks from the OPPB risk register was provided. The minutes show there was active discussion of one key risk – the uncertainty caused by the NHS Trust Development Agency’s view of whether Cambridgeshire Community Services could remain a Trust after 1 April 2014. In responses to requests for additional risks to be added, the SRO confirmed that the Programme Board had a more detailed Risk Register and he would circulate this to Governing Body members. We have not seen evidence to confirm this occurred.

b. In the Governing Body meeting on 1 October 2013 the OPPB Risk Register was provided and key issues and mitigations were summarised in the update paper presented by the SRO.

c. In the Governing Body meeting (private session) on 3 December 2013 the minutes record that the main themes from the ISOS dialogue meetings were presented by the SRO. The key area of focus was “on the financial framework, and the feedback from a number of bidders that the existing framework was too challenging and the risk this poses of some bidders withdrawing.” The minutes show that the result of discussions were that “Members were not prepared to review or increase the core funding levels for each year that were included in the prospectus.”

d. We have found no evidence that risk register items relating to the Older People’s Programme Updates were presented by the SRO on behalf of the OPPB from January 2014 to December 2014. This is the key period in which ISFS evaluations were presented, the preferred bidder UCP was appointed and the contract was signed.

e. In the Governing Body meeting on 13 January 2015 the risk register section of the SRO’s update report states that “The main risks now relate to mobilisation, and will be monitored and managed through the Joint Mobilisation Board with UCP. Residual high risks will be fed through to the Older People Programme Board, and if further escalation is necessary, to the Governing Body.”

4.9 As highlighted above, although the risk register was a standing agenda item for the OPPB it was not a standing agenda item at the Governing Body. Some members of the Governing Body told us that, with the benefit of hindsight, they were not fully appraised of the contract risks prior to the contract being signed.
4.10 We have been told by the CCG that there was a ‘star chamber’ scrutiny process with a subset of the Governing Body members to consider bid specific risks; however we have not seen formal reporting of these meetings back to the OPPB or Governing Body.

4.11 In the mobilisation period following service commencement in April 2015 the inability to agree the baseline contract figures with UCP was raised as a significant risk. However these financial discussions were held in Clinical and Management Executive Team meetings. It was not until 15 September 2015 that these risks were formally raised to the Governing Body (in its private session):

“...there were a number of risks associated with the contract detailed in the paper and it was therefore prudent to prepare contingency plans to ensure business continuity in the event that current arrangements with UnitingCare became unsustainable for any reason.”

At this point emerging risks such as the financial challenges of the two parent entities (CUHFT and CPFT) and VAT are included in the report to the Governing Body.

4.12 In the CCG’s view the decline in the financial health of CUHFT and CPFT was not clearly communicated to it in the period between UCP becoming preferred bidder and the contract collapsing. As a result, the CCG did not identify the risks and implications of this for the contract. We note that the level of publically available information about the financial challenges of CUHFT, in particular, at the time means that notwithstanding any lack of direct communication, the CCG would have been sufficiently aware of the decline in the financial situation of UCP’s parents such that it should have considered the potential impact on the contract and assured itself that the change in external risks was being appropriately managed.

4.13 In a meeting with the CCG on 20 May 2015 UCP tabled a financial request for £197m for 2015/16 compared to the contracted first year spend of £152m – a gap of £45m. In interviews with members of the Governing Body we were told that this was the first time the CCG became aware of the full extent of the financial issues.

4.14 Interviewees expressed a concern that the business cases presented to CPFT and CUHFT Boards may not have reflected the financial envelope available to bidders as it became clear soon after contract commencement that additional monies were required. Concerns were expressed that this information had not been available at an earlier stage.

**Leadership and assurance provided throughout the process**

4.15 The OPPB membership included representation from the CCG including the CCG Chair, Chief Operating Officer and the SRO. A review of OPPB meeting minutes shows active participation by the CCG representatives, providing support to the procurement process.
4.16 The membership of the OPPB and the Governing Body was weighted towards clinical leaders who focussed on the clinical elements of the contract. The legal and financial elements were not led at an Executive level but were outsourced to advisors who were not asked to attend either the OPPB or Governing Body meetings meaning that these areas were not given the same amount of attention in discussions.

4.17 We have been told by a number of interviewees that reservations were raised about the financial envelope by several bidders due to the limitations of the financial information provided by the existing service provider. The limitations of the financial information were also reported by Deloitte and are raised in the Gateway review. The CCG’s perspective was that the financial risk was passed entirely to the provider through the outcomes-based commissioning arrangement. It did not obtain any assurance about the financial viability of the proposed contract either from an advisor or by comparison to its existing service costs.

4.18 We have been told that the Governing Body relied on the OPPB for its assurance at each key decision point in the procurement. Some members of the Governing Body were also members of the OPPB and provided this assurance in conversation. Specifically we note the Lay Chair also attended the OPPB and had a commercial background, and the CCG have told us specific advice was sought from the CCG Audit Committee Chair who had a commercial background as CFO / CEO of a major international company.

4.19 Regular updates were presented to the OPPB and the Governing Body regarding the progress of the procurement. These updates concentrated on the procurement process itself with appendices setting out deliverables from advisors at key points. We comment further on this in Section 5 but note here that the content of the reports was summarised with the effect that key risks were not drawn to the attention of readers and there is no evidence that the implications of risks were identified.

4.20 The OPPB was a large forum and we have been told that the large membership and lengthy agendas meant that detailed debate and challenge around significant contract risks did not happen in OPPB meetings. Instead the OPPB relied on the individual project workstreams to undertake this challenge and the OPPB took implicit assurance that each workstream was undertaking this role.

4.21 We understand from the CCG that there were opportunities for some OPPB members to attend forums such a ‘star chamber’ scrutiny process, dialogue sessions and Board-to-Board bidder sessions with opportunities to provide challenge; however we have not seen formal reporting of these meetings back to the OPPB. Further whilst each workstream considered the risk areas within its remit we have found no evidence of cross-workstream risks and issues being identified, captured and tracked. There was therefore a gap in relation to overarching project risks where assurance was not provided to the Governing Body through the OPPB.
4.22 The need to strengthen risk management is a theme that was raised in each of the three Gateway reports provided to the CCG but not appropriately acted upon. Risk was not a standing agenda item at the Governing Body, and on the occasions when the OPPB risk register was presented there was limited discussion. Whilst the OPPB risk register was discussed at each OPPB meeting, the discussion was restricted to new or changed risks. There is no evidence that bidder specific risks, such as the implication of UCP’s intention to form an LLP, were captured in this register and therefore the OPPB and the Governing Body did not have assurance that risks were being captured, tracked and mitigated.

4.23 We have also been told in interview, that the OPPB and the Governing Body took the outcomes of the Gateway Reviews to be an external source of assurance that the project was well governed and progressing in line with best practice. We comment on the Gateway Reviews further in Section 6 but note here that a number of issues were identified in each Gateway Review but these were not fully communicated in the papers provided to the OPPB and the Governing Body by the SRO such that it appears that more assurance was taken from these reviews than was given.

**PwC view**

4.24 In our view the CCG had the information with which to form a comprehensive view of the risks and issues associated with the contract. However, this information was disaggregated and the opportunity was missed to bring it together and form a corporate understanding either before the contract was signed or during the mobilisation phase. The result was that members of the Governing Body had differing levels of knowledge and, as a whole, approved the contract without a full and shared understanding of the associated risks and issues.

4.25 The failure to arrive at a full and shared understanding of the contract risks and issues arose due to:

a. weaknesses in the project governance structure;
b. failure to identify, track and mitigate key risks;
c. gaps in the extent of advice commissioned and assurance received;
d. shortcomings in the format and content of information reported to the OPPB and Governing Body, particularly impacting those who were independent of the procurement process; and
e. a lack of experience and capability within the CCG which meant that (a) – (d) above were not identified and addressed as the procurement proceeded.

4.26 In our view, it is unusual the CFO did not take a more prominent role in the procurement process. There is evidence of the CFO’s involvement in the finance workstream, however, he was not part of the executive structure and was not a member of nor did he attend the OPPB. In our view this contributed to the failure of the OPPB to fully understand the financial risks early enough and so additional financial advice, as outlined above, was not procured.

4.27 The legal and financial elements were outsourced by the CCG and in our view did not have sufficient focus from the OPPB and Governing Body as a result of several factors:
a. the summarised reporting of outputs from the legal and financial workstreams did not draw key issues within these reports to the attention of readers;
b. Deloitte and Wragge were not asked to attend either the OPPB or the Governing Body to present their advice meaning that the CCG leadership did not have the opportunity to listen to the advice they had commissioned or to challenge it; and
c. the majority of the OPPB and Governing Body members did not have experience of procurement exercises of this scale and nature, such that they were unsighted on typical risks and issues and this limited their ability to challenge outside their own areas of expertise.

4.28 In our view the project governance structure put in place was not sufficient to evaluate the key risks and issues prior to contract award: the OPPB was too large a forum for effective challenge and the membership was too heavily weighted towards the clinical element of the contract. Although we understand from the CCG there was an executive structure (Executive Lead, Clinical Lead and Management Lead) it did not include the CFO. This structure could have been used to pull together the outputs of each workstream and to consider these from a corporate perspective to identify cross-workstream risks and issues and communicate these to the OPPB and Governing Body.

4.29 The OPPB terms of reference list the SRO as the Assistant Director, Improving Outcomes: we consider it to be unusual that the SRO was not an Executive (Director), in view of the scale and nature of this procurement. We have been told by the CCG that there was an Executive Lead, a Clinical Lead and a Management Lead. It is unclear why the Executive Lead was not documented as the SRO formally.

4.30 There were gaps in the assurance sought by and provided to the OPPB and the Governing Body and we have also noted instances where assurance was taken as a result of diluted messaging of the Gateway findings (i.e. extracts of the recommendation without the context of the full report).
5. **Role of advisors**

5.1 During the procurement process, the CCG engaged three advisors which are the subject of this report:

a. Wragge & Co. LLP (Wragge) – as legal advisors;
b. Deloitte LLP (Deloitte) – as financial advisors and for due diligence in relation to Community Services; and
c. Strategic Projects Team (SPT) – as procurement advisors.

5.2 In this section we discuss:

a. the role of each advisor – including the advice compared to their agreed scope of work, reporting structure and length of engagement;
b. the advice provided on the key issues during the procurement process;
c. delivery of the agreed scope - focusing on the issues identified in the David Stout report as contributing to the contract collapse
d. any gaps identified in the advisors’ scope; and
e. the roles and interactions between advisors and the CCG.

**Role of advisors**

**Wragge**

5.3 Wragge were engaged in May 2013 after their competitive response to an “Invitation to Tender for the appointment of Legal Advisors” (Legal Advisors ITT) issued by the SPT in March 2013.

**Reporting structure**

5.4 Wragge reported into the Legal workstream and attended the Legal workstream and core Project Team meetings as required. We have been told by Wragge that their input was managed on a day to day basis by the SRO from the CCG and the SPT Project Director.

**Length of engagement**

5.5 Most of Wragge’s work related to the legal evaluation of bids and contract drafting and was completed by the contract signing date. Wragge were retained to draft some additional contract variations between contract signing and service commencement (April 2015). Wragge told us they were not involved in any discussions that took place between the CCG and UCP post service commencement. They were contacted by the CCG in July 2015 regarding parental guarantees and in October 2015 regarding UCP’s potential insolvency and use of cash advances but they told us they did not have visibility of process other than when directly contacted by the CCG.
Scope of work

5.6 The letter of engagement (dated 7 May 2013) defines the scope of work as identified in the Legal Advisors ITT and their tender response. The key tasks as listed in the ITT are as follows [ITT pg. 25-26]:

a. “To ensure the procurement process is efficient and effective, and reflects the latest guidance/EU legislation;

b. To ensure that the Authority is clear at the start of the procurement process on key issues […]

c. […] To ensure the Authority is able to set a clear and defined framework for the response to tenders and is able to achieve best value for money; and

d. To ensure that the Authority is able to hold its preferred bidder to the agreed commercial terms of the deal.”

5.7 Service requirements and deliverables are further outlined within the Legal Advisor ITT [ITT pg. 26-34]. We have included in Appendix 2 the general service requirements compared to the advice provided by Wragge during the procurement and contracting process. We discuss the advice Wragge provided on key issues identified in the David Stout report under the heading “Delivery of agreed scope” below.

Deloitte

5.8 Deloitte were engaged by the CCG in two roles (performed by different teams within Deloitte):

a. Financial Advisor on the procurement; and

b. Vendor Due Diligence for Community Services.

Reporting structure

5.9 In relation to their role as Financial Advisor Deloitte reported into the Finance workstream and attended Finance workstream and core Project Team meetings as required. We have been told by Deloitte that their input was managed on a day to day basis by the SRO from the CCG and the SPT Project Director.

5.10 For the vendor due diligence work, Deloitte told us they were engaged directly by the SRO from the CCG. They were managed on a day to day basis by and reported to the SRO.

Length of engagement

5.11 In relation to their Financial Advisor role, Deloitte provided their ISFS Financial Evaluation in September 2014 and provided input into the contract in October 2014 to assist the legal team in translating the payment mechanism formulae into contractual terms. Deloitte have told us that their later involvement comprised limited input and that they were not involved after October 2014. Contract signature was in November 2014.
5.12 The vendor due diligence report was circulated to bidders in May 2014 and was based on financial information provided by CCS for the period ending 31 December 2013. Deloitte’s due diligence team told us they were not in touch with the CCG other than to enquire whether top up due diligence was required on more recent financial information. The CCG did not commission any further work.

Financial Advisor role

5.13 The SPT issued an “Invitation to Tender for the appointment of Financial Advisors” (Financial Advisors ITT) in May 2013. Deloitte were engaged in August 2013 after their competitive response to this tender.

5.14 Deloitte told us that for the Financial Advisor scope of their work they reported into the Finance workstream – in particular the CCG’s SRO. They also told us that the SPT Project Director (or another representative from SPT) attended the majority of the Finance workstream meetings. Deloitte told us their interactions with the CCG were on an as-needs basis and they were focused on the Finance workstream.

5.15 Deloitte told us that their involvement with the procurement process ceased after they delivered their ISFS Financial Evaluation Report in September 2014. They were not involved post the preferred bidder stage except for the work described in paragraph 5.11.

5.16 We understand that the letter of engagement (which we have not been provided with, but have been told was signed on 8 August 2013) and response to the Financial Advisors ITT defines the scope of work as identified in the Financial Advisors ITT. We have included in Appendix 2 the general service requirements compared to the advice provided by Deloitte during the procurement and contracting process. We discuss the advice Deloitte provided on key issues identified in the David Stout report under the heading “Delivery of agreed scope” below.

Community Services Due Diligence role

5.17 Deloitte has told us that an initial scoping meeting was held with the CCG on 16 July 2013 to discuss vendor due diligence to be performed on Cambridgeshire Community Services NHS Trust (CCS) the existing community services provider. We understand that this discussion not only focused on due diligence of the current provider but covered other financial and non-financial aspects that could have been included within a vendor due diligence. However, we understand the CCG requested a scope limited to the current providers (CCS and CPFT). A final scope was agreed on 9 January 2014 and the formal work order was issued on 25 April 2014.

5.18 Deloitte told us that for the Due Diligence scope of their work they reported directly to the CCG’s SRO and were not involved in meetings with the SPT or Wragge.

5.19 The final report “Integrated Older People Pathway & Adult Community Services Procurement – Final limited scope vendor due diligence report” (Deloitte VDD report) was issued on 23 May 2014. The report highlights limitations in both the:
a. information made available to meet the scope - “Limitations in respect of the availability and accuracy of data in order for us to complete our scope of work are detailed on page 7 of this report. Therefore, our work and this Final Report should not be considered an adequate substitute for a normal scope investigation.” [Deloitte VDD report pg. 4]; and
b. scope of work set for the review – “Our scope of work has been restricted to limited scope financial due diligence. We recommend that bidders consider undertaking IT, estates and clinical due diligence prior to service transfer in order to inform their bid decision.” [Deloitte VDD report pg. 7]

5.20 The report recommends “that top up financial due diligence is performed prior to service transfer, in particular focussing on: the underlying cost of service provision based on the latest available financial information; the latest available position regarding funding for unplanned acute admissions and impact, if any, on the cost of service delivery; and preparation of the TUPE staff list.” [Deloitte VDD report pg. 7]

**Strategic Projects Team**

5.21 The Strategic Projects Team were engaged under three agreements during the life of the procurement:

a. During the initial market sounding and issuance of the PQQ – the letter of engagement (dated 22 July 2013) defines the scope of work in accordance with their proposals submitted in both February 2013 and May 2013. We understand at this point SPT’s proposal included a full scope for support up to contract award. While SPT was performing the initial work, the CCG issued a full ITT to formally appoint a service provider going forward.

b. From ISOS to contract signing – SPT were appointed following the “Invitation to Tender relating to the Procurement of Provision of Procurement Support” (Procurement ITT) issued by the CCG in July 2013. The letter of engagement (dated 18 September 2013) defines the scope of work to be in accordance with this ITT.

c. Mobilisation – The Procurement ITT included the deliverables during mobilisation. In September 2014 SPT submitted a more detailed proposal of the mobilisation support. SPT told us this was accepted in December 2014. We have not been provided with the letter of engagement for this work.

**Reporting structure**

5.22 SPT supported the day to day management of the procurement and both attended and organised workstream and core Project Team meetings. We have been told by SPT that they worked closely with the CCG’s Core Team and were on site at the CCG for a significant portion of the procurement process. SPT told us they reported to the CCG’s SRO and Chief Operating Officer but also presented directly at OPPB meetings.
Length of engagement

5.23 SPT told us that after contract signature they were no longer acting in the role of Procurement Advisor. The SPT Project Director was a member of the Mobilisation Board but this did not involve logistical support for the process.

Scope of work

5.24 The specific requirements for the procurement support services are included within each ITT or proposal. We have included in Appendix 2 a summary of the key tasks in the ITT compared to the advice provided by SPT during the procurement and contracting process. We discuss the advice SPT provided on key issues identified in the David Stout report under the heading “Delivery of agreed scope” below.

Views of SPT’s role

5.25 SPT have told us they were engaged to provide procurement advice and manage the day to day process and logistics of the procurement. They told us that the CCG were very engaged and involved during the process, setting the direction and scope of work. In their view the “governance and responsibility clearly sits with the client” and they saw it as the role of the OPPB to bring together an overview of the process.

5.26 We note that the Evaluation Reports and Evaluation Plans presented to the OPPB were SPT branded documents. The covering papers presented to the Governing Body were prepared by the CCG’s SRO.

5.27 From the CCG’s perspective, SPT were engaged as experts to handle the procurement process. In their view it was the role of the SPT to pull together the work of all the advisors, identify the cross cutting risks and advise the CCG accordingly. When interviewed, the SPT team did not agree that this was their role.

5.28 We note that the Procurement ITT scope under which SPT’s work was conducted does not refer to:

a. Maintaining a risk register – although SPT told us they maintained a project risk register and provided to the CCG for incorporation into the OPPB risk register;
b. Collating and actioning issues – although SPT and other advisors told us that during weekly team meetings SPT contributed to an actions register which was maintained by the CCG; and
c. Providing commercial advice (other than in the context of a Final Business Case to Monitor which was not relevant for this engagement with the CCG) – however SPT’s own internal report (“The Strategic Projects Team (SPT) procurement and commercial activity for the Older People’s Services Programme for Cambridgeshire and Peterborough CCG (CCG)”) on their involvement in the procurement process refers to providing commercial advice.
Advice provided on key issues

UCP change in legal status – parental guarantees

5.29 In UCP’s PQQ response (July 2013) to question B3 about their anticipated structure UCP state “It is the intention of CUH, and CPFT to establish an NHS Arm’s Length Organisation by means of a contractual Joint Venture…”

5.30 In UCP’s ISOS response (January 2014) to question L1 concerning the nature of the organisation which will be entering into the contract, UCP state “As identified in our PQQ submission, Cambridgeshire and Peterborough NHS Foundation Trust (CPFT) and Cambridge University Hospitals NHS Foundation Trust (CUH) will jointly enter into the contract with the CCG; this will be via our UnitingCare Partnership (UCP) arrangement. UCP will be a limited liability partnership (LLP) between CPFT and CUH.”

5.31 In Deloitte’s PQQ, ISOS and ISFS Financial Evaluation Reports the intention of UCP to form a LLP and any resulting implications were not raised. The structure of a bidder formed part of the legal evaluation and therefore it was not part of Deloitte’s financial evaluation in accordance with the evaluation framework. Deloitte has told us they did not receive the legal submission clarification questions.

5.32 Both the Deloitte’s ISOS Financial Evaluation Report and ISFS Financial Evaluation Report include the limitation “the issues raised need to be considered alongside those in other parts of the evaluation and the various aspects considered together... It is therefore important that no set of evaluation scores is considered in isolation.” [ISOS pg. 6, ISFS pg. 2].

5.33 In Deloitte’s PQQ Financial Evaluation Report (August 2013) there is a section which discusses consortia. It is specifically noted that:

“... amendment to the consortium structure proposed should be subject to agreement by the Authority, a revised PQQ submission and re-assessment. At the next stage of the procurement the Authority should seek to assess the viability of the consortium structures proposed where relevant. In particular, the Authority should seek to understand the roles of the organisations within the bidding consortium. Where a consortium member is shortlisted which has offered a parent company guarantee, the Authority should seek to understand the performance and guarantee structure of the consortium members.”

5.34 Two other bidders changed their consortium members before the preferred bidder decision was made and were required to re-submit their PQQs. UCP could not have re-submitted its PQQ until the UCP LLP was formed on 31 October 2014. At this point UCP had been announced as preferred bidder but the contract had not been signed. If the UCP had been resubmitted to PQQ stage the financial evaluation of the entity would have identified there was no trading history which would have led to the need for parental guarantees being re-raised shortly before contract signing.
5.35 In both Wragge’s ISOS Evaluation Report (February 2014) and ISFS Legal Evaluation Report (September 2014) Wragge noted that parental guarantees should be sought from CUHFT and CPFT in relation to the performance of the LLP.

   a. ISOS extract [pg. 2]:
      “UCP will be a newly formed limited liability partnership and is a different legal entity from that which pre-qualified. Its members, CUH and CPFT, were the legal entities which pre-qualified and therefore we clarified with them that performance guarantees would be provided by the member organisations. They confirmed acceptance of this requirement.”

   b. ISFS extract [pg. 2]:
      “UCP will be a newly formed limited liability partnership and is a different legal entity from that which pre-qualified. Its members, CUH and CPFT, were the legal entities which pre-qualified and therefore we clarified with them that performance guarantees would be provided by the member organisations. They confirmed acceptance of this requirement. This would need to be a condition attached to any decision to award them preferred bidder status.”

5.36 The CCG and all advisors (SPT, Wragge and Deloitte financial advisory team) confirmed that they attended a combined workstream moderation meeting at each stage of the procurement where a summary of the outcomes for each workstream were discussed. Wragge’s ISOS and ISFS reports, which raise UCP’s intention to change structures and the suggestion for guarantees, are likely to have been discussed in this forum. However, as this meeting is not minuted there is no evidence that this did or did not happen.

5.37 Wragge’s ISOS and ISFS Legal Evaluation Reports were appended to the overall Evaluation Reports prepared by SPT and presented to the OPPB. Within the body of the overall Evaluation Reports the conditions raised in Wragge’s reports are not explicitly drawn to the attention of the reader. Further, the Evaluation Report and discussions within the OPPB do not consider whether there are any other implications of an LLP status that would need to be explored.

5.38 We have not found any evidence that the requirement to obtain parental guarantees was captured in an action log or risk register and therefore there was no mechanism for tracking whether it had been addressed or who was responsible for addressing it.

5.39 Drafting the bidder notification letter was included as part of SPT’s scope; Wragge’s Legal Advisor ITT requirements include “contribute to the drafting of the ‘provisional’ recommended... bidder letters”. SPT told us the “preferred bidder letter was drafted by the Legal Advisors with input from ourselves and the CCG”. Wragge have confirmed to us that this was the case.
5.40 The requirement to obtain parental guarantees was not included as a condition in the preferred bidder notification issued to UCP dated 30 September 2014. The letter was drafted by Wragge, reviewed by SPT and the CCG and signed on behalf of the CCG by the Chief Operating Officer and OPPB Chair. In interview Wragge acknowledged that, given their earlier advice, the requirement for parental guarantees should have been included in the preferred bidder letter; Wragge also noted that they subsequently advised that the guarantees could have been put in place post contract signing and that the CCG did not act on this advice. Given that Wragge had identified in both their ISOS and ISFS Legal Evaluation reports that parental guarantees should be a condition of UCP being identified as preferred bidder, we would have expected Wragge to have included a condition in the preferred bidder notification letter or raised with the CCG that such a condition needed to be included if the CCG failed to instruct them to draft the parental guarantees. We have seen no evidence that this occurred.

5.41 The UCP LLP was formed on 31 October 2014 and at the point of contract signing on 11 November 2014 parental guarantees had not been put in place although we note that both parents had agreed in response to clarification questions at the ISOS and ISFS stages to provide guarantees. Wragge have told us that they did not receive instructions from the CCG to draft parental guarantees. They told us that they did receive instructions from the CCG for all other drafting that they undertook as part of the contracting process.

5.42 SPT told us that they believed that the UCP LLP would be an NHS body and that the “formation [of the LLP] was a CCG and UCP conversation”. Their recollection was that the implications of an LLP and the need for parental guarantees were not brought up as issues during the contract negotiations.

5.43 There were a number of areas where the UCP bid was based on assumptions as full financial information had not been provided by the previous service provider. In the period between contract signing and service commencement a Local Variation (OPACSo2) was negotiated to put in place a mechanism for UCP and the CCG to agree price variations and an escalation process culminating in a ‘no fault’ ground of termination if they were unable to agree.

5.44 Wragge drafted the contract variation and also provided an advice note to the CCG setting out the risks to the CCG arising from the agreed contract variations. However, we have not seen evidence that this advice and the implications of the risks were shared with the OPPB and/or Governing Body.

5.45 Wragge told us that the CCG contacted them in July 2015 to ask for copies of the parental guarantees. Wragge informed the CCG that they had not been instructed to draft parental guarantees. It appears the CCG believed the parental guarantees were in place at this stage. In our interview Wragge noted that their role had been at arms’ length to the contract negotiations and they provided advice in relation to specific clauses as requested by the CCG. They held no signed documents relating to the contract, were not in attendance for contract signing and that contract finalisation and signing arrangements had been handled directly by the CCG.
In July 2015 Wragge advised the CCG that parental guarantees could be sought retrospectively and subsequently drafted and shared a guarantee document with both the CCG and UCP’s lawyers. We understand that this was not put in place. In October 2015 the CCG asked Wragge for advice in the context of extending cash advances to UCP and a further local variation was drafted to put in place a notice period of two months in the event of termination by UCP on a ‘no fault’ ground. Wragge advised that this was a further opportunity for the CCG to request guarantees again as a condition of the cash advance. We understand that, although the CCG did advance cash to UCP, no such guarantees were sought. From our review it appears that the failure to seek and put the parental guarantees in place at the preferred bidder/contracting stage was an oversight but we have not been able to ascertain why the CCG did not pursue them at the two later dates.

On 2 December 2015 UCP proposed termination under the Special Circumstances provision of the Contract Particulars and GC 17.5 (Termination: No Fault). Had this been accepted there would been no compensation liability due from either party. Had parental guarantees been put in place these would not have prevented the collapse of the contract given the termination grounds cited by UCP.

However the CCG position, in a letter dated 3 December 2015, was that the only right of termination was for Provider Default under GC 17.7 and/or for repudiatory breach by reason of UCP’s wrongful purported termination of the Contract. Had this been accepted compensation would have been payable by UCP. The maximum liability under the contract was £7.5m and a parental guarantee could have been used to enforce the collection of this liability although it is not clear, given their own financial pressures, whether the parent Foundation Trusts would have been in a position to uphold a guarantee.

We understand a final settlement was agreed 18 December 2015 between UCP, CPCCG, CUHFT and CPFT. In this agreement, support and contribution from each party was agreed with no reference to termination provisions within the Contract which would trigger parental guarantees.

Members of the CCG told us they believed that, if the parental guarantees had been put in place, these could have increased the ownership and involvement of CUHFT and CPFT in the service delivery which may have positively influenced the overall execution of the contract.

**VAT**

The Legal Advisor ITT service requirements do not include taxation or accounting advice. Wragge stated that VAT was not in the scope of their work and it did not come up in any conversations they were involved in.

Deloitte stated that accounting and taxation (including VAT) was explicitly excluded from their contract. Deloitte’s response to the Financial Advisors ITT specifically states “We will provide advice on financial matters only and excluding any Tax or accounting advice.” [Deloitte ITT response pg. 31]

SPT told us that they do not recall conversations about VAT and said the UCP was silent on VAT during the procurement process.
The change in legal status of UCP led to an increase in the bidder’s underlying cost structure as the LLP was deemed to be a non-NHS organisation which would be liable for VAT. Whilst none of the advisors were specifically requested to provide VAT advice, it is surprising that this issue was not raised and understood before contract signature. During the contract signature phase the CCG was of the view that the bidder had confirmed, as part of financial bidder clarifications issued by Deloitte during ISFS evaluation, that they could provide the services within the envelope provided and that therefore the VAT implications were irrelevant.

Financial envelope

We have outlined in the following table the communication of the CCG’s financial envelope at each stage of the procurement process.

<table>
<thead>
<tr>
<th>Stage</th>
<th>CCG’s financial envelope disclosed?</th>
<th>Guidance provided to bidders</th>
</tr>
</thead>
<tbody>
<tr>
<td>PQQ and MOI</td>
<td>No – Annex 3 of the MOI provides the values of current services broken down into anticipated lots. Lots are given as an annual range below. Lot 5 (which includes Lots 1, 2, 3 and 4) is estimated at £140m to £160m per annum which is equivalent to between £700m to £800m over 5 years.</td>
<td>Paragraph 5.2.4 “The CCG’s preferred approach is for Lead Providers to take the total annual cost for the defined range of services and divide this by a weighted population to produce an average cost per year per patient.”</td>
</tr>
<tr>
<td>ISOS</td>
<td>Yes - Section 8.5 outlines the CCG’s Annual Budget figure for each lot and year of the contract period. Lot 5 (which includes Lots 1, 2, 3 and 4) has a total value of £700.8m over 5 years. The value had been refined from the MOI stage which was purely indicative values.</td>
<td>Paragraph 8.1.2 “The overall financial objective therefore is to deliver Services at or below the CCG’s Annual Budget with a CCG pre-agreed percentage (PBO) of that payment linked to the performance of the Bidder against the Outcomes Framework as described in Section 3 as well as against the national CQUIN.”</td>
</tr>
<tr>
<td>ISFS</td>
<td>Yes - Section 8.7 outlines the CCG’s Annual Budget figure for each lot and year of the contract period. Lot 5 (which includes Lots 1, 2, 3 and 4) has a total value of £744.9m over 5 years. The value had been updated from the ISOS stage based on 9 month figures (instead of 4 month figures).</td>
<td>Paragraph 8.2.1 “Given that these figures are both more up to date and higher than in the ISOS, the CCG is now requiring Bidder’s EACV to be equal to or less than the CCG’s annual budget: there is no longer a tolerance level.”</td>
</tr>
</tbody>
</table>

Deloitte’s ISOS Financial Evaluation Report includes under a section entitled ‘CCG Budgets’ states that “The bidder’s responses to the qualitative questions provided caveats and additional financial assumptions regarding the overall budget assumptions provided by the CCG and the cost challenges with delivering the Project with the allocated CCG budget. All bidders are awaiting further clarification and information with regards to vendor due diligence at the ISFS stage which may impact EACV’s bid as part of the ISOS submission.”

As part of the ISFS the bidders were required to meet three financial hurdles [ISFS Financial Evaluation Report pg. 4]:

23 September 2016
a. have an expected annual contract value ("EACV") which in each year is not greater than the CCG’s budget plus the transformational funding;

b. have an NPV over the 5 year contractual period which is not greater than the NPV of the CCG’s budget plus the transformational funding; and

c. not assume any additional funding from the CCG over and above the budget plus the transformational funding.

5.58 As part of their bid UCP passed these hurdles, as did the other shortlisted bidders, although we note that the limitations in the available information about the cost of the existing service provision would have led all bidders to include some significant financial assumptions within their bids. The assumptions that were included by the bidders which affected the CCG were discussed with the CCG and challenged/clarified with bidders, for example where a bidder assumed in their submission that the contract value would be rebased for the next financial year, the CCG informed the bidder that it would not be rebased and this was accepted by the bidder.

**Delivery of agreed scope**

5.59 In accordance with our Letter of Engagement we have reviewed the terms of reference and scope of the work of the three advisors during the procurement and contracting process and compared this to the advice they provided. We have considered whether there were any gaps in the advice provided in the context of any impact on the issues raised in the David Stout report as contributing to the contract collapse.

Identification of UCP’s legal status

5.60 Wragge’s scope of work included preparing legal evaluation reports at each stage of the procurement. UCP’s intention to form an LLP and the requirement for parental guarantees was identified and raised by Wragge in both ISOS and ISFS Legal Evaluation Reports. We note that such guarantees could not be obtained until the LLP was formed, which occurred after the preferred bidder announcement was made.

5.61 Wragge’s evaluation reports were provided to the OPPB and the Governing Body as appendices to SPT’s summary ISOS and ISFS Evaluation Reports. The parental guarantee requirements were therefore communicated to the OPPB and the Governing Body but were not highlighted in the covering paper prepared by SPT and so not explicitly drawn to the attention decision makers. Further, we have found no evidence that the risks of failing to obtain the guarantees were identified by either SPT or the CCG and explained to the decision-makers. The reporting format used meant that Governing Body members were not aware of a key commercial risk until after the service commenced and issues arose.
5.62 SPT’s scope of work included drafting the preferred bidder notification letter to UCP and seeking input from other advisors (such as Wragge) in this drafting. Wragge’s scope of work included providing legal input into the draft preferred bidder notification letter to UCP. However SPT told us the “preferred bidder letter was drafted by the Legal Advisors with input from ourselves and the CCG”. Wragge have confirmed to us that this was the case. Wragge stated in their ISFS report that parental guarantees should be included as a condition in the preferred bidder notification letter. This condition was not included in the preferred bidder letter subsequently drafted by Wragge. In addition we have seen no evidence that, at the time of the preferred bidder notification drafting, Wragge raised or flagged to the CCG that such a condition should be included.

5.63 Wragge’s scope of work included developing and contributing to drafting the Commissioning Contract or any other supplement or agreement. Wragge gave advice, at both the ISOS and ISFS stages that parental guarantees should be obtained and at both stages confirmed with the two parent Foundation Trusts that these would be provided. When it was identified, after service commencement, that parental guarantees had not been put in place Wragge gave further advice that these could be retrospectively obtained and also that performance guarantees could be made a condition of the cash advances from the CCG to UCP. We have found no evidence that the CCG pursued guarantees either before or after contract signing or after service commencement.

Uncertainty of the financial envelope

5.64 At each stage of the procurement process the CCG provided the Annual Budget value for the contract. Both the ISOS and ISFS include a detailed breakdown of the CCG’s Annual Budget by lot and year; and required the bidder to submit proposals within this budget.

5.65 The Deloitte’s ISOS Financial Evaluation Report identifies that some bidders had raised concerns about the cost challenges of delivering within the allocated CCG budget however as part of the ISFS Financial Evaluation Report all bidders had submitted a contract value below the CCG’s budgeted contract value. Challenging the financial assumptions within the bids was not within Deloitte’s scope, nor was it something we understand the CCG undertook itself. The CCG’s position was that the financial risk was passed to the provider as a result of both the outcomes-based commissioning mechanism and bidder confirmations that they could deliver services within the financial envelope provided.

Information gaps around community services

5.66 As noted above, the information gaps around community services were raised by a number of bidders during the procurement process. These were also raised by Deloitte in their vendor due diligence report and were included in the Gateway review (see section 6). The Deloitte VDD report recommended that both top up financial due diligence (based on the latest available financial information) and follow up financial due diligence (including IT, estates and clinical due diligence) be conducted prior to service transfer.
Gaps in advisors’ scopes

5.67 In accordance with our Letter of Engagement we have reviewed the terms of reference and scope of the work of the three advisors during the procurement and contracting process. We have sought to identify gaps in the scope of work they were requested to perform.

Length of advisor engagement

5.68 All three advisors told us that their involvement with the procurement process was either significantly reduced or ceased once the preferred bidder was announced. However during the period from preferred bidder announcement to contract commencement there were a number of emerging issues which would have benefited from independent advice. A number of these are factors identified in the David Stout report as contributing to the contract collapse, including:

a. continued concerns about information gaps around community services – Deloitte were not engaged further in their due diligence role to perform top up or follow up due diligence as recommended in their report dated 23 May 2014.

b. negotiations with UCP about the uplifts to the financial envelope (such as uplifts for 2015/16 activity and the higher than expected transfer cost of CCS) - Deloitte were not engaged in their due diligence or financial advisor role to evaluate the costs proposed by UCP or assist with closing the gap between the CCG and UCP’s position.

c. additional VAT costs submitted by UCP – no advisors were engaged to assist the CCG in discussions about VAT and any necessary conversations with HMRC.

5.69 In interviews the CCG told us that, with hindsight, they should have retained both SPT and Deloitte as advisors for a longer period after the contract had been signed.

Taxation and accounting

5.70 VAT, along with other taxation and accounting advice, was not included within the terms of reference or scope of work for any advisors.

5.71 Deloitte told us that as the CCG’s financial envelope was fixed during the procurement process it was assumed that all bidder costs would be included in their submission. In response to clarification questions UCP confirmed that they could deliver the services within the financial envelope set by the CCG. Further, taxation advice such as VAT was excluded from the scope of work commissioned by the CCG from Deloitte.

5.72 We have been told that the VAT risk was assumed by the CCG to not be significant as UCP’s parents were both NHS organisations and therefore it was thought that HMRC would agree that VAT was not applicable to the arrangement. No advice was taken to confirm this assumption.
Roles and interactions between advisors and CCG

5.73 In accordance with our Letter of Engagement we have discussed with the CCG and the three advisors how their inputs were managed and the level of clarity around roles and responsibilities.

Clarity of SPT’s role including collation of risks and issues

5.74 At a minimum there was a mismatch in expectations about the extent of the services that SPT were providing. From a review of the tasks in the ITT, it appears that SPT delivered the scope of work that was required of them. Both the SPT and CCG confirmed that SPT worked very closely with the core project team and had a strong on-site presence throughout the engagement. It is apparent that their work may have involved some deliverables which were not envisaged or specifically included in the original ITT such as maintaining a risk register.

5.75 We have been told that it was the CCG’s view throughout the project that SPT was responsible for to bringing together issues from each workstream, tracking these and escalating them to decision makers. If this was the case then it is our view that the CCG had reasonable grounds to challenge the content of the Evaluation Reports prepared by SPT. These reports were focused on the procurement process; there was no analysis of the findings from each workstream and any implications of these findings. We have not seen evidence that a detailed view of risks and issues was collated by SPT and it is unclear how the CCG had assurance this was being performed. We have not found any evidence that the CCG challenged the content or completeness of SPT’s deliverables.

Clarity of scope requirements in relation to project documents and the contract

5.76 We note that within the ITT for each of the three advisors there is an extensive list of specific requirements at each stage of the procurement. Within this list, as part of finalising the procurement, the following two requirements are included:

a. finalise the project documentation; and
b. assist in auditing all relevant contract documents to ensure they are correct.

5.77 We found no evidence that any of the advisors or the CCG sought to clarify what these requirements involved. In interviews the advisors and the CCG had different interpretations of the depth of this scope requirement: the advisors interpreted these requirements as a review of the deliverables they had provided during the engagement as opposed to a review of all documentation associated with the procurement.
Management structure for advisors

5.78 Wragge and Deloitte told us that their interactions with the procurement process were largely isolated to their specific workstreams. Wragge and the Deloitte financial advisory team attended cross-workstream moderation meetings at each evaluation stage but did not attend OPPB or Governing Body meetings at the CCG. This silo approach meant that there was limited forum for workstreams to share issues developing from their evaluations which may have relevance across other streams. We have found no evidence that any cross-workstream issues that may have been identified were captured, tracked and actioned.

Capability to manage advisors and interpret advice

5.79 In accordance with our Letter of Engagement we have discussed with the CCG and the three advisors the capability of the CCG to manage the advisors, interpret and act upon their advice.

5.80 All three advisors told us that the CCG was an engaged client and demonstrated that they wanted to be involved in the detail of the procurement process. Both Wragge and SPT told us that the CCG actively participated in the contract drafting, including the outcomes framework and capitated funding model.

5.81 In our interviews with the CCG there was inconsistent feedback about how well individuals understood the contract. Some interviewees said they felt the contract was complex and a lot of it was written in legal language which the CCG had difficulty in understanding and interpreting.

5.82 We have been told by a number of interviewees that the outcomes-based commissioning mechanism passed all the financial risk to the provider and therefore there was no focus on the financial advice.

5.83 There was a heavy focus on the clinical aspects of the contract and this led to the legal and financial risks becoming secondary. This was exacerbated by the workstream approach to the project which meant that key decision makers were unsighted on the detail in workstreams that were not their own. Our review of minutes and our interviews indicate that OPPB members focused their consideration on the clinical aspects of the procurement rather than taking a wider corporate view.

PwC view

5.84 We have not identified significant gaps in the delivery of advice compared to the agreed scopes for any of the advisors. However, in relation to including parental guarantees as a condition of being the preferred bidder and identifying VAT implications of an LLP, whilst the former was not detailed within the scopes for Wragge and SPT and the latter was explicitly excluded from Deloitte’s scope, we might have expected the advisors to raise issues with the CCG prior to contract signature and we have not seen evidence that this occurred.
5.85 We identified expectation gaps between the actual scopes and what the CCG understood it had commissioned from both SPT and Wragge. Further, there were some instances where the CCG’s interpretation of sub criteria in the ITTs’ for all advisors differed from the advisors’ interpretations; these differences were not identified, discussed or resolved during the engagement process.

5.86 Drafting (or contributing to the drafting) of the bidder notification letter was included within SPT and Wragge’s scope. The requirement to obtain parental guarantees was not included as a condition in the preferred bidder notification issued to UCP. In interview Wragge acknowledged that, given their earlier advice, the requirement for parental guarantees should have been included in the preferred bidder letter; Wragge also noted that they subsequently advised that the guarantees could have been put in place post contract signing and that the CCG did not act on this advice. Given that Wragge had identified in both their ISOS and ISFS Legal Evaluation reports that parental guarantees should be a condition of UCP being identified as preferred bidder, we would have expected Wragge to have included this condition when drafting preferred bidder notification letter or flagged to the CCG that such a condition should be included. We have seen no evidence that this occurred.

5.87 There was limited advice procured in relation to evaluation of the financial aspects of the bid, with the assumption being made that if a bidder confirmed that they could provide the required services within the financial envelope provided, then little challenge to this response was required. All three final bidders confirmed, as part of the financial bidder clarifications issued by Deloitte during ISFS evaluation, that they could provide the services within the envelope. We have been provided with financial clarification documents which show some challenge by Deloitte of the assumptions underpinning each bid. However, limitations in the information available about the cost of existing service provision meant that the CCG did not have an accurate assessment, internally generated or provided by an independent advisor, of the viability of its financial envelope against which the bids were assessed. The effectiveness of the financial evaluation by the CCG given the uncertainties surrounding the financial envelope was therefore limited and the CCG proceeded with the procurement despite this.

5.88 Given the cost pressures within the contract and the differing tax arrangements of the bidders we would also have expected some consideration of VAT within the financial evaluation scope.

5.89 We further consider that top up due diligence of the costs of existing service provision should have been procured to cover the period after 31 December 2013. This is recommended in the Deloitte VDD report issued 23 May 2014.

5.90 The difference between what the CCG included in SPT’s scope and what it expected SPT to deliver indicates that additional commercial advice should have been included within SPT’s scope or procured from another source.
The involvement of the advisors reduced significantly after the contract signing. SPT’s role changed, with them no longer providing the procurement support and instead providing a staff member to sit on the Mobilisation Committee. Wragge told us their role had been at arms’ length to the contract variation process. In our view the advisors should have been fully retained up to the point of service commencement, given the amount of contract variation negotiation that took place throughout the mobilisation period and for which advice would have been beneficial. Further, we have not seen evidence that the advice from Wragge post contract signing and the implications of the risks relating to the contract variations were shared with the OPPB and/or Governing Body. However, the CCG informed us that this legal advice was reviewed by the CCG Chair, Chief Operating Officer, Chief Finance Officer and Accountable Officer. No advice was sought from Deloitte post contract signing.

Our view is that the CCG limited the value it obtained from its advisors through its use of a workstream structure which meant that cross-cutting issues and risks were not identified. In particular, we observed that advisors were typically retained at arms-length from the CCG leadership (e.g. Wragge noted their role had been at arm’s length to the contract negotiations, they provided advice in relation to specific clauses as requested by the CCG and they were not in attendance at contract signing). The advisors were kept in silos with clear demarcation between areas of responsibility. Whilst there were weekly core team meetings which advisors attended, we understand that these were used in practice as a feedback forum for individual workstreams rather than an opportunity for all advisors to be brought together holistically to fully support the procurement process and share issue and risks. We would expect for a transaction of this scale and novelty that the advisors would be asked to present their advice to those responsible for decision making. The distance between the advisors and those responsible for decision-making meant that trusted advisor relationships were not established which may have allowed for earlier identification and rectification of the issues that resulted in the contract failure.

The CCG reduced its own ability to manage its advisors and interpret their advice by structuring the project in a way that kept the advisors in silos and away from key decision-makers. Although members of the CCG were involved in the project, the same access to information was not provided to decision-making bodies such as OPPB and Governing Body. This resulted in financial risks not being understood early enough and additional financial advice, as outlined above, not being procured. The role of SPT in the day to day management of advisors diluted the CCG’s relationships with its legal and financial advisors.

In our view, the CCG placed a heavy reliance on the roles and responsibilities of its advisors without putting in place arrangements (e.g. an executive group to review outputs and risks) to ensure that the advice it received was appropriately understood and acted upon.
6. **Department of Health Gateway review process**

6.1 In this section of the report we discuss the findings and recommendations provided by the Department of Health Gateway review process and the assurance provided by this process.

**Overview of the gateway review process**

6.2 The Gateway project review process looks at the readiness of a project or programme to progress to the next phase at six key stages (or Gates) in the life of the project:

a. Gate 0 - Strategic assessment  
b. Gate 1 - Business justification  
c. Gate 2 - Procurement strategy  
d. Gate 3 - Investment decision  
e. Gate 4 - Readiness for service  
f. Gate 5 - Benefits evaluation

6.3 Gate 0 reviews are programme-only reviews that can be repeated throughout the programme's life. They can be applied to policy implementation, business change or any other sort of programme.

6.4 Gate reviews 1-5 take place during the lifecycle of a project, three before contract award and two looking at service implementation and confirmation of the operational benefits, as appropriate to the point reached in the project’s lifecycle.

6.5 We interviewed the Health Gateway Review Team Leader who led the Gate 4 review for the CCG. (The CCG also had two Gate 0 reviews led by another Team Leader who we did not interview as part of this engagement). The Health Gateway Review Team Leader described the Gateway process as a peer review providing a snapshot at a point in time. The review is undertaken in a short time frame (usually two days on-site) and involves reviewing documentation provided by the client and interviewing key stakeholders.

6.6 The Gateway reviews were coordinated by the Gateway Hub which coordinated the resourcing of each client’s Gateway review. The chosen Gateway team was directly accountable to the client, and whilst a copy of the report was placed on file at the Gateway Hub there was no formal follow up or review of the actions from an external body.

**Gateway reviews conducted for the CCG**

6.7 The CCG told us they volunteered to be part of the Gateway reviews, which were undertaken at no cost to the CCG.
6.8 During the procurement and contracting process, three Gateway reviews were conducted with the reports received as follows:

a. Review 0: Strategic assessment (June 2013)
b. Review 0: Strategic assessment (December 2013)
c. Review 4: Readiness for service (November 2014)

6.9 The CCG told us they weren’t confident that the Gateway review approach was appropriate for a procurement of this size, but were happy with the outputs which they believed suggested they were largely on-track with a few minor issues raised.

6.10 We have summarised in the table below the three Gateway reviews – their described purpose, the delivery confidence assessment provided and the date presented to the OPPB and Governing Body.

<table>
<thead>
<tr>
<th>Review</th>
<th>Purpose</th>
<th>Delivery Confidence Assessment</th>
<th>Date presented to OPPB</th>
<th>Date presented to Governing Body</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review 0: Strategic assessment (June 2013)</td>
<td>“review the outcomes and objectives for the programme... and confirm that they make the necessary contribution to government departmental, NHS or organisational overall strategy.”</td>
<td>Amber/Red – “Successful delivery of the project/programme is in doubt with major risks or issues apparent in a number of key areas.”</td>
<td>27 June 2013</td>
<td>2 July 2013</td>
</tr>
<tr>
<td>Review 0: Strategic assessment (December 2013)</td>
<td>“confirm that all service arrangements are in place, contractual arrangements are up to date, that necessary testing has been done to the client’s satisfaction and that the client is ready to approve implementation.”</td>
<td>Amber – “successful delivery appears feasible but issues require management attention”</td>
<td>11 December 2014</td>
<td>13 January 2015</td>
</tr>
</tbody>
</table>

6.11 Our observations from a review of the three Gateway review reports are as follows:

a. The three Gateway reviews all gave Amber or Amber/Red ratings – these are mid-range on the delivery confidence assessment scale and raise issues which need to be dealt with in order for the delivery to be successful;
b. Each review provided a series of recommendations for the CCG to address;
c. The three review reports all comment that they had heard views about the financial concerns of stakeholders and bidders about the money available for the programme. It is recommended in the second Gateway Review 0 that “Although it is clear that the bidders will need to quantify and manage the financial risks... it is essential that the CCG undertake its own high level assessment and sensitivity modelling as suggested in the earlier review to help provide its own assurance on the viability of the financial envelope. This is particularly important as we were told bidders
had withdrawn having done their own initial financial evaluation due to concerns over the adequacy of funding.” [Gateway Review 0 December 2013 pg. 9];

d. The Gateway reviews were consistently positive about the clinical leadership within the CCG and the enthusiasm from stakeholders to make the contract happen; and

e. The need to update or more formally manage the risk register was raised in each report.

6.12 The Gateway Review 4 report was conducted between 5 November 2014 and 7 November 2014, a few days prior to the contract being signed. The amber delivery confidence assessment indicates that timescales of achieving the service commencement date were tight and there were some significant risks.

6.13 The Gateway review lead told us, in relation to Gateway Review 4:

a. The CCG was slightly disappointed with the amber result;

b. The issue of financial viability had not been answered by the CCG because, through the outcomes-based commissioning model, the CCG had transferred responsibility to the provider for this; and

c. Risk management needed to be reviewed as up until the provider was appointed the CCG appeared to be managing its own risks in isolation from the provider risks and the shared contract risks. Refining the risk management arrangements was recommended to bring focus to the shared risks.

Communication of Gateway reports to OPPB and Governing Body

6.14 All three Gateway review reports were discussed at the OPPB and two were discussed at the Governing Body. The Gateway review team’s list of recommendations and the CCG’s response to these were provided as attachments to the papers. We have not seen evidence that the full Gateway reports were provided to the OPPB or the Governing Body for review.

6.15 When the first Gateway Review 0 Report was discussed in June and July 2013 it was not specifically stated in the OPPB minutes, Governing Body paper or Governing Body minutes that the confidence delivery outcome was Amber/Red. The Governing Body update (dated 2 July 2013) prepared by the SRO specifically states the Gateway process “is designed primarily for internal use within the CCG to assure and improve the Programme / process” [pg. 2]. The Governing Body minutes do not discuss each recommendation raised and the focus was on Recommendation 6 “The SRO should update the programme plan and identify the critical path” which encouraged the CCG to change the service commencement timeframes.

6.16 The second Gateway Review 0 Report was discussed in the January 2014 OPPB meeting. It was not specifically stated in the minutes that the confidence delivery outcome was Amber/Red and there is no detailed discussion of the recommendations and proposed action plan. There was no record of this report being presented or discussed by the Governing Body.
6.17 The Gateway 4 review (prior to the report being issued) was discussed at the CCG Clinical and Management Executive Team on 12 November 2014 with the statement (not attributed to a member) that “A Gateway Review had taken place and it had been acknowledged that this had produced a very complimentary outcome in terms of the procurement and consultation processes. There would be an Action Plan as a result of the review.”

6.18 The purpose of the Gateway reviews did not include conducting a detailed review of the procurement evaluation process and there is limited discussion of the procurement mechanism within the three Gateway reports. It was not within the scope of the reviews to identify more detailed issues such as UCP’s LLP structure and associated implications such as VAT.

6.19 The Gateway review delivery confidence assessments in each report indicates there are issues requiring management attention in order to achieve successful delivery. In the Gateway Review 4 report these issues were still present. The issues raised throughout the Gateway process reflect those identified in the David Stout report as contributors towards the contract collapse, including:

a. Uncertainty about the financial envelope – In the second Gateway 0 report (December 2013) Recommendation 1 is that “The SRO carry out an assurance review of the financial envelope...” The CCG’s response, presented to the OPPB, was that “the CCG accepts the recommendation, but in the context of the Programme aims for transformation consistent with funding availability, and the role of the Lead Provider (‘integrator’) to deliver this.” This is reiterated in the Gateway 4 report (November 2014) where “several stakeholders expressed concern about the overall financial viability of the programme within the financial envelope”;

b. Information gaps around community services – The Gateway Review 4 report states “provision of information [by Cambridgeshire Community Services NHS Trust] is clearly a source of some concern... the lack of this information is pressuring an already tight timescale and needs action”; and

c. Tight timeframes of the mobilisation period – The second Gateway 0 report (December 2013) comments “the overwhelming sense from those interviewed was that the timescale going forward is still very tight, particularly... the currently published mobilisation period”. This is reiterated in the Gateway 4 report (November 2014) “we heard from numerous interviewees that whilst this [April 2015 go live] date was still considered possible it was potentially a tight timescale to meet.”

6.20 The Gateway team recommendation and the CCG’s response were provided to OPPB in summarised form and, for two of the reports, to the Governing Body. However in the minutes of these meetings there is limited discussion of the recommendations. It is unclear if the full Gateway reports were provided to the members of these meetings, and there are risks and observations identified within the body of these reports which are not explicitly captured in the one sentence recommendations extracted by the CCG.
6.21 The need to strengthen risk management is a theme raised in each of the three Gateway reports. In the first Gateway Review 0 (June 2013) there is an observation “the Review Team are not clear on how actively the risks on the register are being managed and reviewed” and this is followed up in the second Gateway Review 0 (December 2013) “it would appear that many of the risks have not been updated since they were first raised: often in December 2012.” We note that there was no specific recommendation made in the Gateway report about updating the risk register or improving the CCG’s approach to risk management and therefore this was not included in the summary of recommendations provided to the OPPB and Governing Body. It was not until Gateway Review 4, issued after contract signing, that a specific recommendation regarding risk management was made. A more comprehensive approach to risk management earlier within the procurement process may have captured the cross-workstream risks.

6.22 Although the CCG’s response to the Gateway recommendations was prepared there is no evidence of this continuing to be an action item at the OPPB and Governing Body to ensure that each action item was appropriately tracked and closed.

6.23 In our interviews with CCG personnel we were told that they took assurance from the Gateway process that the project was being undertaken properly and progressing in accordance with the procurement requirements. Governing Body members recollections were that feedback from the Gateway reviews was generally positive. This is not wholly substantiated by the Gateway reports which raised a number of concerns and gave Amber/Red and Amber assessments, which are mid-range results.

**PwC view**

6.24 Our view is that the Gateway reviews identified a number of key issues and weaknesses but these messages were not clearly reported back to the OPPB and the Governing Body by the SRO. An extract of the Gateway Review recommendations and the CCG’s draft response were provided to the OPPB and Governing Body, however these were not in the context of the full report and did not capture the full essence of the report. The view of the OPPB and the Governing Body members we interviewed was that the Gateway reviews were helpful and that only minor recommendations were raised. This meant that the OPPB and the Governing Body took the Gateway reviews as a source of assurance that the project was being well governed and progressing in line with best practice. This was not a weakness of the Gateway review but of the CCG’s reporting of the outcomes.
## Appendix 2: Advisor terms of reference

### Table 1: Legal Advisor ITT service requirements compared to advice provided

<table>
<thead>
<tr>
<th>Legal Advisor ITT general service requirements [pg. 27]</th>
<th>Advice provided compared to agreed scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide advice, guidance and support to the Core Project Team on legal matters ensuring the process complies with statutory and regulatory requirements, follows best practice and provides best value</td>
<td>We have been told by Wragge, the CCG and SPT that Wragge attended Project Team meetings and, where required, provided advice, guidance and support on legal matters. These meetings were not minuted and so we are unable to determine the extent of guidance and support given verbally. Further Wragge told us that they regularly attended conference calls during the engagement and were on-site for the final few weeks prior to contract signing.</td>
</tr>
<tr>
<td>Attend Core Project Team /Project Working Group meetings at the request of the Commercial Lead (expected to be weekly during the key stages of the procurement)</td>
<td></td>
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<tr>
<td>Lead on clarification meetings where required</td>
<td></td>
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<tr>
<td>Attend Project and other, relevant Board meetings at the request of the SRO</td>
<td>The CCG and a review of Governing Body and OPPB meeting minutes confirmed that Wragge did not attend any meetings of the Project Board or the CCG Governing Body The CCG confirmed that it did not request Wragge to attend any meetings.</td>
</tr>
<tr>
<td>At the request of the Commercial Lead or SRO, provide information required by other Authority Advisors and other stakeholders to gain approvals</td>
<td>Wragge and Deloitte told us they interacted with each other in order to translate the outcome formulae into a legal framework for the contract. However Wragge told us they were not involved in the financial workstream of the procurement evaluation. Neither SPT nor Deloitte have told us in interviews that Wragge failed to provide required information.</td>
</tr>
<tr>
<td>Draft the Advert notice and legal inputs into the MOI, PQQ, evaluation plans and evaluation reports documentation</td>
<td>Wragge told us that they provided input to the legal components of the draft advert notice, MOI, PQQ and bidder notification letters. Wragge produced the following written deliverables: PQQ legal evaluation plan and report ISOS legal evaluation plan and report ISFS legal evaluation plan and report The evaluation reports met the detailed Legal Advisor ITT requirements with full details of the evaluation process, criteria, weightings and scores, including a commentary on the scores and recommendations on bidder selection from a legal perspective.</td>
</tr>
<tr>
<td>Contribute to the preparation of the Invitation to Tender documentation</td>
<td>Wragge told us that they provided input into the questions which had legal implications in the procurement Invitation to tender documents.</td>
</tr>
<tr>
<td>Develop and contribute to the drafting of the Commissioning Contract or any other supplemendor agreement</td>
<td>The Commissioning Contract was executed under NHS Terms and Conditions with a number of variations to reflect the novel nature of the contract. Draft contracts were developed for each of the three shortlist bidders.</td>
</tr>
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Appendix 2: Advisor terms of reference

### Legal Advisor ITT general service requirements [pg. 27]

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<tr>
<td>Post contract signing with UCP Wragge drafted some further variations to the standard contract terms and provided these to the CCG.</td>
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<tr>
<td>Wragge have told us, and the CCG has confirmed, that Wragge were not involved in any face to face contract negotiation meetings and that the signing of the contract was facilitated by the CCG.</td>
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<tr>
<td>Wragge have told us that in approximately July 2015, at the request of the CCG, they drafted and shared a guarantee document with both the CCG and UCP’s lawyers.</td>
</tr>
<tr>
<td>Wragge have told us that in October 2015 they provided the CCG with advice in the context of extending cash advances to UCP. Wragge advised that this was a further opportunity for the CCG to request guarantees again as a condition of the cash advance.</td>
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### Financial Advisor ITT general service requirements [pg. 23]

<table>
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<th>Advice provided compared to agreed scope</th>
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<tr>
<td>We have been told by Deloitte, the CCG and SPT that the Deloitte financial advice team attended Project Team meetings and, where required, provided advice, guidance and support on financial matters. These meetings were not minuted and so we are unable to determine the extent of guidance and support given verbally.</td>
</tr>
<tr>
<td>The CCG and a review of Governing Body and OPPB meeting minutes confirmed that Deloitte did not attend any meetings of the Project Board or the CCG Governing Body. The CCG confirmed that it did not request Deloitte to attend any meetings.</td>
</tr>
<tr>
<td>Deloitte told us that they provided input to the financial components of the draft advert notice, MOI and PQQ. Deloitte produced the following written deliverables:</td>
</tr>
<tr>
<td>- PQQ financial evaluation report</td>
</tr>
<tr>
<td>- ISOS financial evaluation report</td>
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<tr>
<td>- ISFS financial evaluation report</td>
</tr>
<tr>
<td>The evaluation reports met the detailed Financial Advisor ITT requirements with full details of the evaluation process, criteria, weightings and scores, including a commentary on the scores and recommendations on bidder selection from a financial perspective.</td>
</tr>
<tr>
<td>Deloitte told us that they provided input into the questions which had financial implications in the procurement Invitation to tender documents.</td>
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Table 2: Financial Advisor ITT service requirements compared to advice provided
Financial Advisor ITT general service requirements [pg. 23] | Advice provided compared to agreed scope
---|---
Contribute to the development of the Heads of Terms, Transaction Agreement and contribute to the drafting of the Commissioning Contract or any other supplement or agreement | The Commissioning Contract was executed under NHS Terms and Conditions with a number of variations to reflect the novel nature of the contract. Wragge was primarily responsible for drafting the contract and variations and Deloitte told us they provided input into this process as requested.

| Procurement Support ITT specific requirements | Advice provided compared to agreed scope |
---|---
**Letter of engagement 22 July 2013 [May 2013 proposal pg. 9]**
NHS England, OFT, and Monitor updates as appropriate | We are not aware of any formal deliverables in relation to these requirements. |
Support development of workforce strategy | |
Invitation to participate and pre-qualification documents | We have been told by SPT and the CCG that SPT:
- Contributed to the drafting of PQQ and MOI documentation; and |
- Performed the logistical role of collating the PQQ documentation and issuing it to bidders. |
Pre-qualification reports | We have been told by SPT and the CCG that SPT wrote an overall PQQ Evaluation Report. |

**Letter of engagement 18 September 2013 [Procurement ITT pg. 19-24]**
Preparation for issuing detailed ISOS and ISFS Tender Documentation
- Provide advice on procurement and regulatory issues relating to the Programme and development of the tender documentation.
- In liaison with Legal Advisors and the Project Team, draft and prepare the tender and contractual documentation.
- Collate all ISOS and ISFS documentation in readiness for issue.
- Prepare a detailed Evaluation Plan for evaluation of bids through the detailed tendering stage. Prepare the detailed evaluation criteria, assessment templates and process for assessing tender responses with a view to selecting bidders to proceed.
- Issue the ISOS and ISFS to bidders via electronic tendering system.
- At the ISFS stage - With legal advisors, draft the Heads of Terms and Transaction Agreement and where required contribute to the development of the Commissioning Contract or similar agreement.
| We have been told by SPT and the CCG that SPT:
- Attended weekly Project Team meetings and reported progress;
- Provided advice on procurement and regulatory processes;
- Contributed to the drafting of ISOS and ISFS documentation including the Evaluation Plans;
- Performed the logistical role of collating the ISOS and ISFS documentation and issuing it to bidders; and
- At the ISFS stage, worked with Wragge and the CCG to contribute to the development and facilitate advisor communication in the drafting of contractual terms. |

ISOS and ISFS Clarification and Dialogue | We have been told by SPT and the CCG that SPT: |
**Procurement Support ITT specific requirements**

- Update the tender and contract documentation to reflect feedback from the bidder’s clarifications.
- Raise and respond to clarification queries as required.
- Arrange and attend ISOS and ISFS Clarification meetings where required with bidders and provide detailed feedback on all such issues raised by bidders.
- Manage the evaluation and moderation process of the ISOS and ISFS submissions.
- Draft the overall evaluation report.
- At the ISOS stage - Draft and send notification letters.
- At the ISOS stage - Where bidders request debriefing, ensure this takes place.
- At the ISFS stage - Review the bids against the bid requirements and report in writing on all omissions and the degree of compliance with the bid requirements.
- At the ISFS stage - Draft the ‘provisional’ recommended and reserve bidder letters that protects the C&PCCG’s interests and commits the bidder to the commercial agreement.

**Complete Transaction**

- Provide support to the Project Team in dealing with procurement/regulatory/risk assessment queries from the C&PCCG Governing Body, Trust Development Authority, NHS England, Monitor, and the Co-Operation and Competition Panel.
- Advise and assist the C&PCCG in the drafting of the strategic/commercial and financial sections of the FBC.
- Review and comment generally on the FBC.
- Contribute to the procurement/regulatory related inputs of the formal public and staff consultation documentation (this excludes providing advice on the consultation process itself).
- Finalise the project documentation.
- Lead final discussions with the recommended bidder.
- Ensure audit of all relevant contract documents to ensure they are correct.

**Advice provided compared to agreed scope**

- Worked with Wragge and the CCG to provide commercial advice in the drafting of contractual terms;
- Agreed agendas and provided administration for bidder clarification meetings;
- Planned and monitored the evaluation and moderation process of ISOS submissions;
- Wrote an overall evaluation report;
- Contributed to the drafting of notification letters; and
- Planned bidder debriefings as required.

**Assist with Mobilisation**

- Provide information and support to the Project Team / Commissioners in dealing with procurement / contract in respect of mobilisation of the contract.

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