

	Finance and Audit Scrutiny Committee 12 November 2019	Agenda Item No. 7
Title	Managing Securities in Council Contracts Update Report	
For further information about this report please contact	Mike Snow, Head of Finance Email: mike.snow@warwickdc.gov.uk Telephone: 01926 456800	
Wards of the District directly affected	N/A	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number	Finance and Audit Scrutiny Committee November 2018	
Background Papers	Report to Finance & Audit Scrutiny Committee 6 March 2018: Review of the Assigning of Parent Company Guarantees and Other Types of Securities to Council Contracts.	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality Impact Assessment Undertaken	N/A

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	31/10/2019	Chris Elliott
Head of Service	31/10/2019	Mike Snow
CMT	31/10/2019	
Section 151 Officer	31/10/2019	Mike Snow
Monitoring Officer	31/10/2019	Andrew Jones
Finance	31/10/2019	Jonathan Huxley
Portfolio Holder(s)	31/10/2019	Cllr Richard Hales
Consultation & Community Engagement		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
Final Decision?		Yes/No
Suggested next steps (if not final decision please set out below)		

1 **Summary**

- 1.1 This report provides an update to members on the progress being taken in managing securities within contracts following the report to Finance and Audit Scrutiny Committee in November 2018.

2 **Recommendation**

- 2.1 Finance and Audit Scrutiny Committee should note the actions being taken within Appendix 1 in respect of the Managing Securities audit reported to the Committee in March 2018.

3 **Reasons for the Recommendation**

- 3.1 Following the difficulties encountered two years ago when one of the Council's contractors ceased to trade, a review was undertaken by the Council's Internal Audit Section entitled "The Assigning of Parent Company Guarantees and Other Types of Securities to Council Contracts". This review was reported to this Committee in March 2018.
- 3.2 A further report on the progress in implementing the recommendations within that report was reported to the Committee in November 2018. This report presents a further update on those recommendations. The recommendations and progress to date is detailed in Appendix 1.
- 3.3 The Appendix shows that significant progress has been made since the original report in March 2018. The notable changes are:
- The financial standings of all contractors is now actively monitored using "Credit Safe".
 - Credit checks continue to be carried out for new contracts and renewals, now using Credit Check.
 - In addition to Credit Check, the Accountants will review contractors for high value or high risk contracts.
 - Contract Management Training is being rolled out includes a section on securities.
 - Alongside the update to the Code of Procurement Practice, supporting guidance is available to officers.
 - WCC Legal services have advised upon and assisted with updating the guidance and new contract templates.
 - Further reviews of the Procurement function are proposed, including a review by Internal Audit of the Council's approach to contract management.

4 **Policy Framework**

4.1 **Fit for the Future (FFF)**

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	Services	Money
External		
Health, Homes, Communities	Green, Clean, Safe	Infrastructure, Enterprise, Employment
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/productivity of local economy Increased employment and income levels
Impacts of Proposal		
Although there are no direct policy implications, a strong and effective governance framework will be a major factor in helping to achieve the above outcomes.		
Internal		
Effective Staff	Maintain or Improve Services	Firm Financial Footing over the Longer Term
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
Impacts of Proposal		
Although there are no direct policy implications, a strong and effective governance framework will be a major factor in helping to achieve the above outcomes.		

4.2 Supporting Strategies

4.2.1 Each strand of the FFF Strategy has several supporting strategies but description of these is not relevant for the purpose of this report.

4.3 Changes to Existing Policies

4.3.1 This section is not applicable.

4.4 Impact Assessments

4.4.1 This section is not applicable.

5 **Budgetary Framework**

5.1 Although there are no direct budgetary implications arising from this report, an effective Budgetary Framework is a key element of corporate governance. An effective control framework ensures that the Authority manages its resources and achieves its objectives economically, efficiently and effectively.

6 **Risks**

6.1 There are various risks associated with contract management and these not being addressed satisfactorily. The consequences will be additional expenditure and deterioration in the reputation of the Council.

7 **Alternative Option(s) considered**

7.1 This report is not concerned with recommending a particular option in preference to others so this section is not applicable.

Progress in Implementing Internal Audit Recommendations

(Each recommendation is numbered and in italics followed by a statement of progress as at November 2019)

- 1 *Guidance on the use of PCGs and other types of securities should be reviewed with a view to ensuring that it is appropriate and sufficient to assist services during the procurement process, in particular when compiling the Invitation to Tender documentation and when establishing contracts with successful tenderers.*

Progress November 2019:

Guidance has been produced by WCC Procurement in conjunction with WCC Legal. This is available to staff on the intranet within the Procurement section.

- 2 *More specifically, guidance on the use of PCGs and other types of securities should be incorporated within the documentation provided by the Procurement Team to aid services during the procurement process.*

Progress November 2019:

The Procurement Initiation Document has been updated to include consideration of guarantees and points officers to the guidance on the intranet.

- 3 *Because of its importance to the Council, driven by such factors as the reputation of the Council and the sums involved, contract management training should be run at regular intervals for relevant employees and not just as one-offs. Staff should be trained not only in the Council's practices and procedures but also provided with general contract management training on such matters as the different types of securities that are available and the basis for selection.*

Progress November 2019:

Contract Management Awareness training is scheduled to commence in November, with managers already booked onto it. It is proposed that all contract owners should attend. The content of training was shared with Heads of Service.

Informal training continues to be given by the Procurement Team on a one to one basis in respect of Procurement Initiation and Tender Evaluation, where contract management is discussed.

- 4 *There should be due emphasis within contract management training programmes on the importance of monitoring the delivery of contracts after they have been established.*

Progress November 2019:

This is being incorporated into the training (formal and informal). The training concentrates on the principles of contract management and contract manager responsibilities, including the importance of specifications and KPIs.

- 5 *Contract registers should record, for each contract, whether the contract has had a security assigned to it and, if so, what form of security is in place. Any other relevant information pertaining to securities should also be recorded on the contract registers.*

Progress November 2019:

Register now includes a column to provide details of securities in place.

- 6 *Finance should establish a designated officer within its service that is able to provide an appropriate level of financial input on contracts. This officer should, for example, be trained to carry out financial checks e.g. perform credit checks on tenderers, pre-contract, and monitor the financial performance of contractors, after the contract has commenced. Such support should be systematic and proactive, not needing to be requested by the contracting service. (This facility, had it been in place, would have identified the problem with the parent company of Mack Trading, enabling the Council to have taken remedial action before it was too late.)*

Progress November 2019:

The Authority now subscribes to "Credit Safe" for all company checks. As part of the functionality, "alerts" have been created for all companies within the Contract Register, and parent companies where guarantees exist. If the alerts notify a change to the credit rating, this is notified to the relevant contract manager and Accountancy.

Tender evaluation financial checks are carried out on all tenderers over £25,000 using Credit Safe. The Accountants will review in greater detail the status of companies that score less than 50 on credit safe, or all companies for contracts over the supplies and services OJEU level (c£180k). Checks are carried out for all contractors on the Contract Register.

- 7 *After the reorganisation of the Procurement function, the County's Procurement Team should be asked to assess the Council's procurement arrangements, including the guidance currently provided to services when procuring services and entering into contracts with a view to bringing practices at the Council in line with those at the County. This is particularly the case in respect of legal documentation.*

Progress November 2019:

- The Code of Procurement Practice has been reviewed (led by WCC), updated and agreed by Council.
- New contract templates are in place from WCC Legal.
- The Contract Management framework has been reviewed/rationalised/updated on the intranet.
- WDC Procurement/Legal have organised bi-monthly meetings to support joint working.
- WCC Procurement/WDC Procurement Team are reviewing all Council procurement templates. The pre-procurement commissioning templates have been completed. Post contract award/contract management documentation currently being reviewed.

- 8 *The Council should consider the commissioning of a wider review by a specialist of its contract management arrangements to ensure that it is meeting best practice in its arrangements. This should take place after the reorganisation of the Procurement function, and after the 'internal' review recommended in 7 above, so that the new arrangements with the County form part of the review.*

Progress November 2019:

The partnership with WCC Procurement has been agreed to continue for a further 4 years to 31 March 2023, subject to a further review being reported to Executive in March/April 2020. Within the Internal Audit Strategic Plan, it is intended that an internal audit review of contract management be carried out in 2020/21. Within the Procurement KPIs agreed as part of the Procurement Strategy, reviews of selected contracts are due to be carried out and reported within the annual Procurement Review reported to Finance and Audit Scrutiny Committee.