

 <b>Finance and Audit Scrutiny Committee</b> <b>27 November 2018</b>		<b>Agenda Item No.</b> <b>8</b>
<b>Title</b>	Review of the Assigning of Parent Company Guarantees and Other Types of Securities to Council Contracts	
<b>For further information about this report please contact</b>	Mike Snow 01926 456800	
<b>Wards of the District directly affected</b>	N/A	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	Finance and Audit Scrutiny Committee 6 March 2018	
<b>Background Papers</b>		

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

<b>Officer/Councillor Approval</b>		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Chief Executive/Deputy Chief Executive	9/11/18	Chris Elliott
Head of Service	9/11/18	Mike Snow
CMT	9/11/18	
Section 151 Officer	9/11/18	Mike Snow
Monitoring Officer	9/11/18	Andrew Jones
Finance	9/11/18	Rebecca Reading
Portfolio Holder(s)	13/11/18	Cllr Peter Whiting
<b>Consultation &amp; Community Engagement</b>		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
<b>Final Decision?</b>		Yes/No
<b>Suggested next steps (if not final decision please set out below)</b>		

## 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 March 2018.

## 2. **Recommendation**

- 2.1 Finance and Audit Scrutiny Committee 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 earlier in the year with one of the Council's contractors ceasing 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.
- 3.2 It was agreed that a further report would be brought to the Committee in the Autumn on the progress in implementing the recommendations. The recommendations and progress to date is detailed in Appendix 1.
- 3.3 The Appendix shows that progress has been made over the last 6 months. 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 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 benchmarking, and 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.

<b>FFF Strands</b>		
<b>People</b>	<b>Services</b>	<b>Money</b>
<b>External</b>		
<b>Health, Homes, Communities</b>	<b>Green, Clean, Safe</b>	<b>Infrastructure, Enterprise, Employment</b>
<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
<b>Impacts of Proposal</b>		
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.		
<b>Internal</b>		
<b>Effective Staff</b>	<b>Maintain or Improve Services</b>	<b>Firm Financial Footing over the Longer Term</b>
<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
<b>Impacts of Proposal</b>		
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**

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**

This section is not applicable.

## 4.3 **Impact Assessments**

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**

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.

- 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 2018**

Guidance is being produced by WCC Procurement in conjunction with WCC Legal. This has been shared with the Procurement Board in order to seek feedback.

- 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 2018**

The Procurement Initiation Document has been updated to include consideration of guarantees and point 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 2018**

Contract Management Awareness training is to be introduced in the new year (dates tbc). It is proposed that all contract owners should attend. Proposed content of training being shared with Heads of Service. E-learning 'Introduction to contract management' module to be investigated, with an aim to introduce at WDC. More in-depth training will be scoped by HR 2019/20.

- 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 2018**

This is being incorporated into the training. Training will concentrate on the principles of contract management and contract manager responsibilities.

- 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 2018**

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 2018**

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).

- 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 2018**

- 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 will be reviewing all Council procurement templates. To be reviewed in stages: pre-procurement/commissioning; procurement activity; and post contract award/contract management. Initial discussions set to begin December, with an aim to undertake Jan-March.
- 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 2018**

The partnership with WCC Procurement will be reviewed further ahead of being reported to Members in April 2019. During 2019/20 it is intended to formally benchmark the service as part of the CIPFA Procurement Benchmarking Club. Following this, it is proposed that an internal audit review of contract management be carried out in 2020/21.