

**Powys County Council
Governance and Audit Committee Cover Report**

Committee:	Governance and Audit Committee
Date:	18 th April 2024
Subject:	Red Dragon SWAP Internal Audit Report

1. Who will be the Lead Officer(s) / Lead Cabinet Member(s) presenting the report?

Name:	Role:
Councillor David Thomas	Cabinet Member for Finance and Corporate Transformation
Jane Thomas	Director of Corporate Services
Wayne Welsby	Professional Lead-Procurement & Commercial Services
Councillor Matthew Dorrance	Deputy Leader and Cabinet Member for a Fairer Powys
Andy Thompson	Interim Head of Housing

2. Why is the Committee being asked to consider the subject?

Following the request of Governance and Audit Committee, to review of the contract procurement and management of the Red Dragon Local Authority New Build scheme.

3. Role of the Committee:

Governance and Audit Committee Terms of Reference:

- Receive and review internal audit reports and ensure officers respond promptly to the findings. Where necessary recommendations to other committees and portfolio holders will be made, to ensure action plans are implemented.
- Where necessary ensure action is taken by officers to address those issues raised, and if necessary, recommendations to other committees and portfolio holders will be made to address findings and deliver clear conclusions.
- review and scrutinise the authority's financial affairs.
- review and assess the risk management, internal control, performance assessment and corporate governance arrangements of the authority.
- make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements.

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4. Key Questions:

For information.

Key Feeders (tick all that apply)

Strategic Risk	X	Cabinet Work Programme	
Director / Head of Service Key Issue		External / Internal Inspection	X
Existing Commitment / Annual Report		Performance / Finance Issue	X
Suggestion from Public		Referral from Council / Committee	X
Corporate and Strategic Equality Plan		Impacting Public / Other Services	
Service Integrated Business Plan		Statutory Duty	X
Suggestion from Members			
Partnerships	X		

Key Impact (tick all that apply)

Policy Review		Performance	X
Informing Policy Development		Evidence Gathering	
Risk	X	Corporate and Strategic Equality Plan	
Service Integrated Business Plan		Partnerships	X
Pre-Decision Scrutiny		Finance / Budget	X
Climate / Nature Emergencies			

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CYNGOR SIR POWYS COUNTY COUNCIL.

**Governance and Audit Committee
18 April 2024**

REPORT AUTHOR: Jane Thomas – Director of Corporate Services
Wayne Welsby – Professional Lead for Procurement and Commercial Services

REPORT TITLE: Contract Management

REPORT FOR: Decision / Discussion / Information

1. Purpose

- 1.1 The purpose of this report is to provide Governance and Audit Committee with an update on contract management improvements across the Council over the last year, plus, current plans to drive further improvement.
- 1.2 It builds on previous commercial updates provided to Governance & Audit Committee, initially in September 2023, and also includes findings and actions agreed through the Red Dragon Audit undertaken by SWAP in March 2024 – see *Appendix A*.

2. Background

- 2.1 Powys County Council spends c£250m per annum with 3rd party suppliers covering supplies, services, and works. This expenditure is spread across c1,000 different contracts at any one time, ranging from social care, highways, construction and transport, to corporate services such as ICT.
- 2.2 In controlling this expenditure, it is vital that the council is robustly managing its commercial relationships to ensure delivery of its contracting objectives. This includes delivery of core services, plus, securing social value benefits, value for money and limiting commercial supply chain risks.
- 2.3 A study by the international professional commercial body, World Commerce & Contracting Association, showed that organisations can lose up to 9.3% of the value of their contracts through inefficient

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contract management. Inefficient contract management can penalise organisations financially, increase potential commercial risks, lead to poor decision making, and can monopolise teams on low added-value tasks. With an expenditure of c£250m pa for Powys County Council, this could equate to **£23m+** in additional costs or lost benefits to the Council.

- 2.4 To limit these potential risks, it is important that contract and supplier management is considered and applied throughout all stages of the Commercial Lifecycle and across all services within the Council.
- 2.5 Contract management practices across the council had historically been poor and this weakness had been evidenced in a number of strategic reviews including:
 - CIPFA Five Star World Class Financial Management Review in 2019, which identified Powys County Council as a 2 Star Council overall and specifically noted ‘...**a lack of rigour/challenge on use of resources and poor contract management capability**’,
 - Audit Wales Corporate Safeguarding Review 2022 – identified the need to ‘**robustly monitor**’ Council contracts with regard to Safeguarding, and,
 - the recent Red Dragon Audit by SWAP in March24, which relates to a contract failure in February 2023.

3. Net Zero

- 3.1 Robust contract and supplier management is not only a key tool to ensure contract performance, minimise commercial risks and control supply chain costs, it is also vital to ensure our contracts drive wider strategic objectives. Analysis has identified that 70% of the Council’s carbon emissions sit within its supply chain. To reduce our emissions and achieve the Council’s Net Zero target, it is vital that the organisation has professional relationships with its supply chain partners to agree and implement common strategies that identify and reduce our carbon emissions.
- 3.2 The key objective to achieve Net Zero will require strong professional commercial relationships with our suppliers. We need to ensure that all our council officers involved in contract management have the appropriate knowledge and skills to ensure we work collaboratively with our suppliers, to identify their actual levels of carbon emissions and that their carbon reduction plans, and other emissions reduction strategies, are monitored and managed.

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4. Contract Management Improvement Programme

4.1 A targeted approach to improve contract management was launched in December 2022. This programme builds on recommendations by UK and Wales Central Government and also the National Audit Office.

4.2 The programme is led by Commercial Services, although, it is important to note that this represents an organisational approach and needs all service departments to embrace and embed the recommendations. The programme takes a “Hub and Spoke” approach, with Commercial Services taking a central “Hub” role, which provides common process design, contract spend data and supply market intelligence, together with training and skills development. Service Departments (the Spokes) are responsible for the day-to-day operational management of their contracts, ensuring compliance with the recommended standard contract management processes, that contract management documents and performance stats are recorded and maintained, and ensure that their officers are up to date on the relevant recommended training.

4.3 This programme comprised of the following four key themes:

- Commercial Performance and Risk Board,
- Contract Management Training and Skills Programme,
- Supply chain risk identification and mitigation, and,
- Commercial Systems and Processes.

4.4 Commercial Performance and Risk Board - A new Commercial Performance and Risk Board was established in December 2022, comprising of Heads of Service, or their representatives, from key service departments across the Council. This Board provides oversight and challenge on the Council’s procurement and commercial activity and oversees and supports implementation of the organisation’s Contract Management Improvement Programme. The Board will also monitor the action plan arising from the Red Dragon report and provide update reports up to CLT as applicable.

4.5 Contract Management Training and Skills Programme - In June 2023, it was agreed by the Commercial Performance and Risk Board that all Council officers responsible for managing contracts, with suppliers that the Council spends £1m+ pa, would undertake the Government Commercial College Contract Management Foundation Training. This free training had been developed by the Government Commercial Function, part of the UK Cabinet Office, to aid public sector contract managers. Whilst this training is a

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Foundation level training module it represents a high standard of training with 9 hours of CPD credits attached.

- 4.5..1 The table below (Fig.1) confirms that 47 suppliers were in scope with a total council spend of £101,680,631 per annum, for which there are 16 contract managers responsible for these suppliers. All (100%) of the in-scope contract managers have now completed the GCF contract management training and thus at least £101,680,631 annual spend is now managed by trained, certified contract managers.
- 4.5..2 In addition, as a result of a recent refresh of our contract data, 7 additional new suppliers had been identified as in scope, with a total value of £9,736,335 pa. Of the in-scope contract managers, 2 had already completed the training, and thus, 25% of this additional contract value is also managed by a certified contract manager. Commercial Services is working with colleagues across the council to ensure the other 5 officers complete the training asap.
- 4.5..3 Also, a number of other council officers had undertaken this contract management training, including all of Commercial Services, with a total of 39 officers having now completed this training.

Fig.1 - Contract Management Training Tracker.

2023	
Total value of suppliers with £1m+ pa	£101,680,631
Total number of suppliers with £1m+ pa	47
Total number of Contract Managers responsible for suppliers with £1m+ pa	16
Value of Spend managed by trained Contract Officers	£101,680,631
% of Spend managed by trained Contract Officers	100%
Number of Suppliers managed by trained Contract Managers	47
% of Suppliers managed by trained Contract Managers	100%
Number of Contract Managers responsible for in-scope suppliers who have completed training	16
% of Contract Managers responsible for in-scope suppliers who have completed training	100%
2024	
Total value of suppliers with £1m+ pa	9,736,335
Total number of suppliers with £1m+ pa	7
Total number of Contract Managers responsible for suppliers with £1m+ pa	7
Value of Spend managed by trained Contract Officers	£2,425,105
% of Spend managed by trained Contract Officers	25%
Number of Suppliers managed by trained Contract Managers	2
% of Suppliers managed by trained Contract Managers	29%
Number of Contract Managers responsible for in-scope suppliers who have completed training	2
% of Contract Managers responsible for in-scope suppliers who have completed training	29%
Total number of council officers trained to the GCF Contract Management Foundation Level	39

- 4.5..4 In addition, a new lighter-touch contract management training module is currently being finalised to support officers responsible for managing contracts of a lesser value and/or risk.

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This module will be a c30minutes contract management training course for officers managing contracts with suppliers with which the council spends less than £1m per annum. The target date to complete this and roll out this module is September 24.

- 4.5..5 Furthermore, through the Red Dragon Audit, it has been identified that some service departments would benefit from specialist contract management training on the use of JCT and NEC type construction contracts. As a result, Commercial Services is currently investigating options for service departments to access such training and will share this to applicable service departments in the coming weeks.

- 4.6 **Supply Chain Risk Identification and Mitigation** - A new supply chain, risk mitigation regime had been implemented in the last 12 months, led by Commercial Services. This approach involves securing reports from Dunn & Bradstreet (D&B), a global business insight organisation, to identify any financial risks with our suppliers. These D&B Reports provide 4 levels of an organisation's risk of failure and where a supplier is identified as a level 3 (above average risk of failure) or level 4 (significant risk of failure) then Commercial Services work with the Service Area Contract Managers and Finance to agree an action plan to mitigate these risks. Monthly Strategic Supplier Reports, provided by UK Cabinet Office, are also used by Council contract managers to provide further intelligence on risks of key suppliers across the public sector which can also be used in developing supply chain mitigation plans.

- 4.6..1 A summary of the latest position of this work is provided in the table below (fig.2). In this summary it confirms suppliers that had a higher-than-average risk, but mitigation changes have either reduced the level of risk, identified suppliers where the risk is acceptable with greater monitoring or cases (identified as N/A) where the Council has ceased contracting with these suppliers.

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Fig.2 Risk Mitigation Table

Phase	Risk	Description	# Suppliers	%	Suppliers after mitigation	% after mitigation
1) Suppliers £2m+ pa	Risk 1	Minimum level of risk	5	33%	5	33%
	Risk 2	Lower than average risk	6	40%	9	60%
	Risk 3	Slightly greater than average risk	4	27%	0	0%
	Risk 4	Significant level of risk	0	0%	0	0%
	N/A		0	0%	1	7%
2) Suppliers £1m-£2m pa	Risk 1	Minimum level of risk	14	50%	15	54%
	Risk 2	Lower than average risk	8	29%	10	36%
	Risk 3	Slightly greater than average risk	5	18%	1	4%
	Risk 4	Significant level of risk	1	4%	0	0%
	N/A		0	0%	2	7%
3) Suppliers £500k - £1m	Risk 1	Minimum level of risk	28	49%	30	53%
	Risk 2	Lower than average risk	14	25%	20	35%
	Risk 3	Slightly greater than average risk	14	25%	4	7%
	Risk 4	Significant level of risk	1	2%	1	2%
	N/A		0	0%	2	4%
4) Additional Suppliers from 2022/23	Risk 1	Minimum level of risk	1	20%	1	20%
	Risk 2	Lower than average risk	3	60%	4	80%
	Risk 3	Slightly greater than average risk	1	20%	0	0%
	Risk 4	Significant level of risk	0	0%	0	0%
	N/A			0%		0%
5) Suppliers £500k - £300k	Risk 1	Minimum level of risk	30	55%	30	55%
	Risk 2	Lower than average risk	16	29%	17	31%
	Risk 3	Slightly greater than average risk	8	15%	7	13%
	Risk 4	Significant level of risk	1	2%	1	2%
	N/A		0	0%	0	0%
6) Suppliers £200k - £300k	Risk 1	Minimum level of risk	16	48%	16	48%
	Risk 2	Lower than average risk	9	27%	9	27%
	Risk 3	Slightly greater than average risk	5	15%	4	12%
	Risk 4	Significant level of risk	1	3%	1	3%
	N/A		0	0%	1	3%
	Itbc		2	6%	2	6%

4.7 **Systems and Processes** – A Contract Management Framework (CMF) has recently been finalised and is set to be rolled out shortly. The CMF applies a risk-based approach to categorising council contracts based on financial value, commercial risks and complexity, into 4 key categories, Platinum, Gold, Silver and Bronze. Platinum contracts are high risk, high value contracts and Bronze contracts are low risk and low value. The CMF sets out processes in how Council resources are applied to manage each specific contract category with a Platinum contract requiring a high level of contract management scrutiny and intensity whilst a Bronze contract will involve a light touch approach. The criteria for this categorisation has been agreed with members of the Commercial

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Performance and Risk Board. Implementation will prioritise Platinum and Gold contracts first, with the aim to implement this practice within these priority contracts by Dec 24.

5. Additional planned improvements

- 5.1 Central Contract Management System** - In response to the recent Red Dragon SWAP Audit, Commercial Services is currently exploring options for a centralised contract management system across the Council. Options will consider potential costs, functionality across the full commercial lifecycle and could include the potential for in-house developed solution, a procured dedicated Commercial Lifecycle management tool or an additional feature to a Financial Management system currently being reviewed. As well as a central contract storage, system functionality of a new central system could include, future procurement pipeline planning, tender management capability, storage of contract change control variation and approvals, potential contract performance MI to provide oversight of contract performance and assurance that contract management practices are undertaken.
- 5.2 Resources** - Commercial Services has recently undertaken a restructure and as a result a new role for a Strategic Contract Management Officer has been agreed. This will be recruited shortly and the postholder will lead the implementation of a centrally led approach to how the Council manages its contracts portfolio, ensuring compliance with council priorities and the delivery of specific contract objectives. The postholder will develop reporting mechanisms to increase awareness of commercial risks and also contract performance. They will also explore further opportunities to access relevant specialist training, provide regular performance reports to CLT and Cabinet, plus, also to support service area contract managers to help resolve contract management issues should they arise.
- 5.3 Red Dragon Audit Response** – The report attached as Appendix A provides the Council's response to the SWAP Red Dragon Audit Report and includes an overview of the agreed action plan. It covers the key principles and concerns raised through the Audit, including contract signing and distribution processes, contract management practices, training and skills, plus, the process on the creation of Project Bank Accounts. The agreed action plan includes identified action owners and will also require ownership and accountability across all services to ensure the actions are fully embedded across the Council. The Action Plan will be monitored through Commercial Performance and Risk Board, with quarterly progress reporting to CLT.

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6. Other considerations:

- 6.1 **UK Procurement Reforms** – It should be noted that forthcoming changes to UK and Welsh Procurement legislation includes a number of obligations to strengthen contract management practices across the public sector. Commercial Services is engaged with Welsh Government with regard to new Procurement Regulations due to be implemented in October 2024, and will be providing an update to SLT in May 2024 on these requirements.

7. Recommendation

- 7.1 Governance and Audit Committee are asked to note the details and actions within the paper.
- 7.2 Governance and Audit Committee are asked to note that the SWAP Red Dragon Audit and the response to this within Appendix A. The Action Plan will be monitored through the Council's Commercial Performance and Risk Board with quarterly update reports provided to CLT.

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CABINET REPORT NEW TEMPLATE VERSION 4

- Appendix A – Red Dragon SWAP Audit Report response