

Dawnus Questions

Background

The procurement of all 21st Century Schools is undertaken through the South East Wales 21st Century Schools Construction Framework (SEWSCAP). The framework is a collaboration between 15 local authorities (and other public sector organisations in Wales) and though initially established in the South the benefits of its use were clear to Powys who have been utilising it for their schools for as long 6-8 years.

The framework includes for value lots with multiple contractors under each lot which are determined by value so that contractors and smaller contractors can apply for membership on the framework on a competitive basis to accord with their size and capability.

At the point of framework procurement all the terms and conditions of contract are set and agreed as are the policy requirements determined by Welsh legislation, or Welsh Government requirements under grant conditions. The framework is also a skills academy as determined and monitored by the construction Industry Training Board which requires each partner to sign up and deliver requirements such as apprenticeships, work experience, work with colleges and schools. This would include appropriate clauses for Community benefits local sourcing and (now) code of practice for ethical employment in the supply chain.

The usual prequalification checks including financial experience and capability are undertaken at the point of procurement of the framework but thereafter each authority is encouraged to undertake their own due diligence of companies bidding for their contracts at the point of this procurement. The companies are all experienced school construction companies and includes a mix of small medium and large contractors across the lots.

Each value lot includes multiple contractors which allows each local authority to undertake their own competitive 'mini-competition'. And to undertake the necessary due diligence at that point

Answers to Questions

An internal assessment of Dawnus finances was commissioned in February 2018 - why?

This was undertaken as part of the normal procurement process and due diligence prior to the award of any contract to any contractors and in this case prior to a stage 1 design contract for Bro Hyddgen school in Machynlleth. Tender value £14.4m, at that stage we were only contracting for the stage 1 element of the contract which is essentially professional services elements (Design/ Costing Planning etc)

When did this work commence and when did it finish? Was a report submitted?

The assessment was undertaken at the point of procurement during the evaluation stage, it was undertaken diligently so that the evaluation process for the technical stage could be undertaken.

A tender report was produced upon award of this stage 1 of the design and build tender and signed off by Gareth Jones prior to awarding the tender.

For information, the schools are tendered on a 2-stage design and build contract. Stage 1 (design) contract is awarded shortly after award of the tender with Stage 2 (build) awarded once the designs are complete and costs agreed.

Appraisal Information and was completed on 15th February 2018

Date of Report – 26th March 2018

Date of issue of intention to award letters (commencement of the standstill period) – 26th March 2018

Date of Award – 6th April 2018

Were the terms of reference for this assessment confined to Dawnus Construction or was the wider Group also considered?

In February 2018 the assessment was confined to Construction Holding only

These requirements are set with the prequalification criteria and applied to all contractors bidding for school tender.

Further group accounts were assessed in July 2018 prior to the award of the second stage of the contractor at Salop Road Welshpool. The holding and the group were considered and assessed at this time.

Rumours began to emerge around the financial position of Dawnus, at this point the group accounts for 2017 and construction accounts for 2017 were requested and assessed to add to the 2016 assessment carried out previously. The issues were brought to David Powell's attention prior to the award of the £7.7m stage 2 (build) contract for Salop Road. Further information was requested by way of 1st quarter management accounts for both the Group and Construction arm and were assessed prior to David Powell agreeing to continue with the award of stage 2 for Salop Road.

What if any tailored systems/software do you use and what data is required?

To which years did the data inputted apply?

Financial Appraisals are carried out using our own design spreadsheet assessment tool which is populated with relevant information accounts from the contractors to provide an understanding of the financial position of the company(s). The assessment is largely based on the usual standard accounting ratios and is in line with the credit companies approach.

February 2018 assessment was based on the accounts for 31st December 2016 and 2015

The July 2018 assessment included the 31st December 2017 accounts

Were you made aware of the changes to the accounts reducing turnover and profits that was made to the accounts of Dawnus Construction according to the Chairman's report after year end but before their publication in June? Given this change which version of the unpublished information on 2017 accounts was provided and for what companies?

We weren't aware of the changes but the Council did appraise the latest accounts which would have encompassed any previous changes.

In July 2018 when the 2017 accounts were available the Council considered the Group and the holding companies accounts. These were the latest edition (June publication) of the accounts and signed off by their Board.

In particular were you aware of the closing (Dec 2017) cash, debtors and creditors values for Dawnus Construction, published final version? If so, what other information led you to give approval to their suitability for the schools contracts? If not, was it requested?

The July 2018 appraisal undertaken was based on the December 2017 figures, Despite the changes in some of the figures the overall appraisal result was still satisfactory albeit with a reduced maximum contract value

Companies House data shows that a chattels mortgage was issued to Dawnus Construction in August 2017. Were you aware of this and did it play any part in your assessment? If not, why not?

The Council would not be aware of this particular borrowing. However all borrowings listed in the companies accounts form part of the appraisal and the July 2018 appraisal was based on 2017 account and the borrowing in August 2017 would have been included in these accounts.

The Portfolio holder for finance has said that the first quarter management accounts was also examined. Were these figures for Dawnus Construction or other parts or all of the Dawnus Group? What aspects of the accounts were covered by these figures?

In July 2018 we received management account for the first quarter 2018 for the Dawnus Construction Holding Company. A profit and loss account and a balance sheet were provided.

Several further secured loans were given to Dawnus Construction in March 2018, including a chattels mortgage on behalf of the Wales government. This is within Q1 were you made aware of this by Dawnus.

No

Were you aware that the Wales Government had also issued a secured loan to Dawnus International at the same time.

We were not made aware of this.

If you were aware of the loans, were you also aware of the repayment arrangements apparently agreed with the Welsh Government (as implied in their response to Russell George Q3) which entailed the sale of much of their equipment and other assets in June.

The Council was not made aware of such loans.

All of these loans were registered at Companies House. Were Dawnus companies put on a tracker on the CH website? If not, why not? Is such a precaution not standard practice?

The Council did not have a tracker on Dawnus via companies house. In February 2018 and July 2018 we have appraised their accounts and there was not a significant concern which would lead us to place a tracker on the company. The Council understood also that Welsh Government were financially supporting the company though we were not aware what form that was.