

Committee(s): Operational Property and Projects Sub Committee	Dated: 26 January 2023
Subject: Monitoring of Financial Health of Contractors	PUBLIC
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	5, 6, 7, 10 and 12
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	n/a
What is the source of Funding?	n/a
Has this Funding Source been agreed with the Chamberlain's Department?	n/a
Report of: Chief Operating Office	For Information
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Summary

The current financial crisis, brought about largely by the ongoing impact of the COVID-19 pandemic and the conflict in the Ukraine, has put a strain on the financial health of a large number of organisations and businesses both in the UK and across the globe, as customers are having less to spend whilst suppliers are being met with managing materials and labour cost increases which are passed along the supply chain and invariably onto to customers.

The purpose of this report is to provide Members with assurance of the current and future approach to monitoring the financial health of the City's contracted suppliers as well as those suppliers wishing to bid for future contracts.

Recommendation

Members are asked to:

- Note the additional measures for the continued monitoring of financial health of the City's contracted suppliers.

Main Report

Background

1. The current financial crisis, brought about largely by the ongoing impact of the COVID-19 pandemic and the conflict in the Ukraine, has put a strain on the financial

health of a large number of organisations and businesses both in the UK and across the globe, as customers are having less to spend whilst suppliers are being met with managing materials and labour cost increases which are passed along the supply chain.

2. For the City, one area of concern is the stability and financial health of its contractors, which need to be proactively monitored to identify potential issues which may impact on a contractor's ability to fulfil contracts.

Current Position

3. Presently contractors/bidders are assessed or monitored on their financial health and economic standing at two key stages: during a tender exercise as part of the suitability assessment and on a regular basis as part of an ongoing contract management regime.
4. The assessment undertaken at tender stage is predominantly only applied where the estimated contract value is equal to or above the thresholds prescribed by the Public Contracts Regulations 2015 (PCR2015). Current contract value thresholds are (excluding VAT):
 - Works = £4,269,549
 - Goods and services = £170,781
5. Tender exercises for contracts falling below these threshold values may include an assessment of bidders' economic and financial standing, however this is generally by exception, depending on a number of factors such as criticality, complexity and risk to the City of failure of the supplier.
6. Assessment of potential bidders economic and financial standing, at tender stage, is undertaken in one of two ways:

Option 1 - Finance Check

Option 2 - Financial Appraisal

As a summary of what these assessments entail, Option 1 will appraise a bidder's financial standing using information held within a credit report provided by Dun & Bradstreet; Option 2 appraises bidders based upon their full financial statements.

7. To establish which option will apply, officers from Commercial Service and the client department will undertake a risk assessment prior to commencement of the tender. This risk assessment considers a number of scenarios and assigns a score to the result of each one based upon the impact of a contractor failing (i.e. ceasing to trade) during the contract. The final score of the risk assessment will determine which option is used. Generally, those contracts considered lower risk will use Option 1.
8. In instances where Option 2 is used, the financial assessment is undertaken by the Chamberlain's Corporate Treasury team, with a report providing comments on the outcome provided to Commercial Service for consideration.

On-going monitoring

9. Presently the on-going monitoring of contractors' financial health once in contract is only undertaken where requested at the initial financial assessment stage or in specific circumstances.
10. In order to broaden the on-going monitoring to all contracted suppliers for contracts of a value in excess of the PCR2015 thresholds, the following will be undertaken:
 - i. Set up monitoring alerts with Dun & Bradstreet – this will mean the nominated officer in Commercial Service will receive email alerts to highlight any changes in financial health of contractors. Such alerts will then be shared with the relevant departmental contract or project manager to determine what course of action, if any, is required;
 - ii. Where the risk assessment advises that an Option 2 appraisal is needed, instruct the Corporate Treasury team to conduct regular assessments based on financial statements/accounts;
 - iii. Monitoring spend for contractors across the Corporation, rather than in isolation for specific contracts. This will ensure contractors have financial capability to undertake multiple contracts at the same time;
 - iv. Ensure contractor financial health, as well as that of its supply chain, is considered as an agenda item at contract management meetings;
 - v. Undertake a financial risk assessment for all potential contracts of a value of £100k or more (for goods and services) and £400k or more for works. Where the assessment identifies a high risk, monitoring will be undertaken throughout the life of the contract;
 - vi. Consider alternative or additional methods for assessing and monitoring contractors, such as bank references, Google alerts, trade press etc.
11. It should be noted that whilst the above includes contract value thresholds, Commercial Services officers will liaise with client departmental officers and the Corporate Treasury team to identify any exceptional circumstances that may necessitate alternative methods on a case-by-case basis.
12. City Surveyors will continue to monitor market conditions to identify impacts on the wider market and supply chains, such as labour shortages, material costs, attractiveness of the City's projects and potential for risk sharing.

Conclusion

13. It is envisaged that by following the regime set out at para 10, the City will be best placed to be able to effectively monitor its contractor's financial health, at both tender/award stage and as part of our ongoing contract management. This will

ensure any risks to contractor continuity will be identified at the earliest possible time allowing officers to consider the position and take remedial action where necessary.

Appendices

None

Background Papers

None

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