



Nick Ramsay AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
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29 April 2019

Dear Chair

Thank you for your letter of 29 March, following up on a number of important procurement-related points.

NPS Review

I note the Committee's concern regarding the difference in the level of actual engagement with the National Procurement Service (NPS), compared with original expectations. This was a key factor which contributed to the review of the NPS and Value Wales.

In response to stakeholder feedback gathered before and during the review process, the NPS has actively engaged with customers to develop a new approach to national contracting. This is helping shape a reduced, and more focused programme of activity and customer support for a new national contracting function.

Local Authority Heads of Procurement, facilitated through the Welsh Local Government Association, have been instrumental in developing a new proposed programme. NHS Wales feedback is also currently being considered.

Wider engagement has also been undertaken through a range of customer groups consisting of end-service users. A number of sectors are also developing their own regional approaches, in close collaboration with Welsh Government officials.

This activity represents the application of lessons learnt and embraced through the operation of the NPS and intelligence shared by customers during, and post the review.

A wide range of lessons have been gathered through the establishment and delivery of the NPS. For example, those relating to the recommendations of the Wales Audit Office review of the National Procurement Service have been shared through the Welsh Government assurance networks. The experience of the NHS Wales Shared Services Partnership is helping shape a future national contracting pipeline, and all options for future delivery models will be explored. We expect details of the new delivery model will emerge by the end of summer recess, when we will share all available information with the Committee.

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We are committed to achieving the necessary changes as soon as possible. The review of the NPS and Value Wales called for a significant rethink. Consequently, our focus has been on engaging stakeholders to carefully consider and plan the way forward. Consultation on a future commercial and procurement strategy will take place over the early summer, leading to agreement of a new procurement programme.

A new skills and capability programme is a priority. We heard from customers during the review process that capability development is integral to delivering better procurement outcomes. Through the review, we gathered a great deal of information regarding capability development priorities. We will again work with stakeholders over the summer to plan delivery of a new capability programme, after finalising the future national contracting pipeline.

The future procurement programme will be driven by a new overall strategy which is being developed through consultation with stakeholders. The strategy will clarify what we will do; how we will do it; who we will engage with; and the milestone dates by which we will deliver specific outputs. On 3 April, the Minister for Finance and Trefnydd offered Assembly Members a briefing session with officials on the developing strategy. Officials will organise this session to capture the insight of Assembly Members.

Business Intelligence

Prior to the Interserve rescue plan and Dawnus going into administration, the Commercial and Procurement Business Intelligence (BI) team had already been enhancing its financial due diligence capability. Due diligence is a key process and we have developed systems and strengthened intelligence in this area. It is important to note that each organisation and/or sector also is responsible for ensuring they undertake relevant due diligence during contract award and ongoing contract management.

Work on due diligence has included the identification and establishment of portfolios of key suppliers which are then regularly monitored. Through these portfolios, the BI team communicate changes to the reported financial results of key suppliers to the relevant business area and senior managers for further analysis and action as necessary. This process covers suppliers across National Procurement Service, Welsh Government and wider Welsh Public Sector procurement activity.

The BI team has formed links with Commercial Intelligence colleagues at Crown Commercial Service and UK Cabinet Office. BI officials receive weekly updates on Cabinet Office strategic suppliers. This intelligence is reviewed, and where appropriate, escalated to senior officials for consideration and/or action.

To strengthen relations further, a monthly meeting is being established between BI officials and UK Cabinet Office senior procurement colleagues. This meeting will be used to discuss and share supplier due diligence intelligence on a regular basis, with the first meeting taking place on 29 April.

Dawnus

Your letter asks for information regarding Welsh Government's loan to Dawnus. In March 2018, Welsh Government provided a £3.5m loan to Dawnus Group Ltd.

The loan was part of a package, including a further £3.5m extension to Dawnus' core overdraft lending facilities, from the Group's bank (matched by Welsh Government). The Group requested the support to strengthen its cash-flow position. The loan was provided as part of a credible turn-around plan presented by the Group.

Welsh Government due diligence supplemented work undertaken by external accountants appointed by the bank. Recognising the risks associated with providing a loan, a '*pari passu*' arrangement was

negotiated with the Group's bank. To ensure public sector funding would not be used to replace existing private sector investment, an inter-creditor agreement was negotiated, stipulating that core bank overdraft facilities could not reduce ahead of the Welsh Government investment.

Further protection was achieved whereby the Dawnus Group's bank agreed to carve out assets and aged work in progress from its existing security portfolio, enabling Welsh Government to secure its investment again, based on the '*pari passu*' principle. Welsh Government holds a '*chattel mortgage*' on assets in Dawnus Construction Holdings Limited (where ownership of Group assets resides), and a debenture from Dawnus Group and each other company within the group.

As noted in your letter, £2m has already been repaid by the Dawnus Group. Officials are working with administrators to seek recovery of the outstanding public sector funding.

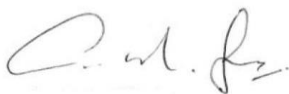
I can confirm Welsh Government has not adopted a policy of using the Construction Skills Certification Scheme (CSCS) in all construction contracts.

Welsh Government promotes intelligent use of such schemes to ensure safe and competent delivery of projects, enabling smaller, local contractors and trades people to access direct and sub-contract work. In keeping with the proportionality principle of the Public Contracts Regulations 2015, each project is assessed to determine if contractors should confirm their workforce is CSCS certified or equivalent.

Costs of CSCS certification involve £30 for the card itself and separate health, safety and environment tests cost £19.50. The Construction Industry Training Board (CITB), which runs CSCS training, has confirmed that no minimum level of qualification is needed to apply and additional support is provided where required.

I am grateful to the Committee for its helpful observations on and input into the next steps with our work on procurement, and will keep you informed of progress at regular intervals.

Yours sincerely



Andrew Slade
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