

QUESTIONS FROM MR RICHARDSON CC TO CORPORATE GOVERNANCE COMMITTEE ON 17 NOVEMBER 2015

Response to the question regarding the criteria for lending surplus funds to local authorities.

Loans to Local Authorities (maximum £10m per authority, for one year) are authorised within the Treasury Management Policy Statement. There are a very small number of LAs with a credit rating and the basis of the policy is that the Government effectively acts as a guarantor to the Local Authority Sector.

The loan to Lancashire matured at the end of November. This loan will not be renewed and this is partly because we have better options open to us now (last year the acceptable counterparty list was VERY small), and partly due to the recent publicity around their financial position.

Response to the question regarding the criteria for when a performance bond is requested:

The decision-making criteria for the using a performance bond is based on the assessment of the following factors:

- The nature, complexity, size and value of the contract, and its risk profile
- The contractor's financial health
- The contractor's reputation
- The perceived level of risk of default and the potential impact of the default on service delivery

Where relevant, reference to the need to provide security of performance and the level of security required is included in the tender documentation. In the first instance as part of the supplier suitability assessment the following question is posed to tenderers: *"If requested, would you be able to obtain a performance bond to underpin the security of the services provided?"*

Then at the tender stage, the Council would include a condition in the terms of the contract requiring the supplier to provide a bond prior to the commencement of the contract. An example of the contract term is provided below:

"The Contractor shall provide a performance bond of £250,000 as required in Condition 6 in the form specified in Section 12 of the Tender ("the Bond"). The Contractor shall ensure that such Bond remains in force throughout the Contract Period."

A standard of 'Form of Bond' is included in the tender which upon success in the tender process, the Contractors' bond guarantor and County Solicitor execute as a deed.

Examples of where a performance bond have been used are as follows:

- Contract for the Management and Operation of Whetstone civic amenity site – value of bond- £250,000

- Contract for the Collection and Recycling of Plasterboard – value of bond- £15,000

To mitigate against non-performance of a contract, the Council's general approach is to implement a performance framework against which the contractors' service delivery is managed and early warning of contractor failure can be identified. For example Leicestershire Highways & Property Services predominantly use framework agreements for highways and building construction, and maintenance services, and in doing so the risk of poor contractor performance or failure is reduced through incentives which rewards performance i.e. by performing highly a contractor can win more work and by appointing a number of contractors on the framework, the Council can appoint a new contractor in case of default.