

## ARF012 Contract Management Risks

### Risk Status Progress Report for August 2022

Prepared: 04/08/2022

#### Description of risk and impact

Contract management risk can arise due to contract wording, contract breaches, contract performance and relationship management.

Contract management risks have the potential to negatively impact on financial, legal, reputational, service delivery and create long term issues for the Far North District. If not managed correctly we could see delays and interruptions with lengthy, drawn-out disruption. Commercial and legal resource demand could be impacted.

#### Existing Treatments

##### Treatments established:

A. Two specialists are in place:

1. Contract Management Specialist, PMO (currently supporting the Procurement Specialist)
2. Contract Specialist, District Facilities.

B. A FNDC-wide Contracts Register is available in TK2. This was retired 31 July 2022.

##### High level treatment plan and progress up-date:

High level treatment plan:	Progress update:
<b>Internal Contract Management Processes</b>	
Develop Contract Management Framework.  The Contracts Framework covers three main contractual arrangements, AOG (All of Government) and syndicated contracts.	Completed.  Phase 1 of the roll out (to IAM) has commenced.
Develop Policy, process and templates.	Completed.
New treatment May 2021:  Refresh of the contract register.	In progress. This will be accessible to all staff from 31 July 2022. <ul style="list-style-type: none"> <li>• The new Contract Register is 50% complete</li> <li>• Continuing to search for contract documentation to attach to register</li> <li>• Secure repository required to hold hard and soft copies of contract documents (contract, bonds and warranties and insurance certificates).</li> </ul>
New treatments June 2021	In progress.  PMO is developing a new process for small contractors.

Develop process to manage “Small” contractors contract management risk (health and safety, delivery and financial risk); and contract concentration risk.	Contract Concentration Risk guidance is being formulated
Building internal capability	
Increase internal commercial expertise.	<p>Ongoing.</p> <p>Targeted training, in contract management, will be delivered to contract owners. Contract managers will be identified through the new contract register.</p> <p>Training, to develop contract management capability in the IAMs Infrastructure &amp; Asset Management team, continues.</p> <p>The Contract Management Specialist provides project specific advice.</p>
District Facilitates Assurance Review	To be confirmed if this is included on the 22/23 audit and assurance pipeline for scheduling.
LGA Section17A reviews	<ol style="list-style-type: none"> <li>1. Solid Waste – Morrison Low have been appointed to undertake the 17A review then to formulate the RFT documents</li> <li>2. Security of Council buildings – underway</li> <li>3. Town, parks and reserves maintenance, delayed to 2023 with the RSL contract extended for two year (to June 24). This work is in the process of being scoped.</li> </ol>

### Where are the gaps? / what more could we be doing?

Council’s Waste Management Strategy is due for renewal in 2023. The new waste management contracts will be flexible to incorporate our waste management strategy and government reforms for the sector.

#### Current environment:

Increasing cost of money, labour, chemicals, fuel, raw materials; ability to retain and attract new staff; and the ability to access supplies and import specialist plant & equipment, is impacting the viability of suppliers to deliver services and for FNDC to invest in infrastructure.

- Companies providing services to FNDC have the added pressure of travel distances required to service our dispersed district.
- Changing demographics are also changing rate payer expectations on the level of service provided.

There are two outcomes which will impact Council cashflow at a time when we are experiencing increasing cost of money to fund debt:

1. Cost of services will increase - the impact on FNDC on operational services will vary by supplier and contract e.g. the two solid waste contracts have inflationary clauses; Ventia contract is total

outturn cost which is agreed each year (to cater for inflation and changes in level of service). We are receiving requests from contractors to increase rates due to inflation.

2. We will experience higher risk in delivery of capital projects to time and to budget - companies are experiencing critical cashflow bottlenecks due to not meeting contract milestones which mean they are missing milestone payments. The result is we are seeing a significant uptick in companies going into administration (more than 100 construction companies have tipped into administration this year).

It is anticipated that these trends will continue, at least into the mid-term (2 to 5 years) and will continue to place many households under financial pressure as well.

Inherent Risk:	Trend of risk rating	Residual Risk:	Accountable:	CEO	Date raised:	29/11/18	Report frequency:
	Increasing		Responsible:	GM IAMs	Date accepted:	30/05/19	3 monthly