
EFFICIENCY REVIEW OF PROCUREMENT

Report of the Chief Finance Officer

1. Introduction

- 1.1 The purpose of this report is to present the work done to date, and consequent recommendations, of the efficiency review.

2. Summary

- 2.1 The review of procurement is one of three efficiency reviews set up as a consequence of the 2004/05 budget, which together aim to make savings of £3.5m per annum by 2006/07. The review supports the corporate plan priority of investing in continuous improvement in a well managed organisation.

- 2.2 The following work has now been completed:

- (a) a review of the service provided by ESPO, which has concluded that ESPO provides goods and services at cost effective prices;
- (b) reviews of specific areas of purchasing: computer equipment; stationery and paper; and vehicles and plant. Each of these reviews has demonstrated that savings can be achieved by better purchasing. Key lessons, which future reviews of other areas are expected to confirm, are that there is scope for better planning of what the Council purchases, and more informed purchasing.

- 2.3 Work is ongoing in respect of automating the Council's procurement processes, which will eventually enable the Council to purchase electronically using Internet capability (e-procurement). The future of this initiative, however, is strongly dependent on the performance of the suppliers of our existing financial systems.

- 2.4 Changes have recently been made in the organisation of the review, particularly with a view to delivering e-procurement.

- 2.5 The review is an ongoing process, and a revised work programme will be put together in the light of work done to date and recent national initiatives (principally, the Gershon review of public sector efficiency).

3. Recommendations

- 3.1 The Cabinet is recommended to:

- (a) note progress of the efficiency review so far;
- (b) endorse the continued mandatory requirement to use ESPO, (except for recognised exceptions) and the proposed actions for ensuring this is enforced; and in particular to seek a routine report to members of the Cabinet (Efficiency Review) Sub-Group on future non-use of ESPO after a period of grace;
- (d) to note the findings of the review of IT procurement, and to endorse its recommendations; in particular, to delegate to the Town Clerk (in consultation with the lead member for the review) authority to conclude a sole supplier agreement for the future provision of PCs and to determine the scope of the services provided within the agreement;
- (e) to note the findings of the review of stationery and paper, and to endorse its recommendations;
- (f) to note the findings of the review of vehicle and plant procurement, and endorse its recommendations;
- (g) to consider the options for translating procurement savings into budget reductions, and provide a view on how this should be done.

4. Financial and Legal Implications

- 4.1 Detailed financial implications are included in the supporting information.
- 4.2 The reviews of computer equipment, stationery, and vehicles and plant have demonstrated that £0.6m could have been saved in 2003/04, had the recommendations been in force at that time.
- 4.3 Substantial savings are believed to be obtainable through e-procurement, but significant investment will be required to achieve them.

5. Report Author/Officer to Contact

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DECISION STATUS

Key Decision	No
Reason	N/A
Appeared in Forward Plan	No
Executive or Council Decision	Executive (Cabinet)



**STRATEGIC RESOURCES' GROUP
CABINET SUB-GROUP
CABINET**

**14 SEPTEMBER 2004
17 SEPTEMBER 2004
27 SEPTEMBER 2004**

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SUPPORTING INFORMATION

1. Background

- 1.1 The procurement review is one of 3 efficiency reviews initiated by members as part of the 2004/05 budget. The other reviews are of property and transport; in total the 3 reviews aim to save £0.5m per year by 2005/06, rising to £3.5m by 2006/07.
- 1.2 The efficiency review has incorporated and expanded upon aspects of a wider project to improve procurement, which has been a continuing project since the conclusion of a best value review in 2001. The best value review resulted in the creation of the Corporate Procurement Team to promote changes in procurement practice; and an inter-departmental Corporate Procurement Group, responsible for delivering an agreed improvement plan. Whilst this wider project has had some successes, overall progress has been mixed, partly as result of inadequate information on what the Council buys and partly due to differences of opinion on the best way forward. The efficiency review has provided a sharper organisational focus on improving procurement, and raised the profile of the issue across the authority.
- 1.3 The Corporate Procurement Team has, to date, led the procurement efficiency review. I am the lead officer for the review, and the lead member is Councillor Metcalfe. A Cabinet Sub-Group exercises overall oversight of the 3 efficiency reviews.

2. Context

- 2.1 The importance of achieving improvements in local authority procurement (and indeed procurement across the whole public sector) is being increasingly recognised nationally. In 2001, a review of local government procurement in England entitled "Delivering Better Services for Citizens" was produced for the LGA by Sir Ian Byatt. This

led to the ODPM's national procurement strategy for local government procurement in 2003, which in turn informed a revision of the Council's procurement improvement plan. More recently, the Treasury commissioned Sir Peter Gershon to carry out a review of public sector efficiency, which reported in July 2004. The Gershon review concluded that significant savings were achievable and identified the following 5 areas for attention:

- (a) procurement of goods and services;
- (b) procurement of construction and property;
- (c) review of "back office" services (eg finance, HR, ICT and estate management);
- (d) improving transactional services (particularly collection of council tax and benefits);
- (e) improving the use of productive time (Gershon believes too much time has to be spent serving the organisation rather than customers).

2.2 The Government has also recently introduced a number of regional "centres of procurement excellence", which are local authority led groupings designed to improve local authority procurement. The East Midlands COPE is based at Nottinghamshire County Council.

2.3 All of these developments promote the better use of intelligent purchasing, and appropriate partnership; and purchasing decisions which make the best use of the considerable buying power of local authorities. It is anticipated that this will result in large framework contracts for routinely required items (or alternatively, contracts with local suppliers); collaboration with other public agencies in the procurement of services which are better provided regionally; different forms of procurement; and different approaches to construction contracts.

2.4 In the context of Leicester, the Council spends £150m per year (excluding schools) on purchasing goods and services within its revenue budget, and procurement is clearly a sizable activity. The most significant areas of purchasing include community care, repairs and maintenance of property, waste collection and disposal, and ICT/communications.

3. Scope of the Efficiency Review

3.1 The efficiency review adopted the following scope:

- (a) a review of the Eastern Shires Purchasing Organisation (ESPO) - East Midlands authorities are (perhaps) more advanced than other local authorities in their approach to procurement in that they have jointly operated a purchasing consortium for over 20 years. Nonetheless, the Council's arrangements with ESPO have attracted criticism from a number of buyers, both in terms of perceived ability to achieve better prices elsewhere, and the quality of the service provided. ESPO is, furthermore, often disregarded, contrary to the requirements of finance procedure rules (although this appears to be for a variety of reasons including lack of information). The lead member for the review was anxious that these assertions be properly tested, and a once for all decision taken about the Council's future with ESPO. This aspect of the review is now complete;
- (b) subject to the conclusions of the review of ESPO, wider consideration of the Council's structures for purchasing. The Council has always had a very decentralised approach to purchasing, with cost centre managers free (within the requirements of contract and finance procedure rules) to use their individual judgement on how best to purchase. This is now regarded as inefficient (which is not to criticise previous arrangements which were a product of their time), and the effects of this are now becoming apparent through the emerging findings of individual reviews (see below);
- (c) reviews of specific areas of purchasing - these were designed to examine both what people were buying, and how they were buying; and to achieve "quick wins" in terms of future years' budgets. In the outcome, reviews have proved very difficult and time consuming to carry out, but results are now being produced. Reported below are summaries of the findings of the reviews of:
 - (i) computer equipment;
 - (ii) stationery and paper;
 - (iii) vehicles and plant.

It should be noted that reviews of **how** people buy have been carried out prior to the commencement of the efficiency review by the Corporate Procurement Team. Framework contracts have, for instance, been entered into for the provision of agency staff and furniture which have the capacity to save around £0.3m per annum based on previous spending in these areas;

- (d) improving the process of procurement (this is analogous to what Gershon calls transactional services). Present processes are diverse and paper intensive, with the consequence that they are costly to operate and provide very limited useful information. The review is designed to replace present systems with electronic systems that make use of the internet. This was always recognised as a long-term development, and progress to date is discussed below. It is noted that the Government's e-government strategy requires the Council to be capable of paperless ordering, invoicing and payments by December 2005.

4. Key Findings

4.1 The key findings of each aspect of the work done to date are discussed below. However, in a nutshell:

- (a) ESPO has been demonstrated to be cost effective as a means of purchasing routine goods and services, comparing well with comparators (including other public sector purchasing consortia). Some issues associated with ESPO's performance have been exposed (particularly the flexibility and responsiveness of some contracts, and delivery arrangements), which it is believed can be addressed. In view of these findings, it is recommended that the Council now vigorously enforces the existing requirement to use ESPO where ESPO contracts exist, (and subject to recognised, authorised exceptions) although a period of grace is required to deal with any gaps in ESPO service provision. Reporting arrangements will be introduced to spot check future "rogue" purchasing, and report non-use of ESPO to the Members' Sub-Group;
- (b) the reviews of specific areas of purchasing have demonstrated, more than anything else, the need for better planning of what the Council purchases, and the need for better informed purchasing. The reviews were all different, and the specific findings of each were different. However, the key findings are:
- a high level of non-use of ESPO, for reasons which are not altogether clear;
 - too many people have the freedom to purchase IT and procure vehicles/plant;
 - purchasing of IT would benefit from the adoption of enforced, standard specifications for all PCs, which can then be planned in advance and purchased in bulk;
 - procurement of vehicles and equipment would benefit from better planning, avoiding the use of expensive short-term hires.

- (c) the above are all capable of making savings **when compared with previous patterns of spending**. The issue of how to translate procurement savings into budget savings is considered further in the financial implications section of this report;
- (d) the ability of the Council to introduce electronic systems for procuring goods and services is closely linked to the performance of our existing financial information system suppliers. There is no easy way to resolve this - if the existing suppliers are sufficiently interested in developing their product, e-procurement capability could be introduced sooner than was previously envisaged. If (despite promises) they are not, the Council may have no option but to either reconsider its whole approach or seek to replace its entire financial systems suite.

5. **Specific Reviews - ESPO**

5.1 This work took the form of:

- (a) a benchmarking exercise, comparing ESPO's prices with those of other bodies. A total of 760 products were benchmarked, where possible against two private sector companies and one public sector consortium;
- (b) a reality check, comparing ESPO prices with 139 invoices for items purchased outside of ESPO by the Council;
- (c) a questionnaire, which was sent to 350 officers involved in purchasing goods and services. A total of 77 were returned, representing a return rate of 22%.

5.2 The findings of the review were:

- (a) on average, ESPO's prices were 10% cheaper than other public sector consortia (a considerable achievement); and 24% cheaper than private sector comparators (which ought to be expected). The reality check demonstrated that ESPO's prices were 17% cheaper than items actually purchased by the Council. It is noted that ESPO was not, of course, cheapest on every single item benchmarked;
- (b) overall experience of ESPO customers was good, with 75% rating them "good" or "very good";
- (c) some purchasers believed ESPO to be more expensive than alternative sources, although the benchmarking results do not support this;
- (d) the most common sources of difficulty experienced with ESPO were delivery, lack of availability of products which catered for

buyers' needs, and lack of flexibility associated with some contracts.

5.3 The findings of the review, and the key conclusion (that ESPO should always be used where contracts exist) were supported by the inter-departmental Corporate Procurement Group.

5.4 As a result of this work, the following is recommended:

- (a) that the mandatory use of ESPO be vigorously enforced subject to recognised, properly authorised exceptions (this will save not just the cost of more expensive purchasing, but the officer time in sourcing alternative suppliers);
- (b) prior to the implementation of the above recommendation, a 3-month period of grace is put into place to expose and resolve any outstanding concerns about ESPO's service, and in particular to identify and respond to every service need where it is believed that better service can be obtained outside of ESPO;
- (c) a forum be set up for cost centre managers to discuss with ESPO the findings of the review, and agree action to be taken by the Council and ESPO to address the perceived needs for improvement in ESPO's service (and to resolve any mismatches between current requirements and current contracts);
- (d) arrangements are put in place via finance teams (or central ordering teams) that orders should not be placed with suppliers where an ESPO contract is available; and that invoices for such suppliers should not be paid without prior reference to the Head of Corporate Procurement or an authorised departmental contract point. (This recommendation will only be effective to the extent that central teams exist);
- (e) records be maintained of "rogue" purchasing, and reported to the Members' Sub-Group periodically;
- (f) a communications exercise be carried out, reminding cost centre managers of action to be taken where it is believed that products can be purchased more cheaply than ESPO, or products are unavailable (in these circumstances, ESPO can often take action).

6. Specific Reviews - IT Procurement

6.1 This review considered the Council's purchasing of computer equipment. Some £7.5m is spent annually on this activity. The review:

- (a) examined expenditure in 2003/04, and where equipment was purchased from;

- (b) discussed reasons for purchasing from non-ESPO suppliers with buyers;
- (c) included elements of “soft market testing” - discussion with potential suppliers of the benefits of sole supplier agreements;
- (d) Considered more radical approaches to IT procurement, including a visit to Warwickshire County Council who have outsourced the procurement of IT hardware and associated service provision.

6.2 Like all reviews of specific types of purchasing, the review was based on imperfect information and the extent to which spend has been properly identified is reliant on the accuracy of coding of invoices (obvious miscodings were however taken into account).

6.3 The review found that:

- (a) of the £7.4m spent in 2003/04, around 50% was from a total of 434 non-ESPO suppliers (far too many);
- (b) much of this purchasing was for specialist software, but that left around £1m of non-contract expenditure for which no satisfactory explanation was readily available;
- (c) purchasing of IT equipment is not co-ordinated across the Council (whilst significant individual purchases will be pre-planned, there is considerable ad hoc purchasing of occasional requirements);
- (d) savings can be achieved by adopting a standard configuration of PC to be employed in the vast majority of service areas, with new purchases planned in advance and combined. The Council can then consider 3 options for future purchasing:
 - (i) a negotiated sole supplier deal, for a guaranteed number of PCs each year. Soft market testing indicates this could save in excess of £175,000 per annum;
 - (ii) a negotiated sole supplier, who also installs and delivers PCs. Potential savings from this option are not yet known (this option would reduce work currently carried out by IT Services);
 - (iii) outsourcing the procurement of IT hardware altogether: in addition to the features of (ii) above, this would include repairs, maintenance and replacement. It would result in the most significant change to present arrangements.

6.4 The recommendations of the review are:

- (a) to agree a standard PC specification, to prepare a statement of the Council's forthcoming requirements each year, and to enter into a sole supplier agreement to meet those requirements (further work is required to determine which of the 3 above options is the most beneficial);
- (b) to reduce the number of people authorised to purchase PCs to a designated point of contact in each department, plus central IT Services;
- (c) deletion of all non-approved suppliers from the Council's accounts payable system, preventing future use without specific authority;
- (d) to advise finance (or other central ordering) staff how to police the system (ie refuse orders raised by staff other than the designated point of contact, and refuse to raise orders/make payments to non-approved suppliers unless specific authorisation has been granted by the Head of Corporate Procurement or an authorised departmental contact).

6.5 It is estimated that **had these measures been in place in 2003/04**, the Council would have saved £175,000 in that year through use of ESPO, and £175,000 by means of a sole supplier agreement (and possibly more if the more radical options prove to be cost effective).

6.6 The findings of the review have been endorsed by the Strategic Resource Group.

7. Specific Reviews - Stationery

7.1 This review considered the Council's purchasing of stationery. It examined the Council's spending in 2003/04 of £0.7m, reviewed where the money had been spent, and involved discussions with those responsible for purchasing from non-approved sources. The review found that some 35% of stationery purchased was bought "off-contract" from 317 suppliers. Reasons for this were:

- (a) buyers thought (incorrectly) that ESPO could not have supplied their specific requirements, or that they would be more expensive;
- (b) buyers felt that ESPO did not provide a prompt enough delivery service (this either touches on the service provided by ESPO, or reflects lack of advanced planning - in either case, the issue will be addressed with ESPO);
- (c) lack of awareness of who the ESPO contractors were.

7.2 Based on sampling 100 invoices, it can be demonstrated that prices paid were some 63% more than ESPO charged. **Based on spending**

in 2003/04, purchasing entirely through ESPO would save the authority an estimated £0.1m per annum.

- 7.3 The recommendations of the review are:
- (a) to delete all non-approved suppliers from the Council's financial systems, preventing future use without specific authorisation;
 - (b) finance (or other central ordering) staff be advised not to order from/pay non-ESPO suppliers, unless specific authorisation has been obtained via the Head of Corporate Procurement (or an authorised departmental contact).
- 7.4 The findings of this work have been endorsed by the Corporate Procurement Group.
- 7.5 A separate review was carried out of the Council's purchasing of paper, for which the findings were similar, but the scale of potential savings were smaller.

8. Specific Reviews - Vehicle and Equipment Hire

- 8.1 The review considered the Council's purchasing of vehicles and plant, on which the Council spends £2.3m per annum. The review:
- (a) examined expenditure in 2003/04, and where vehicles were purchased from;
 - (b) discussed reasons for purchasing from non-ESPO suppliers with departments;
 - (c) examined arrangements for hiring and maintaining vehicles.
- 8.2 The review found that:
- (a) 60% of procurement was with ESPO suppliers and a further 14% was with non-ESPO suppliers for valid reasons;
 - (b) of the remainder, use of ESPO would have saved some £40,000 (on a conservative estimate);
 - (c) 130 vehicles were hired by departments for periods in excess of 6 months (and 25 for as long as 3 years); and there is evidence of hiring of non-standard vehicles. An estimated figure in excess of £0.1m per annum would have been saved through use of the Central Vehicle Pool (prolonged hire results in some 25% extra costs being incurred);
 - (d) some departments are keen on externalising maintenance, which is more expensive;

- (e) externalisation of maintenance on an ad hoc basis, and excessive use of hiring, could put the Council's fleet operator's licence at risk;
 - (f) taxi hire (for staff and client usage) and coach hire is fragmented, with a spend in 2003/04 of £142,000 with 35 different companies.
- 8.3 All the above points to a degree of fragmentation, and the need to empower the Transport Manager to take decisions on behalf of the Council.
- 8.4 The review recommended:
- (a) more stringent control of the procurement of vehicles and plant, which must be authorised by the City Transport Manager;
 - (b) prohibition of long-term hire of vehicles;
 - (c) all maintenance of vehicles to be arranged via the transport manager;
 - (d) the use of taxi companies selected (by tender) for Social Services/Education following the transport efficiency review to be used for staff and client travel by all departments;
 - (e) ESPO to be asked to organise a tender for the provision of coaches.
- 8.5 It is estimated that **has these measures been in place in 2003/04**, the Council would have saved in excess of £160,000 in that year.
- 8.6 The findings of the review have been endorsed by the Strategic Resources Group.

9. Automation of Procurement Processes

- 9.1 This aspect of the work encompasses fundamental change to the means by which the Council carries out the process of buying goods and services (it excludes tendering of major works). In particular, it envisages:
- (a) the replacement of current fragmented systems with a uniform (and fully automated) corporate approach;
 - (b) the development of e-procurement capabilities.
- 9.2 Present processes are partially automated, with significant differences between departments. The core elements, however, operate as follows:

- (a) at the point at which a decision to purchase has been authorised, an order is raised on the “purchase order” suite of the Council’s Financial Management Information System (FMIS);
 - (b) after goods/services have been received, invoices are sent to the relevant department, and checked. Once checked, the invoice details are entered into FMIS for payment by the departmental finance team;
 - (c) payment is made automatically by the FMIS system, either by direct bank transfer or by cheque;
 - (d) accounting records in FMIS are automatically updated at the point of payment, although the imminent introduction of commitment accounting will bring this forward to the point of order.
- 9.3 Notwithstanding the above, Education and Social Care & Health Departments do not use the Council’s purchase order system. Progress is being made towards implementing purchase order in these departments. In the meantime, separate purchasing systems are maintained.
- 9.4 Present systems are labour intensive, and their manual nature means there is a lack of information on what the Council actually buys (which has been a difficulty when carrying out the review of specific areas of purchasing);
- 9.5 E-procurement is a new technological development utilising Internet technology. In effect, e-procurement systems include:
- (a) on-line catalogues, which officers requiring goods or services can use to “click” on what they require;
 - (b) electronic ordering direct to the systems of the approved supplier, and a direct link into the supplier’s systems so that the order can be activated automatically (or, correspondingly, the Council will know it is out of stock);
 - (c) electronic invoicing back to our systems.
- 9.6 Individuals using the Internet to make purchases (eg via Amazon) follow a very similar process.
- 9.7 Such a system ought (and best practice suggests would) deliver significant efficiency savings. Typically, according to research, traditional procurement costs some £50 to £95 per order; e-procurement solutions can result in costs as low as £4 to £8 per order. It is dangerous to extrapolate from such benchmark figures, but it

should be noted that the Council places approximately 60,000 orders per year: potential efficiency savings are therefore considerable.

- 9.8 The work involved in automating processes and developing e-procurement is following a twin track process:
- (a) ESPO are developing their own electronic market place, which will enable cost centre managers to buy from ESPO by means of an electronic catalogue (provided our systems can be made to “talk” to it);
 - (b) the Council is considering re-engineering its procurement processes to follow a standard, automated procedure for all its non-ESPO purchasing. This may or may not involve e-procurement (which will depend on the readiness of our suppliers to transact business this way) but will still lead to efficiency savings and much improved information.
- 9.9 The first of these elements could, if successful, provide a quick introduction of e-procurement capability to the City Council; it would, furthermore, assist us in making use of ESPO mandatory (it would be extremely easy to purchase from ESPO’s catalogue, simply by clicking a mouse). Once operational, ESPO plans to expand the service to other suppliers, thus enabling it to be used as a gateway to more and more procurement. The first stage of ESPO’s work is to create an electronic catalogue, which is being piloted at Norfolk from October. ESPO are working with our financial systems suppliers to deliver a paperless requisitioning and ordering system to go live in November.
- 9.10 Whilst market leading financial systems now include e-procurement features as standard, ours do not. Early replacement of our entire systems is likely to be prohibitively expensive, which means early achievement of e-procurement is not possible without the commitment of our existing supplier to develop its products.
- 9.11 The Council’s existing supplier is SSA Global, who acquired FMIS from the previous supplier (Computer Associates) in April 2002. The system has approximately 24 other local authority users of which only 12 are expected to use the system for the foreseeable future. SSA Global operates in a sector of the market that is subject to considerable acquisition activity, and whether it is prepared to develop any product range further depends on its business strategy (some products will be developed, some will not). The Council, in conjunction with other users of the product, is putting SSA under considerable pressure to develop e-procurement capabilities: SSA already has an appropriate product, but needs to write software to integrate it with its existing suite. SSA has agreed to a programme of work which initially involves them demonstrating a prototype specified by the City Council, and then building software which would enable us to use the ESPO e-market place. This, we believe, will demonstrate their commitment (or

otherwise), and enable us to make a decision whether or not we can rely on them for the more major aspect of e-procurement. A prototype has now been designed, and is to be demonstrated to officers from the City Council on 2nd September.

- 9.12 An indicative timetable for the introduction of automation and e-procurement is given below. It must be stressed, however, that this is dependent on the ability of SSA to deliver:

September 2004 - January 2005	Options appraisal of e-procurement software and systems
October 2004	ESPO e-marketplace goes live
November 2004	Pilot e-marketplace in one-department
January 2005	Decision to use SSA for e-procurement
February 2005	Implementation of e-procurement project plan

- 9.13 In terms of cost, it is believed that links to the ESPO e-market place can be created at very little cost. At present, no firm cost for the bigger project are available, but it is estimated it would cost around £1m. Whilst £150,000 can be made available from the Government's IEG grant, the balance will have to be justified on a "spend to save" basis. Early next tasks are to produce a business case to demonstrate that this can be done. The IEG monies are being used to support project management arrangements, which are discussed below.

- 9.14 The above costs assume that SSA can deliver - costs of replacing the whole financial suite are estimated to be many millions of pounds.

- 9.15 Members are asked to note that the Council is setting up a Programme Board to consider the whole of our financial systems strategy, including better integration of existing systems. This Programme Board will oversee plans for the long-term future of the Council's financial systems, which will need to include contingencies for non-development of our present systems.

10. Future Arrangements

- 10.1 It is essential that the Council continues to maintain the impetus to improve procurement, and create sufficient capacity to develop e-procurement. To this end, changes have been made in the organisational arrangements:

- (a) a project manager and project team have been created to take forward the major change agenda (the project manager is a new

resource, paid for by IEG grant; the team has been seconded from the Corporate Procurement Team). The team will be supplemented to develop e-procurement using IEG monies, when we are more certain of the way forward;

- (b) the procurement improvement plan is being revised to take into account work to date, and to reflect key themes from the Gershon review. In particular, we will wish to consider our position in respect of construction procurement and back office services.

10.2 The present round of efficiency reviews is coming to a close, and it is envisaged that the next round of reviews will focus on:

- (a) agency staff - a framework contract for agency staff was introduced in 2002, and is due for renewal in 2006. There is evidence that this contract is not being used as effectively as it could be, and we need to understand why before looking to approach the market again;
- (b) project management services - the amount the Council spends on this is high (over £1m each year), rates charged are high, and it is believed there is scope to get better value for money.

11. Financial Implications

11.1 The cost of progressing the efficiency review is being met from existing budgets within the Financial Services Division.

11.2 Costs of developing e-procurement are presently estimated at £1m. Initial costs of employing a project manager and support will be met from IEG grant of £150,000. Further costs will need to be justified on the basis of a robust business case demonstrating that the Council can pay back the initial investment. If this cannot be done, work will not proceed. However, failure to justify the spending will throw into doubt a key plank of the procurement agenda both at national and local level; and I am confident that, in fact, the business case will demonstrate considerable benefits.

11.3 The key issue for members is, of course, the delivery of savings to contribute to the budgetary position in 2005/06 and (more critically) 2006/07. The report has demonstrated that the savings can be delivered by:

- (a) enforcement of use of ESPO (the precise savings from which are not known, but will include both the cost of purchases and officer time);
- (b) changing the way we purchase IT (a minimum of £350,000 would have been saved in 2003/04);

- (c) changing the way we purchase stationery (£100,000 would have been saved in 2003/04);
- (d) changing the way we procure vehicles and equipment (over £160,000 would have been saved in 2003/04).

Not all of the above would have fallen to the General Fund to reduce council tax.

- 11.4 The report also envisages future savings in transactional costs of purchasing, but these will not be delivered for some time. Future reviews of specific areas of purchasing should also demonstrate savings.
- 11.5 Translating the ability to save money into budget reductions, however, throws up a number of difficulties. One means of building savings into budgets would be to calculate the estimated savings from each specific review, and deduct this from departments' future budgets. Whilst this has a rational basis, it has the following associated problems:
- (a) identified savings from specific reviews are based on **past** patterns of spending which may not be typical of future years (although of course they may be). Indeed, in relation to "big ticket" purchases such as IT, high spend by a department in one year may very well mean that little spend is required in the immediately following years;
 - (b) reducing budgets in this way may create perverse incentives - departments would be better served by undertaking their own departmental reviews and keeping the savings. This can be mitigated to some extent by taking part only of the saving from a specific review into account.
- 11.6 The key disadvantage of this method, however, is that of hidden savings. As departments improve their procurement, generally future reviews will not be able to evidence high levels of savings (the savings will, in practice, have already been absorbed into departmental budgets). This is, of course, all for the good; but it does not help the Council deliver its efficiency savings target.
- 11.7 An alternative approach would be to assume the level of savings which can be achieved through improving procurement and make deductions from departmental budgets without reference to actual reviews. This has the advantage of allowing departments to "keep" savings made and fully incentivising the process of delivering them (and is, in effect, what the Government has done in response to the Gershon review). It does, however, have the following difficulties:
- (a) it would be perceived as unfair by departments in that savings are assumed without evidence of how they will actually be achieved;

- (b) it confuses accountability - individual departments are not responsible for the running of the procurement efficiency review, or determining the areas it is going to look at. Failure to deliver will result in departments needing to find compensating savings;
 - (c) it would penalise previous good practice - those departments that have procured most intelligently in the past would have less scope to find their allocated savings than other departments.
- 11.8 When considering the relative merits of the different methodologies, there are 3 key principles which should be considered. These are:
- (a) there needs to be clear **accountability** for delivering budget reductions;
 - (b) there needs to be **fairness** between services;
 - (c) we need to avoid **perverse incentives**.
- 11.9 All options contravene one or more of these principles to an extent, and a compromise is therefore going to be needed. The following is proposed:
- (a) where specific reviews demonstrate that savings can be achieved, 50% of such savings are deducted from departments' budgets based on such (crude) averaging mechanism as seems fair under the circumstances;
 - (b) to the extent that departments are purchasing from non-contracted suppliers (without demonstrable justification), the inflation allowance granted in future years' budgets is reduced to reflect the extent of such off-contract purchasing (an approach which has been endorsed by Corporate Directors' Board). Such an approach must be applied sensibly however – departments must be given the opportunity to challenge the evidence;
 - (c) inflation allowances in future years' budgets are reduced to levels (not significantly) below prevailing inflation in recognition of the ability to improve practice departmentally as well as corporately.
- 11.10 This is not an ideal solution, but has the advantage of:
- (a) forcing the review to demonstrate savings before budgets are reduced;
 - (b) penalising poor practice.

12. Other Implications

Other Implications	Yes/No	Paragraph References Within Supporting Information
Equal Opportunities	No	
Policy	Yes	Supports the corporate plan priority of investing in continuous improvement in a well managed organisation.
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	No	

13. Report Author/Officer to Contact

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