

Leicester
City Council

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

OSMB

9 December 2010

PROCUREMENT REVIEW

Report of the Chief Finance Officer

1 Introduction

1.1 Purpose

The purpose of this report is to:

- (a) Review the current procurement model at the City Council.
- (b) Identify how cashable benefits can be achieved and delivered to support the revenue budget reduction strategy.
- (c) Recommend a procurement model appropriate for the future which will deliver these savings and ensure it continues to generate long term value.

1.2 Approach

After developing a high level understanding of commissioning thinking across the authority, spend information was reviewed from available 'accounts payable' data. Savings opportunities were identified before considering resourcing options needed to realise the value.

In reviewing the current procurement capability, it was important to ascertain if the existing processes optimally supports the overall council objective of ensuring value for money. The current Contract Procedure Rules (CPRs) have been reviewed in this light.

1.3 Pressures

Recommendations from this work will consider the need to achieve budget reduction targets, therefore offering a contribution and response to the current financial pressures.

2 Summary of Conclusions

The report concludes that:

- (a) Whilst the Council spends significant sums on procurement, most of this is in complex areas (such as construction and adult care). Delivering value from these services is possible, but needs effective planning and careful management.
- (b) The Council's current procurement operations are reasonably efficient, and the current Corporate Procurement Team is effective at supporting regulatory compliance (which is vital given the current increased levels of sanction available to aggrieved suppliers).
- (c) The Council lacks the requisite levels of strategic support to procurement, which could bring commercial acumen to bear on commissioning decisions at an earlier stage in the "Analyse - Plan - Do - Review" cycle.
- (d) Savings are available to the Council, believed to range from £3.3m to £11.0m per annum depending on the options pursued and whether "low" or "high" savings are achieved.
- (e) Category management is unlikely to be the most cost effective means of introducing commercial skills to the Council. Instead, it is proposed that the Council develops a small corporate capability (around two people) and/or seeks to partner with an external agency to provide it. The latter would be a means of delivering capability quickly.
- (f) Current Contract Procedure Rules can usefully be reviewed, with a view to reducing the current compliance/process bias and introducing commercial factors. For instance, price negotiation should be a requirement of all contract extensions below the EU limit.

3 The Council Spend

3.1 Procurement Spend

The Council spends in the region of £300m per year on the procurement of works, supplies and services; thus proper strategic management of the procurement service is essential.

Work has taken place to identify the types of supplies and services for which this money is spent. The data below is from 2009/10 Accounts Payable data. It must be recognised that the data quality is an issue as it relies on accurate coding by cost centre managers across the Council. However, best approximation available suggests the following:

3.2 External Provider Spend

Spend Profile	Approximate Spend Value 09-10
Construction and Highways	£ 58m
Adult Social Care	£ 72m
Waste	£ 10m
General Building Materials	£ 22m
Children's Care	£ 26m
Vehicles and Plant	£ 9m
ICT and Telecoms	£ 14m
Corporate Professional Services	£ 36m
Utilities	£ 14m
ESPO Catalogue	£ 2m
Voluntary Sector	£ 10m
Food and Catering	£ 5m
Agency Staff	£ 17m
TOTAL	£ 295m

It will be seen from the above that most of the external provider spend is spent on complex areas of procurement such as Adult Social Care, ICT, utilities and construction. Achievement of savings therefore, whilst possible, is not just a quick exercise. The majority of Quick Wins have by and large already been taken and decisions from the divisions working alongside a strategic procurement function will maximise the value.

3.3 Trading Services Expenditure

Additionally the Council provides the following services in-house which could be externally procured; any analysis of procurement spend therefore needs to include these in order to provide a full assessment of the opportunities offered by strategic procurement.

Trading Services Costs

DIVISION	AP SPEND DATA 09-10
Housing Repairs and Maintenance	£27m
Legal Services	£3.4m
Temporary Staffing Agency	£3.4m
Debt Recovery	£301k
Creativity Works	£1.7m
Property Services Projects	£5.0m
City Catering	£8.1m
City Highways	£8.6m
Operational Transport	£5.6m
City Transport Fleet	£7.4m

Some of the in-house services costs are currently under review within ODI projects such as 'Facilities Management'; which aims to review the efficiency of a more holistic approach to managing properties and associated services. Any externalisation of these services will require efficiency reviews which

shape the service to an appropriate level in order to attract private sector interest. Recent TUPE legislation has made human resource dependent services more challenging when seeking lower cost private sector alternatives; therefore trading services organisations will benefit from robust efficiency reviews.

4 The Existing Procurement Operation

4.1 Summary of Existing Operation

The Council's current corporate capacity is primarily designed to ensure regulations compliance. Compliance is important, and the corporate procurement team is fit for the purposes of supporting and monitoring constitutional compliance. There is also some (but not much) capacity to support complex procurement within the team. What the Council does not have (corporately) in any significant degree is high level strategic procurement or commissioning support. The approved procuring officer (APO) network provides for transactional procurement activity to deliver compliance with the Corporate Procurement Team who advises on these matters; the APO network offers contract management development opportunities.

The procurement operation can be regarded as being primarily concerned with regulatory compliance and transactional catalogue management which can't guarantee value for money. It has a strong process orientation evidenced by the CPR hierarchy routing spend through internal services and ESPO, often before addressing market competition directly. There is a heavy reliance on the ESPO relationship which will benefit from robust internal challenge; this requires a higher calibre internal capability. Therefore the more significant contributions to savings and in supporting commissioning will come from high end strategic procurement skills which challenge and complement traditional thinking with market intelligence and value added advice. **This can be achieved by either a category management implementation or a centralised unit supporting the analysis phase of the commissioning cycle.**

After reviewing the spend data for savings opportunities, the current operation looks reasonably efficient despite offering no value guarantees. Processes in place appear to offer a greater level of regulatory compliance than many other authorities. Therefore, recommendations need to address identified savings opportunities and support the development of commissioning throughout the organisation. Market analysis from a strategic procurement capability is needed to support divisional strategies; this can be designed to become part of the analysis phase of the commissioning cycle.

4.2 Policing Compliance and Risk

The EU Remedies Directive (2009) has generated a higher level of concern for compliance with EU procurement regulations, offering rapid and 'effective' reviews driven from an increasing number of suppliers challenging breaches of procedure. This, combined with an increase in FOI requests increases the likelihood of cancelled contracts and fines for any authority assessed as being in breach of EU regulations. Therefore, the existence of a Procurement

Compliance Unit appears a timely and appropriate response to an environment which has introduced greater risks.

4.3 Contract Procedure Rules (CPRs)

The current CPR document guides users through a hierarchy that starts with internal services and contracts, through to ESPO frameworks, contracts and catalogued services. Processes direct the user to comply with pre-assessed routes which are assumed to provide value for money. The critical questions emerging from this set of processes is whether or not value for money is being achieved and if the council leadership team is supported by procurement in the most effective way to fully consider the options available to them.

Currently, 18% of the Council's external expenditure is directed through ESPO contracts and a significant amount is spent on internal services; this implicitly assumes that the first and second tier of the CPR hierarchy offer the best value for money. This assumption requires continuous challenge from quality market intelligence and pro-active supplier management in order to provide for more informed decision making.

The Glover Report (2008) encouraged local authorities to contract with SMEs and argued that this approach does not produce funding dependency. The Council's EXOR database of approved providers meets the internal audit levels for contractual due diligence, however it requires SMEs to pay £625 per annum to be accredited. This prohibitively expensive access route to contracting requires revision as it fails to support existing strategy which encourages contracting within the local community. Therefore, this reinforces the appropriateness of challenging the existing CPR hierarchy with specific attention to be paid to high value relationships and internal services and to re-consider any benefits the EXOR database may be offering.

Current CPRs state that three written quotes are required for purchases between £10,000 and £50,000. It is proposed that the three written quotes rule is extended for purchases at a lower spend values. Currently 34% of purchases are below the £10,000 mark, which may benefit from price comparisons. Other authorities generally have a lower threshold than the City Council.

It is believed that savings of up to 5% could be achievable by introducing greater elements of competition (3 quotes) for all spend in excess of £1000. The reason for this belief is that existing practice offers no visible competition. However existing CPRs do state that value should be auditable, therefore by creating an auditable process it is reasonable to assume that enforced competition will produce savings.

4.4 Regulatory Framework

OJEU processes, more than any other, have retarded local authorities' ability to respond quickly to market changes and opportunities. By working through a set of legally binding processes which can take up to a year to deliver an output, the public sector has less opportunity to benefit from market innovation than its private sector counterpart. Therefore, in striving to deliver value for money, it is understandable why many local authorities align value

with legally mandatory processes; as compliance risks can potentially outweigh the benefits of striving for optimal value.

Use of the term 'best value' is often misapplied and used to describe value for money. Best Value was introduced to challenge CCT in 2003 and had a prime objective to challenge the cost basis of internally provided services; although it produced a higher level of cost awareness, few services were made more efficient or externalised as a result of a best value review. This supports the objective to optimise value for money; and benchmark internal services against the external market.

The more recent value for money agenda further supported greater commercial awareness and strategic procurement thinking; however the pre-eminent commissioning movement appears to offer a more achievable opportunity to introduce clear strategic management processes. If evolving commissioning within LCC is embedding a strategic management culture, value delivery of commissioned services will require strategic procurement skills to elevate transactional procurement to supporting the options 'analyses' phase of the commissioning cycle. **This means introducing procurement skills to test the options at a much earlier stage than is currently the case.**

4.5 The Authorised Procuring Officer Network

The council currently has approximately 430 APOs in place. There are 2 categories of Officers who are entitled to buy on behalf of the council:

- Officers buying using existing framework/contract arrangements. These do not require training
- Officers making "New" arrangements for buying supplies, services and works or running mini- competition, these are the APOs.

The Chief Operating Officer is responsible for designating APOs and can authorise any Divisional Director to take responsibility for their individual service area.

	Authorisation Value	Trained APO's
Minor Contracts	Up to £10K	45
Small Contracts	£10K to £50K	120
Large Contracts	£50K to EU Level	64
EU Contracts	Above EU Level	99
	Total	328 of 403

NB there are an additional 28 senior officers.

It is considered that there are too many APOs letting contracts at tendering levels which offers a higher level of risk for breaches of competition rules (CPRs) and of EU Procurement Regulations; the recent EU Remedies Directive has increased the risks of financial penalties. One available option is for some of the current APOs to be used to better contract-manage existing

arrangements. A capability assessment would be required and additional training to ensure a pro-active contract management skill set was created across the APO network. The APOs with a higher set of procurement skills can support the delivery of EU compliant procurement.

4.6 Decision Making

The current approach in the Council promotes procurement decisions to be made by Divisional Directors, who also have the authority to decide on the scope of market options to deliver their strategies. The implication of this is that the market and opportunity analysis occurs within the divisions and not by dedicated procurement professionals, who would be expected to provide strategic sourcing advice and external commercial awareness of current market conditions to optimally deliver the desired outcomes. The procurement panel which assesses planned procurement activities appear to review options narrowed by divisional choices; if the process was amended, there is an opportunity to achieve greater benefits from a full market opportunity assessment at an earlier phase which will allow the procurement panel to then review a fuller set of options.

4.7 Value Realisation

Value realisation is currently the responsibility of the Divisional Directors from division to division; the exact process varies. From the identified opportunities following the spend review referred to within this report (5.4), excepting ODI projects, there is no dedicated procurement resources specifically tasked with delivering savings. Therefore, there is a requirement for professional strategic procurement support to plan and deliver identified savings opportunities; as well as to conduct market analysis to challenge divisional spending plans.

5 Spend Review

5.1 The Review Approach

From 2008/9 and 2009/10 AP data a high level spend diagnostic was undertaken in order to understand and classify spend. The spend data was cross referenced to the corporate procurement contracts database and analysed in multiple ways:

- Spend by type.
- Spend by cost centre/division.
- Spend by supplier.
- On/Non contract spend.
- Spend by transaction level.

The spend levels identified approximately £300m of external expenditure. DSO analysis was not included due to the unavailability of data. Data was

analysed in the categories classified by end users, and highlights the need for further data cleansing to occur.

5.2 Benchmarking and Market Intelligence

Following the spend analysis it was agreed the following areas would be reviewed for benchmarking or opportunity identification purposes:

- Framework contracts – professional services, Office Stationery, IT Consumables, Vehicle Hire & Energy.
- Travel.
- Property & FM.
- Construction including Housing and Highways.
- Adult Social Care.
- Waste.
- Travel.
- Call Centres.

The purpose of the evaluation was to assess the commercials of existing contracts and deals, benchmarking against the market where appropriate and assess the opportunities for commercial improvement and procurement involvement.

5.3 Opportunity Summary

Following both areas of review the project team consolidated together all potential opportunities into an opportunity map (5.4), with a detailed explanation of what savings are achievable through each initiative, and the timescales and difficulty of making the required changes. Following the identification of the potential savings opportunities, the next step is for the Council to decide which opportunities to pursue.

From the opportunity map it is clear that the highest value opportunities are achievable from service redesign, demonstrated by the potential within Adult Social Care. However other opportunities such as externalising the three internal 'call centres' could offer savings and benefits to citizens; a similar procurement at Hull City Council (with a very similar total spend) realised £1.2m savings over 3 years when auctioned.

ESPO spend requires careful consideration as benchmarking indicates that there are better deals to be found, some of the saving potential identified can be realised quickly; this will require dedicated professional resources to meet in year targets.

Further opportunities are currently being evaluated such as following the example of Birmingham City Council who has sent letters to a number of their

providers requesting cost reduction proposals and discussions. This is likely yield some savings and again will require a capable procurement skill set to manage in an appropriately sensitive and effective manner.

5.4 Summary of Opportunities for Discussion/Approval by SMT

The table below reports currently identified savings opportunities. This table is evolving and it is suggested that work is focussed on the highest potential savings for the minimal effort.

Area	Description	09/10 Spend £000	Savings	
			From £000	To £000
Stationery	Work with ESPO to achieve costs available from other Consortia and restrict availability to Council buyers to cheaper products	389	19	138
IT consumables	Work with ESPO to achieve reduced price, switch to remanufactured products	280	2	104
Professional Services	<p>Fixed price contracts with clear scopes of work – output based.</p> <p>Transition to OGC rate card for all work >£100k.</p> <p>Free consultancy hours.</p> <p>Partner billing – evidence supported of hours worked.</p> <p>Retendering of rate cards across disciplines.</p> <p>Use of secondees for long term assignments.</p> <p>Demand challenge process for engagements > £100k.</p> <p>Challenge on utilisation of senior resources/grades on engagements.</p> <p>Mandatory use of client travel and expense policy.</p> <p>Use of lower cost specialists.</p> <p>Tightly defined scope to avoid scope creep.</p>	5000	115	230

Area	Description	09/10 Spend £000	Savings	
			From £000	To £000
Vehicle hire	<p>Consider pooling vehicles and switching to long term rentals.</p> <p>Standardise ancillary costs.</p> <p>Incorporate insurance cover into organisation macro insurance policy (if relevant).</p> <p>Optimise fleet size to reduce vehicle rental usage.</p> <p>Change supplier within the existing ESPO framework agreement to utilise better rates.</p>	271	2	18
Call Centres	Soft market test and prepare business case for cost efficiencies or market testing for member approval.	2500	150	500
Property FM	Consolidate service and negotiate across Council deal.	tbc	tbc	tbc
Adult Social Care	Develop proposals for an approved and vetted list of suppliers to provide adult care and domiciliary. This will facilitate natural market development and competition as part of the transition to personal budgets.	29000	1760	4120
Travel	Consolidation	160	24	66
CPRs	<p>P-card process efficiency (non-contract spend).</p> <p>P-card rebate (non-contract spend).</p> <p>Change of <10k CPR with estimated 5% reduction.</p> <p>Continuous improvement clauses in all contracts.</p> <p>Early payment discounts.</p>	47098	3332	10998

6 Future Procurement Model

6.1 Outline and Rationale

There is likely be more robust challenges to EU and local procurement regulations during a recession. Continued compliance work through an operational procurement unit is therefore essential. There is a requirement to deliver significant savings and value realisation opportunities identified. Specialist market analysis and value realisation services can be provided by a

strategic procurement capability which can provide the skills required to deliver savings; therefore there is an immediate requirement for these skills.

There is a need for a capability to support divisional procurement, ensuring that all divisional spending plans (>£50k) are professionally market tested; this will require senior management support and sensitive implementation. Diagram 1 proposes that divisional spending plans emerging from commissioning are sent to a strategic procurement team for full options appraisal and market testing. Recommendations are then sent to a appointed Strategic Director on the SMB to review and appropriately challenge the divisional director with specific regards to spending opportunities identified. The process from then on, follows the standard Cabinet approval route; with this process, there may be no further need for the existence of a Procurement Panel.

The strategic procurement team should be a centralised unit working with the existing unit (Corporate Procurement Team) and will have a high level of skills capable of delivering quality market and opportunity analyses and realising value; some auctioning skills will be required. With an enhanced centralised procurement capability, there exists an opportunity to improve relationships with divisional clients who will need support to realise savings opportunities. This same Team can contribute to evolving the capability to support the needs of the emergent commissioning culture.

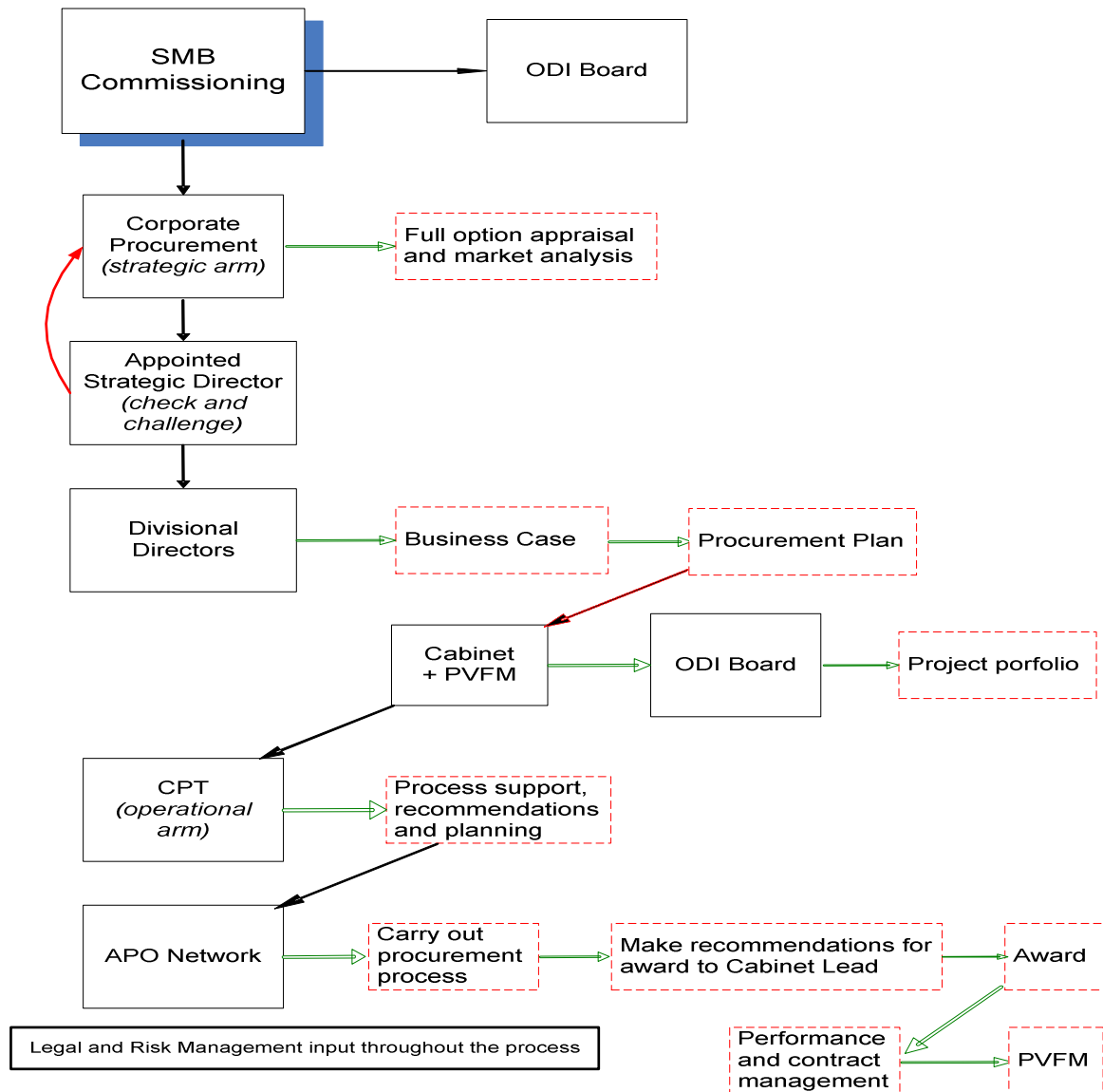
In order to deliver speedy benefits and to immediately support high value spend decisions, partnering with a specialist procurement organisation will offer immediate value realisation capabilities as well as the market analysis needed to feed senior decision makers and challenge appropriately (Diagram 1). This approach meets immediate needs and provides a platform to build the strategic procurement team internally.

The medium to long term objective will be to build an effective internal strategic procurement service to enhance value realisation and contract management throughout the authority. Any savings plans agreed (as acceptable) from the recent opportunities review will require resources to deliver savings; this immediate priority can be met quickest by partnering on sound commercial terms with a specialist organisation, whilst building internal capacity.

The following interim procurement governance arrangement offers processes which require strategic procurement skills in order to become operationally effective; these will challenge the entire spend approach from demand management to 'make or buy'. The numbers of resources required will be dependent on agreement and implementation of the proposed governance arrangement and the savings projects agreed by SMB; this arrangement requires SMB support and participation.

6.2 Proposed Interim Procurement Governance Arrangements

Governance Arrangements - Diagram 1



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7 Options Supporting Savings

Option 1 - No Change

This scenario will not deliver significant savings or build capacity to support divisional spending.

Option 2 - Category Management

Category management will likely be significantly more expensive than the recommendation to introduce interim governance arrangements or to partner; however this is worthy to explore in the longer term if commissioning evolves to requiring specialist support within multi-skilled service delivery teams. The

recruitment phase and time required to become operationally effective will not meet the immediate needs of the Council.

The proposed interim governance arrangements with a market analysis capability offers more immediate and effective strategic procurement than traditional category management; which often fails to effectively influence divisional/directorate clients.

Option 3 - Partnering

Partner with a specialist procurement organisation to begin savings projects and conduct the market analysis in support of the proposed interim governance arrangement. This offers a cost efficient option to support much needed 'immediate' value realisation and provides skills currently not within the Council. Skills transference can be delivered whilst incrementally building internal strategic procurement capacity. A commercial arrangement can be sought to guarantee a return on investment.

Option 4 - Recruit

Rapidly recruit a strategic procurement team to deliver savings and build internal capacity. This option will not guarantee the results which a partner may indemnify and may ultimately be expensive if not managed appropriately. It is unlikely recruitment will provide the high skill set required to immediately make savings.

8 Current Activities and Plans to Enhance Savings Capabilities

8.1 Next Steps

- Link CPRs with Finance Regulations through a co-produced value realisation process which removes funding from budgets at appropriate times (addressing inconsistencies with budget and spend data).
- Strengthen contract/performance management within LCC by revising processes within the CPRs; support with training – consider APO network development.
- Work with ODI and commissioning to identify and incorporate commissioning support needs. This will include reviewing any existing assumptions relating to category management.
- Review the RMS systems capabilities to evidence competition through work flow; propose CPR changes supporting price comparisons >£1000.
- Review the current operating model and ensure value from the ESPO relationship. Participate in evolving ESPO to meet member needs and pressures, at the same time critically reviewing available contracts.
- Continue with the CPR review (Legal, Procurement and Commissioning).

- Work with ODI to review internal service efficiency (DSOs).
- Progress savings opportunities.
- Review the £206M spend expected to be tendered in the next 36 months and develop an auction pipeline.
- Work to develop a longer term structural proposal to support commissioning requirements and build effective procurement capacity accordingly.
- Prepare a letter to providers requesting discussions to reduce costs (as per Birmingham City Council).
- Rapidly develop saving realisation capability.

9 Report Author

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