

8 February 2017

Audit & Governance Committee

Report of the Deputy Chief Executive/ Director of Customer & Corporate Services

Procurement

Purpose of Report

1. At the Audit & Governance Committee meeting on the 20th December 2016 members requested a further report providing an overview of the procurement function.

Analysis

Overview of procurement team and process

2. Procurement is the process of acquiring goods, works and services from third parties to deliver agreed outcomes. The process compares different services and prices to enable the council to select the best offer that meets its needs. The result is a contract, with a clear specification, price and a set of terms and conditions.
3. The council spends approximately £140m on goods and services during an average financial year, with around 600 individual purchase orders raised each month. We use an average of 2,700 suppliers during the year and there are 300 entries on the contract register at any one time. There are 452 officers across the council with delegated authority to make purchases on behalf of the council.
4. To set this in context, there are 9 members of procurement team and this includes the finance & procurement manager and 1 compliance officer. At the time of writing (early January) the team were supporting 98 separate procurement exercises ranging in value from £20k (CCTV at Hazel Court) to £45m (Park & Ride). Some further detail on some of the recent exercises completed is included in annex one of this report.
5. York, along with most other councils in the Yorkshire & Humber area, operates a category management approach to procurement. This essentially means that

the team is structured to reflect the categories of goods and services we buy, rather than the directorates who buy them, ensuring a joined up approach to supplier management and expenditure across the council.

6. All councils in the region use a common system to advertise tender opportunities, called Yortender. This system allows any supplier to register on the system and receive alerts to let them know when tenders are advertised. It also allows us to meet the requirements of the Local Government Transparency Code as it is available for anyone to view the current contract register and tender opportunities. Training on how to use the system is available for any supplier, but priority is given to local suppliers.
7. Much of the day to day procurement responsibility is delegated to managers, with the procurement team involved in higher risk, high value. The projects supported by procurement cover approximately 50% of the Council's total spend on goods and services.
8. In general terms the relevant officer is responsible for managing their day to day procurement activity and is expected to adhere to the contract procedure rules. They have the authority to approach suppliers, get the necessary quotes and authorise the purchase order to receive the goods or services required. In many instances, this is a relatively straight forward process that doesn't require any procurement expertise or involvement.
9. The financial delegation scheme sets out the amounts individual officers can approve. This has recently been reviewed with a view to reducing the amounts officers can spend without senior manager approval. This is to ensure an appropriate scrutiny of spending takes place before it is made.
10. The procurement team will support the process where needed, and, along with the commercial legal team, should always be involved in high value or high risk projects. This is necessary to ensure the council meets its legal obligations and to help manage and mitigate any risk.
11. The team provide regular training sessions, which are available to all staff and take place on a monthly basis. We also offer bespoke training as and when required. A toolkit, which provides advice, guidance and template documents, is available to all staff through the intranet. The team works closely with colleagues from both legal and finance to provide joined up support for front line service managers.

12. A refresh of the Council's procurement strategy is also underway and will be reported to the decision session of the Executive Member for Finance and Performance once completed.

13. To give members an overview of how the procurement process works, the following paragraphs summarise the steps that should be taken for various levels of expenditure.

Spending less than £5,000 (one off or recurring)

- Approach suppliers and try to get at least 3 quotes
- Keep a record of these quotes and the final decision
- Ensure have copy of contract

Spending more than £5,000 but less than £100,000 (one off or recurring)

For smaller value or low risk contracts (usually less than £30k)

- Approach suppliers and get at least 3 formal written quotes.
- Keep a record of these quotes and the final decision
- Ensure have copy of any contract and is recorded on contract register

For any higher value contracts (but still under £100k)

- Formally invite potential suppliers to submit a written quotation
- Receive and evaluate any submissions received.
- Advise all bidders of the outcome
- Keep a record of these quotes and the final decision
- Ensure have copy of any contract and is recorded on contract register

Spending more than £100,000

A formal tender will be required using the YorTender system. OJEU regulations may be applicable. A formal project plan will need to be developed and may need to be referred to Executive at various stages for approval.

Procurement controls and compliance

14. Within the procurement team, there is one post with specific responsibility for monitoring compliance. This post reports directly to the corporate finance & commercial procurement manager to reflect the importance attached to this

function within the council. There is an established process in place to review high value purchase orders on a monthly basis to check that an appropriate procurement route has been followed and to ensure the resulting contract is recorded on the councils contract register. Time permitting, purchase orders of lower values are also checked along with cumulative values each quarter to pick up any areas where several orders are raised in succession. Issues are raised initially with the authorising manager and are escalated to Assistant Director level if no response is received. Our approach is intended to highlight issues to managers and assist them to find a suitable solution going forward. The ultimate aim is to ensure services can be provided to those that need them whilst still achieving best value for the tax payer.

15. Where a breach of contract procedure rules is identified, this is reported to the internal Governance, Risk & Assurance Group. This allows a confidential discussion to take place around the issue and identify potential solutions or mitigating actions to prevent it happening again. There are approximately 25 to 30 breaches identified each year, and the vast majority of these relate to the need to secure 3 quotes. It is important to highlight that these are breaches of internal procedure rules, rather than breaches of legislation. Given the Council has made some significant savings since 2010 across all services, there has inevitably been a reduction in the level of associated back office support. This reduced capacity means resources are stretched over a number of different projects at any one time.
16. The control over expenditure and contracting sits within the line management arrangements of services within the council and officer compliance with the rules as set out is therefore a fundamental aspect of the control environment. Compliance checks are carried out within the procurement team but these are after the event so the onus is rightly on the service incurring the expenditure. Internal Audit also reviews services and investigates other matters.
17. It is important to recognise therefore that whilst there is a robust system in place for authorising expenditure, it is ultimately dependent on the diligence of managers to ensure process is followed. Given the volume of transactions undertaken by the council, it is not possible for finance and procurement to check every transaction. Nor would this be an appropriate use of the professional resource available in these areas. The support services need to focus on complex, high value, high risk areas that need additional, professional support to deliver vital front line services to residents particularly those who are vulnerable.

18. There is a process for agreeing waivers to the contract procedure rules, where appropriate. This could be because it is a highly specialist market with a limited number of suppliers meaning that 3 quotes can not be achieved. All waivers are reviewed, and ultimately approved or rejected, by the corporate finance and commercial procurement manager and the Assistant Director for legal services.
19. The procurement team works closely with the council's legal team on all aspects of procurement law and especially when dealing with major projects and the associated contractual issues that arise. For especially complex or high risk projects external legal advice is sought when necessary to ensure a robust procedure is followed at all times.
20. An email has recently been sent to all managers to remind them of the need to adhere to the procurement rules, including a particular emphasis on ensuring the retention of procurement documentation. This is recognised as something that requires improvement in some areas.

Financial controls and systems

21. The Financial Management System (FMS) is the fundamental financial accounting system used by the council. The system records all financial activity undertaken by the council.
22. The FMS also records all financial decisions made by the council in the form of a budget. The FMS is used to prepare the council's annual accounts, financial returns and for budgetary control. The FMS is made up of Civica Financials, which includes integrated modules for general ledger, debtors and creditors, and is integrated to the purchasing system Civica Purchasing. The 2015/16 audit of this system gave a rating of substantial assurance and commented that user access was limited appropriately and the security and integrity of the main accounting system had been maintained. Suspense account balances were reasonable and detail codes were appropriately regulated and monitored.
23. There is a clear process for managers to use when making purchases. Broadly, the council operates a "no purchase order, no payment" policy although there are agreed exceptions to this, such as for utilities. This means that if a purchase order has not been raised the supplier will not be paid until specific authorisation has been received from the relevant officer. This must be in accordance with the approval limits, and the system will not allow a manager to approve something if they are not authorised to do so.

24. However, our systems do not allow us to link every item of expenditure incurred to a specific contract in place. The procurement compliance checks outlined earlier in the report pick up issues where expenditure has taken place but there is no corresponding live contract on the register. There can be valid reasons for this, as there can often be a short delay between signing of the final contract and including this on the contract register. This is due to limited capacity across all areas of the council.
25. As outlined earlier in the report, the limits for all service managers have recently been reviewed to ensure there is an appropriate level of scrutiny for all significant spending. Therefore, the integrity and accuracy of the councils published accounts is not an issue and is not at risk.

Conclusion

26. A number of improvements have been made in the procurement function over recent years. There has been a general increase in awareness of the rules and in the visibility of spend and contracts across services and the number of contracts listed on the register has increased. Of our 50 top suppliers by value, all these contracts are either on the register or current undergoing a procurement process.
27. Joint management of the function with finance has helped the procurement officers to work closely with finance colleagues and to take advantage of existing, positive relationships with service managers and finance colleagues.
28. Significant inroads have been made in engagement with local suppliers and the team are regular attendees at a range of events organised by the Federation of Small Business and the local Chamber of Commerce. Reporting of expenditure by supplier type is now possible and this has demonstrated the council's effectiveness at using small, local businesses. Market engagement and meet the buyer events are now held routinely.
29. Regular training is taking place, lead by the corporate finance & commercial procurement manager, and a comprehensive toolkit has been developed and is available on the intranet for staff use.
30. A robust system is in place for carrying out routine compliance checks and the team have the full support of senior managers in identifying and resolving issues.

31. Clearly, there is room for improvement in some areas. We need to establish a more effective system of retaining documentation, particularly to prevent information being lost when an individual officer leaves the council. Contract management could also be improved in some areas, as this is vital in ensuring we hold the supplier to account and get what we are paying for. There are also some areas where procurement support is not utilised early enough, which can result in delays and missed opportunities to collaborate with other councils.
32. Public Sector procurement can be a highly complex area and services need the support of procurement, finance and legal to ensure they deliver on their obligations and responsibilities in this area. As well as the training available for officers, further training on the key aspects of procurement could be provided to members of Audit & Governance Committee if required.
33. In light of the continued financial challenge being faced by all aspects of the public sector, the procurement team will continue to
- maintain its focus on driving down costs and delivering value
 - pro actively identify areas of non compliance and escalate issues to ensure solutions identified

Recommendation

34. Members are asked to note the contents of the report and indicate if further training is of interest to the committee.

Reason: To update the Committee on procurement issues

Author:	Chief Officer responsible for the report:		
Debbie Mitchell Finance & Procurement Manager Ext 4161	Ian Floyd Director of Customer & Corporate Services		
	Report Approved	√	Date 30 January 2017
Wards Affected: <i>All</i>			
<i>For further information please contact the author of the report</i>			

Annex one – examples of recent procurement exercises