



more for York



Blueprint for Procurement

City of York Council

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Background

The blueprinting process for procurement included the clarification of the vision for the future procurement service, the identification of the nature of the service, the outlining of the principles upon which it will be based and the benefits derived from implementing the changes. This process builds upon the previous establishment a central procurement operation. Key drivers are:

- Need to comply with EU Procurement Directives and Construction Industry Tax requirements.
- Need to ensure all Health and Safety, Equalities and Sustainability aspects are covered when commissioning works.
- Central procurement function is viewed historically by the council as primarily providing a governance role and not as driving value for money or supporting directorates or developing services.
- Failure to leverage economies of scale, aggregate spend or collaborate on a wider basis and add value from procurement activity.
- Current Procure to Pay processes are ineffective, creating frustration for the commissioners and suppliers and adding cost.
- The sustained level of waiver requests indicates a level of inconsistency around the application of procurement policy and the lack of long term planning of procurement activity
- The council has established competent commissioning capability but has variable access to professional procurement support.
- Bad Procurement = Bad Business

Analysis has been carried out for the spend for the 2008/09 financial year. This was based on a full data extract from creditors.

Areas of spend:

- Total spend was approx £120m for 2008/2009
- 85% of the (£101m) spend was with approx 130 suppliers.
- Only approx 54% was “on” contract, spend.
- Approx £46m per annum is spent with no identified contract cover and therefore is classed as “off” contract spend.

- Ten high-level categories were used to categorise the spend by supplier for the top 130 suppliers.

Note: Suppliers with an annual spend of less than £2k p.a. were excluded from this part of the analysis.

Spend by Category

Category	Total
Property & Infrastructure	32,699,174
Out of scope (tax, fire, police)	20,980,784
Capital projects	14,622,941
Social Care	12,772,440
ICT	5,229,430
Supplies & Bus. Services	4,781,940
Prof. Services	3,992,922
Transport	2,731,407
Utilities	1,487,763
Uncategorised	1,255,915
Admin Services	99,571
Grand Total	100,654,287

Procurement Vision

“To obtain best value through planned, responsive, professional, well managed, quality and sustainable procurement that contributes to achieving the council’s priorities and meets the needs of the community”

A modern dynamic and professional procurement function which develops, flexes and shapes itself to continually meet the authority’s strategic aims:

- ensures the council maximises its buying position within the market place when procuring goods and services;
- ensures compliance to all relevant legislation and internal policies through the operation of robust and efficient processes and procedures;
- supports, controls and facilitates all Tender activity on behalf of the council;
- provides performance monitoring which highlights non compliance or exposure of the council to unnecessary risk;

- continually improves processes with the aim of making it easy to do business with the council within the boundaries of current legislation;
- ensure process with the Procure to Pay cycle represent good value for money, manage risk effectively and support ongoing operations;
- maximises “on” contract spend and minimises maverick spend.

Principles

Controlling our spend

- Corporate visibility of what we buy and from whom.
- We aggregate our requirements and procure accordingly.
- Develop comprehensive set of frameworks/contracts to maximise our on-contract spend.
- Control reactive off-contract spend
- Ensure compliance with legislation and financial regulations
- Developing expertise in specialist areas and focusing procurement through these experts.
- Organisational structure must delivery demonstrable efficiencies for procuring of goods and supplies.

Working in collaboration

- Actively pursue opportunities to collaborate with partners on procurement.
- Explore sharing of expert procurement knowledge with other agencies

Organisational Structure

- Must deliver a blend of focussed business expertise integrated into the ongoing delivery of the service and professional expertise.

Improve Processes

- Standard, efficient and transparent processes which make purchasing quicker and cheaper for CYC and suppliers.

Business Cases

Business Case 1 – Improved Processes

Procure to Pay methods

The council operates one primary mechanism for administrating the Procure to Pay cycle, Requisition/Order/Invoice. This method, albeit fit for purpose for some transactions, does not represent best value or the optimum process for many users within the council. Any Procure to Pay process needs to consider the level of control applied to the level of risk, flexibility, practicability and accessibility. The current process applies the same control process for a £5 purchase as to that of £20k.

The one size fits all approach has resulted in a number of issues:

- Low productivity levels of the creditor function, processing approx 8,500 Invoices per fte/annum which represents lower quartile benchmark performance (upper quartile is above 30,000 invoices per fte/annum).
- Lack of compliance to the current process (i.e. raising of purchase orders) which is leading to delayed payment to suppliers
- Process that on occasions creates unnecessary requisitions within the directorates and does not add value. These also restricts flexibility where in limited circumstances buying goods and service via the internet represents best value.
- Processing order/invoices @ at a benchmark cost of £25 (end to end) for purchases below £5.
- Processes which are not fit for purpose for either creditor payments or the directorates.
- Increases suppliers costs when trading with the council

The council processed approximately 60,000 invoices in 2008/09. The breakdown by value of these is as follows:

Invoice Value	Total no. invoices
<£25	7584
£25-£250	30237
£250-£1000	12786
£1k-10k	7065
£10k-£25k	623
£25k-50k	309
£50k-£100k	218
£100k+	131
Credit invoice	1547
Grand Total	60500

Conclusions

The current process is not adding value and adding cost for little real return. On occasions the process may preventing staff from carrying out their core responsibilities in an effective manor.

Proposals

The Procure to Pay proposal seeks to improve the overall effectiveness and efficiency of the process by:

- **Implementing a portfolio of appropriate methods including self billing, procurement cards, consolidated billing, use of period /call off ordering, revised expenses process, direct debit etc.**
Introducing a minimum order value, initially at £25 with a gradual move up to £50.
- **Corporate Procurement responsible for the controlling and engagement of new suppliers.**
- Emphasising that the point of control is in the raising of the initial order, not the receipt of invoices to verify services have been received.
- Ensuring the level of control is proportionate to the level of risk the council is taking.
- Establishment of a performance framework which highlights poor practice, trends, non compliance etc..
- Reducing the transactional costs for Suppliers when dealing with the council.
- Ensuring settlement methods are incorporated as part of the contract award process to ensure administration costs do not exceed contractual benefits.

Contract Register

The council does not operate a comprehensive contract register that provides visibility of contracts across the council and to enable the annual planning of procurement events across the council. Consequently tendered events are reactive and managed in an ad hoc way. There is little opportunity to carry out the necessary reviews to ensure full value is leveraged from each event

This approach has resulted in a number of issues for the council:

- Loss of commercial advantage/maximising contractual value.
- Inability to gain full contract benefits through the aggregation of spend.
- Lack of visibility of and consistent use of corporate contracts
- Lack of visibility of contract renewals, leading to unnecessary contract extension. Therefore potential additional cost and breach of regulations.
- Use of many different contractual conditions and therefore risk exposure to the council.
 - Minimal use of contract frameworks and heavy reliance on the three quotes process.

Conclusion

The current status quo is a barrier to procurement delivering its full potential in terms of costs, performance and service quality.

Proposal

The contract management proposal seeks to improve the overall operational and management performance of the service through a combination of:

- **Implementation and maintenance of a contract register and plan for the council. This will be used to ensure timely contractual renewals and contribute to the future aggregation of contractual spend.**
- Use of standard council terms and conditions relevant to the service needs.
- **The establishment of Category management and teams to manage and drive strategic input into future procurement events.**
- **The Corporate Procurement function will be responsible for the control and oversight of all tendering activity.**

Business Case 2 – Controlling Spend

Procurement

The existing process requires a requisition to be raised which defines requirements. Subsequently this is then approved, following approval an order is generated and forwarded to the supplier by the relevant directorate. Based on current volumes up to 60,000 orders will be generated in the current financial year. The council's financial regulations require each potential purchase to be authorised prior to the goods and services being procured. In practise this is not followed. The existing process of procuring goods and services is often done in isolation and there is no mechanism to take a wider buying perspective and a general lack of awareness of what contracts are already in existence.

This approach has resulted in a number of issues::

- Lack of visibility to enable the user to understand what contracts the council has in place to support their requirements.
- Loss of commercial advantage/maximising contractual value by the inability to review and aggregate the requirements across the council. This is reflected in the low levels of on-contract spend within the council of only 54%.
- An opt out culture which has meant where corporate contracts have been let but not fully utilised, directorates in many cases have chosen to ignore them e.g. TNT postal contract.
- A failure to fully leverage the existing skills which already exist within the council. These are individuals who buy only for their

directorates but have knowledge which would add value in similar activities undertaken elsewhere within the council.

- Lack of compliance to agreed councils standards on Health and Safety, Equalities and sustainability
- Ineffective use of resources involved in the Procure to Pay cycle.

The current requisition/order process and failure to maximise the use of existing resources is preventing realisation of greater value from the day to day buying decisions made within the council.

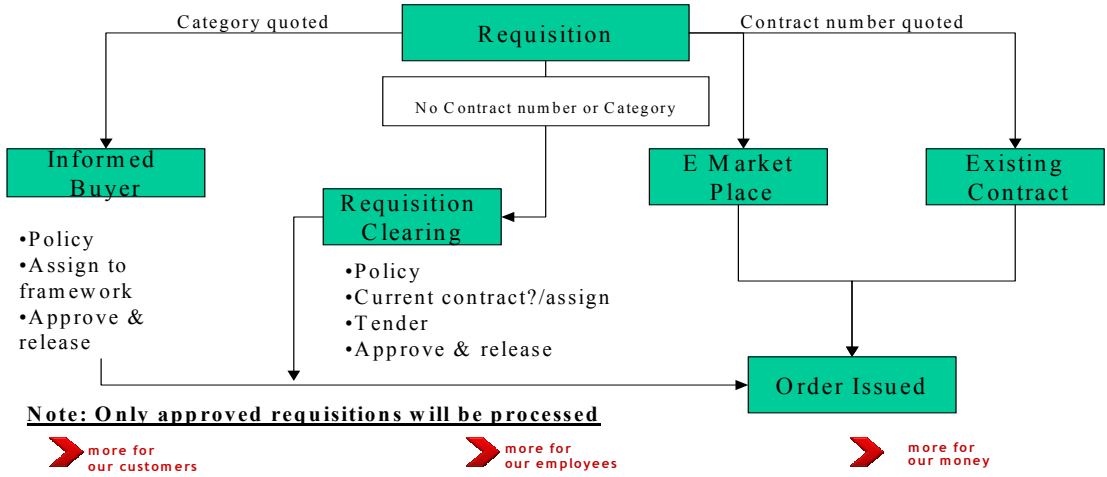
The procurement proposal seeks to improve the overall effectiveness and efficiency of the process by:

- **Review of the resources used through the council to support the Procure to Pay process. Examining the possibilities for further rationalisation and development of BPR opportunities.**
- Providing visibility to all users of the Contract types and items which are available across the council to ensure greater contract utilisation.
- **Establishing performance framework which targets performance improvement specifically to increase levels of “on” Contract spend. A focus will be the ability to increase “on” contract spend and compliance to process within the council.**
- Ensuring adherence to the councils Financial regulations include contract procurement rules.
- **Amending the current requisition process within FMS which will establish a controlled order production process for non-contracted services to either the Informed Buyer or the requisition clearing operation. The clearing operation will be established within the Corporate Procurement Function. This will enable either the Informed Buyer or Procurement Team to source the requirement where contracts already exist etc. (see fig1).**

Fig 1

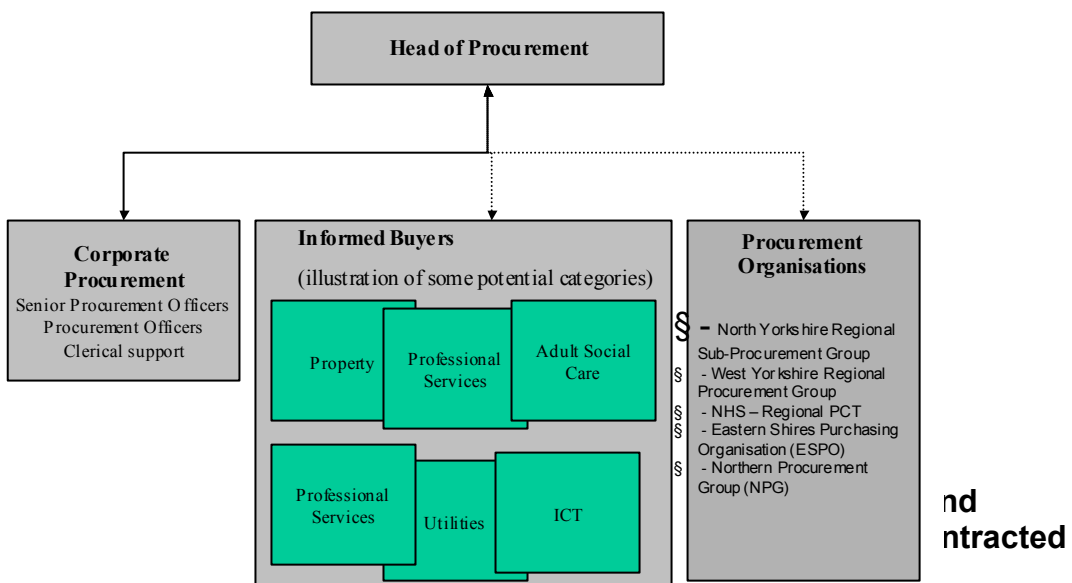


Proposed Requisition processing model



- **Creation of a network of informed buyers who will lead the relevant Category and direct purchasing activity in that area for the council. These members of staff will have a dotted line relationships into the Corporate Procurement Function. Fig 2**

Fig 2



spend in the next 3 years. This will including carry out reviews on key strategic contracts.

The plan will be priorities to commence with the following areas:

Categories - Aggregate spend through rationalisation of suppliers, examine existing contracts to ensure all spend is covered by contract etc., provision of additional contracts for Directorates to access e.g. Travel & accommodation, targeting three main categories initially of :-

- Property & infrastructure,
- Supplies & Business Services and
- Professional Services

Category	Contract status	Total (£)
Property & Infrastructure	Contract (spend above contract)	6,020,834
	Likely Contract	9,716,556
	No Contract	5,052,263
Property & Infra Total		20,789,652
Supplies & Bus. Services	Contract (spend above contract)	3,576,950
	No Contract	476,430
Supplies & Bus. Services Total		4,053,380
Prof. Services	Contract (spend above contract)	750,961
	No Contract	2,990,348
Prof. Services Total		3,741,309
Utilities	Contract (spend above contract)	366,523
Utilities Total		366,523

Suppliers – Within the targeted categories the initial plan will focus on reviews on suppliers in the following areas:

- **Property and Infrastructure** - Six suppliers have spend of over £500k p.a., much of which is off-contract or above contract spend.
- **Professional Services**
- **Supplies and Business Services:**

These reviews will include working with Directorates to agree a plan to either tender, look to switch spend to fully utilise existing current contracts etc.

Business Case 3 - Collaboration

External Collaboration

The council utilises a small number of contract frameworks via different purchasing organisation, which are:

- OGC (Buying Solutions) Frameworks
- Yorkshire Purchasing Organisation (YPO)
- NHS – Purchasing and Supply Agency

The way contracting/resourcing is currently undertaken generally excludes the ability to review the wider opportunities in the public sector arena. There is a lack of awareness of what is actually available via such agencies. As a result this impacts on performance. There are currently no processes in place, or regular reviews undertaken to determine the value derived from such strategic relationships.

This has resulted in the following:

- Increasing the number of procurement events within the council (including 3 quotes) by not fully utilising existing frameworks.
- Development of specific council terms & conditions when public sector terms already exists and will cover 90% of requirements immediately.
- Failure to maximise benefits from aggregation of spend for contracted goods and services.
- Continued use of the Yorkshire Purchasing Organisation as a default without a review of the benefits to the Council.
- Limiting membership of other purchasing organisations to just the West Yorkshire Group, restricting more local collaboration opportunities.

Conclusions

The council is failing to leverage the full value from the existing Public Sector organisations in using established framework contracts and relationships in the delivery of its services. The existing structure prevents effective use of such organisations.

Proposals

The greater use of public sector purchasing organisations has to be a key component of the council's Procurement Strategy into the future. They represent a unique way of the council achieving savings by benefiting from greater purchasing power and using other buying expertise for specific categories of spend.

The main proposals are:

- Review the current use of purchasing organisations, derived value and strategic fit. The reviews output will focus on recommendations to the short to medium term use of purchasing organisations.
- **Adopt as a principle, if a framework contract exists (within a purchasing organisation) and meets the identified need, it should be used in preference to the council conducting a full tender process or 3 quotes process.**
- In the short term widen the number of purchasing organisations we engage with to include:
 - North Yorkshire Regional Sub-Procurement Group
 - West Yorkshire Regional Procurement Group

- NHS – Regional PCT
- Eastern Shires Purchasing Organisation (ESPO)
- Northern Procurement Group (NPG)

- Where suitable frameworks are not in existence, a collaborative approach to the market/sourcing will be adopted. This will result in cross sector working in the development and management of suppliers and drive out cost reductions as a result.
- Explore joint procurement opportunities with other public sector partners.
- Use external partners/agencies (e.g. NYCC) to access specific procurement skills

Strategic Fit

The proposals contribute to the council's strategic objectives in the following ways:

- It is targeted to deliver efficiency gains in excess of £3.2m by 2013
- Provide a mechanism to deliver aggregated contract spend.
- Increase compliance to key statutory requirements and key policy areas.
- Improve the consistency of approach in terms of Health and Safety, Equality and Sustainability.
- Provide a mechanism to ensure Suppliers play their part in delivering the councils aspiration to reduce its carbon footprint by 25%.
- Ensure resources are utilised to the overall benefit of residents rather than restricted to an individual directorate.

Objectives - What will the service look like?

To deliver the promises of the vision by 2013 the Procure to Pay process will operate on the following basis:

1. A single view of all contracts currently in operation which is fully visible to all requisitioners of goods and services within the council.
2. The management of procurement spend by category - category teams will be established to best manage the spend through aggregation, managing the local market place and minimising risk to the council.
3. All contracts Tender activity will be controlled by the Corporate Procurement Function.
4. An annual contracts plan will be produced and will provide the key events for the next 12 months, this document will be up updated on a rolling three month basis. It will include a strategic assessment of the councils overall approach to procurement and how this will continue to evolve to meet changing business needs.

5. The council will be fully compliant with European Procurement Directive.
6. The number of Tender events and 3 quote processes will reduce as the aggregation of spend results in less contracts and as more services are operated via three years frameworks. The use of frameworks will improve the coverage of Health & Safety, Equalities and Sustainability on a consistent basis across the council.
7. Engagement of public sector buying groups will enable wider use of Framework Agreements which operate across the public sector.
8. Procurement skills base will be improved by the Management Development Framework and professional CIPS programme.
9. Introduction of formal supplier performance and post contract reviews, enabling lessons learnt to be fed into future sourcing events.
10. A performance culture that sets and delivers challenging operational targets that deliver upper quartile performance in all key indicators across the service.
11. Increase the level of "On" contract spend to 85% of potential contractual spend.
12. Operation of efficient Procure to Pay processes which support the changing operations within the council.
13. Targeted level of 80% of the total volume of orders and remittance will be issued via E mail.
14. Central Procurement Team will be highly skilled professionals, this will be supported by robust succession planning and promoting of continued careers development in association with CIPS.
15. 50% reduction in the number of invoices processed to less than 30,000 per annum.
16. Procure to pay processes will see the majority of small value purchases administered either by Purchasing cards, self billing or consolidated invoicing.
17. Incremental increase in use of Public Sector frameworks supported by a variety of purchasing organisations dependent on fit, quality and value of frameworks available.
18. A Procure to Pay process which uses category experts - in some areas this will utilise external skill set to ensure comprehensive coverage of the whole range of spend within the council.

Commercial Aspects

To achieve the establishment of the register, supplier categorisation, change in working practices etc. it is assumed there will be a need for two additional procurement Officers for the period of 3 year. This will provide extra capacity.

2 x Senior Procurement Officers for 3 years	£210k
FMS Amendment (Requisitioning change)	£20k

Affordability

All costs incurred in the life of the projects are to be covered by efficiency savings generated by the project over and above the original £3.2m project target savings.

Achievability

See Appendix 2 for the high level milestone plan.

The proposed model, is already adopted and operated successfully in most Local Authorities and operates successfully. Therefore it is view this proposal is low risk.

Source Information

Information leading to the completion of this Blueprint has been obtained from:

- City of York Council Efficiency review – Procurement
- Procurement Workshop events
- Interviews – See Appendix 1

Appendix 1

List of Interviewees

Tracey Carter, Assistant Director of Resources
Zara Carter, Corporate Procurement Manager
Dennis Cowley, Procurement Officer
Sam Willetts, Procurement Officer
Richard Hartle, Head of Finance, LCCS
Catherine Feeney, Accountant, LCCS
Kevin Hall, Assistant Director, LCCS
Kathy Clark, Assistant Director, HASS
Andy Wilcock, Housing, HASS
Martin Scaife, Neighbourhood Manager, Neighbourhoods
Howard Watson, Project Lead, City Strategy
Graham Peary, Procurement Officer, City Strategy
Chris Tissiman, HR Corporate Development Manager, Resources
Roy Grant, Head of ICT, Resources

Draft Milestone Plan - Procure to pay V2

			Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10					
Efficiency	Activity	Owner																					
	Blueprinting		▲ CMT approval	▲ Executive sign on	▲ Agree the outline for the gear 2 plan.									▲ Agree the outline for the gear 3 plan.				▲ Linkage with Mgt Development Framework					
	Managers - Support & Development		▲ Programme Development		▲ Informed Buyer FMS training			▲ Informed Buyer FMS training		▲ Requisition Trainer and Procurement Awareness programme								▲					
	Management Information & Performance Mgt			▲ Phase 1 Establishment of initial Balanced Score Card	▲ Directorate performance pack	▲ Implement Compliance Reporting		▲ First Report Annual Supplier assessment: Risk environment, continuity of supply etc. to Financial regulations		▲ Introduce quarterly updates on Contract Awards, value and overall P2P trends to		▲ Introduce CIPS/INVQ programme		▲ Phase 2 Enhance Balance Score card and SLA									
	Structure			▲ Agree role definitions					▲ Phase 1 Implement new structure								▲ Phase 2 Implement new structure						
	Forensic Audit			▲ award interim Contract				▲ Issue ITT scope to include Telecoms & Environment				▲ Award Contract on an Evergreen basis											
	Procure to Pay Process		▲ Agree Portfolio approach and develop	▲ Agree Invoice Reduction plan		▲ Implement Informed Buyer Req workflow		▲ Agreed procedures and issue first P cards		▲ Complete Revision of process and procedures		▲ Implement Trapeze Self billing					▲ Competed Invoice Reduction Plan						
	Contract Plan		▲ Establishment of initial Contract ownership & register	▲ All Tendering activity to be lead by Procurement	▲ Potential revision to Financial regulations		▲ Contract item register etc. available to all	▲ Creation of Contract plan for rolling 18 months basis.		▲ Completion of establishment of standard Terms and conditions, PQQ & ITT's.					▲ All new contract issued will conform to standard templates. An aspect is the ability to ensure commitments are consistent with CYC's P2P process and policies.								
Supplier Mgt		▲ Agree target top 10 and top 3 category focus for value.	▲ Introduction of Category Mgt Framework	▲ Supplier Control Framework including Supplier line		▲ Start Supplier Review info BACS etc.	▲ Development and Establishment of Category Council principle		▲ Complete Supplier Review		▲ Completed Category roll out						▲ Establish annual Key strct supplier review process						
Operational	Tender Renewals	Zara Carter	To be completed																				
Systems	E Market Place			▲ Updating existing Cats. To ensure they only display contract items		▲ Identify potential partners and spend.			▲ Implement recommendations														
	SCMS		To be completed																				
	FMS		▲ Dev. Dtg Debit procedure	▲ unhook budget linkages	▲ All core data updated and workflows		▲ Confirm data Ownership	▲ Dev. of P Card processing		▲ Revised daily expenses process		▲ Trapeze Interface goes live							▲ Issue: Do we switch off??				
Misc	Communication		To be completed																				
	More for York Programme Consultation		To be completed																				
	More for York P2P Support activities		To be completed																				
			▲ Milestone Completed	▲ Milestone on Target	▲ Milestone Overdue / missed	▲ Milestone at Risk	▲ Date TBC	▲ Milestone on hold	▲ Milestone baseline and progress reported to Project Board														

Benefit Realisation

PROCUREMENT	Year 0 2009/10	Year 1 2010/11	Year 2 2011/12	Year 3 2012/13	Total
Procurement Card Rebate		£ 20,000	£ 60,000	£ 10,000	£ 90,000
Postage and consumables based on e-transactions		£ 10,000	£ 20,000	£ 10,000	£ 40,000
Reduction in invoice processing			£ 20,000	£ 40,000	£ 60,000
Staff Efficiency			£ 15,000	£ 15,000	£ 30,000
On contract spend review 2% reduction	£ -	£ 150,000	£ 400,000	£ 530,000	£ 1,080,000
Off contract spend 4% reduction	£ 20,000	£ 80,000	£ 350,000	£ 1,470,000	£ 1,920,000
Forensic Audit	£ -	£ 150,000	£ 60,000	£ 50,000	£ 260,000
Total Savings	£ 20,000	£ 410,000	£ 925,000	£ 2,125,000	£ 3,480,000
Investments	£20,000	£70,000	£70,000	£70,000	£230,000

MoreforYork PROGRAMME / PROJECT DECISION LOG

Workstream: Procurement

Ref No.	Decision - Details	By Who)	Date
PC1	The Corporate Procurement function will be responsible for the control and oversight of all tendering activity and controlling and engagement of new suppliers.	CMT	30/9/2009
PC2	Creation of a network of informed buyers who will lead the relevant category and direct purchasing activity in that area for the Council. These members of staff will have dotted line relationships into the Corporate Procurement Function	CMT	30/9/2009
PC3	Implementing a portfolio of appropriate methods including self billing, procurement cards, consolidated billing, use of period /call off ordering, revised expenses process, direct debit etc	CMT	30/9/2009
PC4	Review and revise the Procure to Pay processes to increase control reduce complexity and effort.	CMT	30/9/2009
PC5	Assert control over ordering by establishing Informed Buyers and a requisition clearing house and amending the current requisition process within FMS.	CMT	30/9/2009
PC6	Develop action plans and a performance framework to increase the level of Contracted spend in the next 3 years. This will including carry out reviews on key strategic contracts	CMT	30/9/2009
PC7	Review the current use of purchasing organisations. The reviews output will focus on recommendations to the short to medium term use of purchasing organisations and existing consortia arrangements	CMT	30/9/2009
PC8	Make framework contracts mandatory where they meet the identified need. They should be used in preference to the council conducting a full tender process or 3 quotes process.	CMT	30/9/2009

Procurement Financials

	Year 0	Year 1	Year 2	Year 3	Ongoing Run Rate
Savings	20k	410k	925k	2,125k	£3,480k
Investment	20k	70k	70k	70k	