

	
Executive	7 th September 2010
Report of the Chief Executive	

More for York - Procurement Workstream Update

Summary

1. This report provides Members with an update on the progress of the More for York procurement workstream in delivering savings, identifies increased potential savings both in year and in future years, sets out a proposed delivery method and requests a change to the More for York investment profile agreed in February 2010 to facilitate the delivery of increased savings.

Background

2. Procurement is a key workstream within the More for York programme and is expected to deliver large-scale savings. Procurement can deliver better value for money and reduce spend on goods and services without having an impact upon the quality of services to customer. Maximising savings generated from procurement will also lessen the impact of savings upon the workforce.
3. The Procurement workstream has made good progress and the in year target savings of £400k to the General Fund (GF) have already been over achieved by +£259k, a total of £659k savings. In addition to this a further £927k savings have been made that will accrue to the Direct Schools Grant (DSG). A full breakdown of these savings is set out in Annex A. The long-term efficiencies that can be delivered by more effective procurement vastly outstrip the modest existing targets. This report sets out greater potential for savings and sets out an approach to delivering these savings and establishing a different operating model for the procurement function within CYC.
4. Since January 2010 we have concentrated the internal team on delivering savings and have utilised a company called V4 to undertake the analysis of potential savings and delivery mechanisms. This work has concluded that the procurement function requires an expanded mandate to control expenditure and ensure that procurement activity delivers goods and services at the lowest cost and highest quality across the whole organisation. The function needs to be refocused away from simply providing compliance advice and guidance and towards the delivery of savings, establishing a Commercial Hub for the organisation.

Current Operating Model

5. The procurement function in CYC has historically had a predominantly Governance focus. It operates with a small central unit providing: -
- Governance - advising on adherence to financial regulations
 - Advice on OJEU compliance
 - Procurement of some corporate contracts.
 - Links with local SMEs via Chamber of Commerce etc to help local suppliers to do business with the Council

Whilst Directorates undertake the following functions: -

- Significant level of procurement – many of high value
- Commissioning – Specification of goods and services, service levels and quality
- Negotiation with suppliers
- Contract Management
- Requisitioning – ordering and authorising payment for goods and services

Options

6. The proposed alternative operating model is to create a Commercial Hub which becomes the commercial arm of the organisation, with visibility and control of all procurement activity which will enable it to drive out value and lower the cost of goods and services.

Commercial Hub

- Control Procurements
- Challenge specification and needs
- Provide Commercial Focus to specification
- Identify best route to market
- Negotiation with suppliers
- Contract and Supplier Management

Directorates

- Service specialists identify service requirements and assist with specifications
- Commissioning skills to define strategic requirements
- Informed Buyers requisition from corporate contracts

7. The benefits of this approach are: -

- Control and visibility of all significant procurement
- Demand Management – buying only what we absolutely need
- Aggregate requirements – by managing categories of spend ensure we do not buy the same goods from multiple suppliers
- Contract Management – Buying from contracts we negotiate and then getting what we pay for and managing suppliers to perform and constantly challenge costs
- Commercial negotiation with suppliers – getting the best deals possible
- Partnership working – identify potential for shared purchasing with other agencies – increased market leverage and reduced cost
- Better Value for Money
- **Additional net savings of £1.25m in 2010/11**
- **Potential annual savings of between £3m-5m in next 2 years**

8. There are three priorities for the remainder of the year
 - Deliver increased level of savings
 - Implement controls, policies and processes to ensure savings are achieved and retained
 - Develop the Commercial Hub to deliver long-term savings
9. Currently, CYC do not have the in house capacity to simultaneously undertake the work set out above. The Procurement team has an establishment of 6 ftes and are carrying 2 vacancies due to staff turnover and one secondment. Whilst the alternative delivery model was being devised, no recruitment has taken place to avoid potentially recruiting permanent staff with the wrong skills to operate in an outmoded model of delivery. We have been using specialist interim agency staff but this is expensive and offers no guaranteed results.
10. The proposal is to establish a core internal procurement team who will undertake the bread and butter, regular procurement activities. This resource will then be supplemented by bringing in specialist category managers who will lead on certain categories of spend i.e. when we need to procure utilities we will bring in a specialist who has extensive experience in this field and possesses up to date knowledge of the current market and suppliers. It would not be cost effective for us to employ such specialists permanently and their specialism would soon become obsolete. The new team would be funded from existing budgets supplemented by More for York investment identified in February's budget report. The exact balance between permanent staff and temporary specialists will be defined over the coming months as we do further detailed analysis of our category spend and identify how much work is needed in each category. The detailed technical methodology of how procurement can drive out savings is set out in a revised Procurement Blueprint which is available on request.
11. It is believed that collaboration with other authorities to create a shared commercial hub will both reduce the cost of the specialist skills and create greater opportunities for shared procurements. We have recently joined with Calderdale in an OJEU tender exercise to procure expert support but we are not committed to any costs at this stage. This idea will be explored further in the autumn and will possibly lead to a contract from April 2011.
12. In the meantime we do not wish to lose momentum and waste opportunities for making further savings. It is therefore proposed to utilise V4 from an OJEU compliant OGC framework to bring in a team between September 2010 and April 2011 to :-
 - Introduce Demand Management - Implement controls to stop unnecessary spend and drive out better deals and value from existing contracts
 - Retender any contracts that are not commercially attractive/beneficial to CYC
 - Develop future category plans
 - Support the implementation of the Commercial Hub
 - Deliver £1.25m in year net savings before April 2011 through demand management and category management
13. CMT have considered the need to make urgent progress in this area and have agreed a short term piece of work with V4 to :-
 - Review the contracts with our top 30 suppliers to drive out savings from our existing high spend areas
 - Implement demand management programmes in the following areas

- Specialist and Interim staff
- Agency Staff
- Stationary
- Travel and Accommodation
- Legal Services
- Uniforms
- Multi Functional Devices (printing/photocopying/scanning/fax)
- ICT support and maintenance

Analysis

14. Procurement is seen by all local authorities as a key and relatively painless source of savings. The Government recently appointed Phillip Green, the CEO for Arcadia, to lead their own Organisational Efficiency programme and his opening comments suggest that procurement will be a priority, with a particular focus upon aggregating requirements from all Central Government departments and jointly procuring them. The More for York Programme must increase the level of savings to be delivered from procurement and the commercial model set out above is being used by many authorities and has a proven track record.
15. Failure to implement significant change in this area will mean missing an opportunity to reduce costs, month on month. Given the financial position of all local authorities this is not desirable. CYC needs to make increased savings as soon as possible.
16. Options to deliver a similar programme in house have been considered but have not proved tenable. We would not be able to guarantee to find people (either to employ directly or as interims) with the right experience and skills at short notice. This skill set is in demand at the moment and delay will mean a costly lost opportunity.
17. Successful delivery will be based upon using people with the experience of implementing complex demand management programmes in a local government setting. These skills are available to us through the pre-tendered OGC framework which has identified V4 as a top provider in this area, providing cost effective services. The Commercial Hub model was introduced by V4 as part of their earlier work with CYC. The company has successfully introduced this model in a number of other authorities including Peterborough, Calderdale, Havering, Woking and Buckinghamshire and are implementing this model in Darlington. V4 have delivered significant savings through this model and already have a thorough grounding in the specific detail of CYC data, processes and behaviours it is not felt that a competition under the OGC framework or indeed a stand alone tender would deliver any advantage and would serve only to delay the work on achieving savings.

Consultation

18. CMT have considered this issue in depth and recommend this proposal to the Executive. Unions have been consulted on the proposals via the More for York Board and have expressed support for the drive to maximise savings in this way.

Implications

19.

(a) Financial

The More for York Programme includes investment to deliver the entire programme of £1.2m. Of this, a recurring sum of £160k per annum and a one off sum of £110k have been earmarked for the procurement workstream. Of this £90k is remaining in 2010/11. The additional costs of the work set out above are £300k and this will be funded by utilising the remaining £90k, supplemented by £210k of unused funds from the MFY investment profile, funds that will not be used for other work streams such as ICT, income collection and the Project Management Office.

- (b) **Human Resources (HR)** – HR support will be required when detailed staffing structures are devised. This will be provided by the MFY HR lead.
- (c) **Equalities** - A desktop EIA has been undertaken on this blueprint and there are no implications
- (d) **Legal** - Drawing down services from an OGC pre-tendered contract is in line with OJEU legislation and the Council's own financial regulations. The long term implications of improved procurement practices will reduce the risk of legal challenge from OJEU or suppliers across the piece and will protect the Council's legal position by ensuring proper contracts are in place and are actively managed.
- (e) **Crime and Disorder** - None
- (f) **Information Technology (IT)** - This proposal will require changes to FMS to support streamlined Purchase to Pay processes – this can be resourced within the existing FMS support team.
- (g) **Property** - None
- (h) **Other** - None

Risk Management

20. This issue covers two major risks

- Failure to make increased savings will create greater pressure on other service areas to generate cuts – Mitigation – A closely managed programme to deliver savings overseen through a fortnightly Gateway Board which will report to the More for York Programme Board
- Failure to procure and requisition all goods and services in line with our financial regulations and OJEU legislation and operate effective processes for the raising of purchase orders presents risks of challenge from OJEU or suppliers. Mitigation – Implementation of improved processes and controls with an accompanying communication and training plan for staff to ensure compliance

Recommendations

21. Members are asked to

- Agree the proposal to establish a Commercial Hub
- Agree the appointment of V4 to undertake procurement work between September 2010 and March 2011

- To fund this through a variation to the investment fund already set aside for More for York

Reason

To improve the long term effectiveness of the Procurement function and generate savings of £1.25m in 2010/11.

Contact Details

Author:		Chief Officer Responsible for the report:			
Author's name: Tracey Carter Title: Assistant Director – Office of the Chief Executive Dept Name: Office of the Chief Executive Tel No: 553419.		Chief Officer's name Kersten England Title Chief Executive			
Co-Author's Name: Zara Carter Title: Corporate Procurement Manager Dept: Office of the Chief Executive Tel No: 552930		Report Approved	√	Date	24 th Aug 2010
Specialist Implications Officer(s)					
<i>Implication Financial</i> Name <i>Ross Brown</i> Title <i>MFY Accountancy lead</i> Tel No. <i>551207</i>		<i>Implication HR</i> Name <i>Claire Waind</i> Title <i>MFY HR lead</i> Tel No. <i>554519</i>		<i>Legal –</i> Name <i>Glen McCusker</i> Title <i>Deputy Monitoring Officer</i> Tel <i>551048</i>	
Wards Affected:					All √
For further information please contact the author of the report					

Background Papers:

Procurement Blueprint October 2009
Procurement Blueprint Update – July 2010

Annex A – Savings made to date 2010/11