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## **Effective Organisation Overview & Scrutiny Committee**

6 October 2010

Report of the Assistant Director – Office of the Chief Executive

### **Briefing Report on Procurement**

#### **Summary**

1. This report provides Members with an update on the procurement arrangements across the Council, and is for information only.

#### **Background**

2. Procurement in CYC is a key workstream within the More for York programme and is expected to deliver large-scale savings. It 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 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 saving has been made that will accrue to the Direct Schools Grant (DSG).
4. Procurement plays a pivotal role in achieving efficiency savings and is the custodian of best practice commercial approaches and techniques which both shape and manage supply markets. Procurement in CYC has (until recently) had neither the mandate or the permanent resource base with the skill sets required to implement this. Historically Procurement has had only a partial view of and involvement in much of the procurement activity within CYC. Its role has largely been one of compliance management around EU Procurement Regulations & CYC's Financial Regulations, often getting involved only at the contract signing stage with hands on input into a small number of corporate contracts whilst each directorate undertook the following:
  - 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

#### **The Commercial Hub**

5. Since January 2010 the internal team have concentrated on delivering savings and have utilised a company called V4 to undertake the analysis of potential savings and delivery mechanisms. This work 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. It also identified problems with:

- Historic data categorisation which make data analysis of spend difficult
  - Procure to Pay processes which are being worked upon by the Finance FMS team.
6. It has been recognised that the function needs to be refocused away from simply providing compliance advice and guidance and towards the delivery of savings. Approval to establish the Commercial Hub was granted by the council's Executive members on 7<sup>th</sup> September 2010. This provides the ability for the Commercial Hub (formerly Procurement) to:
- Challenge the need to procure (using Demand Management practices). Do we need the things we are intending to buy and are we specifying them to the appropriate level – not too high/low?
  - Assess whether others within or outside CYC buying the same thing and can we aggregate our requirements to achieve better value
  - Shape markets and work on supplier relationship management (SRM) programmes that deliver innovation, service improvements, risk management of supply and cost reduction in the provision of goods, services and processes.
7. The Commercial Hub will be 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 and will provide the following:
- 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. All of these new requirements mean that a skill set that is centered on contract letting and the management of the OJEU process is going to be inadequate to meet the challenges faced by local authority Corporate Procurement teams. Additional skills that will be required include:
- Demand Management
  - Category Management
  - Strategic Sourcing
  - Supplier Relationship Management (SRM)
  - Contract Management
  - Commercial Management
  - Negotiation
  - Activity based costing / total cost of ownership

- Make – Buy decision-making
9. There are a large number of people within CYC who are outside of the Commercial Hub (formerly Procurement) who have a significant role to play in the procurement process. These include (but are not limited to) people in social care who specify requirements and interact with suppliers to shape markets, people in ICT who manage much of the spend in that area and people in every directorate who make purchases under CYC's Financial Regulations currently with no involvement from the Corporate Procurement team.
  10. Commercialism, experience and benchmarking data are fundamental to elevating CYC's procurement activity to a strategic level to ensure ongoing delivery of cashable savings year on year
  11. Currently, CYC do not have the in house capacity to simultaneously undertake the work set out above. The Procurement team has an establishment of 5 FTE's and are carrying 2 vacancies due to staff turnover. Whilst the alternative delivery model was being devised, no recruitment took 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. These resources are being run down over the next month.

## **Delivering Savings**

12. **Short Term** 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.
13. The new policy for the engagement of specialists and interims was launched on the 14<sup>th</sup> September by the Commercial Hub. This enables the Hub to manage the demand for external resources to ensure that demand is managed and external resources are only used when absolutely necessary and that the engagements are output based i.e. linked to a pre-defined deliverable for a fixed fee. Overall, the policy has been received positively and allows officers to focus on their core activity whilst the Commercial Hub sources against their requirement at the best possible commercial rate. This will be followed by similar work in the categories of
  - Agency Staff
  - Stationary
  - Travel and Accommodation
  - Legal Services
  - Uniforms
  - Multi Functional Devices (printing/photocopying/scanning/fax)
  - ICT support and maintenance
14. Work has also been undertaken to establish our top 200 suppliers who account for 80% of our spend. Contracts are being collated in one place and assessments are underway to establish whether there are any "quick wins" to be achieved from a

financial perspective whilst ensuring that output/quality is not compromised. Suppliers have been requested to attend meetings to discuss this and initial signs are positive.

15. **Medium Term** The Council's Executive have agreed 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 knowledge of the market would only be required on an ad-hoc basis.
16. The new team will be funded from existing budgets and 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 alongside the contracting lifecycle.
17. 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. To explore this further, 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.

## **Environmental, economic and social requirements**

18. The CYC Procurement strategy sets out our focus on sustainability and economic development issues which means that economic considerations have to be balanced against environmental and social requirements. Achieving the lowest price is no longer the only way of achieving value from our procurement spend. We will be revising our procurement strategy to improve our focus on the so-called "triple baseline" of requirements – environmental, economic and social, with the latter embracing policy issues such as inclusiveness, diversity, equality and regeneration.
19. In the meantime we have secured funding for a couple of workshops to be hosted by the Improvement Development Agency (IDEA) to promote collaboration with the voluntary and community sector. The first workshop is scheduled to take place in York on the 7<sup>th</sup> October.
20. The "Meet the Buyer" event, which was hosted at the Guildhall on The 7th September, attracted a wide variety of SME's and Voluntary Sector Organisations (VSO's). The feedback from attendees at the event was that it highlighted how they may approach CYC to supply goods and services, but also that we had taken time to explain how the council is bound to undertake procurement both from our own Financial Regulations perspective and the EU Legislation. This will now become an annual event.
21. The Head of Procurement has been the guest speaker at the Leeds and York Chamber of Commerce and explained how CYC undertakes its tenders, an overview of EU Procurement Legislation along with information about how to

understand the tender documentation. A follow up session is to take place with the York Science Park before the end of the year.

22. We have also revised our approach to tender activity in order to enable SME's and the VSO's to bid for some of the Council's larger requirements. A recent example was for the requirement to provide Adult Social Care. This was broken down into 2 elements – Tier 1 & Tier 2. Tier 1 was aimed at larger organisations or consortiums for the “bulk” requirement of the care. Tier 2 was aimed at providing a supplementary solution to the Tier 1's if for some reason they were unable to fulfill a requirement. The Tier 2 work is on a smaller scale and was aimed at SME's and VSO's. The response to this approach has been very positive with 9 tender submissions received last week. Final evaluations are underway and it is anticipated that the contracts will be awarded before the end of October.
23. Another project is for the purchase of Food for the Elderly People's Homes (EPH's). Work has been undertaken to establish a core list of requirements, which can be used across all 9 homes. These are now in the process of being sent out to local providers for quotation and subsequent award. The intention is to reduce the number of deliveries e.g. milk deliveries 3 times per week instead of 6 and to work with local providers. This will not only have a cost benefit but will also support the carbon reduction programme. More information will be available in respect of this when the exercise has been completed towards the end of this year.

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**Report Approved**



**Date**

24 September 2010

**Wards Affected**

**All**



**For further information please contact the author of the report**