Procurement Service Improvement

Cabinet Member for Finance and Democratic Services

Date:	4 September 2018
Agenda Item:	6
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Key Decision?	**YES**
Local Ward Members	All.

CABINET

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1. Executive Summary

1.1 Procurement within local government is extremely important as bad practices can lead to legal challenges, financial loss and reputational damage.

1.2 The council's approach to procurement and contract management changed in 2011 with the service largely being dissolved and replaced by an agreement put in place with Staffordshire County Council to provide procurement advice and support. The Council chose to implement a decentralised approach to procurement.

1.3 As part of the management restructure in 2017, the responsibility for procurement moved to the Head of Finance and Procurement who requested a review be undertaken to assess the current level of performance and compliance.

1.4 The review found that the council spent around £8,696,955 on goods and services, raising around 5,494 invoices against 852 unique suppliers. The information analysis provided an insight in to the current situation and identified areas for further analysis and improvement.

1.5 It became clear that a lack of corporate procurement leadership has led to fragmented and differentiated procurement practices, raising the risks of non-compliance with procurement rules and legislation. This resulted in an improvement plan being created and is being delivered.

1.6 Money was obtained from the Local Government Association (LGA) to provide expert advice, and assist our ambition to improvement procurement, leading to;

- A revised approach to training to develop knowledge and skills. This has been specified and is currently being commissioned.

- A refreshed procurement portal on the intranet (Brian), providing all the necessary information and documentation to enable more self-help and self-service, while promoting good practice. This has been drafted and is in the process of being built.

- A project to further roll out the use of procurement cards (council credit cards) to reduce the number of invoices for low level spend, and one-off transactions, and so save around £15,000 in administering and processing invoices.

1.7 Our contract procedure rules were updated in the new constitution to ensure that all requirements were clearly identified and articulated, further reducing the risk of non-compliance.

1.8 In addition, the agreement between Staffordshire County Council was identified as being out of date with many of the contractual terms are no longer being met. This arrangement has a review date of 30 September 2018.

1.9 Through engagement with contract owners, it was clear that the support being offered did not meet our needs and so a revised service requirements document was created. An exercise was undertaken

to consider the options available, including; continuing with the existing arrangement, recruiting a procurement officer, purchasing the services from another council or outsourcing the service to the private sector. It was felt that the resilience and relevant expertise offered through a service provided through another council would offer the best price and fit.

1.10   Discussions were held with several councils in the region which led to quotes being requested from two of them. A quote was received from Wolverhampton City Council with a cost of £56,490 per annum, the equivalent to recruiting a salaried procurement expert. However, the proposal provides greater resilience with access to a large procurement team and their procurement systems.

1.11   A range of potential contract savings have already been identified and it believed that with the improved support the arrangement could be self-funding, as it would be set a realistic target to reduce procurement spend by 1% each year (equivalent to around £86,970). This is not an unrealistic achievement as some neighbouring authorities have already set and achieved this target.

2.   Recommendations

2.1   Acknowledge the report and the current work being done to improve procurement practices and outcomes

2.2   Cabinet approve the entry in to a service level agreement with Wolverhampton City Council to deliver our procurement support for a period of four and a half years (until 2022/23) at total cost of £260,085 (not including any inflation or software cost increases)

2.3   Cabinet recommend to Council the approval of changes to the Medium Term Financial Strategy detailed in the financial implications section of this report.

3.   Background

3.1   Procurement within local government is extremely important as it is governed by a complex range of rules and legislation, aimed at ensuring good practice, best value and mitigating the risk of fraud. As a public body, spending public funds any non-compliance can put the council at risk both in terms of financially and to our reputation.

3.2   The council's approach to procurement and contract management changed in 2011 when the function was largely dissolved due to senior posts becoming vacant. As a result, an agreement was put in place with Staffordshire County Council to provide procurement advice and support and staff were transferred to the County to support delivery.

3.3   A review of this arrangement in 2015 showed that there had been changes within the Procurement Team at the County Council which was resulting in a reduced level of support. In addition, the decentralised model within Lichfield District Council (LDC) had led to a more fragmented approach to procurement with different practices being used across the organisation.

3.4   As part of the management restructure, responsibility for procurement was transferred, and in 2017 a further review of the service and practices was request of the Head of Finance and Procurement. The aim of the review was to consider;

- Our approach to procurement strategy, the procurement code and responsibilities
- The effectiveness of our communication, learning and development
- Our response to transparency requirements
- The accuracy or our contracts register and processes related to it
- The contract procedure rules in relation to our commercialisation agenda
- The contractual relationship with Staffordshire County Council

- The historic and projected spend and how this is being managed (contract management)
- Compliance with procurement law and our own governance

3.5 Money was bid for, and obtained, from the Local Government Association (LGA) to support this review and the delivery of an improvement plan. This has already resulted in a clear plan for improvement, some of which is already underway.

3.6 Procurement Analysis

3.7 The review analysed the spend data from across the organisation in the three years until 2016/17, and discovered the following;

- £8,696,955 total spend
- 5,494 total number of invoices
- 852 unique suppliers
- 41% of transactions are one-off
- 13% of suppliers provide more than 12 invoices each year
- 6 average suppliers per subjective code
- 2% of suppliers account for 54% of annual spend (focus for savings)
- 51% of suppliers account for 2% of spend (focus for process improvement)

3.8 Procurement Practices

3.9 The review of practices across the organisation identified a number of opportunities to introduce best practice, reduce costs and remove areas of potential non-compliance. Improvements could be introduced across the procurement lifecycle and not simply focused on buying goods or services, but also how contracts are managed to provide value.

3.10 Managers will be expected to ask if procurement is the right solution, or if there is a better way, such as sharing, doing it ourselves or innovating. This can be overlooked particularly where a good or service is being retendered. Instead, there should be an early assessment of the market and, where required, engagement with key suppliers.

3.11 If procurement is the preferred route, then the method will be determined by the level of spend as well as four other factors, these being;

- Repeatability (is the procurement going to be repeated or one-off)
- Complexity (how complex is the procurement)
- Value and Risk (value of the procurement or the level of risk to the authority)
- Commonality (is it common to a number of services or authorities or specific to us)

3.12 For example, low value, low risk and non-repeatable purchases would not require a formal tender exercise and may often not even require quotes, and so should be done using the fastest and least costly route e.g. procurement or council credit card.

3.13 The council is not always best placed to determine how goods or services are delivered, and so there should be a move away from conformance specifications and towards outcome specifications. This will allow clear outcomes to be set, and potentially measured, while permitting the supplier to work with us to determine the best way to achieve them, providing space to innovate.

3.14 Procurement Skills and Guidance

3.15 Training has historically focused on the rules, regulations and legislation, and has been less focused on developing skills and expertise. Therefore, the training is currently being redesigned to provide bite-size sessions focused on four key areas of skills, knowledge and expertise, these being;

- An overview of procurement
- Writing a specification
- Conducting a procurement exercise
- Managing a contract

3.16   This will be supported by a refreshed procurement portal on the intranet (Brian), providing all the necessary information and documentation to enable more self-help and self-service, while promoting good practice.

3.17   The decentralised approach to procurement has led to a number of areas for improvement, where savings could be realised by aggregating or disaggregating contracts. The recent review of higher value contracts has provided examples of where this could take place although there are likely to be other opportunities as the lower value contracts are also considered.

3.18   It is recommended that contracts are reviewed cross-organisation and aggregated in to corporate contracts where there is an opportunity exists, for example; where there are similar products or services, or where goods and services are aligned (i.e. equipment purchase and maintenance).

3.19   Procurement Methods

3.20   The council pay around 5,000 invoices each year from around 850 suppliers. The process of raising purchase orders, receipting goods and paying invoices is quite intensive and costly. Case studies from other councils have shown that moving to e-procurement can produce savings through the automation of elements of the process. This is reliant on our software provider and suppliers being able to utilise this, and as such provides limitations in the savings available to us.

3.21   However, the National Audit Office (NAO) stated that despite traditional payment methods, such as invoices, decreasing in price over time, the benefit of using different means of payment, such as purchase cards, could potentially save 35%, or £5 per transaction. In addition, a recent case study at Dudley Metropolitan Borough Council demonstrated savings of up to £28 per transaction.

3.22   The council have purchase cards (business credit cards) in use across the council but uptake has been limited. However, a project has begun to increase the use of this payment method in a sensible and structured way, as it can provide savings along with some additional reporting and governance benefits. If all low value, low risk and non-repeatable purchases used purchase cards as their means of payment then this could provide a minimum annual saving of around £15,000.

3.23   Corporate Compliance

3.24   The council has contract procedure rules that set out the procurement routes expected for procurement exercises, depending on the overall value of the contract to be let. This ranges from small one-off purchases, to very high-value corporate contracts.

3.25   In addition, under the Local Government Transparency Code 2015, LDC is required to publish a range of information relating to financial transactions. This includes;

- All expenditure exceeding £500 (incl.; date of expenditure, department, beneficiary, summary of purpose, amount, VAT that cannot be recovered and merchant category).

- All procurement card transactions (incl.; date of transaction, department, beneficiary, amount, VAT that cannot be recovered, summary of purpose and merchant category).

- All procurement details of invitations to tender over £5000 (incl.; reference number, title, description of good or services sought, start date of contract, end date of contract, review dates of contracts, department responsible)

- All procurement details of contracts, frameworks or other legally enforceable agreement over £5000 (incl.; reference number, title of agreement, department responsible, description of good or services, supplier name and details, sum to be paid over the length of the contract or estimated

annual spend or budget, VAT that cannot be recovered, start date of contract, end date of contract, review dates of contracts, whether the contract was an invitation to quote or invitation to tender, whether or not the supplier is a SME, voluntary or charitable organisation with registration number).

3.26   It should also be noted, that as a result of the Procurement Policy Note (PPN) 07/16 the council are required to publish opportunities or awards over £25,000 on to Contract Finder (the government portal for public sector contracts, https://www.gov.uk/contracts-finder).

3.27   Currently, the council are largely compliant with all of these requirements but the review did identify areas for improvement. The most significant issues identified during the review was a lack of awareness by contract owners to update the council's contract register when contracts are retendered, and to ensure contracts finder was updated also.

3.28   The revised contract procedure rules are now clear on the need to undertake both of these actions, and the revised guidance being released on the intranet will also be clear on the above requirements. The contract register has also been updated and published and so we remain compliant with our transparency obligations. However this process remains a manual exercise as we do not have specific software for procurement and contract management, something that is being investigated.

3.29   Procurement Support

3.30   The existing relationship with Staffordshire County Council (SCC) is out of date, and the contractual terms are no longer being met. The support being offered is limited to larger (EU) procurement, and managers are left to self-serve on smaller value procurement exercises. The current contract anticipates that we would be required to spend £600 for the support provided to simple EU procurement exercises. We have around 36 contracts that are above the EU threshold, running on average for 4 years. Therefore, if nine contracts were to be retendered each year, this would cost a minimum of £5,400 per annum.

3.31   The contract review date is 30 September 2018, at which point it is proposed that there will be a requirement to redraft the arrangement and revise the terms to more effectively meet our needs.

3.32   Individual discussions with contract owners (managers) and a group workshop, provided a sense that procurement was felt as being an add-on. It was viewed as an activity that is not undertaken frequently and as such, there was often limited knowledge or time available to achieve the best outcome.

3.33   There was a clear demand for procurement expertise to provide advice, guidance and support, and contract owners felt this would bring significant benefit to procurement activities and outcomes, enabling better value for money from our contracts.

3.34   The information from this work, along with an analysis of procurement practices in other councils, were used to create an updated requirements specification. This introduced an advisory line, greater support, proactive analysis and reporting, an onsite presence, and access to templates and systems. This was tested with some contract owners internally and procurement a procurement expert from the Local Government Association (LGA).

3.35   An exercise was undertaken to consider the options available, including; continuing with the existing arrangement, recruiting a procurement officer, purchasing the services from another council or outsourcing the service to the private sector. It was felt that the resilience and relevant expertise offered through a service provided through another council would offer the best price and fit.

3.36   Discussions were held with several councils in the region which led to quotes being requested from two of them. A quote was received from Wolverhampton City Council with a cost of £56,490 per annum (£260,085 for a four and a half year agreement). It is proposed that a four and a half year agreement is entered as this will give time to develop and embed our procurement approach, however we will have an annual break clause should the arrangement need to be reconsidered.

3.37 This is equivalent to the likely costs of recruiting a salaried procurement expert, however the proposal provides greater resilience as we will have access to a large procurement team, while also providing access to existing systems and processes thereby removing the need for us to procure or develop these separately.

3.38 It should be noted that the procurement service in Wolverhampton is well considered across their peers in the region, and have been praised for their work in regards to social value and innovative procurement, work they can replicate for our council. In addition, as a unitary council, they procure all of the services that a district council would, making them more synergistic than a county council.

3.39 Wolverhampton City Council have also provided a one-off cost of up to £47,100 to support the improvement of current practices, supporting the work outlined earlier in this report, to increase skills, knowledge and expertise, while increasing compliance and reducing risk. This work has already begun using internal support, and a budget for further improvements and the first six months of the contract are identified within the fit for the future budget, hence the option of additional support is being considered.

3.40 A range of potential contract savings have already been identified through the review, and it believed that with improved support these could be achieved. It is anticipated that this arrangement would be self-funding as it would be set a realistic target to reduce procurement spend by 1% each year (equivalent to around £86,970). This is not an unrealistic achievement as some neighbouring authorities have already set and achieved this target.

Alternative Options	1. As explained in the report, an exercise was undertaken to consider the options available, including; continuing with the existing arrangement, recruiting a procurement officer, purchasing the services from another council or outsourcing the service to the private sector. It was felt, and can be evidenced, that the resilience and relevant expertise offered through a service provided through another council would offer the best price and fit. 2. Doing nothing was not an option as we were not fully compliant and are at risk of not ensuring best value in regards to procurement and contract management.
Consultation	1. Consultation has been undertaken with a range of officer groups and procurement experts.

Financial Implications

Changes to the Medium Term Financial Strategy (Cashable Savings)

	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Procurement Support						
Ongoing Support	£34,125	£56,490	£56,490	£56,490	£56,490	£260,085
Sub Total	**£34,125**	**£56,490**	**£56,490**	**£56,490**	**£56,490**	**£260,085**
Inflationary Allowance @ 3% of ongoing support	£0	£1,690	£1,750	£1,800	£1,850	£7,090
Total Cost	**£34,125**	**£58,180**	**£58,240**	**£58,290**	**£58,340**	**£267,175**
Existing Budgets						
Procurement Support	£2,500	£5,000	£5,000	£5,000	£5,000	£22,500
Commercialisation and Transformation	£31,625	£0	£0	£0	£0	£0
Balance to be funded by Procurement Savings	**£0**	**£53,180**	**£53,240**	**£53,290**	**£53,340**	**£244,675**
Indicative 1% reduction in procurement spend	**£86,970**	**£86,970**	**£86,970**	**£86,970**	**£86,970**	

	Efficiency Savings (Non Cashable Savings) Reduction in invoice processing costs of £15,000 due to the movement to other payment routes such as purchase cards

Contribution to the Delivery of the Strategic Plan	1. Vibrant and prosperous economy – the work will ensure the council uses its money in the most effective way while providing opportunities for more local companies to be aware of the opportunities to work with the council and could enable more money to be spent in the Lichfield economy. 2. Healthy and safe communities – the inclusion of social value in to our procurement activities will enhance our communities through jobs, apprenticeships and other benefits.

Equality, Diversity and Human Rights Implications	• There are no equality, diversity or human rights implications.

Crime & Safety Issues	1. There will be no impact on our duty to prevent crime and disorder within the District (Section 17 of the Crime and Disorder Act, 1988).

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Savings not achieved	Monitoring procurement savings through procurement service and capture savings through reporting.	Y
B	Legal action	Monitor compliance through active involvement in procurement processes and regular reporting	G
C	Fraud	Training to inform and prevent fraud, and the use of effective process and procedures, combined with regular proactive reporting to monitor spend and identify anomalies.	G
D	Contract failure	Performance monitoring and contract management meetings in place to ensure delivery against agreed targets.	

Background documents
- Constitution (https://www.lichfielddc.gov.uk/Council/Constitution.aspx)

Relevant web links
- Transparency Code (https://www.gov.uk/government/publications/local-government-transparency-code-2015)
- Contract Finder (https://www.gov.uk/contracts-finder