



## AGENDA ITEM:

### SUMMARY

<b>Report for:</b>	<b>Resources Overview &amp; Scrutiny Committee</b>
<b>Date of meeting:</b>	<b>4 June 2014</b>
<b>PART:</b>	<b>2</b>
If Part II, reason:	The report includes commercially sensitive information in relation to the costs and savings that will be generated through the implementation of category management

<b>Title of report:</b>	
Contact:	Neil Harden, Portfolio Holder for Residents & Regulatory Services  Author/Responsible Officer Ben Hosier
Purpose of report:	1. To update members of the Overview & Scrutiny Committee with the recommended changes to the approach the Council takes when undertaking commissioning and procurement activities.
Recommendations	1. That members note the recommended changes to the approach the Council takes when undertaking commissioning and procurement activities.
Corporate objectives:	The proposed changes will ensure that all commissioning and procurement activities of the Council will align with the vision and priorities as stated in the Corporate Plan
Implications:	<u>Financial</u>  There will be some financial cost to the Council for these recommended changes and in particular with the support with the implementation of Category Management, but the cost of these changes will be recovered from the savings that this approach will generate.
'Value For Money Implications'	<u>Value for Money</u>  Implementing these recommended changes will support the planning, delivery and monitoring of the commissioning and procurement activities and align them to the vision and key priorities in the Corporate Plan which will result in a positive effect on Value for Money.

Risk Implications	<p>There is a risk that should the Council choose not to implement all of these recommendations then it will not be able to demonstrate its commissioning and procurement activities align with its Corporate Plan and maximise the benefits that this approach will deliver.</p> <p>The Council must ensure that it complies with the Public Contract Regulations and the principles of transparency, non-discrimination, equal treatment and proportionality when carrying out commissioning and procurement activities.</p>
Equalities Implications	<p>There are no direct implications on Equalities via the implementation of these recommendations; however Equalities will be taken into consideration as part of the Outcome Based Commissioning approach for individual requirements.</p>
Health And Safety Implications	<p>There are no direct implications on Health &amp; Safety via the implementation of these recommendations; however Health &amp; Safety will be taken into consideration as part of the Outcome Based Commissioning approach for individual requirements.</p>
Consultees:	<p>Corporate Management Team</p> <p>A consultation exercise was carried out in the latter part of 2013 on existing procurement support (including the Strategy and PSO's) this was with Group Managers, Team Leaders and Officers.</p>
Background papers:	<p>CMT - 23 July 2013</p> <p>CMT – 29 October 2013</p>
Historical background <i>(please give a brief background to this report to enable it to be considered in the right context).</i>	<p>A report was taken to CMT last year which identified the need for a change in the Council's approach to commissioning and procurement.</p> <p>A further report was taken which identified the design of the optimum service delivery solution.</p> <p>This report provides Members with an overview and recommendations to support the changes.</p>
Glossary of acronyms and any other abbreviations used in this report:	<p>CSCG – Capital Strategy Steering Group</p>

## Procurement Review

This report provides an overview of the 'Procurement Review' which includes the design of a service delivery solution for the Council's commissioning and procurement activities that better supports the Council's wider vision.

The redesigned service delivery solution will result in Council resources being concentrated on those areas which will generate savings and on those contracts which will help deliver the Council's vision and the needs of the community.

The main drivers behind this 'Procurement Review' are to clearly align the planning, delivery and monitoring of the Council's commissioning and procurement activities and outcomes to the vision and priorities as outlined in the Council's Corporate Plan, The service delivery solution will also enable the Council to benefit from substantial savings against the current spending levels.

A report was taken to the Council's Corporate Management Team in July 2013 which identified that there was a need to change the manner in which the Council supported and delivered its procurement activities and sought agreement from CMT that this should be addressed through a 'Procurement Review' which would be led by the Group Manager Commissioning, Procurement & Compliance together with officers from the procurement team.

A further report was presented at CMT in October 2013 providing them with an update on the 'Procurement Review' in relation to the design of a service delivery solution that provided a clear alignment to the Corporate Plan. It was agreed that supportive work should continue on this solution around the guidance, processes and training and that the results of this should be presented back to CMT/Scrutiny/Cabinet in March 2014. Following the Scrutiny meeting back in March 2014 the report generated a number of questions and it was requested that these questions be answered (*please see appendix 1*) and this report be presented back to this Scrutiny committee in June 2014.

The service delivery solution has been designed around the 'Commercial Cycle', this provides a consistent approach and ensures that all commissioning and procurement activity undertakes the commissioning element (added value) of the 'Commercial Cycle'.

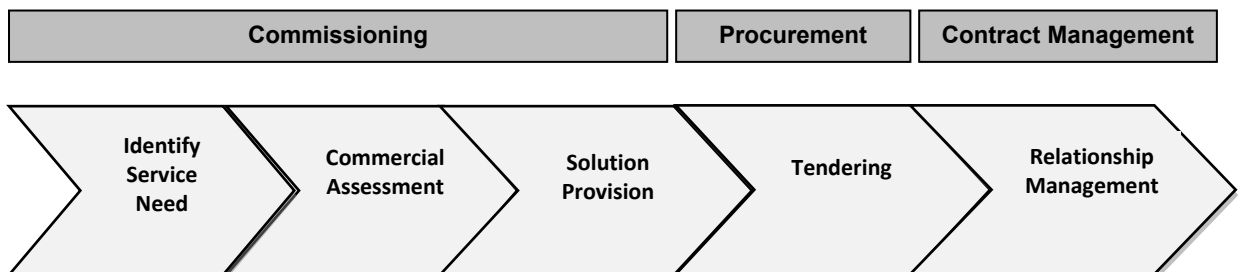


Fig 1 - Commercial Cycle

## Direction

The Council's commissioning and procurement strategy (*see appendix 2*) has been completely redrafted setting a clear direction of travel and provides a clear alignment to the Corporate Plan.

It has also been simplified to provide clarity with its objectives and how the service delivery solution will support these.

## Delivery

The service delivery solution comprises of 3 distinct elements

- Category Management
- Outcome Based Commissioning
- Contract Management

To support both Officers and Members with the changes to the way that the Council undertakes its commissioning and procurement activities, the Commissioning & Procurement Standing Orders (*see appendix 3*) have been thoroughly reviewed and updated.

## **Category Management**

Adoption of a category management approach to spend is an ideal way to focus efforts and organise corporate spend and resources into specific spend categories. It will provide the methodology and best practice approach to ensure a coordinated approach to procurement as well as provide a clear, structured framework for the management of that spend throughout its lifecycle.

There is a need for the Council to truly understand its spending profile and requirements. Only once this is understood will the Council be able to realise the full benefits by acting upon this information utilizing category management.

Spend data has been analysed from 2013/14 and this has identified that the Council spent over £80M, the breakdown of this spend includes £53.3M revenue and £19.2M capital expenditure.

This analysis has enabled spend to be grouped into 5 categories, which are further broken down to enable the spend to be grouped into similar spend areas. This will be further analysed to ascertain what is influenceable and look at the various ways in which this can be reduced and/or benefits can be delivered;

- reviewing contractual arrangements
- straight forward price negotiation
- specification benchmarking
- demand management/forecasting
- market/supplier analysis and development of relationships
- category sourcing strategies (aggregation, standardization, outcome focused etc)
- planned approach to reduce the risk of failure
- strategic awareness
- improved relationships between departments

It should also be noted that structuring spend by category will allow both a Supply Market view (how the markets supply the goods and services) and an internal demand view (how the organisation consumes the services). This approach invariably results in a spend category that goes beyond the traditional internal organisation structure, and leverages what and how the market can supply its services.

## **Category Management Recommendations**

<b>Current Position</b>	<b>Recommended Position</b>	<b>Reasoning</b>
<p>Apart from a few corporate contracts, the Council undertakes its procurement activity based upon an individual requirement of a service.</p>	<p>The Council will implement a Category Management approach to its commissioning and procurement activities.</p> <p>This approach will be driven and coordinated by the Commissioning and Procurement Team with support from across the Council but in particular Legal and Finance. Each category of expenditure will have a dedicated Category Lead (Assistant Director) and support from an appropriate level of Category Experts. Support for the implementation of this will be provided by an external organisation that has successfully implemented this approach at other local authorities.</p>	<p>This approach will enable the Council to have full understanding of its spend profile.</p> <p>This will result in the Council having a much more coherent approach to commissioning and procurement activities which will lead to better planning and improved outcomes. Category Management will directly support the delivery of substantial savings.</p>

## Outcome Based Commissioning

This approach reinforces some of the work that will be undertaken as part of Category Management and incorporates the first 4 stages of the 'Commercial Cycle' for all commissioning and procurement activity. The main focus is on the first 3 stages of the cycle, the 'Commissioning' stages, this enables the Council to follow a robust process that will challenge all commissioning activity and ensure that the outcome is the most appropriate and will be linked either directly or indirectly to the vision and priorities as set out in the Corporate Plan.

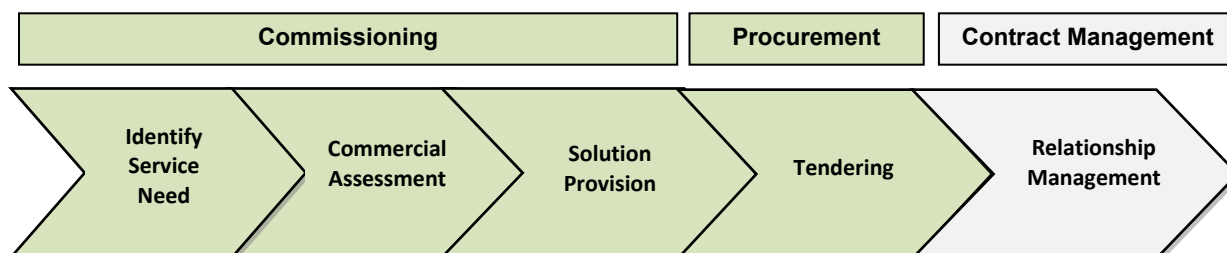


Fig 2 – Commissioning Stages

## Outcome Based Commissioning Recommendations

Current Position	Recommended Position	Reasoning
The guidance documents that currently support procurement activity across the Council are called the Procurement Standing Orders	It is recommended that these are renamed the Commissioning & Procurement Standing Orders to encompass the commissioning role.	This will provide clarity for Officers and Members and raise awareness of the Council's change in its approach to commissioning and procurement activities
At present formal commissioning is only carried out on a very limited basis sporadically across the Council.	It is recommended that Outcome Based Commissioning should apply to all commissioning & procurement activity above £50k. This approach will be driven and coordinated by the Commissioning and Procurement Team with support from the Client Officer, Category Lead, Legal and Finance.	This will ensure that every contract above £50k will have been through the commissioning process which will be consistent and robust and will ensure that the outcome is directly/indirectly aligned to the Corporate Plan.
Grants are currently awarded without undertaking any commissioning activities; this includes the grants we award to our strategic partners, our arts & heritage, community grants and disabled facility grants.	It is recommended that all Grants are classified as commissioning and procurement activity and must therefore follow the Outcome Based Commissioning route.	This will ensure that the Council comply with the Public Contract Regulations 2006. This will also result in the outcome of the commissioning and procurement activity being aligned to the Corporate Plan.
At present the Procurement Team are involved in all procurement activity between £10k and £50k	For all procurement activity below £50k quotations will be sought by officers from the procuring service.	This will free up the resource of the Procurement Team resulting in them being able to focus on the commissioning element, which is where the value will be added and driven from.

<b>Current Position</b>	<b>Recommended Position</b>	<b>Reasoning</b>
At present quotations are sought up to £10k by officers of the procuring service.	It is recommended that quotations are still sought by officers of the procuring service up to £10k, but that these are from local companies wherever possible.	This will ensure that the Council supports the key priority of Regeneration by supporting the growth of businesses, jobs and investment in the area.
At present quotations and tenders are sought by officers of the procurement team between £10k and £50k	It is recommended that quotations are sought by officers of the procuring service between £10k and £50k. These quotations must follow a formal process and be advertised on contracts finder.	This will free up the resource of the Procurement Team resulting in them being able to focus on the commissioning element, which is where the value will be added and driven from. Central Government are in the process of producing the Local Authorities (Data Transparency) Code 2013, this will amongst other things require local authorities to advertise <u>all</u> quotations above £10k on the national advertisement system contracts finder. The intention is that this will increase democratic accountability. This will impact on the resource of officers from the procuring service and will mean that they will need to undertake these quotations following a robust process.
All contract award decisions above £50k are generally made by Portfolio Holders, unless delegation is stated in the scheme of delegation or has been specifically requested from Cabinet or the PH holder.	It is recommended that the Council introduce new authority levels for awarding contracts as follows; Team Leader up to £10k Group Manager up to £50k Assistant Directors up to £250k Corporate Directors up to £500k	The decision to award a contract is usually an operational decision. If the contract is to be paid from a revenue budget then the service budget has already been set and agreed by Cabinet and if it is to be paid for from a capital budget this will also have been agreed by CSSG and reported to Cabinet. Before any contract is awarded it will have been through a rigorous process with input and checks from professional officers from procurement finance and legal. The authority levels have been deliberately set so that Team Leaders and Group Managers can award lower value short term contracts, whereas the AD's and CD's can award higher value longer term contracts.



## **Contract Management**

Proper Contract Management and Supplier Relationship Development are essential if the Council's desired commissioning and procurement outcomes are to be delivered.

This element would normally involve the operation and management of the contract including contract mobilisation and implementation, stakeholder & asset management and dispute resolution procedure.

- Monitor the performance and cost of the contract including reporting management information, key performance indicators and benchmarks.
- Review the performance of the contract and provide feedback to stakeholders on quality assurance and lessons learned.
- Agree variations and financials to the contract including interpretation of contract, technical changes, commercial management, financials- inflation etc.

This stage of the procurement cycle will also concentrate on building a constructive relationship with key contractors and service providers and developing them so that the Council maximises the return on this investment.

Not all contracts will require the same level of resource to manage them. However, the Council will clearly need to prioritise the key strategic contracts and regularly monitor and report on their performance to ensure that the contracts continue to deliver the required outcomes.

To ensure that the Council has a consistent approach to contract management it will be necessary to introduce training so that staff who manage the contracts are equipped to efficiently monitor the performance of contracts in a proactive manner.

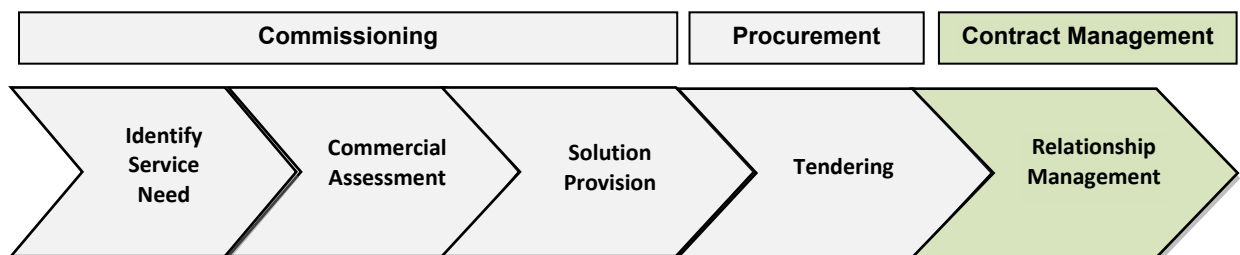


Fig 3 – Contract Management

## Contract Management Recommendations

Current Position	Recommended Position	Reasoning
<p>In the majority of the Council's current key contracts the management of them are being driven by the contractor.</p>	<p>It is recommended that through its approach to Category Management the Council identifies its key strategic contracts and puts in place a dedicated contract resource. A consistent contract management process and methodology is drafted by the Procurement Team and delivered as training to the identified contract resource. A process should be developed for key strategic contracts and a separate process for lower value contracts. The dedicated contract resource should be involved in the Outcome Based Commissioning for cyclical contracts. The performance of the Council's key strategic contracts are monitored via the corporate management system Corvu.</p>	<p>Although all contracts will have been through a robust and rigorous tendering process, there are no guarantees that this is what will be delivered in a contract. Key strategic contracts will by their very nature be complex arrangements and will require development as the contract progresses. Contractors and Service Providers generally invest to ensure that they have the appropriate level of resource on their side to manage the contract/relationship; the Council should also follow this lead to ensure that value and quality are maintained throughout the contract duration. A consistent approach to managing contracts will result in the Council finding it much easier to understand the performance, monitoring and reporting mechanisms.</p>

### Reporting

It is recommended that aspects of the commissioning and procurement activities of the Council are reported on so that the Corporate Management Team and Members are regularly updated as to the performance.

It is suggested that the performance of Category Management should be reported to the Budget Review Group on a quarterly basis, with particular emphasis on the savings target performance to date. This could be just as a written report that is sent to the individual attendees, or as an invite to verbally discuss any specific issues or concerns.

It is also suggested that the performance of the Council's key strategic contracts are reported to the Performance Board, along with any updates on any Outcome Based Commissioning aspects of key projects. This could just be as a written report that is sent to the individual attendees, or as an invite to verbally discuss and update any specific issues or concerns