

4 Mar 2014 - Overview Scrutiny Committee Questions & Answers

Following the discussions around the Procurement review at the last Finance & Resources meeting the item will now be returning to the Committee on the 4 June 2014.

In addition to bringing back the draft strategy and details on the Procurement standing orders, Ben Hosier will also be providing answers/more information to some of the following concerns raised last night and separately from Cllr Janice Marshall and Cllr Chris Townsend.

Questions raised at the meeting;

1. Clear definitions of the terms “Category Management” and “Outcome Based Commissioning”?

Category Management

This definition can be found at http://en.wikipedia.org/wiki/Category_management

“Although the term is the same and there are many similarities with elements of retail category management including the use of similar tools and techniques applied in reverse, the methodology is fundamentally different. Applying Category Management in purchasing benefits organisations by providing an approach to reduce the cost of buying goods and services, reduce risk in the supply chain, increase overall value from the supply base and gain access to more innovation from suppliers. It is a strategic approach that focuses on the vast majority of organisational spend. If applied effectively throughout an entire organisation the results can be significantly greater than traditional transactional based purchasing negotiations.

The concept of Category Management in purchasing originated in the late 80's. There is no single founder or originator but the methodology first appeared in the automotive sector and has since been developed and adopted by organisations worldwide. Today Category Management is considered by many global companies as an essential strategic purchasing approach. Category Management has been defined as “an evolving methodology that drives sourcing strategy in progressive organisations today”.

The Chartered Institute of Purchasing & Supply defines Category Management as:

"organising the resources of the procurement team in such a way as to focus externally onto the supply markets of an organisation (as against having a focus on the internal customers or on internal Procurement departmental functions) in order to fully leverage purchasing decisions”.

Jonathan O'Brien, author of Category Management in Purchasing, defines Category Management as:

"the practice of segmenting the main areas of organisational spend on bought-in goods and services into discrete groups of products and services according to the function of those goods or services and, most importantly, to mirror how individual marketplaces are organised. Using this segmentation organisations work cross functionally on individual categories, examining the entire category spend, how the organisation uses the products or services within the category, the marketplace and individual suppliers."

Peter Hunt, partner at ADR International, writes

“the term category management can mean different things to different people, so a working definition is needed. A ‘category’ is the logical grouping of similar expenditure items, such as spend on advertising agency services or IT hardware. Category management is the sourcing process used to manage these categories to satisfy business needs while maximising the value delivered from the supply base”.

Many public sector organisations have recently adopted category management as a strategic transformation tool. Sir Philip Green, in his “Efficiency Review” of UK government spending, recommended that “centralised procurement [should be] mandated for common categories to leverage this buying power and achieve best practice”

Outcome Based Commissioning

This definition can be found at

http://www.bristol.gov.uk/sites/default/files/documents/business_in_bristol/commissioning_definition.pdf

What is Commissioning?

It is important to understand what we mean by commissioning, as this term is often used interchangeably with contracting, purchasing or procurement.

Commissioning is a broad concept and there are many definitions, but the following from the Audit Commission perhaps best captures the key elements of the commissioning tasks:

“Commissioning is the process of specifying, securing and monitoring services to meet people’s needs at a strategic level. This applies to all services, whether they are provided by the local authority, NHS, other public agencies, or by the private and voluntary sectors.”

This definition has three particular strengths – it emphasises:

1. The cyclical nature of the activities involved, from understanding needs and analysing capacity, to monitoring services; the emphasis here is that commissioning is an on-going process, not a one-off event.
2. The importance of meeting needs at a strategic level for whole groups of service users and/or whole populations, which distinguishes commissioning from simply contracting for individual services.
3. The importance of commissioning services to meet the needs of service users, no matter who provides them – public, private or voluntary sector.

‘Purchasing’ and ‘contracting’

It is helpful to contrast the terms ‘purchasing’ and ‘contracting’ with commissioning, as a common confusion is to assume that commissioning relates only to purchasing from external suppliers. Purchasing has been defined by the Audit Commission as ‘the process of securing or buying services’, and ‘contracting’ means by which that process is made legally binding’.

Purchasing and contracting are very closely linked, and cover a wide range of activities including, for example, agreeing a contract or service level agreement with a provider to deliver a certain service, and monitoring the success of that service.

Definitions

Commissioning: *“the process of specifying, securing and monitoring services to meet people’s needs at a strategic level. This applies to all services, whether they are provided by the local authority, NHS, other public agencies, or by the private and voluntary sectors”.*

Procurement: “the process of acquiring goods, services and construction projects from providers/suppliers and managing these through to the end of the contract or disposal of assets. Plus the overarching activities that corporately maximise effectiveness, efficiency and value for money from this process.”

The term outcome based means that there is a clear link to a particular outcome, rather than an input or output. An input or output is normally specified within a requirement which can stifle innovation from the market as this can be seen as stating how something will be delivered.

An outcome generally has a larger impact than an input or output and will normally be the aim of the overall requirement, for example the outcome can be directly or indirectly linked to the Council’s vision or one of the 5 key priorities.

Outcome based generally supports innovation from the market as it specifies the destination (outcome) and leaves the market to decide how to deliver.

2. A more in-depth explanation of how the policy will be adapted/applied to Housing in view of some of the existing grants within this area.

There are 3 main recommendations that have arisen via the review of procurement namely the introduction of;

1. category management
2. outcome based commissioning
3. contract management

These will be supported through an updated commissioning & procurement strategy and procurement standing orders. If approved, these recommendations will provide greater clarity, direction, shape and further support the corporate approach to commissioning & procurement.

The recommendations will cover all areas of the Council and its third party expenditure. Historically LA’s have excluded grant funding processes from complying with procurement regulations, but with current government advice being that public expenditure should be even more transparent and greater contracting with the voluntary sector, this has resulted in LA’s reassessing their processes and many are now commissioning and procuring services that have traditionally been grant funded.

Further in-depth information will be available at the June ROSC where the updated commissioning & procurement strategy and the commissioning & procurement standing orders will be presented.

3. How the Officers will be making the process of awarding contracts visible to Members and details of the Portfolio Holder's role within this process.

The review of procurement has identified that there is a need to completely review the PH process for the awarding of contracts. The current financial thresholds are too low and the process takes too long without adding any value which results in making the process very inefficient.

The review of procurement recommends to increase the financial threshold to £500k before the existing PH process commences for awarding contracts, this is based upon the premise that the decision to award a contract is an operational decision and will be funded from revenue or capital budgets that have already been agreed by members.

All contract awards will be in compliance with the commissioning & procurement standing orders and for contracts valued between £50,000 and £499,999 these will only be awarded following the production of a contract award report that will receive comments from both the Monitoring Officer and Section 151 Officer.

Any award of contract over £500,000 in value will continue to follow the existing PH contract award process.

The recommendation is based around operational reasons and does not intend to make the process of awarding contracts below £500,000 visible to Members or the Portfolio Holders, but comments from Members of ROSC are welcomed.

4. What are the international standards in this area? How should we measure whether or not we (DBC) are following best practice under the new policy?

The East of England Local Government Association is working on the new National Procurement Strategy, the summary can be found on the following link.

<http://www.eelga.gov.uk/documents/news-campaigns/news%20releases/nps%20summary%20extract%20final.pdf>

Although this does not equate to ISO standards, it will be based upon best practice public procurement techniques and methodologies.

Work is ongoing with the new National Procurement Strategy and I have seen a draft copy of the document and can confirm that it includes category management, commissioning and contract management.

5. The costs and savings associated with the new procurement approach (could not be discussed at last night's meeting due to some details being Part II).

The cost of the Category Management Support is £66,000 for 156 days over a 6 month period, this equates to £423 per day. In addition to this cost there will also be expenses which have been capped at £1,500 per month. Therefore the total cost of this contract is £75,000. In their submission V4 Services Ltd have indicated that they would expect to deliver savings of approximately £150,000 over the contract duration and have guaranteed a minimum savings figure of £75,000.

The following points were raised by Cllr Janice Marshall in a separate email

1. Results of consultation with the following departments: Safe Clean & Green, Housing, Voluntary Sector. The consultation should not be just about the process leading up to the award of contracts but also the monitoring of the same.

As indicated in the minutes of the ROSC meeting dated 14/03/14, neither Clean, Safe & Green nor Housing were included in the consultation. The reason for this is that although we tried we were unfortunately unable to actually meet with Clean, Safe & Green due to several diary clashes. However, both the Assistant Director of Neighbourhood Delivery and the Corporate Director of Finance & Operations have been aware of the review of procurement and the results and have both given their respective approvals to these recommendations as part of the Corporate Management Team.

With regards to Housing, we have been working closely with the Group Manager Property & Place, the Assistant Director Housing Tenant Services and Corporate Director Housing & Regeneration over the last 18 months on the Total Asset Management procurement, the Gas Servicing procurement and the New Build procurements. All of these procurements have been undertaken following a very similar process to that which is being recommended, it was therefore recognised that Housing would not need to be involved in the consultation process as they were already helping to shape the review of procurement. Again, both the Assistant Director of Housing Tenant Services and the Corporate Director of Housing & Regeneration had been aware of the review of procurement and the results and had both given their respective approvals to these recommendations as part of the Corporate Management Team.

Turning to the Voluntary Sector, as indicated in an earlier answer, historically LA's have excluded grant funding processes from complying with procurement regulations, but with current government advice being that public expenditure should be even more transparent and greater contracting with the voluntary sector, this has resulted in LA's reassessing their processes and many are now commissioning and procuring services that have traditionally been grant funded.

My understanding is that our current strategic partners are aware that the grant-funding arrangements that the Council provide will come to an end and that these will be replaced by contracting arrangements that will need to comply with the Council's procurement standing orders.

I have included a copy of the consultation report from the other areas of the Council below.



Consultation
report.docx

Further in-depth information will be available at the June ROSC where the updated commissioning & procurement strategy and the commissioning & procurement standing orders will be presented.

2. Clarification of the statement (page 23 of the agenda, 3rd recommendation) that all grants are classified as commissioning and procurement activity and must therefore follow the Outcome Based Commissioning route. Clarification particularly sought as to the minimum amount of grant to which this recommendation is sought (bearing in mind that some grants are for a few hundred pounds). Clarification also sought for instances of grants given for part funding or match funding

The procurement review has identified that 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.

As indicated in a response to an earlier question, historically LA's have excluded grant funding processes from complying with procurement regulations, but with current government advice being that public expenditure should be even more transparent and greater contracting with the voluntary sector, this has resulted in LA's reassessing their processes and many are now commissioning and procuring services that have traditionally been grant funded.

By classifying all grant funding arrangements as commissioning & procurement activity, the Council will mitigate the risk of non-compliance with the Public Contract Regulations 2006. The review of procurement is recommending that the formal outcome based commissioning approach only applies to values above £10,000, therefore for activities that are below £10,000 the procurement standing orders makes it clear how the officer should deal with this.

For instances of grants being given for part funding or match funding, the same principles will apply. Further in-depth information will be available at the June ROSC where the updated commissioning & procurement strategy and the commissioning & procurement standing orders will be presented.

3. Clarification on the disabled facility grants – again, is there a minimum below which this recommendation does not apply. Does it apply to both privately owned homes and Council owned homes (bearing in mind also that, for privately owned homes, it could be secured against the property).

Please refer to the response to the above question.

Further in-depth information will be available at the June ROSC where the updated commissioning & procurement strategy and the commissioning & procurement standing orders will be presented.

4. Justification for increasing the level of officer authority for awarding contracts to the amounts proposed.

The review of procurement has identified that there is a need to completely review the PH process for the awarding of contracts. The current financial thresholds are too low and the process takes too long without adding any value which results in making the process very inefficient.

The review of procurement recommends to increase the financial threshold to £500k before the existing PH process commences for awarding contracts, this is based upon the premise that the decision to award a contract is an operational decision and will be funded from revenue or capital budgets that have already been agreed by members.

All contract awards will be in compliance with the commissioning & procurement standing orders and for contracts valued between £50,000 and £499,999 these will only be awarded

following the production of a contract award report that will receive comments from both the Monitoring Officer and Section 151 Officer.
Any award of contract over £500,000 in value will continue to follow the existing PH contract award process.

The recommendation is based around operational reasons and does not intend to make the process of awarding contracts below £500,000 visible to Members or the Portfolio Holders, but comments from Members of ROSC are welcomed.

5. Concerning the visibility to Members of officers awarding contracts, timeliness is particularly important. With Portfolio Holder decisions, objections can be lodged and, effectively, a stay is put on the procedure before the contract is awarded. Will there be the same provision? It is largely ineffectual to be told of the award of the contract after it has happened.

Please refer to the response to the question above.

The recommendation is based around operational reasons and does not intend to make the process of awarding contracts below £500,000 visible to Members or the Portfolio Holders, but comments from Members of ROSC are welcomed.

6. Allied to that, enabling members to call in the decision of an officer awarding a contract.

Please refer to the response to the question above.

The recommendation is based around operational reasons and does not intend to make the process of awarding contracts below £500,000 visible to Members or the Portfolio Holders, but comments from Members of ROSC are welcomed.

7. A “dedicated contract resource” should be involved for cyclical contracts (page 26 of the agenda). Does this mean additional staffing? And, in respect of the whole process, what are the likely additional costs of what is being proposed?

The review of procurement has identified the need for the Council to put in place a dedicated contract resource(s) for managing key strategic contracts. This will ensure that the Council can demonstrate that the quality and value of the outcome is maintained throughout the contract duration.

Although the Council will have an idea of the strategic contracts it currently has in place, there will be a need to review the Council’s current and future spend profile through category management to have a better understanding of the contract management resources that will be required. It is envisaged that some of this dedicated contract management resource will come from existing staff and a skills audit will need to be carried out to identify any gaps.

At this stage it is not known whether any additional staffing is required.

8. What are the likely savings from the whole process?

As stated in the ROSC report, the main driver behind this 'Procurement Review' is 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.

A secondary driver is that it will enable the Council to benefit from substantial savings against the current spending levels.

As indicated in an earlier response, V4 Services have stated that they will deliver £150,000 savings for providing category management support. One additional benefit of the V4 Services approach is its effectiveness in transferring knowledge and skills to members of the procurement team enabling the category management approach to be continued after the completion of this project, which will drive through additional savings.

Savings and efficiencies will be delivered from the outcome based commissioning and contract management elements of the service delivery model but these will depend on the spend profile that will come out of category management.

9. There appears to be no recognition of "social value" and the role of a very active voluntary movement in the Borough. This is particularly important bearing in mind that, at the behest of DBC, the strategic partners in the voluntary sector have formed Decorum for the purposes of forming a business unit to bid for contracts, particularly DBC contracts. Reference is made in the reports to CMT of Solihull MBC, who, I note, allow for a single tender or quotation from a voluntary sector provider where VFM can be demonstrated. In addition, Solihull provides for exception in furtherance of the Council's social enterprise policy or other economic development aims.

The review of procurement focussed on solution design, strategy and structure whereas 'social value' is more aligned to content.

Areas such as 'social value' and the different markets have been included in the procurement standing orders.

Further in-depth information will be available at the June ROSC where the updated commissioning & procurement strategy and the commissioning & procurement standing orders will be presented.