



Report of the Chief Procurement Officer

Corporate Governance and Audit Committee

Date: 18 July 2011

Subject: Procurement & Commissioning Efficiency Savings

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Executive Summary

This report outlines the requirements of the council to achieve the procurement and commissioning savings of £23.5m which contributes towards the council's overall requirements to achieve savings. The report explains that there are several strands of work taking place including the negotiation of reduced contract prices, amending the council's financial management system and changing the way the council places orders with its suppliers. Further work is taking place on standardisation and control of demand management by challenging the need to spend. Examples of areas where savings have been made are given and the report outlines the "open book" reviews being conducted by internal audit. Governance arrangements are in place to ensure that the contract price reductions will be reconciled with the council's budget and to ensure that procurement and commissioning is carried out in a consistent manner across the council. The report refers to the responsibility of managers to carry out monthly predictions of annual spend and to manage the expenditure to meet the budget. Further progress reports will be brought back to the committee starting in September 2011.

1.0 Purpose Of This Report

1.1 This report is to inform Members of the actions and measures in place within the Council to achieve the required budget savings during 2011/12.

1.2 The report specifically relates to procurement and commissioning efficiency savings.

2.0 Background Information

2.1 The Council was given a comprehensive spending review settlement that resulted in a requirement to reduce the Council's budget. The revised budget was approved by Council in February 2011 and Directorates were given the task of preparing plans to ensure that the reductions were put into effect. The procurement and commissioning functions were charged with facilitating reductions of £23.5m.

2.1.1 Procurement and Commissioning will have some involvement, through the use of contracts, for several areas of efficiency, e.g. premises - building and highway maintenance; transport – vehicle hire & maintenance, and schemes within the capital programme. However, this report concentrates on the procurement and commissioning element of £23.5m.

2.1.2 Procurement and commissioning targets were set as part of the approved budget across all directorates and were as follows:

General – supplies, works & services	£10m	All directorates
External placements/providers	£10m	£7.3m Adults, £2.7m Children's
Home Care	£2m	Adults
Grants to outside organisations	£1.5m	Mainly Environment & Neighbourhoods
TOTAL	£23.5M	

2.2 The report now details the actions which are taking place to achieve the target savings.

3.0 Main Issues

3.1 To achieve these savings there have been several strands of work set up. A presumption that the council's contract prices could be reduced by 10% was made and showed that the general target of £10m would be achieved. However, this was a significant assumption based on the history of efficiency savings already made during the "Gershon" efficiency years (2004-2007) and the comprehensive spending review of 2007 (to cover 2008/9-2010/11). In effect, the council had been making year on year reductions in contract prices of about 3-4% since 2004 so a presumption of 10% in one year would be a challenge.

3.2 This challenge has resulted in procurement staff undertaking training on negotiation techniques and preparing and organising post contract negotiation meetings. The

training has been funded by the regional improvement and efficiency programme and taken up by all the West Yorkshire authorities. Initially, the council wrote to 1000+ suppliers to inform them that we would be arranging meetings to discuss existing contracts and to see how they could help the council achieve the necessary reductions.

- 3.3 Most contractors have been supportive of the council's objectives. 121 negotiation meetings have taken place so far and resulted in 65% accepting a reduced price and 50% accepting 10% or more reduction. Some of these agreements have been based on contracts being extended rather than renewal. Agreement on an interim waste management contract (prior to PFI) resulted in over £1m per annum saving. The supply of frozen foods is now £250,000 per annum less and we have saved money by negotiating non-branded goods into our contracts for catering and maintenance of vehicles. Negotiation meetings are continuing to take place.
- 3.4 At the same time as the negotiation action is taking place, the council is also reviewing the way it places orders with the suppliers. Substantial developments of the council's financial management system, FMS (Leeds), are being carried out to assist the orderers in making the correct purchase. The system is not being fundamentally changed but is being redesigned to give category and contract information to the orderers and to steer them into using the council's contracts. It is anticipated that savings will be made by reducing the amount of "off contract" spend that takes place and informing the procurement unit where there is a need for additional contracts. The revised system will provide better procurement management information for the unit to determine category and contract strategies that will benefit the council. The revised system is due to take effect on 1 August 2011.
- 3.5 A review of the council's orderers and authorisers has taken place and numbers have been reduced to a minimum. Ordering hubs are being established where the orderers place orders on behalf of the directorates. This allows for more focused training and development of expertise and knowledge of the appropriate contracts. Additionally, the ordering experts will become accustomed to challenging the need for some orders and assist the council in its demand management. For example, by challenging rail ticket requests for 7 journeys, an officer from the ordering hub was able to reduce costs from £1,295 to £741.70, saving £533.30. On a basket of stationery goods, by searching for better deals with the contracted supplier, and in some cases, contacting her supplier representative, an officer from the ordering hub was able to negotiate a better deal for the authority, thereby reducing costs from £2,600.67 to £982.06, saving a total of £1618.61.
- 3.6 All contracts are being reviewed with the intention of standardising the council's requirements where it is possible to do so. This has been completed in areas like paper, stationery, travel and furniture and will be expanded out in as many areas as possible. The council will look to specify and purchase "industry standard" items rather than "custom made" for the council. "Off the shelf" purchases are often more competitive, less costly to make and result in a reduced price to the council.
- 3.7 The success of the negotiation meetings has resulted in reduced contract costs. The total procurement contracts spend reductions registered so far suggested we are broadly on target to make the procurement savings. However, the calculation is based on **contract value** which will not relate directly back to the budget. Some areas of spend within the budget will be made up of many contracts whereas some expenditure will be from contracts arranged in previous years where the estimate

does not correlate to the budget. To convert the procurement reductions into budget savings requires the directorate finance officers to review each budget vote and determine the impact on that vote. This area of work has just commenced and is being overseen at monthly meetings of the financial leadership team (FLT). Reconciliation will be completed in August 2011 and reviewed monthly from then on. Additionally, the FMS (Leeds) system requires managers to review their expenditure monthly and to make forecasts of end of year expenditure. Budget holders are responsible for ensuring that predicted overspends is managed down throughout the year.

- 3.8 The development of work practices for procurement and commissioning is being overseen by the corporate commissioning group which meets monthly and has attendees from each directorate. This group is responsible for ensuring that procurement and commissioning is carried out in an efficient and consistent manner across the council. A new procurement strategy is being prepared. Overall governance regarding the achievement of procurement efficiency savings is being undertaken by the Executive Board at member level and by the CORS (Chief Officer Resources & Strategy) group at officer level. Additional challenges will come from the various scrutiny boards.
- 3.9 Improvements to category management have been made and discussions are being held to take this further organisationally. A comprehensive spending analysis for 2010/11 has been completed by financial management and directorates are now using the results to analyse vote codes and review spending practices.
- 3.10 Internal audit is working alongside adults social care to work with external residential care providers to understand the costs associated with providing the service. This could enable reduced fees to be negotiated without undermining the financial stability of the provider. The role of internal audit is to undertake an open book analysis of the costs of the contract to support the introduction of reduced fees that are proposed, where invited to do so by the supplier. Internal Audit is also undertaking a piece of work to review contract monitoring procedures throughout the Authority. This review will aim to risk assess the major contracts that the council has in place to ensure that there are appropriate contract monitoring arrangements and undertake open book reviews as appropriate. This will aim to identify any overcharging that has occurred on the contracts and drive improvements in contract monitoring and identify opportunities to improve value for money.
- 3.11 Internal Audit undertook a review of External Room hire during 2010/2011. The audit found that although general guidance on the use of External Providers was issued to Chief Officers in 2009, there is no policy in place relating to the use of external room hire/venues. In recognition of this, Internal Audit is currently producing a recommended Policy Statement on the use of External Room hire. This will look to limit the usage of external room hire through optimizing the use of internal facilities.

4.0 Implications For Council Policy And Governance

- 4.1 In order to achieve the procurement and commissioning related savings already taken from budgets, robust governance arrangements need to be in place. The savings are challenging and require the coordination of various roles and functions across the authority e.g. budget holders, managers, order-placers, procurement, finance, FMS administration, etc. This report identifies the actions being taken to achieve the savings and the governance arrangements being implemented around those actions.

5.0 Legal and Resource Implications

- 5.1 There is a risk that the calculated contract reductions will not reduce the expenditure level to the budget requirements. This is being managed by having monthly reports to the financial leadership team. This has only recently been set up and results of the first quarter will not be known until around August 2011 and monthly from then on. The monthly reports may result in revised target figures assessed against the rate of achievement.

6.0 Conclusions

- 6.1 There are several areas where actions are being taken to help the council buy more efficiently and effectively. These actions will contribute towards achieving the procurement and commissioning savings target of £23.5m. Current progress is good but until the reductions in contract price have been reconciled with the council's budget, the actual budget savings is not known. This exercise will be completed in August 2011.

7.0 Recommendations

- 7.1 Members are asked to note the actions in place to create and measure the procurement and commissioning efficiency savings.
- 7.2 Members are asked to note the governance arrangements in place to give assurance that the procurement efficiency savings will be monitored, recorded and achieved.
- 7.3 Members are asked to agree to further progress reports commencing in September 2011.

Background Papers

None Used