



meeting	PROCUREMENT SELECT COMMITTEE	
date	8 January 2007	agenda item number

Joint report of the Chair of the Procurement Select Committee and the Head of Scrutiny

Procurement Select Committee – Draft Final Report

1. Purpose of the report

- 1.1 This report provides the Select Committee with draft conclusions and recommendations from its scrutiny review of procurement. The Select Committee is invited to discuss this draft report, making any amendments as necessary, and then to agree a final report, including recommendations, which will be referred to the County Council's Cabinet.

2. Background

- 2.1 The Procurement Select Committee has met 4 times. The agreed scope for this scrutiny review was to consider the key question: Will the County Council maximise value for money through its procurement processes by implementing the new 3 year procurement business plan?
- 2.2 The Select Committee was first given a scene setting presentation at its meeting on 18 September 2006 by Richard Ratcliffe, Assistant Treasurer (Procurement and Trading) on the background to the development of the County Council's new procurement business plan. This was followed by a question and answer session.
- 2.3 At its second meeting on 30 October 2006 the Select Committee received a presentation by Deloitte, the Council's preferred partner in developing the 3 year business plan. Richard Ratcliffe also attended this meeting. The draft business plan was provided for the Select Committee's consideration at this meeting, and the presentation was followed by a detailed question and answer session.
- 2.4 At its third meeting on 27 November 2006 the Select Committee invited Councillor John Stocks, Cabinet Member – People and Performance, and Arthur Deakin, Strategic Director – Resources, to answer Member questions on the key issues raised and considered during this scrutiny review, and specifically around the 3 year draft procurement business

plan. The Committee also began to draw together the conclusions from the review at this meeting.

3. Key issues arising from this scrutiny review

3.1 Issues from presentation by Richard Ratcliffe, Assistant Treasurer (Procurement and Trading)

At the Select Committee's first meeting on 18 September 2006 Richard Ratcliffe, Assistant Treasurer (Procurement & Trading), gave a presentation to Members. He indicated that the total "influencable" spend with our trade suppliers is in excess of £200m. This did not include schools, which had their own budgets; schools could buy from our contracts if they wished, but we had no control over schools spend. There were approximately 5,000 core trade suppliers where the spend was more than £1,000. And ninety one per cent of the County Council's business was with 20% of our suppliers. There were approximately 300,000 invoices which were split between County Council departments. Mr Ratcliffe felt that the process by which invoices were handled could be improved. Thirty six percent of the spend was with local suppliers which was a reasonable figure compared with other authorities.

Mr Ratcliffe then explained that if one was after purely cost reductions, the logic was to have larger volumes with fewer suppliers – driving both savings and quality of service. From the County Council's point of view, however, there was a wish to support local businesses, as well as ensuring our compliance to national agendas and European Union regulations; therefore there was a balance to be made. He thought that it would be possible to reduce the number of suppliers and at the same time increase meeting the growing number of requirements faced by the Authority (for example Equality and Sustainability regulations, and national procurement objectives).

The Committee learnt that a 3 year business plan was being developed to support procurement opportunities and there was also a 3 step process to the development of the plan, which was due for completion by the end of September 2006. The first step was to obtain an up to date spend analysis for the authority as it was essential to know the 'base line'. This was done by a web based system which had 12 months trading data extracted from the Authority's core financials systems. The next step was to select an external partner to help develop the plan and a single consultant – Deloitte Touche - had been selected following a tender and evaluation process. The third step was to generate the business case for change, where workshops were held with stakeholders from key areas across the organisation.

Richard Ratcliffe explained that the identification of key spend categories and potential savings had been estimated. The key features of the spend analysis tool was that it was an interactive database containing 370,000 transactions covering 12 months of activity within the Council. It provided an analysis by spend, transactions, category, geography, risk and collaboration and was an essential component and first step towards the

identification of savings and areas for improvements. There was now an East Midlands spend analysis tool which showed the areas the County Council could collaborate with other local authorities.

Details were also given to Members about the work Deloitte was undertaking. This included the development of a category management concept for the authority, which was different to the way the authority currently operates. The category managers will manage areas of spend on behalf of a newly formed Procurement Board. Workshops with key stakeholders for each County Council directorate have taken place in order to promote understanding of the proposed plan. A 3 year implementation plan would be created which would identify key areas for procurement gains and improvements.

Richard Ratcliffe also stated that there would be service improvements and cost reductions. He explained that there were 14 staff in the County Council's Corporate Procurement Unit working on a range of projects. The unit has been in operation for two years, with the majority of staff joining from County Supplies. He pointed out that because of the devolved nature of procurement within the Authority, it proves difficult to co-ordinate activities across departments. Therefore, projects that aim to improve value for money or aim to standardise a common approach to procurement tend to be difficult to implement.

He then outlined the key changes emerging from the business plan. Firstly, the establishment of a Procurement Board which will act as a central point for procurement related decisions within the authority. The Board would be responsible for delivering the 3 year business plan and target savings. The Corporate Procurement Unit would then become a resource to support projects emerging from the Board. The second key change is the establishment of a category management approach for key areas of spend for the authority. Named individuals will become responsible for category spend areas, and will align objectives for their areas as agreed by the Board. Thirdly, the Corporate Procurement Unit would be more strategic in nature with their workload aligning to the business plan objectives. The direction would be set by the Procurement Board and the Unit would manage the category management process. The Unit would report levels of compliance directly to the Procurement Board.

In discussion, Committee Members felt that Deloitte Touche should be invited to give a presentation to the next meeting, so that the Select Committee could ensure it was happy with the proposed model. The Committee also thought that there was a need for political input into the process. The need to look after small businesses in the county was discussed, as was the issue of how the question of "quality" would be dealt with as part of the procurement process, as well as "cost". Another key issue for Members was how customer views would be taken into account.

Members also wished to know how, if we had 17,000 suppliers, the new procurement process would reduce the number while still conforming to the view that we should use local small suppliers. Richard Ratcliffe pointed out that, according to our statistics, much of the current spend was “off contract”, and that there were benefits to be gained by higher levels of compliance.

Members also wished to know what other aspects made up “value for money” in addition to the “cost” aspect. Members raised the issue that overall “value” was not just financial, and that a key question was how we should maximise “value” for the County Council and customers. In examining this issue Members then considered the national definition of “best value for money” which was contained within the scoping document for this review. “Best Value for money” includes a range of issues other than cost.

Therefore in considering the issue of “value for money” Members noted how the National Procurement Strategy for Local Government (ODPM 2003) gives the following definition under the heading – “What do we mean by procurement?”

*"Procurement" is the process of acquiring goods, works and services, covering both acquisition from third parties and from in-house providers. The process spans the **whole cycle** from identification of needs, through to the end of a services contract or the end of the useful life of an asset. It involves options appraisal and the critical "make or buy" decision which may result in the provision of services in-house in appropriate circumstances. In the context of a procurement process, obtaining "best value for money" means choosing the bid that offers "the optimum combination of whole life costs and benefits to meet the customer's requirement". This is not the lowest initial price option and requires assessing the ongoing revenue/resource costs as well as initial capital investment. The council's requirement can include social, environmental and other strategic objectives and is defined at the earliest stages of the procurement cycle. The criterion of best value for money is used at the award stage to select the bid that best meets the requirement.*

Procurement is also about making choices. The choice that members make about a particular contract or form of partnering is a very clear signal of what type of authority the council wants to be and how it wants to be seen now and in the future." (ODPM 2003)

3.2 Issues from presentation by Deloitte Touche, and consideration of the County Council's draft 3 year Procurement Business Plan

At the Select Committee meeting of 30 October 2006 Richard Haynes of Deloitte gave a presentation to introduce the County Council's three year draft procurement business plan, a copy of which had been circulated with the agenda papers. He outlined the approach to preparing the plan, the concerns about current procurement practice in the County Council, the benefits to be obtained from improvements, and the proposed ways of achieving these. The proposals included a procurement programme

board, a “category manager” for each main category of spending, extended use of e-procurement, a strategic sourcing plan, and collaboration with other public organisations.

In reply to questions Mr Haynes explained that the “lead supplier” mentioned in the business plan might be the procurement programme manager. He envisaged that the proposed structures would be in place for 9 to 12 months before requiring review. He saw procurement targets being set and monitored by the programme board, although more specific targets could be set by the category managers. He had confidence that with an active programme board and leadership, coupled with strong levels of compliance from departments, the potential savings would be realised.

Questions from Committee Members included comments that there was a need for managers to manage properly, and for them to monitor results, and also concerns about our performance so far. Mr Haynes replied that the Corporate Procurement Unit (CPU) had been set up to tackle the issues, but that the unit had not had much visibility, nor any enforcement role. The proposed category managers would be a step change, compared with the current practice where professionals from different backgrounds made procurement decisions. When asked where accountability would ultimately rest, Mr Haynes referred to the programme board, while Richard Ratcliffe, Assistant Treasurer (Procurement and Trading) referred to the project sponsor. A document was subsequently circulated to Members, prepared by Deloitte, which outlined the various responsibilities in the proposals. Mr Ratcliffe said he would welcome the involvement of councillors in the monitoring process.

Comments from Committee Members included the view that a Cabinet Member should be accountable for the plan. There were also questions about how departments could be made to comply with procurement requirements, and whether this was a disciplinary matter, and whether there should be quarterly monitoring reports to Scrutiny. Concern was also expressed about the plan’s conclusions on e-procurement. Mr Haynes replied that the current e-procurement project should end, and a new, simplified project be launched using the software already purchased. He believed that the authority had the skills to achieve this, but commitment was also required. In answer to a question about how the authority might overcome its risk adverse tendencies, as identified in the plan, Mr Haynes stated his view that cost must become a more important factor in procurement decisions, and that the quality requirements of contracts should be tighter. He recommended that costs should form at least 50% of any procurement decision.

In answer to a question as to how quickly the proposed changes could be introduced Mr Haynes referred to Leicestershire County Council’s Change Board, which received quarterly reports on procurement matters and other strategic plan targets. The Committee also noted that the recent Local Government White Paper referred to procurement, the possibility of joint working with other public organisations, and efficiency gains.

3.3 Views of Cabinet Member – People and Performance, and Strategic Director, Resources.

At the Select Committee meeting on 27 November 2006 the Committee welcomed Councillor John Stocks, Cabinet Member for People and Performance, and Arthur Deakin, Strategic Director, Resources.

Councillor Stocks told the Committee that he welcomed scrutiny of procurement. He referred to comments by the former Best Value Board about the County Council's procurement. He believed that the procurement business plan proposed a solid Best Value regime for procurement. He outlined other steps taken in recent years, including changes to financial regulations and the introduction of e-procurement. He also referred to collaboration with other local authorities. The report by Deloitte showed how much more could be achieved, although Councillor Stocks' view was that £5m savings per annum would be hard to achieve. He saw a need to improve relations between departments and the Corporate Procurement Unit (CPU) and to cut off-contract purchasing.

Mr Deakin saw the business plan as a powerful model, which called on commitment from departments. Failure to comply would, he said, lead to drastic action, although he recognised that there would on occasions be purchases which would fall outside of corporate contracts. He expected that the Procurement Board would be chaired by the relevant Cabinet member and would hold officers to account. A possible response from the Board (subject to discussion with trade unions) might be along the lines of "three strikes and you're out". He believed that diminishing returns meant that it would take a lot of effort to achieve the full £5m savings.

There was discussion with Councillor Stocks and Mr Deakin about the cost element in procurement decisions, and other factors including quality and sustainability. There was also discussion about a need to ensure that officers understand issues around contracts and regulations

In response to questioning, Councillor Stocks commented that off-contract purchases would dilute the authority's buying potential. Mr Deakin stated it might be possible to reduce a department's budget if a major procurement decision was taken off-contract. Richard Ratcliffe, Assistant Treasurer (Procurement and Trading) indicated that one consequence of the business plan would be that departments' budgets for stationery, for example, would be lower, to reflect the lower prices obtained through central purchasing.

A Select Committee member referred to the Deloitte report's criticisms of the Corporate Procurement Unit and e-procurement, and was disappointed by the intention to aim for the lower savings target. He contrasted this with Leicestershire County Council's ambitious savings targets. A Select Committee Member commented that price should be a

larger factor in procurement decisions, and that there should be commitment from members and employees to ensure best value from procurement.

Councillor Stocks agreed that the Deloitte report had been hard hitting. He pointed out that new systems would help to identify off-contract purchases. He stated that discipline would be needed, and referred to the roles of the Procurement Board and to high level officer involvement. He believed that quality and sustainability should have some weighting in making procurement decisions. A Select Committee Member felt that unless there was a business case for buying off-contract, departments should face financial penalties for doing so. Mr Deakin stated that in addition to new systems, better communication and policing mechanisms were needed.

There were then questions asked about e-procurement, monitoring and members' involvement. Councillor Stocks said that while the detail of monitoring processes had yet to be decided, he expected the Corporate Procurement Unit to bring regular reports to the Procurement Board. He welcomed members' views on monitoring. A Committee Member felt that systems ought to easily produce management information. Mr Deakin expressed his determination that procurement should be transparent and accountable. E-procurement might need additional investment, but would produce savings. Members felt that the minutes of Procurement Board meetings should be readily available.

The Chair concluded the discussions by stating his view that the Deloitte model was stringent and achievable. Members recommended that price should count for at least 50% of a procurement decision, with the Procurement Board able to allow variations to this.

Members recapped the main issues arising throughout the review, and agreed that at the next meeting, which would be the last for this Select Committee, they would consider a draft report outlining their conclusions and recommendations. Once agreed, this report would be sent to Cabinet in February 2007.

Draft Conclusions

The Select Committee is pleased to have had the chance to scrutinise the 3 year draft procurement business plan, and welcomes the plan. However it is essential that the plan is owned and championed in the Authority at Member and senior officer level. Someone must ultimately be responsible for procurement in order for the plan to work.

The Select Committee believes that levels of compliance and monitoring of procurement decisions, especially monitoring of "off contract" or "maverick spend" will be key to the success of the plan. There also needs to be a culture change across the authority around procurement issues.

In order to achieve the targets in the plan, the Procurement Board must have the power to apply sanctions to departments who repeatedly purchase off contract and without giving good reasons in advance. Variations should be allowed if necessary, but only with the Procurement Board's agreement.

It is vital that Members are fully involved in the plan and the County Council needs a "Procurement Champion" at Cabinet Member level. The Committee welcomes the fact that the Cabinet Member – People and Performance is likely to chair the new Procurement Board.

All County Council Members will also require up to date information which monitors how well we are achieving our procurement targets, and which highlights any problems encountered at the earliest possible stage.

The Committee also believe that in order to achieve the savings required "cost" should form at least 50% of procurement decisions with any departure from this needing to be agreed by the Procurement Board.

County Council officers also require up to date training/guidance on financial regulations, the procurement plan, the category manager approach, and on making procurement decisions.

Draft Recommendations

- 1. That the procurement plan, including an explanations of its aims and objectives, is made widely available across the County Council, supplemented by training or guidance for relevant officers around - corporate contracts, e-procurement, decision making, and financial regulations, and the new role of the Corporate Procurement Unit, and the category manager approach.**
- 2. That the Cabinet Member for People and Performance is supported in the role of "procurement champion" for the County Council, including strongly promoting the need for compliance to contracts. The Committee's view is that this Cabinet Member should chair the Procurement Board.**
- 3. That in order to help achieve the plan's targets the Procurement Board rigorously monitor off contract spend, and that departments should appear before the board to explain any breaches. There should also be sanctions for breaches on the broad basis of a "three strikes" model discussed at the Select Committee meetings. However the detail of this model should be developed by the Procurement Board following consultation.**
- 4. Copies of Procurement Board minutes should be widely available.**
- 5. Monitoring information from the Procurement Business Plan should be readily available to Members, and an explanation given for any problems, breaches, or failure to achieve targets, and any action plans to rectify this.**

6. Cost should form at least 50% of any procurement decision, with any departure from this needing to be agreed in advance by the Procurement Board. Any departure from purchasing from corporate contracts should also be agreed in advance by the Procurement Board.
7. It is suggested that a Select Committee should reconvene in approximately one year's time to monitor progress on the Procurement Business Plan, subject to approval / agreement by the Overview and Scrutiny Committee.

Recommendation

The Select Committee is asked to consider this draft report, including draft conclusions, and recommendations, and then agree a final report, with conclusions and recommendations which will be sent to Council Cabinet in February 2007.

Councillor John Knight
Chair of the Procurement Select Committee

Lynn Senior
Head of Scrutiny

Background papers: Agenda papers and minutes of the Procurement Select Committee – 18 September 2006, 30 October 2006, and 27 November 2006.