

**REPORT TO:** Business Efficiency Board

**DATE:** 26 November 2014

**REPORTING OFFICER:** Strategic Director, Policy and Resources

**SUBJECT:** 2013-16 Procurement Strategy Update

**PORTFOLIO:** Resources

**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 The purpose of this report is to provide the Board with an update regarding progress with the Council's Procurement Strategy 2013-16 targets and performance measures.

**2.0 RECOMMENDATION: That the report and position statement be noted.**

## **3.0 SUPPORTING INFORMATION**

3.1 The Council's Procurement Strategy provides a structured approach to procurement, in order to ensure efficient processes are followed which will deliver reduced costs whilst maintaining or improving service delivery. The Procurement Strategy was implemented from June 2013. This is the third strategy update report.

Progress against key measures within the strategy is detailed in Appendix 1.

### **Progress to Date**

3.2 In line with the aims of the strategy, the Council continues to deliver savings from procurement. The centralised model, working across all spend areas of the Council and utilising the Risk Based Sourcing (RBS) approach for spend below EU financial threshold, is serving the Council well.

3.3 Previous strategy updates have highlighted the Council's achievements in the procurement arena in 2013; namely the '*Good Council to do business with*' award from the Cabinet Office, the '*Outstanding achievement in procurement award*' from the Society of Procurement Officers (SOPO), and the presentation of evidence to the House of Commons Select Committee in October 2013 to inform the inquiry into local government procurement.

- 3.4 The key areas identified by the Select Committee Inquiry confirmed that the Council's approach has been, and remains appropriate, and is delivering savings as well as wider social value gains.
- 3.5 The Procurement Division remains engaged with the Cabinet Office and is in a strong position to adopt Lord Young's Procurement Reforms in early 2015. These are largely in line with the model that Halton implemented and that formed the basis of the Procurement Strategy.
- 3.6 The Procurement Division has developed a Social Value Procurement Framework, and has worked closely with the Council's policy team to ensure that this is aligned to the Council's Social Value Strategy. This has been designed to be proportionate in a complex market place, rather than adopt a blanket approach.
- 3.7 The Procurement Division has continued the delivery of three support service commissions, delivering consultancy support in two other Councils; Sefton MBC and Cheshire East Council; as well as delivering a procurement support service to Halton Clinical Commissioning Group. This has served to strengthen regional relationships with partner organisations; build resilience and efficiency within the wider public sector, whilst at the same time deliver much needed income into the Council.

### **Looking Forward**

- 3.8 For the remaining duration of the strategy, the established commercial approach to procurement will continue, underpinned by six key Building Blocks outlined in the strategy;
- Organisation
  - Governance and Process
  - Demand Management
  - Market Engagement/Supplier Relationship Management (SRM)
  - Category Management
  - Purchase to Pay/ e Procurement
- 3.9 The Procurement Division will continue to respond to opportunities to work collaboratively with other organisations to promote and embed the principles of efficient commercial procurement.
- 3.10 The Division will remain engaged with the Cabinet Office, effectively adopting the upcoming procurement reforms, and revised Public Contract Regulations 2015, into the prevailing business model.

## **4.0 POLICY IMPLICATIONS**

- 4.1 None.

## **5.0 OTHER IMPLICATIONS**

5.1 None.

## **6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

6.1 The Procurement Strategy is designed to improve procurement practice across the Council, in order to reduce costs associated with procurement processes and to realise budget savings from more robust procurement activity. This supports the achievement of all of the Council's priorities.

## **7.0 RISK ANALYSIS**

7.1 Given the financial constraints facing the Council, failure to identify and realise savings from more robust procurement practice may result in the Council not achieving budget savings targets. The Procurement Strategy and procedures surrounding it are designed to ensure that efficient procurement practices are operated across the Council.

## **8.0 EQUALITY AND DIVERSITY ISSUES**

8.1 None.

## **9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

9.1 There are no background papers under the meaning of the Act.

Building Block	The What	Progress Update November 2014 (Year 2: mid-year)
<p><b>1. Organisation:</b>                      The Council continues to recognise that procurement is a strategic function and is committed to placing it at the centre of its activities</p>	<p>a. Support from Elected Members, Business Efficiency Board and Management Team</p>	<p>The Council continues to fully support the Procurement Strategy and this strategic function remains at the centre of our activities. Our commercial concept continues to be recognised Nationally.</p> <p>Lord Young has made a number of recommendations primarily aimed at encouraging SME participation in public procurement processes. Part 1 of the Young Reforms is the abolition of the pre-qualification process for below EU Value Thresholds for goods and services. This reflects the Procurement Division's Risk Based Sourcing (RBS) approach.</p>
	<p>b. Implementation of Public Service (Social Value) Act, 2012</p>	<p>Halton has developed a Social Value Procurement Framework which has been approved by both Management Team and Executive Board, during September 2014.</p> <p>The Framework compliments both Halton's Sustainable Community Strategy Priorities, and Health and Wellbeing Marmot Priorities, with the overarching Social Value themes of Social, Environment and Economic principles underpinning these.</p> <p>Social Value outcomes identified will be relevant, transparent and proportionate for each procurement opportunity.</p> <p>We have successfully used our framework to achieve outstanding outputs from an SME within Liverpool City Region, which include a commitment to:</p>

Building Block	The What	Progress Update November 2014 (Year 2: mid-year)
		<ul style="list-style-type: none"> <li>• Employing Local People and utilising Local Supplier/Sub-Contractors</li> <li>• Supporting Local Training and Employment Initiatives</li> <li>• Becoming involved with local businesses and professional forums</li> <li>• Supporting Local Schools, Charities and Events</li> <li>• Supporting clients in respect of their own Corporate Social Responsibility (CSR)</li> </ul> <p>Additionally this provider has pledged to reinvest up to 7.5 pence for every £1 of the contract value traded with the Council.</p> <p>The Procurement Division will track all contracts where Social Value has been included either voluntarily, or within the Terms and Conditions of the contract.</p>
<p><b>2. Governance and Process</b> The Council will improve further its governance and processes to deliver greater efficiencies and streamlined procurement practices</p>	<p>a. Annual review of Procurement Standing Orders</p>	<p>The Council continues to review its Constitution annually. The Procurement Division are represented on the working group, alongside Legal Services, Audit and Efficiency.</p> <p>The Procurement Division will be forwarding a recommendation for consideration in the 2015/16 Constitution review, that approval is sought from senior management for any contract extensions prior to agreement with incumbent suppliers. This will improve controls and visibility before auto extensions are agreed, without conducting a pre-extension meeting, to ensure that we continue to achieve value for money.</p>
	<p>b. Continue to ensure procurement practices are efficient and remove any</p>	<p>The Councils Procurement Division continues to ensure practices are efficient and the removal of financial thresholds below EU threshold level has resulted in efficiencies for the period April to Oct 2014:</p> <ul style="list-style-type: none"> <li>• 13 procurement exercises undertaken as Requests for Quote rather than full tenders. This demonstrates a significant reduction of officer time as</li> </ul>

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	<p>unnecessary activity for spend below EU value Thresholds</p>	<p>we are not bound by Public Contract Rules (PCR) 2006</p> <ul style="list-style-type: none"> <li>• 6% of tender value saved per exercise has resulted in process efficiency savings (officer time) in excess of £106,000 to date.</li> <li>• This streamlined process allows a faster route to market and simplified processes for the business community to benefit from.</li> </ul> <p>With effect from April 2014, all EU member states have 2 years to implement into a new European Union Procurement Directive into legislation. The UK Government indicated earlier in 2014 that they intend to aim for early adoption.</p> <p>These changes will link to Lord Young's reforms, and will come forward in the Public Contract Regulations 2015.</p> <p>Upon examination, the new directive, combined with Lord Young's reforms so not pose a particular challenge to the innovative procurement processes that Halton has deployed. There will however be a need to ensure that existing and potential suppliers are appraised of the new rules, in order that the overall procurement process can remain as efficient as possible.</p>
	<p>c. Maintain risk based sourcing (RBS) approach for all spend from £1,000 up to EU value thresholds.</p>	<p>The Procurement Division are continuing to drive compliance with Procurement Standing Orders to push all spend above £1K via the Chest in order to drive transparency and fair and equal opportunity to the business community. This concept is now being aligned into a couple of neighbouring Councils, as well as and Halton Clinical Commissioning Group, with a number of other local public sector partners considering this award winning concept also.</p> <p>The Procurement Division have supported Sefton Council with procurement transformation, which included the adoption of:</p> <ul style="list-style-type: none"> <li>• Procurement standing Order Principles aligned with Halton,</li> </ul>

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		<ul style="list-style-type: none"> <li>• A similar Procurement Strategy to Halton,</li> <li>• Halton's RBS approach for spend below EU Value Thresholds.</li> <li>• Halton's Business Engagement approach.</li> </ul>
	<p>d. Ensure we strive to push all spend above £1,000 via The Chest (25% represents £5M of spend via the Chest (low value spend) – this delivers approximately £500K of cost reduction)</p>	<p>Category Management has improved visibility of the following:</p> <ul style="list-style-type: none"> <li>• Council spend by category</li> <li>• Nature of the Goods, Works and Services purchased from the supply community</li> <li>• Council Contracts</li> <li>• Work planning and future Procurement support</li> <li>• Aggregation of spend to comply with EU Legislation</li> <li>• New Procurement opportunities</li> <li>• Collaboration opportunities with internal and external stakeholders</li> </ul>
	<p>e. Deploy a Best and Final Offer (BAFO) approach where possible, to ensure we take every opportunity to drive the price down whilst maintaining quality in a controlled and fully auditable</p>	<p>We continue to deploy BAFO as part of our procurement practice as and when appropriate.</p> <p>A notable example of success during 14/15 is the ICT Hardware contract – BAFO achieved 15% saving.</p>

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	environment	
	f. Continue with the scrutiny role by Business Efficiency Board (BEB) and report biannually against this strategy	This report evidences the bi-annual reporting of the strategy for scrutiny by Business Efficiency Board.
<b>3. Demand Management</b> The Council will continue to secure improvement in procurement in engagement by securing full compliance with Standing Orders	a. Continuous review of spend analysis which will aid procurement planning across the organisation and with public sector partners to identify opportunities, prioritisation and to secure savings	The Procurement Division continues to invest time in maintaining an accurate profile of our spend with the council's finance system, this is influenced by: <ul style="list-style-type: none"> <li>• Accurate Categorisation and Coding</li> <li>• New Supplier Set Up Forms</li> <li>• Contract Register</li> <li>• Category Management</li> <li>• SME Profile – Includes Micro – below 10 employees and local postcode.</li> </ul> This allows us to report accurately on our data in terms of SME engagement and spend.
	b. Continued development of the capacity and capability of the	<b>Qualified - October 2014:</b> CIPS Level 6 – 1 qualified CIPS Level 5 – 2 qualified CIPS Level 4 – 3 qualified

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	<p>Procurement Division through training and study Chartered Institute of Purchase and Supply (CIPS) subject to available resources. This will ensure the division is educated and skilled to manage procurement demand</p>	<p><b>Studying – October 2014:</b>  CIPS Level 6 - 5 working towards  CIPS Level 5 - 1 working towards (1 has now left the council – Oct 2014)  CIPS Level 4 - 1 working towards</p>
	<p>c. Continuation of a communication and education strategy internally to up-skill and educate the wider workforce</p>	<p>In addition to ongoing support to service departments, the Procurement Division will be delivering a number of procurement workshops in the last quarter of this financial year.</p>
<p><b>4. Market Engagement/Supplier Relationship Review (SRR)</b>  Halton will commence a review through a structured approach to developing supplier relationships in order to review overall business relationships,</p>	<p>a. Development of a work stream to undertake a structured review of SRM across the organisation and</p>	<p>This is a workstream being delivered jointly by the Efficiency and Procurement functions.   As part of the review, a number of the Council’s external contracts have been selected on a pilot basis to be examined in order to establish the potential for efficiencies within existing contracts.</p>

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<p>contractual arrangements, specifications, rates and expected outputs in order to mutually agree benefits which will result in savings for the Council as the customer. This will deliver greater value, meet strategic objectives and add Social Value. This will have greater leverage if we work with public sector partners.</p>	<p>where possible with public sector partners</p>	<p>As a result of this review, the Council's Childcare Voucher scheme for staff has been re-procured. Savings of circa £5,000 per annum have been secured.</p> <p>The Council's security contracts have been reviewed. The findings of the review have informed the process procurement process which is now underway to seek a new contracts form the market place when the current contracts end in May 2015. There is also scope to generate some incidental savings within the current contracts prior to them ending. These are currently being considered.</p> <p>The review is now focussed on the Council's Mechanical, Electrical and Building Maintenance contracts.</p>
	<p>b. Continuing with SME and Community and Voluntary Sector (CVS) engagement both locally and regionally in order to train, support and develop a 2-way approach where we learn together and to underpin SRM</p>	<p>Our relationship with Halton and St Helens VCA continues to grow and we have implemented the 'Star Standard', a pre-qualification process for the sector, applicable to opportunities below the EU Value Threshold. This is designed to eliminate the duplication of resubmitting essential organisational information during the procurement process.</p> <p>The Procurement Division delivered a joint workshop with Halton and St. Helens VCA on the new process in May. 13 VCSE Organisations attended this session.</p> <p>A further VCSE workshop has been arranged for 26<sup>th</sup> November 2014, to educate and support the sector on Halton's Procurement Practice, the law, use of the Chest, and how to work with the Star Standard.</p> <p>Further supplier engagement workshops are to be arranged for the first quarter of 2015 for the wider supplier community. These workshops will provide an opportunity for potential suppliers to engage with the Council and learn about our process. The Procurement Division aims to encourage enhanced quality and</p>

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		<p>cost competitiveness within our category supply chains.</p> <p>Statistical information:</p> <ol style="list-style-type: none"> <li>1. Chest Registration: <ul style="list-style-type: none"> <li>July 2010: 279</li> <li>May 2013: 650</li> <li>Oct 2013: 749</li> <li>Oct 2014: 867 (311% improvement since July 2010)</li> </ul> </li> <li>2. Request For Quote (RFQ) activity: <ul style="list-style-type: none"> <li>May 2013: 50</li> <li>Oct 2013: 119</li> <li>Mar 2014: 243</li> <li>Oct 2014: 87</li> </ul> </li> <li>3. RFQ awards: <ul style="list-style-type: none"> <li>May 2013: 22</li> <li>Oct 2013: 46</li> <li>Mar 2014: 101</li> <li>Oct 2014: 47</li> </ul> </li> </ol> <p>The above statistics demonstrate the increase in activity and improved process efficiency of incorporating extension options after the initial contract term.</p> <ol style="list-style-type: none"> <li>4. Local SME Registration – Oct 2014 (stats only recorded since Sept 2014) <ul style="list-style-type: none"> <li>Micro – (0 - 10 employees) 74</li> <li>Small – (10 – 50 employees) 55</li> <li>Medium – (50 – 250 employees) 65</li> <li>Large – (above 250 employees) 63</li> </ul> </li> </ol>

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		<p>5. Spend with SMEs (report run annually)  12/13 - 89% of our influential spend of £74M.  13/14 – 88% of our influential spend of £90M (indicates constant)</p> <p>6. Breakdown of SME spend:</p> <table border="0"> <tr> <td>Micro (0- 10 employees) -</td> <td>29 (2%)*</td> </tr> <tr> <td>Small (10 to 50 employees) –</td> <td>1670 (67%)</td> </tr> <tr> <td>Medium (50 to 250 employees) –</td> <td>482 (20%)</td> </tr> <tr> <td>Large – (above 250 employees) –</td> <td>298 (12%)</td> </tr> </table>	Micro (0- 10 employees) -	29 (2%)*	Small (10 to 50 employees) –	1670 (67%)	Medium (50 to 250 employees) –	482 (20%)	Large – (above 250 employees) –	298 (12%)
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	<p>c. Support the Liverpool City Region (LCR) Charter for Employment and Skills through Procurement</p>	<p>The key aims of the charter are to;</p> <ol style="list-style-type: none"> <li>Make contracts more accessible to local suppliers, especially SME's</li> <li>Encourage local Businesses to make quality submissions,</li> <li>Promote use by contractors of local supply chains,</li> <li>Promote apprenticeships, jobs for unemployed-training by prime contractors and their supply chain.</li> </ol> <p>Progress across the region is at different paces. Halton continues with more Risk Based Sourcing, considers the measurement of supply chains, seeks Social Value gains and employment, learning and skills that can be gained through procurement. (a, b, c, d within the Charter).</p> <p>This work is being developed with Employment, Learning and Skills colleagues in Halton, as well as sharing ideas and concepts with Sefton MBC's Procurement Unit and Halton People into Jobs / Economic Regeneration colleagues.</p>								

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		Halton continues to use the LCR Charter for Employment, Learning and Skills through Procurement in opportunities, wherever possible or appropriate
<p><b>5. Category Management</b> The Council will continue with a Category Management approach to procurement by aligning business requirements across the organisation. It will continue to work with wider public sector partners in order to gain greater leverage, add value and maximise savings as we are too small to do this alone.</p>	<p>a. Review our relationship with the Merseyside Procurement Partnership (MPP) – Members: Halton; Sefton; Liverpool; St Helens; Knowsley; Wirral; CW&amp;C; Mersey Travel and Mersey Fire &amp; Rescue. Re-establish with partners the commitment, purpose, accountability of this regional work stream in order to progress a category management approach based around geography</p>	<p>We are continuing to review our regional relationship, particularly now that other organisations are aligning their processes and practices with Halton’s.</p> <p>The Division has commenced a whole team approach to category management by using our cleansed spend data. It has identified 936 suppliers with a contract and we are auditing this to proactively seek to create procurement exercises and to establish more contractual arrangements where they don’t exist across the Council. (This refers to 2.d).</p> <p>Collaboration with the Merseyside Procurement Partnership has been undertaken for the following contracts:</p> <ul style="list-style-type: none"> <li>• Agency Workers</li> <li>• Stationery</li> <li>• Furniture</li> <li>• PPE</li> <li>• Uniform</li> <li>• Cleaning</li> <li>• Print</li> </ul>

Building Block	The What	Progress Update November 2014 (Year 2: mid-year)
	rather than organisation.	
	b. Further strengthen our relationship with Clinical Commissioning Groups to secure future trading relationships	<p>We continue to provide procurement support to Halton Clinical Commissioning Group (HCCG), which has proved successful. In one opportunity our procurement expertise achieved savings of 70% on the CCG's previous provision.</p> <p>We have developed and embedded a Provider Assessment Process (PAP) for HCCG, which has led to the successful provision of Ear Nose and Throat; and other services across the Borough.</p> <p>The Division successfully bid to provide procurement support for St Helens CCG, for the provision of a Minor Eye Conditions service across the footprint of St Helens, Knowsley and Halton.</p>
<p><b>6. Purchase to Pay/ e Procurement</b> Halton will continue with the development of P2P and e procurement solutions to control compliance within the organisation, improve payment terms to secure a seamless end-to-end process.</p>	a. Review P2P processes to secure full compliance across the organisation	<p>We work closely with the P2P team to ensure our processes support each other and drive compliance.</p> <p>Halton are a member of the regional steering group, currently leading on the new contract opportunity for the Regions Electronic Tendering Portal – The Chest (currently provided by Due North). The current contract will expire in July 2015.</p>
	b. Support business process	The Council's Audit and Operational Finance Division administers an Early Payment Discount scheme. This meets the requirements of this element of the

<b>Building Block</b>	<b>The What</b>	<b>Progress Update November 2014 (Year 2: mid-year)</b>
	improvement to enable early payments to SME's	Procurement Strategy.