

CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting: 24th June 2013
Report of: Rachel Musson, Corporate Operations Officer
Subject/Title: Improving the Council's Approach to Procurement
Portfolio Holder: Councillor J Paul Findlow

1.0 Report Summary

- 1.1 Cheshire East Council currently operates a devolved approach to procurement supported by a small Strategic Procurement Team located in Finance and Business Services Directorate. In the advent of recent events external consultants – V4 Services (V4), have been engaged to undertake an external health check of the Procurement activity across the Council. This report summarises V4's findings and their potential future involvement in helping to address some of the issues highlighted.
- 1.2 The report has been considered by the Portfolio Holder for Procurement who supports the recommendations.

2.0 Recommendation

- 2.1 Recommended that the proposal to re-engage V4 Services to support the Council to instil a more robust approach to procurement in anticipation of significant savings (between £1.85m and £4.5m being achieved on a fixed cost basis (£447k) be approved

3.0 Reasons for Recommendation

- 3.1 V4 has already delivered a procurement health check which identifies significant savings for the Council. Given that their services are available through a (procurement) framework it is appropriate to re-engaging V4 to support the Council in delivering those savings without the need to go through a competitive procurement exercise.

4.0 Wards Affected

- 4.1 This is a corporate issue and as such all wards are affected.

5.0 Local Ward Members

- 5.1 As above

6.0 Policy Implications

- 6.1 The Council has identified ambitious saving targets to be achieved over the next three years. If V4's intervention helps to achieve the savings that they have identified the exercise will be self financing and will contribute improving the budget position for the Council.

7.0 Financial Implications

- 7.1 The Procurement health check undertaken by V4 suggests that potential savings of between £1.85m and £4.5m could be achieved by a more robust approach to procurement and supplier management in targeted areas as identified in Appendix 1. However securing these savings will require external support. It is therefore proposed that V4 be engaged on a fixed cost basis at a total cost of £447,120 to help the Council to release these efficiencies.
- 7.2 The budget required to support this initiative will be met from the Transformation Fund although in effect if the identified savings are achieved the initiative will be self financing.

8.0 Legal Implications

- 8.1 The contract value of the Council re engaging V4 Services exceeds £173,934. The contract is subject to the Public Contracts Regulations 2006 (as amended) and the fundamental principles of the Treaty of Rome (together the Public Contracts Regime) and therefore the Council should compete the opportunity by way of a legally compliant procurement exercise. A procurement exercise, depending on type will take in the region of six to nine months.
- 8.2 A direct award of contract to V4 Services breaches the Public Contracts Regime and the Councils own Financial Procedure Rules. A successful challenge against the Council could lead to:
- the award of damages to the claimant;
 - the setting aside of the arrangement between Cheshire East and V4("declaration of ineffectiveness") and a mandatory civil financial penalty;
- 8.3 It is understood that the Council can make a direct award of contract from a legally procured framework agreement if it becomes a member of the North East Procurement Organisation (NEPO). NEPO operates a neutral vendor solution for the engagement of consultancy, specialist professional services and interims known as NEPRO. NEPRO is open to any public sector organisation if signed up as an Associate Member. Subject to Council's ability to legally draw off that framework the Council will be able to make a legal direct award.

9.0 Risk Management

- 9.1 There is a risk that if the issues raised in the Procurement health check are not addressed the Council will not realise the savings identified and if demand and supplier management are not improved this will lead to further wastage.
- 9.2 If the Council undertakes an open procurement exercise there is a risk that this will lead to delays in securing an improvement partner, potential loss of business intelligence already gathered by V4 and the potential for work already undertaken to be repeated by an alternative provider to enable them to get up to speed. Overall this could lead to delays in improving the current positions and savings being delayed.
- 9.3 There is a risk that if additional support is not provided to the Corporate Procurement Team there will be insufficient resource to support the Council's commissioning plans leading to ambition to deliver alternative delivery models not being achieved.
- 9.4 There is a risk that as the Council progresses its commissioning ambition that the potential for efficiency will transfer to the new delivery models in which case the Council will not directly benefit.

10.0 Background and Options

- 10.1 Cheshire East Council spends over £140 million a year on goods and services ranging from everyday items like pens and paper to procuring critical services for vulnerable members of the community. The successful and compliant procurement of goods and services is essential to ensure the Council delivers quality services at the right time, to the right quality at the right price.
- 10.2 Central Government has consistently expected local authorities to achieve annual efficiency savings through better procurement. Smarter and well planned procurement can also help and contribute to the wider social and economic challenges which the Council faces.
- 10.3 Cheshire East (CE) operates a devolved approach to procurement with activity undertaken as required within Services. This activity is supported by a small corporate Strategic Procurement Team (5.8 FTE) currently headed up on a temporary basis by the Shared Services Manager.
- 10.4 Since the Council's inception in April 2009 the Procurement team has been subjected to:
- An external Procurement Efficiency review (SOLVIS – November 2010)
 - An independent procurement health check conducted by NWIEP and AGMA (Feb 2011)
 - An Internal Audit of procurement (December 2012)
- 10.5 The outcomes from these reports have been used to inform a plan aimed at improving the Council's overall approach to Procurement. This has helped in driving process improvement and some efficiency however resourcing issues

and lack of corporate buy-in has resulted in not achieving the ambitious savings that could be harvested.

10.6 Different models of for the delivery procurement are actively being pursued (internal and external) but again these have been slow to deliver a viable alternative to the current set up.

10.7 In April 2013, the Council engaged V4 to review the Council's overall approach to procurement. This engagement was secured through an existing framework and funded through existing budgets at the request of the Interim Chief Operating Officer. Their brief was to:

- Undertake a "health check review" and produce a diagnostic report;
- Identify the strengths and opportunities for improvement;
- Present an outline savings plan;
- Provide a roadmap with recommendations on how improvements can be achieved.

10.8 This involved a detailed document review; spend data analysis; and interviews with a range of key officers from across the organisation.

11 Summary of Findings

11.1 V4 has recently provided the Council with the report outlining their findings, which in summary suggest:

- Demand management – gatekeeper initiatives are in place, however no evidence of reducing maverick / off contract spend;
- Limited (structured) supplier engagement – 53% of total suppliers are valued below £1,000 and engagement predicated on contract termination;
- Large number of staff undertaking some form of 'procurement activity'; – corporate procurement is reactive/advisory service with limited strategic influence;
- Lack of spend visibility – No Procurement Action Plan, spend control, cross cutting opportunities, tail end spend management;
- No Category Management – service driven, lack of visibility / opportunity;
- Lack of process and governance, core tools or model contracts, and convoluted processes.

11.2 To address these issues V4 highlight there is a strong business case to build capacity within the Council. They identify the drivers and justification for this as:

- Providing additional capacity and better skills in order to drive out cashable savings for investment;
- Improving service quality by ensuring goods and services better meet customers' needs;
- Improving and standardising business processes to drive out additional process savings;

- Delivering a positive and consistent experience for organisations wishing to trade with the council, by adopting common approaches, policies and documentation

11.3 The report goes on to identify a number of barriers to achieving these objectives based on V4's field work including:

- Lack of capacity and dedicated resource to undertake strategic procurement activities;
- Significant procurement activity is devolved to service areas without the proper controls with consequential risks;
- Inconsistent skills of staff undertaking procurement activities as part of their existing role;
- Process inefficiencies, such as waiver process;
- Perceived lack of recognition across the Council of the strategic importance of the procurement function;
- Generally a lower level of understanding about what procurement is and what it can achieve for the Council in respect of savings and improvements;
- Lack of overall grip on expenditure, contract management and supplier performance.

11.4 The report concludes that a satisfactory financial case exists based on the potential savings identified by V4 of between £1.85m and £4.5m (Appendix 1) that could be achieved by taking a different and in some cases a more strategic approach to procurement and recommending that Category Management should form the corner stone of any model moving forward.

12 Proposed Way Forward

12.1 The findings of the V4 diagnostic holds no surprises for those closely involved with strategic procurement in Cheshire East Council. However, the key issue will be identifying sufficient capacity and skill to deliver the required step change from within existing resources. It is clear that efficiencies in procurement will only be driven out by pump prime investment in the function.

12.2 It is clear that V4 have both the skills and capacity to make this difference. Having undertaken the initial field work, V4 have gained a good understanding of the challenges faced by the Council and could, if re-engaged to undertake the next phase of work, hit the ground running in helping to mobilise the organisation to start releasing the efficiencies through a more robust approach to category management.

12.3 When engaged V4 will operate within the Council as part of the internal 'Commercial Unit', to reinforce the culture and message that they are here to support and strengthen the existing corporate procurement function, rather than acting as separate consultants. The ethos of V4 is to up-skill Council staff during their tenure, so they can leave a legacy of workable practices and solutions for the Council to drive forward longer term.

- 12.4 V4 have provided a resource outline and costing proposal (without obligation). The Portfolio Holder agreed the Output-based pricing arrangement should be adopted, which will cost £37,260 per month including expenses.

The exact overall cost will be dependent on the time taken to put in place action to drive out efficiency. On this basis it is essential that the Service areas concerned are signed-up to work with V4 and the Procurement Team to deliver the desired savings. This arrangement can be stopped at any time by the Council, but it is expected that V4 will be required for approximately one year to secure the savings at a total cost £447,120.

13 Engaging Consultants

- 13.1 In these austere times the potential of achieving significant savings through procurement cannot be ignored and there are many consultants out there promising the “silver bullet” to realise efficiencies. V4 were selected to undertake the diagnostic of the Council’s procurement activity on the basis of officers’ previous experience in another local authorities and that only a modest investment (circa £7k plus expenses) was required to get them on site quickly.
- 13.2 It is evident that V4 have a proven track record of working with several councils across the country all of which appear to have benefited from V4s approach and delivery of expected savings. References have been secured from Bedford Borough Council and Peterborough City Council to date and these are both very positive about V4’s approach and delivery. These evidence the V4 approach of integrating their team with the councils own procurement resource thereby using local knowledge, communications and relationships to access and deliver targeted savings. This brings additional benefits in terms of skills and knowledge transfer which will develop internal capacity and help to embed a more robust approach to category management moving forward.
- 13.3 The cost of the second phase of work proposed by V4 is not insignificant but if the suggested efficiencies are achieved this would be a good return on investment. It is acknowledged that other consultants are available to undertake this type of exercise but given that V4 have already completed the preparatory work it would seem sensible to continue to use them rather than bring in another company at this stage, and their costs are very competitive.
- 13.4 It is proposed that V4 undertake the second phase of work to help realise the savings identified in the first phase. However given the value of the commission it is important to ensure that services are procured in a legal manner.
- 13.5 It is acknowledged that other consultants are available to undertake this type of exercise but given that V4 have already completed the preparatory work it would seem sensible to continue to use them rather than bring in another company at this stage and their costs are very competitive.
- 13.6 V4 Services is as an accredited supplier of NEPRO and as such their services can be called-off their framework by any member or associate member of the

North East Procurement Organisation. In effect this means that the Council can secure V4's services without the need to go through a full procurement process and therefore prevent any delay in securing the benefits to be realised i.e. efficiency savings.

14 Conclusions

- 14.1 V4's input to date is useful in that it brings into sharp relief deficiencies in the Council's overall approach to procurement. The issues are not insurmountable with the right support but it is considered that this situation needs to be rectified as soon as possible if the identified savings are to be achieved for the Council. There is a risk that as the Council progresses its commissioning ambition that the potential for efficiency will transfer to the new delivery models in which case the Council will not directly benefit.

15.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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