
Report To:	Policy & Resources Committee	Date:	17 August 2010
Report By:	Chief Financial Officer	Report No:	FIN/43/10/AP/BH
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Subject:	Procurement - Update		

1.0 PURPOSE

- 1.1 The purpose of the report is to update the Policy & Resources Committee on the progress being made with Procurement since the Corporate Procurement Manager came into post in late May. This report focuses on the progress being made against the Strategic Procurement Framework and the savings being made largely as a result of collaborative contracts with Scotland Excel and Procurement Scotland.

2.0 SUMMARY

- 2.1 The Council has been successful in recruiting a Corporate Procurement Manager who has now had the opportunity to review the timescales required for the Council to achieve, "conformance status", against the McClelland report for the delivery of Procurement by December 2011.
- 2.2 The Procurement Manager has been working on the Strategic Procurement Framework by taking a two staged approach to its delivery. The Strategic Procurement Framework has very clear goals set to be delivered by December 2010 which centre on the structure, processes and data associated with Procurement. Achieving these targets will be the first stage. Targets for 2011 against the Strategic Procurement Framework deal with the delivery of the improved management of Procurement on a Corporate basis. Progress on stage two cannot begin until stage one has been completed. An update on the progress being made against stage one is contained in Appendix 1.
- 2.3 The Corporate Procurement Manager has also reviewed the management information that is currently available in the Council. Indications are that there is a significant level of management information available to the Council. Analysis of this data has quantified a number of savings totalling £473,000 in 2010/11. These savings are outlined in Appendix 2 and will be applied to 2010/11 budgets.
- 2.4 It is anticipated that as the Corporate Procurement Manager continues to work on savings, other opportunities will be analysed and reported. Work is underway on identifying potential savings via other collaborative contracts. Further savings opportunities will arise as the Strategic Procurement Framework matures.
- 2.5 The Council spent over £78 million with suppliers in the last financial year. Appendix 3 shows the make up of this expenditure. Of this, nearly 10% is procured collaboratively via National contracts. Spend on Scotland Excel contracts is over £3.7 million against a total of 39 contracts. A summary of the Scotland Excel Contracts and the 7 Procurement Scotland Contracts is shown in Appendix 4.

- 2.6 Officers have also reviewed the value of the Council's membership of Scotland Excel for which the Council is paying just under £65,000 in 2010/11. If Scotland Excel were not carrying out this work, the Corporate Procurement Unit and Services would be required to carry out a further 39 tender exercises and lose the buying power of Scotland Excel. An increase in contract rates of only 2% would wipe out any savings achieved from not paying the Scotland Excel fee.

3.0 RECOMMENDATIONS

- 3.1 That the Policy and Resources Committee note the good progress made in recent months and that updates on the implementation of the Strategic Procurement Framework and Procurement savings will be submitted as required.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 There are 4 performance standards identified within the McClelland report on Public Procurement in Scotland; Non Conformance, Conformance, Improved Performance and Superior Performance. Inverclyde Council was found to be at Non Conformance status in November 2009. In response to this, the Policy and Resources Committee approved the Strategic Procurement Framework. This strategy has 6 work streams that are programmed to deliver Conformance status by December 2011.
- 4.2 Scotland Excel was formed in 2008 with the intention of co-ordinating and delivering contracts for the Local Authority Sector across Scotland and to become a centre of excellence from which procurement expertise in Local Authorities could be supported and developed.

5.0 CURRENT POSITION

- 5.1 The Council pays approximately £65,000 as an annual subscription to Scotland Excel. The annual subscription is based on population and does not vary as to whether the Council signs up for Scotland Excel contracts or the volume of spend which goes through individual contracts. The logic of the subscription charge at present is that Councils will optimise the benefits they get by signing up to as many Scotland Excel contracts as possible and thereafter optimising their expenditure through these contracts.
- 5.2 Scotland Excel have indicated that they intend to withdraw from providing what they view as Category C (local) type contracts and have supplied a list to the Council of 22 contracts where they will pass responsibility back to the Council for contract preparation in the future. An initial assessment by the Procurement team is that the Council would not need to replace many of these contracts as the Council either at present does not participate in them as there may be other contracts already in place which cover these or the level of spend in Inverclyde is so low that it does not require a formal contract.
- 5.3 Some Councils are reviewing what Scotland Excel will actually be doing in terms of contract delivery going forward and have questioned the value of the subscriptions which they pay for membership of Scotland Excel.
- 5.4 Based on the 39 contracts which Scotland Excel have let, then the Council would need to consider what would be the cost to the Council of progressing these 39 contracts using its own resources were it to withdraw from Scotland Excel. In addition the Council would need to consider whether it could achieve the same contractual rates as Scotland Excel who clearly have significantly more (50 times) buying power than Inverclyde Council.
- 5.5 Based on an annual spend of £3.7 million, then it would only require an increase in contractual rates of 2% for the financial benefit of withdrawing from Scotland Excel to be lost and this does not take into account the cost to the Council of having to let 39 extra contracts
- 5.6 Scotland Excel has passed responsibility for certain Category A (National) Contracts to Procurement Scotland. These are shown in Appendix 4. Procurement Scotland was launched in March 2008 with the task of developing and implementing procurement strategies for Category A (national) commodities on behalf of all Scottish public sector organisations.

5.7 As part of the Scottish Procurement Directorate of the Scottish Government, Procurement Scotland aims to deliver benefits through:

- improved value for money for taxpayers;
- improved goods and services for our citizens; and
- economic opportunities for our businesses.

5.8 Procurement Scotland contracts are proving to be valuable given the volume of savings as shown in Appendix 2. In particular the Utilities contracts alone will provide projected savings of £446,000 per year. Future National contracts for commodities such as IT, programme management, water and waste water could potentially deliver further savings.

6.0 PROCUREMENT SAVINGS

6.1 Appendix 2 details a total of £473,000 in projected savings to be delivered via contracts for Electricity, Gas, Water, Telecoms and Mail.

The National category A contracts represent the quick wins available via National contracts and demonstrate the effectiveness of both Procurement Scotland and Scotland Excels increased buying power.

6.2 The Water contract savings are as a result of a newly negotiated agreement where the Council pays its water costs up front in exchange for a 4% saving. Water procurement has become part of Procurement Scotland's remit and it is hoped their increased buying power will deliver further savings in 2011.

6.3 These savings will inevitably assist in addressing the future financial position. Moreover, further savings will be identified as work progresses with the Strategic Procurement Framework. In particular, the establishment of a Designated Procurement Officer operational group will engender a common Procurement approach Council wide and bring further savings opportunities forward.

7.0 IMPLICATIONS

Financial Implications –

Financial Implications – Annual Savings

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
Various	Various	2010/11	473,000	-	Service budgets will be reduced. Savings will score against the Procurement Work Stream.

8.0 CONSULTATIONS

8.1 The Head of Legal & Democratic Services is working closely with the Corporate Procurement Manager in addressing many of the issues in the Strategic Procurement Framework.

8.2 The Corporate Management Team have approved a structure proposal and the overall progress being made.

Appendix 1

What we want to achieve	How will we achieve it?	Responsible	August 2010 Update	Timescale
A shared vision for the future of procurement across the Council with agreement on how we work together to drive and facilitate improvement.	Establish a Procurement Programme Board to lead and manage a corporate approach. This will be done via the OIP Resources Group.	Corporate Director Regeneration & Resources	Officer Group chaired by CFO established. First meeting due in August.	Complete
Provide clarity on who does what in the procurement process.	Implement designated procurement officer model. Only employees on an agreed list will be licensed to make procurement/contract decisions for the service/directorates.	Chief Financial Officer/Corporate Procurement Manager	Procurement survey issued to find designated procurement officers. Survey has been approved by CMT and has gone to officers already identified as having existing procurement involvement	Dec-10
	Designated Procurement Officers will form a network to ensure consistency and adherence to Corporate policies/procedures	Corporate Procurement Manager	Procurement survey will identify staff spending a high percentage of time on Procurement. These officers will form the procurement practitioner group which will create a network of procurement professionals from each Service area.	Dec-10
	Establish a procurement practitioner operational group.	Corporate Procurement Manager	Procurement survey will identify staff spending a high percentage of time on Procurement. These officers will form the procurement practitioner group	Dec-10

<p>Employees engaged in the procurement process shall possess the necessary knowledge, skills and capacity to support strategic and operational needs in line with agreed policies and practises.</p>	<p>Recruit Corporate Procurement Manager.</p>	<p>Chief Financial Officer</p>	<p>Complete</p>	<p>Complete</p>
<p>Capacity to achieve substantive change within the scope of this plan.</p>	<p>Review Procurement capacity within the Council and recommend structural changes.</p>	<p>Chief Financial Officer/Corporate Procurement Manager</p>	<p>A structure analysis has identified the following within the Corporate Procurement Team:</p> <ol style="list-style-type: none"> 1. Need for a part time Procurement Analyst 2. Generic grading for Procurement Officers. 3. A training budget to assist with the delivery of the Strategic Procurement Framework. CMT have approved points 1 and 3 and is now being progressed. 	<p>Aug-10</p>
<p>The adoption and corporate use of one integrated & electronic approach for tendering, P2P transactions and contracts planning.</p>	<p>e-Procurement business case to be developed and aligned with the Operating Model.</p>	<p>Corporate Procurement Manager & Head of Customer Services & Business Transformation</p>	<p>Corporate Procurement Manager liaising with the Transactional Shared Services project team to identify procurement, 'menu', of items that should be considered within the scope of the TSS work stream</p>	<p>Nov-10</p>

	Establish contracts database and populate including Lead Officer and client info.	Corporate Procurement Manager	A draft contracts database has been created. Legal Services will update database with contract award detail. Contract database to be shared with Services via ICON	Oct-10
Rationalise and standardise procurement processes consistently across the Council.	Create Procurement Manual.	Corporate Procurement Manager	Draft Procurement Manual created using Scottish Government procurement roadmap as best practice. To be shared with CMT and will be published on ICON.	Aug-10
	Develop and implement suite of standard tender documentation for use where appropriate across Council.	Head of Legal and Democratic Services	Created standard set of terms and conditions using Scottish Government as best practice. Currently discussing how these can be adopted with Legal Services	Dec-10
	Develop business case for increased use of e-tendering element of Public Contracts Scotland.	Corporate Procurement Manager	Discussing a pilot of e-tendering with Legal Services. Plan is to pilot within the Corporate Procurement Unit and use results to spread to wider Council	Oct-10

	Re-engineer procurement processes and associated systems in line with the Operating Model.	Head of Customer Services & Business Transformation / Corporate Procurement Manager	Corporate Procurement Manager liaising with the Transactional Shared Services project team to identify procurement 'menu' of items that should be considered within the scope of the TSS work stream	Dec-10
Appropriate Purchase Card Usage	Obtain approval for revised Purchase Card Strategy reflecting a balance between flexibility and governance.	Corporate Procurement Manager	Corporate Procurement Manager has re-drafted the Purchase card strategy and will share with CMT and publish on ICON when agreed	September 2010
Measure aspects of procurement performance.	Develop and adopt standard approach to Benefits tracking	Chief Financial Officer/Corporate Procurement Manager	Corporate Procurement Manager has agreed benefits tracking process with Chief Financial Officer. Additional, meaningful performance measures being developed. Procurement Analyst to be appointed.	Oct-10
	Review and implement internal Performance Measures.	Corporate Procurement Manager	Corporate Procurement Manager has agreed with Chief Financial Officer that performance measures will be agreed when procurement network is closer to being established	Dec-10

Maximise buying opportunities through collaboration (internal & external) while minimising the need to undertake single client contracts.	Develop and communicate a database of collaborative and one off contracts for use by Council. These include Procurement Scotland, Scotland Excel, OGC, other public bodies in Scotland and the United Kingdom as appropriate.	Corporate Procurement Manager	Contracts database has been created and includes full detail of collaborative contracts. Collaborative contracts will be highlighted and communicated via ICON	Oct-10
	Develop a range of collaborative contracts with neighbouring councils – but only where there is clear evidence that benefits will provide a return on the time invested.	Corporate Procurement Manager	Corporate Procurement Manager has been attending meetings with Renfrewshire Council where a programme of collaborative opportunities are being investigated	2010/11 and ongoing
Be viewed as an organisation which companies want to supply with goods, services and works.	Include section in Procurement Handbook and update the Council Website on how to do business with the Council.	Corporate Procurement Manager	Procurement Manual will include section on how to do business with the Council. Corporate Procurement Manager attending Construction Forum with local suppliers to inform them of Tender opportunities coming up with the Council	Oct-10
	Review need for current Standing Restricted List.	Head of Legal and Democratic Services and Corporate Procurement Manager	Head of Legal and Democratic Services currently re-drafting standing orders in consultation with the Corporate Procurement Manager. Standing List will be removed and replaced by requirement to advertise on Public Contracts Scotland portal.	Dec-10

Appendix 2

Inverclyde Council Benefits Tracking

Service	Commodity	Supplier	Cat A,B or C	Start Date	Annual Spend 09/10	Savings as Percentage of last years spend	Projected Full Year Savings
Property	Half Hourly Electricity	Scottish Power	A	01/04/2010	£500,000	20%	£100,000
	Non Half Hourly Electricity	Scottish and Southern Electricity	A	01/04/2010	£1,030,000	10%	£100,000
Property	Gas	Total Gas	A	01/04/2010	£1,030,000	22%	£226,000
Property	Water	Business Stream	C	TBC	£600,000	4%	£24,000
Customer Service & Business Transformation	Telecoms	Virgin Media	A	TBC	£82,000	13%	£11,000
Legal & Democratic Services	Mail	TNT	A	01/06/2010	£79,000	15%	£12,000
IC TOTALS					£3,321,000		£473,000

- Category A National Procurement Scotland or OGC contract
- Category B National Local Authority contract via Scotland Excel
- Category C Inverclyde Council or Local collaborative contract

Council Spend Analysis – 2009/10

<u>Type of Contract / Provider</u>	<u>Total £ million</u>	
Suppliers Paid over £25,000/annum	25.1	Note 1
Suppliers Paid under £25,000/annum	8.1	Note 1
Procurement Scotland	3.8	See Appendix 4
Scotland Excel	3.7	See Appendix 4
Social Work Providers	29.2	
Other Public Sector Bodies	<u>8.3</u>	Note 2
	<u>78.1</u>	

Note 1 – Officers have set a savings target of £200,000 against this area of spend and included in this is the Savings Work Streams.

Note 2 – Includes Inverclyde Leisure, River Clyde Homes, Health Board, Glasgow City Council etc.

Appendix 4

Scotland Excel contracts (including cumulative spends with supplier below £25K)

Contract Name	Number of contracts	Total
Audio Visual Equipment	1	£433,000
Education Materials	6	£234,000
Fitness Sports and games	2	£7,000
Food and Drink	5	£923,000
Fuel and Energy	2	£5,000
Furniture	4	£31,000
Office Supplies and Equipment	5	£147,000
Personal and Protective Equipment	1	£1,500
Roads and Transport	6	£1,854,000
Trade Tools and Sundries	5	£28,000
Waste Containers	2	£39,000
Grand Total	39	£3,702,500

Procurement Scotland Collaborative Contracts

Commodity	Supplier(s)	Inverclyde Council Start Date	Spend 0910
Electricity	Scottish Power / Scottish and Southern Electricity	01/04/2010	£1,898,000
Gas	Total Gas	01/04/2010	£1,030,000
Telecoms	Virgin Media	TBC	£82,000
Mobile and Desktop computing	Insight UK/ Hewlett Packard	28/04/2010	£257,000
Computer Consumables	Spectrum Computer Supplies	01/09/2008	£244,000
Postal Services	TNT	01/06/2010	£79,000
Paper	Lyreco	01/09/2008	£194,000
	Grand Total	Grand Total	£3,784,000