

**AGENDA ITEM**

**REPORT TO EXECUTIVE SCRUTINY**

**19 OCTOBER 2010**

**REPORT OF HEAD OF FINANCE,  
PROCUREMENT & PERFORMANCE**

**EIT REVIEW OF PROCUREMENT AND COMMISSIONING**

**SUMMARY**

This report details the work undertaken by the Project Team for this review on the baselining and challenge phases. As a consequence of that assessment it makes a recommendation in principle to move forward into the option phase.

**RECOMMENDATION**

That Members approve the principle of a centralised approach to Procurement and Commissioning as the most effective way to obtain value for money for the authority.

**DETAIL**

1. The review for Procurement and Commissioning is a crosscutting review. This is due to the fact that although Stockton has a small Corporate Procurement team the vast majority of transactions and activity in this function are undertaken by officers in frontline services across the authority. (The analysis of officer involvement detailed in the baseline analysis will demonstrate the extent of this).
2. In acknowledgement of this crosscutting nature, a project team was established to reflect the diversity of involvement. The team consists of:

Paul Saunders (Lead)	Head of Finance, Procurement & Performance (Resources)	*
Russell Smith	Consultancy Practice Manager (DANS)	
Stephanie Newburn	Procurement Officer Direct Services (DANS)	
Liz Hanley	Interim Head of Adult Strategy (CESC)	
Lynn Sparrey	Acting Joint Strategic Manager, Children & Young Peoples Services (CESC)	
Angela Connor	Team Manager, Adults Operational Services (CESC)	
Brian Darby	Assistant Head of ICT – Strategy (Xentrall)	
Simon Lee (Independent Officer)	Policy and Development Manager (PPC)	
Martin Skipsey	Procurement and Performance Manager (Resources)	
Anthony Duffy	Scrutiny Officer (Democratic Services)	

3. In undertaking the baseline and challenge phases, the team have taken into account that both Stockton and all other North East local authorities have committed to developing and modernising their procurement practices, taking the best practice developed in the private sector and applying it in the public sector. This includes techniques such as category management, which has been used extensively by the private sector to drive down costs and increase value from the supply chain. Listed below for Members is a summary of what is considered to be the main differences.

**What is different?**

<b>Traditional Procurement: Current Model</b>	<b>Category Management: Future Model</b>
Reactive to organisational demands	Predict future demand more accurately to meet organisational needs
Procurement driven by contracts ending	Managed spending, with procurement driven by market changes and conditions
Selection of suppliers based on a bid response	Sourcing/supplier selection driven by a Category Sourcing Strategy that works with the market
Individual management of contracts	Management of markets and supplier relationships
One off contracts let – often many times duplicating effort	Understanding of requirements with ability to jointly go to the market
Generic contracting skill sets	Specialist commercial skills required

**BASELINING**

4. In undertaking the baselining of this function the team has concentrated on identifying what it believes are the two most important aspects. The first is, which employees in which service currently participate in this function, and to what extent. The second is how much money Stockton spends in this area, with an attempt to evaluate how much of this spend is associated with core budgets, and how much emanates from time limited streams.
5. In assessing which officers are currently involved in the function in the current devolved set up, three parcels of information were used as the starting point:
- The contract register.
  - Requisitions raised at a value above £6,000.
  - Instances outside of the two above where service officers have made contact with the Corporate Procurement Unit for advice.

From these sources it was possible to put together a list of officers. The next stage was to classify their level of involvement. Four levels were used:

**Level 1** – officer with an occasional involvement in a procurement/commissioning process and decision as part of their service deliver e.g. the occasional quote or tender.

**Level 2** – officer with a regular involvement in a procurement/commissioning process and decision as part of their service delivery e.g. regular quotes and tenders.

**Level 3** – officer with a regular involvement in a procurement/commissioning process and decision on behalf of other services e.g. establishing contracts for other service areas.

**Level 4** – as level 3 but with additional responsibilities for providing advice and guidance on procurement/commissioning processes to other officers.

Having determined the level of involvement of officers, they were then mapped against the various categories with which they were associated. At this point all of this assimilation had been undertaken by the Corporate Procurement Unit. To validate the data it was then

assessed by the members of the project team, before being sent to each relevant Head of Service for a final verification.

6. The result of this analysis shows that in total within Stockton 316 officers have been identified as being involved in procurement and commissioning. The split of the levels of involvement are as follows:

Level 1	163
Level 2	73
Level 3	66
Level 4	<u>14</u>
	<u>316</u>

7. The capture of the Council's spend on externally procured goods and services was the other major task in baselining. Again this was not as straightforward as might initially be imagined. In determining the total spend, it is not just the total figure that appears in the Council ledger. Amounts will appear as external payments but they may well be the re-distribution of monies received by Stockton for other Tees Valley authorities. In addition we will act as the lead on some joint arrangements making the initial gross payment and then recharging the appropriate amount. The Waste Management Contract inherited from Cleveland County Council being the largest example of these. This exercise however was relatively simple compared to then mapping the total expenditure against the spend categories. The central procurement unit and the review team allocated current levels of spend against the pro-class categorisation of expenditure. (This is the agreed standard to be used in the North-East to allow regional collaboration).
8. It is clearly important to understand how we have spent money, who with and what for. It can be seen from the Category Management Model in Paragraph 3, that this is however more about a forward looking proactive methodology rather than the reactive historical traditional procurement method. In this case we need to have analysis of future budget spend, we need to know the splits between core 'guaranteed' budgets and those variable ones associated with areas such as grants and capital. We need to take into account and predict changes that are going to happen, e.g. expenditure cuts from Government, changes in funding streams from current partners, e.g. PCT, the proposed changes in commissioning in the NHS and the impact for SBC, to allow a more planned approach. The review has made some attempt to start this process with analysis of budget spend.
9. In summary the analysis of Stockton's 2009/10 expenditure shows it spent a total of just over £156 million with external suppliers for goods, services and works. The budgets for 2010/11 equate to a total of £162.5 million of which £152.5 million has been designated as core and £10 million has been assessed as variable.

## CHALLENGE

10. In undertaking the challenge phase of the review, the team considered what would be the most appropriate arrangements to make the authority as effective as possible in delivering the category management approach in the future, and ultimately delivering the greatest level of potential savings to the Council. Category Management as a concept is relatively new to the local government arena. Some authorities have moved slightly further down the road than ourselves in implementing its principles and in doing so have elected to go for two ways of delivering it. The first being an in house procurement team, the other being strategic partnerships with the private sector, although assessment of how the latter is working shows there is little difference in this from outsourcing. In assessing the best method to deliver category management, we will concentrate on these two options and the current devolved set up. In addition as category management has come to the fore, councils in the North East have started to turn their thoughts to how collaborative procurement either at a regional or sub-regional level, might be incorporated into the category management approach.

11. To gain an understanding of how other models work in practice the project team undertook site visits to Sunderland and Newcastle Councils who have both moved to the central team approach. A visit was also arranged to our local PCT to discuss how they practised joint procurement. Unfortunately due to the uncertainty and job restructuring that is now taking place in that organisation, this had to be cancelled. They did however provide us with a written submission of how they are implementing this joint procurement. Research to find authorities involved in procurement strategic partnerships unearthed two in the north of England. These are Rotherham and South Tyneside Councils who are both aligned with BT. Initially it looked at one point as though it was only going to be possible to obtain some literature on how these set ups operated, but due to the valiant efforts of our Scrutiny Officer, he did towards the end of our assessment manage to arrange a personal visit to South Tyneside.

### Devolved Model

12. The devolved arrangement is one that has traditionally been used by local authorities for many years. In this model of operation the vast bulk of procurement activity is undertaken by officers who also have service or operational responsibilities. As can be seen by the baselining exercise, at Stockton this results in over 300 officers being involved. The category management principles in paragraph 3 illustrate that this is a significant departure from traditional procurement and the question to be asked, is whether the traditional method of delivering the function is still appropriate for the new approach? To effectively deliver category management it is essential that the management information in relation to the function is as accurate and up to date as possible. The baselining exercise has demonstrated some problems in collecting current information in a category management format. Whilst improvement to current procedures is possible, continuing to control, collate and manage this information across a spectrum of over 300 officers would be a sizeable task that would require considerable effort. The change to category management will require an updating of knowledge and skills for those involved. If we were to remain with the current set up, this would require training, and then at various times, updating those skills for those 300 plus officers. A considerable logistical and time consuming initiative.
13. One of the major principles of category management is about market intelligence. Understanding which companies are available as potential suppliers, when variations in supplier bases and market conditions occur, when there are opportunities to take advantages of any of those changes, and developing effective and continuous relationships with suppliers. An officer base of over 300 would create difficulties in both the co-ordination and responsiveness to these objectives. Additionally it has to be questioned whether officers with dual responsibilities for category management and service provision will have the time and resource to focus sufficiently on these aspects. Finally one of the important aspects of category management is the management of demand. As opposed to getting value for what we currently procure, questioning whether the current levels of volume and specification are still appropriate. The more people that are involved in undertaking that challenge presents the potential for greater variation and less consistency in that challenge. The essence of human nature is that as individuals we have different opinions and come to different conclusions on the same subject matter, with potential for greater divergence when we do not communicate with those others assessing the same issue. With over 300 people involved, in many different locations across the council, it is not difficult to see how the potential for variation can occur. There is also the issue that those officers who make procurement decisions, as well as delivering a service, can have a less objective view on the degree of challenge to existing volumes and levels of specification. In any Model or assessment, the experience, knowledge and views of those officers are an important part of the decision making process, but an independent, consistent form of challenge can only be healthy for arriving at the best value for money judgement for the council.

### Central Team Model

14. As mentioned earlier, because Stockton has a devolved set up, the review team visited two other local authorities that have central teams who deal with most procurement within their authority and received a written submission from the PCT. In particular discussions with the two local authorities highlighted how the transition from a devolved set up to a central team had made the move to category management easier and more efficient, resulting in greater cost savings. Due to the fact the majority of procurement is undertaken by the central teams the capture and analysis of spend data is much easier, and available on a more timely basis. This in turn leads to more intelligent and joined up decisions on procurement. In moving to the new skills base this was also an easier transition with smaller numbers to train. It was not however without difficulties. One particular area was staff adapting to a more commercial approach. Both authorities mentioned that input from the private sector had helped with this. Sunderland actually recruited a number of employees from the private sector, Newcastle brought in a private sector consultant to enhance commercial skills upgrading. Both felt that the move to a team dealing purely with procurement issues lead to a greater focus, professionalism and efficiency within the function. They also reported that time was freed for service managers who could get on with delivering services rather than having to spend considerable time undertaking difficult and complex tender processes. It was also a common theme that improvement in demand management was also making a contribution to increased savings, as well as obtaining better prices. Finally both saw considerable increases of contracted spend in the central model compared to those from the previous levels in the devolved model. Newcastle moving close to 100%, although it can be seen from the site visit notes they do have a much stricter regime about non compliance built into their financial standing orders.
15. The transition to the central teams has not been without its problems. There have been tensions about where roles, responsibilities, and decision making fall with service staff. Indeed at Sunderland there were reported tensions between the Social Care staff that moved in from the services and the colleagues they departed from in commissioning. In retrospect the Head of Procurement believes they should have brought this entirely into the centre. Both initially had disputes over who benefitted from procurement savings. Newcastle have remedied this by now deciding they are joint targets which had lead to a more corporate and team approach. Sunderland still has this difficulty. The written response from the PCT shows that organisation has encountered resistance to change also. The site visits showed there are significant advantages and savings from a move to a central model, but any such transition will need careful, organised and sensitively handled change management.

### Strategic Partnership

16. The visit to BT showed that many of the principles of category management were being deployed. This was however in a very strict inflexible manner which was clearly creating problems for service providers. As stated in paragraph 13, the input of operational officers is important to any successful deployment of category management. We would not at Stockton be wanting to implement a system that created difficulties for service delivery. Always bearing in mind that the complexities and requirement of procurement law are sometimes frustrating for service officers. Another issue with the shared approach is that the savings are shared also. It can be seen from the South Tyneside visit no figures for savings to date are available. At this moment in time this option is not practically possible for Stockton anyway as there needs to be a discrete number of employees to transfer to the private partner. This could not happen with posts of 316 employees.

### Inter-Council Collaboration

17. If joining up within councils on procurement seems a sensible idea, a logical extension of that thought is that councils join with other councils on a category management approach. This is an idea that has been pushed by the Government, and as a consequence the North East Improvement and Efficiency Partnership commissioned an assessment of the potential in this area for the 12 unitary authorities in our region. The outcome of this assessment is a regional collaborative 'hub and spoke' arrangement that was presented to Cabinet in September this

year. The pragmatic approach of the new set up is that new authorities will engage in those categories selected when circumstances allow. It may well be that in some of the categories there are practical difficulties such as an authority being in a current contracted arrangement for supply until a fixed point in time in the future. As this report has demonstrated authorities in the north east are at different stages of development of the management information in category management and there will be variances in the ability to supply reliable demand and supply data for collaborative contracts. In this new situation the revamped regional organisation will act as the intelligence and logistical co-ordinator (the hub) and the individual councils will where appropriate, feed into the centre requirements for supply on those categories they engage in (the spokes). The development of this initiative is very much in its embryonic stage, but the logic that multiple councils going to the market place at one time, rather than individually will exert more buying power, is a difficult one to ignore.

18. In addition to the collaboration at regional level this also occurs at a sub-regional level within the Tees Valley. There are a number of contracts where the five authorities either fully, or partially, engage in procuring together as these are not covered on a regional basis. In terms of size they are much smaller than the regional categories but that collaboration has provided savings, again demonstrating the joining up principle on procurement is one that works in practice. Indeed the logical extension of what has preceded in this report is that at some time in the future, rather than a hub and spoke arrangement, the teams themselves undertaking procurement should be joined together at either a regional or sub-regional level. There are two main issues associated with this. Firstly for this to happen from a practical perspective, the authorities involved would all have to be at the stage of having discrete identifiable procurement teams. As with the transfer to a strategic partnership, this could not realistically be managed with posts of 300 plus employees in an organisation. Secondly, if there have been tensions and change management difficulties when this transition has occurred within an authority, it is not difficult to anticipate these will be magnified when bringing different authorities together. Dependent upon the scale of the public sector budget cuts that are to come though, it may be that such difficulties are thought to be worth overcoming in the future, if it can be proven the realisation of savings warrants it.

## CONCLUSION

19. In coming to a conclusion the efforts of the service officers who have participated in the review is acknowledged. They have given up a substantial amount of time to attend weekly meetings, make site visits, and contribute to producing the baseline information. The conclusion to move to a centralised approach was a unanimous one. It is felt this will provide Stockton with a greater opportunity to maximise category management principles. The reasons are, that it is felt a central overview of procurement will improve category spend intelligence. It will allow officers to concentrate on market intelligence, supplier chain management and demand management without having the dual role of providing a service at the same time. Co-ordination of and training in category management principles, will be more effective in a smaller group of employees rather than across over 300 officers.
20. To consolidate the reasons given earlier in this report as to why the recommended approach is the most appropriate for category management, the evidence for this conclusion will finish with how this approach has already succeeded at Stockton. Prior to the beginning of 2009 agency staff employed by Stockton were procured by officers within the services. Intelligence gathered by the Corporate Procurement Unit demonstrated there were differences in the commission rates being obtained by officers. Not unnaturally as those officers did not interact with each other, and share this information, they were unaware of these differences. It was decided that the Corporate Procurement Unit would go out to tender for agency workers across all categories within the council, and subsequently procure all placements in conjunction with service officers. As a consequence savings of £100,000 per annum were made as a contribution to the Medium Term Financial Plan in 2010/11. The Corporate Procurement unit was able to cope with taking on this contract, but obviously could not cope with all the contracts

for the authority. As the next paragraph shows determining the size of the central team required will depend on a number of factors that will require considerable assessment.

21. Clearly if Members accept the principle of a centralised approach there will be a lot of work in the next stage of the review in determining the detail of how this will work. There needs to be an understanding and agreement with the services of where the lines of responsibility are to be drawn between the two functions. Whether the central team is 'procurement' only team, or whether 'commissioning' is in the central team as well. It is not the intention that in any circumstances would policy or operational responsibilities be taken into a central team. Clarity is needed on how the processes will work and how disputed decisions are resolved, which staff are directly involved in the transition and how the re-allocation of resource is dealt with. It is essential to make every effort to maximise category management to produce procurement savings for Stockton. It is also essential in this new approach to ensure that this integrates effectively with service provision.

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