

## CABINET ITEM COVERING SHEET PROFORMA

### **AGENDA ITEM**

### **REPORT TO CABINET**

**16 JANUARY 2013**

### **REPORT OF CORPORATE MANAGEMENT TEAM**

## **CABINET DECISION**

**Corporate Management and Finance – Lead Cabinet Member – Councillor David Harrington**

### **CORPORATE & SOCIAL INCLUSION SELECT COMMITTEE REVIEW OF NORTH EAST PROCUREMENT ORGANISATION**

#### 1. Summary

This report presents the Select Committee's comments following the external independent review of the North East Procurement Organisation (NEPO). NEPO provides a collaborative procurement shared service across the twelve North East local authorities, governed by a Joint Committee of which each member has two seats. The organisation underwent a major review and change in direction in 2010 and, as it was timely to consider the success of those changes and whether further change is now necessary, the NEPO Joint Committee and regional chief executives appointed an independent consultant to review the operating structure in late 2012/13.

Stockton's Corporate & Social Inclusion Committee has considered the report from the external, independent review and evidence in regards to Stockton's needs for procurement.

#### 2. Recommendations

1. The Select Committee supports and endorses the decision made by Leaders and Mayors and the NEPO Joint Committee to create a smaller and re-focused NEPO that reports through ANEC.
2. The Select Committee supports and endorses the need to develop and implement a revised structure for a re-focussed NEPO with appropriate number and grade of posts and management structure given the changed accountability arrangements with ANEC.
3. Following the work of the committee in reviewing the areas of external third party expenditure that should be procured at a regional level, the Select Committee recommends the following list is put forward to feed into the NEPO transition process.
  - Clothing & Uniforms
  - Mail Services
  - Office, Commercial & Domestic Furniture
  - Stationery
  - Fuel
  - Vehicle Leasing, Hire and Purchase (but to include flexibility to procure at both local and national level depending on the particular requirement and situation)

- Vehicle Parts – tyres and tubes
  - Playgrounds & Horticultural Equipment & Materials (but to include flexibility to procure at both local and national depending on the particular requirement and situation)
  - School & Library Books
  - Electricity, Gas and Water
  - Cleaning & Janitorial Services
  - Arts & Craft, Toys, Audio Visual & Sports Equipment Supplies
  - Financial Services (but limited to banking and audit)
  - Temporary, Interim and Agency Staff (except for trade and manual workers which is done at local level)
  - Social Care - Equipment and Adaptations
4. The Select Committee recommends that a further report is presented to the Select Committee when the details of the revised NEPO scope and structure has been developed.

3. Reasons for the Recommendations/Decision(s)

To ensure that regional and local procurement procedures maintain service quality whilst securing efficiency savings and value for money

4. Members' Interests

Members (including co-opted Members) should consider whether they have a personal interest in any item as defined in **paragraphs 9 and 11** of the Council's code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code.

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the Council he/she must then, **in accordance with paragraph 18** of the code, consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest and the business:-

- affects the members financial position or the financial position of a person or body described in **paragraph 17** of the code, or
- Relates to the determining of any approval, consent, licence, permission or registration in relation to the member or any person or body described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a member with such an interest may make representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise (**paragraph 19** of the code)

Members may participate in any discussion and vote on a matter in which they have an interest, as described in **paragraph 18** of the code, where that interest relates to functions of the Council detailed in **paragraph 20** of the code.

Disclosable Pecuniary Interests

It is a criminal offence for a member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted) **paragraph 21** of the code.

Members are required to comply with any procedural rule adopted by the Council which requires a member to leave the meeting room whilst the meeting is discussing a matter in which that member has a disclosable pecuniary interest (**paragraph 22** of the code)

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**RECOMMENDATIONS**

1. The Select Committee supports and endorses the decision made by Leaders and Mayors and the NEPO Joint Committee to create a smaller and re-focused NEPO that reports through ANEC.
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## **BACKGROUND**

1. This report presents the comments of Corporate and Social Inclusion Select Committee following a Review of North East Procurement Organisation undertaken during the Municipal Year 2013/14. The topic was identified for review at Scrutiny Liaison Forum and included in the 2013/14 Work Programme by Executive Scrutiny Committee.
2. NEPO provides a collaborative procurement shared service across the twelve North East local authorities. NEPO is governed by a Joint Committee of which each member has two seats; Councillor David Harrington and Councillor Jean O'Donnell are the representatives for Stockton Council.
3. The fee for being a member to NEPO is £37,000, plus an element of retained rebate generated by the use of NEPO contracts, and currently there is no discount for members who only participate in a reduced level of procurement. Those who wish to leave NEPO must give 12 months notice within a specific timeframe. Due to this timeframe, the notice period could lead up to 24 months.
4. In 2010 the collaborative procurement approach was developed with the aim of delivering savings. This led to the refocusing of NEPO to its current strategic procurement and collaboration role. The NEPO Joint Committee has agreed a series of Policies and Protocols to help govern the process, and has already undertaken a number of reviews and updates of the NEPO Business Plan.

## **DETAIL**

5. In 2012 the NEPO Joint Committee and regional chief executives agreed that it was timely to undertake to a review and appointed Converto Consulting Ltd to undertake this work. A sub-group was set up to be the primary point of contact between the project manager and the 12 member Authorities. Redcar & Cleveland agreed to lead the sub-group.
6. The remit for the independent review was as follows:
  - Assess NEPO's success in delivering outcomes against its 19 objectives and the original vision statement for collaborative procurement in the North East.
  - Assess the success of the 'hub and spoke operating model' of collaborative procurement, and suggest opportunities for improvement. The NEPO Joint Committee Scrutiny Review offers some intelligence about the operation of these envisaged hub and spoke tenders, and about the barriers that have so far prevented them from being less than totally effective.
  - Assess NEPO's fitness for purpose in leading the provision of a modern, innovative collaborative procurement shared service, in association with the 12 procurement teams within North East authorities; and make suggestions for change, improvement, or enhancement to be included within future arrangements and structures, business plans, operating and funding models.

- The operation of NEPO and the 12 authority procurement functions in 2010, 2011, and 2012 have highlighted some issues over the delivery of envisaged outcomes, performance management, accountability and governance which would benefit from an external, independent review and consideration; with a view to refocusing the arrangements for strategic procurement in the North East, and the future strategic objectives of NEPO. This element of the review follows on from the third theme, and is defined by the outcome of that consideration. The starting point is that form will follow function, and that governance frameworks need to be fit for purpose, and reflect the size and complexity of those functions deemed susceptible to sub-regional or regional procurement.
7. All member Authorities were consulted as part of the independent review, and the Joint Committee, Leaders and Mayors have all had an input into the process. The results of the review were presented to the Joint Committee for approval on 22 October 2013. These included:
- There was no agreed regional procurement strategy
  - There was a lack of agreement about how to procure social care and construction
  - Local Authorities were reducing their spend
  - There was a lack of clarity regarding the role of NEPO
  - The credibility of NEPO was questioned, with some stakeholders feeling it had failed to deliver
  - NEPO had not delivered on 18 of its 19 objectives
  - Accountability and performance management structures were weak
8. The independent review put forward four options for the future of NEPO, which were:
- Option 1:
    - Retain the existing structure and arm's length arrangement
    - Revisit the objectives within a new focused business plan
    - Retain the existing functions but with greater realism about the areas of shared benefit
    - Create a more robust performance management and reporting mechanism
    - Improve risk management and reporting arrangements
  - Option 2:
    - Develop a regional procurement strategy owned by all Councils and NEPO
    - Retain an arm's length organisation with its own governance arrangements
    - Develop and improve skills, experience and style of NEPO leadership
    - Gain engagement and commitment to collaboration of the 12 Council procurement leads
    - Review and streamline the governance arrangements to create a more focused Board to support, challenge and hold NEPO to account
    - Revisit the Business Plan that aligns with the regional procurement strategy and ensure greater clarity about shared objectives
    - Strengthen the responsibilities of the Director of Resources Group
  - Option 3
    - Abolish the arm's length arrangements
    - Retain name, brand and operational capacity of NEPO
    - Return to the previous arrangement of hosting by a local authority – either permanently or on a three year rotation with willing hosts
    - Adopt all other changes covered in option two
  - Option 4
    - Abolish the existing arm's length arrangements and locate NEPO within the ANEC structure giving clear political and managerial links into the existing Leaders and Mayors' and Chief Executives' arrangements

- Create a smaller governance body with regular reporting directly into existing Leaders and Mayors meetings. This body would provide collaborative leadership, strategic direction and accountability, and access to senior expert officer advice
- Retain name and brand in a smaller unit focussed on those areas where there is a consensus for them to do so: likely to include training and development of procurement skills, a combination of category management projects and commodity procurement skills, maintaining and developing the Portal and other activity to support supplier engagement, and the procurement voice outside the region. Seize the 'easy wins' to build trust and a collective ethos
- Clarify and refocus the role of local authority procurement leads, including their part in delivering an agreed programme and looking for opportunities to reduce duplication and the aggregate cost of procurement across the region
- There is no rationale for seeking to mandate collaboration where there is no consensus, e.g. social care for adults and children.

9. The preferred option for the future of NEPO has been identified by its member Authorities as option four, to transform NEPO into a smaller and re-focused organisation that reports through the Association of North East Councils (ANEC), but retaining its name and brand. Leaders and Mayors have also approved proposals to:

- Support the key role for elected Members in overseeing any refocused NEPO arrangements
- Remain committed to the concept of collaborative procurement
- Seek to reduce NEPO's current costs and structure
- Deliver a series of identified 'easy wins' to build trust and a collective ethos, e.g. collaborative highways procurement and accept there is no rational for seeking mandate collaboration where there is no consensus e.g. social care
- Clarify and refocus the role of local authority procurement leads

10. An Advisory Board made up of elected Members and an Officer Transition Steering Group has now been put in place to oversee the transition process to the new NEPO structure. Discussions to clarify potential finance, HR, legal, IT and procurement issues are in progress and in addition a 'stocktake' of NEPO's current activities and existing contract has taken place. The stocktake will be reviewed by the 12 member Authorities to confirm what they are and wish to continue to be committed to.

11. The Corporate & Social Inclusion Select Committee has considered the findings of the Independent review of NEPO and options for the future. The Committee was particularly concerned about accountability, structures, and focus of NEPO and felt that option four sought to address these concerns. However, Members felt that they could not fully endorse this option until the transition work, including a regional agreement on the categories of spend NEPO will focus on, has been complete, therefore a further report was requested to detail the revised scope and structure of NEPO once the details of this option have been developed. The Select Committee also highlighted the aim that the smaller refocused NEPO leads to a reduced fee for the Authority.

12. During the Select Committee's review of NEPO, Members were presented with a summary of categories of goods and services the Council purchases. The Select Committee considered the most appropriate way to procure these, whether at a local level by SBC, sub-regionally by collaborating with the Councils in the Tees Valley, regionally by collaborating with the North East Councils via NEPO or nationally using national contracts.

13. As part of this process Members noted a need for flexibility to procure at on an individual level, on a local, Tees Valley, level, as well on a regional level. The Select Committee

therefore believe the areas of external third party expenditure that Stockton should procure at a regional level are:

- Clothing & Uniforms
- Mail Services
- Office, Commercial & Domestic Furniture
- Stationery
- Fuel
- Vehicle Leasing, Hire and Purchase (but to include flexibility to procure at both local and national level depending on the particular requirement and situation)
- Vehicle Parts – tyres and tubes
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## **CONSULTATION**

14. NEPO's independent review team consulted with all member Authorities, including Members representing on the Joint Committee, Leaders and Mayors.
15. Stockton's representatives on NEPO have attended Select Committee meetings.

## **LEGAL IMPLICATIONS**

16. Any Authority wishing to leave NEPO needs to give 12 months notice.

## **FINANCIAL IMPLICATIONS**

17. The current fee for NEPO membership is £37,000 plus an element of retained rebate generated from the use of NEPO contracts.

## **RISK ASSESSMENT**

18. This report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

**Name of Contact Officer:** Judith Trainer  
**Telephone No:** 01642 528158  
**Email Address:** [judith.trainer@stockton.gov.uk](mailto:judith.trainer@stockton.gov.uk)

Background Papers:

NEPO Joint Committee Report on the Opt-Out Protocol 12 February 2013

NEPO Joint Committee Briefing Note on Outcomes of the Strategic Procurement Review 17 August 2013

NEPO Joint Committee Review Slide Pack presented at Joint Committee meeting 22 October 2013

Ward(s) and Ward Councillors:

Not Ward Specific

Property Implications:

None