

Minutes

PROCUREMENT TASK & FINISH GROUP

MINUTES OF THE PROCUREMENT TASK & FINISH GROUP HELD ON THURSDAY 11 NOVEMBER 2010, IN MEZZANINE ROOM 2, COUNTY HALL, AYLESBURY, COMMENCING AT 1.04 PM AND CONCLUDING AT 3.25 PM.

MEMBERS PRESENT

Mr D Anson MBE, Mrs M Aston, Mrs L Clarke, Mrs M Clayton, Mr T Egleton, Mr S Kennell, Mr M Phillips (C), Ms J Puddefoot, Mr R Reed and Mr B Roberts

OFFICERS PRESENT

Mr R Ambrose, Mr G Collins, Ms P Hook, Ms S Turnbull and Mrs E Wheaton

1 APOLOGIES AND CHANGES IN MEMBERSHIP

Apologies were received from Hedley Cadd.

Trevor Egleton, Chairman of the Overview & Scrutiny Commissioning Committee, attended the meeting as an invited guest.

2 DECLARATIONS OF INTEREST

There were no declarations of interest.

3 CHAIRMAN'S INTRODUCTION

Martin Phillips, Chairman of the Task & Finish Group, explained to Members that the main purpose of the review is to better understand how the procurement process works at County level and whether the County Council receives value for money through its procurement of services across the County.

4 PRESENTATION BY GRAHAM COLLINS, COMMERCIAL MANAGER, FINANCE & COMMERCIAL SERVICES TEAM

The Chairman introduced Graham Collins, Commercial Manager in the Finance & Commercial Services team. He then introduced his colleagues, Richard Ambrose, Head of Finance and Commercial Services and Patricia Hook, Senior Procurement Manager.



INVESTOR IN PEOPLE



Graham Collins started by telling Members that he joined the County Council three months ago and he said that the strengths and weaknesses of the procurement process which were identified as part of a recent review are now being addressed through the transformation process but he stressed that it is still early days.

Graham provided Members with a definition of what is meant by procurement which is the “process of acquiring goods, works or services from third parties and in-house providers”. He explained that as part of the procurement process, there is a need to look at whether the goods and services can be provided more effectively in-house rather than through an external supplier. He went on to provide Members with a definition of commissioning which is “the cyclical process by which public bodies assess the needs of people in an area, determine priorities, design and source appropriate services, and monitor and evaluate their performance.” He said that these are the definitions used by the National Audit Office.

During the discussion, Members asked the following questions and raised the following points.

How do you ensure that you are not silo working?

The service portfolios are set up to align with external suppliers so that working in categories reduces silo working. Where there is a common need, then there would be just one procurement process and thereby creating economies of scale. Graham explained that the team has a long way to go before this is achieved but he said that the processes are constantly under review.

A Member expressed concern about the issue of value for money issue. If the decision is to use internal resources, how do the County Council know that they are receiving value for money if they have not tested the market.

[Trevor Egleton joins the meeting]

Graham explained that the procurement team do undertake market testing and the external responses are compared to the existing internal costs. He said that the County Council itself makes the decision and his role is to ensure that the best option is taken up. Richard Ambrose then provided Members with an example of some soft market testing which is taking place within Support Services at the moment. He said that the aim is to be as efficient as possible internally before comparing the service area to the market to ensure cost-effectiveness.

Graham went on to say that the team do benchmark the services against other agencies which informs their decision-making process.

A Member expressed concern that there appeared to be a lot of re-inventing the wheel.

A Member acknowledged that it made sense to have a single contract but expressed concern about sub-contractors and how they are managed in the process.

Graham said that if the risks outweigh the benefits, then the County Council would not proceed. Quality standards are written into the contract specification.

A Member provided an example where the service area wrote the specification and came to the conclusion that it was better to provide the service in-house. It was then tested externally and it was found that the service could be even better served outside of the County Council. The Member felt that there needs to be a change in staff culture and this needs to be carefully managed.

Graham responded by saying that in a mixed economy, a balanced approach is called for. He went on to say that the highest performing authority has the best decision-making.

A Member said that whilst they were not a great advocate of outsourcing, they appreciated that in this economic climate, it needed to be considered.

A Member cited an example where outsourcing had not been successful in relation to paying salaries to teachers.

Graham said that the whole process needs to be managed properly and all contracts should be looked at and reviewed regularly.

Graham continued with his presentation and made the following points.

- Out of the £206 million which is spent on external expenditure, 50% of this is spent within the County.
- 11,000 supplier contracts are worth less than £1 million which demonstrates the diverse nature of the suppliers that are used by the County Council.
- All invoices over £500 are now shown on the website.
- There are around 180,000 invoice transactions per year of which 28% are from small businesses and 25% from medium-sized businesses which demonstrates that over half of the invoices come from SMEs.
- The organisational transformation, which was signed off by the AOP Board, began in May 2010. As a result, AFW Brokerage and the Domiciliary Care team are now integrated.
- There is an increased focus on project management and delivery of savings projects.
- Interim resources have been deployed to fill critical short term gaps. A recruitment campaign is due to be launched.
- There have been difficulties in building the team and there has been a need to bring in external expertise to fill in the gaps.
- The new organisational structure has been designed to address the historic strengths and weaknesses which were identified as part of the review.
- The delivery model provides an end-end commercial service and the strengths identified in the review focussed on contract letting and brokerage and P2P. There is a need now to focus on building the capability in strategic planning and category management & sourcing projects.
- Work is now taking place to address the weaknesses. A Commercial Board has been established and is providing effective commercial scrutiny for all projects over £500k. The Board has met around 7-8 times and is made up of representatives from across the County Council.
- All procurements over £100k are visible and managed centrally.
- Category management work has commenced including – residential and nursing care, fleet maintenance and temporary labour.
- A Contract Management Framework has been proposed and is due to be implemented shortly across all the service areas.
- e-Sourcing system has been implemented for larger procurements and an e-procurement system is in-place and is managed on-line.
- Once the staffing gap has been filled, then better services can be bought and higher quality services will be delivered. There are currently difficulties in attracting high calibre staff in a challenging marketplace.
- It is still early days – currently in year 1 of a 3 year journey.
- There are pockets of good practice but it is not universal across the County. The level of commercial awareness across the organisation is developing but is inconsistent at present.
- The target is to compare favourably to key external benchmarks and more market testing of the County Council's services will take place in future.

During discussion, Members asked the following questions.

How many invoices are over £500?

Graham explained that a vast majority of invoices are over this amount but he could not provide the exact number at the meeting.

Would it be possible to have a clearer organisational structure chart?

Graham agreed to circulate a clearer diagram after the meeting.

Action: Graham Collins

Addendum: an organisational structure has now been circulated to Members.

In terms of recruitment, are you looking for specialists from outside the County Council or are you looking at the skill-base of people who are already employed by the County Council?

Graham explained that he has been speaking to HR and they are aware of the skills required within the team. No-one has been identified yet.

How will you ensure that the inconsistent approach to contract management which was identified as a weakness is addressed? This is key to managing the whole process.

Graham explained that the Contract Management Framework is due to be signed off by the AOP Board shortly and this will assist with addressing this weakness.

Who is responsible for monitoring the progress of contract management in future?

Graham responded by saying that the County Council owns the contract and the team will ensure that contract management is undertaken effectively and that monitoring is a regular part of the process. The paper which accompanies the proposed Framework does make recommendations on ownership of managing the contract.

Do County Council officers have sufficient contract management skills to undertake the proposed new framework effectively or are external specialists required to carry out the work?

An auditing project is currently underway to look at this but on the surface it appears that in some areas it is not being done well or in a consistent way.

Who sits on the Commercial Board?

Gill Hibberd is the Chairman, Rita Lally, Richard Ambrose, Chris Munday, Jim Stevens and Frank Downes, who is the Member representative on the Board.

Are the guidelines in line with the County Council's constitution?

Graham responded that they are. Approving standing orders on-line will be going to the Regulatory and Audit Committee soon for their consideration and approval.

Can you clarify what is meant by "commercial outcomes".

Graham explained that it is about making the right choices in how the County Council delivers its services and it's about making the best use of resources and skills.

Why is spend per buyer considered a suitable criteria? Surely it should depend on what you are buying?

Graham said that this is to ensure that the comparisons are made against similar organisations. The aim is to try and increase the spend per buyer so that there are less buyers in future. He went on to say that this is just one of many indicators that are used.

Is there a contingency plan developed as part of the process? Is the County Council locked into all their contracts or is there room for flexibility?

Graham explained that it depends on the terms and conditions set out in the contract. Most contracts provide an opportunity for re-negotiation but it does depend on other

organisations and what they are going through at the time. Patricia Hook went on to say that the team does look at how quickly they could switch suppliers, if required.

When re-launching a service are the transitional costs built-in? For example, changes in employment rights.

Graham said that there is provision for transitional costs at the time of starting a contract. If there has been a change to the risk profile, then there has to be a change in the contract arrangements.

A Member expressed concern over whether the transitional costs are realistic.

Graham explained that the transitional costs are reflected in the contract stage before it is awarded so there is transparency over these costs.

A Member asked for clarity regarding the 3% figure quoted in the presentation.

Graham said that it is 3% of £206 million total external expenditure.

Is risk management part of the process when looking at the content of the contract?

Graham explained that it comes back to post-contract management and he felt that some of it is not currently being undertaken in a systematic way.

How do you ensure that the County Council is the supplier's preferred client and that the best deal is being brokered for the Council?

Graham said that it comes down to getting the contract right at the outset. There needs to be good communication, on a consistent basis, between the contractor and the supplier.

Why do some suppliers provide the same service to other organisations at a cheaper cost?

Graham responded by saying that it is about engaging with a supplier and transferring knowledge and good practice.

Does the County Council use the services of procurement specialists to speak to contractors?

Graham said that they were used in the pilot work on the domiciliary care project.

How do you measure performance?

There are a number of performance indicators which are reported on a regular basis to the AOP Board by the Finance team. Graham said that he would be happy for these to be reported to the Task & Finish Group as well.

Action: Graham Collins

What can the County Council do to ensure the supplier is financially sound? What guarantees can the Council provide?

Patricia Hook explained that in most cases there are two stages in a tender process. The first stage is the pre-qualification questionnaire which asks for a set of the supplier's financial accounts and asks for details of referees and a list of all current major contracts. Patricia went on to say that the team would then make contact with the referees and select, at random, a couple of major clients to speak to. More robust analysis takes place at stage 2 of the process and questions such as "what would the County Council's business mean to you?" are asked at this stage. She said that the team has the facility to run regular credit checks on suppliers at any time.

A Member felt that in some cases, suppliers see the Council's letterhead and put their prices up. How do you investigate costs?

Graham explained that the team looks at the costs category by category and if there is evidence of over-pricing, then the team would look into it. Patricia went on to say that the

Council's tend to have a reputation as being difficult to do business with and suggested that this area could be looked into to try and ascertain the reasons for this.

5 SCOPE OF REVIEW

Sara Turnbull took Members through the proposed timetable and speakers for the forthcoming meetings.

- A Member commented that it would be useful to have a presentation from an external supplier to understand more about what they expect from the contractor.
- A Member said that we should not assume that prices will increase on an annual basis.
- A Member felt that a good arrangement with a contractor should be on a gain and pain basis.
- A Member asked whether commercial specialists write the contracts.
- A Member expressed concern about the quality of the sub-contracting and how that could reflect on the County Council. A Member explained that the standards are set within the contract itself and once the contract has been awarded, it would be the responsibility of the supplier to deliver the service to the specified standard. If the supplier does not reach the desired standard, then they are in breach of the contract.
- A Member felt that all contracts should be constantly monitored and a better system for contract management needs to be introduced.
- A Member expressed concern about the level of training given to officers in handling contracts and felt that there needs to be a change in culture amongst officers.
- A Member said that it would be useful to receive feedback from existing suppliers and also feedback from an unsuccessful supplier.
- A Member asked whether it would be beneficial to gain the views of those in the voluntary sector to see whether there were any areas of concern as they felt that communication might be a major concern.

[Steve Kennell leaves the meeting at 2.50pm]

- A Member asked whether the contracts are realistic and felt that monitoring contracts was a very important issue.

6 KEY QUESTIONS

The following key questions were asked and points raised:

- When is the Contract Management Framework going to be implemented by the service areas?
- Who sits on the Commercial Board and the AOP Board?
- Who scrutinises the contracts before they are awarded?
- Contract Management training was seen as a major issue so what level of expertise exists at officer level.
- How many contractors have we got?

- How much does each invoice cost the County Council – eg. how much does it cost to chase an invoice? This area would highlight the level of efficiency in the procurement process.
- We should be looking at our savings and costs by comparison to other local authorities.
- What are the key indicators which are used to determine whether a contract is successful or not and what criteria are used?
- Would it be possible to see a copy of one of the County Council's contracts to see the content?
- How well does the County Council work with the District Councils in terms of sharing information on suppliers?
- Is the County Council making contact with other neighbouring authorities such as Oxfordshire County Council or Hampshire to see whether more economies of scale could be obtained?
- How are complaints dealt with?
- Are Green issues considered when looking at who to award the contract to – for example, carbon footprint.
- To what extent do we use local suppliers and does this achieve value for money?
- Do we treat charities any differently? If smaller businesses find it hard to be competitive, would there be a way of making it easier for them.
- Contract Management is the most important element in the process and needs to be an integral part of the specification.
- How are the tenders assessed and what criteria are they using to score the tenders?
- Can we see a copy of the pre-qualification questionnaire.

[Lesley Clarke leaves the meeting at 3.15pm]

7 DATE OF NEXT MEETING

The date of the next meeting is Thursday 18 November at 1pm in the Large Dining Room, Judges Lodgings, Aylesbury.

CHAIRMAN