

# Minutes

## *PROCUREMENT TASK & FINISH GROUP*

**MINUTES OF THE PROCUREMENT TASK & FINISH GROUP HELD ON WEDNESDAY 24 NOVEMBER 2010, IN MEZZANINE ROOM 2, COUNTY HALL, AYLESBURY, COMMENCING AT 10.04 AM AND CONCLUDING AT 12.30 PM.**

### **MEMBERS PRESENT**

Mr H Cadd, Mrs M Clayton, Mr M Phillips (C), Ms J Puddefoot and Mr B Roberts

### **OFFICERS PRESENT**

Ms S Turnbull and Mrs E Wheaton

### **1 APOLOGIES FOR ABSENCE AND CHANGES IN MEMBERSHIP**

Apologies were received from Mr Doug Anson, Mrs Margaret Aston, Mrs Lesley Clarke, Mr Steve Kennell and Mr Roger Reed.

Deborah Heenan, Deputy Director, Local Transformation, Improvement & Efficiency Support (LTIE) sent her apologies for agenda item 4.

There were no changes in membership.

### **2 DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **3 MINUTES**

The minutes of the meeting held on Thursday 18 November were agreed as a correct record.

### **4 NATIONAL CONTEXT OF PROCUREMENT**

The Chairman welcomed Andrew Culver, Head of Corporate Procurement, Communities and Local Government (CLG), who took Members through his presentation. Andrew explained that Andrew Lerner has written a paper entitled "How to challenge efficiencies in Local Government" and is seen as a champion on procurement.



INVESTOR IN PEOPLE



He started by providing an overview on the Central Government's future direction for procurement and he focussed on 4 main areas:

- The Green Review
- Centralised Common Procurement
- Shared Services
- Procurement Transformations.

Sir Philip Green identified a number of themes and he has been instrumental in establishing drivers for change in the procurement process. He found that Central Government was not achieving economies of scale as departments were paying different prices for similar or the same goods. He felt that for common goods and services, centralisation was the way forward to avoid duplication and to achieve lower prices.

Sir Philip Green also stated that Central Government commit contracts for too many years. Andrew added to this by saying that PFI deals no longer make sense and there is a need to re-negotiate contracts. He went on to say that competitive tension is the best tool available for driving down cost.

Andrew explained that there is a correlation between market share and challenge and gave an example of clothing for the Fire Authority where they were locked into a contract for 16 years with a particular supplier but other suppliers challenged this. He said that over the years there has been an increase in pro-supplier legislation. He went on to say that procurement is very data driven and data is now used as a means to measure success and performance. It is also important to use common language.

During his presentation, Andrew made the following main points.

- There has been a shift in the marketplace and the market wants to drive inflation.
- It is not always best to go to the marketplace and each contract should be looked at on an individual basis.
- In terms of budgeting and forecasting, from estimate to finish - it is very important to have this as part of the process.
- A holistic approach to property is a sensible approach (The Green report made a recommendation to develop a Whitehall property strategy but there is a need to be cautious about long-term contracts).
- Energy will be the first national contract with formalisation of this taking place in January/February time.
- Common commodity procurement includes Advertising and Media, Print, HR Services and Fleet (which is due to be implemented in January 2011).
- Some budgets may be centralised.
- Main challenge is to be better than today and more efficient. The organisation needs to become more commercial.
- User experience needs to be good in order to get the mandate correct.
- The data collected needs to be meaningful and this will inevitably lead to a shift in behaviour and ownership.
- Shared Services – there is a plan to consolidate existing “academies” by May 2011 (including Ministry of Justice, the Home Office and the Prison Service). Shared Services are also planned for the Cabinet Office by March 2011.
- There can be several layers in the supply chain which need to be fully understood. When outsourcing, it is important to have a “retained layer” of personnel in-house so that there is someone who understands the system.
- Ministers want to understand “Value For Money” more and there are regular monthly meetings to look at the pipeline of all tenders that are out there.

- Savings are the measure of success and there is a need to look at the total cost not just the price.
- Mandates are powerful but they are not sustainable in the long-term.
- “One size fits all” is an obstacle for SMEs.
- There is a need to consider how you will manage the exit of one supplier to another.
- Contracts have become very consumption based.

Members asked the following questions.

**What level of expertise do the team have with regards to monitoring existing contracts?** Andrew explained that the level of expertise varies from very good to not very good. He provided an example of people working in the fleet team who were purely operational people but over time fleet management expertise has been brought in.

**What does BPO stand for?** Business Process Outsourcing.

**Do you think contract management is a separate skill to procurement?** Andrew responded by saying that it is part of it. Interpersonal skills are very important as well as a thorough understanding of the service, good negotiating skills and good data management skills.

The Chartered Institute of Purchasing recognises different skill sets.

**Is the risk greater on long term contracts if things go wrong?** Andrew responded by saying that there can be complacency issues with long-term contracts. Changing the risk profile and introducing more suppliers can help as well as a continually refreshed preferred supplier list.

The Chairman thanked Andrew for his very informative presentation.

## 5 PROCUREMENT AT SURREY COUNTY COUNCIL

The Chairman introduced Laura Langstaff, Procurement and Commercial Manager at Surrey Council Council (SCC). Laura took Members through her presentation and the main points are listed below.

- In 2007, Surrey County Council introduced category management and set up 3 main categories – Adults (£221 million spend), Children and Young People (£108 million spend) and Corporate, Environment and Communities (£241 million spend).
- The procurement function is now a central team.
- In 2008, the procurement team underwent very intensive training by an external organisation.
- The procurement team has a very clear understating of spend and the supply base and the team has a standard toolkit which they can refer to for information.
- The contracts are owned by the central procurement team and not by the service area.
- Hook in Procurement with Commissioning through category management – the procurement process needs to feed into the commissioning process. A needs analysis should be undertaken to establish the common needs and requirements.
- The team were asked to make £17.5 million of savings through procurement and it is on target to achieve this with around £11-12 million savings in future. These savings could not be predicted if category management was not in place.
- CIPPs (Chartered Institute of Purchasing and Supplying) – this is the professional qualification for people who work in procurement and most of those who are part of the SCC procurement team are CIPP qualified or are working towards it. The aim is to have 100% of those working in procurement to be CIPP qualified.

- Use service users to help write the contract specification and to look at performance indicators.
- If a consortium of suppliers can be set-up to deliver the service, then it is advisable to bring them together at an early stage.
- SRM – Supplier Relationship Management. SCC has a team of 3 people who are responsible for SRM. There is a tendency that once a contract has been awarded to “let it and forget it” so the SRM team own the contract once it has been awarded and this has helped to up-skill members of the procurement team.
- Contract Management skills and Relationship Management skills are very important attributes for people working in procurement.
- SCC’s procurement team has a category specialist for each area and a senior category specialist who know the market very well.
- SCC also has a Strategic Development team who supports the business analysts (includes 3 people).
- Training is available for the service areas.
- Twenty five people are responsible for looking after the service delivery of the 25 top suppliers.

During discussion, Members asked the following questions:

**What Member involvement is there in the procurement process?**

Laura explained that there is a Governance Structure in place. The Procurement Review Group (PRG) meets weekly. Legal, Finance and the Procurement team are responsible for signing off the contracts. The PRG is also responsible for approving the procurement strategy. There is a paper going to Members with revisions to the standing orders and agreeing the route the market.

In terms of process, if a contract is worth up to £½ a million, then Members approve it. If it is worth over £1 million, then Cabinet will approve it.

Laura went on to say that they have held a number of Member workshops covering issues such as involving SMEs and Environmental issues. Members are also involved in reference groups – for example, voluntary groups.

**Is the £17.5 million mentioned above purely about savings or does it include efficiencies?**

Laura explained that it comes down to doing the same for less or more for the same. She is trying to integrate the procurement savings into the service area plans.

**Where is the specification written and are you able to adapt the specification for the voluntary sector?**

Laura explained that the specification very much depends on the nature of the service area and the specification is signed off by the category specialist to ensure it is commercially sound before it is issued. The service area specifies the level of quality it requires but the central team will challenge this if necessary.

In terms of the voluntary sector, Laura explained that there are a number of things which they do. They look at the market place and see whether there is a market place and if not whether one can be established. They also hold Supplier Open Days before they go to market. They also hold Awareness and Training Days on how to bid. Laura gave the example of the Surrey Care Providers who help the County Council to disseminate information to voluntary organisations.

**How do you monitor sub-contractors, particularly in terms of maintaining quality?**

Laura said that if the County Council has entered into a contract with the main supplier, it is their responsibility to ensure that the quality of service delivery is not affected if they use sub-contractors. There are appropriate clauses included in the contract to cover this.

Supply chain analysis is important and should be carried out where you know sub-contractors are being used. SCC are currently undertaking a big piece of work looking at Highways and as part of this, the sub-contractors will be looked at to see how much they are charging.

**How do you deal with safeguarding issues when you know the contract has been sub-contracted out?**

Laura explained that the main contractor would not be able to sub-contract without the County Council's approval in safeguarding circumstances.

**How often do you refresh the preferred supplier list?**

Laura said that it very much depends on the category. The Category Action Plan could look at the list every year or it could be every five years. Some supplier lists are refreshed every 2 years and this ensures that suppliers are kept on their toes.

**Would you expect the Chairman of Overview and Scrutiny to ask to see the contracts?**

Laura explained that there is no formal mechanism in place. She went on to say that when she worked at Ealing, twice a year she would be invited to the Overview and Scrutiny meeting to present a performance review on 2 or 3 contracts, not necessarily the largest contracts.

The Chairman thanked Laura for her very informative presentation.

[Jenny Puddefoot leaves the meeting at 11.50am].

## **6 CONTRACT STANDING ORDERS**

Caroline Wood, Procurement Manager, took Members through the changes made to the contract standing orders which were agreed by the Regulatory and Audit Committee on 18 November 2010. The changes will be going to full Council on 17 February for ratification. She explained that the document included with the agenda pack showed the proposed changes as track changes.

A Member asked for clarification regarding paragraph 2.1, section (d) "Officers must use any relevant Corporate Contract which is already in place". Caroline explained that the corporate team sets up certain contracts for items such as paperclips and therefore they have to use the central supplier for such items.

The Member went on to ask whether this defeats the object of trying to reduce costs. Caroline explained that this was not necessarily the case. The contract already represents value for money due to economies of scale (the stationery supplier list was reduced from 3,000 to just over 1,000).

A Member asked whether the County Council has any control over contractors that sub-contract in terms of monitoring the quality of their service delivery. Caroline explained that there is a standard clause in all contracts regarding sub-contracting. She acknowledged that contract management is a weakness at the moment but there is a new contract management framework which is being discussed by the AOP Board today.

A Member asked whether monitoring once the contract has been awarded is a stipulation in the contract. Caroline said that she was not sure whether it is included in standing orders. She explained that it is the responsibility of the service area to monitor the contracts which they award in their areas.

A Member asked whether the person signing off the contract is aware that they are responsible for monitoring the contract (paragraph 18 states that the officer signing the contract must monitor the contract if no project manager has been assigned).

A Member asked whether a contract can be terminated immediately if a breach of contract has occurred. Caroline explained that if a serious breach has occurred, then the contract can be terminated immediately. She stressed that it is important to get it right at the outset.

A Member said that there was no mention of penalty clauses and asked how these would be implemented if necessary. Caroline explained that the Courts frown upon penalty clauses and they are not enforceable.

A Member expressed concern that the County Council did not have sufficient knowledge of the sub-contractors which are used and felt this is vital.

A Member asked whether it would be possible to look at establishing a consortia which could help to bring people together, in light of the Big Society.

The Chairman thanked Caroline for her update.

## **7 CHAIRMAN'S UPDATE ON REVIEW PROGRESS**

Sara Turnbull explained that a questionnaire is going to be sent out to both existing suppliers and unsuccessful bidders to help ascertain the strengths and weaknesses of the tender process. Sara agreed to circulate a list of organisations to Members for their information.

**Action: Sara Turnbull**

## **8 DATE OF NEXT MEETING**

The next meeting will take place on Monday 13 December at 2pm in Mezz Room 1.

**CHAIRMAN**