

**REPORT FOR: Performance and Finance Scrutiny Sub-Committee**

---

<b>Date of Meeting:</b>	22 November 2012
<b>Subject:</b>	Major Contracts and Procurement Savings
<b>Responsible Officer:</b>	Julie Alderson, Interim Director of Finance
<b>Scrutiny Lead Member area:</b>	Councillor Jerry Miles, Corporate Effectiveness Policy Lead Member and Councillor Tony Ferrari, Corporate Effectiveness Performance Lead Member
<b>Exempt:</b>	No, except Appendices The Appendices are exempt from publication under paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended) as they contain information relating to the financial and business affairs of any particular person (including the authority holding that information).
<b>Enclosures:</b>	Appendix 1 – Current Major Contracts Appendix 2 – Procurement Savings Appendix 3 – Risk Register for Contracts & Procurements

## **Section 1 – Summary and Recommendations**

At the request of the Performance and Finance Scrutiny Sub-Committee, this report sets out a brief outline of the approach adopted by the Council to managing major contracts (>£1m), with particular reference to 4 of them as requested – EnterpriseMouchel, Kier, Housing Repairs and IT/Capita. At various stages, these 4 contracts have been the subject of detailed submissions and recommendations to Cabinet. It is not intended therefore to repeat all this here, rather to highlight the current situation with each of them.

The report also includes a summary of the status of Procurement Savings being achieved across the Council.

### **Recommendations:**

The Committee is asked to note the contents of this report.

## **Section 2 – Report**

### **Introduction**

The Council has a number of major contracts, currently defined as being >£1m, across its service areas – Children’s Services, Adults and Housing, Community and Environment and Corporate Services. These contracts represent a significant financial and legal obligation on the Council, both in terms of the commitments made and the responsibilities to be undertaken to ensure their performance. However, they also present an opportunity in so far as, like all commercial arrangements, there are areas which can be examined for improvement. As part of the Procurement Transformation Programme therefore, procurement will work closely with service and finance colleagues to review these major contracts to identify any possible financial savings and wider performance improvements.

PWC conducted a review in 2009 of Harrow’s procurement activities and concluded that some £21m of saving per annum, revenue and capital, on total spend could be achieved both through adopting a more co-ordinated and strategic approach across the Council to the acquisition of goods and services, and greatly improving commercial capabilities. This includes increasing compliance with Council procurement procedures and corporate contracts. This review was further developed by Finance and a Business Case presented to CSB in August 2010, recommending a way forward to begin addressing these opportunities and demonstrated that there is a strong “invest to save” case. CSB accepted the recommendations.

A key approach to this “invest to save” was to increase commercial/procurement capabilities and capacities in the Council. To take this forward in the immediate future, the central procurement team of 6 has

been complemented by 6 interims; 2 were recruited in the autumn of 2010/11, with a further 4 in spring 2011/12.

The Procurement Transformation Programme supports the improvement of services as well as targeting cost savings throughout Harrow's supply chain, and as such plays an integral role in securing sustainable change as aspired by the Better Deal for Residents Programme (BD4R). This will be achieved through the delivery of the following:

Embedding the basic disciplines and structures of procurement to make sure that 'purchasing' is carried out consistently, and in the most cost effective way. Embedding a total supply chain model approach to commercial management to make sure that all commercial arrangements with 3<sup>rd</sup> parties – partnerships, contracts, purchase orders – are well established in their creation phase and are robustly monitored and performance managed throughout their life.

Embedding dedicated Category Management Teams, a Strategic Procurement Board for LBH and Contract Boards within Directorates (x4).

Embedding a culture of commercial excellence in all dealings with 3<sup>rd</sup> parties, from which benefits, both financial and service, are regularly identified and captured.

While the project will primarily focus on revenue expenditure, it will nevertheless also look to support capital expenditure as commercial expertise is required and as it provides leverage with the supply base. The same will potentially apply to ring fenced/grant funded expenditure.

### **The Harrow Contracts Register**

Like most local authorities, Harrow has not historically had a structured and accurate data base of contractual, i.e. legally binding, commitments with 3<sup>rd</sup> parties. This situation has changed now, with the decision 2 years ago to establish just such a data base. Part of this decision was to use the contracts register being established for all London boroughs. This afforded Harrow the opportunity to be part of any collaborative opportunities being examined/progressed, as well as providing various links for benchmarking purposes.

The data held in the pan London register against each contract is substantial; Appendix 1 lists all the fields available. There are currently 139 contract records on the Harrow contracts register, with a total value of nearly £703m. This is spread across the Council as follows:

	<b>No. of Contracts</b>	<b>Total Value - £s</b>	<b>Annual Value - £s</b>
Adults & Housing	41	111,996,779	23,917,835
Children's Services	33	6,125,952	3,825,952
Community & Environment	31	568,315,271	97,468,334
Chief Executive	13	2,817,558	541,354
Corporate Finance	21	13,531,332	12,596,000
<b>Total</b>	<b>139</b>	<b>702,786,892</b>	<b>138,349,475</b>

Of these 139 contracts, 24 are >£1m, with a total value of nearly £675m.

Historically, Council contracts have been managed by the service area concerned with its delivery. This approach has been, largely, successful in terms of operational activities. However, there is another, equally important, aspect to contract management and this is commercial performance. It is in this area that significant opportunities for improvement exist across the Council, as referenced by PWC in their review. Having an accurate, up to date Contracts Register in place, recording all Harrow's commercial arrangements, will greatly support the drive to improve the Council's commercial performance. As an example, the ability to monitor contract end dates to ensure that there is effective management of contract closure, e.g. planning future procurements and not being 'forced' into contract extensions.

There is still much to be done to get all the Council's contracts accurately entered into the register. An analysis of the 6 months from April – September 2011 indicates that only 41% of the Council's spend is against contracts on the register: the table below summarises this:

	<b>£m - without contract</b>	<b>£m - with contract</b>	<b>Total</b>
Adults & Housing	17.1	2.9	20.0
Children's Services	9.7	1.5	11.2
Community & Environment	3.2	5.2	8.4
Chief Executive	1.3	1.4	2.7
Corporate Finance	2.2	6.5	8.7
Legal and Governance	0.23	0.01	0.24
Place Shaping	0.21	0.07	0.28
Capital	6.8	11.1	17.9
<b>Total</b>	<b>40.7</b>	<b>28.6</b>	<b>69.3</b>

## **Commercial Governance in Harrow**

Another of the major recommendations made by PWC in their 2009 report was the need for the Council to establish an appropriate body which had the authority to review all forthcoming significant procurements, as well as the

performance of major contracts, to ensure that the **commercial** best interests of the Council were being pursued.

The proposal was for a Strategic Procurement Board (SPB) to become the Council authority for commercial governance. The goal of the Board is to ensure shared ownership for the realisation of desired outcomes and efficiencies from procurements and contracts across the Council, based upon:

- **Providing strategic guidance** to the procurement and contracting community across LBH and assess major procurement projects that are ongoing within the Council,
- **Greater efficiencies** and value for money on a sustainable basis (best value),
- **Professionalise the procurement (commercial) function** and empower directorates to help deliver better service outcomes,
- **Introduce a new flexible model** for commercial activity across the Council that is robust, and has the people, capabilities and skills in place to support organisational needs.
- **Create a governance framework** that is robust, fair, open and transparent.

To ensure that the SPB does not become distracted with routine commercial activity, nor become a bureaucratic burden on the Council, Directorates are creating their own Contracts Boards (DCBs). These DCBs will follow the same overriding principles for commercial governance as SPB, but will select an approach which best suits their operation. Both SPB and DCBs will also provide technical support and recommendations to the Corporate Leadership Group and Corporate Strategic Board, where required, around complex procurement/commercial decisions or any related decisions that require Member agreement.

As these Boards become more established, it is expected that they will issue annual reports on the past year's commercial activity, which will be summarised for P&F Scrutiny Committee – numbers of new contracts awarded, extended and varied, numbers of waivers to the Council's CPRs raised, performance of contracts over, say, £300K, and proposals for any improvements in contract management.

### **Current Major Contracts**

Appendix 1 has summary information on the status of the 4 major contracts which P&F Scrutiny Committee have requested. Each of these contracts and procurements have been, and will continue to be, the subject of separate, more detailed reports for Cabinet. It is not the intention therefore to repeat in the appendix this detail, rather to highlight the main situation with each of them.

## **Collaboration**

It is now well recognised and understood that collaboration with other public bodies, particularly other London councils, is likely to deliver significant additional benefits beyond those from one council operating alone. The Council is already involved with 2 such collaborative bodies which impact procurement – West London Alliance (WLA) and West London Waste Authority (WLWA) – and is always looking to see if other groupings could offer benefits.

The projects which are currently being pursued by WLA, in which Harrow is involved and/or has an interest are:

- 1) Children's Efficiencies Programme
- 2) Passenger Transport (Part)
- 3) Agency – Temporary Staff
- 4) Property and Assets (Part)
- 5) Adult Social Care Efficiencies Programme

Some these will involve all 8 members of WLA; others will be smaller groupings. For example, Harrow has worked with Hammersmith and Fulham on an agency contract for temporary staff; Brent, Ealing and Harrow are working on a Tri Borough approach to Cultural Services.

In addition, there is a WLA Procurement Board and Hub being proposed. The outline proposition, to deliver collaborative procurements across 8 West London boroughs, was agreed in principle by Leaders and Chief Executives in March 2011. The scale of potential savings and efficiencies is indicated to be in the region of £20.4m per annum by 2015. This is on the basis of an annual addressable spend of £670m. The 3 major spend areas which have been reviewed for this are:

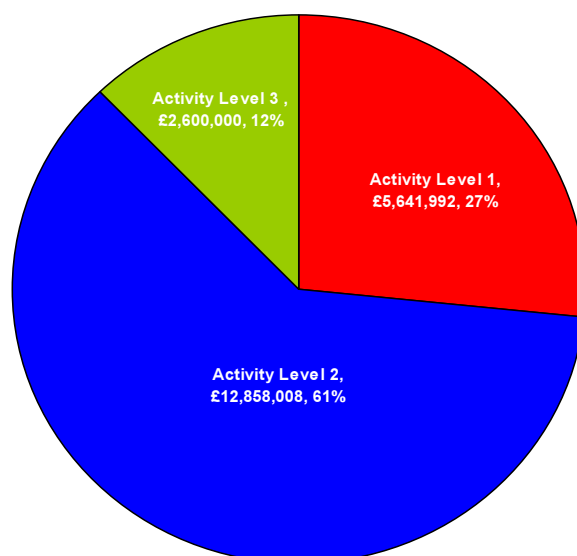
- Property and Buildings
- Business Services, including Agency staff and Consultancy
- Highways, Environment, Street Scene

While it will remain important for such collaboration to be allowed to develop, it will become increasingly important that this is balanced with the direction which Harrow needs to take. It is this last point which is driving the examination of joint activity with the London Borough of Ealing. This will be separate from the work being undertaken by WLA, of which both Ealing and Harrow are members. Procurement has been identified as one area where benefits could be achieved, both for joint procurements themselves as well as the possibility of one procurement team supporting both Boroughs. Current opportunity analysis is focused on non-core spend by both Councils – those categories of spend where failure in supply, while frustrating, has no adverse impact on Council service delivery commitments to the community, e.g. stationery, catering, cleaning, office products; there is a readily available and competitive alternative source of supply.

## **The Corporate Procurement Savings Target for 2011/12**

The scale of budget reductions that Harrow needed to find over the life of the Comprehensive Spending Review (CSR) was of the order of £60m p.a. by the end of the 4 years to 2014-15. To the extent that improved procurement can reduce costs, the need to make savings elsewhere is reduced, particularly front line services. In 2011-12, the MTFs incorporates procurement savings of £5.4m (revenue), comprising a £2m corporate target and £3.4m which is already within directorate budgets.

Addressing savings can be approached in 3 ways – through tighter commercial disciplines and structures, through improved commercial ‘deals’ and through transforming the Council’s supply chain/base. Initial desktop analysis of LBH’s annual spend suggests that the £21m p.a. target could be achieved through these 3 levels as follows:



**Level 1 - tighter commercial disciplines and structures, including contract management**

**Level 2 - improved commercial “deals”, both new procurements and existing contracts**

**Level 3 - supply transformation (adopt new ways of supply/shaping the market)**

In the short term (2011/12), focus for savings will need to be on Level 1, e.g. increased Compliance and addressing Low Value Spend (<£50k p.a. per supplier), and Level 2, e.g. more effective commercial management of contract extensions and non-performance, improving knowledge, and hence exploitation, of market conditions in favour of LBH. Significant opportunities also exist through improving commercial management of current contracts.

As opportunities for achieving savings under the Levels 1 and 2 approaches reduce, new ways of supply and shaping the market will need to be examined. Such transformation does not come easily and will require a significant change in the commercial structures of, together with greatly enhanced skills in, the Council.

However, it is the approach to addressing the waste and lost commercial opportunities exposed under Level 1 analysis which will be the single most valuable factor in helping change the current cultures and prepare the Council for the significant challenges associated in Levels 2 and 3.

Appendix 2 summarises the achievements to date (August 2011)

There are a number of other projects/activities being pursued which will support the Procurement Transformation Programme, the aim of which is to identify and deliver sustainable savings:

### **1) Process and Systems (SAP)**

As identified by PWC in their 2009 review, the Council loses a number of opportunities to save money in the supply chain through poor compliance with Council procurement rules, including EU regulations, use of corporate contracts and non standardised processes. Improved processes and well structured IT systems are often the best way to help address these issues and although LBH has a powerful IT system in SAP, the configuration of the system is not maximising its significant potential. Thus, as part of the Procurement Transformation Programme, a proposal has been sought from Capita to develop the necessary system amendments and implement these as soon as possible. This project needs to be implemented at the same time as the SRM7 upgrade, the latest estimate for which is August 2012 (having recently been delayed).

As with any public body, the Council has to follow a set of procurement processes which accord with both principles and regulations to ensure fairness and transparency in all its purchases. However, these can sometimes become cumbersome and more bureaucratic than is either helpful or necessary. The Council's processes have therefore been reviewed with this in mind, using the lean approach of the BD4R programme, and a number of improvements have been identified; some of these have already been implemented.

### **2) Training**

The need for the Council to increase its commercial capabilities was another of the key requirements identified by PWC review. Training is a major part of this and the programme created to address this has the following objectives for Council staff:

- gain better appreciation of how to buy in the best way, including following Council/EU rules,
- understand the impact of their procurement/contract approaches,
- take responsibility for their procurement/contract actions

The programme has 2 modules:



1. general appreciation of procurement best practice – aimed at all those involved with suppliers/providers, particularly in a decision making capacity,
2. specific system (SAP) – aimed at all those involved in operating procurement activity in SAP.

CSB accepted the recommendation in March 2011 that a 'procurement licence' will become a requirement for all those involved in procurement activities, internal as well as external, on behalf of the Council. Such licence will be awarded to all those who attend the appropriate training module(s), as dictated by their role, and that action would be taken against anyone whose operational performance persistently fell below the accepted level of the licence.

A number of sessions for the first of the 2 modules have already been held.

### **3) Procurement Tool Kit**

If savings are to be reliably delivered on a repeatable basis it is essential that good procurement processes are established, and that there is full compliance with these processes. Work is currently in progress to establish a procurement toolkit which will ensure that the Council can, as a minimum, reliably achieve value for money, but, preferably, best value in all our commercial activities. The elements of the toolkit will cover all aspects of the commercial process: thinking strategically about Council spend and the demand that drives it, understanding supply chains, effective tendering, and ongoing management of supplier / contracts. The toolkit will enable the Council to achieve ongoing savings in all spend with suppliers; it will also ensure that the right quality goods and services are purchased, that the risks associated with the purchase (including legal compliance) are effectively managed, and that what is spent contributes to the achievement of the Council's strategies and policies. Effective use of the toolkit across the Council is key to delivering the procurement contribution to savings.

As a support to this, a Sustainable Procurement Policy has recently been agreed by Cabinet. This Policy will provide the, hitherto, missing link between the Council's aims and objectives for the wider community directly with procurement activity for economic, social and environmental inclusion.

### **4) Management Information**

As is well recognised and understood, good MI is critical to support effective decision making. In the case of procurement, this will be around what activities the Council is planning to undertake with suppliers/providers to help deliver services and examining the spend profiles adopted over the recent past.

For the former, this will require an accurate, up to date contracts register to record all commitments made with suppliers and providers. Work has already begun in compiling such a register (Section 3 above). In addition, a forward plan for forthcoming procurements will also need to be created. For the latter,

an easy to use, interactive analysis tool is required. Such a tool is being implemented (PI Benchmark) and, as expected, initial results are illuminating.

### **Financial Implications**

These are addressed in the main body of the Report and the Appendices.

### **Performance Issues**

Financial savings on procurements and contracts are currently tracked as part of the Procurement Transformation Programme. They will either be included in the MTFS actions by directorate, or taken into the £2m Corporate Procurement Target.

In the future, a wider performance regime for procurement/commercial activity across the Council will need to be created.

### **Environmental Impact**

For any contract that has an environmental impact that is referred to in environmental legislation the Council's contract will require that the supplier complies with all relevant legislation. More generally where the product or services purchased has a significant environmental impact then the tendering process and contract will include appropriate statements that specify the required environmental performance. For example the forthcoming Highways contract will require the supplier to conform with the Highways department's Environmental Management System. The potential Highways suppliers have also been requested to suggest measures and targets for key areas of environmental impact, such as the percentage of waste material that is recycled (not sent to landfill).

Based on the best estimates available approximately 75% of the Council's carbon footprint is in its supply chains. This is due to many of the Council's most carbon intensive activities, such as construction, being carried out by contractors rather than by the Council. Procurement therefore has an important role to play in helping reduce this impact and deliver the Council's Climate Change Strategy.

### **Risk Management Implications**

Any risk arising from individual procurements/contracts is included in the appropriate risk register. This follows the Council's approved approach to risk management. An example is attached at Appendix 3.

## **Equalities implications**

Equalities implications are addressed in the recently approved Sustainable Procurement Policy. Each procurement will have its own EqIA.

## **Corporate Priorities**

All Council procurements and contracts in the future will be very relevant to Council priorities, given that the focus now is ensuring maximum savings and improvements are achieved from the supply chain to protect front line services.

## **Section 3 - Statutory Officer Clearance**

Name: Julie Alderson



Interim Chief Financial  
Officer

Date: 14 November 2011

## **Section 4 - Contact Details and Background Papers**

**Contact:** Richard Hawtin, Interim Chief Procurement Officer, ext 8442