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|  <b>Employment Committee 9.3.2010</b>   |  | <b>Agenda Item No.</b> |
| <b>Title</b>   | <b>Establishment of a Procurement Officer Post</b>   |                        |
| <b>For further information about this report please contact</b>  | Philip Morgan, Financial Services Manager,<br>01926 456802<br>philip.morgan@warwickdc.gov.uk |                        |
| <b>Service Area</b>  | Finance  |                        |
| <b>Wards of the District directly affected</b>   | N/A  |                        |
| <b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006</b> | Not private  |                        |
| <b>Date and meeting when issue was last considered and relevant minute number</b>  | None   |                        |
| <b>Background Papers</b>   | None   |                        |

|  |    |
|--|----|
| <b>Contrary to the policy framework:</b>                                   | No |
| <b>Contrary to the budgetary framework:</b>                                | No |
| <b>Key Decision?</b>   | No |
| <b>Included within the Forward Plan? (If yes include reference number)</b> | No |

|  |             |               |
|--|-------------|---------------|
| <b>Officer/Councillor Approval</b>   |             |               |
| With regard to officer approval all reports <i>must</i> be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s). |             |               |
| <b>Officer Approval</b>  | <b>Date</b> | <b>Name</b>   |
| Relevant Director  | 24/2/2010   | Andrew Jones  |
| Chief Executive  | 24/2/2010   | Chris Elliott |
| CMT  | 24/2/2010   | CMT           |
| Section 151 Officer  | 23/2/2010   | Mike snow     |
| Legal  | N/A         |               |
| Finance  | 23/2/2010   | Mike Snow     |
| Portfolio Holder(s)  | 24/2/2010   | Andrew Mobbs  |
| <b>Consultation Undertaken</b>   |             |               |
| None   |             |               |
| <b>Final Decision?</b>   | Yes         |               |
| <b>Suggested next steps (if not final decision please set out below)</b>   |             |               |
|  |             |               |

## 1. SUMMARY

- 1.1 This report requests permission to establish a Procurement Officer post to enable the Council to secure savings from the procurement of various contracts across the Council. It is proposed the post should be until 2012/13 to support the Procurement Manager in the letting of the Major Contracts.

## 2. RECOMMENDATION

- 2.1 It is recommended that Council create the post of Procurement Officer until the end of 2012/13.
- 2.2 That the Executive be requested to approve that the cost of this post which will be financed out of the Spend to Save Reserve.

## 3. REASONS FOR THE RECOMMENDATION

- 3.1 In 2006 The Administration Review created the post of a Procurement Officer. It was noted at the time that some initiatives may require additional revenue resources, but it would be expected that a business case would be made in these circumstances.
- 3.2 A Business Case, to approve additional procurement activities and additional procurement staff resource was approved by CMT in February 2010. The Business Case is attached as appendix 1.

## 4. ALTERNATIVE OPTION CONSIDERED

- 4.1 As detailed in 2.1.2 of the Business Case the use of external consultants has been trailed but has now been rejected.
- 4.2 Do nothing and not deliver the savings that are known to be achievable from procurement.
- 4.3 There would also be the risk that the work load of the Procurement Manager will increase to an unacceptable level. Also, if goods and services are not properly procured, the Council is at risk from challenge and financial penalties.

## 5. BUDGETARY FRAMEWORK

### 5.1 Savings Missed by Not Recruiting

There are potential savings of £720,000 which will not be realized if the new procurement post is not approved and hence have not been factored into the budget and medium term financial strategy.

| Area   | Saving<br>£    |
|--|----------------|
| Spend Analysis                                     | 260,000        |
| Joined up works Contracts                          | 400,000        |
| Reducing Volume of invoices<br>(efficiency saving) | 60,000         |
| <b>Total</b>                                       | <b>720,000</b> |

In due course it should be possible for savings to be released into the budget from procurement in these areas. However, as limited staff resources are preventing work in these areas progressing in the short term, it would not be prudent to include these savings in the budget at this stage. Establishment of the post of Procurement Officer will enable the savings to be achieved sooner.

## **5.2 Cost of Recruiting**

The new post of Procurement Officer will be subject to a Hay evaluation but it is anticipated that the post will be graded E1, the cost would be £22,958 – £25,472 plus on costs for National Insurance and superannuation, giving a maximum cost of £31,200 in 2010/11. It is not envisaged that there will be any other additional increased costs to the Council relating to this post. This cost should be met out of the Spend to Save Reserve.

## **5.3 Spend to Save Reserve**

The current uncommitted Spend to Save Reserve balance is £580,000 if this proposed expenditure is approved by Executive the uncommitted budget will be reduced to £520,000

## **6. POLICY FRAMEWORK**

- 6.1 Procurement activity complies with the Codes of Contract and Financial Practice. These codes are periodically reviewed and updated.
- 6.2 Sustainability is part of the Sustainable Community Strategy and the Procurement officer Post will contribute to achieving the Strategy

**Appendix 1**

**PROJECT DOCUMENTATION**

**BUSINESS CASE**

***Procurement officer***

Release: Draft 3

Date: 18/2/2010

**PRINCE 2**

Author: Philip Morgan/ Mike Snow

Owner: Mike Snow

Client: BIP

Document Number: 3

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## **1. Purpose of Document**

This document is to propose how savings from procurement can be secured by the creation of a new procurement officer post until 31 March 2013.

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## **2. Identify the Areas for Potential Savings**

In 2006 The Administration Review created the post of a Procurement Officer. It was noted at the time that some initiatives may require additional revenue resources, but it would be expected that a business case would be made in these circumstances.

### **2.1 Savings to Date**

2.1.1 Measurable budget savings from corporate procurement are £267,000 in the three financial years 2007 to 2010. Further efficiencies, valued as non-cashable savings, of £141,000 have also been identified, giving a total saving (cashable and non-cashable) of £409,000.

This analysis excludes the Procurement Manager's work on procurement related to tenders for one-off capital projects (e.g Spencer Yard), and assisting with service specific projects (eg Golf).

Non-cashable savings have recently been delivered concerning transactional savings. This follows the rationalisation of some of the Council's suppliers which has resulted in the number of invoices requiring processing and paying being reduced from 3,470 to 260 for the commodity areas investigated.

2.1.2 In 2009 the Council engaged Procurement Consultants, Nelson La Rochelle in order to tender a selected small number of contracts and to produce savings. The Consultants shared the identified savings with the District on a 50:50 basis for the first year of the new agreements. The consultants identified savings of £39,000 and charged WDC £19,000. The involvement of the Procurement Manager and associated staff in the process was far greater than envisaged and it is felt that the process could have been handled more efficiently using in house staff.

## 2.2 Potential Savings

### 2.2.1 Spend Analysis

A spend analysis of 2008/09 expenditure shows that Warwick District Council procures about £29 m per year in supplies and services.

A review of the spend analysis by representatives of the 11 Worcestershire and Warwickshire authorities has highlighted that the following categories were suitable candidates for collaboration, and hence a more detailed assessment:-

| <b>Commodity</b>                         | <b>Current WDC Value</b> | <b>Potential saving for WDC</b> |
|--|--------------------------|---------------------------------|
| Playgrounds (equipment, design services) | £48,000                  | £9,600                          |
| Security (alarms, CCTV, cash-in-transit) | £400,000                 | £80,000                         |
| ICT (everything)                         | £600,000                 | £90,000                         |
| Vehicle Hire                             | £12,500                  | £2,500                          |
| Bailiffs/Debt Recovery                   | £20,000                  | £1,000                          |
| Workwear                                 | £17,500                  | £3,500                          |
| Mail (dispatch, mail hardware)           | £177,000                 | £17,700                         |
| Building materials                       | £290,000                 | £58,000                         |
| <b>TOTAL</b>                             | <b>£1,565,000</b>        | <b>£260,000</b>                 |

The spend analysis also shows that just under half of the common spend across the 11 authorities is with SMEs

It should be noted that these are indicative values based on the savings that many other LA's have achieved through similar work.

At Warwick where we have openly tendered for work we have generally achieved a 20% saving.

## 2.3 Other Areas for investigation and action:

### 2.3.1 Joined up contracting for Works contracts.

By setting up framework contracts for works. Property are doing this but there is cross over with Engineers and Housing. There could be joined up working here.

Many of these 'minor works' are tendered on a job by job basis and contractors will price each job as 'the last job they are likely to receive'. To give suppliers a security of contract results in reduction of price and security to the Council (financial checks, commitment, service levels). Based on the average saving on tender exercises to date is 20% and expenditure on non-contracted works is around £2M per annum, this could equate to £400K savings. This figure would be over the General Fund and HRA. This will include contracts for, e.g. repairs to car parks, window cleaning, corporate waste, cleaning, document scanning.

### **2.3.2 New Contracts**

In the next year, Property will be looking to go out to tender for several new contracts or framework agreements for which the approximate total value of all the works will be £500,000 on Corporate Property and between £1,000,000 to £2,000,000 on Housing next year.

Procurement will be involved with the tendering of these contracts if only 5% savings are achieved by involving better procurement practices this would equate to between £75,000 and £125,000. This would exceed the cost of employing a procurement officer for two years.

### **2.3.3 High Volumes of invoices.**

WDC pays approximately 12,000 invoices a year. The typical marginal cost of relating to staffing of processing an invoice costs is approximately £25. A reduction in the number of invoices processed by 20% from approx 12,000 to 9,600 would equate in a saving of £60,000 per annum. This is equivalent to losing 2 to 3 people paying invoices (there are about 12 people in the organisation doing this task at present as part of their duties).

## **2.4 Existing Work of the Procurement Manager**

The Procurement Action Plan 2010-2013 is being submitted to the March Executive the draft plan is attached as appendix A. The Procurement Manager is fully occupied executing this plan.

## **2.5 Areas/Scope where the Procurement Manager can free up time and the risks**

The action plan is detailed into;

1. Management, Policies,
2. Supplier Management,
3. Collaborative procurement,
4. E Commerce,
5. Sustainability,
6. Awareness Training and Information / Web Site Analysis

There is very little potential to reduce E Commerce, Management, or Awareness Training and Information as this does not take up much of the Procurement

Managers time. The bulk of the Procurement Managers time is spent on special projects and advising on contract procurement.

Sustainability is part of the Sustainable Community Strategy but this could be reducing but will have a knock on effect on the Use of Resources.

The two areas that have the potential to be reduced are Supplier Management and Collaborative Procurement. However these are the two areas that will produce more savings if more resources are allocated to them.

## 2.6 Risk Assessment

The risk assessment is set out below. This details the main risks to the Council should the items in the procurement action plan not be progressed.

| Risk   | Cause   | Effect   | Controls  | Likelihood | Severity | Total | Action Required   |
|--|---|--|---|------------|----------|-------|---|
| <b>Collaborative Procurement</b>   |   |  |   |            |          |       |   |
| Not able to use buying consortia   | Not enough procurement resource arrangements not known                              | Higher priced contracts  | Review of contracts and spend analysis  | 3          | 4        | 12    | Continued supervision by procurement<br>Research by Managers lettings contracts                         |
| Not able to enter into joint procurement arrangements                            | Not enough procurement resource arrangements not known                              | Higher priced contracts  | Review of contracts and spend analysis  | 3          | 4        | 12    | Continued supervision by procurement<br>Research by Managers lettings contracts                         |
| <b>Supplier Management</b>   |   |  |   |            |          |       |   |
| Annual Audit of spend and transactions   | Not enough procurement resource arrangements not known                              | Not huge but will not have information helping to identify savings                                   |   | 4          | 3        | 12    | none  |
| Ensure all suppliers are contracted formally (preferably on the council's terms) | Procurement Manager not involved in the tender process and giving advice/direction. | Higher priced contracts.<br>Poorly let contracts.<br>Lack of contract management<br>Legal Challenges | Strict contract procedure.<br>Procurement advice<br>Legal advice.<br>Tendering software<br>Training of staff in contract management | 4          | 4        | 16    | Continue training off officers// members<br>Overview of procurement activities by Procurement and Legal |
| Reduce the number of suppliers for each supply area through tender process       | Numerous suppliers for the same service.<br>Bad billing practices by suppliers      | Numerous invoices to pay. And costs not being reduced<br>Lack of supplier information                | Monitor the number of suppliers and number of invoices  | 5          | 3        | 15    | Work by Managers, Lean systems and procurement to manage billing of contractors                         |



## 2.7 Support given to the Procurement Manager

The Procurement Manager works with the Finance and Administration Support Team (FASTeam) The team provides support to the Procurement Manager however they are not procurement professionals and are unable to give procurement advice or be proactive in letting contracts. The Team also help with the analysis of data and some of the more routine work on corporate

The FASTeam help manage centralized contracts which have already been let e.g. British Telecom used to send WDC 1,200 telephones bills per annum. BT now sends just 4 bills p.a. and the team recharge the bills to the various cost centres. BT also supplies detailed usage information which enables further cost savings to be made.

The Financial Services Manager also supports the Procurement Manager. This includes prioritizing and reviewing workloads, assisting in clearing blockages, giving advice, arranging support, applying corporate pressure and ensuring cooperation is received from Service Areas.

The Procurement Manager work is actively being prioritised according to Corporate need, however this is resulting in the overall progress in achieving the plan being protracted.

It needs to be recognized that procurement is a profession. Non professionals giving advice can be detrimental. If a new procurement officer is approved then a person with substantial procurement experience will be required. Appointing a person who requires training and detailed supervision will reduce the Procurement Managers time.

The Procurement Manager has been producing standard documentation for managers to use. This documentation needs constantly revising as Legislation changes.

## 2.8 Alternatives Considered

As detailed in 2.1.2 above the used of external consultants has been trailed but has now been rejected.

Do nothing and not produce any additional savings which also has the risk that the work load of the Procurement Manager will increase to an unacceptable level.

The procurement staff resource in other district councils varies. This is set out below.

Stratford - none  
Redditch and Bromsgrove -Two  
North Warwickshire - One and a half  
Rugby and Nuneaton and Bedworth - Two  
Malvern Hills - One  
Wychavon – One plus a bit

Wyre Forest – One plus a bit  
All these Councils have a lower spend than WDC  
Worcester City – One plus two admin staff

It should be noted that Stratford do not have a procurement officer and this was reflected in a Use of Resources statement “The Council’s approach to procurement remains an area of relative weakness”.

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### 3. Financial Implications

#### **Cost of Recruiting**

The new post of Procurement Officer will be subject to a Hay evaluation but it is anticipated that the post will be graded E1, the cost would be £22,958 – £25,472 plus on costs for National Insurance and superannuation, giving a maximum cost of £31,200 in 2010/11. It is not envisaged that there will be any other additional increased costs to the Council relating to this post.

#### **Savings Missed by Not Recruiting**

There are potential savings of £720,000 which will not be realized if the new procurement post is not approved and hence have not been factored into the budget

| <b>Area</b>  | <b>Saving<br/>£</b> |
|--|---------------------|
| Spend Analysis                                     | 260,000             |
| Joined up works Contracts                          | 400,000             |
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| <b>Total</b>                                       | <b>720,000</b>      |

In due course it should be possible for savings to be released into the budget from procurement in these areas. However, as limited staff resources are preventing work in these areas progressing in the short term, it would not be prudent to include these savings in the budget at this stage.

**PROCUREMENT ACTION PLAN 2010-2013**

**Appendix 1**

| Ref No. | Action   | Target 10/11       | Target 11/12 | Target 12/13 | Responsibility                                   | Progress / Comments  |
|---------|--|--------------------|--------------|--------------|--|--|
|         | <b>MANAGEMENT</b>  |                    |              |              |  |  |
| M1      | Review annually key procurement performance indicators, and a means of measuring them, within the framework of Local Performance Targets.                                  | X                  | X            | X            | Procurement Manager / Financial Services Manager |  |
| M2      | Produce an annual report to Finance and Audit committee on all procurement activity undertaken in the preceding financial year and any efficiencies identified.            | X                  | X            | X            | Procurement Manager                              |  |
| M3      | Consult with actual and potential users on the suitability of goods, works and services to meet their needs as part of tendering process, where appropriate.               | ongoing            |              |              | Procurement Manager                              |  |
| M4      | Reflect the Procurement Strategy in service plans and team operational plans.  | ongoing            |              |              | Heads of Services                                |  |
| M5      | Identify opportunities for local suppliers, SME's and the voluntary and third sectors to compete for Council contracts and ensure such opportunities are promoted locally. | X                  | X            | X            | Procurement Manager / Economic Development       | Website, FSB and Chamber of Commerce.  |
| M6      | Monitor and collate cost benefits (cashable and non-cashable).   | Monthly monitoring |              |              | Procurement Manager / Financial Services Manager |  |
| M7      | Undertake regular checks to ensure that there are no unintentional breaches in the EU procurement threshold.   | X                  | X            | X            | Procurement Manager                              | Audit as part of annual return.  |
| M8      | Maintain contracts register and publish on intranet  | X                  | X            | X            | Procurement Manager                              |  |
| M9      | Work with Managers and Officers to increase education and awareness of regulations and the Council's Policies.   | X                  | X            | X            | Procurement Manager                              |  |
| M10     | Support Managers and Officers with the procurement process.  | X                  | X            | X            | Procurement Manager                              |  |
|         | <b>POLICIES</b>  |                    |              |              |  |  |
| P1      | Review and update Procurement Strategy document.   | X                  | X            | X            | Procurement Manager                              | P1 & P2 to March Executive for comment. Policies to reviewed annually and updated if required. |
| P2      | Review and update Code of contract Practice.   | X                  | X            | X            | Procurement Manager                              |  |

| Ref No.                          | Action  | Target 10/11 | Target 11/12 | Target 12/13 | Responsibility                                   | Progress / Comments  |
|----------------------------------|---|--------------|--------------|--------------|--|--|
| P3                               | Review and update the Environmental Procurement Policy.   | X            | X            | X            | Procurement Manager                              |  |
| Ref No.                          | Action  | Target 10/11 | Target 11/12 | Target 12/13 | Responsibility                                   | Progress / Comments  |
| <b>SUPPLIER MANAGEMENT</b>       |   |              |              |              |  |  |
| S1                               | Undertake an annual audit of spend and number of transactions.  | X            | X            | X            | Procurement Manager / Financial Services Manager | Spikes Cavell Observatory information or extract from accounts system. |
| S2                               | Reduce the number of suppliers for each supply area through tender process.   | X            | X            | X            | Procurement Manager                              |  |
| S3                               | Ensure all suppliers are contracted formally (preferably on the council's terms).   |              |              |              | Procurement Manager / Service Area Managers      |  |
| S4                               | Work towards reducing the number of invoice transactions with current suppliers and new suppliers via the tender process.   |              |              |              | Procurement Manager                              |  |
| <b>COLLABORATIVE PROCUREMENT</b> |   |              |              |              |  |  |
| U1                               | As part of the pre tender process explore the use of buying consortia for the bulk purchase common goods and utilities, for example through ESPO, WMS, CBC, PRO4 or Buying Solutions. | As required. |              |              | Procurement Manager /Property Services           | To be carried out when current contracts are due to expire.            |
| U2                               | Investigate and where applicable enter into joint arrangements for procurement of goods and services with other Local Authorities.  | Ongoing      |              |              | Procurement Manager                              | To be carried out as need arises or when current contracts expire.     |
| U3                               | Utilise framework agreements as a preference to negotiating local agreements for high value contracts of general goods and services (e.g. IT hardware, telecoms, energy).             | As required. |              |              | Procurement Manager / Heads of services          | To be carried out as need arises or when current contracts expire.     |
| U4                               | Where possible ensure that the letting of contracts permits use by other Local Authorities within the WMRIEP area.  | Ongoing      |              |              | Procurement Manager                              |  |
| Ref No.                          | Action  | Target 10/11 | Target 11/12 | Target 12/13 | Responsibility                                   | Progress / Comments  |
| <b>E-COMMERCE</b>                |   |              |              |              |  |  |
| E1                               | Ensure staff that are involved in procurement are capable and trained in the use of the e-  |              | X            |              | Procurement Manager / Financial                  |  |

| Ref No.                       | Action   | Target 10/11 | Target 11/12    | Target 12/13 | Responsibility                                   | Progress / Comments                   |
|-------------------------------|--|--------------|-----------------|--------------|--|---------------------------------------|
|                               | tendering software.  |              |                 |              | Services Manager                                 |                                       |
| E2                            | Promote use of e-tendering software and electronic contract notices throughout all Council tendering activities.                           |              | X               |              | Procurement Manager                              |                                       |
| <b>SUSTAINABILITY</b>         |  |              |                 |              |  |                                       |
| R1                            | Ensure sustainability of contracts is evaluated and implemented (where cost is no prohibitive).  | ongoing      |                 |              | Procurement Manager / Heads of services          |                                       |
| R2                            | Promote working with suppliers to increase sustainability of contracts.  | X            | X               | X            | Procurement Manager / Heads of services          |                                       |
| R3                            | Use procurement activity to increase sustainability.   | ongoing      |                 |              | Procurement Manager                              |                                       |
| R4                            | Work with local suppliers to increase education and awareness of the regulations and how to apply for Council work.                        | ongoing      |                 |              | Procurement Manager / Economic Development       | Website, FSB and Chamber of Commerce. |
| <b>AWARENESS / TRAINING</b>   |  |              |                 |              |  |                                       |
| T1                            | Disseminate the strategy to officers and members.  | X            | X (if required) |              | Procurement Manager                              | Via Executive and SMT                 |
| T2                            | Arrange contract management training for all staff involved with contract management.  | X            | X (if required) |              | Procurement Manager / HR / Service Area Managers |                                       |
| T3                            | Provide support and training for senior staff involved in procurement activities and members as required.                                  | ongoing      |                 |              | Procurement Manager / HR                         |                                       |
| <b>INFORMATION / WEB SITE</b> |  |              |                 |              |  |                                       |
| I1                            | Maintain current procurement information on the Council website.   | X            | X               | X            | Procurement Manager                              |                                       |
| I2                            | Utilise 'Buyer Profile' in conjunction with the Council Website to inform suppliers of the opportunities available and how to access them. | X            | X               | X            | Procurement Manager                              |                                       |
| I3                            | Maintain standard pro-forma documentation on the Council intranet.   | X            | X               | X            | Procurement Manager                              |                                       |
| I4                            | Utilise intranet to inform on procedures and any changes in best practice guidance.  | X            | X               | X            | Procurement Manager                              |                                       |