

**REVIEW OF PROCUREMENT STRATEGY (INCLUDING SPEND ANALYSIS/ LOCAL SPEND)**

Meeting: Finance & Governance Committee

Date: 20 December 2012

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[M188]

1.0 **ISSUE**

1.1 To review the Procurement Strategy/actions undertaken.

2.0 **RECOMMENDATION(S)**

2.1 To note the content of the Review and actions taken and approve the Strategy for 2013-2015 (Appendix A);

2.2 To review the Strategy in 2 years time;

2.3 That spend analysis be undertaken annually, with Management Team agreeing 1-2 items for Finance to analyse for benchmarking and subsequent action by relevant officers;

2.4 To consider appointing a Member Champion for Procurement;

2.5 To consider recommending to Full Council that the Head of Legal & Democratic Services be authorised to amend the Contract Procedure Rules to increase the formal tender limit to £75,000 and add a requirement that below formal tender procurements should include one local supplier quote (unless impracticable to do so).

3.0 **BACKGROUND/OPTIONS**

3.1 The Strategic Policy & Resources Committee approved the Procurement Strategy<sup>1</sup> on 29 September 2011, and as part of that decision the Committee sought a review of the Strategy in 12 months.

3.2 The Strategy covers procedures and approaches, deals with a number of general issues and of specific interest, policy on procurement, level of spend, local spend, achieving value for money and efficiencies. The review of these areas is considered below.

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<sup>1</sup> <http://www.eastcambs.gov.uk/sites/default/files/Procurement%20Strategy%20140911.pdf>

- 3.3 The resources to support this strategy are the filter through Legal Services and procurement advice currently provided by Huntingdonshire District Council via a service level agreement. The headings below reflect key areas of the Strategy and what has taken place over the last 12 months.

**Supplier Relationships and Economic Development:**

- 3.4 One of the aims of the Strategy was to assist supplier relationships and economic development within the local area. In some other authorities, they undertake “meet the buyer events” and provide workshops to local businesses on how to submit tenders/outline opportunities that are going to arise. However, ECDC is not currently in a position to provide such procurement support and in the alternative some basic steps were taken to make it easier to tender for work: by simplifying tender and contract documentation and placing all of these on the Internet. Additionally, the formal tender level was increased to £50,000, and District-based sourcing for contracts with a value up to £5000 where practicable - with the aim that the lower value procurement was less bureaucratic and goods/works and supplies sought locally where possible.
- 3.5 It is difficult measure whether this has had any quantifiable effect at this stage. However, it can be said that on the raw data local suppliers increased their share of the spend to 10.8% from 5.55% when overall expenditure reduced by £983,634. This may be for other reasons (for example an increase in homeless accommodation spend). However, the Head of Legal & Democratic Services, will as per the appended Strategy, look to consider if the local supplier relationship can be addressed in any other meaningful manner with different procurement service options also being considered (see below).

*Strategy Actions for 2013-2015*

- 3.6 *Look to work with other agencies to see how the procurement relationship can be improved with local suppliers. For Members to consider an increase to the formal quotation level to £75,000 under the Contract Procedures Rules (to reduce the documentation/ paperwork required) and obliging officers undertaking procurement exercises to obtain a quote from a local supplier "where possible / practical / appropriate" - and for officers to document where they have been unable to obtain a local quotation. This is with the aim of enabling local spend to increase in actual and percentage terms, where this would provide good value to the council. This will then lend itself towards a more viable and sustainable local economy.*

**Supplier Spend Analysis for 2011/12, compared with 2010/11**

	<b>2011/12</b>	<b>2010/11</b>
Total No of Suppliers paid	775	837
Suppliers in East Cambs area	218	234
Suppliers out of East Cambs	557	603

Total spend for goods, works & services	£6,823,740	£7,807,374
"Local" spend	£737,725	£433,525
Non-local spend	£6,086,015	£7,064,532
Percentage of "local" spend	<b>10.8%</b>	<b>5.55%</b>

**Value for money, savings and efficiencies 2011/2012:**

- 3.7 The top 7 items of spend over £60,000 per annum at the Council have been reviewed<sup>2</sup> and to see if these could be bench-marked with other authorities within the County. This was with a view to reviewing contract arrangements and whether any savings could be achieved in the context of the type of purchase (ie Critical, Strategic, Commodity; or non-Critical spend).
- 3.8 Key spend identified by Finance 2011/2012 (net of VAT) were:
- |       |   |              |
|-------|---|--------------|
| 3.8.1 | 2020 Premises contract work                                   | £171,141.    |
| 3.8.2 | 4550 IT Licences  | £140,418.89. |
| 3.8.3 | 2218 ("Hotel rooms") Emergency accommodation for the homeless | £139,009.86. |
| 3.8.4 | 4430 Consultants fees   | £129,041.59. |
| 3.8.5 | 4520 Telephony – landlines                                    | £ 87,804.52. |
| 3.8.6 | 2210 Electricity  | £ 70,045.08. |
| 3.8.7 | 4510 Postage & stamp duty                                     | £ 67,224.51. |

**Premises contract work £171,141**

- 3.9 Premises contract work heading would fall into the Procurement Strategy definition of Strategic (high value/high risk & service critical requirements – i.e. for emergency based work) or non-Critical – where there is a good competitive market for services.
- 3.10 This code area, however, appears to cover a wide spectrum of spend, including some at E Space North and South and some work on the Grange. Unfortunately, some of the spend did not appear to fit the coding; for example a large element of spend related to plant/ maintenance/ rental and Partnership Agreement contributions for the CCTV service (ie a large proportion of the Community Services spend under this code of £66,087). *CCTV payments have now been moved to its correct code.* However, it also did not include the spend on Cemetery Lodge of £104,613, or some of the spend on the Paradise Pool, which it may be assumed should be covered under this heading. Comments from Finance indicate that this code (2020) should be considered with other premises contract work codes (2030 and 2032).

*Action for 2013*

<sup>2</sup> By account codes – so these will cover different service areas.

- 3.11 *As a heading of spend, therefore, it is difficult to benchmark against other authorities and Finance will be working on the headings for coding of the spend to see whether more specific or accurate headings codes can be used. Budget managers should ensure that the spend is allocated to the correct code.*

**IT Licences £140,418.89**

- 3.12 From the information provided by ICT, the Council appears to have 47 different types of ICT licence arrangements with 26 different providers. Officers will have access to some or a combination of these licences to perform various functions. Due to the expansive nature of these licences, it would be a lengthy task to directly compare prices for each one, making this a spend area which is difficult/time consuming to benchmark against other Councils under the current resourcing arrangements. It is also unlikely that this will necessarily achieve any savings as a result. *No specific action is proposed for 2013 on this – unless this area is identified in line with recommendation 2.3 for analysis.*

**Emergency accommodation for the homeless £139,009.86**

- 3.13 This would fall within the definition of Strategic – high value/ high risk & service critical spend. Members will be aware that this spend has increased in percentage terms for a variety of central government policy change reasons. Benchmarking the costs of the accommodation against other authorities within Cambridgeshire is also quite difficult, as there is no other within the County that is within our “family group”. Some also have housing stock and therefore may be able to absorb homeless applicants within their own housing/hostel stock. Variables may also arise as a result of the availability of emergency-type accommodation (ie hostels, bed and breakfasts and hotels). With this in mind, the following data was sent by the Head of Legal & Democratic to other authorities within Cambridgeshire:

3.13.1 amount spent overall - £139,009.86;

3.13.2 costs of cheapest room from the spend for that period being £25 for a guest house and most expensive £141.67.

- 3.14 Responses were received from South Cambridgeshire District Council, Huntingdonshire District Council and Cambridge City Council. South Cambridgeshire District Council’s annual cost was stated as £36,494. They did not provide room costs as a comparator. Huntingdonshire District Council’s costs appeared for the period “1-13 2011” to be £301,890.93 (*sic*<sup>3</sup>). Again prices per room per night varied, as expected, within an apparent range of £16.67 - £54.76 (*as an average for attendance over 7 days*). Cambridge City Council reported that the total cost to their Council was £108,802.47. No information was provided by them for room costs. It was unclear whether the information provided by the other Councils included housing benefit reclaims.
- 3.15 As a Council, therefore, we would appear to have a greater range of spend on accommodation, and higher expenditure than two of the three authorities that provided benchmarking information for the year analysed. However, with a limited market, it is possible that the local providers can extract a higher room charge. One

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<sup>3</sup> No further clarification could be obtained on this.

benefit is that this does amount to local spend from the Council's Budget. An option to reduce this spend may be to look outside of the District to house – as this may reduce the charge for local homeless emergency accommodation. However, it may conversely open the Council to challenge on the decision and/or could result in other charges. *Note that some monies are now also being reclaimed in terms of housing benefit to reduce the overall spend and other options being examined with the assistance of Improvement East.*

### **Consultant's fees £129,041.59**

- 3.16 The consultancy code in the budgets covers a number of expenditure items potentially for external work for the Council (for example Burwell Masterplanning work, Ely Station Gateway Southern Link Road and Food Hygiene rating scheme project "Scores on the Doors"). It also covers fees that Building Control charge for works – *which is recharged out under a different code*<sup>4</sup>. As a spend area, this would in the main come under non-Critical procurement, which should mean that there are a number of alternative suppliers so that the Council can obtain the best value. This can only be tested, however, when these are procured.
- 3.17 Whilst this was one of the top 7 spend items for 2011/12, **this has reduced from the 2010/11 spend total of £421,550**. The higher consultant spend for the previous year possibly related to the availability and use of grants, for example, for the Littleport Flood Risk (£39,904), and strategic planning consultants used for Ely Station Gateway Southern link Road (£83,219); Ely City Centre Sites (£29, 996), North Ely (£32,770.50); Soham Station (£39,150); Local Plans (£50, 392) – which may account for some of the reduction.
- 3.18 Most consultant expenditure must be considered on a case-by-case basis and if there are no funds to cover this within existing budgets, then Finance & Governance Committee approval would need to be sought. On the positive side, based on past figure of £421,550 represents a 69% reduction of consultant spend from the previous year.
- 3.19 *No proposal on spend reduction, other than budget management and Finance & Governance Committee scrutiny of further spend is therefore proposed.*

### **Telephony – landlines £87,804.52**

- 3.20 This is critical spend, in that the goods are relatively low in value but critical to the Council's overall services and the goal will be to ensure security of supply, possibly at a premium if necessary.
- 3.21 Benchmarking responses were received from Cambridge City Council only, which indicated an annual telephony costs of £60,388.
- 3.22 *ECDC's procurement of a new contract is currently under review by Facilities Management.*

### **Electricity £70,045.08**

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<sup>4</sup> £12,701.25

- 3.23 Again this would be classified as Critical spend for procurement purposes. Electricity unit charges are notoriously difficult to compare. Huntingdonshire District Council and South Cambridgeshire District Council were the only Councils to provide data for comparison.
- 3.24 Overall costs appear higher than ECDC pay (probably because of building capacity/ sites). For Huntingdonshire this was £503,374.15 – however, overall daily charges at ECDC also appear cheaper. For example, for our main building comparisons daily rate 9.40p versus 9.898p per unit; night rate was also lower 6.07p versus 7.167p per unit. This may relate to the supply capacity or maximum demand values, which may affect the electricity supplies. For South Cambridgeshire, the daily rate appeared cheaper, however the night rate was lower in some instances.
- 3.25 Other charges were not directly comparable. *Based on this raw data there is no proposal to review the contract, other than on a normal tender/ contract end basis.*

**Postage & stamp duty £67,224.51**

- 3.26 Again this is Critical spend with the largest proportion relating to normal mail services provided by Facilities Management (46%). There is also a large percentage from E Space North and South (34%) – and the majority of this will be recharged to tenants; and Elections effectively the remainder (20%) – with poll cards/ election packs/ postal votes will be reclaimed from central government in all but the District Council elections. In 2011 this would be a part reclaim because of the Referendum.
- 3.27 Facilities Management undertook a review of the postal service contract in 2010. TNT was used, and whilst this appeared cheaper there were differences in requirements for sorting and delivery (pre-sorting/ earlier collection/ penalties for any sorting problems) and therefore the “total costs of ownership” of the contract was much higher than first anticipated. Facilities then contracted with Royal Mail. *No proposal to review the contract, other than normal monitoring by Facilities Management on a contract end basis is therefore proposed.*

**Resources & Contracting opportunities:**

- 3.28 In the main procurement assistance and advice is being provided by Legal, with back up support from Huntingdonshire District Council. Arrangements are, however, under review.
- 3.29 As part of the Legal / procurement service, the Head of Legal & Democratic sought information from Heads of Service in January 2012 on contracts over £50,000 that were due for renewal in the forthcoming year, so that procurement options could be considered as early as possible. Opportunities for joint procurement or use of existing framework agreements have been considered, so that the Council a) cuts down on the time/costs involved in procurement exercises and b) can potentially secure better value through the improved buying power that can potentially be achieved with other larger authorities.

- 3.30 Various options have and are being examined for contract tenders, with the assistance of the Cambridgeshire Procurement Group (CPG), Procurement East, ESPO and Huntingdonshire District Council support on some of the exercises. Efforts to promote joint working have been encouraged where practical.

*Strategy Actions or 2013-2015*

- 3.31 *Further work will be undertaken with Heads of Service annually to identify contracts for a value of £5,000 and above that are due for renewal in 2013/14. The Head of Legal & Democratic is currently examining options for further support either through a part-time procurement officer post, or through work with external Councils/bodies under a Service Level Agreement.*

**Contract management:**

- 3.32 Legal Services has tried to ensure that officers complete the necessary register of contracts for uploading on the Internet, in line with central government requirements and the Freedom of Information Act 2000. Officers have also been encouraged to attend training on effective contract management.

*Actions for 2013*

- 3.33 *Continue to monitor and promote this requirement to staff and cross check with contracts that have been finalised. Work with officers and Audit as required to identify issues with contract management.*

**Governance, Regulation & Control:**

- 3.34 Head of Legal & Democratic Services looked at compliance with the procurement rules, by supporting any internal audit arrangements and maintenance of requirement to publish contracts and tender information monthly. This information is cross checked against work undertaken in the Legal Section to ensure that contracts have been signed off by the authorised signatories and copies of the contracts retained in Legal.

- 3.35 Members will also note from the Strategy that there will be EU Procurement Directive developments during 2013-2015, and once these are enacted into UK legislation, will need to be complied with. The Council will also have a duty once the Public Services (Social Value) Act 2012 is fully commenced, to consider economic, social and environmental wellbeing prior to procurement and how the procurement will improve these. It is anticipated that this duty will be commenced in January 2013 – or soon after that date. This requirement will therefore be incorporated in the annual forward plan for consideration and response by Heads of Service. Whilst this will add to the possible bureaucracy of the procurement process, one train of thought is that this will enhance the ability of Councils to consider the use of local suppliers – as arguably these will promote local resilience, economic and social wellbeing, this will, however, still be subject to the concerns that such processes do not seek to circumvent or breach EU procurement legislation (as it applies).

4.0 **ARGUMENTS/CONCLUSIONS**

- 4.1 **In terms of spend analysis:** Firstly, and in principle, a regular spend analysis would be useful. However, the spend analysis process itself was time consuming and appeared to be of little practical value in this instance. Pure analysis of raw data, which on occasions does not fit within a particular budgetary heading code, can be misleading (in terms of whether the spend actually fits within a category/ whether this has been recharged under another code/ whether there is sufficient information to compare/ or whether this is indeed the level of spend). Recommendation 2.3 as to how the process may be refined and improved could assist with this.
- 4.2 Secondly, comparison on a like for like basis with other local authorities in Cambridgeshire is difficult. ECDC is not within its “family-grouping” of local authorities in Cambridgeshire in terms of size/facilities when comparing the data. The Council is also reliant on the other authorities participating/providing the data and taking this at face value without the ability to question the information provided.
- 4.3 In the circumstances, if spend analysis is to be undertaken in future, it would be useful for Management Team to agree one or two areas of spend that can be checked and benchmarked, and this can be undertaken annually by Finance (as information on other codes will not be available or necessarily understood outside the overall budgetary code context) – with Legal then trying to benchmark the one or two items with other authorities (rather than the Head of Legal & Democratic Services undertaking the full exercise), which could be discussed and agreed with any Member champion. This should ensure a more effective/productive use of time and conclusions. The relevant Heads can then work with Finance and Legal to look at a particular spend item. It would also be helpful to see what procurement assistance can be provided on this matter (either by internal provision or from external assistance, possibly from Improvement East).
- 4.4 **Local spend:** without more detailed analysis, it is difficult to be able to quantify what, if any, improvement has been effected from simplifying the process. Spend has reduced overall – but, as indicated, percentage of spend locally increased to 10.8%. This may, however, be due to elements of spend that the Council has not been able to restrict (eg homeless accommodation), and which has arisen due to changes in national policy or other circumstances. However, further work could possibly be undertaken at local level – via additional procurement support and the changes to the Contract Procedure Rules outlined above at 3.6. Therefore, as indicated, further options on staffing or assistance from Huntingdonshire District Council or Improvement East are under consideration, which could look at contract review/forward planning; support with in-contract negotiations; and on-site operational support which may assist with this and procurement/value for money overall.
- 4.5 **Member Champion:** Procurement in local government is high on the Government's agenda for improvement and simplification. Many Local Authorities have Member Procurement Champions, as a key element of a Council's approach to promoting, encouraging, challenging and driving procurement improvement. They have a role

of ensuring that Members are aware of issues/liaising with Officers on general procurement matters and increasing the profile and importance of this within the Council. The Council has not had such a champion in the past and bearing in mind the up and coming changes it would be useful to consider and agree that an elected Member takes this forward.

## 5.0 FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

- 5.1 Areas of spend and possible review have been identified, that need to be taken forward by the relevant service areas. However, at this stage, it is not possible to quantify any actual savings.
- 5.2 Equality Impact Assessment (INRA) not required (as this does not affect service, just the manner of procuring works, goods and services).

## 6.0 APPENDICES

- 6.1 Draft Procurement Strategy 2013-2015 Appendix A (changes from 2011 Strategy shown underlined or scored through).

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**Background Documents**

Procurement Strategy September 2011  
Budget spend data  
Public Services (Social Value) Act 2012

**Location**

Room 113

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