

REPORT TO: POLICY & RESOURCES COMMITTEE – 28TH JANUARY 2013
REPORT ON: PROCUREMENT REFORM IN DUNDEE CITY COUNCIL
REPORT BY: DIRECTOR OF CORPORATE SERVICES
REPORT NO: 53-2013

1.0 PURPOSE OF REPORT

This report identifies the progress made to date, and presents a proposal for the next stage of the Procurement Reform Project in Dundee City Council.

2.0 RECOMMENDATION

2.1 It is recommended that:-

- (a) Approval is given for the proposed Category Management model, incorporating a Purchase to Payment Centralised Team.
- (b) The Director of Corporate Services be instructed to oversee the delivery of the agreed Category Management & Purchase to Payment Centralised Team model, with associated resource transfer by 1st April 2013.

3.0 FINANCIAL IMPLICATIONS

3.1 Initial high level efficiency opportunities totalling £250,000 have been identified over the various categories (excluding Capital and Social Care). This cash saving will be reflected in the Council's 2013/14 Revenue Budget.

3.2 The net additional costs of the revised Category Management staffing structure within the Council are £143,103 in a full financial year. These costs will be funded as follows:

	£
Recharges to Capital Programme	96,193
Recharges to Revenue Budget	<u>46,910</u>
	<u>143,103</u>

The recharges to the Capital Programme will be reflected in the Council's 2013-2017 Capital Plan. The recharges to the Revenue Budget will be contained within existing departmental revenue budgets.

3.3 The costs of the Centralised Purchase to Payment team of £125,000 in 2013/14 will be funded by transfers of FTE staff from each department. The revised arrangements will generate anticipated time-releasing efficiency savings of £250,000 per annum.

4.0 MAIN TEXT

4.1 Background

4.1.1 The Dundee City Council Corporate Improvement Programme identified the organisation of Procurement within the City Council as an area for process review both from a tactical and strategic perspective. The current procurement structure does not fully reflect the recommendations of the McClelland Report first considered by the Council in 2008 and does not optimise benefits realisation or whole-life costing models. The Category management approach agreed by the Senior Management Team in June 2011, with a further update in November 2011, reflects an approach that has been taken by some of our comparator authorities who are at a more advanced stage in terms of procurement capability.

4.2 The agreed principle

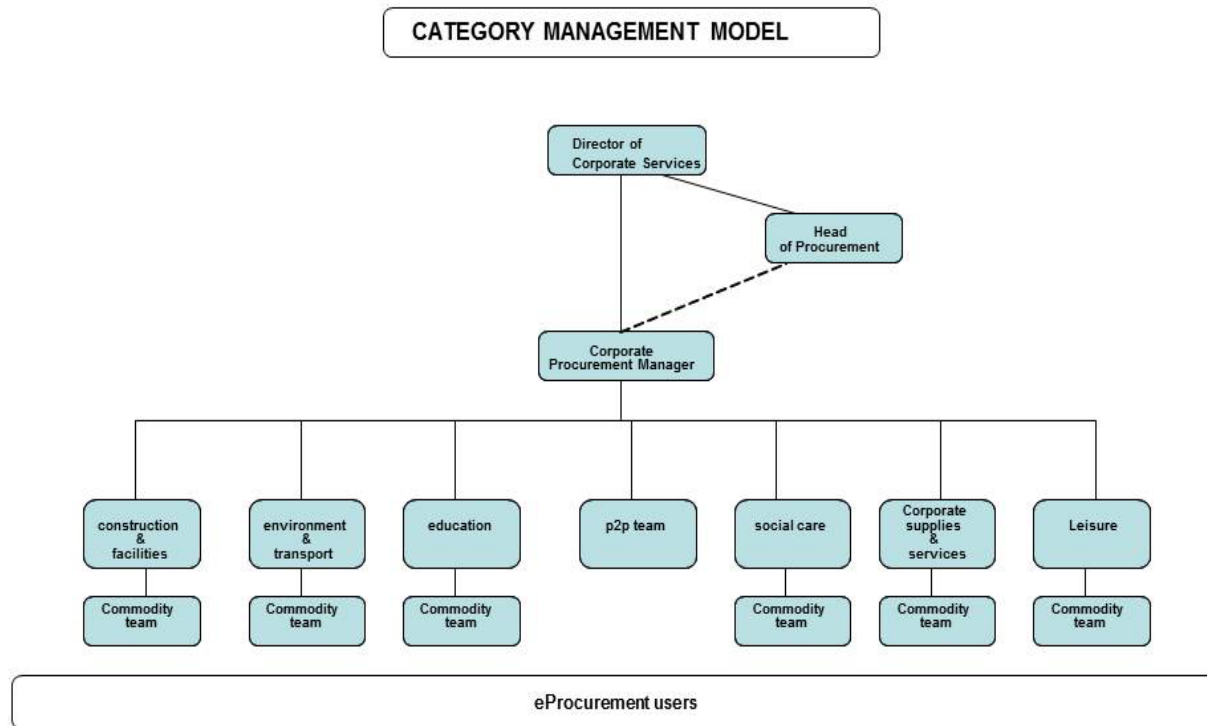
A Category Management approach was agreed by the Senior Management Team at its meeting on 14 June 2011, with a further more detailed report to the Senior Management Team in November 2011.

4.2.1 The option agreed in principle formally aligns procurement activity from the departments into a new corporate Category Management (CM) structure.

The agreed operational and governance structure was to be

- Director of Corporate Services
- Head of Procurement, Tayside Procurement Consortium who will be line managed by the Director of Corporate Services
- Corporate Procurement Manager who will be line managed by the Director of Corporate Services and matrix managed by the Head of Procurement, Tayside Procurement Consortium
- Procurement Category Managers who report into the Corporate Procurement manager
- Procurement Officers, the number to be relative to the needs of each Category.
- The Purchase to Pay team (this will incorporate the current e-Procurement team, the Creditors team and be based on the outcome of the current centralised invoice scanning project and other developments within the P2P project).

The above structure was suggested to look like the following



The structure aimed to utilise those existing City Council officers identified by Directors in each service to be currently carrying out the majority of current City Council procurement activity.

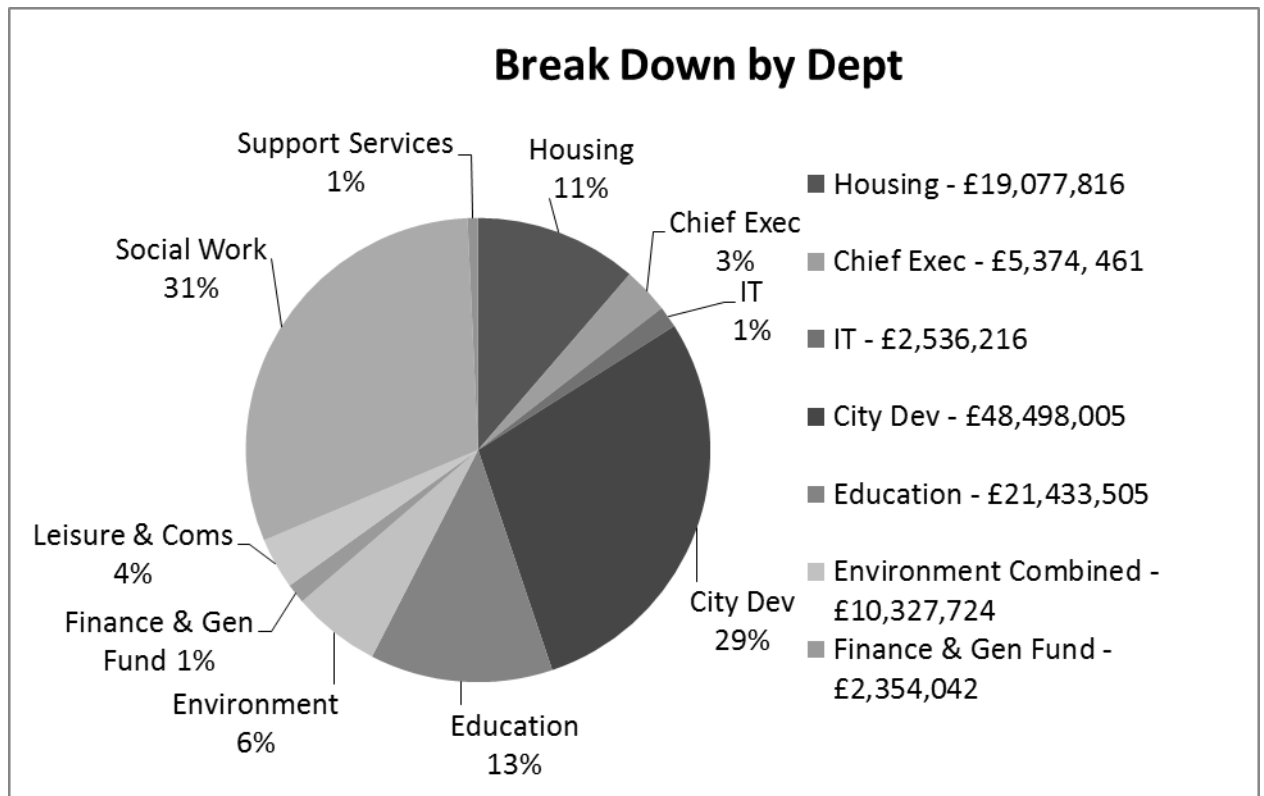
This required internal re-organisation across all services within the Council.

4.2.2 The project group

Following the report to SMT requesting participation in this Project Group, a team was created with those representatives volunteered from across the City Council

Department	Representative
IT	Bill Reid
Social Work	Sandra Lorimer & Dave Berry
Housing	Gregory Colgan
City Development	Fergus Wilson, Alan Mackie, John Kennedy
Support Services	Bob Laird
Leisure & Culture Dundee	Bill Docherty
Education	Diana Weir, Linda Smith
Environment	Mark Ross, Gary McRae
Procurement	Allan Harrow, Karen Lawson
	Rhonda McKay, Scott Traynor

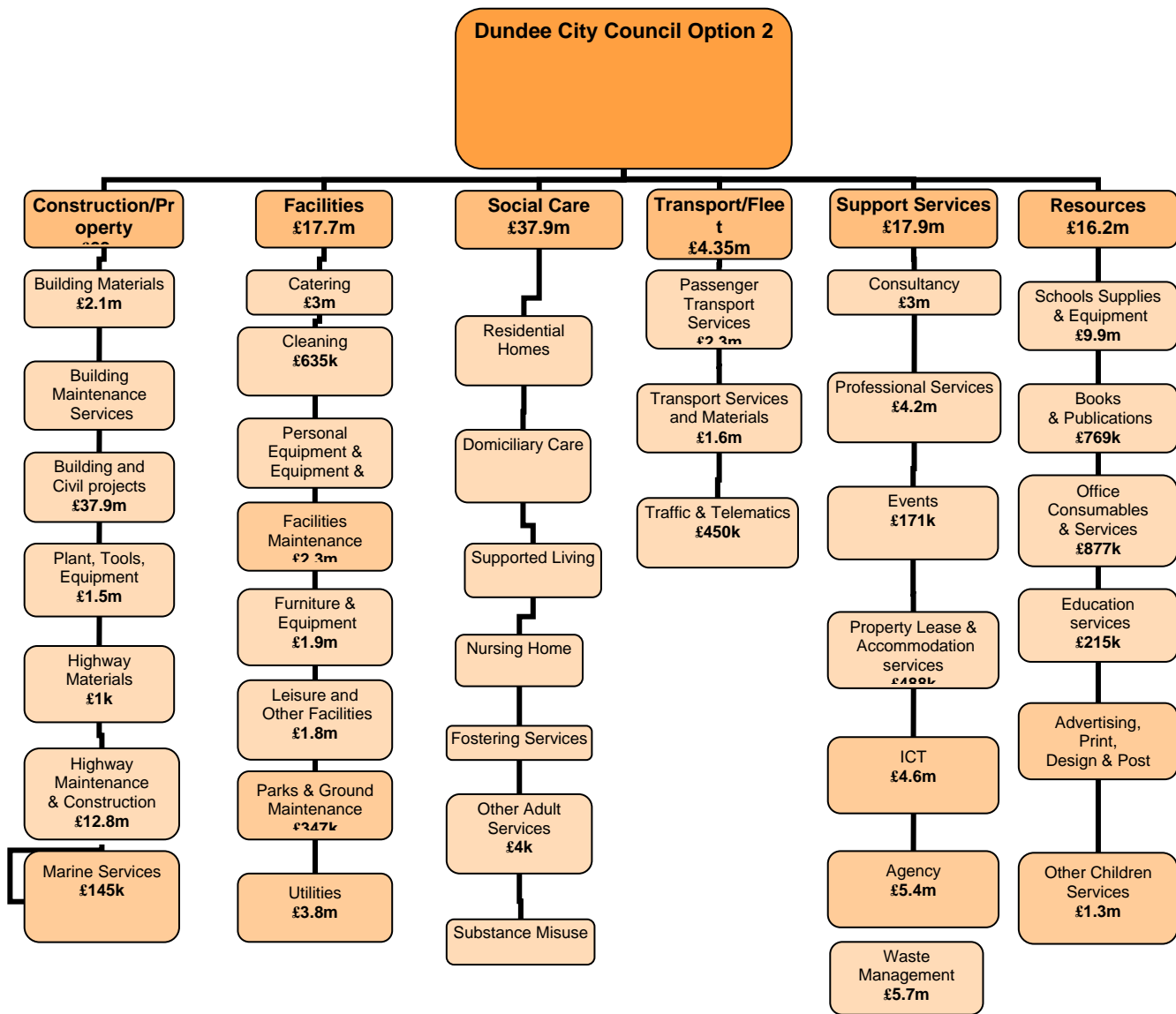
Following a comprehensive review of the management information available the project group was able to carry out a spend-map exercise



The above chart indicates, at a high level, the volume and proportion of external spend activity in each department within the Council. The breadth, depth and variety of expenditure indicates the scale of current procurement activity.

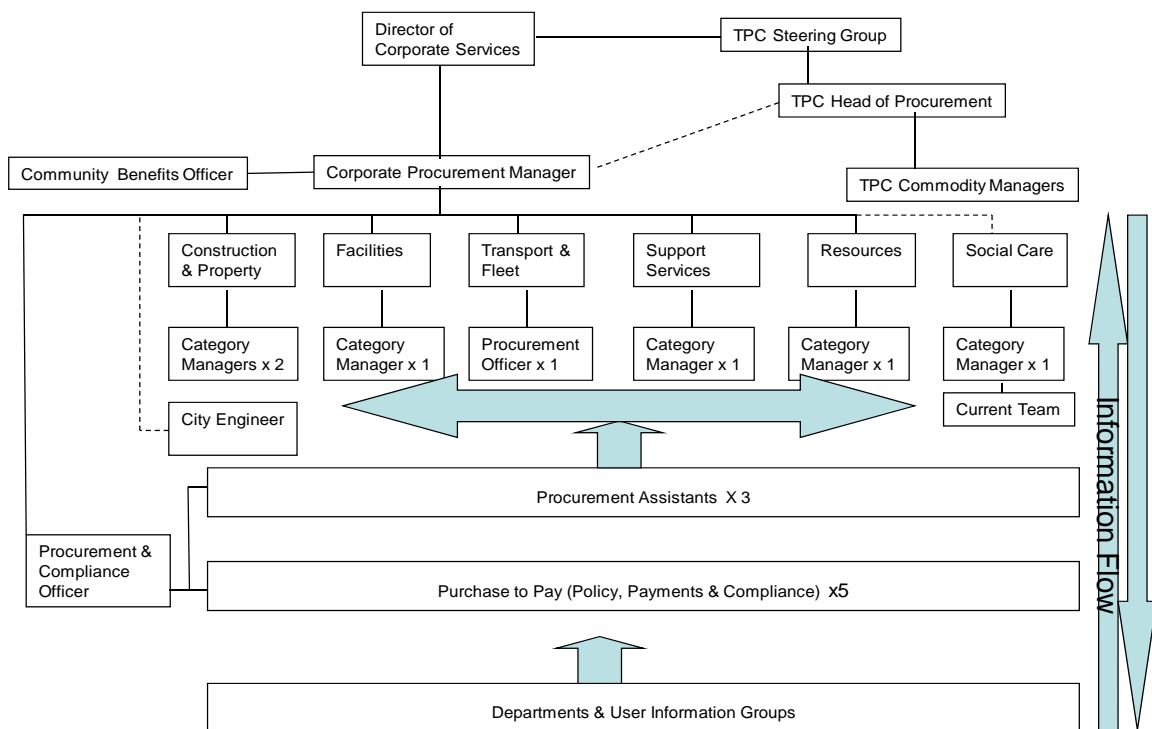
Relative to the devolved management approach to procurement within the City Council a significant number of officers had periodic involvement in purchasing activity. This often resulted in varying levels of skill and understanding, which puts the Council at risk both from a failure to secure Best Value, but more recently from legal challenge (ref EU Remedies Directive 2009)

The team mapped this departmental spend into categories to plot the expenditure. Through an analysis of the M.I, the group developed 3 models for consideration. Following discussion and review the group agreed the following model as the optimum approach.



The group met at a series of workshops to discuss and review areas such as top 10 supplier profile, contract position, complexity of activity, market dynamics, budgets, legislative requirements, internal governance, benefits realisation, sustainability, whole-life costing, etc within a particular spend category.

- 4.2.3 Based on the breadth and depth of activity identified in each category the project group considered the appropriate resource that may be required in each area. The existence of the Council's Procurement team and Tayside Procurement Consortium Shared Procurement service resource allows the City Council to draw upon existing defined procurement resource in the model.



4.2.4 Notes to the model -

Governance and matrix (dotted line) management.

As part of the review it was notable that a number of category teams already existed - specifically in Social Care and Highway Maintenance & Construction, and Building & Civil Projects. It is therefore proposed that a matrix management approach be established where firmer management relations are established but for those specific areas the current category approach remain unchanged.

Tayside Procurement Consortium Shared Service

The Shared Service currently provides the City Council with a shared Head of Procurement and shared category managers who lead on - Transport, Support Services and Resources. The availability of this resource has been factored into this resource model

Re-allocation.

It is proposed to use existing City Council resource from services to populate the category teams. There are a number of officers within the existing Corporate procurement team who will be re-allocated to the new model, it is also proposed that officers from services, who currently carry out the majority of the activity, be transferred over to the model. Identification of suitable resource can be supported using data provided relating to % spend activity

Location

It is proposed that where the category is corporate in nature then the post holder will be based with the Procurement team on Floor 4, Dundee House, however where the activity is more specialised, then the post holder may be based within the

service area. Flexible working across locations is also likely for a number of the posts

Staff development

Both options provide a procurement career development structure that currently does not exist within the Council. The introduction of a professional career ladder for procurement is tangible evidence of the Council investing in its people.

Efficiency Opportunities

High level efficiency opportunities have been developed for each category, as follows:

High level analysis of opportunity from Category management approach

	Spend £	Min %	Max %	Assumed %	Saving Opp £
Highway Maintenance & Const Highway Materials Building & Civil Projects Building Materials & Plant Tools & Equip	40,670,000	1.00%	3.00%	0.00%	0
Building Maintenance Services	3,543,000	1.00%	3.00%	1.00%	35,430
Facilities Management	10,878,000	1.00%	3.00%	1.00%	108,780
Social Care	20,000,000	1.00%	3.00%	1.00%	200,000
Transport / Fleet	48,000,000	1.00%	3.00%	0.00%	0
Support Services	4,350,000	1.00%	3.00%	1.00%	43,500
Resources	17,900,000	1.00%	3.00%	1.00%	179,000
P2P	16,200,000	1.00%	3.00%	1.00%	162,000
P2P	0	0.00%	0.00%	0.00%	0
Total Opportunity	160,241,000				728,710

Notes to the table

- Min / Max levels are based on benchmarking data from similar projects in comparator authorities
- Noted saving opportunity assumes a 1% improvement in contractual terms
- Does not include savings opportunity in Capital or Social Care expenditure
- P2P process efficiency opportunities are captured in a parallel work stream being carried out by P2P team

Firm cashable savings derived from this exercise will be determined via a benefits tracking model, as the process is further developed through the work carried out by the category teams, during the first 6 months of implementation. The initial savings target for 2013/14 will be £250,000. Full details of the savings to be delivered will be monitored by the Director of Corporate Services and reported in full in a future report.

An initial review of addressable external expenditure activity has however indicated that there are opportunities to deliver savings through an improved procurement approach in the City Council. There is typically always an opportunity to improve our contract terms, and a 1% improvement is a particularly conservative estimate.

4.2.5 Identification of Resources

Using a methodology that plots proportional activity and spend per department, and using that basis to then identify prospective resource, the group built a resource model. Taking this position and then factoring in collaborative resource impact - i.e. the elements of procurement activity that are already accounted for by Category A (National Contracts), Category B (Scotland Excel Contracts), and Category C1 (Tayside Procurement Consortium contracts) procurement activity we can start to see the following emerging for each category.

- **Highway Maintenance & Const Highway Materials Building & Civil Projects**
 - 100% of activity carried out by existing resource - no benefit in restructure. Officers will work on a matrix management basis to ensure all procurement activity is fully aligned to the corporate approach
- **Building Materials & Plant Tools & Equip**
 - 40 % of spend covered by Cat B and Cat C1 procurement activity (trades materials etc.)
 - 60% of spend needs strategic and tactical management approach
 - Majority of spend is the Environment Department
 - Bespoke procurement resource required to address spend and specific Dundee requirement - Category Manager
 - Proposed that this post is advertised - with funding through recharges to Capital Programme and Revenue Budget transfer from the Environment Department
- **Building Maintenance Services**
 - 10 % of spend covered by Cat B and Cat C1 procurement activity
 - Majority of spend is currently managed the Environment Department and City Development
 - Bespoke procurement resource required to address spend and specific Dundee requirement - Category Manager
 - Proposed that this post is advertised - with funding through recharges to Capital Programme and Revenue Budget transfer from City Development
- **Facilities management**
 - 10 % of spend covered by Cat B and Cat C1 procurement activity
 - Majority of spend is managed by City Development
 - Bespoke procurement resource required to address spend and specific Dundee requirement - Category Manager
 - Proposed that this post be resourced internally with funding through pro-rata Revenue Budget transfer from all departments
- **Social Care**
 - 100 % of activity carried out by existing resource - no benefit in restructure
- **Transport & Fleet.**
 - 70% of spend covered by Cat B and Cat C1 procurement activity
 - Majority of spend is managed by the Environment Department and City Development

- Bespoke procurement resource required to address off contract spend and specific Dundee requirement - Procurement Officer
- Proposed that this post be resourced internally with funding through recharges to Capital Programme and pro-rata Revenue Budget transfer from City Development, Environment Department and Social Work
- **Support Services**
 - 60% of spend covered by Cat A, Cat B and Cat C1 procurement activity
 - Spend is spread relatively evenly across the Council
 - Bespoke procurement resource required to address off contract spend and specific Dundee requirement – Category Manager
 - Proposed that this post be resourced by Corporate Services (ICT)
- **Resources**
 - 60% of spend covered by Cat A, Cat B and Cat C1 procurement activity
 - Majority of spend is in Education
 - Bespoke procurement resource required to address off contract spend and specific Dundee requirement – Category Manager
 - Proposed that this post be resourced internally and will incorporate eProcurement Manager role
- **Procurement Assistants**
 - Proposed that one post be resourced internally, with funding through recharges to Capital Programme and pro-rata Revenue Budget transfer coming from all departments. Two posts will be recruited internally as transfers from Admin/Clerical Review.
- **Purchase to Pay**
 - Creation of a central team of 5 FTE for validating and matching of creditors invoices, and ensuring compliance.
 - A proposed pro-rata of the resource or budget per total number of transactions by department - per Update on Development of Purchase to Payment (P2P) Systems reported to SMT 29 May 2012. This would result in a contribution of the following FTE:
 - 1 FTE from Social Work
 - 1 FTE from Environment
 - 1 FTE from Corporate Services
 - 1 FTE from Education
 - 0.5 FTE from Housing
 - 0.5 FTE from City Development
 - Costs of above posts covered by budget transfer from departments
- **Procurement & Compliance Officer**
 - As part of the centralised Purchase to Pay Team there is a requirement to have an Officer responsible for this team and its processes. Proposed that this post be resourced internally with funding through recharges to Capital Programme and pro-rata Revenue Budget transfer coming from all departments.
- **Community Benefits Officer**
 - The Dundee City Council Community Benefits Policy was agreed by Policy and Resources Committee on 12 September 2012.

- The aim of the policy is a Council wide approach intended to secure the maximum economic and social benefits from City Council procurement within the current legal framework.
- The Community Benefit policy will apply to the purchase of all goods and services but initially activity will focus on securing benefits from capital design, build and maintenance programmes before being expanded to all appropriate areas of procurement.
- It is therefore proposed to appoint a Community Benefits Officer as part of Procurement reform, the Officer will be responsible for:
 - coordinating a council wide community benefits working group to implement the approach
 - supporting the development and delivery of an awareness raising and training programme on community benefits for council officers and procurement leads.
 - to support officers managing contracts to develop community benefit approaches to key contracts.
 - to further develop approaches to the inclusion of community benefit considerations in service contracts.
 - to develop, with procurement colleagues, standard documentation customised for use in goods and services contracts
 - to coordinate the employment and training infrastructure required to support successful delivery of community benefits
 - to work with City Development colleagues to coordinate support programmes for local companies and social enterprises to be able to compete and make best use of available opportunities
 - to support appointed contractors to understand their responsibilities and put systems in place to achieve their contract requirements.
 - to support the effective monitoring of key contracts (including V&A) to ensure that community benefit requirements are being delivered
 - to provide a monitoring and supporting role for current Discover Opportunities contracts including East Marketgait, Dundee Waterfront and various schools contracts.
 - to develop the area of community benefits in light of changing policy guidance and local conditions.
- Proposed that this post is advertised, with funding through recharges to Capital Programme and pro-rata Revenue Budget transfer coming from all departments.

4.2.6 Purchase to Payment Procedures

A report on the Development of Purchase to Payment Systems was submitted to the Strategic Management team meeting on 29 May 2011. This meeting agreed the creation of a central team for the processing by scanning of creditors invoices, the methodology for introducing revised procedures across the council and introduction of a Lodged Procurement Cards for key suppliers.

The Strategy being followed to achieve the above objective included the following main elements:-

Increasing Efficiency by the removal of duplication, eliminating paper and increasing supplier engagement mainly in the ways in which we process invoices. In addition, there are potential efficiencies generated by improved access to information via scanned images.

Improving Control through systematic controls, forcing compliance, improved management information and electronic alerts and reminders.

The development of a seamless purchase to pay process will be achieved through the continued development and implementation of Civica Purchasing, Intelligent Scanning, Government Procurement Cards (including Lodged Procurement Cards), e-Invoicing, Self Billing and the development of Suppliers Portal. There are several ordering systems which operate within Dundee City Council, some of which interface into Civica Purchasing and thereby create a commitment for the order. However, all payments to suppliers are interfaced into the Financial System to pay suppliers.

Progress in each of these areas is noted below

Intelligent Scanning of Invoices.

The Pilot Project in Housing is currently being progressed. The Housing Pilot comprised two of the busiest sections within the Department. This has since been extended to five sections of the eight that exist within the Department. The department have been particularly supportive of this project and supported its development successfully. Approximately 200 invoices were scanned in the first month. The project has released significant efficiencies within the department and is currently being rolled out across the department. Benefits achieved have included:-

- More efficient processing of invoices
- Improved use of Purchasing System to approve and record expenditure
- Enabled development of enhanced financial internal controls
- Agreement of Delegated Procurement Authority
- Improved access to financial information
- Improved delegation of Authority

Some other suppliers have moved to the central processing of invoices for all council departments, releasing significant benefits in the more prompt processing of invoices and improved access to source data.

Progress on the implementation across other departments has fallen behind schedule, although initial meetings were held with both Education and Social Work Departments. It will be difficult to process transactions in bulk without resources being available centrally.

To date, 2,500 invoices have been processed for 151 suppliers over 6 Departments. It is estimated that this has released over 600 person hours of efficiency saving.

Purchasing Cards

Purchase Card applications have continued to be received and processed. They are currently used in a number of departments across the council. Purchase Cards

are used to achieve efficiency benefits and enhance the functionality in the following ways

- Provide access to on-line purchase of items
- Provide access to suppliers who do not accept our Purchase Orders.
- Provide a replacement of petty cash transactions
- Support for off-site transactions (e.g. school trips)
- Provide access to cash savings on price.

There are currently 140 Purchasing Cards in use across the council with spend to date of £208,000 and over 2,500 transactions.

Lodged Procurement Cards

The Lodged Procurement Card functionality has been provided by Civica and is currently being tested. It is hoped that a virtual procurement Card will be live early in the new financial year.

Other Planned Developments

Other part of the development of Purchase to Payment Procedures include a Suppliers Portal to support Self Billing arrangements with local suppliers as well as the acceptance of invoices electronically from suppliers.

4.2.7 Project Phase II Key Future Work streams

- Review of Financial Regulations, Contract Rules / Standing Orders
- Developing Specifications
- Incorporating Legal developments into our procurement approach
 - Self Directed Support
 - Procurement Reform Bill
- Roll out of Community Benefits through Procurement Approach
- Development of Third Sector through procurement approach
- Training Plan Roll out
- E Tendering Development
- Developing of P2P

Critical to note that all of the above work streams are required whether or not the project continues

4.2.8 Key Risks & Dependencies

A current key risk to the Council is non-compliance with EU procurement legislation. Due to the number of officers across the Council, currently contracting on behalf of the Council, it is not possible for them to have a full understanding of the legal or commercial context within which they work. This puts the Council at risk and failure to implement improved procurement management increases the likelihood of challenge by a 'wronged' supplier through the Courts. This could lead to contract set-aside, damages and opportunity costs for the Council in having to extend current contractual arrangements. A second major risk is that the Council will not be able to maximise future benefits or achieve forecast savings if it maintains the status quo regarding the structure of procurement.

5.0 Benefits

- Cashable and non-cashable benefits from procurement leverage,
- Improved responsibility, accountability and control
- Reduction in non-contract purchasing
- Rationalisation of the supply base (currently at 4400 suppliers);
- Compliance with EU legislation;
- Improved Risk management
- Compliance with McClelland and the national procurement agenda;
- Increased efficiency from the 'one-stop-procurement-shop.'
- Standardisation and simplification of procurement business processes
- Simplified documentation;
- Easier implementation of procurement strategies;
- Better communications, stakeholder engagement
- Delivery of supplier relationship management strategies;
- Better performance measurement;
- Increased skill sets and continuous professional development for procurement staff;
- Increased transparency and probity of procurement process.
- Increased span of control for SMT
- Increased opportunity through collaboration
- Increased ability to deliver sustainable procurement
- Clearer relationship between Council plan, Single Outcome Agreement and actual operational procurement activity

6.0 POLICY IMPLICATIONS

Procurement Strategy 2011- 2015

The proposals outlined in this paper are fully aligned to the delivery of the Councils current approved Procurement Strategy and objectives

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty and Equality Impact Assessment. There are no significant issues to note, however it is worth noting the positive impact of the proposed improvements.-

▪ Equalities

Adoption of the improved procurement management model will make it much easier for the Council to implement strategies such as mainstreaming equal opportunities and policing the equalities policies of suppliers along the supply chain.

▪ Sustainability

The current devolved arrangements are not in line with best practice with regard to co-ordinating sustainable procurement and matters of corporate and social responsibility. The proposed management model should improve significantly the ability of the Council to buy products and services that are more sustainable in the long-term.

7.0 CONSULTATION

There has been ongoing constructive and positive dialogue within the project group comprising officers from the procurement team and Council Services. The Chief Executive and the other members of the SMT have also been kept generally updated as to progress.

The Chief Executive and Head of Democratic and Legal Services have been consulted on the terms of this report.

8.0 BACKGROUND PAPERS

None

9.0 CONCLUSION

The current arrangements for procurement in the City Council should be improved to ensure Best Value and Best Procurement Practice considerations. The City Council, through delivery of this corporate improvement project can optimise benefits realisation or whole-life costing models and in doing so improve its procurement practice and realise increased savings and efficiency.

Marjory M Stewart
Director of Corporate Services

Date: 28th December 2012