

AGENDA ITEM 4 (ii)

FALKIRK COUNCIL

Subject: **PROCUREMENT STRATEGY UPDATE**
Meeting: **POLICY & RESOURCES COMMITTEE**
Date: **31 May 2011**
Author: **DIRECTOR OF CORPORATE & NEIGHBOURHOOD SERVICES**

1. INTRODUCTION

1.1 The purpose of this report is to provide Members with:

- a review of the 2008-2011 Corporate Procurement Strategy,
- an update on the 2010 Procurement Capability Assessment (PCA),
- the draft 2011-2014 Corporate Procurement Strategy,
- proposals for a review of the procurement structure to take forward the 2011-2014 Corporate Procurement Strategy.

2. 2008-2011 PROCUREMENT STRATEGY

- 2.1 The Council's 2008-2011 Corporate Procurement Strategy was structured to support the Council's response to the recommendations contained within the McClelland report. In particular, the Strategy focused on improving purchasing practice and achieving savings through procurement.
- 2.2 The Strategy reflects the Council's values of *Public Service, Performance and Partnership*. Over the past three years procurement activity has been successful in supporting the Council's values in a number of ways, some of which are set out below:

Public Service

- 2.3 Public Service has been improved through the establishment of a Procurement Board, supported by User Intelligence Groups. These arrangements have ensured much closer working between Service based procurement activity and the Council's Central Purchasing Unit.
- 2.4 The new Council management structure also provides a stronger model of governance with clearer roles and responsibilities for Procurement matters being established at both Chief Officer and Service Unit Manager tiers.
- 2.5 Suppliers have also been provided with increased access to information on contract opportunities through further development of our tendering Web site, increased advertising, less burdensome tendering processes, attendance at "meet the buyer" events and the distribution in 2010, of an updated "How to do business" guide for suppliers.

Performance

- 2.6 Performance has been improved through the realisation of significant cash savings c£2m. These savings have been delivered across all Council activities and have included Care at Home, Telephony, Water Services, Building Materials, Transportation and Facility Management Services.
- 2.7 New contractor and supplier management procedures have also improved communication with suppliers and this in turn has delivered improved service reliability and quality.
- 2.8 Process cost savings have also been achieved through a programme of expanding the use of procurement cards and other e-procurement initiatives. Currently, c£10m per annum is now procured by procurement card. In addition, the Central Purchasing Unit has, from 2010, used the national advertisement portal for issuing all tender documents. In addition, work commenced in 2010 to facilitate the full electronic return of tender documents. It is planned that this process will become the usual way of doing business by the end of 2011.

Partnership

- 2.9 Partnership activity has developed and over the period of the Strategy a number of major collaborative contracts have been established. For example, the Council now participates in National Category A contracts for Energy, Water, Paper and Office Products.
- 2.10 The Council has also been a fully operating member of Scotland Excel for approximately 8 months, joining in October 2010. To date, the Council is participating in 3 Scotland Excel contracts and it is anticipated that by the end of 2011 the Council will be participating in over 20 Category B Excel contacts. Annual savings of c£95,000 have been realised to date and this figure will increase as contract participation grows.
- 2.11 The Council continues to work in collaboration at a regional level with Stirling and Clackmannanshire Councils and has also now entered into the first joint procurement exercise with West Lothian Council.
- 2.12 In addition, increased communication with suppliers to encourage SMEs and local suppliers to do business with the Council continues to be supported. For example, in 2010 the Council fully committed to the national supplier development program and work is on-going with Falkirk for Business. The proportion of spend with local companies has also remained consistent at approximately 40% of total Procurement spend. An update on the 2010/11 spend position will be presented to Best Value Forum following the summer recess.
- 2.13 The Sustainable Falkirk Strategy sets out key economic and environmental priorities where procurement plays a central role. The adoption of Community Benefits as “business as usual” has seen an increase in the number of employment and training opportunities delivered, with around 100 placements achieved. In addition, environmental design continues to be central to the capital investment programme.

2.14 Although successful in delivering a range of improvements, the model adopted for the 2008-11 Corporate Procurement Strategy was established prior to the implementation of the Procurement Capability Assessment (PCA) process. As such, the focus and objectives of the current Strategy require review and change. This is in light of the wider reform of Local Government procurement and the increased requirement for improvements in procurement across the public sector and Local Government in particular. Consequently, if the Council is to meet these challenges and demonstrate continued efficient and effective procurement of goods, works and services there is a need for a detailed Procurement Improvement Plan (PIP), based upon achieving challenging and ambitious targets.

3. PROCUREMENT CAPABILITY ASSESSMENTS (PCAs)

3.1 The Public Procurement Reform Programme recommended that PCAs be implemented across the public sector. These are designed to assist organisations to improve their structure, capability, processes and ultimately performance in procurement. In line with the McClelland Report recommendations, the PCA has clearly defined descriptions and scores for each level of performance. These levels are:

Level 0 – Non Conformance	(score 0 – 24)
Level 1 – Conformance	(score 25 -49)
Level 2 – Improved Performance	(score 50 -74)
Level 3 – Superior Performance	(score 75 – 100)

PCA scoring Falkirk Council

3.2 The first PCA for Falkirk Council took place in October 2009 and the overall procurement status for Falkirk was a score of 24. In 2009 the national average figure for Scottish Local Authorities was 22.6. The second PCA for the Council was completed in November 2010 and our overall procurement status improved to a score of 30, whilst the national average for that year increased to 32.

3.3 By improving our score to 30, Falkirk Council is now firmly in the conformance level of the PCA scoring model, as set out above. Whilst this improvement is welcomed, it should be noted that our rate of improvement has not kept pace with the majority of the sector. This is evidenced by the Council moving from a score above the Local Authority average in 2009, to a position now 2 points below the 2010 average PCA score.

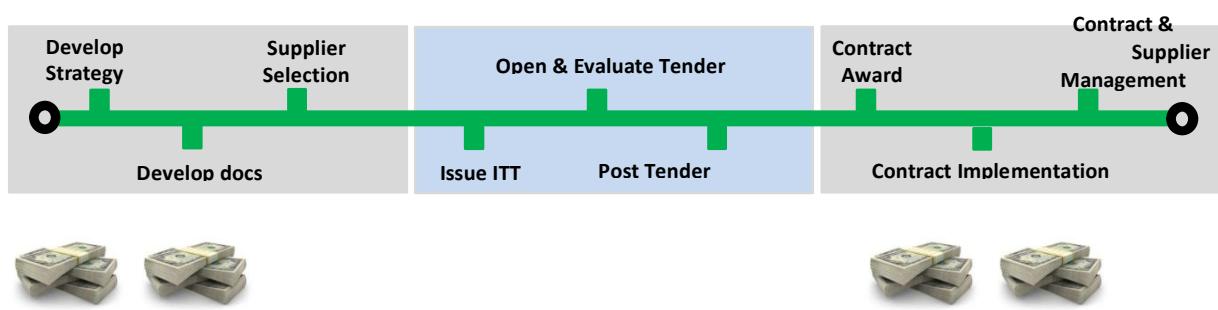
3.4 The National aspiration is that all 32 Local Authorities will be at Improved Performance Level (50-74) by the 2012 PCA assessment. This gives the Council approximately 18 months to improve its PCA score by a minimum of 20 points.

3.5 Scotland Excel has identified the two main challenges for Falkirk Council, if it is to accelerate improvements in procurement and achieve this aspiration. These are:

- the need to increase the resources of the Central Procurement Team and
- the need to enhance the reach and influence of the Central Purchasing Team across all Council Services.

3.6 A recent Internal Audit review of procurement also concluded that there was limited assurance in the Council's **capacity** to achieve Improved Procurement Performance.

- 3.7 The PCA outcomes are also now being used by Audit Scotland as evidence of a Council's procurement performance. Extra audit focus and scrutiny can be expected where a Council's PCA score is not improving sufficiently, or where there are delays in implementing improvement activity.
- 3.8 Whilst the PCA score is a measurement of progress, the main outcome will however be actual performance improvements based on changes to processes and the delivery of cash savings. Improvement cannot be achieved by simply adapting what is currently done. Significant change in organisational structures, systems and the further development of procurement skills across the Council is necessary to achieve Improved Procurement Performance levels.
- 3.9 The required changes would assist the Council to increase its capacity to develop sourcing strategies and strategically manage its supplier base, to deliver continuous improvement. It is the work before the tenders are issued and the innovations introduced through constructive supplier management during the contract period, which will maximise **savings**, support local **SMEs** and deliver **sustainable** procurement outcomes. (see diagram below)



- 3.10 Consequently for the Council to achieve an Improved Performance Level score by the 2012 PCA assessment, a revised Procurement Strategy and Procurement Improvement Programme, supported by a fully resourced and empowered procurement function will be necessary to deliver associated financial savings across all areas of Council spend.

4. 2011-2014 CORPORATE PROCUREMENT STRATEGY

- 4.1 An updated draft Procurement Strategy is attached in Appendix 1. The Strategy sets out the following vision over the next three years:

“To secure Best Value through professional, planned and sustainable procurement which best meets the needs of our communities and supports the delivery of the Council’s Corporate Plan goals”

- 4.2 To support the vision, three core themes have been identified:

PROCUREMENT THEME	STRATEGIC OUTCOMES
Maintaining the highest standards of corporate governance through developing and implementing best practice procurement Structures and Systems .	<p>Procurement activity conducted to the highest possible standard with no duplication.</p> <p>100% of procurable spend is covered by a professional procurement process.</p>
Embedding Sustainable procurement into all our activities and improving access to our contracts, particularly for local businesses and SMEs	<p>Council contracts are accessible and SME and third sector are increasingly doing business with the Council.</p> <p>Procurement contributes fully to the Council's sustainability and carbon reduction plans.</p>
Maximising procurement Skills to support the delivery of quality front line services and collaborating with others to deliver Savings .	<p>Collaborative opportunities will be maximised and deliver tangible and long lasting savings and benefits through procurement.</p> <p>There is Council wide awareness of how procurement contributes to efficiencies and improved services</p>

- 4.3 Across the three themes two key areas of improvement are highlighted, to ensure improvement activity covers the whole procurement process. A summary of outcome targets over the next 3 years is detailed within the draft Strategy which covers the 6 areas of improvement.
- 4.4 A detailed Procurement Improvement Plan will also support the Strategy and the Council's Procurement Board will monitor the delivery of these improvement actions and establish future annual Improvement Plans.

5. PROCUREMENT STRUCTURE

- 5.1 Those Councils currently delivering accelerated improvement in procurement have achieved this through increasing procurement resources and developing the scope and influence of their Central Purchasing teams.
- 5.2 The ten top Councils in the 2010 PCA have, on average, around 12 procurement professionals in their central teams. By contrast the 10 lowest scoring Councils have around 3 central procurement staff. The national benchmark is that there should be one procurement professional for every £15m of annual procurable spend. In line with this benchmark and with a spend of around £180m per annum, Falkirk Council procurement team should include at least 12 qualified procurement professionals rather than the current figure of 3 staff.

Benchmarks

- 5.3 Renfrewshire Council, with spending in the region of £200 million per annum, is comparable with Falkirk Council. Renfrewshire Council is promoted by Excel as a good practice example, as the Council moved from non-compliance (21 points) to improved performance (55 points) between 2009 and 2010.
- 5.4 This substantial improvement in procurement capability within Renfrewshire Council was achieved through increasing the central procurement team from 20 to 34 staff. Around 40% of the 34 staff are on temporary fixed term contracts and as improvements are bedded into the Council, the staffing number will gradually decrease and are projected to fall back to 20 by 2014.
- 5.5 Renfrewshire Council have reported that their cashable savings through procurement have increased by around 6% as a consequence of improved procurement capabilities.
- 5.6 In addition, Argyll and Bute Council improved its PCA score from 21 in 2009 to 36 in 2010. This was achieved through the recruitment of 4 graduates into their central purchasing team, to work specifically on improving structures and systems. They also brought all works contracts and social work commissioning under central control.
- 5.7 The above examples are highlighted as they focus on two of the fastest improving Councils. This pace of improvement reflects the degree of progress Falkirk Council needs to achieve over the next 18 months, if it is to deliver a PCA score of 50 plus by the end of 2012.
- 5.8 In comparison to the above, it can be seen that with a team of 4 staff (3 qualified and 1 non-qualified) the Councils current central procurement structure is substantially below equivalent best practice and national benchmark levels.
- 5.9 The draft Council management structure (K, L & M jobs) includes a new Purchasing Co-ordinator post. In addition, discussions are on-going with West Lothian Council in relation to the identification of opportunities to share procurement resources between the 2 Councils. Whilst this will help to enhance resources in the short term, it is also necessary that we examine capacity within our existing procurement structures if the Council is going to achieve Improved Performance status by the end of 2012.
- 5.10 It is therefore proposed that a review of existing procurement structures and resources be taken forward. This work will be in line with standing orders and will support the delivery of improvements in procurement performance and will maximise savings from contracts.

6. RECOMMENDATIONS

Members are invited to:

- 6.1 Note the outcomes from the 2008-2011 Procurement Strategy, the Procurement Capability Assessment results and the requirement to review existing procurement structures and resources; and**
- 6.2 Approve the 2011-2014 Corporate Procurement Strategy attached in Appendix 1.**

.....
DIRECTOR OF CORPORATE & NEIGHBOURHOOD SERVICES

Date: 5 May 2011

Ref: AAE0511

Contact Officer: David McGhee, Ext: 0788

LIST OF BACKGROUND PAPERS

- 1. 2008-2011 Corporate Procurement Strategy**