

WIRRAL COUNCIL

CABINET - 6 NOVEMBER 2008

REPORT OF THE DIRECTOR OF FINANCE

PROCUREMENT EFFICIENCIES

1. EXECUTIVE SUMMARY

- 1.1. Cabinet on 12 December 2007 approved a projected procurement savings target of £2.25 million for 2008/09. This report informs Members of progress towards achieving this savings target and outlines future plans and targets for efficiencies, within the Procure to Pay (P2P) activity in line with the Procurement Strategy approved by Cabinet on 4 September 2008.

2. BACKGROUND

- 2.1. The procurement culture and practices of the Council are subject to inspection and measured against the National Procurement Strategy Milestones in delivering value and efficiency.
- 2.2. Further challenges have been set for procurement within the Comprehensive Spending Review 2007 (CSR). Nationally the CSR expects savings of £4.9 billion by 2011 of which it is suggested that £2.8 billion will be delivered through smarter procurement.
- 2.3. Recently with the establishment of the North West Regional Improvement and Efficiency Partnership, the Government has set a regional savings target of £249 million for the region to be delivered through best practice procurement.
- 2.4. All of these challenges are set against a background of a global credit crisis, increasing energy costs and a prediction that the UK economy will be subject to a major recession.
- 2.5. The revised Corporate Procurement Strategy, approved by Cabinet on 4 September 2008, states that one of the key objectives of procurement is:

'Contributing to Council **savings targets** by continually challenging procurement arrangements and seeking opportunities to reduce prices, improve quality, **maximize efficiency** and achieve greater outcomes for the residents of Wirral.'

2.6. The Council spends annually in excess of £170 million on goods, works and services. This figure is subject to the above challenges, with procurement and commissioning teams across the Council being designed to ensure that this expenditure is subject to rigorous, competitive and compliant processes which will achieve maximum value for money in support of front line services.

3. EFFICIENCIES 2008/09

3.1. Appendix I details the current estimated savings in 2008/09 with a projected savings figure of £2.25m. It should be noted that in a number of areas although the contract has been let it has not been possible to make any savings. The schedule is analysed between contracts that are specific to individual departments and those that are of a corporate nature and is summarised below:

Department	Contract Value p.a.	Contract savings	
		2008/09	Additional in 2009/10
PROCUREMENT WORK COMPLETED	£	£	£
Adult Social Services	826,100	110,100	3,000
Law/HR/Asset Management	120,000	4,800	0
Children and Young People	998,600	33,900	0
Finance	2,031,400	956,500	44,300
Regeneration	85,100	26,300	0
Technical Services	1,975,900	206,700	23,000
Corporate contracts	8,575,200	1,067,600	0
TOTAL PROCUREMENT COMPLETED	14,612,300	2,405,900	70,300
PROCUREMENT WORK to be COMPLETED			
Adult Social Services	9,693,400	306,000	416,300
Children and Young People	1,000,000	72,900	52,000
Finance	3,250,000	101,900	203,200
Regeneration	4,297,000	45,100	337,900
Corporate contracts	9,360,000	310,700	1,229,300
TOTAL PROCUREMENT to be COMPLETED	27,600,400	836,600	2,238,700
TOTAL SAVING 2008 / 2009		3,242,500	
TOTAL SAVING 2009 / 2010			2,309,000

- 3.2. The efficiencies achieved to date for 2008-09 total £2.40m with a projection of an additional £0.84m to be deliverable during the remainder of 2008-09. Obviously, most of the contracts to be let during the remainder of the year will deliver the majority of any savings to be achieved in 2009-10.
- 3.3. In agreeing the budget for 2008-09 the Council agreed an apportionment of procurement efficiencies as follows:-

	£000
Adult Social Services	545
Children and Young People	583
Corporate Services	148
Finance	306
Regeneration	443
Technical Services	<u>225</u>
 Total	 2,250

- 3.4. The revised allocation for 2008-09 including specific contract savings and an apportionment of the corporate contract savings is:-

	Specific Contracts £000	Corporate Contracts £000	Total £000
Adult Social Services	416	334	750
Children and Young People	106	357	463
Corporate Services	-	26	26
Finance	1,059	187	1,246
Law/HR/Assets	5	65	70
Regeneration	72	271	343
Technical Services	<u>207</u>	<u>138</u>	<u>345</u>
 Total	 1,865	 1,378	 3,243

- 3.5. Of the Finance savings, only £472,000 relates to the General Fund with the remainder £774,000 accruing to the Pension Fund.

4. EFFICIENCIES 2009-10

- 4.1. Appendix II shows the contracts that will form the work plan for procurement activities in 2009/10, the values of which are summarised below:

WORKPLAN FOR 2009/ 2010	£
Adult Social Services	11,832,000
Corporate Services	91,800
Children and Young People	2,226,600
Finance	792,500
Regeneration	3,060,000
Technical Services	10,573,300
Corporate contracts	5,803,800
TOTAL VALUE OF PROCUREMENT WORK	34,380,000

- 4.2. Service departments will need to bring forward other specific areas of activity that will add to this plan and create efficiencies from a service perspective. The role of the Procurement Team will be to assist departments to ensure appropriate processes are followed and that best value is obtained when letting contracts.
- 4.3. To avoid duplication between procurement efficiencies and efficiency proposals submitted by Chief Officers, I am only recommending agreement to proposed efficiencies from corporate contracts in this report. It will be for each Chief Officer to propose any savings from their specific contracts.
- 4.4. **Corporate Contracts Projected Efficiencies**

	£000
Projected full year effect of 2008-09 contracts	1,229
Projected new contracts in 2009-10	<u>290</u>
	1,519

5. STRUCTURAL AND PROCESS EFFICIENCIES

- 5.1. Savings against future contract renewals will become increasingly difficult to achieve. Much emphasis is placed on savings that can be made through smarter and more tightly negotiated contracts. Managing the P2P process in an efficient and effective manner is essential if the Council is going to achieve best value from its non payroll spend.
- 5.2. The P2P section, through the introduction of the Oracle system has successfully introduced on-line 'e'procurement that yielded transaction savings of approximately £1.8million since implementation in 2006. This achievement was recognised nationally at the LGC Awards in 2007 when Wirral won the 'Procurement Initiative Award'.

- 5.3. The P2P section is building upon these achievements by moving the management and control of the 'Procure to Pay' process forward to achieve further efficiencies and therefore savings.
- 5.4. Appendix III highlights the areas within the Oracle P2P system that are to be addressed to deliver further efficiency savings. These include:
- (i) Centralisation of non-catalogue purchasing activity – this will reduce the number of purchasing co-ordinators in departments rationalising the function into the P2P section.
 - (ii) Transaction savings – reduction in transaction times will release resources, improve efficiency and reduce errors within the P2P process.
 - (iii) Address maverick spend – significant activity is with suppliers with whom there is no contract. This initiative will identify these areas and put contracts in place.
 - (iv) Electronic Payments – the use of procurement cards, electronic invoicing, intelligent scanning and self billing will all reduce the need for manual intervention.
 - (v) Collaborative procurement – good use has already been made of a pan Merseyside approach to purchasing such as items of stationary and office furniture, which will be developed further.
- 5.5 All of these initiatives form part of a project plan that is overseen by the Corporate Improvement Group. As each element develops it will be possible to estimate potential savings. These will be reported to Cabinet as they arise.

6. FINANCIAL IMPLICATIONS

- 6.1. The total projected procurement efficiencies of £2.25m which were agreed as part of the budget for 2008-09 should be achieved.
- 6.2. Efficiencies totalling £1.5m should be achievable from corporate contracts for 2009-10.

7. STAFFING IMPLICATIONS

- 7.1. There are none arising directly from this report.

8. EQUAL OPPORTUNITIES IMPLICATIONS

- 8.1. There are none arising directly from this report.

9. COMMUNITY SAFETY IMPLICATIONS

- 9.1. There are none arising directly from this report.

10. **LOCAL AGENDA 21 IMPLICATIONS**

10.1. There are none arising directly from this report.

11. **PLANNING IMPLICATIONS**

11.1. There are none arising directly from this report.

12. **ANTI-POVERTY IMPLICATIONS**

12.1. There are none arising directly from this report.

13. **HUMAN RIGHTS IMPLICATIONS**

13.1. There are none arising directly from this report.

14. **SOCIAL INCLUSION IMPLICATIONS**

14.1. There are none arising directly from this report.

15. **LOCAL MEMBER SUPPORT IMPLICATIONS**

15.1. This report affects the entire Borough.

16. **BACKGROUND PAPERS**

16.1. Procurement Strategy - September 2008.

17. **RECOMMENDATIONS**

That

(1) the procurement efficiencies delivered in 2008/09 be noted;

(2) the procurement efficiencies from corporate contracts estimated at £1.5m be agreed for 2009-10.

IAN COLEMAN
DIRECTOR OF FINANCE

EFFICIENCY SAVINGS FROM CONTRACTS 2008-09

Category	Contract Value p.a. £	Term Months	Contract savings	
			2008/09 £	Additional in 2009/10 £
PROCUREMENT WORK COMPLETED				
Adult Social Services				
Learning Central Services (becta)	152,100	36	21,300	-
LINKS	151,000	36	34,400	3,000
Provision of Community Meals on Wheels Service	523,000	60	54,400	-
Total Adult Social Services	826,100		110,100	3,000
Law/HR/Asset Management				
Provision of Executive Recruitment Services	120,000	24	4,800	-
Total Law/HR/Asset Management	120,000		4,800	-
Children and Young People				
Provision of Private Hire Taxis & Vehicles up to 8 seats to Wirral & Out of Borough Schools & Colleges	659,600	24	26,700	-
Maintenance & Breakdown of Intruder Alarm Systems for Schools, Youth Clubs & Children Centres	10,000	36	600	-
Transport Contracts (Sports Venues)	329,000	12	6,600	-
			-	-
Total Children and Young People	998,600		33,900	-

Category	Contract Value p.a. £	Term Months	Contract savings	
			2008/09 £	Additional in 2009/10 £
Finance				
Telecoms PSTN	595,000	24	70,900	-
Supply & Delivery of Pre Printed Envelopes	7,200	12	2,100	-
Provision of Support & Maintenance for Apple Macintosh Computers, Servers, Associated Peripherals and Software.	4,200	24	200	-
Passive Fund Management	720,000	18	672,100	-
Banking Services	96,200	36	30,600	-
Cash Collection	89,400	36	23,200	-
SAM & DTM Software	79,600	36	33,600	3,100
Property Insurance	439,800	60	123,800	41,200
Total Finance	2,031,400		956,500	44,300
Regeneration				
HMRI Cost Consultancy Support	20,000	48	1,600	-
Private Sector Housing Stock Condition & Home Energy Survey	40,100	12	23,700	-
Alleygating Repair Contract	25,000	24	1,000	-
			-	-
Total Regeneration	85,100		26,300	-
Technical Services				
LLPG	1,035,300	36	98,700	-
Pan Gov Framework for Tyres & Associated Services	30,000	24	1,200	-
Tree Maintenance	150,000	12	17,800	-
Arboriculture	157,500	24	13,500	-
Contract for Removal & Encapsulation of Asbestos	480,000	36	29,400	-
Planning Control Software	123,100	120	46,100	23,000
Total Technical Services	1,975,900		206,700	23,000

Category	Contract Value p.a. £	Term Months	Contract savings	
			2008/09 £	Additional in 2009/10 £
Corporate contracts				
Personal Computers	986,600	36	442,400	-
Furniture	126,700	36	57,200	-
Cleaning Materials	1,013,300	36	104,500	-
Supply & Maintenance of Fire Fighting Equipment	30,800	36	6,200	-
Supply of Gas (Heating Oil) & Vehicle Fuel Oils	3,000,000	36	192,300	-
Supply of Natural Gas	2,100,000	12	47,100	-
Supply of Fruit & Vegetables	100,000	36	14,400	-
Supply of Fresh & Frozen Meat	60,000	24	24,900	-
Provision of Milk, Bread & Morning Goods	526,700	36	60,600	-
Frozen Food - Distribution & Supply	112,000	24	12,800	-
Disposal of Clinical/Medical waste	28,100	36	1,800	-
Vending (Leisure)	159,200	60	37,800	-
Telecoms - Provision of Network Equipment & Services	308,100	24	64,500	-
Supply of Confectionery, Sweets and Soft Drinks	15,200	36	900	-
Provision of Eye Examination and Eye Care Equipment	8,500	12	200	-
Total Corporate contracts	8,575,200		1,067,600	-
TOTAL PROCUREMENT COMPLETED	14,612,300		2,405,900	70,300

**PROCUREMENT WORK TO BE
COMPLETED 2008-09**

Adult Social Services

Social Care Contracts - Care Homes	9,100,000	12	295,000	295,000
Medical Equipment	243,400	36	5,700	62,700
Social Care Equipment	350,000	36	5,300	58,600
Total Adult Social Services	9,693,400		306,000	416,300

Children and Young People

Education Supplies (Schools Budget)	1,000,000	36	72,900	52,000
Total Children and Young People	1,000,000		72,900	52,000

Finance

Pension Portfolio Investment European	750,000	36	33,100	65,900
Pension Portfolio Investment UK Equity	2,500,000	36	68,800	137,300
Total Finance	3,250,000		101,900	203,200

Regeneration

Open Spaces	4,000,000	36	29,100	321,900
Library Book Purchase	297,000	36	16,000	16,000
Total Regeneration	4,297,000		45,100	337,900

Category	Contract Value p.a. £	Term Months	Contract savings	
			2008/09 £	Additional in 2009/10 £
Corporate Contracts				
Contract Hire Services (cars)	720,000	36	37,800	49,800
Business Travel	1,400,000	36	37,400	112,100
Photocopiers and MFD's	500,000	24	58,900	113,200
Postal Services	800,000	36	46,400	89,600
Agency Staff	3,000,000	36	61,300	350,500
Consultancy Services	700,000	60	12,700	139,700
Security Services	40,000	12	4,400	47,900
Advertising	1,000,000	36	29,600	148,300
Professional Advisory Services	1,000,000	36	13,900	153,400
Sports & Playground Equipment	200,000		8,300	24,800
Total Corporate Contracts	9,360,000		310,700	1,229,300
TOTAL PROCUREMENT to be COMPLETED	27,600,400		836,600	2,238,700
TOTAL SAVING 2008/2009			3,242,500	
TOTAL SAVING 2009/2010				2,309,000

APPENDIX II

WORKPLAN FOR 2009/2010

Area of Activity	Contract Value £ p.a.	Term Months
Adult Social Services		
Domiciliary Care	9,996,000	
Voluntary Sector	1,836,000	
Total Adult Social Services	11,832,000	
Corporate Services		
Graphic Design	61,200	36
Photography	30,600	24
Total Corporate Services	91,800	
Children and Young People		
Minibus transport with escort to / from Wirral schools	918,000	
PTG vehicle to / from various schools	612,000	
Provision of Private Hire Taxis & Vehicles up to 8 seats to Wirral & Out of Borough Schools & Colleges	696,600	
Total Children and Young People	2,226,600	
Finance		
Sun server maintenance	27,500	36
Sun server maintenance (Oracle Systems)	765,000	36
Total Finance	792,500	
Regeneration		
Supported Living	3,060,000	60
Total Regeneration	3,060,000	

Area of Activity	Contract Value £ p.a.	Term Months
Technical Services		
Highways	8,670,000	96
Green Waste	816,000	60
Maintenance Painting of street furniture	397,800	60
Portable Appliance Testing	30,600	36
Safety equipment (& Clothing)	204,000	36
Supply Commissioning & support Pay and display parking equipment	448,800	36
Windscreen Repair & Replacement	6,100	36
Total Technical Services	10,573,300	
Active virus defence	30,600	36
Car Hire (Heavy Vehicles & Specialist Plant - Short term hire)	214,200	36
Commercial vehicles	765,000	84
Disposal of Redundant IT equipment	30,600	36
Email Gateway	15,300	36
Provision for the removal of office furniture	40,800	12
Supply and Delivery of Stationery, IT consumables, paper	510,000	48
Supply and Installation of Office Desking seating and storage	204,000	48
Supply & maintenance of electronic Document & workflow management system	66,300	36
Supply of IT hardware	1,326,000	36
Supply of Microsoft Select Software Licence Agreement	459,000	36
Supply of Natural Gas	2,142,000	36
Total Corporate Contracts	5,803,800	
TOTAL VALUE OF PROCUREMENT WORK	34,380,000	

PROCURE TO PAY EFFICIENCIES

1. CENTRALISE NON CATALOGUE PURCHASING ACTIVITY

At present the Council has 47 Purchasing Coordinators, whose role it is to raise non catalogue purchase orders. They do so after value for money has been established by following Council procedures. The intention is to reduce the number of Purchasing Coordinators to between six and eight and centralise within the Procure to Pay Section (P2P).

A central purchasing function will ensure compliance and optimise savings potential. By directing all non catalogue activity to the P2P, issues such as management of spend, realisation of benefits and aggregation opportunities can be identified. A phased approach to centralisation was proposed to the Corporate Improvement Group. It is important to note that this phased approach is based on an improved level of catalogue activity and a reduction on current levels of non catalogue purchasing.

During this stage, it is likely that the procurement officers and the centralised purchasing coordinators will identify further areas for contract and catalogue creation and the non catalogue activity will reduce further. This will result in additional capacity within P2P to fully explore the issue of 'off system' spend.

2. TRANSACTION SAVINGS

There now are over 1,000 users accessing the "Procure to Pay" system. There are 76 electronic catalogues for staff to access, ranging from: office equipment and food, through to minor repairs and fuel oils, the catalogues have over 6000 active item lines. In 2007/08 the total number of transactions was 39,669 valued at £41.8m. It is estimated that process savings costs are £1,031,000 (based on the ODPM National e-procurement project savings estimate of £26 per transaction). Robust reporting of management information is available providing transactional data at departmental and category level which indicates spend profiles and maverick purchasing. The P2P systems team are currently working with Oracle to develop the system further to accommodate a wider range of transactions for goods and services.

3. INVESTIGATE AND ADDRESS MAVERICK SPEND

Once we can ensure catalogue coverage and have defined approved processes for all transactions outside of the system, the P2P can be more actively involved in addressing the issue of maverick spend. At present, maverick spend is identified retrospectively during periodic reviews of non catalogue activity. Non contracted suppliers have, in the past, been removed from the system, but have had to be reinstated to fill gaps in corporate contract coverage (three quotes process). Only through centralisation of non catalogue activity can P2P manage the incidence of maverick spend successfully. However, areas will be prioritised to meet savings targets.

4. ELECTRONIC PAYMENTS

There are four areas that are currently being considered to reduce payment transaction times further, reduce invoice queries and improve the percentage of invoices paid within 30 days, currently a Council performance indicator. Successful implementation of these processes will therefore reduce the resources required to fulfil this function. The four areas under consideration are as follows:

- **Procurement cards** - Can deliver average savings of £33 per transaction. The work group has completed a number of the research tasks but is faced with reconciling a number of issues which reflect the position of the accounting processes beyond payment. There are a number of methods by which Procurement Cards (P cards) can be applied.
- **Electronic Invoicing** - Electronic invoicing is the title given to any processes whereby the supplier sends the Council its invoices in an electronic form rather than a paper one. The Council has recently, successfully, adopted one of these methods for the payment of telecoms invoices, through the BT 'One Bill' process. This involves the Council receiving a single electronic file containing all the invoices for a particular period. This process has resulted in £18,000 saving on BT transaction charges per year, plus a reduction in invoice processing from 3800 invoices to one electronic invoice and, has identified, so far, attempted charges for 30 land lines that are not part of the Council network. Further investigation is required to extend this methodology to other areas of payments and utilities where appropriate
- **Intelligent Scanning** - This process describes the process of scanning paper invoices as they are received from suppliers and managing them as if they had been received electronically in the first place. This is a well established process with the Oracle integrated system but may require additional software to manage the scanning and associated workflows.
- **Self Billing** - This is a feature of the Oracle Payments module. However, enquiries have failed to identify any model public sector sites which have deployed this feature. Financial Services are exploring this option as a solution to existing transaction issues relating to the internal trading facility. Further investigations are being made on self billing with reference to its functionality and application if this solution does not appear to offer a viable way forward.

5. COLLABORATIVE PROCUREMENT

The Council is an active partner within the **Merseyside Authorities Procurement Group (MAP)**. There have been significant savings achieved through the Group totalling £7.5m to date for the sub-region. Not only does collaboration save on contract costs but also saves on process costs, a minimum of £8,000 per tender process (Source Office of Government Commerce). P2P will continue to pursue collaborative procurement opportunities where efficiencies and savings can be realised for the Council.