

By: Director of Finance
To: Corporate Policy Overview Committee – 28 May 2008
Subject: **PROCUREMENT FRAMEWORK**
Classification: Unrestricted

Summary: To update members on progress on our procurement framework.

FOR INFORMATION

INTRODUCTION

1. The County Council spends £860m per annum on goods and services and procurement is a key process within the Council. This report summarizes progress which has been made and highlights key development issues for 2008-09.
2. Procurement is widely perceived as being a bureaucratic, heavily regulated area. The simple answer is, that it is, partly, and to a lesser degree, because of rules made by the County Council, but primarily because of European Union Directives which have been enacted in UK law. Additionally the Treaty of Rome requires that competition be part of the overall procurement approach to securing works, goods and services. So we need processes to demonstrate that procurement is “open” and with very large amounts of money being spent to prevent corruption.

PROGRESS TO DATE

3. Spending Limits

- (1) KCC increased its spending limits in July 2006 to:

£8,000 - £49,999 – at least 3 written quotations must be sought.

£50,000 and above – there must be a competitive process.

These limits are at KCC’s discretion.
- (2) EU procurement legislation applies for expenditure of £139,873 on goods and services and £3.5m for works. The ability to avoid competition is severely limited where EU Procurement Directives apply.

Sanctions for non-compliance include the procurement being deemed illegal and having to be re-tendered.

- (3) Case law is now putting more emphasis on the broader Treaty of Rome obligations to compete. So, for example, we are working with directorates on areas such as Grants to Voluntary Organisations where the legal and procurement view is that these are services being provided to a specification and therefore they should be tendered.

4. **Governance**

- (1) After a detailed process involving Governance & Audit Committee which is responsible for the governance arrangements for procurement, the County Council agreed the Spending the Council's Money document in September 2007. This web based document is a comprehensive regulatory guidance to procurement within KCC for use by all KCC managers and it has been very well received.
- (2) So far the training on the document has focussed on management teams and procurement staff. A secondee from KASS will be running a more widespread programme commencing shortly to get the message over more widely to service managers involved in procurement.
- (3) To support the procurement framework the Chief Executive chairs the Procurement Board with the Leader, the Lead Member for Corporate Support and senior officers from the directorates. The Head of Financial Services chairs the Procurement Forum consisting of senior procurement practitioners.
- (4) In March 2007 we issued a Spend Mandate, with the agreement of Cabinet and COG, for 12 categories of goods and services requiring the use of county wide framework contracts primarily put in place by Commercial Services.

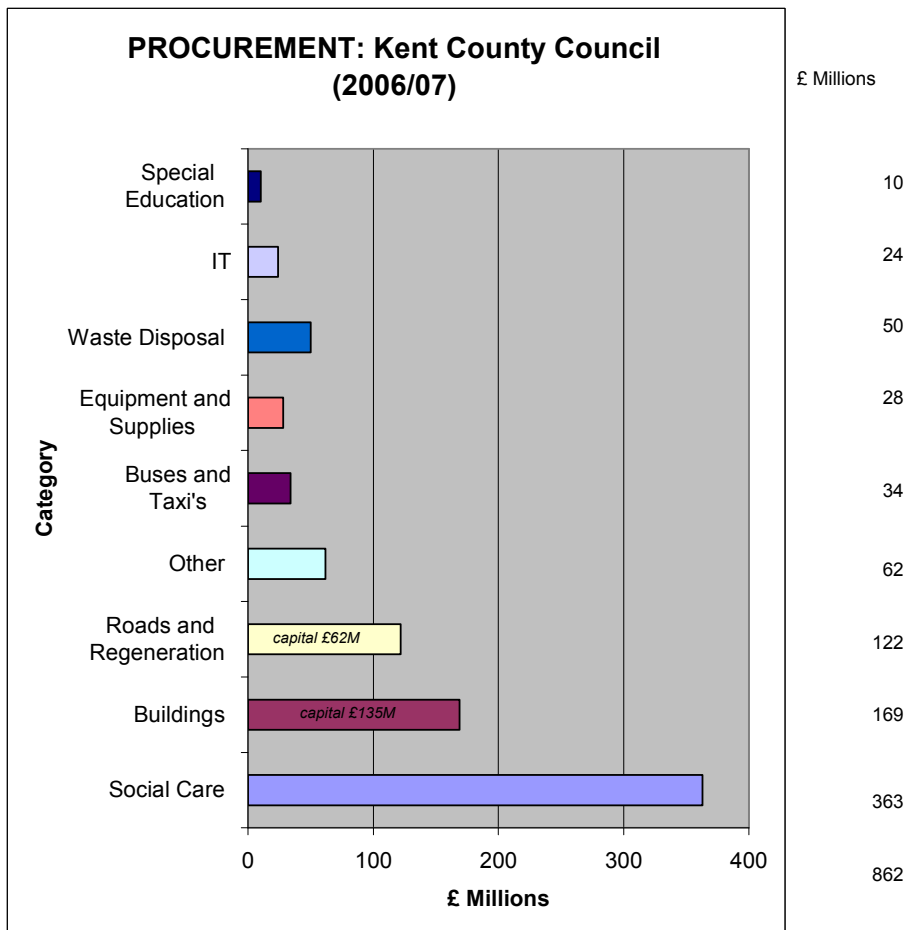
5. **Strategic Procurement Unit**

- (1) SPU was established in July 2007 bringing together 2 FTE from the Procurement Office (transferred to Corporate Finance in April 2006) and 2 FTE from the Commercial Services Purchasing Group.
- (2) A major reason for establishing the unit was to address the issue of Commercial Services letting contracts to themselves as the provider – although in these situations “Chinese walls” were scrupulously maintained.
- (3) The main roles of the unit are:
 - Ownership of KCC's high level procurement strategy.

- Maintenance, monitoring and enforcement of the rules and regulations around procurement. Related to this there is now more emphasis in the Internal Audit Annual Plan on contracts audit.
- Advice to KCC managers on procurement, generally where the directorates do not have their own specialist procurement staff.
- Leadership on cross-cutting issues such as equality and diversity.

6. **Analysis of Spend**

(1) The chart below shows the main spend categories within the Council. Each spend category has a senior high level owner.



(2) The importance of a good understanding of our spend is critical in determining how we manage that spend.

7. **Efficiencies**

- (1) As part of the 2008 -09 budget and MTP savings totalling £x.xm were identified from improved procurement. The areas were:
 - Agency staff – use of Kent Top Temps as a master vendor.
 - Hotels and Conferences spend – venues.
 - Mobile phones and blackberries – improved Commercial Services framework contracts.
 - Office equipment – mandating of spend via primary Commercial Services framework contracts.
- (2) We have since undertaken a review to ensure that the necessary action is in place to deliver the savings.

8. **Equality and Diversity**

- (1) Some areas within KCC are very well advanced in how they take equality and diversity issues into account in their procurements eg. KASS social care, Supporting People.
- (2) As part of the Council's improved response to equality and diversity issues we have developed:
 - A guidance note for KCC Managers on equality and diversity in procurement.
 - A guidance note for providers of services to KCC.
 - A pre-tender questionnaire.
 - A monitoring process for supplier compliance.

DEVELOPMENT ISSUES

9. **2008 – 09 Priorities**

At its meeting on 2 April the Procurement Board agreed the following priorities for 2008-09:

- (1) Identification of procurement efficiencies in the main spend categories (see 10 below).
- (2) Monitoring and enforcement of the spend mandate.
- (3) Training and awareness of procurement best practice based on Spending the Council's Money.
- (4) Use of Equality and Diversity documentation in procurement.
- (5) Development and implementation of a realistic action plan on sustainable procurement.

- (6) Review and update of the Corporate Procurement Strategy.
- (7) Implementation of a eTendering solution useable across KCC.

10. **Procurement Reviews**

We have been using PwC to develop Procurement Reviews for the main spend categories. These were reported in outline to the Procurement Board. We are now working with the spend category owners to finalise the documents and the high level outcomes will be reported to COG in June. In particular we are looking for efficiency saving opportunities which can be included in the 2009-10 budget and MTP.

11. **Towards 2010 Target**

- (1) Within the Towards 2010 there is a specific procurement target:

“Ensure KCC uses its significant purchasing power to allow fair and open competition”.
- (2) Examples of actions taken to achieve this include:
 - 20% of the total spend Highways spend is put out to competition outside of the main contracts.
 - Implementation of a supplier portal with electronic notification of tender opportunities which suppliers can access.
 - Signing the DTI Concordat on small businesses.
- (3) Moving forward there is a tension to be addressed between the approach of focussing spend with a small number of major suppliers, such as the Highways Alliance contracts, and the Property approach of having hundreds of suppliers on their framework contracts.
- (4) The Improvement and Efficiency Partnership South East (formally SECE) are developing approaches which balance the need to simplify procurement without adversely affecting competition or small business. This approach has three strands.
 - A regional framework for large buildings construction. There are fewer contractors in this market and managing them all as a group in the framework removes the majority of the procurement costs. It also allows reduction in the price of procurement and the development of the use of smaller local businesses in the supply chain.

- Sub regional frameworks at a county level that allow smaller for smaller construction projects allowing more local construction firms to complete.
- Procurement of construction commodities in bulk to allow local small businesses who do planned and reactive maintenance to supply their services more cost effectively.

RECOMMENDATION

12. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Ext: 4603