



General Purposes Committee

On 22nd March 2011

Report title: Procurement - Support Functions Review (SFR)

Report of: Director of Corporate Resources

Ward(s) affected: All

Report for: Key Decision

1. Purpose

1.1 As part of the Haringey Efficiency and Savings Programme (HESP) a review of the Procurement function (including transaction processing) across the Council has been undertaken in order to arrive at a revised Procurement structure and new model of delivery of the Procurement function.

1.2 Members are asked to agree the proposed centralised Procurement structure as shown in Appendix 1 and delivery model, to come in effect from 1 June 2011.

2. Recommendations

2.1 That the Committee approve the proposed new centralised procurement structure.

2.2 That, in coming to the decision in Recommendation 1 above, the Committee take into account that the consultation process is not yet complete and delegates any subsequent proposed changes to the structure to be agreed by the Chair of General Purposes Committee and the Director of Corporate Resources.

2.3 That the committee notes the timetable for implementation.

Report authorised by: Julie Parker – Director of Corporate Resources

Kevin Batte for the Director of Corporate Resources

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3. Executive Summary

3.1 As part of the Haringey Efficiency & Savings Programme (HESP) a review of the Procurement function (including Transactional Processing) of the Council has been carried out in order to provide a new delivery model that is more efficient than the current model.

3.2 It is proposed that the new Procurement service will be a centralised procurement division of the Corporate Resources directorate. It will include the functions below:

- **Procurement** – including Category Management, Contract Management and competitive tendering.
- **Transactional Processing** – Centralised Accounts Payable.

3.3 Appendix 1 contains the proposed procurement structure which if implemented would see all staff located together in Alexandra House.

3.4 A full consultation process with all effected staff and the trade unions is in the process of being carried out and is due to finish on the 8th April.

3.5 Savings of £336k (15%) will be achieved on the basis of this proposal. It was originally intended that a higher saving would have been achieved, however, a number of posts identified at the start of the process as being within scope of the SFR review have subsequently been removed. 62 staff remain in scope of this review.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 Proposed changes to Contract Standing Orders are being recommended to Council to enable the centralised procurement function to operate with maximum efficiency while ensuring that Value for Money outcomes are achieved for the Council

5. Local Government (Access to Information) Act 1985

Not Applicable

6. Background

In 2007, there were 54 staff in CPU and by 2010 this number has been reduced to 37 (a reduction of 25%), through process and systems efficiencies.

The current procurement structure across the Council includes 67 officers who undertake Procurement and Transactional processing for more than 20% (1 day per week) of their time.

The proposed new structure will centralise and reduce the number of officers undertaking the procurement and transactional processing for the Council to 48.5 in 2011/12.

The Council has identified the need to make significant efficiency savings in the period 2011/12 – 2013/14 to meet an identified funding gap as set out in its Financial Strategy for 2011-2014 reported to Cabinet in July and December 2010 and February 2011. The cross cutting HESP efficiency saving for the Procurement SFR has been approved at £416k across 2011/12 & 2012/13.

The proposed model also meets the vision set out in the Haringey procurement strategy 2010-13

Towards the vision

Achieving the vision of procurement excellence involves a medium to long term strategy to create a more corporate and integrated approach to commissioning and procurement and to develop greater procurement capability within the organisation. It is a Council wide strategy that results in more effective strategic management of Haringey's procurement by:

- Further centralisation of procurement and category management
- Increased control over purchasing decisions and approvals
- More centralised commercial management of contracts but with relationship management remaining within service departments
- Business process improvements through technology
- Improved efficiency and lower costs of the procurement process
- Minimising and managing risks inherent in our supply chains
- Providing greater transparency and compliance
- Being innovative and responsive to changing priorities, business needs and market conditions.

This report sets out a proposed model for streamlining the function

6.1 The proposed model for the Procurement function

It is proposed that the new Procurement service will be a centralised division of the Corporate Resources directorate. It will include the functions below:

- **Transactional Processing** – manage the flow of payment transactions and invoice payments to ensure prompt and accurate processing for the Council, prompt payments (e.g. grants) to payees and assuring cash flow for suppliers.

- **Procurement:**
 - Supplies and Services - to undertake the tendering process from placing of advert to authorisation to award of contracts for all Supplies and Services Procurement projects over £100k.
 - Supplies and Services to undertake all quotations for expenditure between £50k - £100k through the 'CompeteFor' portal
 - Construction, Property & Civil Engineering – to manage all commissioning and competitive tendering processes across the Council.
- **Commercial Contract Management** – undertake commercial contract management of contracts for the Council, to continuously evaluate VfM, market conditions, service re-design and innovation. This function will utilise category management tools and techniques to optimise return from both existing and new procurements.
- **Category Management** – undertaking the category management responsibilities for all market segments.
- **Energy Management** – bill validation and query management, energy efficiency projects within the Councils' Corporate Property Portfolio including schools, hostels and compliance with energy and carbon reduction regulations.

All of the above will support the "One Council" approach in achieving VfM outcomes from procurement projects and will mitigate risk of legal challenge to the Council.

6.2 Criteria for functions to be included in the new unit

This review has been looking at the arrangements for procurement and transactional processing and this includes, but is not restricted to contract management (including category management), competitive tendering, payment of invoices to suppliers and non-commercial payments e.g. grants, foster carers.

The review is not picking up within its scope Commissioning (other than for Construction commissioning which is already centralised), Bill Validation (other than energy which is part of the energy management function), Shopping (raising of Purchase Orders), or day to day supplier relationship management, all of which will remain within the business units

The review put into scope any officers who spent 20% of more of their time undertaking any of the procurement functions identified.

6.3 The ways of working and accommodation

To deliver the above functions and ensure that there is a consistent approach across the Council, a different way of working is needed to be undertaken by business units. The key determinants to ensure the success of this approach are based on some key principles:

- Changes to contract procedure rules that increases the level at which a competitive tender needs to take place from £25k to £100k and such tenders all being managed centrally by the new procurement function.

- Increased efficiency from the mandatory use by Central Procurement of the CompeteFor portal to request competitive quotations for values between £50k - £100k.
- Increased efficiency from the mandatory use by business units of the CompeteFor portal to request competitive quotations value under £50k.
- The implementation of an electronic invoicing system for the receiving and processing of invoices (yet to be sourced and approved).
- The central Procurement teams service offering is outlined in appendices 1 and 2
- It is proposed that the new procurement team will be centrally located within Alexandra House to ensure that the new service has maximum flexibility and that service specific knowledge can be shared amongst all procurement staff. The smart working principles will be employed (including hot desking) to ensure procurement staff operate alongside service staff when necessary.

6.4 The proposal in detail

It should be noted that certain staff that currently carry out procurement roles have been removed from the scope of this review by their directorates in favour of services based reviews / reshaping.

The table below shows the current number of posts and costs. These figures are still being finalised and may change slightly during consultation, but we need to move forward to ensure we are able to meet the Council timeframe.

It is worth noting that a significant amount of short term procurement and contract management activity takes place when setting up a contract and involving staff and managers that fall outside of this review because the average time involved when calculated over a financial year is below the de-minimus (and thus savings cannot easily be realised), but nevertheless, all this averaged low level activity will still be absorbed within the new centralised unit:

The table below shows both the current and proposed number of posts and the associated costs:-

	Posts	Value (£'000)	%
In Scope	62	2,292	
Proposed New Centralised Structure	48.5	1,956	
Reduction/Saving	13.5	336	15%

The Procurement HESP saving target is £312k in 2011/12 and £104k in 2012/13. The table above shows that £336k will be achieved in 2011/12 with further potential savings from transaction processing activity **council-wide** as outlined in the paragraph above; but dependent upon the implementation of an e-invoicing solution

These reductions will introduce a risk to service delivery that will need to be managed including a risk to meeting Invoice Payment deadlines. Further reductions would compromise our ability to work within UK procurement legislation and EU Procurement directives, thus increasing the risk of legal challenge to the Council (with likely consequences of fines and claims for

damages) and compromising the ability of the service to procure Value for Money services for the Council.

A further reduction in staffing levels for Transactional processing should take place in 2012-13, once an e-invoicing solution has been approved and implemented and a review of CYPS Transactional processing has taken place. The efficiency is likely to be 3 posts with a financial value of £100k

7. Consultation Results

- 7.1 A full 30 day consultation is in the process of taking place with all affected staff and the trade unions. This is due to finish on the 8th April 2011.
- 7.2 During the consultation process, the following activities will be carried out in order to provide all staff with the opportunities to comment on the proposals:
- Two general consultation events have been arranged to which all staff and the trade unions are invited.
 - Individual 1-2-1 meetings have been made available for staff to either meet the Head of Procurement or HR.

8. Risks

- 8.1 The reduction in Procurement staff of the level set out in the above table will mean that the level of service provided by Procurement will reduce from the current position.

This risk however can be mitigated to a large degree by removing the current system of procurement being based on directorate structures and adopting a centralised flexible pool of suitably trained and qualified procurement officers that will enable resources to be better managed to meet changing demands and workloads.

Inevitably, the capacity of the Council to retain specialist knowledge and respond to new national and local agendas as well as ad hoc requests will be diminished. It is therefore proposed that the arrangements are reviewed within a year of implementation.

9. Next steps

An indicative timescale for the implementation of the proposed model is shown below.

Activity	Timescale
Proposals paper to CEMB	8th March 2011
Formal consultation (30 days)	10th March – 8th April 2011
Communication meetings with stakeholders on the new service offer and implications	March 2011
General Purposes Committee	22 March 2011

Interviews and appointments	April 2011
Implementation date	1 June 2011
Review of Transactional processing to include CYPS once e-invoicing system is installed	Jan - March 2012 <i>(subject to the implementation of an e-invoicing solution)</i>
Review of new function	2012

10. Financial Implications

- 10.1 The proposed changes to the procurement activity outlined in this report will enable £336k on-going savings against staffing budgets to be achieved in a full year with a further £100k assuming that the e invoicing proposals are implemented as planned.
- 10.2 Given the implementation date of 1 June, there may be some shortfall in 2011/12 although compensatory savings will be sought. The consultation process may necessitate further changes to structure, costs and savings but these cannot be quantified at this stage and should not be significant.

11. Recommendations

- 11.1 That the Committee approve the proposed new centralised procurement structure.
- 11.2 That, in coming to the decision in Recommendation 1 above, the Committee takes into account that the consultation process is not yet complete and therefore agrees to delegate any final changes to the structure to be agreed by the Chair of General Purposes Committee and the Director of Corporate Resources.
- 11.3 That the committee notes the timetable for implementation.

12. Comments of the Head of Legal Services

- 12.1 It is proposed to raise the level at which a competitive tender needs to take place from £25k to £100k. It will be necessary to ensure that this complies with the obligation for transparency under EU law. The Head of Procurement has confirmed that there will be a sufficient degree of advertising based on the circumstances of each case to allow the procurement to be opened up to competition and the impartiality of procedures to be reviewed.
- 12.2 The Committee is recommended to make a decision in principle subject to the consideration of the outcome of consultation and having due regard to the authority's public sector equality duties. The final decision can be taken by the Director of Corporate Resources, in consultation with the Chair of General Purposes Committee, under delegated authority. The final decision must take into account the outcome of the consultation and the completed equalities impact assessment.

13. Appendices:

- Appendix 1: Proposed Business Offering – Procurement
- Appendix 2: Proposed Business Offering – Central Accounts Payable
- Appendix 3: Proposed Organisational Chart

- Appendix 4: Equalities Impact Analysis