

# London Borough of Haringey

## Procurement Value for Money Review

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December 2012



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# 1. Introduction

The way procurement is organised and managed varies significantly across the public sector, largely influenced by how organisations view the function's contribution to service delivery and Value for Money (VfM) objectives.

What has been recognised across the public sector is that failure to manage procurement effectively can be very costly, lead to reputational damage, and put the achievement of strategic objectives at risk.

A core principle of public sector procurement is that it must be based upon Value for Money, something widely promoted by the Office of Government Commerce (OGC) and more recently the Efficiency and Reform Group (ERG). In scrutinising organisations' delivery of VfM, the National Audit Office (NAO) has highlighted this is not about achieving the lowest initial price for goods or services, it is defined as:

"the optimum combination of whole life costs and quality" <sup>(1)</sup>

The purpose of our review is to assess the overall adequacy of the Council's procurement organisation and its capabilities to support the achievement of Value for Money from procurement. In doing so we have considered not just procurement as carried out by the Council's Central Procurement Unit, but also the efficiency and effectiveness of the processes and tools the department has established to enable users to manage their local buying needs.

## This Review

Our work is intended as a high level review of the overall adequacy of Haringey Borough Council's (the Council's) procurement organisation and its capabilities to support the Council in achievement of value for money from procurement activity.

## Scope

In carrying out this review the scope of our work has been to:

- Evaluate the effectiveness of the current procurement functions in terms of:
  - Its objectives within the organisation
  - Ensuring compliance with internal and external procurement guidelines
  - Management of influencable spend
  - Performance against recognised indicators of good practice
  - The level of procurement and buying activity managed outside the procurement function
- Consider the existing IT infrastructure and its readiness to support effective purchase to pay processes
- Review of the effectiveness of the Council's engagement with shared procurement arrangements and other procurement initiatives including joint energy management with the London Borough of Hackney

(1) NAO OGC: getting value for money from procurement

# 1. Introduction

## Scope (Cont.)

- Specific review of shared procurement arrangements where the Council is taking the lead, for example the London Energy Project (LEP) and the London Construction Programme (LCP) on behalf of a pan-London group of local authorities. To include consideration of the risks involved in acting on behalf of others, for example the identification of fraud and the assessment of contractor viability.
- Review of the Council's arrangements to prevent anti-competitive practices by suppliers.
- Strategic review of the arrangements for the North London Strategic Alliance's aggregation of contracts, and the process for going out to market on those contracts.

### Link to our Value for Money conclusion

We are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

The Audit Commission Code of Audit Practice 2010 describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

For the year ended 31 March 2012 we are required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We agreed with the Council that we would review its procurement and contract management arrangements and identify areas for improvement as appropriate.

This work supports the second of the two VfM criteria.

### Next steps

Matters arising from this review have been reviewed with the Head of Procurement. We have made a number of recommendations, which are set out in the action plan at Appendix A. This has been reviewed and agreed with the Head of Procurement.

### Use of this report

This report has been prepared solely for use by the Council and should not be used for any other purpose. No responsibility is assumed by us to any other person. This report includes only those matters that have come to our attention as a result of performance of the review.

### Acknowledgements

We would like to record our appreciation for the co-operation and assistance provided to us by the Council's staff during the course of our review, in particular for the help and support provided by the Head of Procurement and his team

**Grant Thornton UK LLP**  
**December 2012**

## 2. Approach

In considering the adequacy of the Council's procurement organisation and its capability to support the Council in achieving its Value for Money objectives, we have looked at the organisation and cost effectiveness of the department and the quality and efficiency of the procurement service.

During 2012 the Council has participated in the Public Sector Corporate Services benchmarking process run by the Chartered Institute of Public Finance Accountants (CIPFA). CIPFA's database was originally developed in conjunction with the UK Audit Agencies and is recognised as a leading source of peer group benchmarking for public sector value for money indicators. We have considered the results of this exercise and used it to inform our overall assessment.

A series of structured interviews were carried out with procurement staff and stakeholders in the procurement process from various directorates across the Council. A list of those interviewed is included in Appendix A.

Interviews with procurement staff are used to:

- Evaluate the clarity of understanding of the departments objectives and their roles and responsibilities in delivering those objectives
- Gain insight into the complexity of current processes and working practices
- Understand how effectively technology is used to support the effective delivery of procurement processes

Interviews with other stakeholders are used to understand:

- How effectively the procurement department engages with other directorates within the Council to provide services and support achievement of objectives.
- To what extent procurement strategy, policy and procedure are embedded throughout the Council.

A desktop review of various documents provided by the Council including policies, procedures and savings initiatives reports, was also carried out.

## 3. Executive Summary

Haringey is a densely populated borough in north London with a population of over 227,000. It faces a range of challenges in the delivery of procurement.

To complete our review we have made use of all available sources of information from the Council. As the Procurement Department had recently completed benchmarking with CIPFA's nationally recognised data set we have used the results of that work, rather than performing additional quantitative analysis. We then carried out a review of documented policies and conducted a number of structured interviews with stakeholders in the procurement process.

Where we have used the CIPFA benchmarking results, it has been considered against our assessment of procurement good practice and in context with the stakeholder interviews in order to develop a view of both cost efficiency and capability.

The key findings from our work are summarised as follows:

- The procurement function was restructured approximately twelve months ago moving from a devolved procurement organisation to a largely centralised model. This reorganisation included bringing Accounts Payable into the Central Procurement Unit.
- While still a work in progress, the aim of the reorganisation to release efficiency savings through a leaner, centrally managed, procurement function is being realised. The Council performs well in terms of cost efficiency when benchmarked against peers.
- Establishment of the CPU contributes to a strong sense of corporate identity for the function, which is recognised across the Council. This is strengthened by the Service Offer produced by Procurement as part of the Support Functions Review (SFR).
- The stakeholders interviewed as part of this review were generally satisfied with the service that they receive from the procurement function and identified increasing levels of support from the department.

- There is a written strategy for Procurement and for achievement of Value for Money (VfM) through procurement which articulates VfM objectives, savings targets and action plans to achieve its goals. The relevant parts of the strategy are generally well recognised by staff and customers of the department.
- The department achieves a high level of influence over third party spend, at the upper end of performance against peers.
- The Council leads on a number of pan-London initiatives, including the London Energy Project, and provides resources into the shared service organisation established to deliver some of these initiatives. While this requires a great deal of commitment from the department's senior staff, it does place the Council at the heart of a number of initiatives generating significant savings and establishing good practice procurement.
- Reorganisation has led to both a reduction in staff numbers and increased recognition of Procurement's roles as a service function to the Council. Success in increasing engagement with spending departments is leading to resource constraints which threaten future effectiveness.
- The department recognises further progress is required to ensure it has appropriate influence over expenditure and can provide assurance over compliance with internal and external purchasing guidelines. This issue was also raised as part of Internal Audit's Q1 review, and in line with Internal Audit's recommendations the department is working with Directorates to improve understanding and compliance.
- There is scope to better document the value for money considerations related to major ICT procurements.

## 4. Current Position

### Overview

Procurement and related functions are delivered through the Central Procurement Unit, managed by a Head of Procurement.

The role of the Central Procurement Unit is to set up and manage contracts and frameworks, and also to provide guidance and support to departments depending on the risk and value of contracts. General guidance and support are also provided where required to assist departments in their own procurement related activity.

At the time of our review this department had 43 WTE staff, comprising 12 in Accounts Payable (plus 2 vacancies used for temps during seasonal peak times), 6 shared services staff that are fully funded externally and 23 procurement, business and energy management staff.

In the last twelve months the Council has seen procurement become centralised as part of the measures to manage the reduction in grant funding faced by the Council as part of the Coalition Government's Comprehensive Spending Review, which places local government in austerity measures up to 2015/16.

The latest restructure in 2011 resulted in Adults and Children's Services procurement joining other functions (e.g. construction, energy and accounts payable) that had already been centralised in previous years. These changes completed the integration of purchase to pay processes in order to drive out further efficiencies. The Council has estimated that to date this, plus better use of framework agreements, has resulted in a 70% improvement in the speed of awarding major construction projects.

The Council has also embarked on a number of initiatives to further its efficiency objectives with external partners. These include:

- Leading the London Energy Project (LEP) since 2006
- Leading the London Construction Programme (LCP) since 2011
- Formed an energy management shared service with Hackney Borough Council in 2012, having identified the opportunity for synergy and efficiency savings.
- Membership of the North London Strategic Alliance (NLSA) for purchasing efficiencies.

Based upon data for the financial year 2011/12, the Council incurred non-pay expenditure of approximately £490m.

The Council has a £1.5m procurement savings target over two years to 2013/14. This currently stands at £713k of cashable savings, with a further £210k planned to be achieved in 2013/14 as a result of the computer network re-tender exercise.



## 4. Current Position

In benchmarking the CPU's performance, we have made use of the CIPFA benchmarking analysis that was available and supplemented it with a selection of indicators which have been compared against a combination of our own benchmark data and other publicly available sources.

Against two high level measures of cost efficiency:

- Cost of Procurement as a % of organisational running cost, and
- Cost of Procurement as a % of third party spend

The Council's procurement function appears to be of relatively low cost, falling between the upper quartile and median performance for both measures.

It is important to recognise that procurement models in Local Government vary significantly, from centralised to highly devolved, and these benchmarks represent an average across those models. Notwithstanding, the Council's procurement function appears to be of relatively low cost for the size of organisation it serves.

Measures which consider the level of spend managed:

- Pre-established contracts
- Through buying groups, or
- Directly by procurement

are used to assess the level of influence the department has over the Council's third party expenditure.

One of the on-going initiatives within the CPU is to improve the visibility of and the CPU's ownership of contracts for goods and services that have been put in place around the Council. Moving from a highly devolved procurement model is a common challenge, but is essential in order to manage spending, apply consistent processes and reduce risks to the Council of non-compliant procurement or service failure.

### Summarised Benchmark Analysis

Measure	Haringey	Upper Quartile	Median	Lower Quartile
Cost as % of Organisation costs	0.16	0.12 ●	0.22	0.26
Cost as % of 3rd party spend	0.4	0.25 ●	0.47	0.56
Spend through pre established contracts	79%	88.7% ●	65.6%	48.8%
Spend actively managed by procurement	77%	87% ●	61.5%	40%
Spend through buying organisations	£106m - 22%	16% ●	12.5%	8.5%
3rd party spend managed electronically	62%	58% ●	32.5%	6%
% of qualified procurement professionals	<25%	76%	68%	64% ●

● Council performance against benchmarks

## 4. Current Position

While it is not common for the Accounts Payable (AP) function to sit within Procurement, it does allow clarity of ownership in the end to end Procure to Pay process. The Council brought AP into the CPU to increase process ownership and drive greater efficiency.

Some aspects of AP's role, with regard to payment of Housing Benefit and Grants, are outside the remit of the CPU. The whole function was transferred because of the potential efficiencies to be gained in the third party payment process.

To evidence progress in this areas Council has benchmarked it's performance, over the last six years, against CIPFA's data, as shown in the table opposite.

- From 2007-2012, the cost and number of invoices has reduced
- The average cost per invoice has reduced over the period to £2.70 which is on a par with the benchmark average
- Staff costs have reduced over the period and are now significantly lower
- The percentage of normal invoices has reduced over the period, broadly in line with the average

Efficiencies have been driven through improved compliance with procedures, enabling more effective three way matching (Purchase Order, Goods Receipt and Invoice) and through efforts with suppliers to redesign how invoices are received. For example, review of the purchase to pay process for agency staff has enabled the Council to substantially reduce the volume of invoices processes from in excess of 40,000 per annum to around 24. These are also now loaded into SAP electronically.

### Summarised Benchmark Analysis (source: CIPFA Benchmarking)

Measure	2007	2008	2009	2010	2011	2012
Cost £000	864	818	768	720	572	509
Invoices	231,987	231,373	234,638	238,419	204,755	188,224
Cost/invoice	£3.72	3.54	3.27	3.02	2.79	2.70
Average	£2.43	2.55	2.58	2.67	2.67	2.70
Staff	2.50	2.47	2.37	2.25	-	2.15
Average	£1.50	1.59	1.57	1.67	1.64	1.64
IT	£0.29	0.35	0.32	0.22	-	0.18
Average	£0.28	0.31	0.32	0.33	0.34	0.34
Other costs	0.94	0.71	0.58	0.55	-	0.38
Average	0.58	0.59	0.62	0.63	0.64	0.67
% Normal Invoices	91%	91%	69%	65%	-	66%
Average	73%	70%	70%	68%	65%	63%

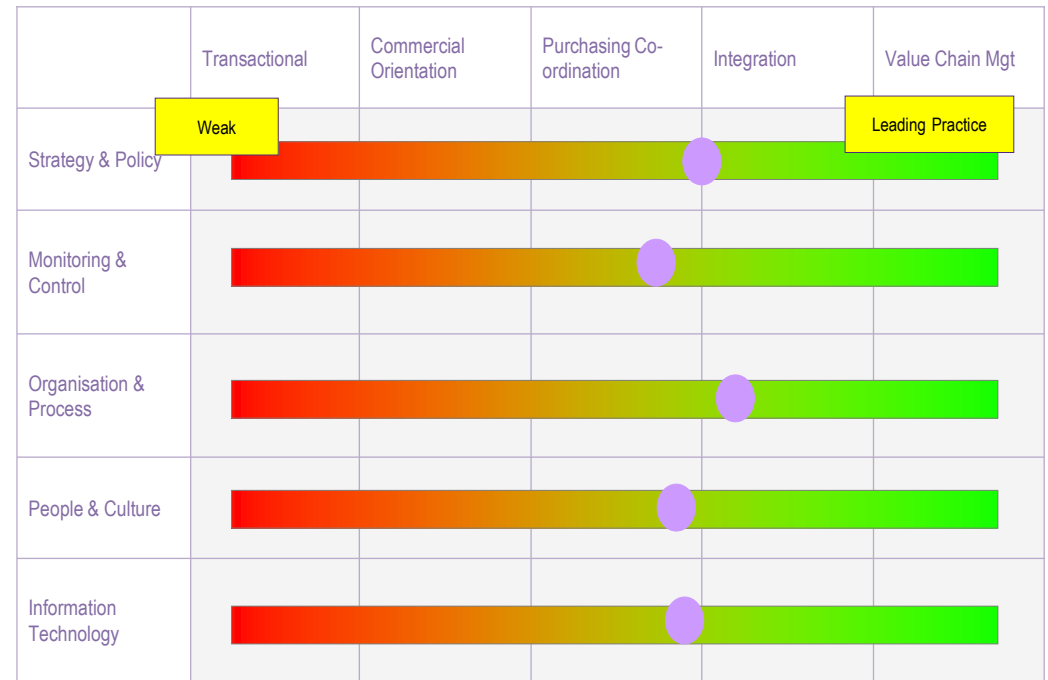
# 4. Current Position

## Qualitative Assessment

To assess the relative maturity of the procurement function against leading practice, a series of interviews were carried out with stakeholders across the Council. Responses from these interviews, plus opinions formed from our observations were considered against a recognised set of criteria to assess the overall maturity of the function. This assessment has been plotted against a maturity profile to represent our assessment of current procurement activity. The fundamental elements of the maturity profile are:

- Strategy and Policy - defining how procurement operates to support delivery of the Council's strategic aims, with clear executive sponsorship
- Monitoring and Control - core Management Information which provides sufficient visibility of both internal and supplier performance to support management and decision making
- Organisation and Process - standardised processes, supported by the right tools which provides stakeholders with a simple buying process
- People and Culture - a proactive function with visibility across the Council's procurement activity and with the remit and capacity to support and guide all buying activities
- Information Technology - IT is a key enabler in the Purchase to Pay (P2P) cycle, focusing activity into standardised, controlled processes and providing a mechanism to both promote discipline and deliver efficiencies.

## Summarised Maturity Profile



The Council's performance, in each category, is represented by the purple circle. A more detailed maturity profile showing the main characteristics in each category is included in Appendix B.

## 4. Current Position

### Strategy and Policy

National Audit Office (NAO) guidance has highlighted that organisations must take a strategic approach to procurement, in terms of what is bought and how they go about buying it. In delivering procurement as a service, the department's strategy has been to establish contracts and access to collaborative procurement agreements for a large proportion of regularly purchased goods and services. This enables a large proportion of buying activity to be carried out by local/departmental staff, but within a framework and defined set parameters managed by the central procurement department.

The role of procurement, in the delivery of public sector efficiency, is well recognised and has been consistently highlighted by agencies of the Government for many years. As such, processes in relation to procurement should be embedded throughout the organisation.

With significant grant funding cuts continuing over the next few years, the procurement function has a key role in ensuring cashable savings and longer term sustainable cost savings opportunities are identified and achieved. The Council has a written procurement strategy which clearly articulates how the department will work with the organisation to deliver its strategic objectives. From our review of the strategy document, this covers the period 2010-2013. Departments, to the extent that they are involved, are included in the process of developing the overall strategy. We note that the strategy is aligned to the Council's wider efficiency programme and other objectives.

The Procurement Strategy provides the framework for the Council's intentions in respect of pursuing procurement excellence and achieving value for money. It contains key actions for the Council to enable it to achieve its aspirations. These are identified separately across all departments within the Council and also the responsibilities for other stakeholders including suppliers. Measures for monitoring performance against these objectives are articulated within the document.

From our interviews we understand that the Procurement Strategy is well communicated in general and departments are aware. Levels of engagement differ but are generally appropriate to roles and responsibilities. Interviewees in general believe that the value for money strategy is embedded in the procurement strategy and measured using KPIs. The centralised monitoring of procurement activity by the CPU is found to be very helpful and further work on this was encouraged by interviewees.

The procurement strategy has identified £10m of procurement savings across the Council through initiatives such as:

- contract review
- re-negotiation of contracts
- consolidation of supplier accounts
- use of e-auctions
- re-tendering
- collaborations with external partners

We note that the strategy document is comprehensive and forward looking. The Council should ensure that the strategy is reviewed and approved with revisions made regularly and in particular in response to changes in the Council's wider strategic planning.

## 4. Current Position

### Monitoring and Control

As a public sector body, the Council has a requirement to ensure procurement is carried out both legally and fairly as well as being subject to the increasing need, across the public sector, to prove value for money in all that it does.

Effective monitoring and control is important for procurement from several perspectives:

- The department's ability to manage its own performance
- To ensure compliance with internal and external procurement guidelines
- Management of supplier performance

### Departmental Performance

The Council prepares a range of performance and activity indicators, for internal use, on a regular basis covering:

• Accounts payable performance	Monthly
• Construction programmes	Quarterly
• Contract & vendor numbers	Monthly
• Energy & sustainability	Quarterly
• Supply chain (spend)	Quarterly
• Supplier performance	Annually
• Procurement savings V target	Quarterly

In some cases, departments feel that Procurement staff may not be fully conversant with the issues of the particular sector, but in general the support is good. Procurement challenge activity and report monthly on project progress. Some departments noted that greater challenge would be welcome. Those interviewed did not seem clear in all cases regarding the exact savings level required.

The Council has implemented a software tool called Procuretrak which enables them to perform analysis of historic expenditure across large volumes of spend data. The ability to perform this type of analysis is an important tool for the procurement function providing detailed management information to enable evidence based procurement decisions. The Council has used this analysis to gain a detailed overview of spending across departments and identify and prioritise cost reduction and expenditure rationalisation options.

When asked about how value for money, from procurement activity, was monitored or evidenced, interviewees struggled to identify any particular monitoring process or tools. Given the increasing focus on value for money in the public sector and the savings initiatives the Council can identify, there may be value in maintaining a schedule of current initiatives and indicative or expected savings, by department, to improve visibility of procurement role in delivery of departmental savings targets, an example of this type of schedule is included in Appendix D.

## 4. Current Position

### Compliance

From our interviews there was a broad understanding of the importance of ensuring procurement activity is compliant with the Council's Contract Standing Orders (CSO's) and external regulation.

The level of spend managed through the Council's existing contracts, buying groups, or directly by the CPU provides some evidence of compliance.

However, interviewees found it difficult to identify how compliance was assured. The Head of Procurement also recognised the need for improved monitoring and mechanisms to ensure compliance. As a specific example, concerns were highlighted about some departments continuing to use out of date waiver forms that do not require input from procurement. This concern reflects a key finding from Internal Audit's Q1 2012/13 report.

In line with their recommendations management focused improvement efforts on education for the departments and senior level engagement with Heads of Department and periodic review of spend data to identify spend which should be managed through a contract.

### Supplier Performance

A measure of supplier performance is recorded in SAP at the point of good or service receipt, with the forced opportunity for the recipient to indicate Poor, Satisfactory or Excellent performance. For the three months of 2012/13 the proportion of suppliers being marked as poor was:

- April 1%
- May 0%
- June 0%

Monitoring and management of supplier performance is largely undertaken by departments, as they maintain the relationships with suppliers, but interviewees noted that they can rely on support of CPU where necessary.

In Construction Services, a formal supplier audit process is being developed and at the time of our review this process was being piloted with a view to roll out in support of the London Construction Programme (LCP).

### Organisation and Process

The Council has been moving from a highly devolved procurement organisation to a centrally managed procurement service. This move is a key element in transforming procurement performance in terms of efficiency and effectiveness.

The transition has included moving a number of procurement and contracting staff from departments to the Central Procurement Unit (CPU). While these staff have typically remained within their area of specialism this model enables:

- consistent application of strategy and internal control
- efficient use of resources through some consolidation of activities and movement of resources to support projects

Management describe development of the CPU as a work in progress, with some significant areas still devolved.

As part of the transition process the CPU developed Customer Service Statements, outlining roles and responsibilities between the CPU and customer departments and levels of service the CPU would provide. These statements were recognised as a helpful tool in communicating the vision for the new model and a clear mechanism for the CPU to be held to account for its performance. During interviews, departmental managers that are engaged with the CPU commented positively on the impact of centralisation and the level of support maintained by the CPU. Ownership and accountability for the end-to-end procurement process were seen as very clear.

## 4. Current Position

### Organisation and Process

Beyond front-end procurement processes, the Council had chosen to move Accounts Payable (AP) activities into the CPU, under the management of the Head of Procurement. It is rare to see AP managed outside finance, but efficient AP processes are heavily dependant upon the quality and completeness of information from procurement. The decision was taken in 2006 to make procurement fully accountable for the end to end Purchase to Pay cycle.

The procurement team itself is organised along category lines, with category specialists leading engagement with departments and suppliers, with transactional and administrative support. The category management approach enables development of deep specialist knowledge, which is particularly important where the CPU is supporting departments delivering complex and high profile services.

Interviewees from procurement and customer departments felt processes were well defined and generally efficient, with departments noting that the procurement team and CPU management were able to provide guidance and a good level of support for more complex projects. There appears to be a positive approach to engagement between the CPU and departments, which enables the CPU to maintain visibility of on-going projects and new initiatives ensuring compliance with guidance and legislation.

There was a widespread recognition of cost pressures with the Council and all stakeholders identified an increasingly proactive approach to identification of savings initiatives and an open approach to reviewing processes and how services are delivered.

With categories, there is periodic review of spend by product or service and by supplier. This forms part of on-going review and highlights areas of spend not covered by contracts and outside expected patterns.

### People and Culture

As noted, the Council has been moving from a highly devolved to a highly centralised procurement model. The transition has seen the CPU mature significantly from a compliance focused department, to the core service provider with procurement and category specialists moving from other departments.

It is evident that through this period of change effective communication of the strategy, and reasons for change, have contributed to a very clear identity for the CPU, among its staff and the wider Council. Visible leadership, from the Head of Procurement, also contributes to strong identification with the CPU's purpose.

Interviews were carried out with a number of staff, performing range of roles, within the CPU. Across the group there was significant experience of procurement, public sector and commercial, and several staff with long service in the Council. This combination of experience and retained knowledge of the organisation ensures a relatively proactive approach from CPU staff and willingness to engage with departments on a formal and informal basis.

## 4. Current Position

### People and Culture

Our interviewees generally found that the level of expertise shown by procurement staff, particularly in relation to specific areas such as construction, is very good and helpful for departments in assisting them with performing their own duties. A number of interviewees have a commissioning role within the Council and they noted that Procurement provide assistance and support wherever needed to help them in this role. There was a need identified for further Council-wide improvements to procurement activity, to realise greater efficiencies but recognising that resourcing may hamper this.

There has been significant staff rationalisation, as part of the SFR, and interviewees identified concerns about the ability of the CPU to meet the increasing levels of demand for support from around the Council.

### Information Technology

In general, our interviewees indicated that IT systems employed in the procure-to-pay process appear to be fit for purpose.

The Council operates SAP with integrated purchase requisition, purchase order placement and accounts payable processes. The use of integrated systems brings significant benefits in the P2P process.

Some regular SAP users felt SAP was not particularly user friendly, or was "clunky", and development of user friendly front end input screens is under consideration.

The Council has also implemented a number of other tools to support and automate important front-end processes and historic spend analysis.

**CompeteFor** is a procurement advertising tool, used to manage PQQ and RFQ processes for small tenders. The online tool began as a portal for advertising procurement opportunities related to the 2012 Olympics but has subsequently been used by local authorities.

**Delta** is a widely used online contract management and eTendering tool. Delta's online solution offers a range eSourcing. The Council are making use of eTendering and eAuction tools.

**Procuretrak** is a spend analysis tools allowing user definable analysis across large volumes of data, e.g. Purchase Order and Invoice transactions.

The Council is currently working on the development of a new SAP implementation, OneSap. The plans for this project are discussed further in Section 5 of our report.



## 5. Shared Arrangements

### Overview

The Council leads in a number of collaborative working programmes including:

- London Energy Project
- London Construction Programme, and
- North London Strategic Alliance

The **London Energy Project** has developed as a centre of expertise for energy procurement and carbon management. The project operates a shared service centre arrangement, resourced by the Council and funded initially through Capital Ambition, but from 2012 the LEP transformed to being wholly funded from generated income.

The aim of the project is to achieve value for money for participating authorities through innovative energy buying and efficient administration. The project's joint procurement energy contracts are used by 32 Local Authorities, all functions of the Greater London Authority and a number of other agencies.

Governance of the project is provided by a project board, drawn from members of the participating bodies. The project board is responsible for:

- endorsing project activities and work streams
- endorsing changes in scope
- agreeing management of risks and issues
- championing issues with stakeholders

As part of the initial funding arrangement, the board provide a monthly update report to Capital Ambition. Project risks were reported to the management board and Capital Ambition, where they are evaluated and assigned to an owner for mitigation, management and monitoring.

To receive funding through Capital Ambition, the project was required to maintain a full risk and issues log, with supporting mitigation actions.

Example risks identified in the 2010/11 funding application included:

- Difficulty capturing procurement benefits achieved through implementation of recommended contracts
- Uncertainty about the project's future, influencing participation and retention of key staff and related knowledge and skills.

Benefits reported by the project include:

- **improved energy risk management combined with new energy procurement options**, such as power purchase agreements, **maximises income** from on-site generation to give savings and avoided costs opportunity of up to **5% of your energy bill**.
- **reductions in back-office overheads**, through invoice validation and automated processing, that are likely to realise most authorities benefits of between **1%-2%** of their **annual energy spend**.
- **savings in contract management/energy procurement** and independent supplier performance evaluation, up to **20 days p.a. in staff time** and the **cost of specialist information and/or consultancy**.
- **effective risk management and avoidance of costs/fines** through expert annual reviews intended to identify complex compliance issues that internal reports may not. On-going CRC support and guidance delivered at **60% less than commercial rates**.
- **beneficial changes and managed impact** on behalf of London authorities from policies and regulations where between **£6 and £10 million is at stake** across unmetered supplies, smart meters, back-billing, and changes to CRC and carbon policies.

## 5. Shared Arrangements

The **London Construction Programme** is being developed in a similar manner to the LEP with the aim to cut the cost and risk of localised procurement and achieve better value for money outcomes from construction projects through collaboration. This is to be achieved by:

- co-ordinating the overall strategy for London's public sector in order to maximise outcomes and benefits and avoid duplication of effort
- leveraging the combined buying power of London's public sector and associated buying organisations
- making available collaboratively procured Framework Agreements and contracts along with shared category management support as a value-adding resource to client organisations and a centralised market to consultancies, contractors and suppliers

The programme is still at a relatively early stage in its development but as part of its strategy has developed the Construction Related Consultancy Services framework (CRCS12) to provide a consistent and efficient model for local procurement. The framework is let, in 12 Lots, by the Council, who together with a number of partners (Enfield and Barnet Councils and Enfield and Barnet Homes) will be responsible for its management.

When contracting through the frameworks developed by the LEP or LCP each Council, or other body, is responsible for its own tender process and application of their own Standing Orders or procurement guidelines. For the purposes of this review we have considered Haringey's arrangements, as any procurement the Councils runs in relation to the LEP or LCP will be run by the CSU and the Council's Standing Orders will apply.

### **Fraud Identification**

The CPU is a participant in the National Fraud Initiative (NFI). This is a bi-annual process whereby the Vendor and Contract Management Officer reviews and cleanses data on Haringey Suppliers, taken from the SAP ERP system. This information is then uploaded to the NFI database, where it can be compared against other public authority datasets. Discrepancies in information, such as bank accounts, can be investigated and remedial actions undertaken.

Where creditor data is not recorded on SAP, for example Purchasing Card transactions, CPU perform a sample audit of 5% of all transactions to ensure compliance with Council policies. This also ensures that fraudulent practices, such as purchasing gift-cards as a cash equivalent for personal use, are monitored and interventions occur as necessary.

There is a two stage validation process, requiring authorisation from the Vendor and Contract Management officer before requests to change of supplier details are actioned.

The Accounts Payable function also uses transaction interrogation software, Fiscal, to identify potential duplicate payments.

## 5. Shared Arrangements

### **Contractor Viability**

For all tenders, the Council employs a company questionnaire, adapted from the standard developed by the Government Procurement Service. The questionnaire is used either as a pre-qualification mechanism in a closed tender process or as the qualifier criteria for open tenders. The questionnaire covers a broad range of variables affecting contractor viability, including financial health, insurance, health and safety, equalities and environment. Method statement and risk assessments are also required to demonstrate capability.

At the time of our review the Council was also developing Supplier Audit documentation for use with construction contractors, Appx X, which would be shared with the LCP.

### **Anti-competitive Behaviour**

The CPU has responded to recommendations from our Forensic health check and all Procurement Officers, with responsibilities for commercial interaction with suppliers, have now received training in the requirements of The Bribery Act 2010. Officers are also required to sign a declaration of interests confirming their relationship with any supplier to the Council, which could compromise the Council's ability to achieve best value. Officers from the LCP and LEP were also required to sign a declaration.

Tenders for contracts, with a value of £100k or more, require bidders to provide certificates of non-collusion. This is a self-certification process that requires the bidder to declare their intent to provide a bona fide competitive bid. The receipt of this document provides the Council with evidence of intent should a supplier be retrospectively found to have colluded with its competitors.

Under the Council's CSOs, officers must use Competefor – an e-procurement portal – for all contracts with an estimated value of £5k and above. For the value banding of £5k – 100k, the system is used to request quotations from registered suppliers. To limit the opportunity for officers to manipulate the system to manoeuvre a preferred organisation into a winning position (e.g. selecting one appropriate and two inappropriate organisations), the Competefor system automatically invites additional, random organisations, ranging in number from 2 to 15, dependent on the number of other invited organisations.

Regular reviews of current and completed cartel investigations by the Office of Fair Trading are undertaken by the Council's Vendor and Contract Management Officer. Furthermore, the Council receives updates from Beachcroft LLP, which provide summaries of OFT investigation outcomes. This information is sent to the relevant category managers to reassess their contracts for legitimacy of pricing/invoicing etc. The most relevant case for LCP/LEP was bid rigging in the construction industry, which was dealt with appropriately. CPU is about to undertake investigations in regards to a cartel identified by CIPFA and in relation to LCD screens.

## 5. Shared Arrangements

The **North London Strategic Alliance** (NLSA) was established in 1999 as a sub-regional strategic partnership for North London. The Council contributes to the alliance at various levels and has played a leading role on initiatives to drive savings across corporate, adults and children's services through collaboration and best practice procurement. The North London Collaborative Working and Efficiency Savings Board (chaired by Chief Executive of Haringey and attended by Finance Directors from the NLSA boroughs) provides governance for this initiative.

As part of the project work stream developing cashable savings initiatives, the Alliance has been developing joint procurement opportunities, including:

- car parking
- car clubs
- social care IT

Other initiatives include appointment of a single category manager to work across participating members to develop a common strategy for commissioning of Children's services.

The NLSA acts a project management office, identifying opportunities for collaboration and facilitating discussion among members. It does not carry out any procurement activities, where members wish to work together on an initiative a lead partner is nominated run the tendering process, operating under its own procurement guidelines.

The Cashable Savings workstream is governed by specific Terms of Reference which provide the framework through which collaborative procurement projects are identified. Key criteria outlined within these Terms of Reference include:

- Capability to deliver cashable savings to participants
- Ensuring that the initiative does not duplicate existing work programmes or arrangements
- Ensuring available knowledge and tools are shared across NLSA members
- Projects taken forward are suitable for the NLSA to bid for funding from regional bodies, such as Capital Ambition.

Oversight is provided by a Steering Committee made up of on Chief Officer from each member or participating organisation. The Steering Committee is also accountable to the leaders of the participating bodies for decisions made on projects commission, or not, and on the performance of projects taken forward.

## 6. IT Procurement

### Overview

The objective of the review is to look at recent significant procurement activities for ICT and the current joint project with Waltham Forest for procurement of a One SAP solution and managed SAP service. Based on feedback received, a document review is performed, to look at the effectiveness of the overall process and the value for money achieved, and to make suggestions for improving the process for future procurement activities. Based on a schedule provided, there are at least 8 significant IT and Telecoms procurement activities over the next 3 years which could benefit from any improvement in the process.

Procurement of IT Contract Staff and commodity IT products such as paper, printer cartridges, and consumables is managed by Central Procurement as part of other contracts, and has not been reviewed.

### Best practice for general IT Procurement (excluding One SAP procurement)

- Define product and service requirements in line with business needs, knowledge of the market, and functionality versus benefit. Justify each additional function or capability over the minimum cost solution.
- Find a suitable framework to procure the products and services.
- Obtain competitive quotations via the chosen framework.
- Validate suppliers and quotations.
- Finalise exact products and services to be procured with any adjustment in price dependent on final spec and call off schedule.
- Award of contracts.
- Calling off of items from the contract.

### Recent significant IT Procurement projects

There are three significant IT Procurement projects which have taken place over the last couple of years or are in progress. Documentation on these was not available outside of council buildings so was read on screen with the support of the IT Procurement Manager.

1. Supply of mid range Storage Area Network (SAN), approximate value £200k
2. Supply and installation of up to 3500 desktop and laptop computers, approximate value £2M
3. One SAP implementation with associated products and services approximate value £18M

The One SAP project has been undertaken under an OJEU tendering process with extensive discussions with the potential suppliers, using a Competitive Dialogue Procedure so lessons from this are less relevant to other IT procurement activities and will be discussed separately.

Subsequently a further document, the SAN options paper, was supplied and additional clarification received on the process undertaken to validate and approve the desktop and laptop computer choice.

## 6. IT Procurement

### **Storage Area Network.**

The type of equipment chosen was determined by a list of technical requirements, and based on compliance with the IT Strategy. The SAN options paper which justified the supplier decision was produced in accordance with the options paper methodology which is in the Programme additions to IT Project Management Framework

In this sector of the SAN market there are only a small number of product suppliers, and Haringey looked at two, HP and Dell. HP was the incumbent supplier and a good case was given in the project initiation document and the SAN options paper on the advantages of procuring a new system from HP, mostly in terms of the existing technology to manage the SAN and existing HP skills. A technical comparison was made and HP was stated as being better than Dell in all of the important categories. As a result only HP products were considered, and a single supplier framework was used to purchase HP products.

The Council's Technology Evaluation process used to produce the options paper whilst providing detailed technical analysis did not evidence a specific value for money assessment effectively. An overall lifetime cost comparison between Dell solution and HP solution was not included.

### **Desktop and Laptop Computers**

The initial desktop computer requirement was for a small form factor desktop with a Core 2 processor. The initial laptop requirement was for a business range of 14" laptops with medium high performance, which was a similar form factor to that previously purchased. In fact an Intel i5 processor was selected for both products based on a "one size fits all" strategy. At the time i5 was a premium product with i3 and Pentium (rebadged Core2) processors being available at lower cost in lower specification computers running the appropriate Microsoft business operating system. I5 often has higher energy usage.

The Government's IT framework used resulted in two quotations from mainstream resellers, Insight and Misco, both of which are more than able to provide the products and services required. The Insight price based on Dell hardware was lower, and the contract was placed with Insight for the Dell products in the quotation. The price paid appears to be a good price for the actual products supplied.

A cost comparison of the increased IT effort to support two specifications (e.g. Basic and Standard) versus the saving in buying a percentage of Basic computers, does not appear to have been explicitly documented as a value for money decision. However, we recognise that councils and most major organisations ultimately require a specification and capacity above the Basic.

## 6. IT Procurement

### Conclusion on general IT Procurement

Overall appropriate procurement processes were followed, user involvement was sought in the decision making process, and approval was gained from the various management bodies. A good price appears to have been achieved for the actual products chosen.

However, only a limited documented cost and VFM analysis of the market and, in particular, pricing strategies for different levels of product, was undertaken before determining the specification of items to be purchased. This is a consequence of cost and value not being explicitly documented at an early stage of the technical evaluation process. This has resulted in excellent technical solutions being procured, but the Council has not always documented the best compromise in terms of value overall. Trade-offs between cost, functionality and benefit are not formally evidenced in the existing technology evaluation process.

### SAP

One SAP is a complete reimplementation of a local government solution using existing SAP licences for two councils Haringey and Waltham Forest. It includes limited by design customisation of the product, integration with add-on products, migration from existing instances, and provision of a managed service including support, hosting and connectivity.

Based on an initial assessment it was concluded that it would be far too costly to completely change the core ERP system due the significant amount of business change involved, plus the cost of new licences. This assessment is realistic and the decision to continue with SAP is easily justified.

SAP Managed Service contract expiry dates across London span an 8 year period with Haringey and Waltham Forest expiring earliest in 2013. The next authority contract to expire is a further 4 year away. In this context Counsel opinion cautioned against including other Councils in the OJEU notice and thus avoid any potential breach of Regulations. The business justification for either a shared platform or stand-alone is currently work-in-progress and a key risk to the overall cost of the project, potentially leading to two different sets of customisation, and eliminating any joint procurement benefits. This is being actively managed by the Project Board.

## 6. IT Procurement

The scope of work appears to be in two main parts, re-implementing SAP and associated software and migration, and provision of a managed service including hosting and network connectivity.

As the existing supplier provides an all-in-one solution, the OJEU notice stated a complete solution. Although SAP itself and Local Government solutions built around SAP are specialist products and services, the provision of hosting and network connection is a commodity which is rapidly reducing in price at present. We understand that consideration has been given to establishing separate quotations from each supplier for these parts of the overall contract, 1) SAP solution and 2) hosting and network connection, but have not seen this documentation.

The two councils involved in the OJEU process have given consideration to outline cost comparisons between:

- A) both councils keeping their existing implementations of SAP, and only tendering for managed services, hosting and network connection
- B) doing a complete reimplementation of SAP, and getting some additional benefits from the proposed “local government solution”, the current project.

A competitive dialogue multi-phase procurement process has been undertaken under OJEU rules. The range of suppliers is limited to SAP Accredited Partners and those who can afford the costs associated with the tendering process, which is not extensive.

The initial six suppliers who responded to the first requirements document have been reduced to three based on an initial assessment of their capabilities and references given.

Based on dialogue with suppliers, a revised requirements document has been prepared and sent to the three suppliers. Changes between the requirements documents appear from a cursory reading to be fairly limited. A process of competitive dialogue is currently being undertaken under OJEU rules.

Provided that a formal and detailed analysis of the final responses is undertaken, this should result in a clear understanding of each supplier’s offerings and ensure that the final comparison is done in an objective way. Unusually, it has been stated that the council has contracted the SAP company to provide advice in this area, which is far from an independent view given that SAP may benefit from a contract with one of its Partners.

Further work may be needed at a technical level to ensure that the detailed product and service definition is accurate and complete pre-contract, and that any customisation required is clearly understood and defined and limited to a defined budget.

From what was said there appears to be considerable experience in both Councils of using SAP and specifying minor customisations to meet changing business needs. The senior management in both IT and Procurement have considerable experience of dealing with major contracts in both local government and the commercial marketplace. The Council will need to continue to ensure appropriate technical knowledge and experience to validate the service definitions and the specifications.



## 6. IT Procurement

The Council follows the existing IT Technical Evaluation Processes, IT Strategy, and Procurement Processes. IT user departments and management are involved in selection and approval of IT procurement.

This current process is effective at procuring technically acceptable IT products and services via frameworks which achieve a good price for those products.

However “value for money” is not explicitly required in the Technical Evaluation process, leading to appropriate product selection but not necessarily best value for money or taking advantage of new technology and a changing market place.

The former Technical Architect has recently left and the role was not replaced. IT management are involved with a number of local authority working groups and joint ventures which provide a source of ICT market information to support product selection. The Council will need to ensure it has specific technical skills and ICT market knowledge to ensure it does not become dependent on suppliers and Gartner for providing up to date information and advice, which risk always lead to “best value for money” outcomes.

Best practice recommends the following steps are taken:

- independent advice on the market and developments in related technology, particularly disruptive innovation and lower cost alternatives
- validating real business needs, ways of working, user benefits and provisional lifetime costs to justify each main technology feature or capability above a minimum Basic spec
- avoiding “Premium” product ranges

We would expect a technical evaluation process to start with a market analysis done jointly with the procurement department, to identify the provisional lifetime cost of all ranges and families of products in each category, and to define the absolute minimum functional requirements, e.g. to provide a working computer with Windows Professional, with acceptable performance for many users, from proven manufacturers, and with an acceptable failure rate over 5 years. Each feature above that minimum requirement, e.g. “one size fits all”, speed, size, weight, space, power consumption, minimising IT effort, high reliability, etc should be considered an option and the cost/benefit considered. Best value for money should be demonstrated for each option and for each group of users.

Wherever possible multiple manufacturers/suppliers should be considered for each procurement activity, irrespective of the incumbent manufacturer or choice of supply route.

# Appendices

## A. Action plan

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

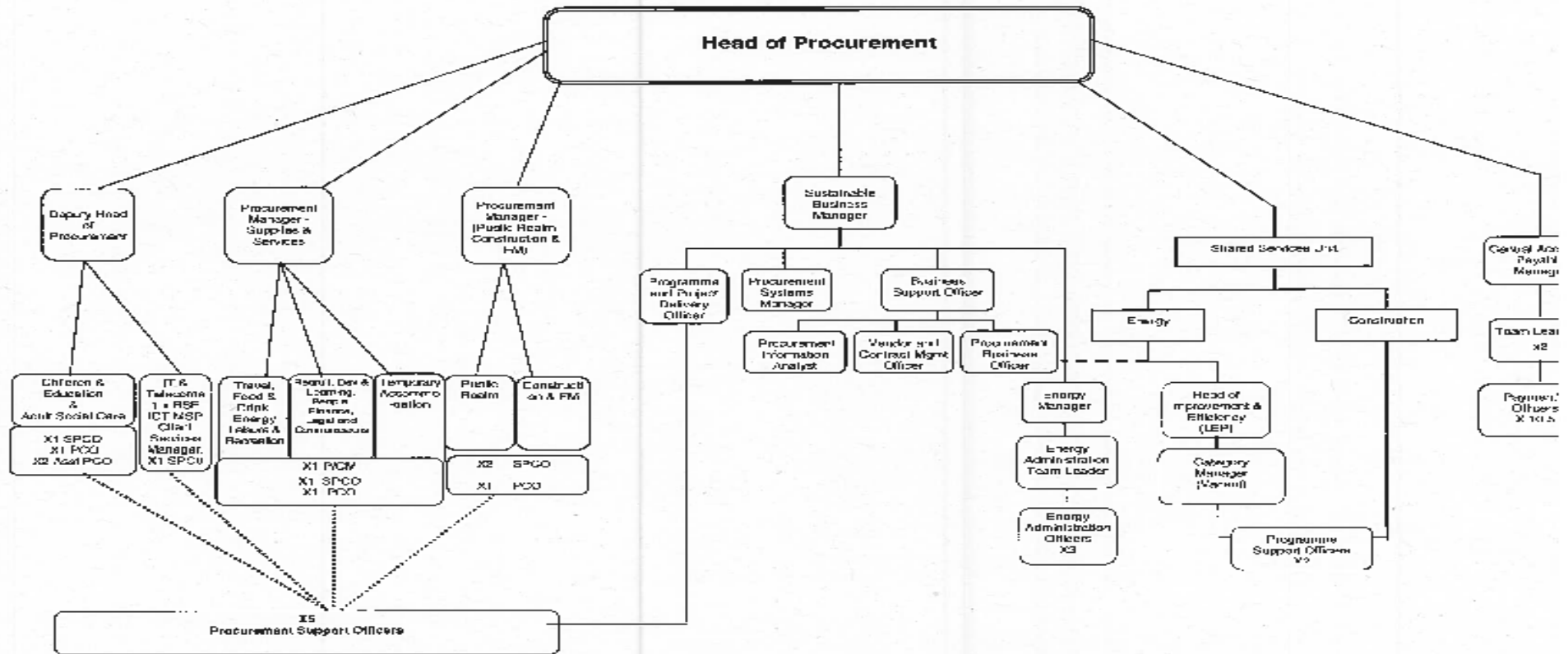
Rec No.	Ref.	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	Strategy & Policy	Ensure that the Procurement Strategy is up to date and has a plan in place for updating it regularly in line with the Council's other plans, in particular the Medium Term Financial Strategy through which savings for the period and process for achieving these are articulated.	M	The Procurement Strategy is a 3 year document, involving consultation with Service Managers, approved by Cabinet and published on the Council's website. Progress is reviewed at mid-term and adjusted as necessary.	Next revision is due 2013
2	Monitoring & Control	Ensure that quantitative targets for savings from procurement, at Departmental level, are clearly articulated and measured against.	M	Savings from procurement outcomes are integral to a departments business plan & savings targets and are not currently highlighted separately. The merits of reporting savings in greater detail will be discussed with the Director of Finance.	31 March 2013
3	Monitoring & Control	Develop engagement strategy to improve visibility of compliance with internal and external procurement guidelines	H	It is accepted that since centralisation, the focus for CPU's attention has been on collating contract information and gaining a better understanding of supply chains previously managed by departments. CPU will develop and implement a greater monitoring and control regime, especially around the use of waivers and off-contract spend.	31 March 2013

## A. Action plan

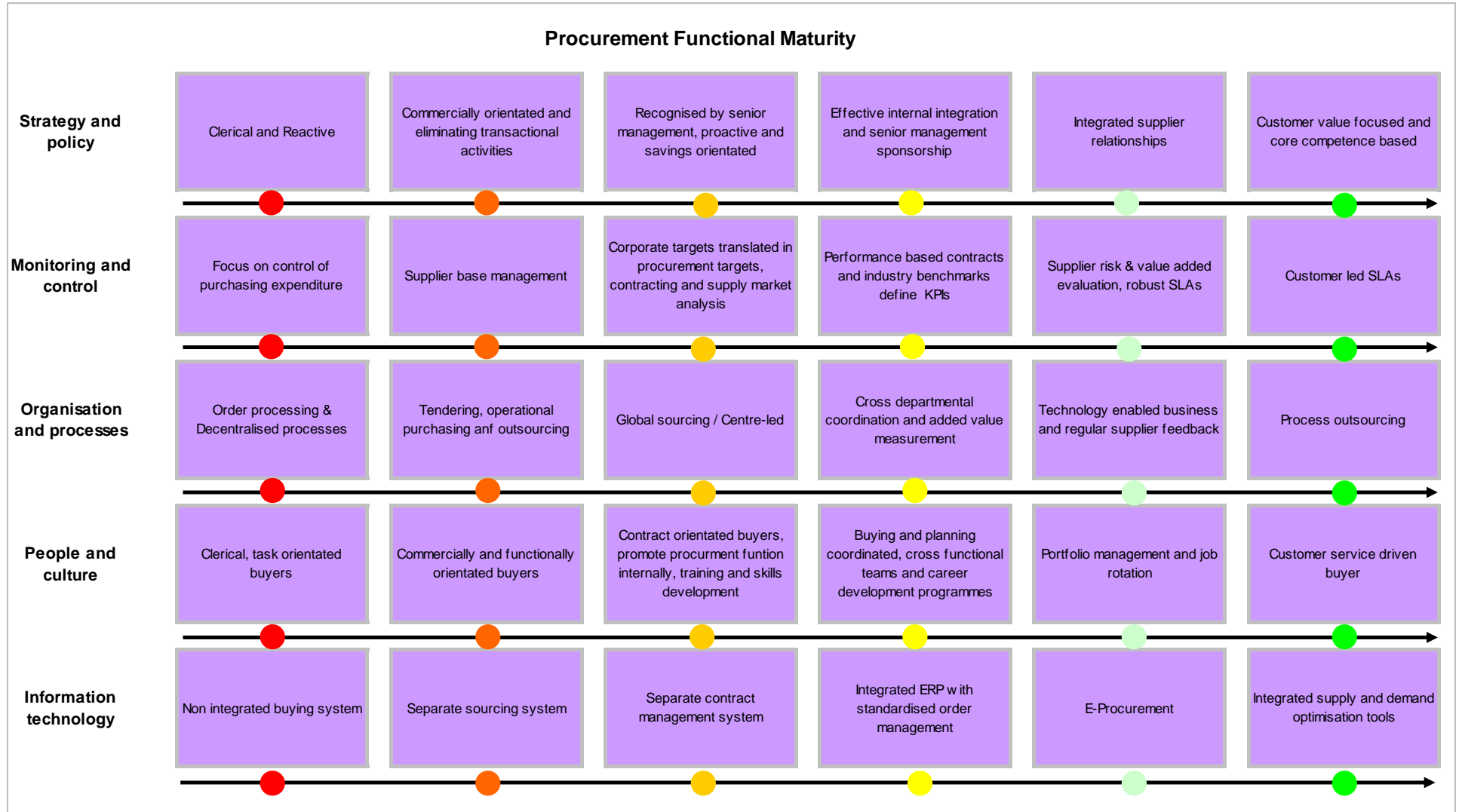
Rec No.	Ref.	Recommendation	Priority	Management Comments	Implementation date and responsibility
4	Monitoring & Control	Implement monitoring tools to provide central visibility of saving programmes and departmental initiatives.	H	These will be discussed and considered at the same time as item 2 above.	31 March 2013
5	Organisation & Process	Regularly explore alternative buying strategies at a corporate level. For example, explore further the usage of e-auctions for certain goods and services.	L	Central Procurement has implemented an e-auction tool and used it to good effect. We shall review all upcoming goods and services projects to Dec 2013 with e-auction in mind.	31 March 2013
6	People & Culture	Ensure that there are sufficient procurement staff capability covering: <ul style="list-style-type: none"> <li>•Market knowledge</li> <li>•Technical knowledge</li> </ul>	M	Current procurement staffing levels are extremely stretched, although manageable. Market knowledge is key to any VfM procurement strategy and accordingly an Information Analyst Officer is currently being trained in this regard and to provide a basic market research function to the procurement teams. With over 1,000 contracts in 16 different markets and delivering over 700 services, it would not be practical for the relatively few CPU staff to gain extensive Technical knowledge in all cases; which is why we have the close working relationship with Business Unit / Service managers. This relationship generally works well, but we also recognise and accept that CPU does need more Technical knowledge in some areas, which we shall address.	31 March 2013.
7	Organisation & Process	The Council needs to ensure that its documents appropriately the value for money judgements made in all ICT procurements.	M	Corporate IT will update its Project Management Methodology to ensure that value for money considerations are explicitly documented during the market analysis and technical evaluation phases of all future ICT procurements	31 March 2013

# B. CPU Organisation Chart

Central Procurement - Organisational Chart (June 2012)



# C. Procurement Maturity Profile



## D. Example Savings Monitor

### Departmental Initiatives

Key Performance Indicator	Baseline	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Procurement cash releasing savings	Cash releasing savings for 2008 / 2009 £1,986,367	£2,000,000 <b>Achieved</b>	£1,800,000 <b>Achieved</b>	£1,600,000	£1,800,000	£1,800,000
Utilisation of eSource to Pay Solution	eSource to Pay Solution / ordering / goods receipting and approval, eTenders / Quotations, contract management, stock control, forecasting and trend analysis	Commence June and consolidation through year <b>Achieved</b>	e-invoicing target of 30% <b>Achieved</b>	Review and update technology advances	Interface with other systems	Complete electronic eBusiness trading
Monthly Performance Outcome Reports						
Achievement of National Sustainable Flexible Framework	Level 0 for 2008 / 2009	Level 1 <b>Achieved</b>	Level 2 <b>Achieved</b>	Level 3	Level 4	Level 5
Customer Excellence Standard (CSE)	Charter Mark till 2010	CSE / Charter Mark <b>Achieved</b>	CSE / Charter Mark <b>Achieved</b>	CSE accreditation <b>Achieved</b>	CSE accreditation	CSE accreditation
Engagement with Third Sector (see 3.5.1 below)	No model for engagement	Agree and adopt model <b>Achieved</b>	Level 1 <b>Achieved</b>	Level 2	Level 3	Level 4

### Savings from mini tender processes

	Apr-11	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-12	Feb	Mar	Total
Ashton													
Claudette	61.79		820.04	62.78		22.95	472.59						1440.15
Clive													
David		460.00	6589.20		40.85								7090.05
Enza		771.69	281.80				112.63						1166.12
Helen													
Isabel	12.04	93.10			2730.00		6355.04						9190.18
Mark					101.30								101.30
Trish			428.58	23.57	198.42	58.59	1034.35						1743.51
Viv	70.00	11.40	200.00	84.71	1882.00	1000.00	3337.00						6585.11
Sharma													0.00
Caroline													0.00
Alasdair			840.00	2022.15	400.00		6750.00						10012.15
<b>Total</b>	<b>143.83</b>	<b>1336.19</b>	<b>9159.62</b>	<b>2193.21</b>	<b>5352.57</b>	<b>1081.54</b>	<b>18061.61</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>37328.57</b>

### Items for Savings Action Plan

£6,018.00	New Procedure Pack for Cardiac Cath Lab BC3132
£2,022.15	New Sling replacing PD35 for A&E
£1,223.04	Vacsax Liners VAL-203

## E. Supplier Audit Documentation

TBC



## F. Schedule of Interviews

Name	Role
Michael Wood	Head of Procurement
Kim Sandford	Deputy Head of Procurement
David Mulford	Construction Procurement Manager
Mary Gavriel	Accounts Payable Manager
Richard Le Donne	Procurement Officer
Guy Wren	P2P Performance Manager
John McGrath	Capital Programmes Director
Barbara Nichols	Head of Commissioning & Strategy Planning
David Airey	Head of IT Services
David Haley	Senior Supplier Manager
Malcolm Greaves	Corporate Landlord Manager
Stephen Mc Donnell	Assistant Director for Single Frontline
John Belt	Transport Operations Manager
Mark Hopson	Head of Regeneration & Development (Alexandra Palace)
Debbie Haith	Deputy Director Children and Families
Janet Siman	Senior Procurement Officer

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