

**Procurement Committee On 6.12.05**

Report Title: **Award of contract for a Neutral Vendor solution for the supply of Temporary and Permanent Workers (Part A)**

Forward Plan reference number (if applicable): **[add reference]**

Report of: Andrew Travers – Director of Finance

Wards(s) affected: All

Report for: **Key Decision**

**1. Purpose**

1.1 To seek Member agreement to award the contract for a Neutral Vendor solution for the supply of Temporary and Permanent Workers, (subject to the outcome of due diligence).

**2. Introduction by Executive Member**

2.1 After considerable member scrutiny, this fully reviewed and revised proposal for a new operating model for managing our temporary staff is put to this committee for approval.

2.2 The neutral vendor solution aims to deliver cost and operational efficiencies while also providing a more coherent service for all managers needing to access temporary staff.

2.3 It should provide Haringey with a pragmatic and effective vehicle for limiting agency spend by enabling members to have a more accurate view of the spend and, working with managers, to understand the value for money impact on their services.

**3. Recommendations**

3.1 That Members agree to award the contract for the above project, as allowed under Contract Standing Order (CSO) 11, in accordance with the recommendations in 3.2 of this report.

3.2 That the contract be awarded for a period of 5 years with an option to extend for 2 further periods of 1 year each on the basis detailed in the report.

3.3 That the existing approved list for agency staff, which expires on 20<sup>th</sup> January 2006, be extended until 31<sup>st</sup> March 2006.

3.4 That Members consider the option of establishing a Resource Centre presence within the borough of Haringey (see para 9.13).

Report Authorised by: **Andrew Travers**

Contact Officers: **Stuart Young – Head of Personnel (x3174)**  
**Michael Wood – Head of Procurement (x2120)**

#### **4. Executive Summary**

4.1 This report provides background to the proposal to award the Contract for the Neutral Vendor Resource Centre. It outlines the Procurement Route undertaken and the benefits that the award of contract can bring to the council.

#### **5. Reasons for any change in policy or for new policy development (if applicable)**

- 5.1 The Scrutiny Review of 1999 recommended a series of control and management actions to govern the use of temporary and agency staff. In the main these arrangements remain sound practice, however, the increase of temporary staff use continues in Haringey and across London.
- 5.2 Current arrangements require managers to place business directly with the agencies. This puts managers in a position where they have to invest time and effort to make contact with various companies, and to conduct commercial discussions with providers about the supply of resource. The current model comprising 12 approved agencies and significant numbers of unapproved agencies has no central point of operation and therefore, does not provide sufficient management information or control. As a result it has proven impossible to produce accurate conclusive data about the reasons and level of use. Other London boroughs operating similar arrangements to the one currently in use in Haringey have reported the same concerns including similar levels of expenditure.
- 5.3 A review of the current arrangements was conducted and completed in 2004. It recommended that the Council adopt a centrally co-ordinated temporary staff acquisition process; that we control and monitor purchase; and that, within the context of a managed process, we introduce business case controls. It is vital that the new model of temporary staff acquisition provides sufficient speed, quality and cost assurance to support managers in the running of services. Simply introducing bureaucratic controls without a supporting model of staff provision will cause frustration, service inefficiency and likely result in non-compliance.

## 6. Local Government (Access to Information) Act 1985

### 6.1 List of background documents:

The following background documents were used in production of this report:

Scrutiny Review of Agency staffing 1999

Review of Agency staffing findings 2004 by ATOS/KPMG

Report to General Purposes Committee 8<sup>th</sup> March 2005

Report to Procurement Committee 5<sup>th</sup> April 2005

Report to Procurement Committee 12<sup>th</sup> July 2005

## 7. Background

7.1 Following recommendations of the Procurement Committee on 5<sup>th</sup> April 2005, a Member Working Group was established to scrutinise the proposed procurement and Personnel Policies. The new proposed tiered supplier Model, pricing options, funding the service and contract management were discussed; as were associated HR policies, particularly around the use of Improvers and Consultants. The Member Working Group comprised Councillors Meehan (Chair), Bevan, Diakides, Haley and Santry. It concluded that the procurement of a Neutral Vendor Resource Centre should proceed as quickly as possible. This decision was agreed at Procurement Committee on July 12<sup>th</sup> 2005.

7.2 The role of the successful bidder is to set up a Neutral Vendor Resource Centre to receive and co-ordinate the fulfilment of orders for staff from the Council. The role of the 1<sup>st</sup> tier primary vendors is to supply up to half of orders placed in their specialist labour market area. The model provides that at least 50% of orders will be passed directly beyond the primary vendors to a 2<sup>nd</sup> tier of suppliers. These 2<sup>nd</sup> tier suppliers will largely comprise of small and medium sized companies currently trading with the Council. This feature maintains current effective agencies and it provides an opportunity for smaller businesses to compete for Council assignments.

7.3 The contract allows that the Council appoints the Resource Centre Provider and works in partnership with them on the appointment, and any promotion or relegation, of 1<sup>st</sup> tier primary vendor and 2<sup>nd</sup> tier organisations. This means that the Council will play a deciding role in determining who provides services at the primary tier and at the second tier but all tiers will contract *directly* with the Resource Centre. Where appropriate, the Council's terms and conditions of business will be cascaded throughout the model by the Resource Centre. This includes our equalities, recruitment and Procurement policies.

7.4 The pre-estimate as reported to The Executive Procurement Committee 12<sup>th</sup> July 2005 aimed to generate annual net savings largely from Agency margins in the order of £0.8m based on 2002/03 usage and spend. The cost of the Resource Centre was estimated at £0.3m p.a which will be funded from existing resources.

7.5 There will be a due diligence process and an implementation period to this contract award and the contract is not expected to be fully operational until 1<sup>st</sup> April 2006.

## 8. Budget

- 8.1 The pricing proposal put forward by the preferred bidder meets the Council's pre estimated savings. These figures are based on an average 18% "mark up" figure on basic salary (excluding National Insurance and Working Time Directives) and were supplied to bidders by the Council. A due diligence process will now take place with the preferred supplier and prior to contract signature in order to verify the actual "mark up" that is currently paid by Haringey Council and the attached bid (see Part B of this report) may need to be adjusted in line with the outcome.
- 8.2 There is no requirement for new money. The entire cost of the Resource Centre will be met from savings generated in current management costs across the Council, with residual savings being retained by the Council.

## 9. Description of Procurement Process

9.1 The tendering process began by placing an advertisement on 1<sup>st</sup> August 2005 in the OJEU, Contrax Weekly, Haringey Website and Local Newspaper. The tendering process would follow the Negotiated procedure. Although the requirement does not fall under the EU Directives, as it is a Part B Residual Service, for complete transparency and because the contract is being let on behalf of all Public sector bodies in Greater London an OJEU notice was considered to be most appropriate.

9.2 Pre-Qualification Questionnaires (PPQ's) were sent out in response to the advert. Expressions of Interest were received from 16 companies. Evaluation scoring grids were set up previous to receipt of PQQ's and were weighted as follows:

Organisation	5
Ability to deliver	20
Quality	5
Environment	9
Financial Standing	30
Insurance	9
Equal opportunities	13
Health & Safety	9
<b>Total</b>	<b>100</b>

9.3 Six companies were selected to be Invited To Tender (see Part B-B1(i)).

9.4 Invitations To Tender were sent out on 30<sup>th</sup> August 2005 and returned 12<sup>th</sup> September 2005. 4 tenders were received and 2 companies declined (see Part B-B1(ii)).

9.5 CPU, HR and Finance evaluated all tenders (see Part B -B1(iii)).

9.6 Site visits were then carried out on 6<sup>th</sup> & 7<sup>th</sup> October 2005 on all 4 companies.

9.7 Interviews with all 4 companies were carried out on 10<sup>th</sup> & 11<sup>th</sup> October 2005. After completing this stage of the process one company was excluded from the process, as they did not sufficiently fulfil the requirements of the contract (see footnote to Part B-B2).

9.8 Issues identified during the site visits and interviews were clarified in subsequent negotiation meetings, as well as negotiating on the areas identified in the specification. These meetings were carried out with the remaining 3 companies on

13<sup>th</sup>, 17<sup>th</sup> and 18<sup>th</sup> October 2005. As part of the negotiation process the companies were asked to submit proposals for providing a Volunteers Bureau for Haringey Council that would register and check the references of individuals seeking to offer their unpaid services to the Council.

9.9 Further negotiation and clarification meetings were carried out on 20<sup>th</sup>, 21<sup>st</sup> October 2005.

9.10 Best & Final Offer (BAFO) requests were issued on 24<sup>th</sup> October 2005 and returned on 28<sup>th</sup> October 2005. The evaluation criteria and its relevant weightings are shown below:

Systems	25 points
Pricing	25 points
Quality	40 points
Regeneration	10 points
<b>Total</b>	<b>100 points</b>

The BAFOs were evaluated on 3<sup>rd</sup> November and a preferred supplier selected (see Part B – B3). As part of the BAFO evaluation a pricing comparison was undertaken (see Part B – B4).

9.11 As a result of productive negotiation meetings the BAFO received from the preferred supplier showed favourable improvements in the bid price from their original submission (see Part B – B5) and the % share split of Total savings (see Part B – B7).

9.12 The preferred bidder BAFO sets out its bid in regard to regeneration, showing strong commitment to and experience of regeneration (Part B – B6).

9.13 The location of the Resource Centre is currently costed as being based outside of the London Borough of Haringey. The preferred bidder is able to establish a presence in Haringey if required, but this would incur additional costs and would require clarity of requirements by the Council.

9.14 Performance of the Resource Centre will be monitored by the Council's recruitment client officer and she will liaise, audit and guide suppliers and managers. The Resource Centre will be responsible for collating and reporting contract performance information against SLAs to be agreed for the tiered suppliers. The Council will audit the system of performance monitoring.

9.15 Key Performance Indicators (KPIs) will be used in the contract and will be further developed in the SLA to incentivise permanent recruitment, to embed the Council's equality and diversity policies (especially on the matter of age and changes to employment legislation), and to support our employment initiatives such as flexible working. The Council will retain arrangements as client to monitor and audit the KPIs.

## 10 Consultation

10.1 The proposed model has been developed in consultation with other London boroughs; soundings have been taken from providers of temporary staff, Haringey officers and managers. It has been shared with the unions who support measures aimed at reducing the use of temporary employment. The unions will be consulted further on the detail of the arrangements as they are determined. Lead Executive Members and the Leader have been briefed on the model and proposals for

procurement. Updates have been provided to the current contracted providers of temporary staff and stakeholder challenge workshops held with managers. The proposed model has been developed after researching the successes and weaknesses of other borough approaches.

- 10.2 Discussion with other London boroughs has identified a need for a regional approach to recruitment administration. The proposed model will be let to enable other boroughs and public sector bodies in Greater London to join. Current spend with recruitment agencies and usage amongst London boroughs is consistent with Haringey. A survey of boroughs indicates that of those able to identify temporary labour expenditure, annual spend figures of over £20 million (and £30 million in one case) were not uncommon.

## **11 Key Benefits**

### **a) In awarding the contract to the Preferred Bidder (subject to due diligence)**

- 11.1 The preferred bidder is a renowned organisation with extensive recruitment experience across all sectors (including public sector) of temporary and permanent staff, Executive Search & Overseas.
- 11.2 They scored significantly higher in most evaluation criteria (except price) and were a clear Best Value winner by a wide score margin in overall terms.
- 11.3 The preferred bidder is able to demonstrate high degrees of quality throughout their service and will 'add value' to the Council by use of Balanced Scorecards and experienced officers to support the Council's line managers.
- 11.4 Also very strong was their affinity with the Council's regeneration policies and Community Strategy. The preferred bidder is able to demonstrate tangible programmes with measured outcomes across a broad range of social issues.

### **b) Of a tiered supplier Procurement Model**

- 11.5 The Resource Centre provider is Neutral and therefore does not supply any temporary workers themselves in this role. Their role is to ensure supply chain performance and to achieve efficiencies.
- 11.6 The Resource Centre is funded through a shared savings arrangement on temporary agency margins. The approximate share is 42% to the Resource Centre and 58% to the Council. To safeguard against unhealthy pursuit of savings, payments to the Resource Centre are linked to supply chain quality.
- 11.7 The Resource Centre will provide a 'one stop' service for all temporary staff including consultant assignments, removing much of the recruitment burden from line managers and thus creating process efficiencies.
- 11.8 The Resource Centre is able to monitor the entire temporary recruitment process and thus provide vital management information to the Council to enable effective control and Strategic Planning.
- 11.9 The Resource Centre is incentivised to monitor the use of temporary staff and THEY will provide permanent staff where appropriate in support of the Council's policy to reduce temporary labour in favour of an increased permanent workforce.

11.10 The SME supply chain is encouraged to compete for Council business in the 2<sup>nd</sup> tier, with Social Enterprises and Voluntary Organisations being sympathetically managed as 'niche' suppliers.

## **12 Summary and Conclusions**

12.1 Members & Chief Officers are asked to note that the preferred bidder is also keen to secure one or two of the 1<sup>st</sup> Tier Prime Vendor contracts, but the Council maintains the power of veto. Any decisions to allow the Resource Centre to award tiered contracts 'to itself' will be strictly evaluated by CPU to avoid market domination and be subject to risk evaluation and a competitive process.

12.2 A review of arrangements for temporary staffing was undertaken in 2004 and the recommendation that a centrally co-ordinated temporary staff acquisition process was recommended. Consultation with Manager's within Haringey Council and current suppliers have taken place and a preferred model was proposed.

12.3 Members through a Member's Working Group and Procurement Committee have agreed the model and timetable for this procurement exercise. A thorough tendering process has been undertaken and the outcome is being recommended to the Procurement Committee in this report.

12.4 Members are asked to note the assumptions that have been used in the procurement process

12.4.1 The 18% mark up (exclusive of N.I and Working Time Directive) is an overall average based on a report compiled by ATOS/KPMG in 2004. This assumption will be tested through the Due Diligence process.

12.4.2 If the % mark up is proven to be different through the due diligence process CPU will re-negotiate on the shared savings percentage.

12.4.3 The estimated savings are based on the spend analysis for 2004-05 and the assumption is that spend will be of a similar value for 2006-07

12.4.4 The level of spend on temporary staff will reduce over the lifetime of the contract by an estimated £2m per annum to a level yet to be determined.

## **13 Recommendations**

13.1 That Members agree to award the contract for the above project, as allowed under Contract Standing Order (CSO) 11, in accordance with the recommendations in paragraph 3.2 of this report, but subject to a satisfactory due diligence process.

13.2 That the contract be awarded for a period of 5 years with an option to extend for 2 further periods of 1 year each on the basis detailed in the report.

13.3 That the existing approved list for agency staffing, which expires on 20<sup>th</sup> January 2006, be extended until 31<sup>st</sup> March 2006.

13.4 That Members consider the option of establishing a Resource Centre presence within the borough of Haringey (see para 9.13) (but in the knowledge that any costs are currently excluded from the tender price).

## **14 Equalities Implications**

- 14.1 The model has been designed to ensure that 50% of all staffing requirements from Haringey go through to a second tier supply chain that will comprise mainly of small and medium sized companies currently trading with the Council.
- 14.2 Equality evaluations were undertaken during the evaluation process, and the preferred supplier has a system that will enable the Council to record the ethnicity of temporary staff employed within Haringey Council.

## **15 Health and Safety Implications**

- 15.1 Health and safety was evaluated as part of the tendering process and met the required standards. All bidders included reference to taking up CRB checks for staff when applicable.

## **16 Sustainability Implications**

- 16.1 There is a requirement for interim staff and consultants to transfer their knowledge to permanent members of staff. This is beneficial as it provides added value, in terms of skills improvement and knowledge transfer, in the contractual staff base. This should be monitored.
- 16.2 Local economic opportunity should play a key role in this contract, both in the work and training available to local people and the ability for SMEs to supply services via the Resource Centre. This should be monitored.
- 16.3 The proximity of staff supplied has a potential impact on congestion and associated environmental impacts. This should be monitored and a green travel solution sought from the key vendor if necessary.

## **17 Financial Implications**

- 17.1 Savings will be generated mainly from supply agency margins and secondly from internal Council efficiencies by removing a large portion of the recruitment burden from line managers.
- 17.2 See Part B ix).
- 17.3 See Part B x).

## **18 Comments of the Director of Finance**

- 18.1 The Director of Finance has been consulted and comments are included in the body of the report. It will be important to have a clear monitoring in place to ensure that margins are lower and that the savings do accrue.

## **19 Comments of the Head of Legal Services**

- 19.1 The contract has been tendered in the EU, using the restricted procedure under the Public Services Contracts Regulations 1993.
- 19.2 As the contract value exceeds £250,000 the proposed award must be approved by Members pursuant to CSO 11.3.



- 19.3 The Finance Directorate is also seeking an extension of the current approved list for agency staffing from its expiry date of 20<sup>th</sup> January 2006 to 31<sup>st</sup> March 2006.
- 19.4 The Procurement Committee has the power under CSO 13.2 to grant the extension.
- 19.5 The Head of Legal Services confirms that there are no legal reasons preventing members from approving the recommendations in paragraph 3 of this report.

## **20 Comments of the Head of Procurement**

- 20.1 The recruitment model has been extensively tested through consultation and challenge and has proved to offer a good solution in the current market.
- 20.2 The procurement process was openly advertised through OJEU to ensure transparency and effective competition, even though this was not a mandatory EC requirement.
- 20.3 The evaluation of bidders was rigorous and has resulted in a clear preferred bidder.
- 20.4 There now needs to be a process of due diligence where-by the preferred bidder will verify current margins being paid by the Council. This is necessary since the bidders fees are based on an agreed percentage sharing of savings on these margins.
- 20.5 To avoid an unhealthy focus on driving down margins at the expense of quality in order to maximise Resource Centre income, payments have been linked to performance and measured through balanced scorecards.
- 20.6 The fact that Haringey have openly let this contract on behalf of other Public Sector Bodies in Greater London, demonstrates a commitment to collaboration and supports Gershon recommendations. This will result in those organisations that join the contract having quick access to flexible recruitment services. This will also produce efficiencies for those organisations and which Haringey can rightly take credit.
- 20.7 The proposed award of contract is based on Best Value

## **21 Use of Appendices / Tables / Photographs**

- 21.1 Part B of this report contains exempt information.