

Agenda Item	<b>6</b>
Report No	<b>RES/15/21</b>

**Committee:** Corporate Resources Committee

**Date:** 26 May 2021

**Report Title:** Transformation Programme: Procurement and Contract Management Project

**Report By:** Executive Chief Officer – Resources and Finance

## **1. Purpose/Executive Summary**

- 1.1 Following the decision by the Resources Committee on 24 August 2016, that the Council would enter into a shared service arrangement for procurement with Aberdeen City and Aberdeenshire Councils, the Commercial and Procurement Shared Service (CPSS) commenced mid-January 2017. Emerging findings from a high-level financial review completed in March 2021 identified a range of improvement opportunities, including improving operational and governance arrangements, prospects for greater savings and for the shared service to encompass capital procurement.
- 1.2 Sponsored by the Executive Chief Officer for Resources & Finance, the Procurement and Contract Management project is one of nine key priority projects within the Council's Transformation Programme. This report sets out the initial planned project themes for the project and provides details of the savings delivered in 2020/21, the savings in train for 2021/22, strategic alignment, capital procurement and opportunities for further strengthening the collaboration and outcomes across the shared service partnership.

## **2. Recommendations**

### **2.1 Members are asked to:**

1. Note the initiation of the Procurement and Contract Management project and the key components of the project as set out in Section 5 to this report;
2. Consider the project's alignment with strategic priorities, including the Health and Prosperity Strategy 2021/22, net carbon zero, and delivering value for money;
3. Agree that project updates will be provided periodically to this Committee;
4. Note that an integral component of this project is to undertake a review of capital procurement;
5. Note that savings of £0.565m were delivered in 2020/21 together with cost avoidance and enabled savings. A further amount of £0.183m in carry over savings into 2021/22 were created.
6. Agree the opportunities to improve best value through continuous improvement, further enhancing the performance of procurement activities for both revenue and

capital spend, and ongoing effective collaboration across the shared service partnership.

### 3. Implications

- 3.1 **Resource** Reporting to the Project Board, the dedicated project team comprising a Project Manager and Management Analyst will be supplemented with CPSS personnel to provide capacity and expertise on an ad hoc basis. The Strategic Procurement Manager and the project team will collaborate with Executive Chief Officers, and their senior management teams, contract managers and shared services personnel. The Project Board, sponsored by the Executive Chief Officer for Resources & Finance, comprises the Head of Corporate Finance & Commercialism, Head of Revenues & Business Support, Head of Procurement and the Strategic Procurement Manager.
- 3.2 **Risk** Three main risks are identified. R1 – potential impacts should procurement strategies and the Council’s strategic objectives need to be re-aligned; R2 – insufficient project resources; R3 – failure of the project to deliver its objectives. To mitigate these risks, the Project Board will monitor, review and where necessary adjust the Project Plan and take further corrective actions as considered appropriate.
- 3.3 **Legal** Changes arising from this project will ensure ongoing compliance with relevant legislation, guidance and training.
- 3.4 **Climate Change/Carbon Clever** Engagement across the partnership arising from this project will emphasise the importance of net carbon zero when procuring goods and services. Environmental commitments will also be reflected in procurement policies, strategies and training.
- 3.5 **Community (Equality, Poverty, Rural and Island)** This project will examine opportunities to further achieve community benefits and social value when procuring goods and services.
- 3.6 There are no Gaelic implications arising from this report.

### 4. Background

- 4.1 In advance of project commencement in May 2021, Executive Chief Officers (ECOs) and their Heads of Services participated in a presentation from the Project Board on 28 April 2021 regarding project deliverables.
- 4.2 During May 2021, the Strategic Procurement Manager, senior members of the shared service, and the Project Team, in collaboration with each Service’s senior leadership personnel will develop a shared understanding of the project themes, roles and responsibilities, project timelines, etc. These project activities will helpfully refocus shared and collaborative working, reset the change buy-in and establish Procurement Champion Owners within Services and CPSS Business Partners.
- 4.3 A first major project activity will involve updating the Contracts Register as this will be used to critically analyse both spend and contracts and to improve contract terms and further savings.

## 5. Project Themes

- 5.1.1 **Improving Presence and Visibility** to further strengthen the shared service partnership and the effectiveness of the interface across the tiers of strategic management, contract management and decision making. This theme will help inform need identification and decision making when procuring goods and services, and when managing contracts, and will be monitored through periodic surveys. A consultation exercise is also planned by the end of Q2 2021/22 to inform the development of the Joint Procurement Strategy and Annual Procurement Reports for Members' considerations.
- 5.1.2 A key outcome of this enhanced engagement will provide transparency and guidance on the various roles and responsibilities in the procurement of goods and services and thereafter contract management.
- 5.2 **Improving Governance and Compliance** aims to ensure that contracts are let in the most appropriate and compliant manner relative to thresholds, delegated authorities and governance. This theme will deliver a range of outcomes which include ensuring ongoing compliance with procurement regulations, that contract award values are tracked and monitored against actual spend, and a procurement compliance report format is designed by the end of Q2 2021/22.
- 5.3 **Improving Lifetime Contract Value** involves ensuring that contracts are appropriately managed to deliver value throughout their duration with transparency on ownership and roles; that contract management considerations are built into the procurement process at an early stage (Business Case/Sourcing Strategy); and that there are high quality and appropriate relationships with a focus on delivery, results and innovation delivery. Local contract ownership will be well supported with tools and training, appointed ownership and established roles.
- 5.4 **Improving Savings** using a transparent methodology for capturing, agreeing and reflecting savings in budgets. Robust budget management is also tied into this optimisation focus on savings with proportionate challenge about the need to spend, roles and responsibilities across the partnership, and scope to change supplier or specification. Taken together, these factors increase potential leverage to create savings opportunities.
- 5.5 **Capital Procurement** is integral to procurement generally and as such is part of the improvement scope of this project. A review of capital procurement governance and transparency will be informed by leading practice, the capital strategy and value for money.
- 5.6 **Community benefits and social value** involves how through procurement activity the Council can develop ethical and sustainable value for money solutions that support the operational needs and wider strategic aims of the council and local communities.
- 5.7 **Improving supplier relationships** will be an extension to the improving lifetime contract value theme to work with suppliers to deliver innovative approaches to the provision of Council services.
- 5.8 **Increasing the commercialisation of existing and potential revenue streams** will embed commercialisation within the Council, align commercial activity identified for

development or growth with key strategic priorities within the Council and develop a Commercial Framework, Toolkit and Training package for Council employees.

## **6. 2020/21 Budget Savings**

- 6.1 During 2020/21, total savings of £0.565m were delivered against a Revenue target of £0.725m. These savings were achieved through a combination of price reductions, negotiations, new contract solutions, migrating spends to better terms, identifying overcharges and securing compensating payments, contract improvements through effective management, rebates, increased discounts, consolidation leading to better prices. A detailed breakdown of these savings is provided at **Appendix 1** to this report.
- 6.2 In addition to the savings offset against the specific target for procurement savings the CPSS also supported wider savings activity across the Council's budget. This activity included the enablement of service-specific savings approved for 2020/21 as well as cost avoidance (i.e. mitigating contractual cost increases). Some examples of such activities can be seen in **Appendix 1**.

## **7. 2021/22 Savings Target**

- 7.1 Also set out in **Appendix 1** to this report are savings that will contribute to the 2021/22 target of £0.450m. These savings include new contracts for water meters, identified rebates of historic overcharges, purchasing rebates, and fuel cards at lower rates.
- 7.2 For the remainder of this financial year, further savings are already being developed covering tenders for residual waste, marine gas oil, and building repairs. Negotiations with waste contractors are underway and a new framework for agency teachers will also deliver lower costs.

## **8. Strategic Alignment**

- 8.1 The successful delivery of this Procurement and Contract Management project, with a new level of procurement savings and commercial revenues, will support delivery of The Ambitious Highland – Health and Prosperity Strategy 2021/22.
- 8.2 This project will improve social value and will involve the provision of an annual supplier development programme linked to the procurement plan. Furthermore, a Community Benefits and Sustainable Procurement Policy will outline how procurement activity can develop ethical and sustainable value for money solutions that support the operational needs and wider strategic aims of the Council, including net carbon zero, value for money and economic recovery of the Highlands.
- 8.3 Improved best value will be achieved through continuous improvement, further enhancing the performance of procurement activities and ongoing effective collaboration across the partnership.

Designation: Executive Chief Officer- Resources and Finance

Date: 13<sup>th</sup> May 2020

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Table 1 Savings in 2020/21 against target £725,000

Savings Description	Total Savings amount £	Recurring and one-off savings 2020/21 £	Other Savings (HRA etc) 2020/21 £	2021/22 to date £
Bitumen price decrease	75,078	36,339	35,436	3,303
Waste negotiation	80,863	80,863		
Waste contract index	46,309	46,309		
Water price decrease	68,498	68,498		
Gas price decrease	133,549	131,699	1,850	
Fuel cards new discount	24,400	16,266		8,134
Electricity – bill analysis	97,193	62,745		34,448
Telecoms bill analysis	46,423	46,423		
Water meters lower prices	21,289			21,289
Rebates on contracts	106,214	76,214		30,000
Water refunds	86,000			86,000
<b>Sub-totals</b>	<b>785,816</b>	<b>565,356</b>	<b>37,286</b>	<b>183,174</b>

**Enabled savings** are those achieved with the Council as lead and supported by CPSS to develop savings ideas. This combined work resulted in concepts becoming savings and typically involved mapping ideas onto a plan, completion of actions usually with supplier engagement, and concluded with maintaining new relationships and contracts to sustain the savings contribution.

Information relating to these enabled savings is provided below.

**Grey Fleet** – Enabled savings- CPSS analysed the use of personal vehicles for business purposes and employees with the highest mileage were allocated a pool car and fuel card. At the same time, the Car Club was introduced alongside a new process to encourage the most cost-effective method of travel. The benefits were two-fold: (a) substantial cost savings and (b) reduction in carbon emissions through increased use of low emission vehicles.

**Hire desk** – Enabled savings- the Fleet Hire and Travel Desk was created to manage requests, to ensure off-hires are actioned once works are completed, to ensure compliance with Contract Standing Orders and to enable negotiation with suppliers for longer term hires.

**Printing** – Cost avoidance- this review involved renegotiating pricing structures arising from reduced print volumes across the Council's estate.