

Item 6

CABINET

29 SEPTEMBER 2005

REPORT OF DIRECTOR OF RESOURCES

Resource Management Portfolio

SPEND ANALYSIS PROJECT

1 SUMMARY

- 1.1 This report sets out details of the proposed Spend Analysis project to be carried out to examine the procurement spend throughout the Council.
- 1.2 The Project Organisation Structure identified for the project accompanies this report.

2 RECOMMENDED

It is recommended that Cabinet ...

- 2.1 Approves the Spend Analysis project and the Project Organisation Structure at Appendix 1.

3 BACKGROUND

Procurement

- 3.1 Procurement is an item high on many national agendas at this moment in time, with the focus clearly on how to improve service delivery and value for money through better procurement, thereby improving efficiency and delivering better value for money to our taxpayers. In order to achieve this the Government has launched a number of national programmes, of which procurement is heavily involved.

National Procurement Strategy

- 3.2 In October 2003 the Office of the Deputy Prime Minister (ODPM) launched the National Procurement Strategy for Local Government 2003 – 2006 (NPS). Its aim is to help Council's recognise the potential of effective and innovative procurement to improve service delivery and to also help Council's realise potential savings and other benefits from working together in partnership.
- 3.3 The NPS also encourages Council's to use their 'spending power' to shape markets and to reap 'Community Benefits' (economic, social and environmental) in line with Community Strategies.

Gershon Efficiency Review

- 3.3 No longer is it enough to demonstrate that we can deliver economies of scale and cost savings through good purchasing practice. The Efficiency Review chaired by Sir Peter Gershon demands more from the procurement community in terms of savings, but it also requires us to be more effective in our roles – for example e-Procurement and furthermore to help our colleagues improve their efficiency in terms of productiveness
- 3.4 The NPS and the Efficiency Review are thus complementary as both are encouraging every Council to make a real, positive and sustainable difference to the communities that we serve on a daily basis. We must ensure that our citizens receive efficiency services that truly meet their needs – crucially without compromising quality in any way

Comprehensive Performance Assessment

- 3.4 Specific consultation from the Audit Commission in respect of its proposals for CPA 2005 onwards for District Council's was published 6 September 2005 and runs until the end of October 2005. The final model is therefore not known at this stage, however, a report will be submitted to a future Cabinet to outline the contents of the consultation paper and the implications for the Council.
- 3.5 At this stage, it is clear that the options proposed have similar characteristics in terms of their reliance on self assessment and common themes throughout the contents of the assessment methodology, although the final structure can significantly differ dependant on the chosen option. In particular the common frameworks proposed by the Audit Commission consists of the following distinct areas of work:
- A Corporate Assessment
 - Direction of Travel Assessment
 - Service Block Assessments
 - Use of Resources Assessment
- 3.6 Procurement has a huge part to play throughout all the elements of the new CPA process and is specifically targeted in the CPA framework. Procurement is an underpinning component of both the Corporate Assessment and Use of Resources areas and is likely (this element is subject to further specific consultation) to form an element of the Direction of Travel Assessment. Procurement is also set out as a cross-cutting area within the Service Block Assessments, meaning the Council will be required to demonstrate how procurement is used to deliver the services identified within the Service Blocks.
- 3.7 The Use of Resources Assessment is made up of 5 themes with the Value for Money theme being specifically relevant to procurement.
- 3.8 Each theme consists of a number of Key Lines of Enquiry (KLOE), which are scored and then combined to arrive at a judgment for each theme. There are 2 KLOE's in relation to Value for Money with KLOE 5.2, point 3, relating directly to procurement.

- 3.9 The KLOE form the basis of the auditor's judgements and are supported by 'descriptors' for the Value for Money theme. These describe what performance by a Council at each level might look like or identify the arrangements it should have in place. Descriptors and criteria are included for performance levels 2, 3 and 4.

4. SPEND ANALYSIS PROJECT

- 4.1 Spend Analysis is a logical, understood, accurate and robust method used to analyse the Council's procurement spend, by examining the volume and value of purchasing transactions the Council is making. The project focuses on identifying what is strategic spend (long term investments or contracts) and what is tactical (responsive buying to meet an immediate requirement). It will define what mechanisms are in place or need to be established to encourage and to enforce the use of corporate contracts.
- 4.2 It is clear from the above that the Council must be able to demonstrate that it achieves good value for money and that it manages and improves value for money. In order to achieve this the Spend Analysis project will allow the Council to:
- ❑ Understand what goods and services are bought; who buys them; and where they are bought from.
 - ❑ Define how many transactions we process with suppliers (i.e. number of invoices) and what is value of our spend with suppliers (who are our biggest suppliers?).
 - ❑ Identify opportunities for achieving savings through efficient contracting of goods and services.
 - ❑ Deliver a delivery plan to achieve the savings and efficiencies identified.
- 4.3 This project is a very importance piece of work for the Council and will assist in the preparation for the next phase of CPA. 'Management buy-in' is critical to the success of this project, in order to realise the importance and raise the profile it is proposed that the project is reported to and delivered through the Heads of Service Group where clear commitment and ownership will be established, and that it is reported to Cabinet for information.

5 RESOURCE IMPLICATIONS

Staffing Implications

- 5.1 There are no direct resource implications as a result of this report. However, it is imperative that staff are identified, who have knowledge of the procurement spend and contracts established within their respective departments, to work with the Council's Corporate Procurement Manager to contribute to the preparation of base data and analysis.

Financial Implications

- 5.2 The aim of the procurement function is to enable the Council to obtain goods, services and works that represent value for money. Increasing or improving the service delivered from the same or less resource achieves an efficiency gain. This can result in cash savings or improvement of services through better use of resources and is highlighted in the Gershon Efficiency Review. Upon completion of this project a plan of targeted expenditure and efficiency gains to be achieved will be established.

6 CONSULTATIONS

- 6.1 It is proposed the Spend Analysis project will be delivered through the Heads of Service Group. Accountability and commitment is key to the success of this project and in order to ensure 'buy-in' from all departments the Corporate Procurement Manager will be attending the Heads of Service Group on 7 October 2005 to introduce and discuss the issues of this project.
- 6.2 The Project Organisation Structure, attached as Appendix 1 details the organisation structure proposed for the delivery of this project.

7 OTHER MATERIAL CONSIDERATIONS

Legal Implications

- 7.1 One of the objectives identified for this project is to ensure all future procurement undertaken within the Council is compliant with the regulatory framework, i.e. the EU Regulations. All contracts, which are above the European Union financial threshold, will be identified and included in the contract programme.
- 7.2 This project will impact on the future procurement spend of the Council which will in turn will impact on the Contract Procedure Rules within the Council's Constitution. A review of these rules is currently in progress and it is imperative that this project is linked to the review to ensure the revised Contract Procedure Rules reflect the project findings.

Risk Management

- 7.3 The key risks for the project are identified in the Project Definition document, a detailed copy of this document is held by the Council's Corporate Procurement Manager.

ICT Requirements

- 7.4 There are no hardware requirements for this project. The North East Centre of Excellence has provided the COGNOS Powerplay licence there is no further software requirements. Both the Council's Corporate Procurement Manager and the ICT Principal ICT Officer have received Powerplay training.

8. OVERVIEW AND SCRUTINY COMMITTEE IMPLICATIONS

8.1 The Council's Corporate Procurement Manager has revised the Procurement Service Improvement Plan, which will be reported to Overview & Scrutiny Committee 1 on 6 September 2005. This SIP includes under section 3 'Resources and Performance Management' includes the following actions related to this Spend Analysis Project:

- ❑ Undertake a spend analysis of the Council's procurement spend.
- ❑ Develop an understanding of the level of savings to be achieved and prioritise actions that deliver efficiencies.
- ❑ Consider the number of suppliers used by the Council and if necessary develop a plan to rationalise the existing supplier base.

9. LIST OF APPENDICES

9.1 Appendix 1 – Spend Analysis Project Organisation Structure

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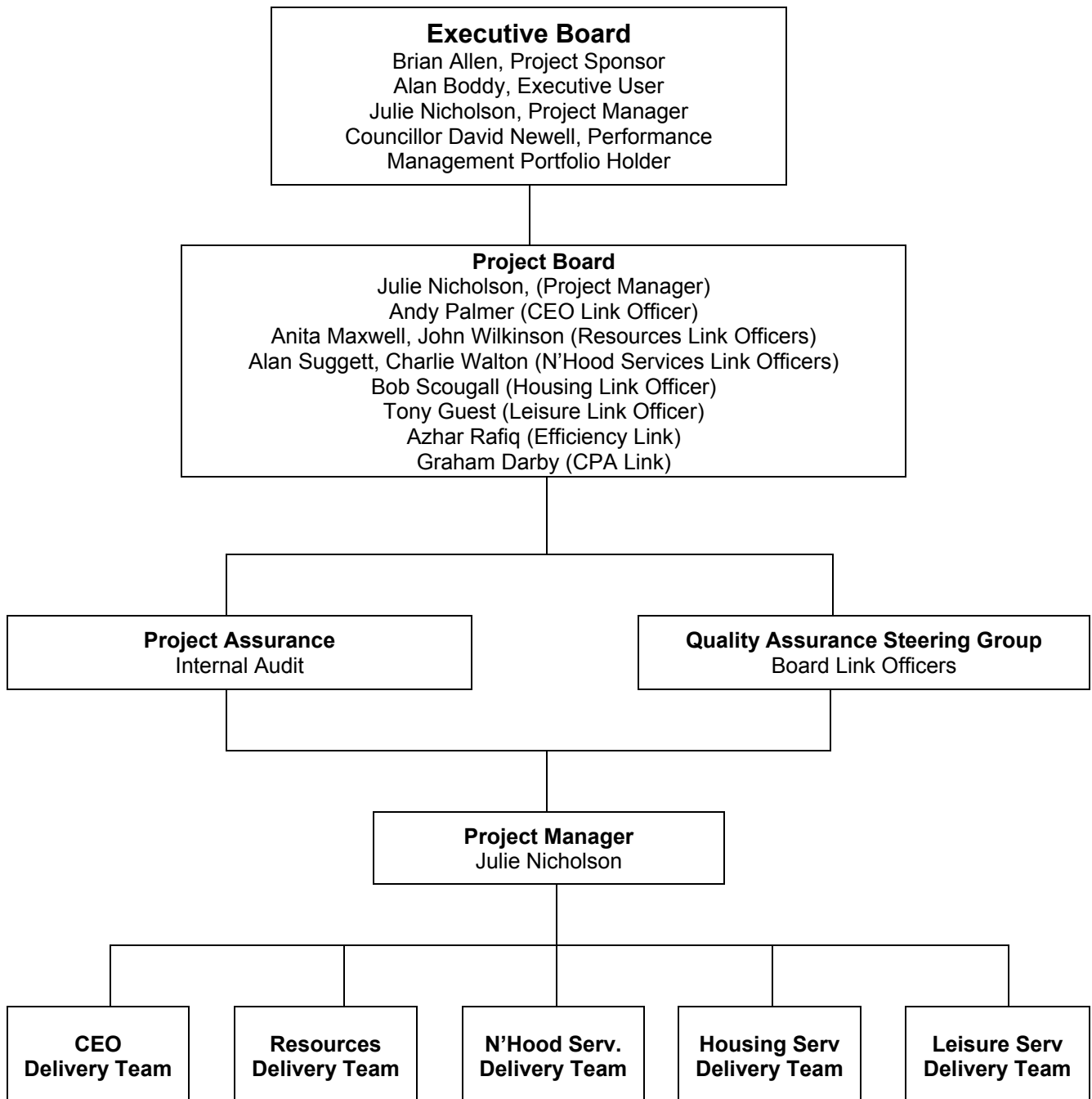
Background Papers

Internal		
1	Procurement Service Improvement Plan	January 2003
2	Procurement Strategy	March 2003
3	CPA High Level Action Plan	March 2004
4	Management Team Report: Comprehensive Performance Assessment Framework and the Use of Resources Assessment	Director or Resources July 2005
External		
4	SBC Procurement BVR	Audit Commission May 2002
5	National Procurement Strategy for Local Government 2003 – 2006.	ODPM October 2003
6	Releasing Resources for the Frontline: Independent Review of Public Sector Efficiency	HM Treasury July 2004
7	SBC Procurement Fitness Check	I&DeA August 2004
8	Efficiency, Gershon & Procurement	SOLACE July 2004
9	SBC, CPA - Final Report	Audit Commission March 2004
10	A Modern Approach to Inspecting Services	Audit Commission August 2004
11	Proposals for CPA from 2005	Audit Commission December 2004
12	Taking Stock, the National Procurement Strategy for Local Government, One Year On.	I&DeA March 2005
13	CPA – the harder test	Audit Commission June 2005

Examination by Statutory Officers

	Yes	Not Applicable
1. The report has been examined by the Councils Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Councils S.151 Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. The report has been approved by Management Team	<input checked="" type="checkbox"/>	<input type="checkbox"/>

SPEND ANALYSIS PROJECT ORGANISATION STRUCTURE



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