

**MANCHESTER CITY COUNCIL**  
**REPORT FOR INFORMATION**

**COMMITTEE** Resources and Governance Overview Scrutiny Committee

**DATE** 22 May 2008

**SUBJECT** Procurement Savings

**REPORT OF** City Treasurer

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**PURPOSE OF REPORT**

To provide details of the progress made in relation to the procurement of goods and services within the Council's revenue spend.

**RECOMMENDATIONS**

Members are asked to note the progress made to-date on the development of the Centralised Corporate Procurement function.

**FINANCIAL CONSEQUENCES FOR THE REVENUE BUDGET**

The overall Manchester Improvement Procurement savings target includes a significant target for procurement savings.

**FINANCIAL CONSEQUENCES FOR THE CAPITAL BUDGET**

Whilst the majority of savings identified relate to revenue spend items, there are some benefits which accrue directly to the capital programmes.

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**BACKGROUND DOCUMENTS**

Procurement Detailed Design Report – October 2007

Personnel Committee Report – November 2007 – Senior Management Structure for Corporate Procurement

## IMPLICATIONS FOR

Anti-poverty  
Yes

Equal Opportunities  
Yes

Environment  
Yes

Employment  
Yes

A centralised procurement function operating to recognised best practice will ensure that Manchester City Council (MCC) maximises the opportunities to bring economic, environmental and social benefits that can be derived from improvements to procurement practices.



**MANCHESTER**  
CITY COUNCIL

**PROCUREMENT SAVINGS**



**Richard Paver**

*22 May 2008*

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## **1.0 INTRODUCTION**

The role of the City Council's corporate procurement function changed radically following the internal Best Value Review in 2001 and has continued to evolve in response to the national and local agendas and a local Audit Commission Value for Money review undertaken during 2002.

Subsequently, a project mandate was approved in October 2005 detailing a procurement Service Improvement Project (SIP) under the governance of the Manchester Improvement Programme (MIP). This mandate for change would ensure the Council's new approach to procurement would result in a more effective and efficient operation.

## **2.0 BACKGROUND**

The Procurement Service Improvement Project formed part of the portfolio of projects that make up the Manchester Improvement Programme and sits in the wider back office key programme area.

The overall vision and purpose of the project was to provide value for money in procuring the goods and services required by the Council, ensuring the right products are provided at the right time for the right price, whilst operating in a way which is consistent with promoting wider Council policies, aims and objectives.

In achieving this vision the procurement process will consider environmental issues and sustainable procurement as well as promoting the local economy.

In addition, the vision for this stage of the procurement SIP was that the smooth implementation of a central procurement service, together with the associated processes and technology, where there is positive engagement by all stakeholders will enable the delivery of planned benefits to be achieved.

The introduction of a centralised procurement function also assists in the appropriate use of collaborative arrangements and provides the ability to operate flexibly ensuring the procurement service will be able to meet the needs of the Council now and respond to changes in the Council's needs in the future.

The approach taken by the project involved research and information gathering across the Council with key stakeholders as well as extensive research external to the Authority.

The outcome of the research and consultation identified significant scope for service improvement; specifically in the areas of:-

(i) **Developing a Centralised Procurement Function**

The research undertaken showed that over 120 staff to varying degrees, equivalent to 40 full time, staff were involved in procurement activity across the Council. This leads to missed opportunities to maximise economic, social, environmental and sustainability benefits from the City Council's combined buying power, together with minimal focus on developing new procurement strategies and systems.

(ii) **Introducing a Best Practice Procurement Model**

Whilst there were areas of good practice identified within the Council, there was inconsistent application of best practice procurement principles and processes resulting in under use of corporate contracts, lack of contract management and supplier performance and lower than expected benefits realisation.

### **3.0 OBJECTIVES AND PROGRESS TO-DATE**

The key objectives identified by the SIP were:-

#### **Objective 1**

Deliver a best practice procurement framework (generic model) which is:-

- Focussed and aligned with MCC's strategic aims and objectives.
- Appropriate, flexible and scalable for the stakeholders who will use it.
- Balanced – giving an overall picture of the procurement cycle.
- Robust – in order to better comply with current MCC, National and EU regulations, and to withstand future regulatory changes.
- Integrated into the organisation, dovetailing with existing policies, business planning and management processes and in line with National Procurement Strategy.
- Cost Effective – balancing risk and benefit against cost, and reducing non-value adding tactical/transactional activities.

#### **Progress To-date**

The generic 'best practice' procurement model was approved in December 2006 and is utilised on all major procurement activities undertaken through Corporate Procurement. The process is detailed in Appendix 1 to this report.

## Objective 2

Establish a centralised corporate procurement function, which:-

- Facilitates cost reduction of goods and services through negotiating and managing contracts.
- Optimises economies of scale benefits through aggregation of demand and rationalisation of the supplier base, utilising collaborative contract arrangements that deliver value for money.
- Applies professional procurement expertise in all its procurement activities across all departments.
- Investigates opportunities to utilise available technology to automate key procurement activities such as the tendering process.

### Progress To-date

The central procurement function was approved in November 2007 and is in the final stage of implementation.

The total number of 30 posts is around 10 posts less than the previous devolved structure and is designed to address the procurement issues identified through the MIP review.

The detailed structure is shown in Appendix 2 to this report.

The key functions are summarised below:-

#### (1) Systems and Strategies Group

This team will focus on developing procurement strategies and working closely with all operational and support services to ensure that procurement strategy and activity dovetails with, and is complementary to, other City Council strategies, protocols and procedures. This team will have the closest links with local, regional and national procurement agendas and will work to ensure that MCC leads on new procurement initiatives, incorporating innovation and efficiency into the day-to-day business of the procurement service.

#### (2) Procurement Operations Team

This is the largest team and will concentrate on the continuation and development procurement business activities ensuring all major procurement exercises follow the generic best practice procurement model developed through the MIP review process.

(3) Contract Management and Benefits Realisation Team

In order to benefit from improved procurement it is essential that new contracts are adopted and fully utilised across the Council at the earliest opportunity. The work of this team is to ensure that robust and rigorous systems are in place to improve contract adoption, utilisation and management of supplier performance to realise the benefits.

**Objective 3**

The achievement of value for money procurement resulting in cost savings of:-

2007/08 - £10.2 Million  
2008/09 - £15.0 Million  
Cumulative Total - £25.2 Million

**Progress To-date**

The final outcome for 2007/08 was a saving of £12.95 million.

The projected saving for 2008/09 is a further £14.17 million.

A cumulative total of £27.12 million.

Appendix 3 to this report shows the distribution of the savings.

The procurement project team recognised, in the early stages, that by harnessing innovative procurement practices and techniques with operational experience within individual departments that savings would be achieved.

The main procurement practices and techniques used to generate the savings fall under the following headings:-

Aggregating spend  
Arranging new contracts/improving existing contracts  
Using electronic reverse auctions  
Introducing gateways  
Improved market management

All major procurements are evaluated on a price and quality split with the weighting agreed for each individual project.

The savings have been achieved without reducing quality and, in many cases, the quality and service has improved.

In addition the savings have been achieved across a much wider base than the traditional procurement areas such as stationery, energy, telephony etc.

Significant savings are being achieved from work undertaken in Social Care, Housing and Education.

The introduction of commercial purchasing skills to support the care staff and lead on procurement activities has improved value for money and delivered significant benefits during the year. This work will continue and be extended into other non-traditional procurement areas through the centralised procurement service.

Appendix 4 to this report includes 4 case studies on the areas where major savings have been achieved.

#### **Objective 4**

Maximise opportunities to bring economic, environmental and social benefits to our customers derived from improved procurement practices.

#### **Progress To-date**

The generic procurement model requires that consideration is given to all sustainability issues throughout the procurement process and a more focussed approach to sustainability issues has been adopted to join up the various strands and develop a corporate sustainability policy.

The policy is in an advanced stage of development and will be implemented following consultation with key stakeholders.

During the year a number of events have been held to support small to medium sized enterprises within local areas to advise on how to obtain work from the Council, tenders have been made more visible and the process simplified to encourage more bidders.

#### **4.0 CORPORATE PROCUREMENT BUSINESS PLAN FOR 2008/09 TO 2010/11**

The 3 year Business plan can be summarised as follows:-

#### **Service Overview**

Corporate Procurement is responsible for the strategic and operational management of the procurement process associated with the Council's annual revenue expenditure of around £600M on goods and services.

The section provides procurement services to all Council departments as well as a range of external bodies ensuring that contracts are in place to meet the needs of Service Heads and deliver value for money to the Council and our partners, ensuring that best practice procurement methods are applied consistently.

### **Our Priorities**

- Delivering value for money through all our contracts and activities to support the Council priorities and objectives.
- Maximise opportunities to bring economic, environmental and social benefits to Manchester that can be derived from improvements to procurement practices.
- Continue to take a lead role in the development of joint procurement initiatives with other Local Authorities.
- Improve opportunities for local suppliers, particularly small to medium sized enterprises (SME) to access purchasing opportunities and obtain contracts.
- Utilise Manchester's buying power to raise awareness, promote and implement an environmentally friendly procurement policy and practices that help to minimise the impact of our activities on the environment.
- Delivery of a modern and efficient procurement service by professional and qualified staff working with streamlined processes.

### **Objectives/Targets for the Year Ahead**

- Create a unified cost effective procurement service that is viewed as a centre of good practice.
- Optimise the benefits to be gained from the use of collaborative procurement arrangements.
- Continue to increase the number and range of contracts in place to meet the needs of the Service Heads and obtain the greatest value in delivering their services and the overall corporate plan.

## **5.0 GOVERNANCE OF CORPORATE PROCUREMENT**

Recognising the continued pressure to reduce costs and ensure value for money is obtained in all our procurement activities following the completion of the SIP in December 2007, a Procurement Board has been established to oversee the procurement function within the Council.

The board is chaired by the City Treasurer and includes the Director of Capital Programmes, the Head of Financial Management, the Head of Regeneration (Legal) and the Head of Corporate Procurement.

## **6.0 PROCUREMENT HUB**

Recognising the need to continue to improve procurement practice within all Authorities, the Chief Executives in the region have been working with the North West Centre of Excellence and the recently established Regional Improvement and Efficiency Partnership (RIEP) to develop a procurement strategy to build on the experience and expertise developed in the region during the last 3 years.

It has recently been agreed that Trafford MBC will lead on the Sub-Regional Procurement Hub for the Association of Greater Manchester Authorities (AGMA) and there is a working assumption that Manchester will take on a Regional role for both goods and services procurement and capital programmes. This Regional role is subject to the approval of the RIEP board, which meets on the 20 May 2008.

## **7.0 SUMMARY**

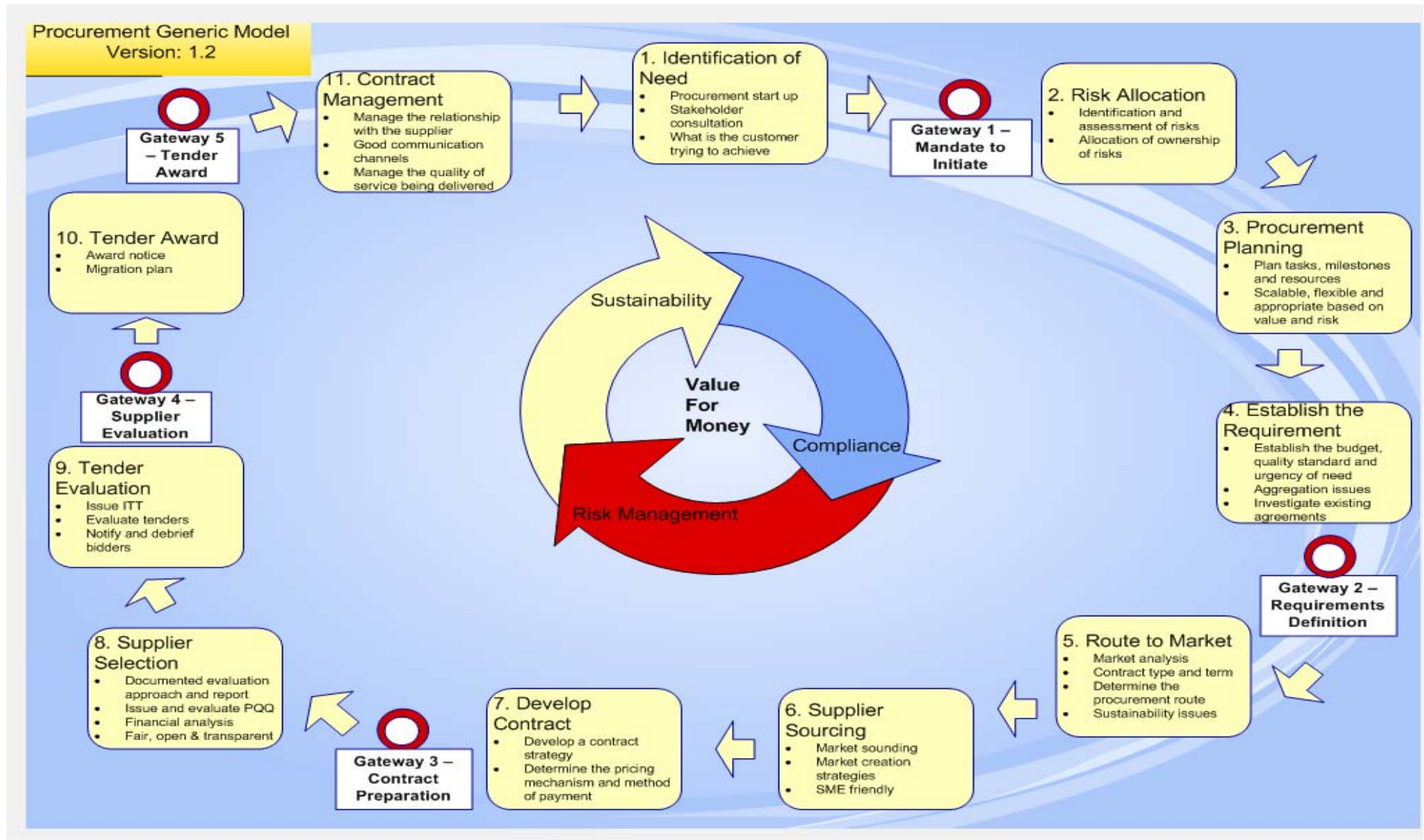
The Service Improvement Programme for procurement recognised that significant benefits can be gained through harnessing the controls within our integrated back office system (SAP) with smarter, more efficient procurement methods and the progress made so far demonstrates that the target savings are realistic and the benefits are achievable.

## **8.0 RECOMMENDATIONS**

Members are asked to note the progress made to-date on the development of the centralised corporate procurement function.

## **APPENDIX 1**

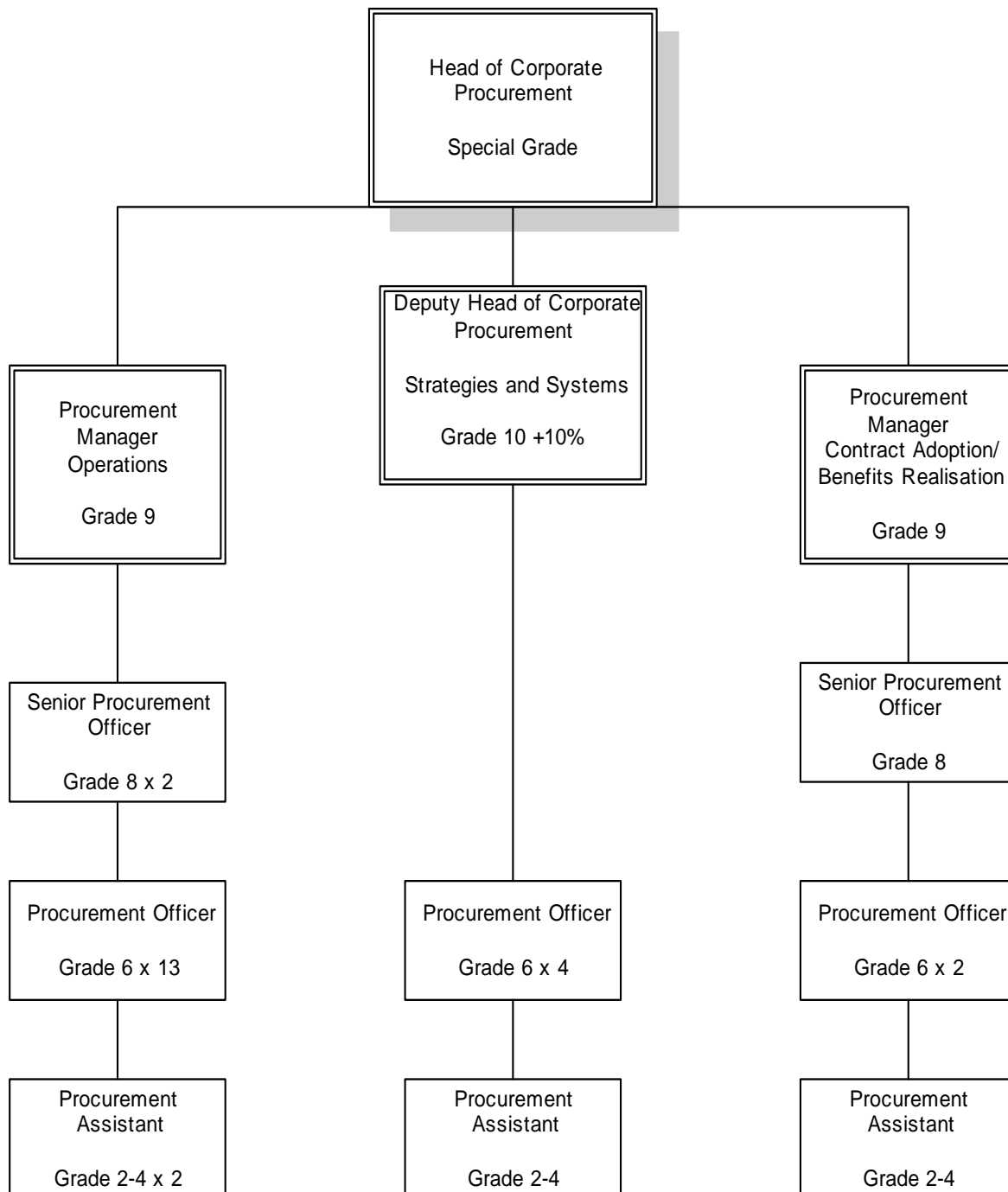
### **GENERIC PROCUREMENT MODEL**



## **APPENDIX 2**

### **CENTRALISED PROCUREMENT STRUCTURE**

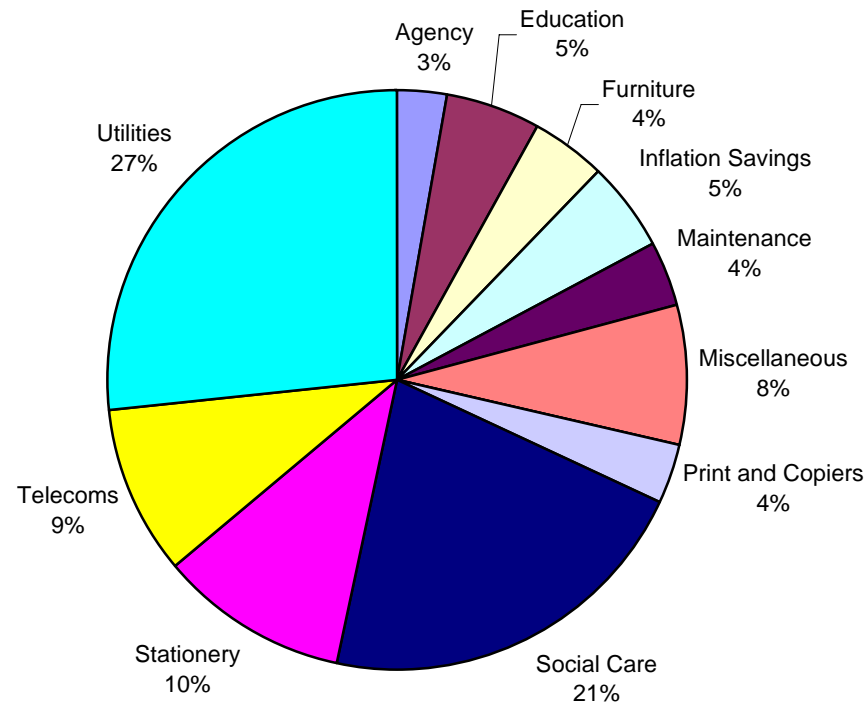
## APPENDIX 2



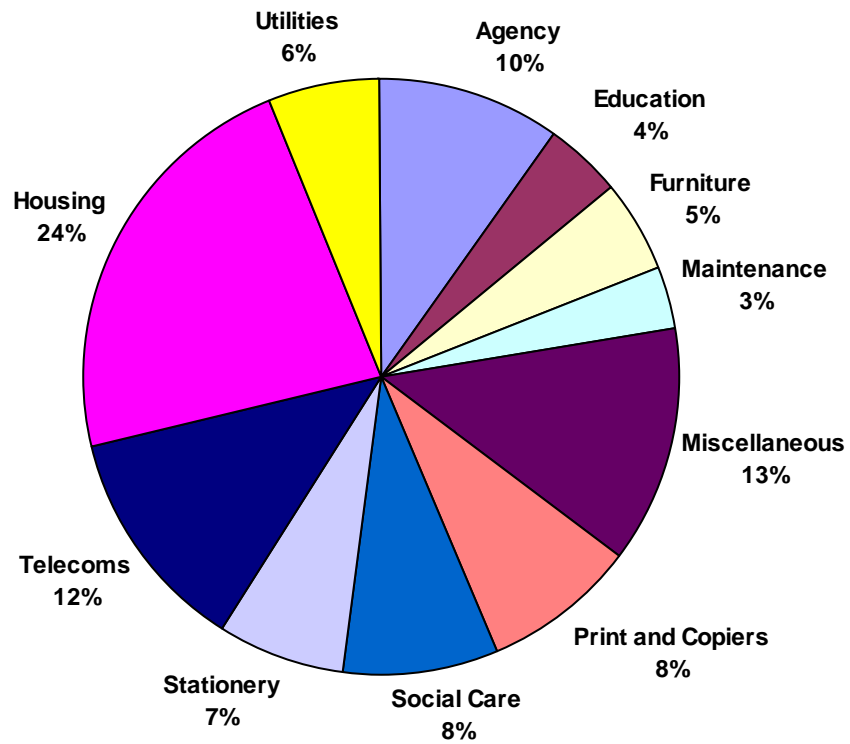
## **APPENDIX 3**

### **DISTRIBUTION OF SAVINGS**

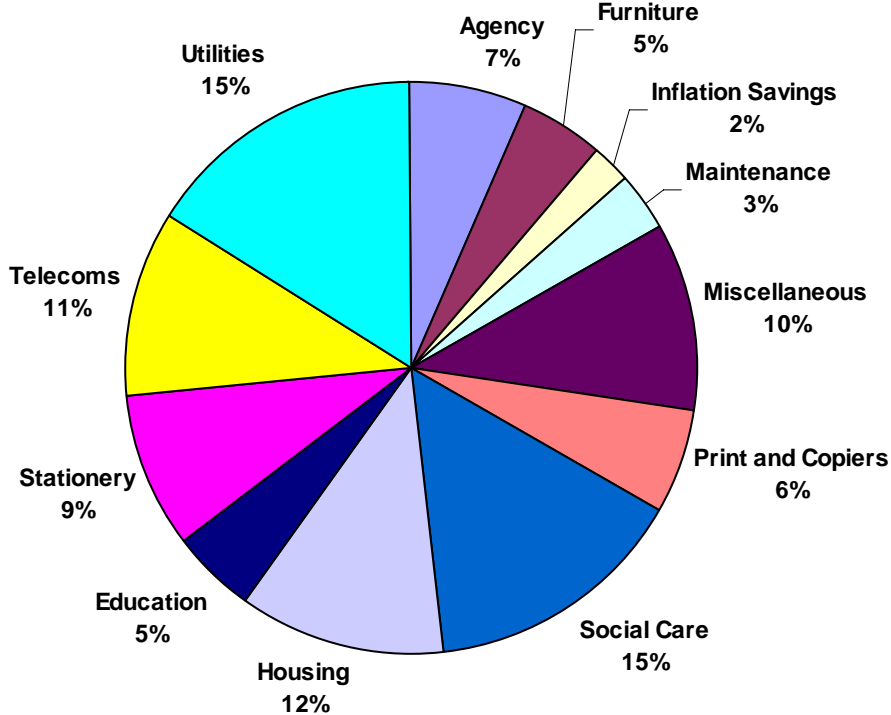
**2007/8**  
**Savings Distribution 12.95million**



**2008/9  
Savings Distribution £14.17million**



**2007 to March 2009  
Savings Distribution £27.12million**



## **APPENDIX 4**

### **CASE STUDIES**

#### **E-AUCTION**

#### **RESIDENTIAL CARE**

#### **TEMPORARY ACCOMMODATION**

#### **FOSTER CARE**

### REVERSE E-AUCTION – A CASE STUDY

#### Background

During the research phase of the project a visit was made to British Aerospace as they had made significant savings using reverse E-Auctions. They had carried out over 20 auctions and delivered savings of over £10 million.

Manchester at the time had undertaken two auctions both of which provided savings in excess of 30%.

#### The Process

A business case was submitted to, and approved by the City Treasurer and the Director of the MIP to undertake up to 20 auctions during the period September 2006 to August 2008.

Utilising an experienced E-Auction company to support the programme a range of products and services were identified as being suitable for auction based on the following criteria:-

- A clear specification was available
- A competitive market exists
- The contract spend is greater than £250K

#### Outcomes

The schedule below provides details of the E-Auctions carried out and the savings achieved.

A total of 17 auctions have been completed to-date with a total saving of £13.5 million spread over the next a 3 year period:-

Since introducing the policy to maximise the use of E-auctions in 2006/07 the following auctions have been completed:-

CATEGORY	CONTRACT PERIOD	TOTAL CONTRACT SPEND	TOTAL CONTRACT SAVING
Stationery	2 years	£4,819,000.00	£1,820,000.00
Telecoms	2 years	£4,273,000.00	£1,255,000.00
Fresh Meat	3 years	£1,000,000.00	£60,679.00
Print	3 years	£4,455,992.00	£1,022,963.00
Residential Furniture	3 years	£8,981,532.00	£1,669,032.00
Grass Cutting Machinery	3 years	£1,862,000.00	£196,000.00
Electricity	1 year	£7,864,747.00	£2,135,554.00
Gas	1 year	£6,619,523.00	£1,641,311.00
Vehicle Spot Hire	2 years	£3,885,050.00	£475,625.00
Planning Supervisor & CDM	Project Specific	£2,765,000.00	£313,125.00
Cleaning/Janitorial Supplies	2 years	£1,800,000.00	£282,000.00
Concrete	2 years	£1,900,000.00	£62,775.00
Event Security	2 years	£525,953.00	£247,237.55
Transport	2 years	£2,949,394.38	£1,663,924.64
Arboricultural Services	2 years	£364,088.95	£27,803.60
Office Furniture	2 years	£582,045.00	£350,992.60
Dry Goods and Frozen Food	3 years	£3,743,089.00	£312,932.00
<b>Totals</b>		<b>£58,390,414.33</b>	<b>£13,536,954.39</b>

### Impact on Quality

The savings have been achieved without reducing quality of the products or service and often the existing supplier has reduced prices to retain the business in the fact of open competition.

### Next Steps

The use of E-Auctions will be used less frequently as in many cases the prices obtained are unlikely to reduce further by using this technique.

## **Key Learning Points**

Engaging with the suppliers prior to the tender process and E-Auction was the key element to the success of the auction process. Many small to medium sized enterprises required training and assistance prior to and during the auction process.

The training was provided free of charge and has assisted suppliers in developing their own businesses.

## RESIDENTIAL CARE – A CASE STUDY

### Background

In January 2007 Corporate Procurement were asked to work with Adult Social Care (ASC) in order to manage the increasing costs of Residential Care throughout the city. This followed on from the success of joint working with Children's Services colleagues on independent Foster Care agencies. Using lessons learned from the Foster Care project, a team was established to take the work forward to improve quality and explore savings opportunities as 50% of the ASC budget is spent on Residential Care.

### The Process

Directors and Senior Managers were immediately "signed up" to the process and a project team was established from Corporate Procurement and ASC.

An analysis of spend data was carried out and information was gathered regarding the quality of each care home's provision. ASC stated clear aims and wished contract with "good or excellent" Commission for Social Care Inspection (CSCI) rated providers.

A benchmarking exercise was commissioned to compare MCC's rates with other Local Authorities.

To complete the picture historic data was gathered to establish what fee increases had previously been paid by MCC to care homes.

### Initial Findings

MCC deals with a large number of providers but customer choice is a key factor in selection. The weight given to price/quality in provider selection not defined. Many companies were charging "top up" fees either directly to customers or in some cases to the Local Authority (LA). The fee agreement process was inconsistent. In line with other LA's across the country, there was a culture to agree an uplift every year and a standard percentage was applied across the board regardless of existing cost or quality.

Prior to this arrangement, several years of no increase had resulted in some providers closing homes and others prioritising referrals from surrounding LA's. An agreed 3-year strategy of annual increases was implemented following a specially commissioned piece of work to reach a fair price. Overall MCC increased payment by £30/week and by the end of this period MCC were paying providers a higher rate than most other Local Authorities in the region.

## **Strategy**

Letters were sent to Residential and Homecare providers outlining Manchester's intention to maintain a zero % price variation for the 07/08 financial year. Providers were invited to discuss ways in which we could build better relationships with them for our mutual benefit.

One to one meetings were established with over 30 major providers (i.e. spend over £400k per annum each).

The meetings were held with a clear agenda built around operational issues and the quality of provision/CSCI rating, a discussion on fees for 2007/08 and an outline of our plans for 2008 and beyond.

Ideas for mitigation of the effect of zero % price variation were shared with providers e.g. improved payment terms (improves cash flow for companies) in return for discounts. Their views were sought on a practical fee structure that would apply to all. They were invited to give their input into the development of a specification for a future tender. Our aim to remove of "top ups" was discussed and providers were asked to consider how cost could be reduced without compromising quality.

## **Outcomes**

The approach proved successful and the support of the providers was gained.

Some agreed to cease "top-up" charges.

ASC increased monitoring meetings with "poor" and "adequate" rated providers, supported them with training, provided them with materials and gave assistance on payment issues.

The CSCI ratings of some of these "poor" and "adequate" providers have now improved. The number of "poor" providers has reduced from 13 to 2.

## **Savings**

The same stance was taken with Homecare providers resulting in combined savings in the region of £2.7million.

## **Support for providers**

There was recognition that some providers may need support and a hardship fund was established with a limit of £750k maximum.

Providers applying for a portion of the fund had to meet certain criteria and demonstrate the need for support. In all, a total of £168K was issued from the fund and mainly to charitable trusts and voluntary organisations.

## **Next steps**

A working group is now established to prepare for the tender process for a contract to start in April 2009.

## **Key learning points**

The blend of care and commercial skills can improve both quality and cost outcomes.

Companies will support MCC if asked in the right way.

## **HOMELESSNESS TEMPORARY ACCOMMODATION – A CASE STUDY**

### **Background**

There had been an increase in the numbers of families requiring temporary accommodation whilst awaiting permanent re-housing. Use of the Private Sector for accommodation began with one company. As demand grew, additional Private Sector Providers were engaged resulting in the use of four companies.

Initial findings indicated a lack of consistency in the terms & conditions used with each of the companies and a disparity in the rates agreed with each provider.

The rates agreed were in excess of the amounts Homelessness Division were able to claim through Housing Benefit resulting in a significant call on the Council's resources.

### **The Process**

Corporate Procurement and HD met with all existing providers and secured immediate and significant cost-reductions. This was followed by preparation for formal tender by developing a specification that met all of HD's requirements and the use of standard terms and conditions that would apply to all companies.

Meetings were held with other interested parties and stakeholders prior to the tender advert. The contract duration was set at four years with an option to extend for a further year. This level of commitment would be valued by providers and would allow them to set their price accordingly.

### **Outcomes**

Six companies submitted tenders and all agreed to new quality criteria within the specification. The tender was evaluated on a combination of price and quality criteria.

Framework contracts have now been issued to 3 companies who will operate under the same terms and conditions to the same specification.

### **Savings**

Rebates were offered related to the volume of business and crucially there was a reduction in unit costs from £325 per week per property to £194 per week per property. This equates to annual savings of approximately £2.6 million per year.

## **Key learning point**

In order to bring the market back into control a two-phased approach is beneficial:-

1. Meet existing providers to gain an understanding of the market
2. Issue a tender to stimulate competition

## FOSTER CARE – A CASE STUDY

### Background

In September 2006 the Manchester Improvement Programme Director asked Corporate Procurement to look into the procurement of Foster Care placements from Independent Fostering Agencies (IFA's).

The budget monitoring process was indicating a significant overspend for the financial year 2006/07.

### The Process

A small project team was established comprising of Procurement and Children's Services. The team produced reports from financial systems to establish what was being spent with the companies and to compare rates. The resulting reports showed that half of the budget was being spent with high cost providers.

Information was gathered in order to gain an understanding of the quality of the IFA's service provision. This was a combination of the Ofsted rating and information from Social Workers.

The financial and quality information were combined and it became very clear that paying a higher price does not necessarily equal better outcomes or higher quality. MCC had in effect developed a two-tier model split between high cost providers with an average weekly unit cost of around £950 and low cost providers at around £630 per week. Quality outputs were generally the same in both tiers.

Following the analysis a strategy was developed and Directors and Senior Managers "signed up" to the process. It was identified that there was a lack of consistency in supplier selection leading to new placements going to high cost providers. To rectify this a Gateway was introduced at Assistant Director level.

One to one meetings were then held with major providers in strategic order. The initial meetings set out the key aims and objectives and providers were asked to consider how cost could be reduced without compromising quality. Ideas for savings were provided by companies and recorded for future meetings.

It soon became apparent that the team was dealing with a close knit supplier base and the high cost companies in particular worked hard to resist efforts to control costs. The exercise did however produce significant movement from enough providers to help MCC bring costs under control. This combined with the Gateway meant that where provision could not be met internally, the placement was made with a provider from the lower cost tier.

A round of follow up meetings was focused on both cost and quality issues, offers of discounts were confirmed and providers were briefed on plans to prepare a tender for externally provided Foster Care.

## **Outcomes**

- Direct price reductions/discounts totalling £480K per annum including agreed to zero % inflationary increase for 2007/08 by the suppliers in the higher cost band
- Introduction of Gateway through Assistant Director before placements made delivered a further £800K saving in avoiding making external placements
- Reduced the number of providers receiving new work from 13 to 6 in 2007/08 and awarded on most economically advantageous package (60% quality, 40% price)
  - Matching the needs of the placement is key and placement outside of the 6 will occur if they cannot meet the needs
- Agreed formal tender process for 2008/9
- Availability of Foster Carers no longer an issue and likely that no more than 6 providers will be required to cover new placements

## **Developments Since Sept 2006**

- Our lowest price has remained stable
- Our highest price has reduced by almost £100 per week
- Our average price has reduced by almost £100 per week
- Dramatic reduction in spend with high cost companies
- Foster Care services remain in budget
- Reduced demand via gateway process
- There is now competition between providers to achieve better quality/price ranking
- Best practice has been shared with other local authorities
- Costs have reduced without reducing quality
- The Gateway through ADs has been changed to a Gateway through Deputy District Managers who are accountable to District Managers for budget management

## **Next Steps**

Collaborative opportunities have been identified and a tender timetable is being developed. The dialogue with companies has developed and a better understanding of each other's requirements has been beneficial to both parties. Further inflation savings are currently being achieved as a result. The management of price variations has now been extended to Children's Residential placements.

The same techniques detailed above have been used to great effect to achieve savings in other areas.

### **Key Learning Points**

The blend of Social Care and Procurement expertise is key to success.

Good provider relationships must be developed to achieve value for money.

The combination of cost and quality criteria/considerations has proved to be a key driver in delivering the outcomes.