



Briefing 10 - 41 August 2010

Efficiency gains through more effective approaches to public procurement.

To: All Chief Executives, Main Contacts and APSE Contacts

This briefing is one of a series of papers being issued by APSE around efficiencies and how local authorities can deal with budget constraints and maximise their opportunities for more effective approaches to procurement. As council's face tougher times and unprecedented financial constraints, APSE has brought together some examples of where real efficiency savings have been made and some examples of best practice in the form of case studies.

Key Issues

- Procurement has already contributed to the overall savings exercise as part of the wider efficiency programme in local government but there remains considerable scope to achieve further efficiency's through more effective approaches to procurement
- This briefing explores how councils can self assess their procurement functions and visibly manage procurement in order to reduce costs.
- This briefing also explores a number of best practice case studies.

1. Introduction

Each year councils in the United Kingdom spend significant resources externally. Procured goods, services and works accounts for approximately half of local government's expenditure. Given the significant downward pressure on Local Government budgets of up to 25% over the next four years, subject to the outcomes of the Comprehensive Spending Review, the strategic importance of procurement is self evident. If managed well, procurement can and does provide local councils with significant potential for savings and provides opportunities for added leverage with suppliers.

Significant steps have already been taken by the UK Government and devolved administrations to develop a well rounded policy and strategic context for procurement, including the Gershon efficiencies procurement work stream, 'Delivering Better Services' (the Byatt report), Rethinking Construction (the Egan Report) and the McClelland Report in Scotland. APSE has also produced two significant research reports contributing to the debate which are '*Creating resilient local economies: Exploring the economic footprint of public services*' and '*More bang for the public buck: A guide to using procurement to achieve community benefits*'. Local councils will increasingly need to focus on ensuring that they deliver maximum benefits from their procurement activities.

Within the current policy context however there remains significant differences between councils in developing effective procurement strategies and approaches, which are often due to local capacity. APSE has attempted through its own research and exploring best practice amongst member authorities to identify measures that will help member authorities unlock the benefits of effective procurement.

2. Unlocking the Procurement Challenges

In order to receive the benefits associated with procurement there are a range of challenges that need to be addressed if financial savings are to be unlocked:-

- **Procurement Leadership and Governance**
Is there clear direction from the top with clear support for getting value for money or best value in procurement?
- **Procurement Strategy and Objectives**
Is there a clear, systematic holistic and well researched framework to guide the local authority's purchasing decisions?
- **Specifications of goods and services**
Can the local authority demonstrate a prudent and well planned approach to defining its supply needs?
- **Sourcing strategies and collaborative procurement**
Can the local authority demonstrate a clear understanding of how it can best satisfy its core supply needs?
- **Contract and supplier management**
Does the local authority manage its suppliers and contracts efficiently?
- **Processes and Systems**
Does the local authority have efficient and robust processes and systems to support effective procurement?
- **People**
Does the local authority have people with sufficient capability to ensure effective performance?
- **Performance measurement and management**

Does the organisation have a solid approach to assessing and demonstrating its procurement performance?

As part of the need to transform procurement, councils need to appraise their current positions to identify strengths and areas for development. Councils could use tools such as the APSE publication *'More bang for the public buck: A guide to using procurement to achieve community benefits'* which explores how council's can 'squeeze the procurement juice' to enable the integration of local objectives in procurement such a training, skills and involvement of local SMEs in procurement strategies or guides such as the Scottish Governments Procurement Capability Assessment Framework to assist in this task.

The next section of this briefing provides information on case studies from APSE member councils who have unlocked the procurement challenges and started to realise real business benefits with particular regard to cashable savings.

3. Procurement case studies

Case Study 1 - Effective Supplier Management

A council in the East Midlands embarked on its transformation programme three years ago. Over this period the Council has realised savings of £3.5 million from a procurement perspective. This has been achieved in part by improving its approach to supplier management. As a result, the Council now takes full advantage of supply based intelligence to drive corporate savings, improve quality of service and provide total transparency.

Through a hosted solution*¹, savings of £500,000 were achieved in 2009/10 alone through the implementation of rigorous and rigid controls to a range of procurement processes. The solution captures a range of supplier information consolidated into a single view of activity. Key benefits include:-

- Direct cost savings and increased capacity
- A clean category mapped and segmented supply base
- Control over the number of suppliers

The Council is now creating new opportunities to increase broader public service collaboration in that it will be the stand alone procurement hub/gateway for all public sector agencies operating within its boundary.

Case Study 2 – Procurement savings used to fund a transformation programme

A large council in Yorkshire with external support identified the opportunity to secure procurement savings as part of its transformation programme. Detailed work was commissioned in the form of a business case which identified a substantial savings target of £23.5million by 2011. The target was particularly challenging given the council's devolved organisation, numerous internal

* A hosted solution typically refers to one where the application — customer resource management (CRM) and enterprise resource planning (ERP), in this case — and the hardware that it runs on are provided to you as a turnkey solution by a third-party application service provider

stakeholders and disparate sources of data and a devolved decision making process. Savings of £17 million have been generated to date primarily through deep commodity reviews, standardisation of process and a revised organisational arrangement for procurement which places emphasis on designated procurement officers who are skilled in the process and work alongside the respective services.

Case Study 3 – E-procurement

A Council with a spend of approximately £700 million a year based on 2008/09 figures has remodelled its procurement process and introduced a new process and support system.

Improved corporate purchasing strategies and discrete commodity strategies, together with the introduction of cutting edge technology to support purchase to buy processes, is expected to deliver savings of £21 million over a three year period.

Case Study 4 – E-invoicing

A Council in the South East of England has introduced a new platform/solution which fully integrates a 'purchase to pay' function.

The Council has created the capacity to manage the total process electronically including the payment of invoices. By paying invoices electronically the Council will save a further £2.5 million by 2012.

The switch to electronic invoicing has opened up a wealth of time and cost savings for the Council while speeding up payments and enhancing relationships with local regional and national suppliers.

In addition, services no longer need to match, batch and key invoices manually. Savings have been achieved as full time posts have been deleted. In the main, employees have been redeployed to more added value roles or positions have ceased through natural decreases in resources such as retirements or removing vacant posts.

Case Study 5 – Collaboration and E-auctions

Working together a number of district councils, in the South West of England, formed a collaborative procurement partnership to purchase office supplies. The objectives of the partnership were to:

- Establish a single contract for office supplies
- Achieve cashable savings

A collaborative tender was prepared with an estimated market value of £1.2 million. The contract was let according to the OJEU restricted procedure and prospective bidders were informed that an e auction would be used.

The overall savings against an anticipated annual aggregate spend of 1.2 million was 60% compared to the prices previously obtained. This equates to savings of approximately £720,000 per annum.

Further savings will be achieved as the contract requires all suppliers to trade electronically via full P2P (procure to pay) process.

Case Study 6 – Procurement Cards

A Council in the South West of England introduced procurement cards throughout their organisation.

The Council is currently making 25000 purchase transactions by card with a value in excess of £5 million per annum. Some services are making over 50% of their spend through cards. The business change has reduced administrative costs by some 40%.

Case Study 7 – Procurement collaborative contracts

As part of the need to reform and improve public sector procurement the Scottish Government established Procurement Scotland. Procurement Scotland has established a number of national contracts for a range of goods and services. All of the Scottish public sector is invited to procure particular goods and services off the national contracts including all of Scotland's 32 Local Authorities. A range of contracts have been successful let and are delivering efficiency savings to councils.

These Include: -

- **Office supplies – general stationary**

Procurement Scotland established a national framework agreement for the supply of general stationary for the Scottish Public Sector. The contract commenced in September 2008 and runs to August 2011 with a possible extension for a further year. Utilising the baseline figures for 2007/08 the total savings delivered to date stand at £7.6 million.

- **Office supplies – office paper**

Procurement Scotland established a national framework for the supply of office paper with Lyreco UK Ltd. The contract runs for the period of September 2008 to August 2011. Using 2007/08 baselines, the total savings delivered to date stand at £3.1 Million.

- **Postal services**

Procurement Scotland established a national framework for postal services. The contract commenced in November 2009 and runs to October 2010. The contract was awarded to Royal Mail and T.N.T Services. 80 Organisations in the public sector subscribe to the contract. Annual spend across the sector amounts to £25 million, estimated savings are calculated to be £2.95 Million.

- **Courier services**

Procurement Scotland established a national framework agreement for the supply of courier services to the public sector. The contract commenced on May 2010 and expires in April 2012. The contract was awarded to DHL Express UK Ltd and Eagle Couriers. Anticipated spend on the contracts amounts to £18.5 million with estimated savings calculated to be £1.85 Million.

APSE comment

There is a clear need for councils to develop and establish effective approaches to underpin procurement. Procurement as a function has contributed significant savings to date to the local government sector. Whilst it is recognised that there are some strong policy dilemmas such as moving to bulk purchasing, which may create some disadvantages to the local economy, there will be a growing need to ensure that every pound spent by a local authority is maximised.

This transformation process within procurement may involve:

- Managing spend more effectively
- Segmenting spend into discrete commodities
- Commissioning deep commodity reviews
- Investing in up to date technological systems which manage purchase to pay as one process
- Establishing corporate contracts
- Participating in national/regional collaborative contracts

However importantly from an APSE perspective procurement should enhance the ability of the local authority to secure value for money, achieve greater community benefits and local economic benefit from the procurement process and ensure savings generated help secure effective frontline services for citizens.

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