

Cabinet 3rd November 2015



Report of:
Zena Cooke – Corporate Director Resources

Classification:
Unrestricted

Annual Procurement Report

Lead Member	Councillor David Edgar
Originating Officer(s)	Zamil Ahmed – Head of Procurement
Wards affected	All wards
Community Plan Theme	One Tower Hamlets
Key Decision	Yes

EXECUTIVE SUMMARY

This report provides the annual procurement expenditure analysis for financial year 2014-15 and an update on our performance against key objectives set out within the Councils Procurement Policy Imperatives.

DECISION REQUIRED:

Cabinet is recommended to:-

1. Review and note the annual procurement expenditure analysis
2. Note the achievements against the Procurement Policy Imperatives
3. Note the Authority's position on central records of all supplies, services and works contracts and progress made in improving third party expenditure under management
4. Note the current issues, future challenges and planned improvements to further transform Council's procurement activities

1. BACKGROUND

- 1.1 The report provides a summary of the Council's third party expenditure on supplies, services and works and is intended to provide a clear view of the corporate and directorate procurement expenditure with the purpose of identifying savings opportunities and areas for improving operational performance.
- 1.2 The requirement for an annual Procurement report was identified as part of the Best Value Procurement Action Plan and the 'Challenge Session' undertaken by Overview and Scrutiny. Further, the Best Value Programme

Board recommended for the report to be presented to Overview and Scrutiny by the lead Member for Resources.

2. BEST VALUE (BV) IMPLICATIONS

- 2.1 The Council is required to consider the value for money implications of its decisions and to secure best value in the provision of all its services. The Council procures annually some £350m of supplies and services with a current supplier base of approximately 3,500 suppliers. The governance arrangements undertaking such buying decisions are set out in the Council's Procurement Procedures, which form part of the Financial Regulations.

3. ONE TOWER HAMLETS CONSIDERATIONS

- 3.1 Equalities and diversity implications – and other One Tower Hamlets issues – are addressed through the tollgate process, and all contracting proposals are required to demonstrate that both financial and social considerations are adequately and proportionately addressed. The work of the Competition Board and the Procurement Service ensures a joined-up approach to procurement.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 There are no financial implications arising from the recommendations in this report.

5. LEGAL COMMENTS

- 5.1 On 17 December 2014, the Secretary of State made directions in relation to the Council pursuant to powers under section 15(5) and (6) of the Local Government Act 1999 ('2014 Directions'). Those directions are in place until 31 March 2017. The directions required that the Council agreed and implemented an action plan demonstrating the Council's continued compliance with its Best Value obligations in accordance with section 3 Local Government Act 1999. Amongst other things the Council was required to:

5.1.1 Provide an annual procurement report

5.1.2 Detail the Council's achievements in respect of the Council's Procurement Policy Objectives

- 5.2 An annual Procurement report has also been mandated under the Council's own internal constitutional processes by Overview and Scrutiny.



ANNUAL PROCUREMENT REPORT

2014-2015

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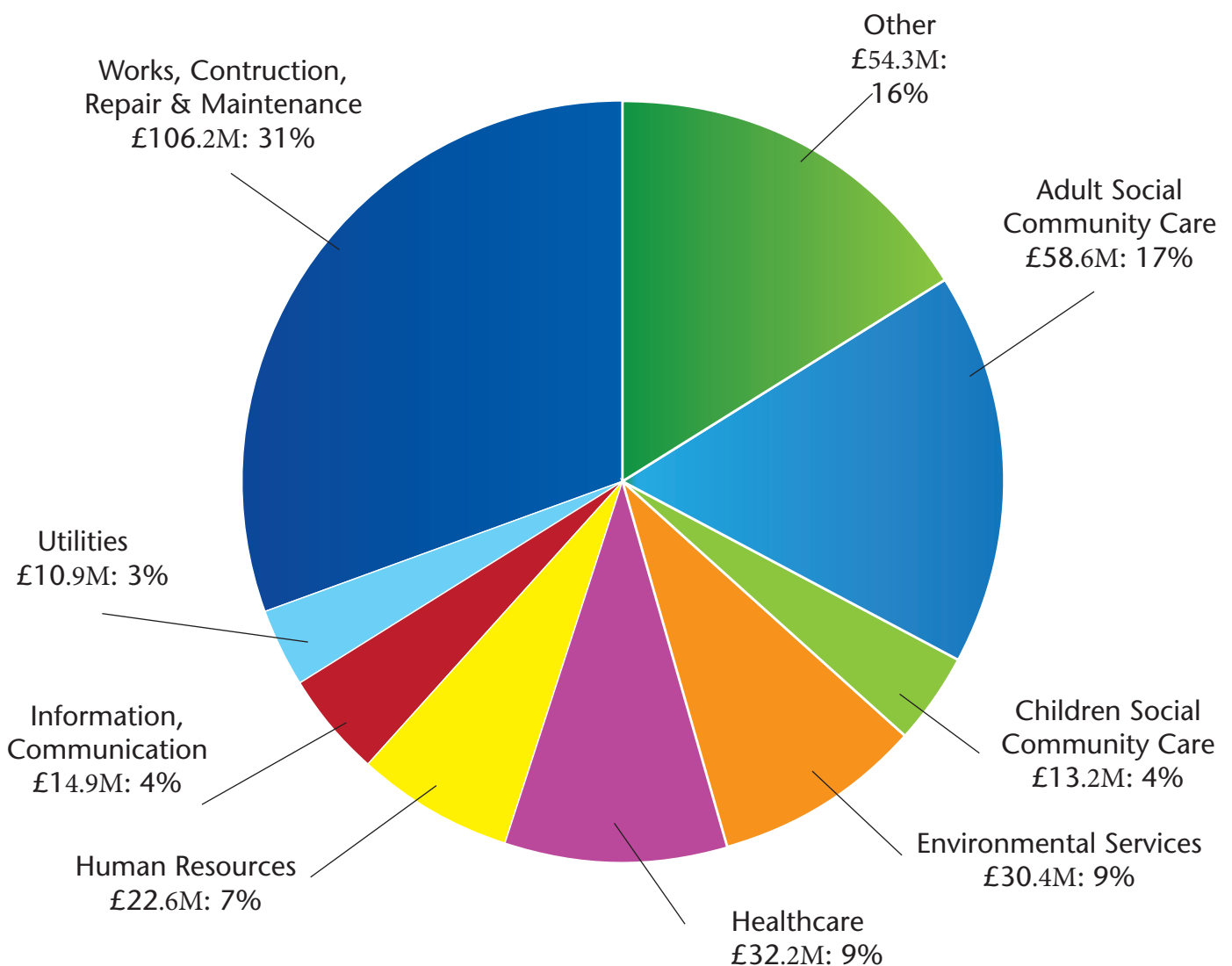
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1. Introduction

This report provides a summary of the council's addressable procurement spend in 2014-15 on supplies, services and a baseline for identifying future savings opportunities and areas for operational performance improvement.

The total addressable procurement expenditure was £343,296,795. A further £115m was spent with non-council payees but this spend could not be influenced by procurement activity (e.g. social care direct payments, staff expenses, foster carer payments).

The chart below provides a breakdown of the addressable spend into key procurement categories of expenditure.



2. Procurement Performance

The Procurement Policy Imperatives 2012-15 strategy was approved by Cabinet January 2013 and details how the council will take an innovative approach to procurement and provide economic and social benefits to local residents.

The ultimate goals are to maximise value for money and to improve the quality of life for both residents and businesses within Tower Hamlets.

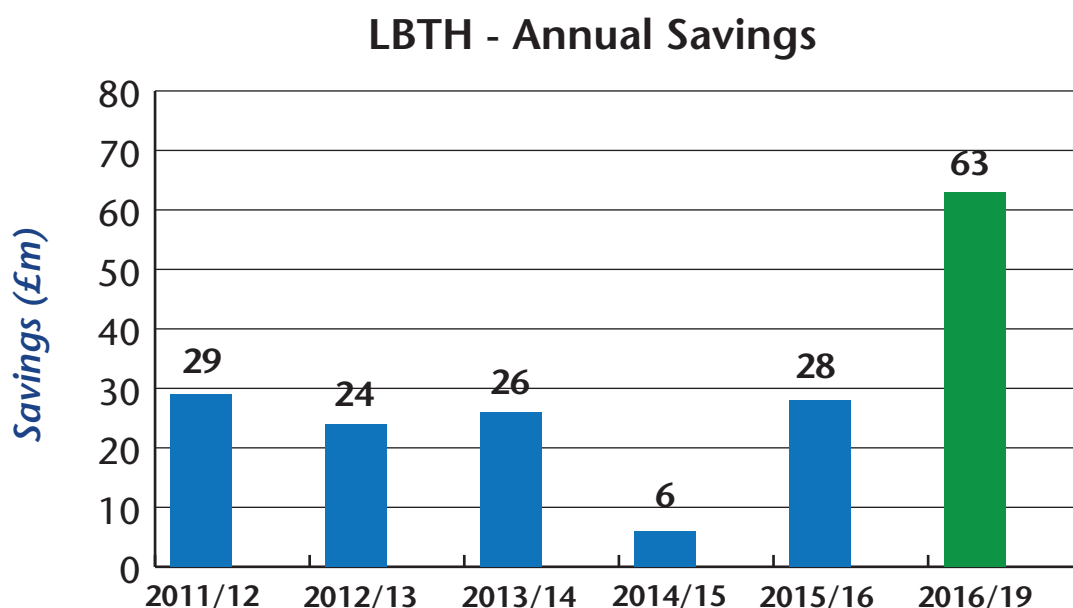
The Imperatives are based on seven key principles:

1. Delivering budget efficiencies and providing value for money
2. Create Local Employment and Training Opportunities
3. Support local businesses, especially SME and alternative providers
4. Promote workforce diversity and equality of opportunity
5. Promote fair employment practice including implementation of the London Living Wage
6. Promote ethical sourcing, including fair trade products
7. Promote environmentally sustainable products and business

2.1 Budget savings

Despite signs of improvement in the economy, the financial outlook for local government remains extremely challenging. The government's finance settlement, announced on 18 December 2014 with a decrease of £34m, is expected to continue expenditure cuts to council funding at the same rate as the period from 2010-2014.

To bridge this gap, the council established a cross cutting savings programme. Benefits from which are summarised in the following diagram:



A number of budget savings have been achieved through the re-procuring and consolidation of existing contracts, such as in the area of public health, mailing services, temporary staffing expenditure. Further cross directorate procurement opportunities are currently being progressed. However, moving forward the council is unlikely to achieve the level of savings required through simply re-tendering contracts and deploying existing procurement strategies.

Therefore, the council is now looking at ways to refine the corporate control of procurement and enhance cross cutting savings opportunities. These will include embedding Category Management principles, developing standard contract and supplier management practices and developing e-procurement systems to streamline quotations and tenders below the current £25,000 threshold.

Case Study: Value for Money



The Council led on a collaborative procurement exercise with 10 other London Boroughs for processing of benefit claims and secured:

- Financial savings for the Council and all the other local authorities involved
- An improvement in the quality of processing claims

2.2 Employment and Community Benefits

One of the key priorities for the council is to secure jobs and training opportunities for local residents and to maximise the inclusion of local supply chains in contracts and sub-contracts

From 2013 to date, the council has consistently over delivered on its ambitious target for employment and community benefits.

The innovative approaches taken have been recognised through the three key national awards:

- **National Go Awards:** Excellence in Public Procurement – March 2014
- **London Living Wage Accreditation -**
- **London Boroughs Award:** Best work with supply chain/local businesses to create new Apprentices – September 2014
- **SOPO Awards:** Excellence in delivering Social Value – Finalist – April 2015

Case study: Application of Social Value Act to secure Employment and Community Benefits for Borough's residents



A parks commercial contract secured a long term commitment for a supplier to deliver major events in Victoria Park, enabling funds to be re-invested into maintaining the park. The Council secured:

- Internship opportunities for 8 young people in a variety of roles
- Free tickets for residents, provided by the supplier for each event day to the local community
- Local employment opportunities from the supplier's supply base, with local staff recruited for events in a variety of roles
- Volunteering opportunities for 35 people (28 local) to gain experience in producing events
- Sponsorship from the supplier to local charities to support the following local initiatives:
 - o Victoria Park Friends Group community event programme
 - o Fish Island Labs project, a centre, designed to kick-start the careers of a new generation of emerging talent spanning technology and the arts
 - o East London Arts and Music (ELAM), a new industry academy for 16-19 year olds
- Employment and training opportunities for over 30 ELAM at the Lovebox Festival.

Case Study: Local Employment



Through a Primary School Expansion tender, the Council secured:

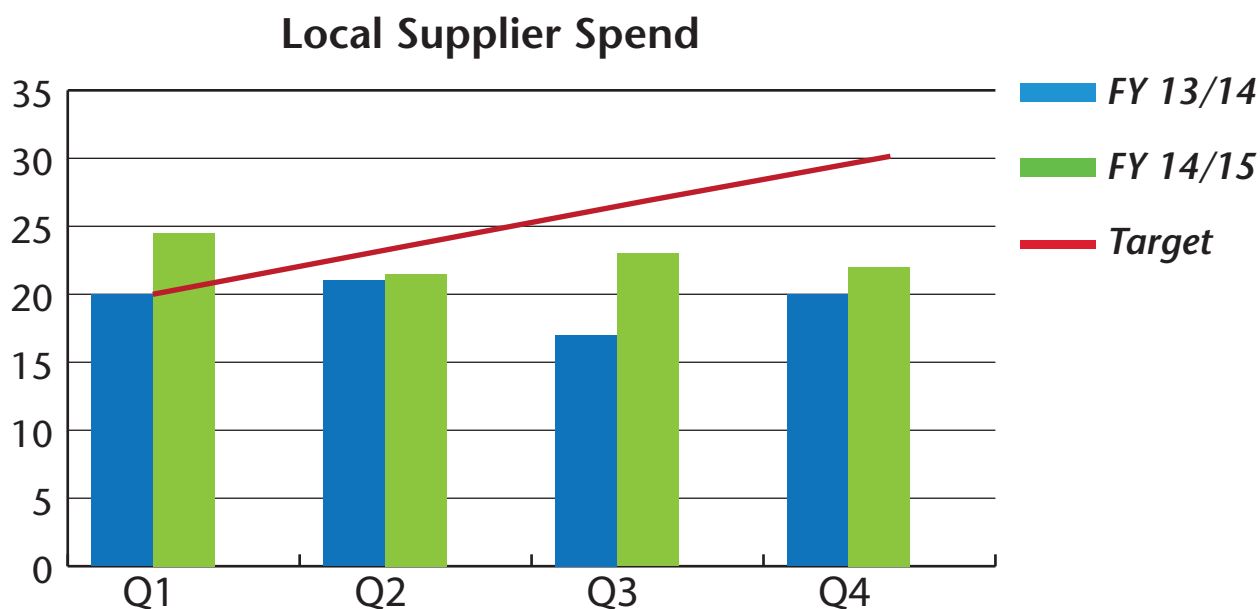
- Commitment to build a relationship with Skillsmatch and Tower Hamlets College to achieve 20% local employment for the project
- Ring-fenced vacancies for local people
- Agreement to use core, local catchment areas for employment opportunities
- The provision of trainee placements.

2.3 Local Suppliers

The council is committed to supporting local businesses, especially SME and alternative providers, including third sector organisations.

In order to encourage local business and alternative providers to bid for contract opportunities, including consortia bids, the council has divided large scale contracts into lots.

The following chart illustrates the current position on procurement spend with local organisations. The spend excludes grants, which are mainly awarded to organisations. It also does not include any indirect spend that local suppliers secure as part of sub-contract arrangement with the Council's principal contractors.



The total spend has increased slightly over 2013/14 but remains short of the overall target. The renewal of all Public Health contracts, which were transferred to the Authority in 2013, and local events using local companies have contributed to this current performance.

However, local spend through extended supply chain has not been captured and that is likely to result in better performance.

The directorate with the highest percentage of local spend are Education, Social Care and Wellbeing (ESCW) and Law, Probity and Governance.

Case Study: Innovation, SME Engagement and Social Value Act in practice



The council led negotiations for a Print and Design Framework which included two other east London boroughs, to deliver cashable savings, improved contract compliance and increased supplier work content.

- 30 organisations awarded contract in the framework with 20% local SMEs.
- 96.67% of the organisations provided employment and community benefits for local residents

Case Study: Supplier and Market Engagement



In the financial year 2014-15, the council undertook 19 supplier briefing and 3 market engagement exercises aimed at providing local, SME businesses guidance on how to submit quality bids for council contract opportunities. This approach worked well for the Stealthy Food project, with suppliers providing input to help shape the tender.

As a result, the service specification and requirements were far superior to the initial scope and the council was able to secure better value for money.

2.4 London Living Wage

The council first implemented its London Living Wage (LLW) policy in December 2012.

Since its introduction, the council has progressively implemented LLW as a standard clause into contracts. Currently, 73.21% of contracts include payment of LLW.

In May 2014, the Council was recognised for its efforts and awarded the 'LLW Employer' status. It is our aim to achieve implementation of the LLW in 90% of contracts.



2.5 Ethical Sourcing and Sustainability

A new Supply Chain 'Code of Conduct' is being developed to highlight the main social value principles and practices that should be expected from our suppliers when dealing with the council.

As part of the Best Value Procurement Improvement Programme, a new Supply Chain Ethical Code of Conduct is being developed to be in place by September 2015.

3. Contractual View

Since January 2014, all contracts above the £25,000 procurement threshold are procured through the central procurement service and tendered through the Council's e-tendering system.

The Procurement Procedures implemented in January 2014 strengthened the role of central procurement service by reducing the threshold for procurement involvement from the EU threshold (Supplies and Service £172,514 and Works £4,348,350) to the current £25,000 threshold.

The procedures also require a contract number to be issued to all contracts above this threshold and recorded on the central contracts register, maintained by the Corporate Procurement Service.

All contracts are publically available through the London Contract Register, an initiative of the London Council to bring all London Local Authorities contract information under a single tool that complies with the obligations imposed under the Transparency Code.

This initiative will be further developed during financial years 2015-16 with the aim of linking the contract register information to the Pan London spend analysis tool.

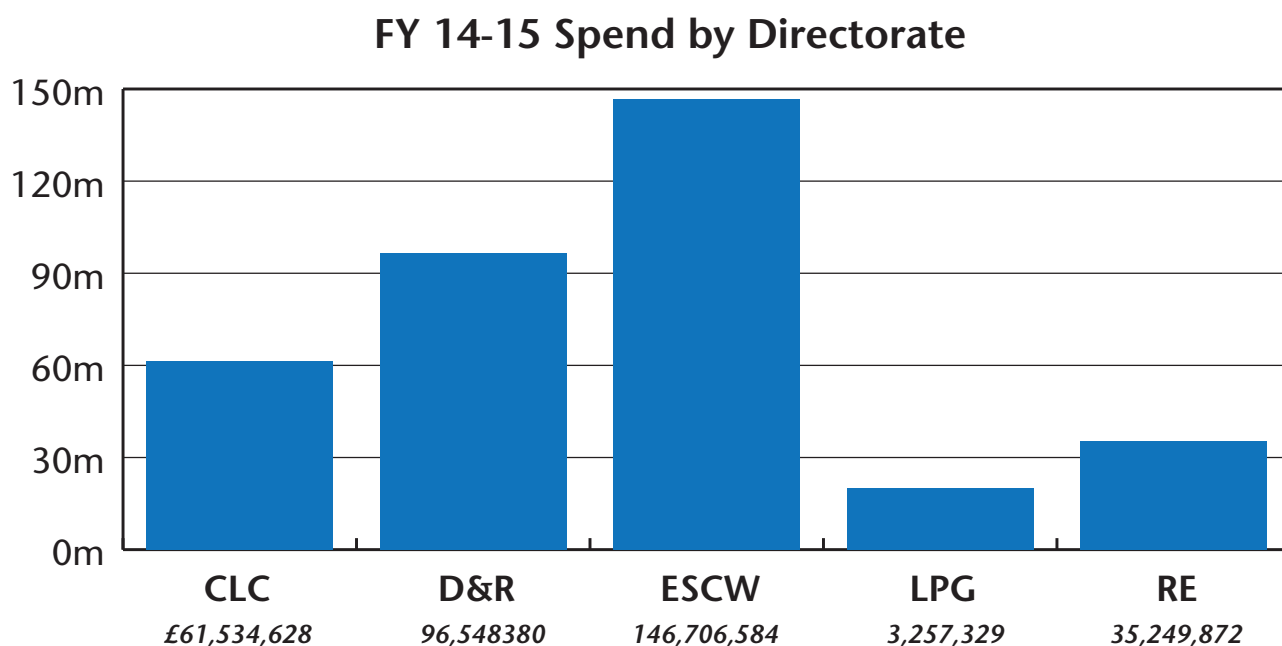
3.1 Contracts Register Analysis

There are currently 222 live contracts (FY14/15) on the Councils central contracts register. The breakdown of contracts across the Council is as follows:

CONTRACTS ON CENTRAL REGISTER		
Directorate	No of contracts	Total contract value - £
ESCW	114	475,251,582
CLC	34	198,085,276
D&R	30	75,655,622
RES	14	141,327,852
LPG	16	3,599,269
THH	14	107,080,445

3.2 Spend Under Contract

Analysis of the 2014-15 procurement expenditure against the Council's Contracts Register is shown in the following diagram:



3.3 Delivering Best Value

In response to a recent directive from the Secretary of State for Communities and Local Government, the Council laid out in March 2015, a plan to ensure securing the Authority's compliance with its best value duty.

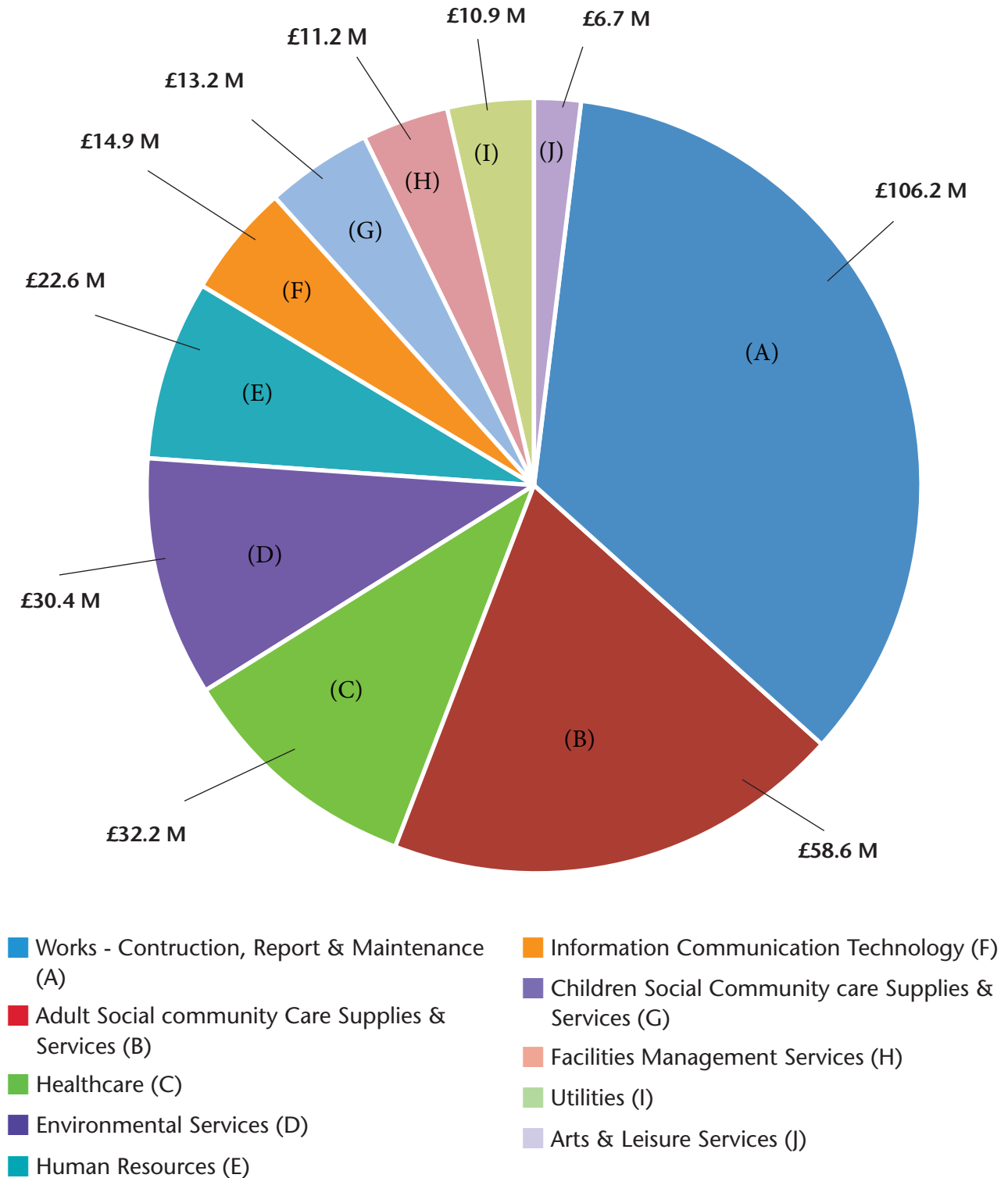
Considerable achievements has been made in strengthening the councils procurement processes and governance arrangements through the direction of the Competition Board and Financial Services Group. This co-ordinated effort has helped to increase the percentage of spend on contract to the current level of 93.36%.

Whilst the Council has in place a range of robust processes for securing best value and has successfully delivered savings to meet recent financial challenges, we recognise that there are areas that require improvement. A new three year Procurement Strategy is being developed which will set out further improvements to strengthen and transform procurement activities across the organisation.

Appendix A

Where we are spending our Money?

Procurement Expenditure Analysis - FY 14-15



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