London Procurement Strategy

2009 -2012

Author: Ken Cole

Date: 1st June 2009

Version: 1.0 Final

CONTENTS

EXECUTIVE SUMMARY

London local government's third party influenceable expenditure was **£9.3 billion** in **2007/8** most of which goes directly to the delivery of frontline services across the Capital. Over 80% of this expenditure is typically with less than 3% of the supply base with 100 suppliers accounting for more than 25% of the total. Most of these suppliers are large corporations and multi-national bodies, often operating on a cross sector basis, and sometimes through subsidiary companies. The remaining expenditure is usually accounted for by a mixture of Small and Medium Enterprises (SMEs), some of which are geographically local, and other public sector agencies / consortia.

Typically, this expenditure has been made by the 33 London local authorities working as discreet contracting authorities. There has been some collaboration in recent years, mainly on low value / low risk commodities and further advances have been made following on from the formation of the London Centre of Excellence (LCE) in 2005. However, even after this progress has been taken into account, **over 85%** of total expenditure will still not be acquired or managed collaboratively. As with the rest of the UK, the means by which most commercial activity is undertaken in London is the result of organisational evolution rather than in a planned and coordinated way to support the maximisation of **value for money** and optimisation of **quality outcomes**.

Recent reports, such as the Treasury's **Operational Efficiency Programme** and the CLG **Roots Review** have restated the case for change. Collaborative procurement is proven to deliver better outcomes at less cost and all local authorities are being urged to accelerate the use of collaboration. This does not mean creating larger contracts and promoting centralisation, but being much smarter in the way we work together, manage markets and engage suppliers. Collaboration recognises a multitude of tools and techniques based on a mixed economy, rather than a one size fits all approach.

The recent global economic crisis and its adverse impact on UK public finance means that there is an urgency to accelerate the delivery of **cashable savings** and **efficiency gains** from third party expenditure. Most commentators agree that **2011/12** is likely to be the first of many challenging years for public finance and local government settlements and procurement expenditure will be a major area where savings will need to be delivered.

Most local authorities have already delivered savings against the routine commodities / services and while there is still some scope to expand the routine categories capable of yielding more cashable savings in the next two years, they will not deliver the levels required to meet the anticipated short falls. The challenge for London, which forms the scope of this document, is how work programmes can be accelerated so at least a far greater percentage of the influenceable expenditure, including areas such as construction, building services and adult social care, can be brought into the sphere of influence where cashable savings can be accrued and unnecessary cost can be removed.

Capital Ambition, the London RIEP, is the hub for efficiency and improvement activity across London. It is pivotal in being able to coordinate collaborative working and ensure funding can be directed in to projects which will yield the highest return on investment. For example, recently it co-sponsored eAuction 10 with OGC and 15 London local authorities were able to benefit from just under **£2 million of cashable gains**. With costs of just over £100k, this is a return on investment (ROI) of around 20:1.

As a means of directing and focusing its future efforts and helping individual London authorities accelerate their efforts to find cashable savings, particularly through collaborative working, Capital Ambition has developed this strategy for London procurement. It sets out both how it intends to respond to central government policy on the one hand while creating the conditions and opportunities where London local authorities can improve their own procurement efforts. Collaborative working is central to delivering this strategy as is the need for **cultural change**. The latter point is paramount as results will only be delivered in the high value/risk spend areas if there is a fundamental approach to the way organisations approach these categories. The modern techniques which are needed to deliver outcomes such as large scale **e-Auctions**, **Supplier Relationship Development** (SRD), **market development** and **contract and relationship management** only work when there is open collaboration and transparency.

The Capital Ambition Efficiency Board are keen to see a significant extension of the e-auction programme over the next three years as a means of helping London local authorities to deliver significant cashable savings in high volume / high spend areas. The three candidate areas being investigated are **building materials**, **highways equipment/materials** and **commercial vehicles**.

This Strategy sets out how Capital Ambition will play its role in helping London local authorities transform the regional procurement landscape, the policy direction it intends to follow and how it will help the drive out cashable savings from the £9.3 billion spend to contribute towards the financial realities of 2011/12 and beyond.

1. THE LONDON PROCUREMENT CHALLENGE

This section defines the scale of the procurement business in London, its contribution and importance to London authorities and the operational challenges it faces.

1.1 LONDON PROCUREMENT BUSINESS

London local government's third party influenceable expenditure[1] was £9.3 billion [2]in 2007/8 and 100 suppliers accounted for more than 25% of this figure. A London local authority will use an average of 7,300 suppliers reach year, but over 80% of their expenditure will typically be with less than 3% of the supply base (around 250 suppliers). Most of these suppliers are large corporations and multi-national bodies, often operating on a cross sector basis, and sometimes through subsidiary companies. The remaining expenditure is usually accounted for by a mixture of Small and Medium Enterprises (SMEs), some of which are geographically local, and other public sector agencies / consortia.

In terms of range and scope, this expenditure goes to provide and maintain:

- **Key infrastructure for London**, such as all buildings, roads, housing (in some instances) and communications
- **Front line services**, such as elderly care provision, street cleansing, rubbish collection, libraries, parks and leisure
- **Supporting equipment and services**, such as agency staff, interims, translation, IT, postal services , materials to maintain the infrastructure, and commercial vehicles
- **Utilities**, such as electricity, gas and water

Apart from payroll costs, third party procurement expenditure is the second largest cost item for any public sector service based organisation, typically accounting for 25% to 30% of their total costs. What the London local authorities 'buys in' far exceeds that of any private sector body in terms of range, value or complexity.

If other parts of the public sector such as NHS, Higher Education and central government agencies are included, the total expenditure in London could well exceed £20 billion. Work with the first two sectors confirms that there are almost identical parallels to both the financial /political challenges, faced by London local authorities as well as the supply base and expenditure profiles.

Table 1 at Appendix A provide a metrics summary and Appendices B and C show the opportunities for significant cashable savings and efficiency gains if London can operate on a 'macro level' at regional and sub-regional levels.

1.2 IMPORTANCE TO LONDON AUTHORITIES

The importance of management, planning and control of this expenditure to all London authorities can be summarised as contributing to:

- **Service Outcomes** – the quality and frequency of what is delivered to local people set against increasing demand in many areas and changing demographics

[1] All figures taken from the 2007/8 Capital Ambition Expenditure Analysis

[2] This represents an average of just over £280M per local authority

- **Cashable Savings** – to limit council tax increases, deliver central efficiency target (3%) and avoid waste and duplication of effort
- **Use of Resources** – funding new projects and improvements from within constrained budgets and performing well under the Comprehensive Area Assessment (CAA) which has explicit sections on procurement / commissioning and cross sector collaborative working
- **Local economy** – the amount of money spent with suppliers in the local economy through a coordinated and consistent London wide approach to local businesses, particularly in the current economic recession
- **Sustainability** – working with providers to ensure continuing improvement in the quality of the environment and use of scarce resources

The action taken in recent months to alleviate the impact of the global economic crisis has left public finances in a position in which most informed commentators agree will contribute to a drastic reduction in financial settlements in the 2011/12 financial year. Experience from SR2004 suggests that there is usually an 18 to 24 month lead time between launching a cashable savings project and accruing the benefits. This means that programmes need to be launched in this financial year (2009/10) to deliver the necessary savings in time for 2011/12.

There is already significant evidence[3] emerging to confirm that significant reductions could be made to this total by:

- Thinking and acting regionally and /or sub-regionally
- Taking a smarter approach to engaging with key suppliers and influencing markets
- Planning and coordinating major purchases
- Aligning contracts
- Sharing resources particularly around sub-regional category management

To do this will require a major cultural shift, but if planned now, it could help deliver new sources of cashable savings which would contribute significant gains towards any 2011/12 financial reductions.

1.3 PROCUREMENT LANDSCAPE

The current procurement landscape has been defined by organisation (e.g. a council) and sector (e.g. local government). All London authorities have a dedicated procurement resource, but these vary widely in terms of their sphere of influence, capability and organisational structure. Overall, most of the current teams have been in place for less than five years, and as with the rest of London local government there are recruitment and retention issues.

Collaborative procurement has been undertaken in London by the London Contracts and Supplies Group (LCSG) which has evolved through an informal network since its formation from the old GLC. It has achieved some good successes over the years, but it lacks real influence and only accounts for less than 1% of the total influenceable expenditure through its 30 or so contracts.

There are other local government trading hubs which are sometimes used by London authorities. These are either quasi- commercial operations based around stores activity (e.g. ESPO, YPO, and West Mercia Supplies) or are virtual

[3] Recent examples include, ICT e-Auction, on street parking machines, refuse freighters, and energy

bodies (e.g. the Central Buying Consortium) and are more commonly referred to as Public Buying Organisations[4] (PBOs). They also tend to be supplies / commodities orientated which for most London authorities would not account for more than 5 to 7% of their total third party expenditure. They are a source of pre-tendered framework contracts, but many of these are duplicated and often provide questionable value for money when benchmarked against what individual authorities can achieve locally. Often quoted savings are no more than 'savings in staff time' through not having to follow the time consuming EU Public Procurement directives. Central / PBO contracts rarely estimate volumes of business likely to be awarded in the duration of the contract and successful bidders have no guarantee that they will receive any orders for their efforts. The inability for suppliers to plan and forecast means that public sector bodies lose the opportunity to reduce unit costs.

For both suppliers and buyers alike the organisation of public sector procurement is often bewildering, but reflects many years of organisational evolution. Collaborative organisations do offer considerable value to their customers, but share a number of common features:

- They tend to specialise in routine commodities / services which rarely exceed 10% of the total influenceable procurement expenditure
- Many of the contracts that they cover and offer as 'framework contracts' accessible to all, are duplicated
- Sector focus and cost reduction are the key priorities and they rarely focus on outcomes and quality

From the perspective of suppliers, even at regional level, the current structure is confusing. While bigger companies often have the resources to work with multiple bodies, smaller companies struggle to engage with a plethora of different approaches, procedures, systems, and trading thresholds. There have been some isolated examples of successful joint contracting, but the problem still remains. Also, the current organisational structure does expose all public sector bodies to:

- **Fragmented solutions** – suppliers trade across markets and use the existence of artificial sector boundaries to maximise selling opportunities
- **Duplication of effort** – each organisation is often competing for the same scarce resources
- **Market Conditioning** –suppliers are able to 'condition' us to buy rather than us defining our own needs
- **Input focus** – too much attention paid to managing process rather than planning successful outcomes and ensuring supplier performance

Much of the sector focus has traditionally been driven and reinforced by the differences rather than similarities between each sector. People would point out, for example, that apart from the NHS, no London local authority would buy medicines or medical equipment, and even if they did it would be a tiny percentage of their overall expenditure.

However, an analysis of the core (i.e. sector specific) and non core (i.e. products / services others use) is usually split around 65% to 35%. In London this would mean that if greater cross sector collaboration was achieved (e.g. with the MPS, Universities and NHS) significant new opportunities would soon become available.

Compartmentalising sector expenditure is creating an artificial barrier in that it fails to recognise:

- Suppliers and markets operate on a cross sector basis
- Suppliers often have multiple brands (e.g. 3M are both a pharmaceutical and stationery supplier meaning that

[4] There are 46 of these according to the HMT Operational Efficiency Programme (April 2009)

the core and non core approach would not apply)

- Markets need to be stimulated[5] and directed if they are to respond to our service demands
- The expenditure profile, business challenges and commercial opportunities remain common
- Modern public services are increasingly delivered on an output / outcome basis, which again does not recognise the artificially constructed organisational barriers.

This latter point is important in that it marks a shift from the input based specification (i.e. the product / service must be delivered in a certain way) to letting suppliers use their expertise to help with outcome delivery. Work in London[6] with Care UK illustrates this point, in that both the NHS and local government are recognising that if caring for an elderly person is the outcome, then a one sector focus only is inappropriate.

The overall future direction for public service provision is one of delivery from the 'client' perspective. This entails:

- More collaborative working in and across sectors
- Greater use of shared resources and improved utilisation rates of assets, equipment and existing services
- One stop shop for public services based on delivering outcomes to local people
- Greater geographical focus whether that be regional, sub-regional or cluster

1.4 PEOPLE AND INFLUENCE CONSTRAINTS

Procurement, as with other professional disciplines, presents local authorities with recruitment and retention problems. Such problems are partly exacerbated by the economic draw of the Capital, but mainly caused by skills shortages. Procurement as a business discipline has often been confused with 'buying' which meant its sphere of influence[7] is limited to routine commodities / services. It also has an image problem and is perceived as wanting to 'take over' procurement exercises and impose unnecessary constraints by over zealous interpretation of the EU Public Procurement directives. Many local authorities are reliant on interims/ agency staff to fill corporate posts, which often translates into people moving from authority to authority undertaking similar activities. The upshot of these constraints leads to:

- Inability to plan major procurement exercises
- Duplication of effort between local authorities
- Loss of valuable market / supplier knowledge
- Too much focus on commodities / routine services
- Significant levels of contract spend being made with little or no commercial influence

[5] The Parking in Partnership (PiP) project showed how seven authorities collaborating together could persuade the market to pioneer a new range of chip and pin on street machines using common standards

[6] Supplier Relationship Development project run by Capital Ambition

[7] Exact figures for London are not known, but surveys across other parts of the public sector suggest a norm of around 25%

- Poor contract management[8].

Apart from the LCSG, dedicated networks supporting collaborative procurement are largely absent. Some professional bodies are keen to promote such activity but these often lack the resources to undertake collaborative exercises or have insufficient exposure to chief officers and/or elected Members.

While delegated financial authorities to staff are well defined across London, the same cannot be said for delegated procurement authorities. Corporate procurement teams often struggle to find details of contracts let and processes followed by service departments.

1.5 CENTRAL POLICY CONTEXT

A dedicated procurement policy in local government is relatively new having not gained any status until Sir Ian Byatt produced his report[9] in 2001 which led to the publication of the National Procurement Strategy (NPS)[10] in 2003. NPS implementation was merged with implementing the recommendation of the Spending Review 2004 (SR2004 - sometimes known as the Gershon Report), which led to the creation of the Regional Centres of Excellence (RCEs). The RCEs were dedicated exclusively to working with local authorities in each of the nine regions to implement efficiency programmes, of which many were procurement related.

Since then, RCE's have been absorbed into RIEPs which include work on improvement. The RIEPs operate in a framework directed by a national strategy[11] published in January 2008 as well as their own regional ones. The national strategy contains no references to procurement, but since then a further review[12] (known as the Roots Review) has been undertaken explicitly looking at local government procurement. The recommendations of the Roots Review have been taken into account in preparing this strategy.

More recently, H M Treasury has published its Operational Efficiency Programme[13], most of which is initially directed towards central government in the first year. However, it is explicit that the rest of the public sector will be expected to follow suit and implies that the Treasury should take account of progress made when formulating future financial settlements. The OEP contains five main strands, of which collaborative procurement is the second one with four main recommendations which, in summary, cover:

- The extension of the scope of common categories, i.e. ones which can be acquired collaboratively
- Improvement of management information, especially data standards and quality
- Better use of collaborative groupings, particularly the PBOs
- Improved awareness and usage by public bodies of collaborative procurement strategies

The OEP recommendations are also fairly closely aligned to the emerging Comprehensive Area Assessment (CAA) requirements where procurement, data quality and use of management information all feature highly.

---

[8] See report and survey carried out by LFEPA for LCE on Contracts and Relationship Management (2007)

[9] Delivering Better Services for Citizens – A review of local government procurement in England

[10] Published by ODPM now DCLG

[11] National Improvement and Efficiency Strategy – published by DCLG in January 2008 Product code 07 LIS05032

[12] The Roots Review –Review of arrangements for efficiencies from smarter procurement in local government – February 2009, ISBN: 9781409808312

[13] Published April 2009, ISBN 9781845325879

There is also need for Capital Ambition and individual London local authorities to recognise the outcomes of the Glover Report[14] which attempts to ensure that a greater percentage of our public sector business is offer to SME's and local businesses. The implementation of the recommendations from this report has attracted far greater attention than is usual, mainly because of the economic downturn. It has also created some debate around the prolific increase in framework contracts which are excluding more and more small / local businesses from competing for public sector business while arguably delivering little by way of improved value for money.

1.6 LESSONS FROM SR2004

The SR 2004 process highlighted numerous lessons in terms of delivering cashable gains which are relevant in determining the London Procurement Strategy. These include:

- Most projects took at least two years to build and deliver from a standing start. Benefits will not start to accrue until year three
- London local authorities retained complete independence on whether they wished to participate in any collaborative efficiency project and often the decision was taken at a junior level in the organisation
- SR 2004 did not encourage organisations to think pan public sector, which often meant replication in other areas (e.g. there was a blurred boundary between local government and schools, the latter being controlled by the, then, DFES)
- Local government elected for delivering efficiency improvements on a regional basis – this was not the necessarily the optimum or most logical model to make progress
- Efficiency is about cultural change rather than just operational considerations

[14] Published by H M Treasury

2. MEETING THE CHALLENGE

This section sets out the core principles of the Strategy for increasing the level of cashable savings delivered by procurement departments in London local authorities. This includes making far better use of resources deployed and better use of knowledge and information available.

2.1 VISION FOR LONDON PROCUREMENT

OUR VISION

To ensure that the Capital's £9.3b third party expenditure is managed to the most advantageous level in order to deliver outstanding services and best value to the people and the economy of London.

SUPPORTING OBJECTIVES

- To make London procurement **outcome focused**, in particular how it organises itself to engage with service delivery, local suppliers, markets and major contracting
- To ensure a coordinated and planned approach to all major high value / high risk contracting exercises
- To increase the sphere of commercial influence to a minimum of 80% of third party expenditure in all local authorities within three years
- To maintain and improve a shared approach to information gathering, market intelligence and management reporting based on properly defined needs analyses
- To encourage all sectors to specialise on their core contract and market strengths and devolve non core acquisitions to third party organisations (e.g. other sectors, consortia or the private sector)
- To acknowledge the scarcity of good commercially aware procurement staff, and work towards maximising their utilisation
- To ensure that chief officers and elected Members are fully briefed on the opportunities presented through collaborative procurement
- To exploit and further develop the successful outcomes, tools and services already delivered by current collaborative work, acknowledging that the best model could be by transferring work into another sector
- To work with other external stakeholders, particularly the London NHS, London Universities Consortium, London contracts and Supplies Group and the Office of Government Commerce, to ensure success and portability to other parts of the UK

2.2 ROLE OF CAPITAL AMBITION

The London RIEP (Capital Ambition) is a part of London Councils and was launched on 1st April 2008. It has a budget for 2009/10 of £12.2 million[15] of which £3 million[16] is already dedicated to efficiency projects (see Section 3) including

[15] This excludes the £11.3 million carry forward from 2008/9

[16] This does not include any 2008/9 carry forward for existing projects, or planned projects for 2009/10

quite a few London Centre of Excellence (LCE) continuity projects which had not been completed by the end of March 2008.

Capital Ambition has its own *Improvement and Efficiency Strategy* covering the period 2008-2012 published in March 2008 which sets out its vision for efficiency and improvement in London. This confirms that it is a catalyst for change[17] or 'hub' for efficiency rather than an operational delivery organisation. It is not possible to do everything in terms of transforming London procurement in the timescale and with the resources allocated, given they need to be shared with other policy priorities.

However, the likely emergence of regional and/or sub-regional approaches to some categories (e.g. energy, commercial vehicles and ICT) does prompt questions about where these are best located. Capital Ambition is now an integral part of London Councils and there is an argument to be put forward that the teams recruited to deliver the desired regional outcomes should be hosted as a part of London Councils or similar neutral body.

Until these issues are resolved, the main objective will be to continue the agreed approach and target resources which will give local authorities their best pay-back in financial terms.

On that basis, Capital Ambition will support this strategy by:

- Encouraging ownership and management of all procurement related projects by individual or groups of London local authorities
- Providing appropriate funding to projects which are supported by a robust business case and capable of providing a strong return on investment (ROI) within the shortest timeframe and in a maximum of three years
- Capturing information on cashable savings / efficiency gains achieved from local authorities taking part in each CA project and using similar information on those not taking part when CA Efficiency Peer Reviews are undertaken
- Collaborating actively with other public sector organisations in London (including NHS, Higher Education and Police) to optimise cashable savings and deliver the best possible quality of service
- Working with other RIEPs on procurement related projects where there are clearly defined and achievable outputs which would benefit London local authorities
- Enhancing the status and visibility of existing networks which are dedicated to the promotion of collaborative procurement

Capital Ambition will apply four tests in assessing the order of priorities for its procurement projects / activities:

- Extent of likely cashable savings and efficiency gains to be achieved, balanced against the investment required
- Absence of an existing contract / project or delivery mechanism to achieve the same outcome
- Timescale to achieve the likely benefits, noting this Strategy covers the period 1st April 2009 to 31st March 2012
- Extent of support and commitment from local authorities in the region / sub-region

We recognise that the approaches and tools to exploit each opportunity will vary depending on their position in the

[17] Page 8 last paragraph refers.

Supply Positioning matrix (see Appendix C).

We shall give immediate priority to products / services in the Tactical Profit (high value / low risk) and Strategic Critical (high value / high risk) quadrants as these are likely to yield the best return on investment and be achieved through collaborative working.

2.3 PROCUREMENT PRINCIPLES

Section 1 established that the breadth and diversity of procurement requirements in London is greater than a multinational organisation. Similarly, associated markets vary in terms of maturity, complexity, stability and even geographical location. Collaborative procurement undoubtedly offers significant opportunities for achieving new sources of cashable gains, but it cannot be achieved through a 'one size fits all approach' to procurement. Different tools and techniques are required depending on a raft of factors and over simplification can be counter-productive.

It is questionable whether the PBOs do offer genuine value for money in their current format, and arguably attempting to place more business with them, as advocated in the OEP, will restrict rather than enhance customer choice. By way of example, at a recent Capital Ambition workshop representatives from London local authorities pointed out that while the use of a national framework contract for tyres and accessories offered some cost advantage, only local suppliers were able to provide the responsiveness to ensure the replacement was delivered with 30 minutes in order to meet essential service level[18] demands.

However, the OEP does make a strong and compelling case for collaborative procurement which Capital Ambition believes is in the interest of all London local authorities to support. This Strategy will be driven by the following procurement principles:

- In terms of delivering for London, there is a need to balance the need for cashable savings with a similar guarantee of high quality standards
- The decision whether to conduct procurement activities at a local, cluster, sub-regional, regional or national level should be made after a proper analysis of the potential opportunities, likely distortion of markets and return on investment
- Greater emphasis will be made on the need for delivering outcomes in order to maximise the opportunity for the private[19] sector to innovate and remove costs from the services and products supplied
- A 'mixed economy' approach tends to offer the best in terms of delivering outcomes and reflects the complexity and maturity of markets and the associated supply base
- Support will be given to procurement programmes that encourage the development and measurement of full life cycle costs
- Collaboration between organisations has to remain voluntary in order to secure the best possible outcomes, and each local authority will have the final say on whether it wishes to join in any CA or RIEP based procurement programme
- All PBOs should be treated and evaluated as another source of supply and no assumption will be made that

[18] The example referred to 'Meals-on wheels' delivery vans where the local suppliers could send replacement parts to minimise the downtime of vehicles being off the road

[19] This includes SMEs, the voluntary sector and all those involved in delivering services to local government

any central framework contract offers any commercial advantage over any other route to market. It is for the owners of such contracts to 'sell' the benefits to the contracting authority

- The ability to access accurate and reliable sources of information and accrue market knowledge at the outset is critical to delivering any successful procurement outcome

Capital Ambition will avoid projects that:

- Do not have a financial payback or make a contribution to the work of local authorities
- Cover areas of work already undertaken by the LCE (e.g. SME policy) or more suited to being led by other organisations
- Are not portable in that they only benefit a small number of local authorities
- Have no clearly defined outcomes or deliverables
- Lead to the distortion of markets or significant damage to local businesses

2.4 RESPONDING TO CENTRAL POLICY AND INITIATIVES

For the purposes of the progression of this Strategy there are three main policy areas that have an immediate influence:

- Roots Review
- Operational Efficiency Programme
- Glover Report

The **Roots Review** contained twenty six recommendations[20], most of which are outside the direct influence of Capital Ambition. The recommendations which have any direct impact on this Strategy are:

- R.4 - the promotion of sound collaborative contracts
- R.15 – the sharing of contract information with other RIEPs
- R.22 – the provision of a procurement audit which will be delivered through the CA Efficiency Challenge

The overall thrust of the Roots Review is about improving collaborative working in local authorities with the RIEPs acting as a catalyst. The production of this strategy sets out Capital Ambition's intentions in these areas.

The **Operational Efficiency Programme** contains four lengthy recommendations (see section 1.5). In terms of responding to these recommendations, Capital Ambition is already ahead of the game with three of these recommendations in that we have:

- Led the way in local government, for example on energy (London Energy Project), ICT (e-Auctions 7 and 10) and agency staff (toolkit plus electronic knowledge exchange) and are in the process of moving into commercial vehicles and highways (*Recommendation 2.1*)

[20] The Capital Ambition Efficiency Board considered and noted the report at its 15th January 2009 meeting

- Launched the debate on data standards in 2005 and started the implementation of ProClass (the local government procurement classification) in our CRS and OEA. This year we shall be mapping nominal codes to ProClass so that we can improve the information on what we buy rather simply report on what suppliers supply. The latter method is used by all the current expenditure analysis providers and distorts actual numbers by up to 30%, as opposed to the accepted confidence limits of +/- 10% (*Recommendation 2.2*)

- Prepared the ground for regional and/or sub-regional approaches to category management, starting with energy, ICT and commercial vehicles. We have also strongly supported collaborative working since the inception of the former London Centre of Excellence in 2005 (*Recommendation 2.4*)

We shall continue to work with organisations promoting viable collaborative procurement programmes to support the OEP.

In terms of responding to the **Glover Report**, each London borough has its own policy position on usage of SMEs / BMEs and local businesses. Attempting to produce a collective single policy would consume a large amount of resource and probably be impossible. However, it is likely that through modest changes to the public site of the existing Capital Ambition Pan London Contracts Register Service (CRS) which all London local authorities currently use, we may be able to fulfil most of the Glover recommendations in quick time and at minimal cost. The public site, which is linked to many individual borough websites, is www.londoncontractsregister.com.

However, there is no business case for the development of a new central portal to replace those already in place.

2.5 BUILDING BLOCKS FOR SUCCESS

In terms of ensuring that this strategy makes a positive contribution to the efforts of our local authorities to develop and enhance their collaborative procurement capability, we shall continue to concentrate our efforts in the following five areas.

PROVISION OF INFORMATION AND MARKET KNOWLEDGE

Access to good quality expenditure information, trends analysis, existing contract availability and market knowledge are essential for the progression of any successful procurement exercise regardless of where it is being conducted.

Capital Ambition has continued to build on the work that has been led by the LCE in making such information available to London local authorities. This is centred on the Pan London Contracts Register Service (CRS) which is used by all London local authorities and the On-Line Expenditure Analysis (OEA) which is accessed by 29 London local authorities. The annual subscriptions for both these tools, which are available to any nominated officer in a London local authority, are both paid by Capital Ambition. The CRS, most of which is also available to the public, is used increasingly for planning and collaboration purposes. In addition, during 2009/10, Capital Ambition will complete the integration of the two tools through the embedding of local government's procurement classification (ProClass) into the OEA. ProClass is an essential development to facilitate the ability of regions and sub-regions to be able to exchange and share information on a like-for-like basis. The City of London recently was successful in registering the ProClass trademark with the Intellectual Property Office (IPO) and an agreement for Coding International Ltd (CIL) to maintain ProClass has been entered into by eight of the nine RIEPs, continuing the work started by the RCEs.

ENGAGEMENT

Capital Ambition is taking a proactive stance by carrying out a programme of Efficiency Peer Challenges across London local government. The ability of any local authority to embrace and participate in collaborative procurement will form a distinct part of this programme. In summary, the challenge will pick up on areas such as use of the CA expenditure and contract tools, involvement in regional efficiency projects/adoption of outcomes, ability to report against the adopted London procurement performance measures[21] and the degree of influence that corporate procurement teams have over third party expenditure.

Participation levels and engagement by individual local authorities in Capital Ambition projects are continuously improving from an already high base. However, it is important that this is replicated with procurement too so that cashable savings opportunities are not overlooked through inadequate resources or lack of knowledge.

ACTING AS LONDON

While the level of collaboration will vary according to market and organisational factors, it is clear that in some areas having a 'London approach' to procurement policy and commercial engagement will have undoubted benefits. It is evident from analysing the £9.3 billion spend that in some spend areas (e.g. energy, postal services and ICT) a single London approach, backed by shared intelligence, is essential to gain the optimum return on investment. CA has already funded the establishment of a cross local authority contract management team to support those who took part in eAuction 10. It will be looking to extend this principle in other areas too during 2009/10.

This is also a cultural change issue too which Capital Ambition will seek to address through its training and education programmes.

PEOPLE AND NETWORKS

Having the right people at local authority level and being able to coordinate work programmes and projects through networks is an essential element in achieving success. While the recruitment and retention policies adopted by each local authority are not a matter for CA, the ability to strengthen and integrate networks of professional groupings, is within its remit. Without the existence of such networks, collaboration will be impossible to achieve within the timescales set out in this document. The main procurement network in London is LCSG (see 1.3) struggles to deliver its own modest annual work programme let alone bring this strategy to fruition. Some attempts have been made to extend the role and capacity of LCSG in recent years, but have failed for a variety of reasons.

To this end, Capital Ambition will encourage bids and proposals which will strengthen the current procurement network and those from other professional networks that can aid the delivery of new sources of cashable gains.

[21] These measures, devised by the LCE, were adopted by the SLT Sub Group in 2007, following on from detailed consultation with authorities. A copy of the report can be downloaded from the Capital Ambition website.

3. ACTIVITY PROGRAMME

This section sets out the main features of the Capital Ambition activity programme with regard to London procurement.

3.1 EXISTING PROGRAMME

Table 1 shows the main activity programme as currently known to Capital Ambition. Each service/commodity is likely to generate more than one workstream. The current known total will cover about 13% of the total expenditure and comprises, in the main, the tactical expenditure. Efficiency gains will be delivered through a mixture of regional / sub-regional category management.

Service / Commodity	London Expenditure	Potential Future Model	Categorisation	Timescale
Energy	£315 M	Regional Category Management (to be confirmed)	Strategic Security / Critical	End of London Energy Project – Summer 2010 Business Case for new arrangement being developed
Commercial Vehicles / Transport	£100M	Mix of Regional / sub Regional Management (to be confirmed)	Tactical Profit	Pilot 2009/10 – Start 2010/11 Research / Fieldwork complete Report going to CA Efficiency Board on 1st June
Postal Services	£8M	London Contract	Tactical Profit	September 2009 16 London local authorities taking part
ICT	£10M	Regional Category Management building on London ICT e-Auction Scope to be expanded	Tactical Profit	June 2009
Agency Staff	£800M	Mix of Regional / sub Regional Management (to be confirmed)	Tactical Profit	To be ascertained – needs completion of Electronic Knowledge Exchange (EKE)
Consultancy	£250M	Mix of Regional / sub Regional Management (to be confirmed)	Tactical Profit	Needs roll out of Electronic Knowledge Exchange (EKE) to tackle demand management
Highways	To be researched Summer 2009	Not known	Tactical Profit	
Food and Catering	To be researched Summer 2009	Not Known	Tactical Profit	
Legal Services **(London Authorities**	Being researched	Not Known	Tactical Profit	Business Case being prepared

Legal Alliance)				

Table 1: Capital Ambition Current Procurement Work Programme (as at 15 May 2009)

3.2 DEVELOPING PROGRAMME

The main challenge facing Capital Ambition is moving its resources to the higher value/risk areas such as construction, adult social care, building works and professional services. These areas by definition are far more complex and difficult to tackle because they are:

- Often already tied up in long term contracts
- Managed by service departments that do not always welcome external support / intervention
- About the delivery of people related and/or high risk outcomes
- Dominated by a small number of suppliers.

As such there are no quick, off the shelf, solutions to tackle these areas and approaching them with the orthodox procurement strategies used for tactical work (such as category management and aggregation) will make little impact. The techniques for tackling these areas involve more resource and time and are still in an early stage of development as far as the UK public sector is concerned.

However, Capital Ambition took the first steps to meeting this challenge some two years ago by building on the concept of 'supplier arbitrage' introduced by the LCE. This involves the compilation of reports on major companies that supply local government by accessing global investor and analyst sources. The objectives of this are to:

- Understand the company including it structure, routes to market, sales strategies, global product structure, competition and investor base (e.g. venture capital)
- Allow for the preparation of appropriate engagement strategies either for the individual supplier and/or market
- Inform the development of out procurement and negotiation strategies.

The concept has been widely used in the two London ICT e-Auctions and in establishing our **Supplier Relationship Development** (SRD) project. The briefs produced have been invaluable in our ability to brief chief officers, time our activities, understand markets and understand the priorities and sales strategies of suppliers.

We believe that it is through SRD and market management/ development that cashable savings in these traditionally difficult areas will be released. Again, this will represent a significant cultural and organisational change from the way local authorities currently do business.

The extension of the SRD project could potentially see the growth and development of formalised collaborative working groups or even SRD strategies for suppliers covering up to 60% of the total spend in London which would bring the high value/ high risk spend areas into the cashable savings range. In the light of progress to date and lessons learned, the SRD project board is now looking to expanding its approach to cover market development, particularly where there are potential supplier shortages or the presence of high risk suppliers such in adult social care.

While delivering immediate returns on the high value/ high risk spend areas will be difficult, CA intends to:

- Continue to invest in the SRD / market development approach with a view to looking to expand it into other areas. It has recently secured a further £310k worth of funding for this project

- Build on the work started by the Joint Improvement Programme[22] (JIP) on adult social care and being promoted by groups such as the West London Joint Procurement Unit[23]
- Addressing areas for potential insourcing of some procurement areas which is now outsourced (i.e. making collaborative deals from the public sector open to outsourced providers to remove cost and finders fees). This had already worked in the ICT arena and could readily be extended into other areas
- Address the construction area, by focusing on the costs in the supply chain and introducing greater standardisation. A feasibility study is currently being conducted on this following the Partnership in Construction bid from Westminster City Council
- Examine the potential for a significant expansion in the e-auction programme.

On the last point, there is a strong appetite building for more e-auctions, particularly given the success with the recent joint venture with OGC for ICT hardware (e-Auction 10). Areas which could have significant potential include:

- Highways materials and equipment
- Building materials for public buildings
- Commercial vehicles

Although it is too early to understand the potential scope and opportunity of any of these in terms of likely scale of London wide expenditure, individual examples where smaller e-Auctions were held in other parts of the UK suggest that a very attractive ROI might be delivered if London could cooperate and agree common specifications and approaches in these three areas. The potential for e-Auctions in these category areas will be examined during mid 2009/10.

[22] This now falls under the remit of Capital Ambition and relates to adult social care

[23] This group is working on social care and is developing some innovative approaches for dealing with demand management

4. RISK ASSESSMENT

This section provides a risk register for this strategy with an assessment of potential impact.

Table 2 illustrates potential risks to the Strategy.

Risk	Probability (H/M/L)	Impact (H/M/L)	Management Action
Some authorities do not support / or understand the need for the London Procurement Strategy	Medium	Low	▪ Ensure wide publication and the reasons for its preparation ▪ Ensure wide debate through SLT / CELC ▪ Face to face meetings with authorities that have specific issues
CLG does not support the new Strategy	Low	Medium	▪ Early meeting to present content
Funding levels are inadequate to deliver the content	Low	Medium	▪ Review Strategy with a view to prioritising work programmes and projects ▪ Seek contributions from London local authorities
People with appropriate skill sets and knowledge are not available to London	Medium	High	▪ Ensure that market rates are paid to attract the best people

Table 2: Risk Assessment

APPENDIX A – THIRD PARTY EXPENDITURE IN LONDON LOCAL GOVERNMENT

Business Metric	*Key Facts and Statistics*
Scale of Business	▪ In 2007/8, London local authorities spent £9.3 billion with third party contractors (excluding grants, statutory payments and other non-influenceable items ▪ Outside staff costs (easily the largest), payments to third party contractors accounts for 25 to 30% of total expenditure ▪ Of this total nearly 40% is through client facing activity and a further 40% indirectly through major contracts such as works, waste collection and support services ▪ Using the supply positioning technique (see Appendix B) around 46% of the total will cover strategic services such as waste collection, care services and major works provision, 25% will comprise bottleneck suppliers where there are monopolies and serious market deficiencies and 24% where there is further scope for leveraging the market. Only 5% will be routine commodities regarded by many as 'corporate' items
Transactions	▪ London boroughs process nearly 6 million invoices each year (average for a borough is 131,000). Of these, 70% are less than £500 in value ▪ 32% of invoices received on average in each borough will be less than £100 in value. These will usually account for less than 1.5% of influenceable expenditure ▪ In many cases the cost of processing an invoice is greater than its face value ▪ In most authorities, 40 to 50% of suppliers in authorities will only generate a single invoice each year. Of these, 25% will not be used in the following financial year ▪ Most of the low value transactions are generated by Utility, Telecoms, Catering, Vehicle and Agency staff providers
Supply Base	▪ A London borough on average trades with 7,300 suppliers each financial year. Of these an average of 386 suppliers account for 80% of expenditure ▪ Across the whole of London, 145,000 suppliers were used in 2007/8 ▪ The top 100 suppliers by value in London account for just under 25% of the total annual expenditure ▪ The top 1,000 suppliers by value in London account for just over 60% of the total annual expenditure ▪ Of the top 100 suppliers by value, nearly half are common to the NHS and other public sector organisations ▪ 1,583 suppliers trade with 10 or more authorities and 4,838 trade with 5 or more authorities. This equates to 52% of London's total expenditure ▪ Of the top 100 suppliers, London local government can account for up to 80% of the company's turnover. Even for some multinationals, the London influence can be around 4 to 6% (2% would be regarded as being significant!)

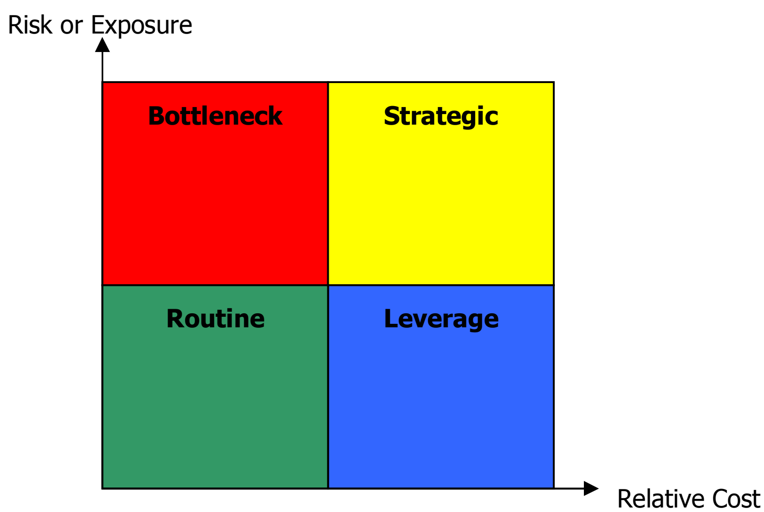
APPENDIX B – LONDON LOCAL GOVERNMENT SUPPLY POSITIONING

The Supply Positioning method is used to provide an indication of the scale of cashable savings that can be made by introducing more effective commercial arrangements, structures and systems. These savings will only be achieved if an appropriately skilled chief officer is given the authority to ***influence*** cross-departmental changes in the organisation. We would expect any organisation to analyse markets and relationships and determine where specifically resource should be targeted, at what level, and the timescales to expect savings to be achieved.

The Supply Positioning technique provides a mechanism for discriminating between the various products and services that are purchased and for developing specific sourcing strategies to meet the needs of the organisation with respect to each item or class of items.

Categories of spend are plotted on a two dimensional chart in which the x-axis represents the relative cost of the category and the y-axis represents supply exposure or vulnerability. Positioning against the y-axis is determined by an organisation's situation and needs and is usually based on supply availability, business impact and how general the specification is.

The chart is then segmented into the following quadrants:



Routine categories will be of low value and with a low business exposure because they have no special quality, safety, reliability or environmental implications and there are probably many suppliers in the market able to meet the demand. This would include stationery items, IT consumables, some building materials, some agency staff and some catering supplies.

Leverage categories are of relatively high cost but where there are no quality, safety, reliability or environmental issues and where there are likely to be plenty of suppliers. Purchases here are unlikely to contribute directly to the provision of services and often include items such as vehicles, contract services, IT equipment and utilities.

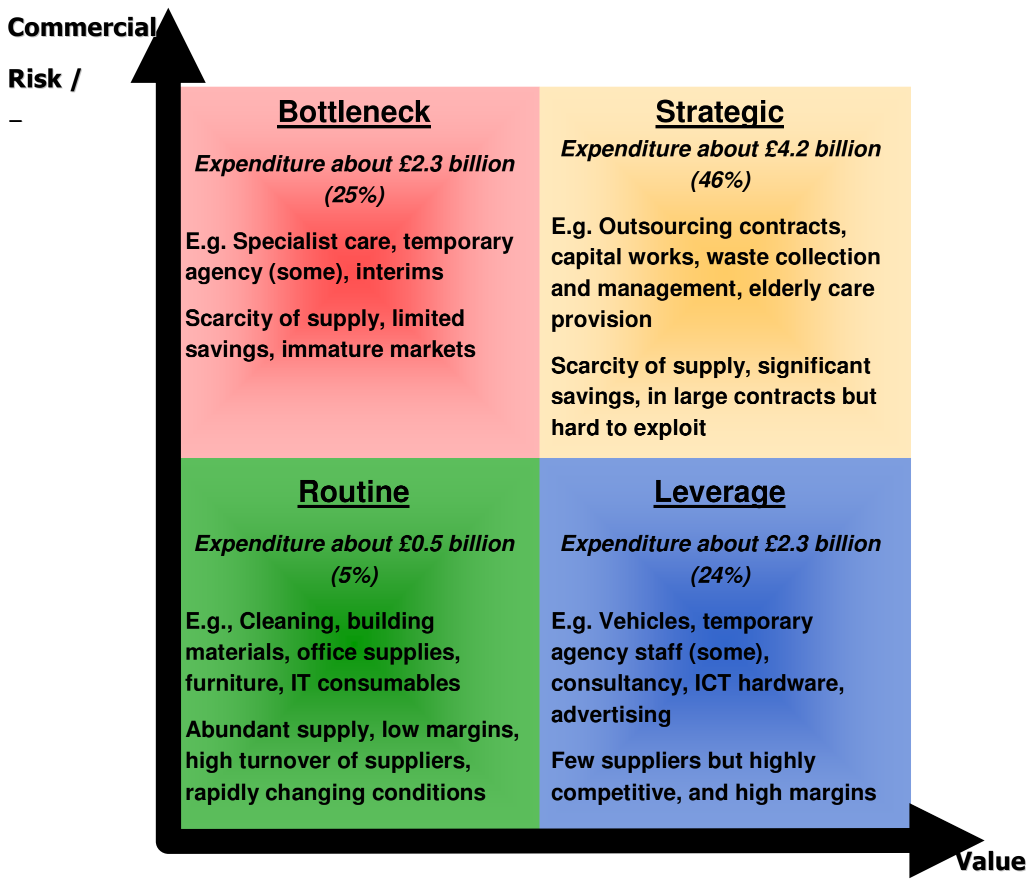
Categories in the red quadrant are also of low value but in this case there are specification considerations together with a shortage of suppliers. Included in this category, which is known as ***Bottleneck*** might be goods obtained from a monopoly supplier or items / services with a very tight or 'bespoke' specification. These items are critical to the operation, but are low in cost. In London this will include materials and parts used in property maintenance governed by old specifications and also some contract services such as specialist teachers and carers where there is a very high specification but a low demand.

Categories positioned in the yellow quadrant are classified as ***Strategic***. These are high cost and either have a specialist nature or are sourced from a difficult market in which there are relatively few supplies or suppliers. As the name implies, these are critical to the overall profitability, competitiveness or capability of an organisation to deliver services. This will include a significant amount of spend on social care, capital works and outsourcing arrangements where specifications are tight and there is a supply shortage.

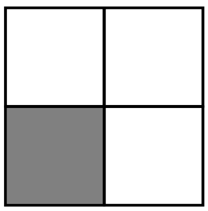
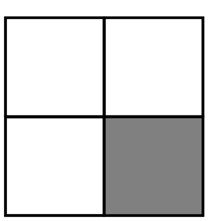
Purchases positioned in the four quadrants have considerably diverse characteristics and therefore the purchasing goals and objectives will be quite different:

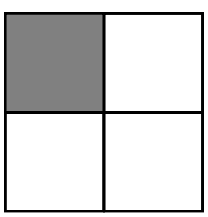
Bottleneck	***Ensure Supply, Reduce Risk***
Strategic	***Manage Supplier Relationships***
Routine	***Minimise Attention, Automate***
Leverage	***Reduce Direct Cost***

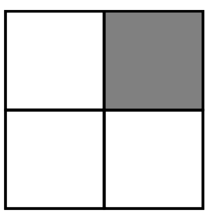
The following chart shows the outcomes of the macro-analysis for London:



APPENDIX C – LONDON'S THIRD PARTY EXPENDITURE PROFILE

Expenditure Quadrant	*Summary*
Routine 	**Main Areas of Activity** Total spend in London circa £500M. Mainly high volume, low value products / services. Very low risk to local services if supply disrupted E.g. office supplies, materials, food supplies, some services, furniture.
	Where Undertaken Usually regarded as 'Corporate' items. Done either by Corporate Procurement teams, or central buying groups such as OGCBS, ESPO or YPO. Plethora of contracts and choice available. Covered by LCSG too.
	Market Attributes Low margins, fast turnover of suppliers, some SMEs, but also larger companies. These suppliers also tend to generate large volumes of invoices.
	Savings Expectations Limited, typically 1% to 2% as margins have been largely eroded. The quadrant has been well covered by LCSG where some good contracts have been put in place.
	Likely Contribution to Cashable Savings Will contribute little to cashable savings targets unless not already done. Strategy should be to join an external contract, ensure transaction automation and good contract management arrangements in place. Review market every two to three years. Individual London authorities should cease work in this quadrant and refrain from tendering in isolation for this work.
	Future Needs Needs a brokerage to identify and validate good contracts already in place and offer to London authorities. This will include checking they are EU compliant and assessing the contract management strategy in place.
Leverage 	**Main Areas of Activity** Total spend in London circa £2.3 billion. Fewer suppliers, but still choice in the market place as higher volume higher value products / services. Relatively low risk to services if supply is disrupted. E.g. vehicles, temporary agency staff (some), consultancy, ICT hardware, and advertising.
	Where Undertaken Some corporate items, but also some 'specialist' purchased directly by service departments. Also, and increasing number of contracts beginning to emerge from central buying groups (e.g. for refuse freighters).

	Market Attributes High margins but relatively stable supply base. Few SMEs by definition, mainly the domain of large companies. Fewer transactions. Market share is often the commercial consideration here.
	Savings Expectations Significant, often ranging in the 10% to 20% bracket. The recent LCE e-Auction 8 hit 50%, mainly as a result of a battle for market share and the ability of multi-nationals to drive out costs if they see fit. The global recession is likely to push this further. The Capital Ambition e-Auction 10 still produced an average of 12.3% for the 15 London boroughs that took part.
	Likely Contribution to Cashable Savings This is the quadrant to operate in. By working on specifications and understanding the market dynamics, London authorities should work to move more of their expenditure into this area. A good example is both insurance and parking equipment that have now moved into this quadrant thanks to collaboration and introducing choice. Energy can also follow suit. Regional and sub-regional category management will command a strong business case in this sector
	Future Needs London authorities need to use their existing resources to work in these areas, particularly where they can 'commoditise' product and service ranges. Again a brokerage is needed to facilitate the collaboration and run e-Auctions etc in order to reduce costs.
<u>Bottleneck</u> 	**Main Areas of Activity** Total spend in London £2.3 billion. Scarcity of suppliers. Mainly high volume, low value products / services. Very high risk to local services if supply disrupted, particularly where elderly and vulnerable people are involved. E.g. specialist care, temporary agency staff (some), energy (currently), specialist crafts.
	Where Undertaken Often purchased or 'commissioned' in service departments as a part of a much larger role. Little by way of coordinated spend.
	Market Attributes High margins set against limited supply and immature markets. Often dominated by small or niche providers who can pick and choose their customers.

	Savings Expectations In the short term limited, the issue is cost containment. However, with well developed commercial skills this is the area where competition can be introduced and tactics deployed to bring about change. The introduction of LAML meant that lots of insurance work moved from here to the Leverage box, with savings averaging 15%.
	Likely Contribution to Cashable Savings Work undertaken now may start to yield savings for around 2011/12. This is the quadrant where encouraging SMEs/ BME's to enter the market will begin to yield results. London authorities need to target this area with commercial skills and investigate where collaborative working could persuade new suppliers to enter a market.
	Future Needs Market intelligence and information brokerage delivered on a pan London basis. A catalyst to identify and launch collaborative working teams.
<u>Strategic</u> 	**Main Areas of Activity** Total spend in London £4.2 billion. Scarcity of suppliers with some monopolies or cartels. Very high risk to local services if supply disrupted. Could stop a council from functioning if, for example, the outsourcing company went bust. Long term contracts. E.g. outsourcing, capital works, care provision, waste management and collection.
	Where Undertaken Invariably done in service departments as it is seen as highly specialised and complex. Skills are often brought in to advise on procurement with associated costs.
	Market Attributes Dominated by very large players often with high margins and contingency (often justified by claims of risk and reward). Proliferation of listed companies operate here.
	Savings Expectations Significant in some cases depending on how the contract is let – often in the 5% to 10% range depending on the acquisition. Will take time to deliver owing to duration.

	Likely Contribution to Cashable Savings Needs strong contract and relationship management. The LCE work showed that many London authorities do not proactively manage contracts which can result in standards slipping and costs spiralling after the contract has been let. Needs Supplier Relationship Management on a pan-London basis to maximise leverage, drive out cost, and influence future direction of the market. Prime candidate for innovative bidding, including use of local SMEs and sustainability. Need to revisit and renegotiate existing contracts where in built costs are prevalent and potentially 'in-source' the purchase of equipment such as ICT, vehicles, and any 'commoditisable' high value products / services Need to divide into lots and drive elements into leverage quadrant.
	Future Needs Market intelligence and information brokerage delivered on a pan London basis. A catalyst to develop Supplier Relationship Management strategies and ensure strong commercial contract management strategies.