

2018-2020 Financial Planning and Budget Setting Process Business Case for Change

1. Summary

Title	Maximising Resources – Sourcing, Supply chain and commercials
Business Case Number	MR - Source
Member	All
Project Sponsor	Mark Longstaff
Project Lead	Mark Longstaff
Council Plan Theme	Our People, Our Places & Our Economy
Creating a Brighter Future Theme	Maximising Resources
Saving or Income	Saving
Total 18/19 Savings/Income	£(1,500,000)
Total 18-21 Savings/Income	£(1,500,000)

2. Business Case

Summary

Sourcing, supply chain and commercials -More than half of the Authority's expenditure is to third parties and with a supply chain of over 4,000 organisations and individuals it is critical that sourcing, supply chain and commercial arrangements are as sharp as possible. This project aims to look beyond the large-scale commissioning and major partnerships to ensure all of the supply chain is subject to a rigorous value for money test and best practice category management is applied.

Case for change

Building upon the recently agreed Procurement strategy there is an opportunity for the Authority in conjunction with its partners to re-engineer its procurement function to realise additional savings and enhance its commercial support to the service areas.

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Through some initial analysis carried out by Capita Procurement Solutions saving opportunities have been identified which are ambitious and only achievable alongside changes to the current operating model, which has been analysed to understand the state of readiness to undertake delivery of these savings and indeed to establish a foundation to support sustainable savings into the future.

The savings projects identified consider both how to unlock benefits from large areas of spend (be that in existing contracts or strategic sourcing exercises) and how to manage the lower values of spend to achieve best value.

Spend categorisation & headline numbers

The makeup of the Authority's spend is typical for a local authority of its size and how the services are operated

Viewing suppliers by category rather than service gives an alternative view of the Supplier base and helps identify areas of focus for supplier engagement activity and opportunities for tail spend management.

- **North Tyneside Annual Spend (2016/17) on third party payments £270m**
- **That Expenditure is with 4188 Suppliers**
- **46.37% of suppliers have less than £1,000 of spend**
- **80% of that expenditure is with 2% of suppliers (102)**
- **Top 24 suppliers represent 56% of Spend**
- **Total number of transactions 200,889**
- **34.53 % of those transactions with suppliers below threshold of £164k**

Establishing realistic baseline of addressable spend

North Tyneside has circa. £ 270 million of third party spend per year. However at this stage it would not be possible to deliver savings across all of this, as this total spend includes items such as pensions and levies to other government bodies where the Authority has limited control over the spend.

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£270m

This is the total value of expenditure with third parties during 2016/17 and includes General Fund, HRA & Capital expenditure to give a holistic view.

Less

As stated above some areas of spend are not currently in scope of this project and they amount to approximately £100m and are:

- Strategic Partnerships (KNT, ENGIE, CAPITA) circa **£70m**
- Govt & Public Bodies **£30m**

Year1 potential Savings

**Category
Total
Spend**

£170

Less

£98m

On a category by category basis the addressable spend has been adjusted by varying percentages based on experience and knowledge of category and current position of NTC.

Factors include the proportion of the In Scope spend that is likely to yield savings, the degree of probable difficulty in delivering savings and assumptions on categorisation that may require some refresh.

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£72m

**Revised/Realistic Addressable
Spend in Scope**

Initial Summary of savings opportunities identified for 2018/19

From this initial cut a number of savings projects were identified and the team is now undertaking the work needed to realise the savings. Below is the summary of savings opportunities initially identified for 2018/19.

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	Base £	Best £	
Health & Social Care	625,500	764,500	0.78%
Construction & Highways	52,200	63,800	0.07%
Property	129,600	158,400	1.17%
Environment	8,775	10,725	0.09%
Professional Services	80,550	98,450	1.16%
Utilities & Energy	13,399	16,376	0.22%
Facilities Management	28,238	34,513	0.54%
Human Resources	158,364	193,556	3.63%
IT & Telecoms	30,195	36,905	0.87%
Transport Travel Accommodation.	16,800	50,533	1.01%
Leisure	233,460	285,340	23.55%
Marketing	52,965	64,735	5.34%

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Office Supplies and services	27,270	33,330	1.46%
Manufacturing & Engineering	19,890	24,310	4.49%
Tail Expenditure	45,000	55,000	n/a
Potential Savings Range	1,522,205	1,860,473	0.56%

In addition, the team are also broadening the savings categories and potential projects under consideration. Broadening the range of projects is designed to increase the opportunity for future years' savings.

Next Steps

1. To establish a targeted savings delivery programme, with a governance structure that embeds procurement activity strategy, benefits tracking and realisation into the fabric of the Authority and enables the effective delivery of procurement activity within the Authority.
2. To develop a new Target Operating Model for procurement that is based on a flexible resource structure that provides category experts on an as-needed basis to work with managers to unlock savings and manage contracts. The flexible resource will be focused on driving out savings, and will sit alongside the Business As Usual function that includes improvements in data analytics, spot buying and compliance reporting.
3. To Introduce 'tail spend' management tools / service to consolidate the low value supply base into corporate contracts that best leverage the Authority's spend in order to drive savings, whilst ensuring that buying behaviours and transactional volumes are reported and managed to ensure compliance. ('Tail spend' refers to a large number of low value procurement transactions in an organisation, typically made with numerous suppliers other than the 'main' contracted suppliers, many of which may be used infrequently).
4. To focus on technology enabled and consistent contract and performance management that is fit for purpose and provides commercial performance and contractual support to service managers who own operational delivery.
5. To develop and maintain systems and tools (templates, policies, procurement documentation, catalogues) that are easy for end users to access and support the digital agenda by enabling greater self-service.

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Target Operating Model – alignment to key principles

1. We understand and manage demand	
2. We enable people to help themselves	x
3. We use intelligence to target resource to best effect	x
4. We Maximise income and reduce long term cost	x
5. We work in partnership to improve outcomes	x
6. We are innovative and utilise technology to improve outcomes	x

3. Financial Implications

Net Savings / Income	Cost Centre & Subjective	Part year? (months)	18/19 (£000s)	19/20 (£000s)
Sourcing savings	09966 2051		(1,500)	
Total			(1,500)	

Financial Analysis 2018/19

Expenditure/Income Line	Value (£000s)
Supplies & Services	(1,500)
Total	(1,500)

4. Staffing Implications

Affected FTE [Reduction (-), Increase (+)]	2018/19	2019/20	2020/21
None			
Total			

5. Delivery Plan, Risks and Outcomes

Key Milestones		
Milestone	Lead Officer	Completion Date
Establish Governance Arrangements	Mark Longstaff/ Allison Mitchell	Nov 2017
Develop a new Target Operating Model for procurement	Mark Longstaff/ Allison Mitchell	March 2018

Risk scores shown below are the current scores – it is anticipated that these will reduce if work progresses in line with the proposed business case

Risk	Risk Score	Mitigating Actions
(1) Benefit Realisation: There may not be sufficient	C1	This is an inherent risk within any procurement. Capita Procurement

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<p>savings which can be generated: despite the work outlined below. There is therefore a risk that sourcing, supply chain and commercials business case may not deliver the level of savings required (i.e. £1.5m) in 2018/19.</p>		<p>Solutions (see 2 below) will field category management specialists to work alongside our Heads of Service to follow up the savings opportunities already identified, to give the best chance of achieving the savings required.</p>
<p>(2) Procurement Capacity and Skills Mix: Procurement services are outsourced and contracted to be delivered by a partner organisation (Engie). There is a risk that Engie will not have the required resourcing / skills mix within its Procurement team to undertake the work necessary and deliver the procurement savings required.</p>	<p>B1</p>	<p>Following an initial 'diagnostic' piece of work commissioned by Engie from a separate organisation (Capita Procurement Solutions) in the Summer of 2017, Capita Procurement Solutions developed a detailed list of procurement spend areas most likely to deliver savings and to be targeted. The Authority has further engaged Capita Procurement Solutions for an initial extended period (until March 2018) to implement this work, delivering as many procurement savings as possible in 2017/18 and setting up the arrangements to deliver savings into 2018/19 and beyond.</p> <p>This is our best chance of ensuring we have access to:</p> <ul style="list-style-type: none"> • The required procurement capacity • The required procurement skills and knowhow, from specialist category managers <p>to secure as many procurement savings as possible in the immediate term and into 2018/19.</p>
<p>(3) Contractual responsibility for procurement: as set out above, procurement is under contract to be delivered by the business partner (Engie). There is a risk that roles / responsibilities with regard to Engie and Capita Procurement Solutions for delivery of procurement savings may conflict.</p>	<p>C2</p>	<p>A detailed analysis of contract performance was undertaken by the client in 2014, which has been updated in 2017 and is the basis for a contract review of procurement which is now underway. The outcomes of this work will inform the direction of future procurement delivery arrangements.</p> <p>Meanwhile, a schedule of meetings involving Engie procurement staff, Capita Procurement Solutions staff and the Procurement client have been arranged to ensure that there is clarity about who is undertaking which role with regard to</p>

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		savings delivery, and that actions of each entity support the savings delivery programme.
(4) Procurement Governance Board: Capture of Cashable Procurement Savings: there is a risk that procurement savings identified will not be cashable (i.e. captured and removed from budgets) and if so that the savings target will not be met.	D2	A Procurement Governance Board (comprising the Chief Executive, Head of Finance and Head of Commissioning & Investment) has been established. This is meeting monthly to review progress, agree which savings have been delivered and to remove these from budgets. This will continue as a governance process into 2018/19.

Performance Indicators

Indicator	Baseline	Target
The £1.5m procurement saving is achieved in 2018/19.	A saving of £0.5m was included as a procurement savings target in 2017/18.	£1.5m saving delivered 2018/19 (to be monitored via the Procurement Governance Board).

6. Other Requirements / Dependencies

Technology Requirements

None

Client / Customer Implications

The Procurement client leads are currently working alongside both Engie and Capita Procurement Solutions to deliver 2017/18 savings and to undertake preparatory work for those procurement areas highlighted to deliver targeted savings in 2018/19. This work is being undertaken in conjunction with relevant Heads of Service in those areas where procurement savings have been identified as likely.

Partner / Stakeholder Implications

See risk areas (2) and (3) above.

Equality and Diversity Implications

None

Is this project also included/supported by Capital Investment?

Yes

7. Sign Off

Mayor / Cabinet Member(s)	Cllr Ray Glendon
Head of Service(s)	Mark Longstaff
Finance Manager	Alison Campbell