

North Tyneside Council Report to Cabinet Date: 14 May 2012

ITEM 6 (h)(ii)(k)

Title: Seeking Best Value
from Contracts: Council
Strategic Plan and
2012/13 Budget
Implementation Plan

Portfolio(s): Finance

Cabinet Member(s): Councillor Judith
Wallace

Report from Directorate: Finance and Resources

Report Author: Andrew Lowe (Principal Procurement & Commissioning Officer) (Tel: 6435651)

Wards affected: All

PART 1

1.1 Purpose:

The purpose of the report is to inform Cabinet on the work being undertaken to seek out best value for contracts and to examine the possibility of offering longer periods for discounted rates, as proposed in the Council Strategic Plan and 2012/13 Budget – Implementation Plan agreed by Cabinet on 28 March 2012.

1.2 Recommendation(s):

It is recommended that Cabinet

(1) Note and endorse the contents of the report.

1.3 Forward Plan:

This report does not appear on the current Forward Plan. However, it is required to be considered at this Cabinet meeting because the Report to Cabinet, Council Plan and 2012/13 Budget – Implementation Plan (Minute CAB181/03/12) requested that a further report be brought to the May 2012 meeting of Cabinet on the work being undertaken to seek out best value for contracts, and to examine the possibility of offering longer periods for discounted rates.

1.4 Council Plan and Policy Framework

The report relates to the Council Strategic Plan for 2012/15.

1.5 Information:

- 1.5.1 The Council Plan and budget considered and approved by Council on 1 March 2012 set out a number of proposals relating to delivery of the Council's services. Item 14, of Priority 1, states that the Council would "Seek out best value contracts via negotiation, and offering longer periods for discounted rates which should reduce overheads in annual renewals."
- 1.5.2 The commercial activity of the Council's spend is approximately £150m. Analysis of business cases put forward as part of the preparation of the 2012/13 budget shows that expected savings relating to commercial capacity and procurement activity total £7.142M. This is 44% of the Change, Efficiency and Improvement savings planned for the financial year.
- 1.5.3 As part of the Change Efficiency and Improvement Theme B (Business) Programme, the Commercial Capacity and Procurement Project (CCPP) has already been seeking to review, critically appraise and evaluate the arrangements in place throughout the Council for securing best value in our procurement activity, including the value for money obtained from existing contracts. The main areas of work over the past year have been to concentrate on the highest value contracts, where negotiation is likely to achieve the best return from the resources invested. These include:
- A review of operational Private Finance Initiative (PFI) contracts in line with HM Treasury guidance "Making Savings in Operational PFI Contracts". This set out a range of areas where savings and cost reduction measures should be considered. The outcome of this review was that the Council were found to be operating in accordance with the approach advocated by HM Treasury for all of the Council's PFI contracts.
 - A review of the Street lighting PFI was undertaken in November 2011 with the support of "Local Partnerships". Local Partnerships (formerly known as 4P's) are jointly owned by HM Treasury and the Local Government Association, and were commissioned by HM Treasury to assist in the Operational Savings Review of existing PFI Contracts. A number of specific initiatives were identified which anticipate delivering savings of £100,000 which will come into effect during this financial year, and have already been built into the budget. Further savings in future years will depend on investments being made in new types of lamps, and any decision on switching off lights.
 - A renegotiation of the recycling contract, with an extension, will result in an estimated saving of £200,000 this year.
 - The waste contract with SITA has been reviewed and revised. This has secured a long term deal with a favourable fee, and increased the diversion of waste from landfill. This work also removed a considerable risk from the Council.
 - A review of all Supporting People contracts in Adult Social Care has been completed. As a consequence, the choices which have been made to focus on those services which are delivering services to people who have critical and substantial needs are making a difference to supporting vulnerable people. These savings have been included in the agreed budget and amount to around £3m, and are being managed in Theme A.
 - The lead responsible Strategic Director or Head of Service was identified for each of the major supplier relationships for the top 50 suppliers by spend value. Each of these senior officers has confirmed that testing the value for money in these contracts had already taken place, and found to be offering best value in the last 12 months; or that this exercise was underway as part of other projects in place throughout the CEI programme.

- A similar exercise on assessing value for money is currently underway for the next 200 suppliers by spend value.

1.5.4 At the beginning of each procurement process, when specifications are being drafted, and the strategy is being developed, consideration is given to the optimum length of the contract to be awarded. So that best value can be achieved from the procurement, long terms contracts of up to 4 years (or even longer) are usually offered to the market. Contracts are only ever awarded for a single year length where there is a specific business need that determines that this is the appropriate length. (e.g. for a project that is only funded for a year).

1.5.5 Where contracts are awarded for a period exceeding one year, there is an annual review built into the contract terms. This ensures that any opportunities to improve value for money are formally considered at least once per year in key spend areas.

1.5.6 Where an existing contract is renewed, specialist circumstances may require the use of a waiver to Contract Standing Orders. In such situations where a contract period exceeding a year is advantageous to the business and commercial interests of the Council, a longer contract period will be agreed, and approved through the waiver process. Such a process is always subject to securing compliance with the relevant UK and EU Procurement Rules.

1.6 Decision options:

The following decision options are available for consideration by Cabinet:

Option 1

Cabinet is requested to note and endorse the work to seek out best value for contracts as part of the Change Efficiency and Improvement Theme B (Business) Programme.

Option 2

Cabinet may not wish to note and endorse the approach being taken through the Change Efficiency and Improvement Programme, and to suggest an alternative approach to seeking best value for contracts.

Option 1 is the recommended option.

1.7 Reasons for recommended option:

Option 1 is recommended as it is part of an ongoing established programme within the Council which has made progress to date in achieving best value for contracts.

1.8 Appendices:

There are no appendices to this report.

1.9 Contact officers:

Allison Mitchell, Senior Manager, Audit, Risk & Procurement. tel. (0191) 643 5720

Andrew Lowe, Principal Procurement & Commissioning Officer. Tel. (0191) 643 5651

Janice Gillespie, Senior Manager Corporate Finance. Tel. (0191) 643 5701

1.10 Background information:

The following background papers/information have been used in the compilation of this report and are available at the office of the author:

- (1) Report to Cabinet, Council Strategic Plan and 2012/13 Budget – Implementation Plan, 28 March 2012 (Minute CAB 181/03/12)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no financial or other resource implications arising directly from the information provided. Included in section 1.5.3 are details of specific savings identified through re-negotiation of major contracts. These savings were included in the budget proposals approved by Council 1 March 2012.

2.2 Legal

There are no legal implications directly arising from this report. Dedicated legal advice is provided to support the Theme B (Business) Programme and in addition legal advice is obtained where appropriate as the reviews described are taken forward.

2.3 Consultation/community engagement

2.3.1. Internal Consultation

Consultation has taken place with the wider procurement community as part of the CEI Theme B work and with the Senior Leadership Team. In addition the Cabinet Member for Finance and the Strategic Director of Finance and Resources have been consulted on this report.

2.3.3.External Consultation

Consultation with local suppliers has taken place at regular meet the buyer events held within the borough and regionally, aimed at widening the knowledge and requirements of the Council's business.

2.4 Human rights

There are no human rights implications directly arising from this report.

2.5 Equalities and diversity

There are no equality and diversity implications directly arising from this report.

2.6 Risk management

Following a risk assessment there are currently no risks attached to this report. If any risks do arise in the future they will be discussed with the Risk Management Team and added to the relevant Council's risk registers.

2.7 Crime and disorder

There are no crime and disorder implications directly arising from this report.

2.8 Environment and sustainability

There are no environmental and sustainability implications directly arising from this report.

PART 3 - SIGN OFF

- Strategic Director(s) X
- Mayor/Cabinet Member(s) X
- Chief Finance Officer X
- Monitoring Officer X
- Strategic Manager,
Policy and Partnerships X