

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	Procurement – sub £100k spend		
DATE OF DECISION:	24 July 2017		
REPORT OF:	Service Director, Digital and Business Operations		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Paul Paskins	Tel: 023 8083 4353
	E-mail:	paul.paskins@southampton.gov.uk	
Director	Name:	Rob Harwood	Tel: 023 8083 3436
	E-mail:	rob.harwood@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY	
This report updates the Governance Committee on the findings of an audit of below £100k procurement activities in 2016-17, associated issues and the remedial actions being taken.	
RECOMMENDATIONS:	
(i)	The Governance Committee notes the issues detailed in this paper.
(ii)	The Governance Committee requests a further paper in January 2018 to detail progress in resolving the issues outlined in this paper.
REASONS FOR REPORT RECOMMENDATIONS	
1.	The issues outlined in this paper are long-standing, but are being addressed through a series of robust remedial actions.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	None
DETAIL (Including consultation carried out)	
	Background and Scope
3.	This report updates the Governance Committee on what is known as the 'Sub £100k' procurement process i.e. procurement activities and projects with a spend of less than £100k.
4.	The Governance Committee are asked to note that if officers fail to adhere to the prescribed processes the council may, in some cases, be missing opportunities to reduce some costs relating to the engagement of third party suppliers.
5.	The Governance Committee are further asked to note that, in many cases, stronger adherence to the process would have no effect on the costs to the council and that the issues contained in this report do not constitute any breach of legal obligations.

6.	There is no known evidence of any officer undertaking fraudulent activity in regard to the Sub £100k process. If any fraudulent activity is identified as a result of the actions described in this report, then this would of course be dealt with in accordance with the council's Disciplinary Policy.
7.	The new Supplier Management function was established in late 2016. Part of the remit of this function is to oversee the council's third party spend. The issues detailed in this report regarding adherence to the Sub £100k process were quickly identified by Supplier Management and supporting data and evidence was collected.
8.	This supporting data was supplied to the associated audit by the Southern Internal Audit Partnership in respect of Procurement (Sub 100k) 2016/17 ("the audit report"). The audit report found that " <i>limited assurance could be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives</i> " and put in place a number of management actions to address this.
9.	This report focusses on procurement requests of less than £100k in total value which should adhere to the Sub £100k process as set out in the Contract Procedure Rules (CPR's) (and which for the purpose of this report, is termed "influenceable spend").
10.	It should be noted that this report does not consider activities which relate to below £100k spend which have been made against existing contracts or exemptions which have been granted in accordance with the CPRs. In accordance with the audit report, it also excludes Integrated Commissioning Unit (ICU) spend, for which to date, activity has not fully been undertaken by the Sub £100k team. For the purpose of this report the categories referred to in this paragraph is termed "non-influenceable spend".
11.	In 2014 the Strategic Service Partnership (SSP) between the council and Capita was extended to create a single operating model for procurement under £100,000 managed by Capita's "Sub £100k team".
12.	The creation of the Sub 100k team was intended to ensure that procurement activity for requirements of less than £100,000 in total value would be managed and delivered centrally by procurement professionals (rather than council officers as it had been the case previously). This aimed to deliver benefits and value to the council by acting as a demand challenge, delivering compliant procurement processes, ensuring visibility of 3 rd party spend council wide and allowing for intelligent procurement of repeat and/or multiple requirements whilst ensuring all council buying activity adhered to public procurement principles.
13.	This centralised approach to procurement also allowed the council to implement best practice across all its procurement activity and benefit from central purchasing power including achieving greater discounts and the appropriate use of frameworks whilst leaving council officers free to undertake their core roles, the consequence of which would drive out cost saving opportunities and/or process avoidance.

	Issues
14.	The key issue relates to the influenceable spend for which there is no contractual arrangement in place and where purchasing officers may undertake the procurement themselves, in some cases without following the Sub £100k process (for example, making a commitment to pay before a Purchase Order has been authorised).
15.	During the period 1 April 2017 to 30 June 2017, data in respect of the Sub 100 spend managed by the Sub £100k team (including both influenceable and non-influenceable spend) demonstrated that approximately 30% of all Sub £100k requests related to influenceable spend although the value of these requests equated to only approximately 5% of the total Sub £100k spend for this period. In summary, this indicates that influenceable spend consists mainly of multiple, lower value requests.
16.	With effect from May 2017, the CPRs have been amended to mandate that all procurement activity above £1,000 (previously £10,000) in value must be managed by the Sub 100k team to ensure that the correct process is being adhered to for these low value, high volume requests and council officers are clear that they should not be procuring such requirements themselves.
17.	The audit report also identified some lack of clarity over which service areas were required to adhere to the Sub 100k process. All service areas within the council are obliged to utilise the Sub 100k service (although historically this has not always been the case). Due to the nature of ICU service area, much of its 3 rd party spend commitments are governed by contractual arrangements which the council is unable to unilaterally influence (for example, inter-agency adoption arrangements, SEN top ups and social care assessments). Spend outside of such arrangements, however, are subject to the Sub £100k process.
Data associated with the Sub 100k Procurement Process	
<u>1st April 2016 – 31st March 2017</u>	
18.	Data for this period demonstrates that the council spent approximately £27 million on influenceable spend and £25.2 million of this did not fully and consistently follow the Sub £100k process.
19.	This data differs slightly from that referred to in the audit report because, as recognised in the audit report, the original data contained some inconsistencies. To provide a clear comparison of the situation from April 2016 to June 2017, the original data for 2016-17 has been re-run based to include influenceable spend only for this period.
20.	This influenceable spend should be considered in the context of the overall under £100k third party spend processed by the Procurement Service for the period, which totalled approximately £142 million.

	<u>1st April 2017 to 30th June 2017</u>									
21.	<p>Data for this period demonstrates that the council spent approximately £2.5M in influenceable spend and approximately £2.2M has not followed the Sub 100k process. This should be considered in the context of the overall third party spend processed by the Procurement Service for the period, which totalled approximately £52M.</p> <p>Chart 1 - Summary of April 2016 – June 2017</p> <table border="1"> <caption>"Process not followed" summary</caption> <thead> <tr> <th>Category</th> <th>Apr 2017 - June 2017</th> <th>Apr 2016 - March 2017</th> </tr> </thead> <tbody> <tr> <td>Number of requests</td> <td>~90%</td> <td>~92%</td> </tr> <tr> <td>Value of requests</td> <td>~88%</td> <td>~95%</td> </tr> </tbody> </table> <p>Chart 1 demonstrates that there has been a slight decrease the number of requests which have not followed the Sub £100k process since April 2017 and this trend it is expected to continue based activity planned and set out in this report.</p>	Category	Apr 2017 - June 2017	Apr 2016 - March 2017	Number of requests	~90%	~92%	Value of requests	~88%	~95%
Category	Apr 2017 - June 2017	Apr 2016 - March 2017								
Number of requests	~90%	~92%								
Value of requests	~88%	~95%								
	Remedial Action									
22.	The management actions agreed as a result of the audit report and these, and progress towards their completion, are shown at Appendix 1.									
23.	In addition to the actions in the audit report, a series of steps are being taken to address non adherence to the Sub £100k process.									
24.	Meetings have been held with all Service Directors to review the influenceable spend in their areas for 2016-17 and to ensure that senior sponsorship is secured in respect of the Sub £100k process moving forward.									
25.	Communications (both verbally and in writing) have been issued to the Council Leadership Team to emphasise the mandatory elements of the Sub £100k procurement processes which must be adhered to when undertaking any purchasing activity. These communications were jointly issued by the Chief Executive and Chief Operations Officer.									

26.	<p>The CPRs have been revised, published and communicated. The CPRs now:</p> <ol style="list-style-type: none"> a. make clear that council procurement requirements must be channelled through the Sub £100k team and require them to obtain (on the requesting officer's behalf) at least 3 quotes for requirements of £1,000 or more in value (previously this was only in respect of £10,000 or above). It is envisaged that this will address the multiple low value activities which were not previously encompassed in the Sub £100k process; b. streamline the procurement process by allowing a supplier to be appointed if only one tender or quote is received and c. require procurement exemptions to be conditional on the relevant Service Director providing and agreeing a plan with the Service Director – Digital and Business Operations to mitigate the need for further exemptions.
27.	<p>A revised Procurement Strategy is being developed which sets out the council's requirement for a centrally managed procurement service to achieve best value and compliancy for all council procurement activity.</p>
28.	<p>Workshops have been conducted with officers around 75 officers to obtain 'user' feedback and to inform potential improvements to the Sub £100k process to ensure that it is fit for purpose and utilised by all. Anonymous feedback forms were also completed by attendees and further workshops will be run in summer 2018 to assess how perceptions and experiences of the Sub £100k process has changed.</p>
29.	<p>Development and implementation of the Procurement Service Development Plan which will improvement the service as a whole including:-</p> <ol style="list-style-type: none"> a. Developing and rolling out mandatory e-learning training, which will cover all aspects of the procurement within the council (relevant to roles); b. Reviewing procurement processes and documentation including re-positioning the Sub £100k process on the intranet; c. Developing focused and clear process maps reflecting key "user journeys" and roles and responsibilities; d. Developing easy web links with service information via "staff stuff" including contact information, improved forms and guidance; e. Working with service areas to establish what their repeat needs are and procuring contractual arrangements to allow these needs to be met quickly and easily and f. Reviewing cross council spend to ensure that repeat requirements are effectively identified and procured compliantly.
30.	<p>Working with the ICU service area to ensure that the Sub £100k team is utilised where contracts/arrangements with other public bodies are not in place.</p>
31.	<p>Development of the process conformance dashboard which allows for adherence to the Sub £100k process to be centrally tracked and reported.</p>
32.	<p>Implementation of the Procurement and Contract Management Board (PCMB) (chaired by the Chief Operating Officer and attended by the Cabinet Member for Environment and Transport) which, amongst other things, will review the levels of exemption requests received on a monthly basis and report level of conformance with the CPRs through the conformance dashboard.</p>

	Conclusions
33.	It is anticipated that the actions required by the audit report, which were (in the main) already in progress, coupled with the additional focus of developing training and improving guidance around the Sub £100k process will result in significantly increased compliance with the process over the next 12 months.
34.	PCMB will monitor the conformance and will ensure accountability. Where appropriate, officers who do not adhere to the Sub £100k process may be subject to disciplinary proceedings in accordance with section 2.1 of the CPRs.
35.	It is proposed that a follow up report is provided to the Governance Committee in January 2018 setting out progress against the activity set out in this report and providing updated data associated with adherence with the Sub £100k procurement process.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
36.	None
<u>Property/Other</u>	
37.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
38.	None
<u>Other Legal Implications:</u>	
39.	None
RISK MANAGEMENT IMPLICATIONS	
40.	See main body of this report.
POLICY FRAMEWORK IMPLICATIONS	
41.	None

KEY DECISION?	No	
WARDS/COMMUNITIES AFFECTED:	All wards	
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Progress against actions contained in audit report 2016-17	
Documents In Members' Rooms		
1.	N/A	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
Other Background Documents		
Other Background documents available for inspection at: N/A		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	N/A	