

**BUSINESS SUPPORT
OVERVIEW AND SCRUTINY COMMITTEE
5 DECEMBER 2013
UPDATE ON CATEGORY MANAGEMENT**

Report from: Perry Holmes, Assistant Director, Legal and Corporate Services

Author: Genette Laws, Head of Category Management

Summary

This report provides an update to Business Support Overview and Scrutiny Committee about the creation of the category management team, its achievements so far and plans for the future.

1. Budget and Policy Framework

- 1.1 The category management team is responsible for supporting services to deliver best value from their third party spend. This is not always related to procurements, but can include demand management, renegotiating contracts or identifying alternative vehicles for contract delivery such as a joint venture company.
- 1.2 Where procurements take place, they are undertaken in accordance with the council's contract procedure rules in Chapter 4, Part 7 of the Constitution and EU legislation relating to public procurements.

2. Background

- 2.1 Government funding fell in 2010/11 by 11.9% and the council had to bridge a gap of £23.5 million. In 2013/14, a reduction in grant funding and the comprehensive spending review identified a further reduction of £34 million over the next 2 years. Given that better for less is about protecting frontline services and transforming back office services, the creation of the category management team was a key work stream in phase 2 of the Better for Less programme.
- 2.2 The category management team was created by reviewing the procurement activities across the council with a view to bring these resources together so that there was a centralised and visible team of procurement expertise. Previously, procurements were lead within specific service areas and there was not the opportunity to bring disparate procurement activities for similar requirements together to create greater leverage and economies of scale in the market where we spend about £230 million per year.

- 2.3 Category Management is an approach to procurement through which Medway will get 'better for less' from external spend. Put simply it is a cycle for managing spend in categories, for example across facilities management, to maximise benefit and value in line with contractual arrangements with suppliers.
- 2.4 Category Management goes beyond procurement rules, procedures and processes. It takes a cyclical approach to monitoring the annual review of contracts and planning the need to procure when a contract is due to expire, as well as the overall need of the organisation. There is a commercial and cross-cutting focus that identifies key spend categories across the organisation and proactively brings them together to ensure that supplier arrangements deliver the maximum benefit.
- 2.5 The key features of Category Management for Medway are that it represents:
- 2.5.1 a **member driven approach** designed to provide a step-change to better spending and savings
 - 2.5.2 a **team approach** with a central resource, the category management team, and specialists in the services working together
 - 2.5.3 a move from traditional 'procurement' to a disciplined process to "**identify, plan, do and review**"
 - 2.5.4 a **learning approach** enabling more strategic cross-cutting opportunities and partnerships which are sustainable and which encourages innovation and market development
 - 2.5.5 a continuous cycle for **getting the most from the market and suppliers** underpinned by a robust understanding of requirements, cost and quality

3. Advice and analysis

- 3.1 This section of the report will examine achievements and areas for development in relation to the creation of the category management team and the implementation of the category management approach.
- 3.2 Below is a table that summarises a rating of the five features of category management:

Key features of category management	RAG rating	Evidence
A member driven approach designed to provide a step-change to better spending and savings	G	Published procurement Strategy and Procurement Board
A team approach with a central resource, the category management team, and specialists in the services working together	A	Strong progress but vacancies at Specialist tier and further development of the partnership working approach makes this Amber
A move from traditional 'procurement' to a disciplined process to " identify, plan, do and review "	G	Current strategic sourcing plans are being completed and future plans are being developed

A learning approach enabling more strategic cross-cutting opportunities and partnerships which are sustainable and which encourages innovation and market development	G	Study visits, active participation in regional forums, speaking at national conferences, investment in training and commitment to personal development
A continuous cycle for getting the most from the market and suppliers underpinned by a robust understanding of requirements, cost and quality	G	Active engagement with supplier through pre-tender dialogue meetings with suppliers, planned meet the buyer events and collaboration with other authorities

3.3 Member driven approach

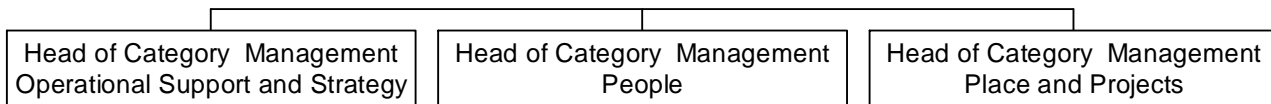
3.3.1 In July 2013, the Cabinet agreed, after pre-decision scrutiny by the Business Support Overview and Scrutiny Committee, to a procurement strategy with the following themes and outcomes:

Themes	Outcomes
Better services, better outcomes	Pre-tender dialogue with suppliers
Intelligent spending	Demand management and savings
Reducing red tape	Case by case review of pre-qualification requirements that may 'disadvantage' SMEs such as the value of bonds or the need for a bond at all
Improving the local economy	Creation of apprenticeships and 40% of spend with local SMEs

3.3.2 The Procurement Board, chaired by the Portfolio Holder for Finance and Deputy Leader, Councillor Alan Jarrett, is monitoring this strategy. The council has committed to meeting with providers every six months to update them about how the council is doing in relation to the targets published for each of the themes.

3.4 Team approach

3.4.1 The category management team has three heads of service who are responsible for three categories of spend as well as the strategy and governance for procurement across the council. Whilst there are effectively three services, they are one team designed such that team members can work across the three teams so that resources are focused on the priority projects to create flexibility, capacity and resilience for the council.



- 3.4.2 Each Head of Category Management has Category Leads, Category Specialists and Procurement Support Officers in relation to undertaking procurement activities.
- 3.4.3 Whilst recruitment to the Category Lead (5 No) and Procurement Support Officer (4 No) roles has been successful; recruitment to the Category Specialist (8 No) role has proved more difficult since the creation of the structure and we have never been able to fill all the vacancies for these roles. The team also includes a Graduate trainee who has a masters degree from the Kent Business School.
- 3.4.4 There is also a strategy team that consists of a Strategy Lead and Governance and Performance Officer. This team is responsible for the governance and strategy for the council and the team by monitoring performance and enabling professional development. This team led on organising the supplier event for Procurement Strategy and revising the council's constitution in relation to procurement to reflect the new category management approach.
- 3.4.5 In terms of the partnership working arrangement between category management and the services, this has been successful to varying degrees across the directorates and we are monitoring our progress based on customer service questionnaires. In Quarter 2, July to September, our satisfaction rating was 64%. From July to October this has increased to 72%. Whilst the team are pleased that the satisfaction rating is improving, the Heads focus their reviews on those that are dissatisfied, so that we can understand whether this relates to the quality of the service or a 'dislike' about the advice that has been correctly delivered.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD
% satisfaction of internal clients	-	64%			72%

- 3.4.6 The successes reported in this report, such as service redesign, savings from procurement and demand management, would not be possible without the strong working partnership between the services and category management. By bringing together the expertise of the two parties the council benefits from two officers sharing their operational, legislative, strategic and commercial knowledge. The current redesign of the SEN transport pilot (of letting contracts based on the schools rather than individual journeys) is an idea that came from the service and category management has worked with the service to bring the tender to the market.
- 3.4.7 From January 2014, we will hold our quarterly Procurement and Commissioning Network meetings to further cement the relationships required to ensure that the category management approach continues to be a success that both the Service and the Category Management team can be proud of.

3.5 Identify, plan and review

3.5.1 As part of creating the category management approach, four opportunities were identified to make savings and demonstrate the benefits of category management. These opportunities were formally set out in what is known as 'strategic sourcing plans' or SSPs were set as part of the budget setting and these related to the retendering of the homecare contracts, reorganising the council's spend on facilities management, efficiencies from the council's spend or temporary agency staff and the renegotiation of high cost placements in Adult Social Care.

3.5.2 The homecare procurement was completed prior to the creation of the category management team and demonstrated the benefits of the category management approach because

- It embedded continuous improvement by introducing Gold, Silver and Bronze ratings to incentivise providers to deliver a good quality service at an affordable price.
- It led to a redesign of how the service is delivered to service users by embedding a style of care known as 'enablement' which is about helping people to regain or retain their mobility rather than a carer making the service more dependent on services by doing for a person, where this is not always necessary.
- It enables service users to choose their provider from those rated Gold or Silver.
- Use of price envelopes achieved savings in excess of the £1.4 million target, achieving £1.9 million.

Homecare is a valued and valuable service. Service users and their families value it because it enables vulnerable people to continue living in their homes rather than going into residential care. The Homecare service is valuable to suppliers because it represents an annual spend by the council of £12 million that has reduced to £10 million.

The real test about the benefits of this procurement is whether the quality of the service would be compromised due to the efficiencies achieved. The Gateway 4 (review of procurement) report being prepared for Procurement Board will confirm that the performance of providers on the framework has been reviewed and the ratings have changed as follows:

	December 2012	August 2013
Gold	5	12
Silver	8	6
Bronze	7	1

The reduction from 20 to 19 providers is due to a provider withdrawing from the framework.

- 3.5.3 Creating a joint venture company for facilities management was the preferred option for the council instead of going out to tender. The creation and mobilisation of the joint venture company is being separately reported to O&S and the ongoing performance will be reported to the Committee on a quarterly basis.
- 3.5.4 The agency and high cost placement strategic sourcing plans are being progressed. Demand management by the HR Services is on target to deliver £250,000 savings and the high cost placement renegotiations are required to deliver £600,000 this year and the same again next year. This year's target looks challenging for officers and suppliers.
- 3.5.5 The team are currently identifying future strategic sourcing plan opportunities and liaising with services to agree the priorities for 2014/15 as part of the budget setting.

3.6 Learning approach

- 3.6.1 As part of creating the team the Heads of Service for Operational Support and People categories, with the Assistant Director visited local authorities such as Surrey and Camden so that we could understand how they had introduced category management to their local authorities.
- 3.6.2 All members of the procurement team either have CIPS qualifications or their equivalent or are working towards a CIPS qualification.
- 3.6.3 The category management team has had on average 4 days per officer of training since December 2012. This figure does not include the CIPS (Chartered Institute of Purchasing and Supply) training that is being funded for team members. The training has included the council's governance arrangements, the basics of procurement, new legislation such as the Social Value Act and leadership skills.
- 3.6.4 All new team members are provided in their first week with an induction plan, induction materials and introductory meetings to ensure that they have every opportunity to understand how the council and the team work.
- 3.6.5 As part of team meetings, the Heads created an hour at the end of the meeting dedicated to sharing best practice either within the team or by inviting guest speakers to attend. A member of the team suggested that in addition to the hour for best practice that we introduce a standing item for Lessons Learnt and this has worked very well.
- 3.6.6 As well as ensuring that the team brings best practice into the organisation, the team is sharing best practice by refreshing our website to publish case studies about procurement such as the Chlamydia screening tests which used e-auction to determine the combined price and quality after selecting tenderers that met the

minimum quality threshold and other successes. As well as publicising the best practice through case studies, the team has also spoken at national conferences about innovations such as the Homecare tender, which has led to enquiries from local authorities who wish to learn from us about how we did it.

3.6.7 Communications is a key part of learning and therefore the team has a Communications lead who will focus on internal and external communications, using the key performance indicators that we collect as a hook for explaining what we do and using the case studies to explain how we do it. Examples of press releases and case studies are attached.

3.7 Getting the most from the market and suppliers

3.7.1 Procurement Board is a key forum for constructive debate about the proposed tenders that are to be taken to the market or contracts to be awarded. By having a multi-disciplinary board led by Members, there is robust challenge that has led to decisions that amend, or is an alternative to, the recommendations being suggested, such as an open tender for the communications printing tender rather than using a Government Procurement Service (GPS) framework.

3.7.2 Another example of getting the most out of the market, is the decision by Procurement Board to discontinue a procurement exercise in relation to Sun Pier so that the market had more time to respond. The outcome of this decision led to better quality bids coming forward and the successful tenderer being a collaboration between two local SMEs.

3.7.3 As individual or group procurements are considered by the Category Management team and the Service(s), we identify and secure savings. Since April 2013, procurement activities separate from the strategic source plans in paragraph 3.5. Through routine procurement the team has delivered savings in excess of £1.8 million since April 2013. The team monitors this information and now shares it with colleagues in Finance. In addition to monitoring savings and internal customer service, see paragraph 3.4.5, the team also monitors supplier satisfaction. In Quarter 2, July to September, our satisfaction rating was 73%. From July to October this has increased to 76%. Given that the questionnaires are provided to unsuccessful and successful bidders, the Heads of Service are encouraged by the performance.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD
% satisfaction of external suppliers	-	73%			76%

3.7.4 The team actively participates in the regional forums relating to procurement. There is now regular attendance at the Kent Buying Consortium (Heads of procurement in Kent local authorities and the Fire Service) and SE7, the top first tier local authorities from Kent across to Hampshire. Products of these collaborations include the framework contract for the Green Deal in Kent (a service that enables the council to have housing stock more energy efficient); a supplier

event for the south east to work with suppliers in relation to supply chain management and school construction; and the procurement of maintenance and support for the software supporting library services.

- 3.7.5 In addition to working with neighbouring local authorities, the council has collaborated with London local authorities to set up a Wireless contract for people to get 30 minutes free of wireless whilst in Medway. This is a revenue generating deal.

4. Risk management

- 4.1 Whilst overall, the category management approach and the category management team are going well, there are areas that require ongoing review by the Officer-led Category Management Review Board:

Risk	Description	Action to avoid or mitigate risk	Risk rating
Lack of capacity and flexibility within the team	Since the creation of the team, the Category Specialist tier of the team has never been fully recruited to. Many applicants have not been suitable and those that have been offered roles, have declined due to terms and conditions clearly publicised as part of the advertisement.	Review the overall structure of the team	Medium
Poor working relationships between the services and the category management team	A key feature of the category management approach is to develop a strong working relationship between the category management team and the services	Undertaking and reviewing customer service surveys Procurement and Commissioning Network meetings	Low

5. Financial and legal implications

- 5.1 There are no legal implications in relation to this report.
- 5.2 There are no financial implications in relation to this report.

6. Recommendations

- 6.1 That the Business Support Overview and Scrutiny Committee note this report.

Lead officer contact

Genette Laws

Head of Category Management, Strategy and Operational Support Category

Tel: (01634) 331193

Email: genette.laws@medway.gov.uk

Background papers

None

How category management can transform the procurement of social care services

A case study in tendering homecare services



£1.9 million savings

Why did we re-tender the homecare services?

The Council's current provider framework could only be extended up to March 2013. The Council needed to make significant savings, whilst maintaining frontline services and wanted to provide opportunity for local providers on a level playing field. Promote more and better choice and control & provide greater flexibility and person-centred care to the service user. Adopt an approach to using quality thresholds and KPIs that continually incentivises providers to demonstrate high performance. Mainstream enablement services to enable a wider access to the service and in doing so continuity of care. Consider how use of technology could help meet key objectives.

- Homecare Provision at that time
- In 2010/11 there was a spend of £12 million per annum
- 7 providers delivered approximately 90% of care (in terms of spend).
- 9 providers delivered about 10% of care (in terms of spend)
- There was a price variation across 16 providers.
- Zoned commissioning (6 areas)
- We relied on contractual relationships for continuous improvement
- There was no contractual incentive to improve
- The contract did not allow choice for customers
- The budget for 2011/12 was set so that a saving of £1.4 million needed to be delivered

What did we do?

Short term strategy

A procurement can take between 9 and 12 months, so we met with the sixteen providers seeking to renegotiate the

price of their contracts and agreed to extend the contracts up to December 2012. The renegotiations delivered £600,000 in-year savings.

Longer term strategy

We researched what other local authorities were doing – redesign of service delivery eg creating a placement team so care managers can focus on assessment rather than contracting.

We identified a preference for a Dynamic Provider Framework using KPIs to determine the ratings of providers as Gold, Silver and Bronze and we met with providers to discuss new ways of working.

Providers got on the framework based on an evaluation of tender submissions using 70% quality and 30% price as the criteria.

After careful consideration, we improved the fairness of competition between small and large businesses by removing the requirement of a bond. We took the view that in a dynamic market, the council could manage any need to step-in should an organisation underperform or discontinue.

Commercial Strategy

We considered two pricing options.

(1) Fixed price

Deciding on a single price for all providers of homecare would save on Council costs in processing invoices.

However, getting the right price may compromise achieving the correct level of savings and may exclude SMEs.

(2) Pricing envelope

By setting a floor and a ceiling for a call meant that there was flexibility for providers and the savings were built in, making this approach less risky/restrictive than a single price.

We did lots of research in finalising the commercial strategy, we

- **met with local association of homecare providers**
- **got information from local providers**
- **reviewed the Equality and Human Rights Commission report**
- **reviewed the Institute of Public Care report**
- **reviewed the Sefton Judgement**
- **Researched the prices paid by other local authorities**

We decided that we wanted to continue not purchasing calls of less than 30 minutes.

The spread of calls in 2010/11 was 47% lasting 30 minutes, 25% lasting 45 minutes and 28% lasting 60 minutes.

This meant that when we evaluated the price submissions we gave a maximum of 15% for 30 minute calls and 7.5% for 45 and 60 minute calls; totalling 30%.

Quality assurance

- **The quality evaluation was 70%**
- **Quality evaluated on the areas outlined below:**
 - Meeting Care Plan needs and creation of Service User Support Plan
 - Management Structure, incl. supervisions, checks, risk assessments
 - Care Worker recruitment, development and training
 - Exceptions and variations to Care Plans
 - Continuity of care and more challenging service users
 - Enabling care and increasing user independence
 - Choice and flexibility of care for service users
 - Safeguarding service Users
 - Communication and information provision
 - Complaints and Service User Feedback
 - Contract management and performance monitoring
 - Service innovation and future development

Outcome of the tender exercise

- ✓ 20 providers – 5 gold, 8 silver, 7 bronze
- ✓ 6 new providers entering the market, of which 4 were local providers
- ✓ An outcome focused service
- ✓ Savings of £1.9m achieved (£500,000 over target)

Mobilisation

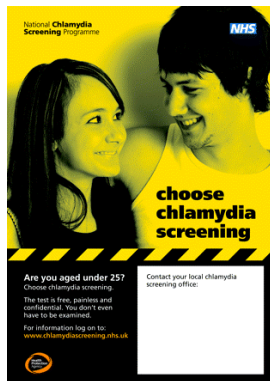
- Existing care packages with providers on the framework would remain with them, but move to the new prices from 1st December 2012. Therefore realising savings from the outset.
- All new care packages are referred to the Gold providers, then Silver, then Bronze.
- Established a placement team and related processes – to make referrals of new care packages
- Defined a set of KPIs, monitored every 6 months

Chlamydia Screening Pathology Service- E-Tendering and E-Auctioning Case Study

August 2013

The Category

Chlamydia is a silent disease that affects fertility. It is most common in young people under the age of 25. All young people under 25 qualify for a free chlamydia screening test which is funded from the Public Health budget.



As a result of the novation of Public Health from the NHS to the local authority a tender was undertaken to take advantage of economies of scale jointly with KCC to identify one provider.

Process Streamlining

The proposed specification streamlined the logistics process of getting test kits to young people. Under the NHS kits were delivered through NHS transport routes and manually by the Public Health team.

The directly and the completed kits to the Pathology lab. This achieved head that will now enable the team partners of people who test positive spread of Chlamydia infection.



The specification was amended to have the Pathology service provider distribute test kits returned in a Royal Mail approved postal box process savings equivalent to almost one to spend more time on identifying the sexual to reach national targets and reduce the

Fixed versus Variable pricing

Previously the service was contracted on a fixed price which has resulted in a very high unit price. Based on the volumes of screens that have been performed in previous years it was agreed to procure on the basis of a variable unit price. In the event that the number of screens performed doubled it was identified that a saving of 35% would still be achieved. Any increase in the volume of screens to be performed would be gradual and can be monitored in a timely fashion.

E-Tendering and E-Auctioning

Following the EU Open tender process it was agreed to use e-Tendering and e-Auctioning software hosted by KCC.

E-Tendering is the method by which all documentation and audit trail for a tender is managed through an electronic system specifically designed for tendering. All supplier and Council documents are issued through the e-Tendering system, including tender advert and notices, tender submissions, clarification and award letters. Tenders cannot be opened until the tender deadline line has passed.

An e-Auction uses software which enables suppliers to bid live, in a similar way to bidding on eBay, but bidding to reduce their price.

Quality Versus Price

Using an e-Auction process enables both a heavy focus on quality and on price. The quality of the supplier's capability and ability is assessed fully prior to taking into account the effect of price.

The evaluation criteria set, for this tender, was a requirement to pass in sequence:

- the financial criteria
- a number of pass/fail technical questions, including accreditations and qualifications for the pathology service

- quality and technical competence which was assessed against the specification through evaluation questions with a minimum score being achieved. This score representing the supplier was capable and competent to perform the service.
- On having succeeded these stages, price was assessed by way of the e-Auction bidding process with the lowest price bidder being successful.

Seven companies returned tenders:

- One was excluded at the first, financial stage,
- a further tender was excluded following clarification, on the second, pass/fail technical stage, this was automatically “assessed” by the e-tendering software, excluding the supplier if they answered No on a Yes/No question.
- 2 tenders did not achieve the minimum level at the quality/technical evaluation stage. Evaluation scoring was done on-line in the e-tendering software. This ensured that the geographical distance between Kent and Medway Council did not hamper, and in fact improved the timescales in which the tenders were evaluated.
- 3 suppliers were then invited to bid in the electronic auction.

The Savings – The Result

The e-Auction resulted in 65% savings from previous price paid and a movement of 15% from lowest indicative bid to the final agreed price and 28% movement on the winning suppliers bid.

	Current			Future		Saving £	Saving %
	Qty	Unit Cost	Total Cost	Unit Cost	Total Cost		
Tendered External Costs	5,500	£ 25.09	£ 138,000	£ 8.10	£ 44,550	£ 93,450	68%
Process redesign as result of Tender			£ 26,372		£ 10,227	£ 16,145	61%
Total			£ 164,372		£ 54,777	£109,595	67%

The e-Auctioning resulted in really good negotiated savings with 36 price movements in all – much more than could be achieved in any other form of negotiation and in a manner which is fair, open and transparent to comply with EU regulations. All of this secure in the knowledge that whichever supplier won the bidding was capable of meeting our requirements as a solid, stable supplier, who can technically provide the service, at the right quality (..and price).

New era dawns at Sun Pier

A new era for river travel is dawning on the Medway.

A landing stage is going to be installed at the end of Chatham's historic Sun Pier to allow river taxis and other craft to moor there.

The stage is being delivered in four parts from a basin at Chatham Historic Dockyard and will make a dramatic 'sail past' upriver to Sun Pier on Thursday 24 October.

At Sun Pier, it will be assembled using a floating crane during an eight-hour operation, starting at 1pm.

The provision of a pontoon will give people better access to Sun Pier and the river, as well as opening up possibilities for more river traffic. This could include large vessels, yachts, river taxis and smaller boats.

It could lead to river crossings between Chatham and the Medway City estate for commuters, visitors and residents.

In addition, the project is seen as having the potential for unlocking development of the Chatham waterfront and regeneration of the town centre.

Medway Council successfully bid to fund the scheme out of a £3million loan secured from the government's Growth Places Fund last year. The pontoon operation will cost £143,000.

Cllr Rodney Chambers, Council Leader, said: "This is a highly significant day for Chatham and Medway's regeneration.

"It means Sun Pier can be brought back into proper use, which is good news for residents and visitors. It is also important for future redevelopment of the waterfront and the town centre."

Sun Pier has been out of action since it was damaged by a storm in 2007.

Notes to Editors: Reporters and camera crews are welcome to attend the pontoon installation. There will be filming opportunities on Chatham Waterfront once the pontoons and bridges have been delivered from 1pm onwards.