

Item No.	Classification: Open	Date: 27 October 2016	Meeting Name: Strategic Director of Environment and Leisure
Report title:		Gateway 1 & 2 Procurement Strategy Approval and Award of Contract Traded Services Supplies Procurement	
Ward(s) or groups affected:		All	
From:		Director of Environment	

RECOMMENDATIONS

1. That the Strategic Director of Environment and Leisure approves the procurement strategy for the provision of materials, for Traded Services through the use of the Pretium third party framework agreement for the period 1st December 2016 until 31st December 2017 up to a value of £1.8m.
2. That the Strategic Director of Environment and Leisure approves the joining / consultancy fees of up to £3,000.

BACKGROUND INFORMATION

3. Southwark Building Services (SBS) as a part of the Traded Service Division of the Environment and Leisure Department provides repairs and maintenance services to the residents of the Council's housing stock
4. The SBS stores hold approximately 1200 lines of frequently used materials, plant and uniform with a value of £400k.
5. There is a further requirement for non stock items to be procured. These are individual items of a bespoke nature or items where the holding of stock would be uneconomic.
6. The existing arrangement is to procure from a range of suppliers with no formal contracts in place. This is not achieving good value for money and there are many examples of stock items being available at more favourable terms. In order to evidence value for money Traded Services want to formalise the procurement approach and enter into formal contract for the supply of materials.
7. The award of this contract will be an interim measure pending strategic review of how the service is going to be delivered in the future and the whole review over Traded Services. In order to ensure compliance with CSO and EU Regulations it is now proposed to procure the materials via a formal contract which is EU compliant.

Summary of the business case/justification for the procurement

8. The council has an on-going requirement to carry out repairs and maintenance of the housing stock. SBS has a service level agreement with the Housing and Modernisation department to carry out these repairs and has a requirement to procure a range of materials in order to fulfil its obligations.
9. The existing arrangements are unable to evidence value for money, and informal analysis and benchmarking within the sector has indicated that there is considerable scope to improve on existing cost.
10. There are opportunities to streamline the administration involved in processing of suppliers invoices by the use of consolidated invoicing which is common across a range of framework providers, and can be included in our contract requirements. SBS currently process some 500 invoices per month; this is expected to be reduced to less than 20.

Market considerations

11. Material supplies in the housing maintenance sector is a mature procurement market. There are some organisations who have established themselves to provide a service to procure and handle all materials contracts.
12. There is a high degree of diversity in the range of materials required. As a result of the economies of scale and substantial purchasing power there is a high instance of national suppliers prominent in the market.
13. National suppliers have invested in streamlining administration by the development of ICT systems that align to the service delivery of housing maintenance organisations.
14. There are several national groups who have offerings across the range of materials required and have suitably established supply chains to service the Council's requirements.

Key issues for consideration

15. Contracts will need to allow for the changes to the anticipated income of Traded Services and to deliver for potential new work types and areas that the Division seeks to establish.
16. The value of this procurement exceeds the EU thresholds and therefore would be subject to the full EU procurement process. This process can take between 9 and 12 months and will require extensive staff resources to prepare a full set of documentation, undertake evaluations and on-going management of the framework.
17. There are various third party frameworks which would be suitable, and available to the Council to use. These frameworks have been subject to competitive tender and are compliant with EU procurement regulations. They are likely to demonstrate greater value for money than a Southwark Council framework could generate due to the favourable rates available based on economies of scale.
18. These frameworks have the added benefits of an experienced management team overseeing them, tried and tested procedures and a mature supply chain.

19. Framework solutions will provide the opportunity of introducing future service improvements with the development investment shared across the participants.

Options for procurement route including procurement approach

20. Various procurement options were considered;

Do nothing – This is not an option due to the on-going repairs and maintenance obligation, to maintain the housing stock in our contract area. In order to be compliant under CSO's SBS need to enter into a contract for the supply of materials, plant and uniform. Due to the value of spend this contract will also need to comply with EU procurement rules.

Southwark Council developed Framework/Call off Contract - High level of administration to establish and unlikely to achieve same level of VFM due to the economies scale that an established framework offers.

Individual contracts – High level of administration to establish and unlikely to achieve same level of VFM due to scale that a framework offers.

Use of an established third party framework - This is the preferred option due to the value for money in greater economies of scale based on the size of the framework and the volume of orders which it can generate.

21. Table 1 Details the pros and cons of the various options.

Table 1.

Individual Contracts .	
Pros	Cons
Can be written to reflect the council's preferred terms and conditions, and key performance indicators.	Requires EU-compliant procurement process which is lengthy and resource intensive. Purchasing power and competition within an individual contract could be limited, which may lead to less competitive prices. Large number of individual contracts to manage requiring additional contract management and annual vetting.
Bespoke Framework agreements	
Pros	Cons
Can be written to reflect the council's preferred terms and conditions, and key performance indicators. Allows flexibility in materials provision, allowing for future growth and diversification of works completed by the TS.	Requires EU-compliant procurement process which is lengthy and resource intensive. Purchasing power and competition within a bespoke contract could be limited, which may lead to less competitive prices.

Established Framework agreements	
Pros	Cons
<p>Have already been through EU compliant procurement process, so no contract procurement process required of the council.</p> <p>Minimum resource dedicated to the procurement process and compliance can be achieved quickly.</p> <p>Purchasing power within third party framework agreements is greater which should ensure improved VFM.</p> <p>Established framework will build in existing network supply chain.</p>	<p>Third party frameworks have standard terms and conditions and key performance indicators and therefore there may be only limited scope to include local requirements, e.g. payment of the London Living Wage.</p>

Proposed procurement route

22. It is proposed that the ideal strategy would be the use of an established third party framework. This offers the most benefits around value for money due to the level of competition and the efficiency of the procurement process.
23. Table 2 details the existing third party frameworks for materials that have been identified.
24. The evaluation criteria to establish the recommended framework have been used to evaluate and compare the selected frameworks across 5 measures.
 - EU compliance
 - Value for money and savings
 - Alignment with LBS terms and conditions
 - Ease of mobilisation internal resources
 - Speed of benefit realisation

Table 2 - Existing third party framework for materials.

Name	Period
Cirrus Consortium Materials Framework	5 year until June 2017
Procurement for Housing	3 year until March 2018
Pretium	4 year until October 2019

Table 3 details the main differences in the various frameworks

	Cirrus	Procurement for Housing (PfH)	Pretium
EU compliant	Yes	Yes	Yes
Number of Suppliers	19	17	1
Number of Lots	<p>Lot 1: General building materials including paint and tools</p> <p>Lot 2: Plumbing and heating materials, including gas spares and renewables</p> <p>Lot 3: Electrical materials</p> <p>Lot 4: Kitchen materials</p>	<p>Lot 1 – Plumbing & Heating</p> <p>Lot 2 – Gas Spares</p> <p>Lot 3 – Renewables</p> <p>Lot 4 – Building Materials</p> <p>Lot 5 – Tiles</p> <p>Lot 6 – Electrical Materials</p> <p>Lot 7 – Aids & Adaptations</p> <p>Lot 8 – Stair Lifts</p> <p>Lot 9 – Tool & Plant Hire</p> <p>Lot 10 – Managed Services</p>	<p>Single lot (use of Tier 1 – materials available via Travis Perkins)</p>
On-going VFM	By use of mini competition	<p>By use of mini competition</p> <p>Compare products and services through bench-marking.</p> <p>PfH undertake benchmarks against top spend items to give Members a clear view of achievable savings through the competitively priced suppliers on the framework.</p>	<p>An initial service audit to capture current practice and establish a starting point from which to measure service improvement.</p> <p>Top 50 value products will be subject to a price match</p> <p>Top 200 products used across each framework sector</p>

		Previously, PfH has demonstrated significant savings through benchmarking services.	will be benchmarked annually and prices adjusted accordingly Annual Service Audit the frameworks cost consultant/auditor will undertake a comprehensive VFM audit.
Cost of Joining	Free	Joining fee	£3-£10K
Additional costs	£3-6k consultants fees	£3-6k consultants fees	Included
Other considerations	<p>The registration process to start using the framework is very simple online form.</p> <p>Ability to withdraw from the consortium or use of the framework at any time. With out notice period or costs.</p> <p>There is no tie-in to use specific financial or billing systems.</p> <p>The framework is managed by sector leading consultants Cirrus Purchasing who are able to provide advice and guidance on achieving value for money, cost benchmarking and implementation support.</p>	<p>PfH has developed strong relationships with a variety of manufacturers which means that they support the pricing models through the supply chain to make the pricing very competitive. The manufacturers also provide more transparency on the costs so that merchants are passing all the extra support to Members which includes technical knowledge on products and details about innovations in the market that may create savings for Members</p>	<p>There is a single supplier under the Pretium framework Travis Perkins (TP).</p> <p>TP is located in the Borough, adjacent to the Frensham Street Depot. This will allow a smaller stock holding in the depot stores and logistical efficiencies, with a reduction in deliveries</p> <p>The Council will receive annual Pretium Rewards or rebates, triggered by annual targets for framework revenue. These will be returned to all members of the framework based on their contribution.</p>

25. It is proposed that the Pretium Framework be used. The recommendation is based on the following additional functionality that the Pretium framework offers by having a single supply framework, and this provides overall greatest value for money and potential for modernising the service.
26. The single supplier framework offers additional efficiency in reduction of processing of back office functions, such as allowing a single consolidated monthly invoice. This will reduce the processing of approximately 500 individual invoices per month.
27. The Pretium framework is a flexible offering with various tiers that will allow the stores provision to be modernised.
28. The Pretium Framework was designed following consultation with clients, contractors and suppliers, applying the lessons learnt to create a different model to others available to the sector.
29. The operational model was designed with three tiers, Materials Only, Managed or Dedicated Store and Additional Services. Members have ability to shape a solution to fit current and future needs, giving the council total control over the pace of change and direction of travel.
30. The Pretium model enables early and direct engagement with the single supplier, Travis Perkins, to design and develop a bespoke solution with the support of industry recognised experts.
31. The Pretium framework was established and tendered with an anticipated contract value of £50m, with the intention of appointing a single supplier and this has ensured that tenders were highly competitive.
32. Value for money is reviewed annually with the top 50 products by value being subject to a price match with local suppliers. In addition the top 200 products used across each framework sector will be benchmarked annually and prices adjusted accordingly.
33. As part of the framework there is an annual service audit undertaken by the frameworks cost consultant/auditor in order to assess value for money..
34. The council will receive annual Pretium Rewards or rebates, triggered by annual targets for framework revenue. These will be returned to all members of the framework based on their contribution.
35. Account Management – each member has their own dedicated account manager providing a single point of contact with the supplier company and their internal brands
36. Product catalogue – each member of the Pretium Framework have their own fully coded and priced catalogue, providing an easy to use reference guide and control over what can and cannot be purchased.
37. Performance Management - The framework has an agreed set of key performance indicators, this helps to capture the council's performance, compare it with fellow members and continuously improve standards by sharing good practice.

38. Full e-trading – Travis Perkins offer an end to end e-trading capability, including purchasing, invoicing, stock control and automated replenishment providing greater financial control, complete transparency and minimal transaction costs.

Identified risks for the procurement

39. The identified risks for the procurement and how they will be managed are set out in the Table 4 below.

Table 4: Risk for the Stores material procurement.

	Risk	Risk level	Mitigation
1	Risk that framework supplier's prices will be higher than currently charged.	Low to medium	By being a part of a larger procurement should deliver greater economies of scale. There is no commitment to our purchasing via the framework.
2	Third party framework agreements currently available will expire over time.	medium	The materials framework agreement market is well-established. Where framework agreements have expired recently, the relevant framework hosts have procured new framework agreements that are similar in nature. Based on information provided by framework hosts this will continue to be the case. This will ensure there is continuity of supply.

Key /Non Key decisions

40. This report deals with a key decision.

Policy implications

41. There are no specific policy implications.

Procurement project plan

Activity	Complete by:
Enter Gateway 1&2 decision on the Forward Plan	30/09/2016
DCRB Review Gateway 1 & 2	19/10/2016
Notification of forthcoming decision – Key decision of Chief officer	19/10/2016
Approval of Gateway 1& 2 report	19/10/2016
Scrutiny Call-in period and notification of implementation of Gateway 1 & 2 decision	03/11/2016

Activity	Complete by:
Contract award	24/11/2016
Add to Contract Register	24/11/2016
Contract start	01/12/2016
Publication on Contracts Finder	31/12/2016
Initial contract completion date	31/12/2017

TUPE/Pensions implications

42. There are no TUPE/Pension implications.

Development of the tender documentation

43. There is no requirement to produce tender documentation as the procurement and operation of the third party frameworks is regulated by documentation produced by the manager or administering body of each framework.

Advertising the contract

44. There is no requirement to advertise the contract as this has been completed by the framework manager.

Evaluation

45. Evaluation of the suitability of suppliers has already been undertaken as part of the framework provider's procurement process.

Community impact statement

46. The Public Sector Equality Duty contained in the Equality Act 2010 and has been considered and no individual or group will be disadvantaged, either in the procurement process or following award of call-offs under the selected framework.

47. The formalisation of the stores procurement will have a positive impact on the community. The additional VFM achieved by being a part of a consortium will increase operational efficiency and contribute to the commercial success of the Traded Service and Southwark Building Services.

Sustainability considerations

48. The Public Services (Social Value) Act 2012 requires the council to consider a number of issues including how what is proposed to be procured may improve the economic, social and environmental well-being of the local area. These issues are considered in the following paragraphs which set out economic, social and environmental considerations.

Economic considerations

49. SBS has an on-going commitment to providing local training and apprentice opportunities to the community. Improving SBS's financial position will allow for growth in the services that SBS deliver to its clients.

Social considerations

50. The successful suppliers will be required to ensure that all appropriate staff are engaged in the delivery of this contract are paid the London Living Wage or above. This is able to be included in the terms of the Pretium Agreement.

Environmental considerations

51. The Council is currently part of a joint project with other local Boroughs to look at freight consolidation as a way to improve the air quality in the Boroughs. There is an opportunity by way of this procurement strategy to reduce the number of deliveries and help achieve the objectives of the Low Emission Logistics project.

Plans for the monitoring and management of the contract

52. The contract administrator for this contract will be the Commercial Manager within the Traded Service Division of the Environment and Leisure Department.
53. A range of performance indicators will be used to monitor the contract, which will include percentage of core range held in stock, percentage of deliveries in time and number of credit notes issued.
54. Monthly formal contract meeting will be held to review performance and service development opportunities.
55. There will be an annual VFM review.

Staffing/procurement implications

56. The proposed procurement route will be contained with existing staffing budgets.

Financial implications

57. The total costs of the materials purchased for the Traded Services areas under current arrangements equates to approximately £1.8m per annum.
58. It is expected that by joining a third party framework there will be a demonstrable reduction in the cost of the materials purchased for the units within traded services and thereby improving the financial position on its trading account operations. The report also indicates that the proposal will also reduce the administrative resources currently employed in the payment of invoices which is expected to reduce from 500 to 20 invoices per month. These savings will be incorporated into the trading account budgets and will be monitored and reported as part of the divisional and departmental budget monitoring process.
59. The council is not subject to any minimum ordering or spend requirements under the Pretium framework and there is no commitment to purchase via the framework.

60. Staffing and any other costs connected with this procurement will be contained within existing departmental revenue budgets.

Investment implications

61. There is no investment implication.

Legal implications

62. Please see concurrent from the Director of Law and Democracy

Consultation

63. Consultation will be carried out with all relevant parties.

Other implications or issues

64. None.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

65. This report seeks the permission of the strategic director of environment and leisure to enter into a contract for the provision of materials, for the Traded Services through the Pretium framework agreement. The contract period would last for 13 months, from 1st December 2016 - 31st December 2017. A usage fee of £3,000 on to a value of goods up to £1.8m will be spent on the contract.
66. The framework agreement is EU compliant and available to be used by contracting authorities such as Southwark Council.
67. Paragraphs 52-55 set out the contract management and monitoring arrangements for the contract to ensure that it continues to deliver best value.
68. The timeframe for the contract is justified in paragraph 7 with the link between the requirements of Traded Services, efficiencies and how these are best delivered and maximised beyond the contract period.

Director of Law and Democracy

69. This report seeks approval of a procurement strategy for the provision of materials for Traded Services and approval to use a third party framework (Pretium) for that purpose from 1st December 2016 until 31st December 2017.
70. On the basis of the nature and value of the contract its procurement has been subject to the application of the Public Contracts Regulations 2015 ("the EU Regs"). This report advises that the Pretium framework has been established by way of a competitive process which is compliant with the EU procurement regulations, is available for the council to use following payment of a joining fee and has been recommended following an evaluation of the relevant alternative frameworks which are currently in operation. The proposed procurement strategy and award recommendation are also in line with the requirements of the council's Contract Standing Orders ("CSOs").

71. CSOs provide that no contract may be awarded unless the expenditure has been included in approved revenue or capital estimates, or has been otherwise approved by or on behalf of the Council. Paragraphs 57 to 60 confirm the financial implications of the report recommendations.

Strategic Director of Finance and Governance (EL16/019)

72. This report is requesting the Strategic Director of Environment and Leisure to approve the procurement strategy and the use of the Pretium third party framework agreement for the provision of materials for Traded Services from 1st December 2016 until 31st December 2017. Full details are provided in the main body of the report.


73. The strategic director of finance and governance notes that the cost of the materials purchased under current arrangement equates to approximately £1.8m and this cost is expected to reduce under the proposed framework arrangement.

74. It is also noted that the proposed arrangement will reduce the administrative resources currently employed in the payment of invoices. The aggregate savings from the overall proposal is expected to improve the financial performance of the trading account operations for the service area.

75. Staffing and any other costs connected with this report to be contained within existing departmental revenue budgets.

FOR DELEGATED APPROVAL

Under the powers delegated to me in accordance with the council's Contract Standing Orders, I authorise action in accordance with the recommendation(s) contained in the above report.

Signature  Date 8 November 2016
Designation Strategic Director Environment & Leisure

BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
Cirrus framework overview	Traded Services, Frensham Street Depot	Gwyn Davies, 020 7525 1906
Procurement for housing overview	As above	As above
Pretium framework overview	As above	As above

AUDIT TRAIL

Lead Officer	Ian Smith, Director of Environment, Environment & Leisure Department	
Report Author	Mick Lucas, Head of Traded Services	
Version	Final	
Dated	20 October 2016	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Strategic Director of Finance and Governance	Yes	Yes
Head of Procurement	Yes	Yes
Director of Law and Democracy	Yes	Yes
Director of Exchequer (for housing contracts only)	No	No
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		27 October 2016

BACKGROUND DOCUMENT -CONTRACTS REGISTER ENTRY FORM – GATEWAYS

Contract Name	SBS stores contract
Contract Description	Third party framework call off
Contract Type	Supply of Services
Lead Contract Officer (name)	Gwyn Davies
Lead Contract Officer (phone number)	0207 525 1906
Department	Environment and Leisure
Division	Traded services
Procurement Route	Call off from a Framework
EU CPV Code (if applicable)	n/a
Departmental/Corporate	Departmental
Fixed Price or Call Off	Call off
Contract Total Value	Est £1.8m
Contract Annual Value	Est £1.8m
Contract Start Date	1 st December 2016
Initial Term End Date	31 st December 2017
Number of Remaining Contract Extensions	0
Contract Review Date	1 st July 2017
Revised End Date	n/a
SME/ VCSE (If either or both include Company Registration number and/or registered charity number)	Neither
Comments	
London Living Wage	Yes - Compliant