



London Borough of Hammersmith & Fulham

# Cabinet

9 JANUARY 2012

**LEADER**

*Councillor Stephen Greenhalgh*

**AWARD OF CONTRACTS FOR PROVISION OF BUSINESS AND MANAGEMENT CONSULTANCY SERVICES**

**Wards  
All**

This report informs Cabinet of the background to and benefits of this project.

A separate report on the exempt Cabinet agenda provides information about the procurement process and its outcome.

**CONTRIBUTORS**

EDELRS  
AD (Procurement & IT Strategy)  
EDFCG  
ADLDS

**Recommendation:**

**That the report be noted.**

**HAS THE REPORT CONTENT BEEN RISK ASSESSED?  
YES**

**HAS A EIA BEEN COMPLETED? YES  
See Equalities statement section  
4**

## 1. BACKGROUND

- 1.1 Two Business and Management Consultancy services constitute an important element in the Council's pursuit of significant savings over the next few years. These services comprise **Procurement Services & Savings and Enhanced Revenue/Debt Collection/Recovery**.
- 1.2 The services will be provided on a 'gain share' basis, with the successful organisation(s) primarily receiving payment only by way of a proportion of the savings identified or additional debt recovered on behalf of the Council. This is not a traditional consultancy service type contract with the risk for delivery placed firmly with the successful bidder and not the Council. This is the first time the Council has used this model which ensures payment is only made when there is a delivered outcome to the Council.
- 1.3 In accordance with Legal advice, these services needed to be procured through a formal process under the Public Contract Regulations.
- 1.4 Consideration was given about how best to package and scope contracts for these services in a way that will optimise the prospect of obtaining good quality bids and ultimately delivering significant savings.
- 1.5 Two tender exercises were undertaken inviting tenders to provide Business and Management Consultancy Services under two categories:

**Lot 1 - Procurement Services & Savings and**  
**Lot 2 – Enhanced Revenue/Debt Collection/Recovery**

## 2. KEY BENEFITS OF THE NEW CONTRACT

- 2.1 The key benefits for the Council are substantial and will not only result in considerable savings but help to foster a more commercial mindset in the organisation which will help the Council in meeting future challenges. In an innovative move, the Council invited tenderers to provide funding upfront in lieu of savings, and the successful Provider has agreed to pay a non refundable £2M. It is also worth noting that the successful organisation for Lot 1 has been awarded the Chartered Institute of Purchasing and Supply (CIPS) Gold accreditation which is the highest standard of excellence awarded by CIPS. It reflects an organisation which was measured across a wide range of procurement disciplines (including people performance and innovation) and embraces continuous improvement in procurement and supply management.
- 2.2 Both contracts are predicated on (i) securing additional savings from the Council's procurement activities and (ii) improving the Council's recovery of outstanding/ongoing debt. This will be achieved by utilising an independent team of experienced industry

specialists and subject matter experts who will work closely with the Council to improve performance in these areas.

- 2.3 Both contracts are formulated on a 'gain share' basis whereby the Contractor's income is directly linked to the savings generated for the Council. The major proportion of savings will accrue to the Council whilst the smaller share will be retained by the Contractor as reimbursement for their services. This creates a very real mutual interest in jointly working together to seek out and realise new savings. The adoption of this innovative approach is wholly unique in the Council and rare in local government.
- 2.4. It is worth noting that the Council's non-pay annual expenditure for 2010/11 was £218 million and the total value of **all** goods & services currently under contract including under long term high value strategic arrangements is £783 million. A minimum savings requirement of £2.5 million over the first 3 years is built into the Lot 1 contract. The Contractor anticipates comfortably exceeding this target. These savings including the initial £2M upfront payment by the Provider will significantly contribute to the Council's Medium Term Financial strategy (MTFS) savings plans.
- 2.5 The provider will, as part of these contracts:

For Lot 1

- a) conduct a thorough and detailed analysis of the Council's arrangements through:
- a. in-depth analysis and classification of the Council's non-pay spend using proven software
  - b. developing a consistent, robust and reliable categorisation of expenditure
- b) develop strategies/proposals for improvement in those areas and commence to realise the identified savings
- using category spend figures to provide a reliable baseline and instil confidence from Council stakeholders in signing up to savings targets;
  - using the in-depth analysis of spend to identify quick wins eg pin-pointing fragmented spend with a common supplier providing a basis for negotiating improved terms overall;
  - utilising their depth and breadth of subject matter expertise in discrete sectors of the market to fast-track solutions including review of existing specifications; negotiation of existing contracts; collaborative contracting;
  - removing excess costs from contracts, reviewing price indexation and costly contract monitoring regimes and seeking potential efficiencies;
  - the adoption of a category management approach where appropriate to deliver savings. The contract will provide access to expert category managers. Currently, the Council often has to bring market expertise in at considerable cost for specific procurement exercises and in some Councils, expensive category management teams have been set up with officer numbers of anything up to 40 staff. This contract provides access to this level of expertise without the direct employment of staff by HF.

- c) improve commercial skills and procurement practice across the Council to ensure these skills are sustainable within Council officers going forward
- the Contractor will deliver a programme of internal procurement training and mentoring to improve Strategic Sourcing skills including Category Management and Supplier Relationship Management which means these skills will be sustainable in the organisation in the longer term;
  - providing on-line learning tools and a Procurement Academy for stakeholders;
  - introducing best practice procurement across the Council through developing a Procurement Total Operating Model which will ensure the delivery of efficiencies in procurement of services in to the future.
- d) improve the management of the Council's suppliers by
- introducing supplier segmentation to determine the most appropriate 'supplier relationship management' approach;
  - treating supplier performance management as an integral part of category management;
  - Initiating and reviewing cost down programmes.

For Lot 2

- e) improve collection levels of historic debt through access to new data matching and segmentation through the partnership with TDX with all costs being borne by the contractor.
- f) supply the necessary resources to help us review our end to end recovery processes, explore ways to reduce the amounts of debt created (by better up front processes e.g. payment in advance) and introduce more timely processes.
- g) provide a low risk solution which will improve collection and improve our processes - all at no cost to the Council.

### **3. RISK MITIGATION**

- 3.1. The report identifies a number of positive outcomes that contribute to managing corporate risk number 5, managing budgets and also to risk number 11 market testing of services. The majority of the delivery risk is transferred to the contractor through a performance incentive noted in the body of the report.

#### 4. EQUALITIES STATEMENT

- 4.1 As per the Equality Act 2010, the Council must consider its obligations with regard to the Public Sector Equality Duty (PSED). It must carry out its functions (as defined by the Human Rights Act 1998) with due regard to the duty and its effect on the protected in a relevant and proportionate way. The duty came into effect on 6th April 2011.
- 4.2 As part of the development of the contract, prospective tenders were scored on their ability to deliver services in such a way that takes into account the diversity of the borough. Agilisys are committed to complying with the Council's requirements to promote a Borough of opportunity and will be required to conduct equality impact assessments as required by the Council throughout the term of the contract. With regards to debt recovery, given the vulnerability of some of the groups and clients concerned, the impact of proposals will be assessed and monitored carefully as part of the contract.

#### 5. COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)

- 5.1 Legal advice has been provided on this procurement exercise by an external law firm and legal services has been represented on the TAP.
- 5.2 Legal Services will support the client departments in finalising the contracts to be entered into between the Council and the proposed provider

#### 6. COMMENTS OF THE EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE GOVERNANCE

- 6.1 The report represents the conclusion of an innovative procurement for the selection of two Business and Management Consultancy services comprising **Procurement Services & Savings and Enhanced Revenue/Debt Collection/Recovery.**
- 6.2 These consultancies constitute an important element in the Council's pursuit of significant savings over the next few years. The contract award secures £2m in lieu of contract savings for which a minimum requirement of £2.5m over the first three years is built in to the contract.
- 6.3 Annual savings will be factored into the medium term financial strategy as transformation savings
- 6.4 The contract award also covers income recovery. The evaluation of income was based in two parts, securing guaranteed income on the Council's outstanding debt and the improvement of processes that would generate sustained income that could potentially be included in the MTFS.

6.5 The evaluation was based on a weighting applied to current income streams and allowed the tenderer to apply targeted improvements above which a gain share mechanism would kick in. At this stage it is not possible to factor in the level of additional income, in part as these are subject to business cases to be drawn up by the tenderer and accepted by the Council.

6.6 The recovery of existing debt will be monitored and reported through the Council's Corporate Revenue Monitor, although the impact of increased debt recovery will be reflected in the level of bad debt provision maintained as a central item by FCS.

**7. COMMENTS OF THE ASSISTANT DIRECTOR - PROCUREMENT AND IT STRATEGY**

7.1 The Contracts have been tendered in accordance with the Public Contracts Regulations and the Council's Contract Standing Orders. The Corporate Procurement Team has led on this project and is satisfied that the recommendation reflects value for money to the Council.

**LOCAL GOVERNMENT ACT 2000**  
**LIST OF BACKGROUND PAPERS**

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	All background papers, including: Contract advert; Contract specifications; Tender evaluation models; Letter and tendering instructions to short-listed organisations. Tender submissions Written Clarifications Notes of TAP meetings	Francis Murphy/Howell Huws  020 8753 2211/5025	Procurement & IT Strategy, Hammersmith Town Hall, King Street, W6 9JU
<b>Responsible officers:</b> Francis Murphy and Howell Huws 020 8753 2211/5025			