Date: 30 September 2014

Briefing paper to: All Members of the Business Support Overview & Scrutiny Committee

Purpose: This briefing note was as a result of discussion at the meeting of this Committee on 3 July 2014.

Alternative Measures to Monitor and Control the Council’s Tail Spend

The purpose of this briefing paper is to provide a brief outline of activity and alternative measures to monitor and control the Council’s tail spend.

The Council’s current Procurement Strategy (2013-16) contains a number of success measures, one of which is for the Council to reduce by 25% the number of invoices with a transactional value of £500 or less.

Whilst the strategy referred to the introduction of P-Cards to help deliver the reduction above, the Committee requested a Briefing Note to be presented to outline any alternative measures that could be introduced to control the Councils small spend, often called ‘tail spend’.

The term tail spend is commonly used to describe the Pareto principle that 80% of spend will come from 20% of suppliers; and that conversely, 80% of suppliers will account for just 20% of spend (typically across a wide range of categories).

Whilst the percentage and nature of tail spend varies across organisations there is often the same or similar contributing characteristics such as:

- Disproportionate number of suppliers (to respective categories of spend)
- High volume/low value transactions attracting disproportionate process costs
- Lack of awareness/visibility of corporate contracts
- Insufficient challenge/control to non contract/maverick spend

Medway does display the same/similar contributing characteristics as highlighted above and therefore the following reviews/actions are underway to help address these issues.

Spend Review

Category Management has recently conducted a spend analysis exercise for the Councils 2013/14 expenditure and is currently reviewing the data. Whilst the full analysis
is ongoing it is evident that the Council does have a disproportionate number of suppliers (5,000+) across its range of goods and service categories.

Where such corporate established contracts exist and the spend analysis clearly evidences areas of off contract spend, we will challenge the service to understand the reasons for maverick purchasing and look to educate and signpost accordingly.

Action: Repetitious areas of off contract spend to be identified and reviewed with Service Managers

Timescale: December 14

Where areas of low value/repetitive spend exist (without such corporate contracts established) we will use the data to inform future tender opportunities in line with the Service’s requirements and the Council’s Contract Procedure Rules.

Action: Category Management to use spend analysis data to identify further opportunities for aggregation and establishment of centralised contracts.

Timescale: November 14

Raising Awareness:

A further contributing factor to our significant tail spend may exist from the Council’s awareness/visibility of our corporate contracts/contracted suppliers.

Regardless of whether this may become evident through the review above, we will look to ensure that a single reference point ‘A-Z of Goods & Services’ style etc. is produced to clearly advise officers of such suppliers and contracts (and the range of goods/services covered etc.).


Timescale: November 14

Future Challenge/Controls:

Where the review mentioned above highlights such ‘surplus’ suppliers, Category Management will liaise with Finance to hide/block the suppliers (removing the opportunity for the service to raise any further non compliant orders).

In addition to the above, Category Management will work with Finance to establish an appropriate ‘gateway’ process to challenge requests for new suppliers to be created within the Finance system (sign posting corporate contracts/established suppliers where appropriate etc.).

Action: Category Management to identify suppliers to be hidden.blocked.

Category Management to discuss existing ‘new supplier’ process with Finance with a view to establishing an appropriate ‘gateway’.

Timescale: December 14
Review P2P (Procurement to Pay) Tools & Consolidation Opportunities

As mentioned in 3.1 above, a contributor to off contract spend may be the visibility of the goods and/or services required and the ease of access to order.

Whilst the production of a central reference point in the form of an ‘A-Z’ Guide (mentioned above) will help in the short term, longer term the Council should consider exploring the use of P2P tools such as online ordering (supplier catalogues), punch-out functionality and/or marketplace functionality through our existing finance system.

‘Punch-out’ functionality and eMarketplaces are e procurement tools that give the end user an experience that is comparable to online shopping except it is conducted in a controlled environment where the Council would restrict the goods/services/suppliers/pricing etc displayed.

With eMarketplaces once the ‘shopping basket’ is completed and approved an electronic purchase order is generated and sent via the internet to suppliers through a secure exchange. Additional functionality exists that allows suppliers to be able to ‘flip’ a purchase order into an electronic invoice so that the whole end to end transaction process can be completed in minutes.

Exploring (and potentially adopting) such tools can ensure it is easier for the service to find and buy common goods and services from the right supplier in addition to offering further efficiencies and benefits to suppliers.

Action: Category Management will continue to engage with key stakeholders (Finance, Audit etc.) to review online ordering/punch-out functionality/marketplace and consider any benefits of implementing.

Timescale: Review online ordering October 14 (potential pilot with existing supplier), Punch-out/market place functionality TBC

Reporting

The progress of the actions above will be reported to and monitored through the Category Management Review Board. Further updates can also be provided to Business Support Overview & Scrutiny Committee as and when requested.

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