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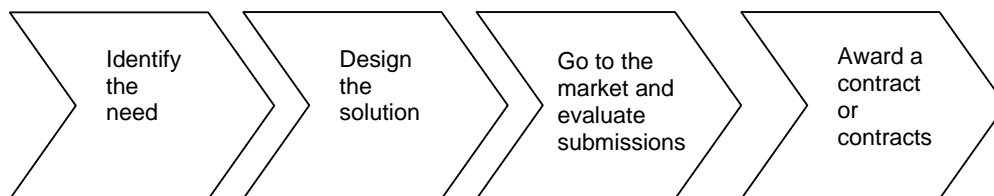
Briefing paper to: All Members of the Business Support Overview & Scrutiny Committee

Title: Category Management

Purpose: At its meeting on 13 August 2013, the Business Support Overview and Scrutiny Committee considered proposed new procurement strategy for the Council. As requested by the Committee additional information was requested demonstrating how the category management approach had been used as intelligent spending, using the recently awarded Homescare contract as an example. It was agreed that this information should be provided in a briefing note to all Committee

Background:

Traditional procurement is about the purchasing of goods, services or works from a third party. This will take the form of identifying a need, designing a solution to that need, going to the market with the solution asking for bids/tenders of the cost and quality that possible providers can achieve, and then awarding a contract that is managed for the duration agreed. This is shown below:



Category management in its purest form groups related types of spend together. At Medway, the category management includes taking a broader view of procurement so that it does not always go to the market for a cost-effective solution it may work with a department to do the following:

1. Manage demand to reduce the need for, or amount of, expenditure being contracted
2. Use existing contracts to aggregate spend and achieve economies of scale
3. Look for other options such as joint ventures.

When we go to the market, then category management will be:

4. Creative with price-modelling such as price envelopes (telling the market the floor and the ceiling of what we are prepared to pay), price-capping (telling the market the maximum that it is prepared to pay), etc...

These four scenarios are explained below with examples.

How category management works in practice

1. When a client department identifies need, the category management team will first of all want to explore to what extent the need exists or how it could be reduced or better managed.

An example of this is the amount the council spends on agency staff, which has been reduced by changing the way client departments identify a need. We have changed the way that Services decide whether to use agency staff by requiring them to liaise with HR who will find other ways to address the capacity issues.

When a manager has a vacancy that needs to be covered they would once have contacted either the internal temp agency or an external agency and covered the role for as long as they felt necessary. Since April 2013, the HR team has required that all departments that have a vacancy that requires temp cover must first discuss their requirement with an HR professional. The discussion will be about whether there are other alternatives, which may satisfy the need to cover the post but does not necessarily mean use of an external agency. The alternatives can include an existing member of the team acting up into the position and backfilling the role from the internal temp pool so that the person acting up has career development.

Through demand management, we have reduced the need to use external temp agencies and should improve the internal succession planning for the Council

2. If a client department has identified a need that is currently being met for another client department through an existing contract then it is better for the council to not incur procurement costs if the existing contract can be varied.

A good example of this practice is the variation to the Waste contract to enable the £14 million won from a bid to DCLG to be mobilised quickly to purchase key equipment that enabled enhancements to the service.

There was no need to carry out a separate procurement exercise so we were able to maximise the benefit of the £14 million to our customers.

3. Not all identified needs require a competitive process, ie a tender or a quote, to secure a cost effective and quality assured solution.

Two good examples of this practice relates to the council's spend on FM services:

The first example is where some client departments were using third parties to provide pest control when the council already has a pest control department. These arrangements were with various companies, at various rates and sometimes those rates varied with the same company. As part of reorganising the council's budgets in readiness for establishing the joint venture company, officers required departments to recycle council money by using in-house rather than external services.

The second example is the creation of a joint venture company with a public authority backed company, Norse Commercial Services, to provide a cost effective solution for FM services. This solution offers the council income from winning contracts to provide similar services and avoided the cost of procurement by using something known as the *Teckal* exemption.

4. Creative with price-modelling such as price envelopes, price-capping, etc...

An example of this practice is the homecare procurement where the price evaluation of the procurement included a price envelope to ensure that a minimum saving of £1.4 million would be delivered in response to the budget setting for that year. Setting the ceiling of the envelope for the 30-, 40- and 60- minute calls was based on how the combination of the current volume of calls would deliver £1.4 million. Setting the floor of the envelope required a lot of market research, which included speaking with other local authorities such as Kent County Council, Essex County Council and Reading Council. Officers also spoke with the local representative body of homecare providers, Kent Community Care Association as well reviewing publications from organisations such as the Institute of Public Care and Equalities and Human Rights Commission; and taking into account case law such as the Sefton Judgement.

A more detailed case study of the Homecare procurement is set out in the appendix below. This is also included in the report to the Committee on 5 December 2013.

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How category management can transform the procurement of social care services

A case study in tendering homecare services

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.



£1.9 million savings

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

GOLD SILVER BRONZE