



PROCUREMENT

**Report to:** STAR Joint Committee  
**Date:** 15<sup>th</sup> April 2024  
**Report for:** Decision  
**Report from:** Assistant Director

### **Report Title**

**Efficiencies (savings/cost avoidance) Risks and Wider Efficiency opportunities for STAR**

### **Summary**

The purpose of this report is to:

- Inform Joint Committee of the risk of not achieving the efficiency target set for 23/24 of £1M.
- Detail other efficiencies that STAR have achieved or have contributed to.
- Set out options to improve efficiency planning and delivery in 24/25 for discussion and further exploration.

### **Recommendations**

The recommendation of this report is that the Joint Committee:

- To acknowledge the risk of not achieving the revenue efficiency target set for 23/24.
- To support a review of the way revenue efficiencies are calculated and reported linked to the STAR Performance Management Framework.
- To approve the exploration of different efficiency opportunities and produce a business case for the next Joint Committee.

### **Contact person for access to background papers and further information:**

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## **Background**

STAR reports to STAR Joint Committee quarterly on efficiencies and from 23/24 it was decided to change the reporting to 'revenue' only as it was deemed that the capital projects were not seen as real cost reduction or efficiencies as the efficiency captured was merely reported against a budget set for the project.

The challenge has been more obvious as STAR have moved through 23/24 from 22/23 where there are many global factors driving up costs thus impacting on STARs ability to capture savings from procurement when set against historic contractual values.

STAR also recognises that it must contribute not only to the efficiency targets set but also review all aspects of the operation to reduce costs and increase income to drive efficiency throughout its operation and approach. Options will be explored, outlined, and presented to Joint Committee.

Financial Impact:	Yes
Legal Impact:	Yes
Human Resources Impact:	Yes
Asset Management Impact:	No
E-Government Impact:	No
Risk Management Impact:	Yes
Health and Safety Impact:	No

## **Consultation**

No public consultation required.

### **1. Efficiencies**

1.1 The efficiency target for 23/24 is £1Million revenue efficiencies. This new target was set as a stretch target based on the revenue efficiencies reported in the previous year, the history of revenue efficiencies from previous years is set out in the table below:

Revenue	STAR
17/18	£1,241,031
18/19	£1,990,456
19/20	£710,067
20/21	£1,495,996
21/22	£1,704,655
22/23	£618,098

- 1.2 The table above demonstrates the drop in revenue efficiency delivery in 22/23 as the unprecedented global challenges began to unfold.
- 1.3 The New Procurement Regulations recognise that procurement is moving away from Most Economically Advantageous Tender (MEAT) to Most Advantageous Tender (MAT), meaning an increasing importance on local suppliers, SME's etc. This signifies the increased importance on aspects other than price in determining value for money. STAR have increasingly been reflecting this in procurement with the inclusion of responsible procurement and responding to policy decisions by Partners in relation to Good Employment Charter, Living Wage etc. as well as driving Social Value in all procurement above the value of £25K.
- 1.4 The current process for calculating procurement efficiencies is:
  - Capital Projects – use the budget set for capital project being procured.
  - Revenue Projects – use the value of the previous contract.

The approach to calculating efficiencies for revenue projects is proving a challenge because:

- Prices from bidders are escalating mainly due to the global economic crisis and, in some cases, are far from the historic contract value.
  - Budgets are being reduced in Councils, so less money available to spend.
  - Inflation is not being built in so contracts are coming in over budget.
  - Risk is being built in by suppliers as there is no certainty around what lies ahead. This is leading to hidden price increases.
  - Some contracts are now on the 3<sup>rd</sup> or 4<sup>th</sup> time of re-procurement which all reduces the opportunity to deliver procurement efficiencies.
- 1.5 To futureproof the 5 STAR Performance Framework, it is important to set realistic albeit, stretch targets for efficiencies to ensure that efficiency consideration and rigor is applied throughout the procurement process. Therefore, it is recommended that a review of the calculation and methodology for revenue efficiencies is undertaken to ensure a more representative view of the efficiency challenge taking account of the above points.

## **2. Risks**

- 2.1 There is a risk that STAR will not achieve the Revenue target set by Joint Committee in 23/24. The 5 STAR Performance Framework report for Q3

reported the total revenue efficiencies achieved of £224,928, the pipeline for Q4 has £44,480 forecast and is mainly cost avoidance.

- 2.2 There were 342 contracts awarded in Q1 to Q3 of which 63 of those contracts secured efficiencies, either capital projects or cost avoidance achieved and 8 of the 63 contracts delivered revenue efficiencies (£224,928).
- 2.3 Delivering Revenue efficiencies through procurement has been extremely difficult in 23/24 due to the current economic climate which has caused unprecedented inflationary increases that have impacted both commodities and the cost of staffing, in addition to Real Living Wage increases and market uncertainty suppliers are applying inflationary increases over multiple years of the contract.

### 3. **Other Efficiencies/Opportunities**

#### 3.1 **Procurement Efficiencies (non-Revenue)**

The table below sets out the efficiencies achieved through procurement in 23/24 £6,028,918 capital and cost avoidance efficiencies which are not reported as part of 5-STAR Performance Management Framework for 23/24 as STAR only report the revenue target set by Joint Committee:

Efficiency Type	Quarter of Date Ratified			Grand Total
	FY 2024 Q3	FY 2024 Q2	FY 2024 Q1	
Capital - Contract Management	£0.00	£735,221.00	£18,987.00	<b>£754,208.00</b>
Capital - procurement	£1,034,281.00	£1,481,805.00	£2,607,773.00	<b>£5,123,859.00</b>
Cost Avoidance	£120,749.00	£0.00	£30,102.00	<b>£150,851.00</b>
Cost Avoidance - Revenue	£23,450.00	£158,714.00	£0.00	<b>£182,164.00</b>
Revenue - Contract Management	£14,499.00	£24,248.00	£2,200.00	<b>£40,947.00</b>
Revenue - procurement	£0.00	£1,641.00	£176.00	<b>£1,817.00</b>
<b>Grand Total</b>	<b>£1,192,979.00</b>	<b>£2,401,629.00</b>	<b>£2,659,238.00</b>	<b>£6,253,846.00</b>

#### 3.2 **STAR Reserves Rebate**

As set out in the Q2 Budget Report STAR has forecast a rebate of £57,713.75 as at 31.3.24 to Stockport, Trafford, Tameside, and Rochdale Partners which is linked to the reserves re-set undertaken from when St Helens and Knowsley joined the shared service in October 2023. This amounts to a forecast efficiency of £230,855 in 23/24.

#### 3.3 **Oxygen - Opportunity**

STAR is working closely with Oxygen to identify opportunities for improvement of the Priority Account Service (PAS) through the procurement process. The finance teams for each of the partner authorities lead this programme and

undertake the bulk of the administration of PAS. The recent forecasted earnings for 23/24 are:

<b>Council</b>	<b>23/24 Earnings (forecast)</b>
Knowsley	£50k
Rochdale	£93k
Stockport	£46k
Trafford	*to be confirmed
Tameside	£105k

STAR is working with Oxygen to review each account to identify 'missed opportunities' which will need to be considered by each individual organisation. Stockport's review has been completed and will be issued in due course and we are now progressing with Trafford.

### 3.4 **Energy Example of Collaboration – opportunity for Tameside, Knowsley & St Helens**

STAR implemented a collaborative energy group to take advantage of the efficiencies provided by bulk purchasing energy, the collaboration became very successful recently due to the energy crisis. Traditionally partner authorities utilised Crown Commercial Services (CCS) and YPO to reduce and fix costs for energy (power and gas), under normal market conditions. To do this CCS and YPO buy energy in twelve- or six-month portions up front to guarantee prices, however undertaking this purchasing strategy when energy prices are at record high exposes the council to risks of overpaying.

Through the Trafford, Rochdale and Stockport collaboration STAR awarded the contract to eEnergy who managed one basket applying a fully flexible bespoke purchasing strategy allowing them to buy in smaller time periods to take advantage of reducing prices.

In the first six months of the contract with eEnergy, in comparison to fixing costs at the same point in time, STAR partners have achieved a reduction of £2.2m for Power and £629k for Gas.

More GM Councils are now engaging with eEnergy to take advantage of their bespoke energy framework and expertise. CCS and YPO are now also reviewing their purchasing strategy to purchase more in line with the eEnergy model.

There is an opportunity for Tameside, Knowsley and St Helens to opt into this collaboration when current contracts expire and take advantage of the reduced costs through this method of buying energy.

### 3.5 **Income**

There is an opportunity to increase income activity into STAR as there is a significant demand. STAR is currently reviewing the capacity of the resource available to explore options to consider how STAR could capitalise on the demand if supported by STAR Board and Joint Committee. The simple equation is that if STAR increase income and reduce costs STAR can potentially drive down the fee all partners pay to STAR, but this would need careful consideration and a clear commitment from a business case which will be drafted in due course.

STAR could consider charging for the access and use of frameworks for those authorities outside of the STAR shared service and following the model of other PBOs. Again, this will be explored and presented as an option in a business case.

Further opportunities include the exploration of different relationships and or partnerships with YPO or other PBOs to seek more significant rebates in return for increasing activity via their frameworks will be undertaken. There is a potential commercial opportunity here, but STAR would need explore the art of the possible with Procurement Buying Organisations (PBO's). STAR will seek guidance from Knowsley and St Helens first as they are founder members of YPO. STAR recommend that this potential opportunity is explored and presented in a business case.

### 3.6 **Spend Control**

Although outside of the STAR remit it is important to flag the importance of contract management and spend controls. Whilst efficiencies can be delivered through procurement, the actual delivery of this is dependent on contract managers ensuring that right spend controls are in place, ensure invoices reflect contract prices, the supplier is meeting the right standards and KPI's, delivery of social value, and the contract values are not exceeded.

## 4. **Recommendations**

4.1 The recommendation of this report is that the Joint Committee:

- To acknowledge the risk of not achieving the revenue efficiency target set for 23/24.

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