

Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date: **28 February 2012**

By: **Director of Corporate Resources**

Title of report: **Surrey and East Sussex Procurement Partnership**

Purpose of report: **To inform the Committee of the County Council's intention to make changes to its procurement arrangements including establishing a procurement partnership with Surrey County Council**

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**RECOMMENDATION:**

**It is recommended that the Committee considers and comments upon the attached Lead Member report and supporting business case documentation.**

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**1. Financial Implications**

1.1 The financial outcomes of the proposals are set out in the Lead Member report

**2. Background**

2.1 As part of its corporate programme of service reviews, the County Council has reviewed its procurement arrangements. This review has established three key strands of improvement activity and following approval by Chief Officer's Management Team we will be presenting a proposal for a procurement partnership with Surrey County Council to the Lead Member for Community and Resources on 21 February 2012 (attached at Appendix 1)

2.2 Given that these proposals would entail significant changes to our current approach to procurement and our internal structures the views of this Committee, within whose purview the procurement function rests, are being sought.

SEAN NOLAN  
Director of Corporate Resources

Contact Officers: Duncan Savage 01273 482330  
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Local Member: All

Background Documents

None

Report to: **Lead Member for Community and Resources**

Date: **22 February 2012**

By: **Director of Corporate Resources**

Title of report: **Surrey and East Sussex Procurement Partnership**

Purpose of report: **To seek approval for the County Council's intention to make changes to its procurement arrangements including establishing a procurement partnership with Surrey County Council.**

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## **RECOMMENDATIONS:**

**It is recommended that the Lead Member:**

- 1. approves in principal the proposal for a procurement partnership with Surrey County Council;**
  - 2. agrees that the partnership agreement and detailed workplan is presented to Cabinet for final approval in due course;**
  - 3. notes that Audit, Best Value and Community Services Scrutiny Committee will also consider this proposal on 28 February 2012;**
  - 4. endorses the intention to reorganise procurement within the Council based upon a category management approach with a corporate function within Corporate Resources supported by a social care category team based within Adult Social Care; and**
  - 5. subject to discussion at Audit, Best Value and Community Services Scrutiny Committee on 28 February 2012 to appoint a Head of Corporate Category Management as lead and head of profession reporting to the head of the Surrey and East Sussex Procurement Partnership**
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### **1. Financial Implications**

1.1 A key outcome from the proposals will be an increase in the contribution that procurement can make to the County Council's overall savings target. New savings targets will be established as we develop new category plans as part of the proposed Partnership and in line with the Council's developing commissioning agenda.

1.2 In overall terms we anticipate that the new procurement structure will be delivered from within existing resources across the Council. The working expectation is for the new Head of Corporate Category Management post to be cost neutral within the existing CRD budget. The procurement review and the business case with Surrey CC are predicated on the need for some additional investment in the following main areas (all figures are initial estimates):

- Buying in the procurement leadership function from SCC = £75,000 p.a.
- Investment in procurement information systems and data analysis = £100,000 (one-off)
- Investment in developing commercial skills for both the procurement function and the wider leadership group / heads of service = £50,000 (one off)

1.3 Ongoing revenue costs of the shared leadership model will be funded from managed under-spends in CRD for the first two years by when it is expected that a longer term funding model will be established. One-off costs will be funded from a combination of CRD under-spends and corporate bids.

## **2. Background**

2.1 As part of its corporate programme of service reviews, the County Council has reviewed its procurement arrangements. The review involved input from procurement and commissioning staff across the organisation, obtained procurement advice, mentoring and challenge from external consultant BDO's local government team, conducted analysis of the Council's £350m+ annual non pay spend and undertook best practice research into category management and procurement leadership.

2.2 In June 2011 Chief Officers approved a vision for procurement which broadly covered three key stands of action aimed at delivering its commitment to establish top class procurement practices to support the delivery of effective service outcomes and efficiency savings across the Council and these are described below:

- The appointment of a new 'commercially credible' "Head of Procurement" to lead procurement across the organisation and consolidation and centralisation of its procurement capacity into one or two centres of excellence.
- The adoption of a 'category management' approach to its procurement activities. Category Management is a practice for grouping areas of spend into coherent categories and developing strategies to ensure money is spent as effectively as possible in each category, based on deep understanding of the market, strong relationships with suppliers and pooling of Council's buying power. Councils that have introduced category management have made substantial procurement savings (minimum of 2% of total spend).
- The promotion of a wider and deep appreciation of commercial skills across its senior management cadre generally.

## **3. Business Case for Partnership with Surrey County Council**

3.1 The next phase of the service review has sought to identify and assess the different options for successfully delivering this significant change agenda.

3.2 The attached business case includes an assessment of a range of options including: do nothing; in house; outsourcing; private sector partnership; and public sector partnership and recommends that the Council establish a procurement partnership with Surrey County Council, as the best mechanism for delivering the agreed actions from the Procurement Service Review and increasing the level of achievable procurement savings. Chief Officers approved the business case and the partnership proposal at their meeting on 8 February 2012. The business case includes

- An assessment of SCC and ESCC gains (i.e. savings) from procurement on a common basis (excluding savings from the decommissioning of Directly Provided Services) [Business Case Section 4, Option E and Appendix C];
- Clarity about the proposed nature of the relationship especially accountabilities and linkage to RPPR [Business Case Executive Summary paragraph 0.4 – 0.6 and Appendix B];
- An assessment of SCC's procurement skills [Business Case Section 4, Option E];
- Planned development of the partnership including milestones and activities [Business Case Executive Summary paragraph 0.7 – 0.8 and Appendix C].

## **4. Conclusion and recommendations**

4.1 This business case and the attached business case concludes that if the County Council wishes to secure its desired vision for procurement through the 3 key strands of action set out in paragraph 2.2 then the best option is to deliver this through a procurement partnership with Surrey County Council. If the Lead Member agrees the business case and the partnership proposal then it is suggested that final endorsement is sought from Cabinet once the partnership agreement and detailed workplan have been finalised.

SEAN NOLAN  
Director of Corporate Resources

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## Strategic Business Case

Business Case Title	Surrey and East Sussex Procurement Partnership
Department	Corporate
Service Team	Corporate
Department Reference	N/A
Sponsor	Director of Corporate Resources
Author	Assistant Director – Audit & Performance (CRD) Assistant Director – Resources (ASC)
Date	30/01/12
Version	V5

### 0. Executive summary

0.1 This business case recommends that the Council establish a procurement partnership with Surrey County Council, as the best mechanism for delivering the agreed actions from the Procurement Service Review and increasing the level of achievable procurement savings.

0.2 This recommendation is based on an assessment of a range of options including: do nothing; in house; outsourcing; private sector partnership; and public sector partnership.

0.3 High level milestones and activities for the partnership are set out in appendix C. The immediate next steps for the partnership will be to seek Lead Member approval for the proposal, to draft and agree a partnership agreement, to commence recruitment to the Head of Corporate Category Management role and to move towards a launch of the planned restructuring. A formal launch of the Partnership could then take place in April / May 2012.

#### Governance arrangements

0.4 The proposed governance arrangements for the partnership with Surrey are set out in section 8 of the attached joint business case (Appendix A) and the chart at appendix B. In summary the key elements are:

(a) Agreement by respective Cabinets and Chief Officer Teams of core category and general procurement strategy and annual business plan

(b) Routine reporting, liaison and, where necessary, conflict resolution, with a “Partnership Oversight Group”. This will comprise the respective lead Directors for procurement as well as nominated representation from directorate services.

(c) An agreed cycle of regular formal performance reporting to the respective: Cabinet, Chief Officer Management Teams and Scrutiny processes.

0.5 As the partnership is not a corporate entity in its own right it will operate within the two Council's existing policy frameworks e.g. RPPR for East Sussex, and any strategies or business plans, joint or otherwise will be subject to final approval by the respective Chief Officer and Members Groups. A Partnership Oversight Board will be established to manage to partnership and will include senior managers from customer departments. Some delegations will be necessary to allow the joint Head of Procurement to manage staff and budgets on behalf of East Sussex but this will be in line with other existing shared arrangements. In terms of letting of contracts within the partnership it is anticipated that any joint contracting will follow existing protocols where one authority will be the lead contracting authority and the partner will access that contract with the normal legal safeguards. If the partnership is approved, then a partnership agreement will be drawn up with support from our respective legal teams for formal approval. We will also seek to harmonise contract standing orders (subject to approval by the two authorities) and other guidance and processes to ensure that decision making is as efficient as possible whilst maintaining proportionate safeguards against risk.

0.6 COMT specifically sought reassurance regarding circumstances where the Council might feel that it had received poor advice or been disadvantaged as a result of action taken by an officer who was not its direct employee. The ultimate sanction for the Council would be to end the partnership (in the case of our own employee we would have the option of dismissal). Beyond this the situation would be no different to our current arrangements where we let our own contracts or access contract let by another council or public sector body i.e. we would continue to exercise our own legal and financial oversight. In fact we expect the partnership to give us access to better contracts both through the additional skills and experience that the Head of Procurement will bring but also through market leverage, improved strategies and better benchmarking and information.

#### **Development and key milestones**

0.7 The development model for the partnership is set out in principle section 5 of the joint business case and an overview of key milestones and activities is included at appendix C. In essence the model recognises that there is no one size fits all solution – each category will need to be assessed to determine the most mutually beneficial approach to category management. This will include an assessment of the supply market, the extent to which there are shared suppliers (and therefore leverage opportunities), the level of capacity within each authority and future commissioning intentions. In some categories this could result, over time, in a single joint category team managed by one of the partners, equally it may mean maintaining separate teams but working together on establishing common standards and approaches based on best practice where supply markets are mainly localised and distinct. A case study setting out how the model might operate for the social care category is attached at appendix D. Additional case studies are included in the joint business case pp16-20. In some categories there may be scope for swifter and more radical change, especially where commissioning requirements / procurement patterns are more consistent, markets are regionally / nationally oriented and there is greater commonality of supply base. For example in ICT where the SE7 workstream already has a short term joint category manager in place and is delivering savings as a result, and a proposal is being developed for a shared procurement hub. Through the SESPP we could seek to accelerate this proposal as a pilot between the two authorities on the basis that SESPP has the potential to become the real or virtual hub on behalf of the SE7 as a whole.

0.8 The partnership is not intended to be exclusive and will actively seek partnership opportunities with other public bodies where that will add value and take account of existing partnership working in procurement, for example, the developing

arrangements to support the SE7 workstreams e.g. in ICT (see above) and Highways. The partnership will be flexible enough to allow procurement to support distinct / different local agendas, for example different approaches to integration with health.

## **1. Strategic context**

1.1 A review of procurement across the Council is being undertaken as part of the corporate programme of service reviews. In June 2011 Chief Officer's Management Team (COMT) agreed a series of actions as part of an improvement plan grouped around the following three key strands of activity:

- The Council would appoint a new 'commercially credible' "Head of Procurement" to lead procurement across the organisation and would consolidate and centralise its procurement capacity; save for the possibility of retaining one or two centres of excellence.
- The Council would adopt a 'category management' approach to its procurement activities.
- The Council would promote a wider and deep appreciation of commercial skills across its senior management cadre generally.

Successful implementation of these three strands is fundamental to the delivery of the Council's Policy Steer to

*"Ensure top class procurement practices to help deliver effective service outcomes across the Council"*

It is also underpins the development of the Council's commissioning framework and is key to increasing the achievement of procurement savings to support the Council's overall £100m savings target over the current CSR period.

## **2. Objectives – what are we trying to achieve?**

2.1 This business case assesses the options for delivering the three key improvement strands agreed by COMT and recommends a preferred option for implementation. It should be read in conjunction with the detailed joint business case prepared with Surrey CC and previously considered by COMT at its meeting on 14 December (copy attached as appendix A).

## **3. Viable options**

a) Do Nothing – this option is discounted given COMT agreement to the initial report of the Procurement Service review and the three improvement strands set out in section 2.

b) In House – this option would rely primarily on the recruitment of a new Head of Procurement at Assistant Director level and then the use of existing internal resources to deliver the required improvements.

c) Outsource – the Council could consider outsourcing its procurement function to a private sector provider. The outsourcing of procurement in the local government sector is currently relatively underdeveloped and we have not identified any examples where

procurement has been fully and successfully outsourced across all categories. West Sussex County Council has included aspects of procurement in its current outsourcing of back office services but we understand that these are focussed on transaction processes and that strategic procurement will remain in house. There are outsourcing examples in the broader public sector, although these are also limited, with the use of DHL to provide clinical supplies to the NHS is the best known. On the basis that there is currently a lack of a suitably developed private sector supplier market then this option is discounted.

d) Private Sector Partnership – this would involve a private sector provider working in partnership with existing in house resource.

(i) Formal Partnership / Joint Vehicle - Similar to the outsourcing option there are relatively few examples where a full procurement service has been included within a public private partnership. One example is SouthWest One the joint venture set up between Somerset County Council, Taunton Deane Borough Council, and Avon and Somerset Police, and the global IT and business management provider, IBM, however there is little documented evidence of its success in delivering procurement improvement. Such models are generally based on a wider range of services than just procurement and involve the creation of a partnership vehicle and would therefore not be a suitable mechanism for delivering our objectives in this case.

(ii) Consultancy Support - There is a range of private sector firms who offer procurement support on a consultancy basis and these could be used to support an internally led improvement plan.

e) Public Sector Partnership – this would involve seeking another public sector organisation with the capacity to support us in delivering our improvement aims

Options b, d (ii) and e were the only viable options identified and considered in more detail in the following sections.

#### **4. Option appraisal including costs, benefits and funding of viable options**

##### **Option b – In house**

This option is in effect “as is” and relies on existing internal resources (Project Board, Project Team and Project management Resource already in place) to drive forward the improvement strands in the short term, pending the recruitment of a new Head of Procurement which may take up to 6 months.

##### **Benefits**

Would deliver against the three improvement strands

##### **Costs**

In terms of cost this covers three main areas:

- the additional cost of appointing a new Head of Procurement = £30,000 (ongoing)
- investment in procurement information systems and data analysis = £100,000 (one off)
- investment in developing commercial skills for both procurement function and the wider leadership group / heads of service = £50,000 (one off)

A pressure of £60,000 in relation to the procurement review has been included in the CRD MTFP and additional savings identified to fund this within the cash limit. Any

other ongoing costs resulting from the procurement review will need to be contained within existing budget allocations. One off costs would be funded by a combination of CRD budget underspends and corporate bids. Additional resources or capacity would need to be bid for on an invest-to-save basis.

**Risks**

High level of dependency on our ability to recruit a Head of Procurement with the required commercial experience, leadership skills and experience of category management. The procurement jobs market has remained buoyant and there is evidence across the public sector of recruitment and retention difficulties and this has been experienced both at East Sussex and in other south east counties. Even at Assistant Director level anecdotal evidence indicates that the salary may not be competitive in the current market. If recruitment is successful then this option places significant reliance on the ability of this individual to drive through the required improvements.

Timescales, evidence from other authorities indicates that it has taken 18 – 36 months to fully embed category management and drive out targeted procurement savings. In addition recruitment of Head of Procurement could take up to 6 months

**Option d (ii) Private Sector Partnership – Consultancy Support**

There is a range of private sector firms who offer procurement support on a consultancy basis and these could be used to support an internally led improvement plan, for example, BDO who we worked with on phase 1 of the Procurement Service Review, has been contracted by Hull City Council to develop its procurement service and support the identification and delivery of procurement savings targets. More generally Councils have used procurement consultants to support them on specific categories or projects where they had insufficient in house capacity. In order to source suitable consultants the Council would either need to conduct a mini competition via a nationally available consultancy framework or conduct a full tender exercise. Either option would incur cost and would time to put in place potentially 4-6 months if under the EU threshold.

**Benefits**

The main benefit of this option is that the additional capacity should result in a faster implementation period and earlier achievement of savings.

**Costs**

For this option the costs identified in option b would still apply and in addition there would be the cost of consultants themselves at c £750 - £1,000 per day.

**Risks**

Our experience of sourcing and use of procurement consultants during phase 1 of the procurement review and more generally indicates that there is unlikely to be a provider who has the practical experience of delivering category management across the full range of categories in which we operate, particularly in care based sectors. In addition there is a risk that by using consultants we will not fully engage our existing procurement community and may not embed the changes we seek to make.

These costs and risks could be mitigated to some extent by using a payment by results arrangement where fees would be contingent on achieving agreed savings targets and / or are paid as a percentage of savings achieved, however it may be difficult to be clear what additional savings have been the result the consultant's intervention.



## **Option e – Public Sector Partner**

In identifying a potential public sector partner we wanted to build on existing relationships and the potential for better market leverage and so considered those authorities within the South East 7 (SE7) grouping. Of those authorities whilst several have significant expertise / capacity in procurement and a track record in delivering savings, only Surrey has fully embedded category management. Hampshire and Kent are in the process of implementing category management and have an operating model driven by their commercial trading arms. West Sussex in the process of outsourcing part of their procurement function (as part of their wider back office outsourcing) and it is not clear what their future approach to procurement will be. Brighton and Hove have just implemented category management but would not have the capacity to provide the support / partnering that we require. The proposed partnership with Surrey is set out in the attached updated version of the joint business case.

In terms of procurement savings Surrey CC expects to deliver £29m in 2011/12 (or 4.24% of its procurement spend of £683.9m). For East Sussex the comparable figures are savings of £9.0m (or 2.25% of our comparable spend of c£400m). Neither figure includes savings from the decommissioning of services, but both include costs avoided, for example by achieving lower than budgeted for / contracted inflation uplifts. Further analysis of Surrey CC's procurement savings is attached at Appendix C.

### ***Benefits***

Access to skills where the Council has identified gaps in its current capacity and which are likely to accelerate delivery of improvements / savings, for example:

- Leadership and change management skills to implement category management
- Change and people management experience in bringing together procurement professionals into a more focused team
- Leadership and motivational skills to create a professional procurement community.
- Commercial skills in order to negotiate contract award and in-contract variations to drive savings and improvements
- Supplier Relationship Management skills and experience to develop an approach and programme of work to drive value from contracts
- High quality Business Analysis skills and a developing toolkit of analytical support tools
- Market Management experience in designing and running events to stimulate and develop markets and suppliers

Support from fellow practitioners with credible background in delivering savings in public sector environment – collaborative approach more likely to achieve staff buy in

Immediate access to Head of Procurement capacity at strategic level

Reduced reliance on ability to recruit Head of Procurement at AD level

Opportunities to develop and strengthen our ability to manage key supply markets through working jointly (e.g. taking a common approach to managing inflation working with both local care associations, and work to manage key joint suppliers in ICT and Highways);

significantly up-skill procurement and commercial resource, capacity and competency across both authorities through joint training and development plans, sharing scarce resources and offering better career progression ;

work to standardise terms and conditions and, where it is in line with commissioning requirements, specifications and performance measures for a range of categories, supporting more efficient contract management and driving down cost throughout the supply chain

work to standardise procurement processes, including contract standing orders and other guidance / codes of practice, sharing and adopting common best practice across categories;

work to leverage the spend of both organisations to deliver increased savings and to support wider social, economic and environmental targets, and sharing existing best practise

**Costs**

As option b  
+ net cost of buying in leadership function from partner body = £75,000 (ongoing)

**Risks**

Partnership risks – cultural fit, agreement of shared objectives, communication and ownership at senior officer and member level – but these can be managed through the proposed Partnership Oversight Board and the other measures set out in the joint business case.

Capacity – recruitment to key vacancies and backfilling of senior positions

In reality we believe that this option presents the lowest risk to the authority. It would allow us to progress all three improvement strands more quickly than option b and d (ii) and if the partnership arrangement itself were to fail any financial loss would be small with the main impact being to slow down the speed of change and the delivery of savings.

**7. Conclusion and recommendations**

7.1 All three options set out in section 4 have the potential to deliver the desired improvements in procurement, however, our preferred option is option E a public sector partnership with Surrey County Council. Whilst this has additional costs over option b, our assessment is that it has greater benefits and lower risks than either of the other two options.

7.2 Our recommendation is therefore for COMT to approve the proposed Surrey and East Sussex Procurement Partnership and to commence the appointment process for the Head of Corporate Category Management and the wider restructuring of the procurement function across the Council.

Authorised by	
Date	

Signature	
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## **List of Appendices**

- A - Joint Business Case (subject to minor amendments since COMT in December )**
- B – High level organisational chart**
- C – High level milestones**
- D – Category Case Study – Social Care**
- E – Surrey CC savings analysis**

# **East Sussex County Council and Surrey County Council Shared Procurement Partnership**

## **Business Case**

Version 7.0

9 January 2012

**East Sussex County Council and Surrey County Council:  
Business case for establishing a Shared Procurement Partnership**

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## 1. Introduction

- 1.1. There are significant financial challenges facing the wider public sector, and a number of collaborative procurement arrangements already exist to identify and drive efficiencies. These include Surrey First; driving joint working in relation to five core work streams of Human Resources, Asset Management, Information Technology, Waste Management and Joint Procurement between Surrey County Council, the twelve boroughs and districts in Surrey and Surrey Police; the Sussex Consortium which manages a number of commodity goods and services contracts at a sub-regional level; Tiers 2 and 3 of the IESE property construction frameworks which are managed by East Sussex CC; and the East Sussex Procurement Hub which comprises the five district and borough authorities in East Sussex.
- 1.2. Individual collaborative procurement programmes also exist across the south-east through the SE7 work plan, specifically in Highways, Special Educational Needs and ICT, all of which East Sussex and Surrey County Council are heavily involved in co-ordinating and resourcing. This business case sets out the case for establishing a new, shared procurement partnership, which would take such collaboration to a more formal and structured level, by establishing joint arrangements between Surrey County Council (SCC) and East Sussex County Council (ESCC) in the form of the "Surrey and East Sussex Procurement Partnership" (SESPP).
- 1.3. The business case has been developed jointly as part of the East Sussex Service Review of Procurement, and as part of the action plan for the Public Value Review (PVR) of the Procurement and Commissioning Service at Surrey County Council.
- 1.4. The business case sets out the significant opportunities available to both parties to drive improvements, share the best procurement practise from both organisations, develop a more resilient resource model, and strengthen the ability to jointly leverage spend where appropriate.

## 2. Current situation & context

- 2.1. Local Authorities are under significant pressure to make savings whilst continuing to drive improvements during a tough financial climate. Figure 1 below shows at a high level the savings required for the medium term financial plans for both SCC and ESCC.

Figure 1: Savings required to meet Medium Term Financial Plans for SCC and ESCC

Overall budget	East Sussex County Council	Surrey County Council
2011/12	£37.0m	£59.0m
2012/13	£27.8m	£82.5m
2013/14	£21.2m	£41.8m
2014/15	£18.0m	£31.8m
2015/16	£20.0m (estimated)	£34.0m
2016/17	£20.0m (estimated)	£21.9m
<b>Total</b>	Approx £140m	Approx £270m

- 2.2. Both SCC and ESCC recognise that driving improvements and savings through procurement can significantly contribute to the overall financial efficiencies demanded by the financial plans of both authorities. East Sussex has completed a review of its existing procurement functions, and this has highlighted that through adopting a category management approach, significant additional savings can be achieved.
- 2.3. East Sussex County Council spends in excess of £350m annually providing a wide range of vital services to meet the needs of local residents and businesses. Procurement has played a key role in delivering savings across the Council but the contribution could be greater and further work is needed to support the delivery of the Council's £100m savings target by 2014/15.
- 2.4. The current structure at East Sussex County Council is based on a small corporate procurement team with the majority of procurement and purchasing resources based in teams within each department. This structure has already changed as a result of a recent Shared Support Services review that has seen procurement resource from two smaller departments move to within the corporate procurement team. The post of Corporate Procurement Strategy manager has been vacant since November 2010 and was one of the factors that triggered a broader review of the County Council's procurement arrangements.
- 2.5. East Sussex County Council is currently undertaking the second phase of its procurement service review, and Chief Officers have already agreed that a more commercial approach to procurement activity should be adopted, and more in-depth knowledge of markets should be developed to drive further savings and efficiencies. A range of high level actions have been agreed in 3 main areas:
  - More visible strategic leadership and capacity for the procurement function is needed including the appointment of a corporate head of procurement with a new structure based on a small number of centres of excellence;
  - Procurement resources across the organisation will be organised according to the markets they buy from, with category managers as the procurement interface between markets and the organisation, especially commissioners;
  - There will be a focus on raising commercial skills and awareness for procurement professionals and for managers more generally across the Council
- 2.6. Surrey County Council established a central strategic procurement function and adopted category management in 2008 that structures resources around specific categories of spend such as, property & construction, adult's residential care or children with disabilities. This focuses the category teams within the Procurement and Commissioning service to develop strategies to ensure money is spent as effectively as possible in each category, based on their understanding of the market, suppliers and the pooling of the Council's buying power.
- 2.7. This category management approach has helped deliver a significant increase in cashable savings, with a total of £39m signed off in cash savings from better procurement over the last 3 years. This financial year, the Council is on target to deliver a further £25-30m of cash savings through better procurement with a significant proportion of these being built into Directorate's Medium Term Financial Plans.
- 2.8. The Procurement and Commissioning service at Surrey County Council has recently undertaken a Public Value Review; to support the Council's ambition to deliver improved outcomes and value for money for the residents of Surrey. This has resulted in a number of recommendations to support the next stage of improvement for the service. Building our



capability and capacity for working with partners across the public sector to develop a regional procurement centre of excellence is one of those recommendations.

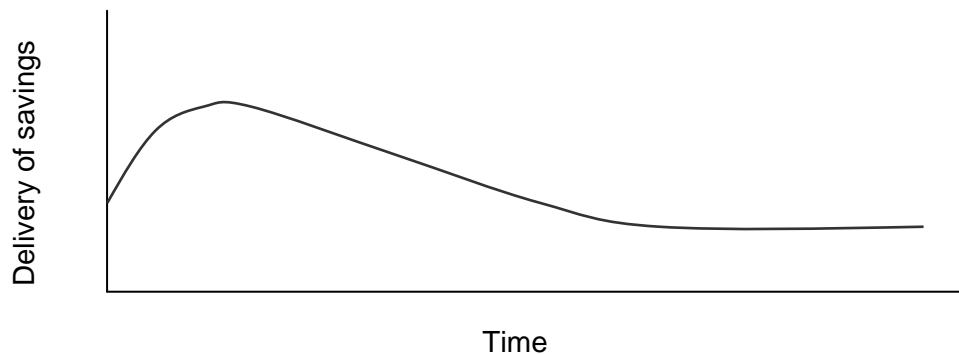
### **3. Need for change**

- 3.1. As outlined above, both organisations have significant savings targets to meet in order to deliver their respective medium term financial plans. It is anticipated that through working together to establish a shared procurement partnership, the ability to meet such targets will be strengthened. [A recent PwC survey<sup>1</sup> of Local Authority Chief Executives identified that changing support services, and reviewing and improving existing procurement contracts were two of the three approaches expected to contribute most to savings over the next two years. The approach outlined in this business case is in line with this expectation.]
- 3.2. Both authorities have undertaken a number of procurement initiatives and are confident that the vast majority of opportunities commonly referred to as 'low hanging fruit' have already been fully optimised. In addition to internal initiatives whether purely procurement led or as part of wider transformation programmes, both authorities have collaborated extensively with others, at national (through Government Procurement Service), regional (with Improvement & Efficiency South East, Pro5 Buying Consortia – although neither authority is a CBC member, and South East 7) and local level (Sussex Consortium and Surrey First), to aggregate spend, leverage the market and reduce procurement costs.
- 3.3. It is worth noting that most of the existing contracts awarded by the consortia described above provide for commodity type products (office equipment, some consultancy, fleet, furniture and IT etc) and rarely cover services such as social care, which equates to almost £500m of the combined spend of ESCC and SCC. When appropriate, existing collaborative procurement arrangements will always be compared as part of a wider category plan, although the existing collaborative channels do not go far enough to maximise the available opportunities.
- 3.4. Both SCC and ESCC have experienced difficulty in recruiting and retaining high quality procurement staff due to the high demand in both the private and public sector job markets, with a shortage of good procurement staff in the industry. Both have invested internally through increasing the number of staff pursuing professional procurement qualifications - however this has also made these staff more attractive in a buoyant sector of the jobs market. Establishing a shared procurement partnership will create a very attractive organisational model that should further strengthen recruitment activities. A shared procurement partnership will also create a resilient organisational structure, better able to manage resource demands across the two organisations.
- 3.5. At SCC the initial tranche of savings identified from the implementation of a category management approach have now been delivered across most of the categories and further savings will be more difficult to sustain and are likely to require a significant service re-design, use of different commercial models to provide services, a stronger focus on how we manage our major suppliers and increased partnership working with others to leverage our spend. Working in partnership with ESCC will position SCC in a strengthened position to move forward.
- 3.6. Without ongoing improvements in the approach of our respective procurement functions, and a real focus sharing and building on best practice, developing shared category plans, and on joint contract management of our major supplier relationships, there is a likely to be a

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<sup>1</sup> The (local) state were in: PwC survey on local government's financial challenge published September 2011

gradual reduction in the savings that can be achieved through retendering activities alone. Working together towards a more integrated function will, over time, strengthen the ability to manage common areas of major spend, shared suppliers and markets, and consolidate the resource structure.



#### 4. Vision

4.1 Context for both authorities is crucial. East Sussex has reached a point where it wishes to make a step change in its approach to Procurement; but building upon some very sound arrangements and initiatives. Surrey started a similar journey, but three to four years ago. It is now at a place where more focussed partnership working can help maximise the potential of the specialist procurement resource it has built up over that time, and leverage even greater savings.

4.2 Building upon that context the Partnership Vision has three key planks

- First, offer and deliver a genuinely shared, skilled and excellent procurement resource to initially Surrey and East Sussex but then other willing SE7 partners
- Second, leverage top performance procurement savings for the benefit of the council tax payers of Surrey and East Sussex (and others as they join)
- Create and nurture the ongoing capacity and resilience to allow a top performing procurement team to deliver organisational benefit and personal career satisfaction.

4.3 In addition to our shared vision, the core principles underpinning our partnership working are:

- a desire to deliver cost effective services for the public sector;
- a strong ethos of commercial skills supporting public value;
- determining the right procurement solution on the basis of the most effective category management first and foremost;
- a shared cultural fit.

4.4 The last point, shared cultural fit, is crucial and, while intangible, has been evident from the first. Indeed, early officer level meetings have been extremely constructive. In work so far, officers from both ESCC and SCC have demonstrated a strong desire to learn from one another, and share ideas and learning. The cultural fit has been evident across all levels of the organisations and will create a good foundation on which to build and develop the procurement partnership.

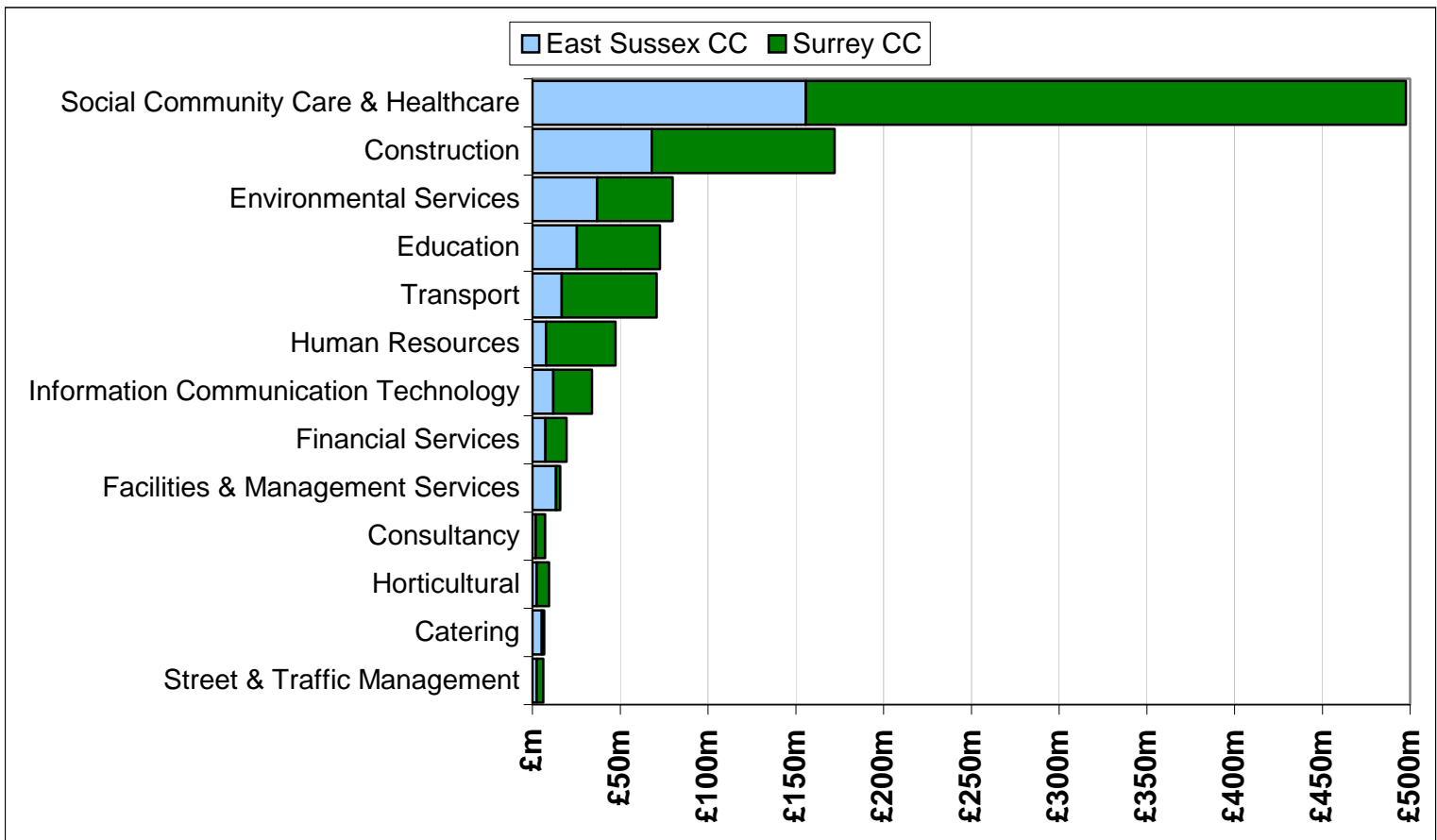
## 5. Partnership Development Model

- 5.1. In keeping with one of our core principles, namely, to drive procurement solutions from a category management perspective, it is intended that the Partnership Model will be developed in a series of stages over time, and these are described in more detail below.
- 5.2. At the foundation of the partnership is the principle of shared leadership. This demonstrates both organisations commitment to the partnership, and will enable the benefits outlined in this business case, as well as further opportunities identified in the future, to be driven and delivered at pace. Shared leadership will strengthen the sense of partnership across the procurement teams at both organisations, and along with the governance structures described in section 8, create a clear pathway for escalation and resolution of issues.
- 5.3. The stages of the partnership development path are as follows:
- Stage 1 – Appoint a Head of Corporate Category management for ESCC, but reporting to the Head of Procurement for the partnership as a whole (and who is the Head of Procurement at Surrey County Council. In parallel, at ESCC, establish the underpinning ESCC structure (including “centres of excellence” as appropriate).
- Stage 2 – Work through each category area, developing both category savings targets, but also objective ‘category management’ led views of how best to manage that category in future. The pace of this stage will depend upon each category, current position, and contract timetables. In all cases, early savings targets will be required but in some cases it may be able to move to any determined shared resource structure, for a particular category, sooner rather than later.
- Stage 3 – Move towards a genuinely shared resource model (i.e. shared category teams).
- Stage 4 – Extend the offer to other members of the SE7.
- 5.4. In practice, some of these stages will be running in parallel rather than in sequence. The most crucial point is that solutions will be ‘effective category management driven’. Fundamentally, that is not about simplistic views of services delivered by SCC or ESCC, but what works best; meaning part delivered by both in some cases. It also means some category functions will be delivered by ESCC alone or SCC alone, but for the partnership as a whole. A number of case studies illustrating the opportunities for this approach are included at Appendix A
- 5.5. Both organisations recognise that across the southeast the principle of clustering of procurement expertise, and the development of category specific ‘procurement hubs’ is beginning to be explored. Both Surrey and East Sussex are involved in these emerging discussions, and expect that over the next 6 – 12 months it is likely these will become more active. East Sussex and Surrey have strong ambitions to drive and lead the regional direction for procurement, and the creation of the procurement partnership between the two organisations will ensure that we are well placed to do so.

## 6. Benefits

### 6.1. Financial

6.2. The graph and table below compares spend between the two authorities at a category level based on 2010/11 spend figures.



	East Sussex (£m)	Surrey (£m)
Street and Traffic Management	£2.3	£3.9
Catering	£5.4	£1.3
Horticultural	£2.3	£7.2
Consultancy	£1.9	£5.3
Facilities and Management Services	£13.4	£2.4
Financial Services	£7.4	£12.0
Information Communication Technology	£11.8	£22.0
Human Resources	£7.7	£39.7
Transport	£16.7	£53.9
Education	£25.3	£47.3
Environmental Services	£36.8	£43.0
Construction	£68.1	£104.0
Social Community Care & Healthcare	£155.7	£341.9
<b>Total</b>	<b>£354.5</b>	<b>£683.9</b>

- 6.3. Combined the two authorities have a spend of over £1bn, which would mean the combined spend of the organisation would be greater than other major SE7 partners; by way of comparison Kent County Council has an external spend of £850m and Hampshire County Council of £630m. Combining spend significantly increases the leverage that could be driven through a procurement partnership.
- 6.4. Through benchmarking as part of the ESCC Review of Procurement identified that Councils who have implemented a category management approach have made a minimum of 2% savings. Applying this to current ESCC spend would equate to a saving of £6.3m. SCC have a savings target for the delivery of £20m+ for 2012/13 and expect that several of the initiatives through which this savings figure is will be achieved could be further supported through working in partnership with ESCC (e.g. SEN and managing inflation in ASC).
- 6.5. At a high level, a comparison of the common suppliers shared across both East Sussex and Surrey County Council has identified that there are 40 shared suppliers that jointly account for £200m shared spend. This includes suppliers across a variety of categories; BT, Cambian Asperger Syndrome Services and National Autistic Society, Kier, May Gurney, Aitch Care Homes and Mencap. A joint approach to the management of these key supplier relationships will form the basis of a savings plan for the partnership.
- 6.6. Non- Financial**
- 6.7. Both authorities have identified a need for an increased commercial focus throughout their organisations. Individually, training and development plans have begun to be drawn up which will help drive commercial skills across senior layers of the organisation. Working together will ensure that best practise can be more easily developed and shared.
- 6.8. In addition to the anticipated cost savings, through developing a procurement partnership ESCC and SCC will:
- develop and strengthen our ability to manage key supply markets through working jointly (e.g. taking a common approach to managing inflation working with both local care associations, and work to manage key joint suppliers in ICT and Highways);
  - significantly up-skill procurement and commercial resource, capacity and competency across both authorities;
  - work to standardise specifications and performance measures for a range of categories, supporting more efficient contract management and driving down cost throughout the supply chain (e.g. developing a shared approaches where suppliers are the same, such as in Integrated Community Equipment and Highways);
  - work to standardise procurement processes, including contract standing orders and other guidance / codes of practice, sharing and adopting common best practice across categories;
  - work to leverage the spend of both organisations to support wider social, economic and environmental targets, and sharing existing best practise (e.g. the ESCC Build East Sussex initiative).
  -
- 6.9 The creation of a genuinely shared procurement model will be highly innovative and be seen that way within the sector and beyond. Both Councils will be positively associated

with modern and efficient working. The related vision of hoped for expansion into SE7 will add significant reputational dividends for the SE7 grouping.

## **6.10 Systems and Investment**

- 6.11 A need for dedicated programme and project management resource has already been identified. Appendix B describes the high level role and responsibilities of this resource, and it is anticipated that this resource will be required early in the establishment of the partnership in order to oversee a number of emerging actions and activities.
- 6.12 SCC has an established Business Analysis team which provide intelligence and insight that acts as an 'enabler' to category action plans and procurement activities. Some additional investment in a Business Analysis resource would act as a catalyst to identify those joint opportunities from which the partnership would develop. Appendix E begins to provide high level examples of the activity which such resource would deliver, as well as supporting those tasks in Appendices B/F.
- 6.13 Early work has already begun to explore the approach to standardising some of our systems – sharing learning and ensuring both organisations are operating in the best possible way. This includes sharing the approaches to vendor data; with common classification codes to enable analysis of spend at greater detail to identify opportunities for savings.
- 6.14 A comparison of each contract register to identify common suppliers and contract expiry has also commenced, and this will further support the development and timing of shared category action plans.
- 6.15 Both organisations are developing a strategy for how technology can enhance the procurement process, and discussions have taken place on a common procurement of a contract management system, the longer-term sourcing of a joint e-procurement platform, procure-to-pay (P2P) developments and best practice in the use of Purchase Cards.
- 6.16 Both authorities use SAP as their core finance system and there are some quick wins to be achieved by ESCC adopting the approaches SCC has developed to access procurement data from SAP. The development of a contract management system is intended to be taken forward as an early joint project.
- 6.17 There are a number of systems, processes and data that will enable a shared procurement partnership to be successful, and to establish core data to support joint category planning. These are summarised in Appendix F, and the initial partnership development plan will map these in more detail.

## **7 Staff**

### **7.1 Skills**

- 7.2 Both ESCC and SCC have a commitment to the professional development of their staff, and through working together it is anticipated that the procurement staff in both organisations can benefit from a joint skill development plan. SCC has launched a Chartered Institute of Purchasing and Supply (CIPS) training scheme in 2011 to ensure all existing procurement staff are professionally qualified. ESCC has invested in CIPS training via local colleges, with the number of staff qualified / part qualified or undergoing training rising from just 2 (2008/09) to 14 (2011/12).
- 7.3 At SCC three existing training courses have already been developed and run in house; Fundamentals of Procurement and Fundamentals of Contract Management and Introduction

to Commercial Awareness. These courses will be reviewed and updated with ESCC context and opportunities to run these for the procurement community at ESCC will be explored.

- 7.4 Early design and delivery of Commercial Awareness Training for senior staff at both organisations has commenced and will be an important early deliverable giving visibility to the new partnership between the authorities and setting out clear messages about procurement and its relationship to commissioning. This will need to dovetail with the commissioning project underway at ESCC.
- 7.5 ESCC have existing Procurement Trainee Officer roles (ASC CPU) and are going to implement an apprenticeship for procurement in 2012. Similarly SCC have launched a Procurement Trainee scheme where three trainees undertake a CIPS Level 3 and Level 4 qualification and a series of placements across the Children's, Adults and Corporate, Environment and Communities over a two year period. Opportunities to align the respective schemes and allow individual trainees to spend time in both organisations will not only grow the attractiveness of the scheme to future candidates, also strengthen the experience and outcomes for the trainees themselves.
- 7.6 The partnership will also increase the opportunities for formal mentoring, especially for recently qualified staff and those who need support in developing their category management skills / approach. Opportunities for peer learning both within and across categories will also be exploited.

### **7.7 Resilience**

- 7.8 Existing ESCC procurement resource structure can be found in Appendix C and SCC procurement structure in Appendix D. In total this represents in excess of 150 staff.
- 7.9 Whilst the structures will not be identical it is anticipated that given similar spend patterns categories will broadly align and as ESCC moves towards centres of excellence (SCC has a centralised model) and the stages set out in paragraph 5.1 are worked through, the partnership will provide a more resilient model in the light of the recruitment and retention difficulties encountered by both authorities.
- 7.10 The future staff vision for this new "procurement community" is that we will work towards shared and integrated category teams where appropriate as part of the development model where this will bring benefits to the partnership. Underpinning this we will shape a common staff development and training programme to embed strong category management, commercial and strategic procurement skills across both authorities with a common practical approach.

## **8 Governance and Risk Management**

- 8.1 Governance will operate on various levels, in the normal way, but three key aspects will be paramount:
- (a) Agreement by respective Cabinets and Chief Officer Teams of core category and general procurement strategy and annual business plan
  - (b) Routine reporting, liaison and, where necessary, conflict resolution, with a "Partnership Oversight Group". This will comprise the respective lead Directors for procurement as well as nominated representation from directorate services.

- (c) An agreed cycle of regular formal performance reporting to the respective: Cabinet, Chief Officer Management Teams and Scrutiny processes.
- 8.2 Clearly, events and emergencies can result in client demands for changes of planned activity during the year. The presumption is that the Procurement Partnership will resolve resource versus work conflicts in a professional manner – but with the Oversight Group in a position to help resolve such conflicts also.
- 8.3 Beyond the formality of the above, it is expected that less formal, but no less important, meetings at Chief Executive and Lead Member level will compliment (and smooth where necessary) governance arrangements.
- 8.4 In terms of legal structures, the working presumption in the short term is that the “Surrey and East Sussex Procurement partnership” will not have separate incorporated status, but rather will be a ‘virtual’ arrangement in the sense that staff will be employed by one or other of the two councils and shared/joint contracts will be let by one or other of the councils. In the latter case, exactly how access to joint or shared contracts currently works. However, one of the early tasks of the Partnership will be to review respective Standing Orders etc. to ensure sensible alignment with new ways of working.
- 8.5 Although tendering activities may be coordinated and, where appropriate, completed as a single process, both organisations will still enter into contractual arrangements in their own name. As such neither party will take on any contractual liabilities for the other in relation to any external supplier agreements.
- 8.5 The above is a short-term dimension, the Partnership would wish to explore different ‘company models’ – including social enterprise and formal joint ventures with equity stakes - for the medium term and particularly when the (hoped for) expansion to other SE7 partners and others progresses.
- 8.6 Day to day staffing and line management will develop over time as the Partnership and agreed individual Category Management structures develop. The Head of Procurement for the partnership will continue to be employed directly by SCC but will have an additional reporting line into the Director of Corporate Resources at ESCC. As it stands the (new) “Head of Corporate Category Management” post for ESCC will report directly to the Head of Procurement. Within ESCC, the Head of Social Care Procurement will have Head of Profession link to the Head of Procurement for the Partnership. The Head of Corporate Category Management will be “first amongst equals” within ESCC, and for day to day management support, the post will report directly to the Director of Corporate Resources and sit within his Management Team.

## **9 Risks and Issues**

- 9.1 The following risks and issues have been identified and will need to be managed through the Partnership's governance arrangements:
- culture - cultural fit at senior officer level has been a key pre-determinant of this partnership, and this will need to be maintained as the partnership develops and modelled at all levels within the respective procurement communities.



- communication - co-ordination of communication and consistency of key messages will be managed through the Partnership's governance arrangements and will be a key role for the Head of Procurement and their senior management team.
- ownership at member and senior officer level - in the first instance this will be achieved through the signing off of the business case by both councils, engagement in the Partnership Oversight Group, and regular reporting to Cabinet and Chief Officer Management Teams.
- level and timing of savings - the Partnership will set clear targets both short and medium term for both savings and other deliverables / key milestones, and these will be subject to regular progress reporting in order to manage expectations of both councils.
- HR local terms and conditions differentials between the two councils - this will be carefully and equitably managed through the development process set out in paragraph 5.1 with support from both HR services.
- capacity - recruitment to key vacancies and backfilling of senior roles will be a key early task to ensure that the development of the Partnership can be progressed and benefits realised. The opportunities to maximise / consolidate the use of skills sets across both councils and to provide career development opportunities, especially for senior managers, is seen a key success factor. The need for investment in this capacity is recognised by both parties.
- relationships with other partners - the business case clearly sets out the potential for the Partnership to form the basis of a wider offer within the SE7 - this message will need to be carefully and positively managed especially in communicating with existing partners.

## 10 Document File Name and Path

### **Name and path: Surrey County Council**

I:\COR\Procurement SMT\Partnership Working\East Sussex\Business Case

### **Name and path: East Sussex County Council**

[To be confirmed]

## 11 Document Revisions

<b>Date</b>	<b>Version</b>	<b>Details</b>	<b>Author / Revisions</b>
07.11.2011	v0.1	Draft document with headings circulated to AF, SN, DS	LL
09.11.2011	v0.2		LL
10.11.2011	v0.3		LL
18.11.2011	V0.4		LL
02.12.2011	V0.5	Additional content added	SN
05.12.2011	V0.6	Addiitonal content / amendments added	DS
06.12.2011	V0.7	Amendments made	LL
06.12.2011	V0.8	Accepted changes following phone call and added in highlighted comments for remaining changes agreed	LL
06.12.2011	V0.09	Section 5.3 added and intro to Case Studies	LL
09.12.2011	V6.0	Various changes made throughought and published to COMT at ESCC	DS
28.12.2011	V6.1	Member feedback : changes made to graph at 6.2 and table inserted. SMT feedback : New para at 3.3 inserted, para 4.4 strengthened. New para 5.2 entered to strengthen shared leadership approach. Paras 6.13 – 6.15 updated to reflect DS / CA meeting.	LL
09.01.2012	V7.0	Pre-agenda member feedback and Finance feedback	LL



## Appendices

### Appendix A: Case studies

- 11.1 The following four case studies are intended to describe the type of opportunities that would be explored as part of the development of the partnership model. Through using examples, both of early opportunities that have already begun to emerge, and by identifying where market management and leading-edge practise can be applied across both authorities.
- 11.2 It is expected that a joint Category Management approach to Procurement will offer financial and non-financial benefits both organisations. The benefits and opportunities described in the case studies are not purely linked to shared national providers, there are other benefits of working together more broadly that do not require 'providers in common':
- Keeping abreast of best practice and sharing skills and knowledge, particular category-specific expertise
  - More informed benchmarking
  - Running one tendering procedure for both Councils even though the outcomes will be different locally enables more efficient tendering procedures.
  - A more consistent approach to deliver more consistent outcomes
  - Implement the strategic sourcing approach that Category Management encourages.
  - Improved high level data that may identify potential joint procurement process.
- 11.3 Skill sharing across Local Authorities will benefit both organisations; early work informally sharing our procurement workplans, priorities and approach particularly within Adults Social Care have identified ASC procurement teams with demonstrable skills in their areas. A consolidation and building on of these skills, and wider, will have beneficial results for all concerned.

#### **Case Study 1: Joint market management: Special Educational Needs - Non Maintained Independent Schools**

- 11.4 Surrey is approaching the NMIS market segments with a joined up approach to collaborative partnership working. Most Local Authorities are dealing with what they see as an unacceptable amount of dependency on NMIS providers by investing and building internal provision for children with SEN in mainstream schools and maintained special schools.
- 11.5 Costs of provision in the NMIS providers rises every year, although this has been tempered over the last few years. Most Local Authorities recognise that their NMIS expenditure is at unsustainable amounts and these amounts will not be protected against funding cuts in the near future.
- 11.6 The internal provision, although increasing the maintained schools capacity for SEN children and widening the spectrum of needs provision, is polarising towards the more moderate provision of need rather than the more complex which is where Local Authorities will continue to experience a degree of dependency on NMISs.
- 11.7 This dependency can be managed through demand management techniques as the demand from Local Authorities in the market place reduces. Expenditure from Local Authorities tend to be over multiple providers and it is through partnering with a smaller cohort of preferred providers, provision can be modified through supplier relationship

management principles to more fit the needs of the customers (the Local Authorities) and the clients (the end-users).

- 11.8 Surrey is contacting all of its current providers through prioritising the opportunities available to both Surrey and the provider, to gauge the appetite of the market in entering into partnering relationships with Surrey, and to seek preferential rates in order to meet Surrey's calculations of what a specific placement should cost the Local Authorities and the taxpayer.
- 11.9 Surrey has conducted extensive research on the cost pressures experienced by NMIS providers and the industry-standard level of prioritisation a NMIS can expect as a trading organisation, independent and non-maintained in the current market place. We have developed a model to calculate what a placement should cost taking into account the cost pressures, applying a responsible margin, and building in a variation for error also - although statistically our model can be proven to be 95% accurate.
- 11.10 The NMIS market place consists of a great number of marketing-orientated organisations including charities and this has inflated placement fees over the years, our modelling has also identified organisations who are providing at unsustainably low levels of fees putting the security of the placements at risk and possibly the school itself at risk of closure.
- 11.11 East Sussex place approx. 195 children p.a. in NMISs, paying approx. £10.2m p.a. and the cost is spread over 48 separate schools/providers. Surrey place at approx. 34 of the same schools as East Sussex. The majority of these schools are part of the existing negotiation plans that Surrey have already commenced with their partner providers in the Surrey SEN Strategic Plan. Integrating the East Sussex expenditure and providers in with Surrey's would be a relatively simple process, would increase the leverage of the negotiations and would provide a strong early and visible example of the opportunities and efficiencies that the procurement partnership can deliver.

## **Case Study 2: Adult Social Care**

- 11.12 In Adult Social Care in East Sussex approximately 47% of providers are local organisations without a national presence. However approximately 48% of spend is with providers with a parent company who will be used more widely than East Sussex. The remainder are out of county smaller specialist providers. Analysis is underway to determine the extent to which these providers are used by both Surrey and East Sussex however it is reasonable to assume that we spend many £m with providers in common at parent company level. Using ESCC data and extrapolating this with some reasonable assumptions it is likely that this will be in the region of £40-50m.
- 11.13 For example both Integrated Community Equipment Services contracts (delivering special equipment in peoples homes) are with the same company, with annual spend from East Sussex of £2.3m and Surrey is £2.8m. As this substantial contract is supplied by the same provider for both Councils, opportunities to further develop and improve the savings and service standards for both as well as for the provider, e.g. one tender process and the use of similar systems and quality standards.
- 11.14 Both County Councils purchase Social Care, in different ways with some similar providers. Further analysis of data would provide a context to consolidate further the opportunities for joined up procurement exercises and skills for the benefit of both.
- 11.15 Benefits of taking a joined up approach will include: -
- A common approach to specifications (if in line with commissioning requirements) and contract terms and standards would be beneficial to both Councils and providers alike.
  - Shared procurement approaches, timings and tactics.
  - Use of scarce resources of skilled procurement negotiators to deal with some organisations for both Councils.
  - A consistent approach and message to providers about expectations
  - Improving leverage with providers and better value for money for the Council
  - Market development activities more likely to be successful over a wider market
  - Market shaping in line with the strategic intent of Local and Government drivers.
- 11.16 It is important to note that these areas are very closely linked to commissioning requirements and that activities undertaken by the procurement functions will flow from Commissioning Plans and Procurement Strategies.

### **Case study 3: ICT**

Surrey and East Sussex are already leading on ICT procurement for the whole SZE7; (with perhaps the major balance being carried through East Sussex. A joint appointment for this stream has been made by East Sussex (shared funding). The first task is to develop a business case for a whole SE7 ICT category management approach. Valuable work mapping ICT category management information and best practice has already been undertaken.

Through arrangements established by Surrey, a number of common large suppliers (e.g. SIMS/Capita, OLA, SAP, and GIS Mapping) are subject to contract price/service discussions but involving specialist 3<sup>rd</sup> party negotiators in the ICT service area. Also drawing on Surrey templates for the new PSN will have helped save up to £200,000 in procurement costs for ESCC.

This whole area of ICT procurement is well placed to provide a specialist offer to the whole SE7 area – as part of a new “Surrey and East Sussex Procurement Partnership”.

#### **Case Study 4: Commodity area**

11.17 Based on research carried out through the SE7 Commodities Procurement Workstream the total spend on commodity procurement across both authorities is c £65m (09/10 figures) comprising approx 6% of 3rd party spend. Of this spend between 40% – 50% is already subject to collaborative procurement at national, regional or local level. The SE7 has identified a number of areas where there is the potential to drive further savings through collaboration and sharing of best practice and is already pursuing these:

- workwear and PPE
- agency staff
- use of consultants
- meals in the community

11.18 A high level comparison of spend and contract data from the two authorities indicates that whilst procurement strategies in this area have similarities and areas of spend are relatively consistent, there is a wide variation in the frameworks and contractors in use. Whilst further analysis of data would be required there are clear opportunities for better working through partnership to deliver price and process savings for our mutual benefit.

11.19 Benefits of such a joined up approach would be:

- Ability to drive standardisation of goods and services purchase, reducing choice where that is appropriate and driving down prices / switching to cheaper lines
- Detailed benchmarking of current contract prices to identify best deals and apply across both authorities
- Joint approaches to suppliers to drive down process costs both in terms of ordering, deliveries and invoicing
- Shared procurement exercises whether accessing established frameworks through mini competitions or locally run tenders – this approach can still meet the authorities' policies in relation to local SMEs by sharing a common specification for appropriate goods / services but offering two or more separate lots
- Making best use of existing skills in this area across both authorities
- Aggregating spend to a level where savings can be achieved
- Consistently applying best practice to manage demand and control spend

#### **Case Study 5: Supplier Relationship Management**

In order to continue achieving significant savings and increased value from our contracts, SCC has been developing a supplier relationship and management framework and programme of projects to drive additional savings and efficiencies from our major long-term contracts.

Our approach has focused on 3 key areas; value for money, process efficiencies and contract management and has targeted those major long-term arrangements including our 3 PFI agreements.

These reviews have not just looked at the suppliers, but also at the way we work with the supplier and our internal behaviours, allowing for a more balanced view of the contract and relationship. Coupled with the detailed analysis of the contract, supplier and market intelligence, this has enabled creative thinking, generating ideas and opportunities previously not considered.

Over the last 9 months, we have been able to identify opportunities that derive additional value from the contract, as well as strengthen the collaborative nature of the working relationships with some of our major contracts. We have identified opportunities in excess of £10million, and have delivered £3.1million cash savings to date with the balance to be delivered over the next 18 months.

We feel this model and approach can be extended to East Sussex County Council, and we will look to develop a joint programme of activity, identifying common suppliers, for example, Millbrook Healthcare, where some of the activity we have already undertaken may be directly applied. This could be facilitated through sharing our detailed plans and through a structured knowledge transfer model.



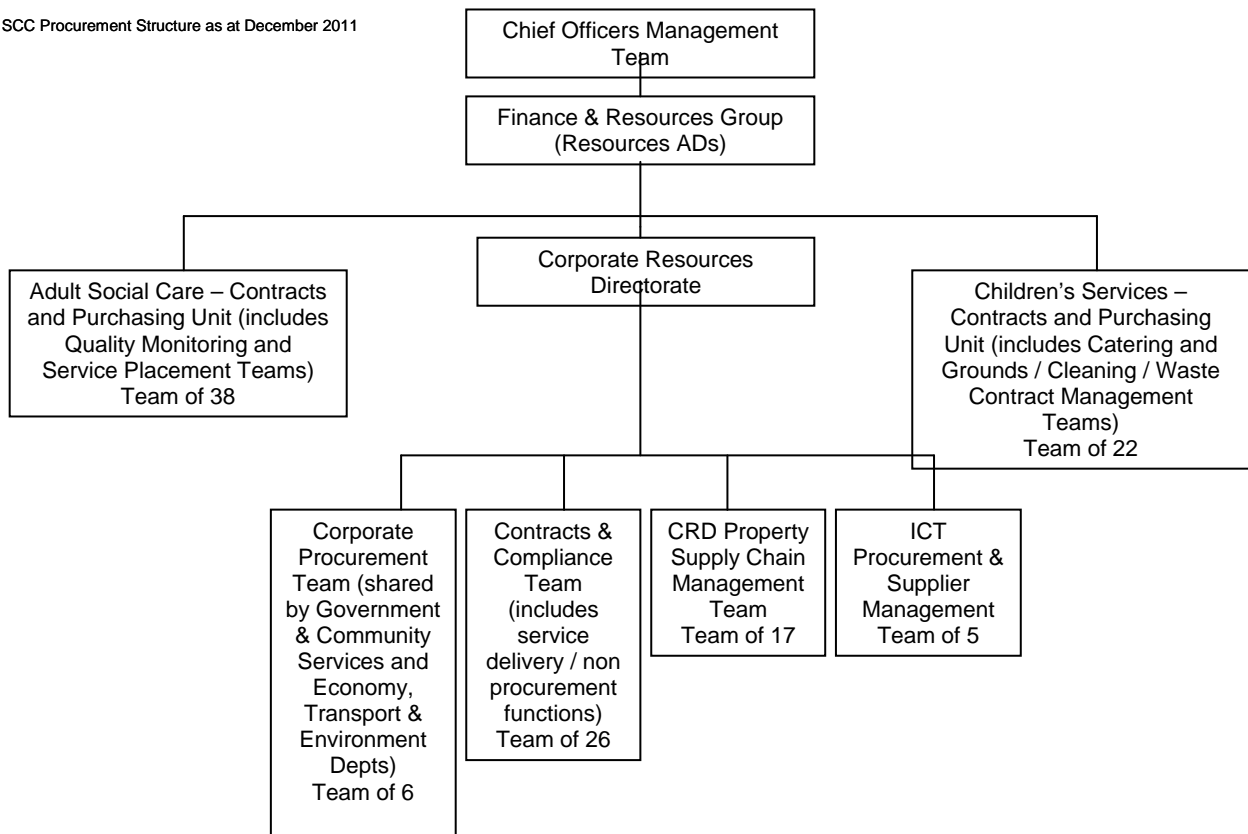
## Appendix B: Programme and project management resource

Responsibilities of programme / project management resource likely to include:

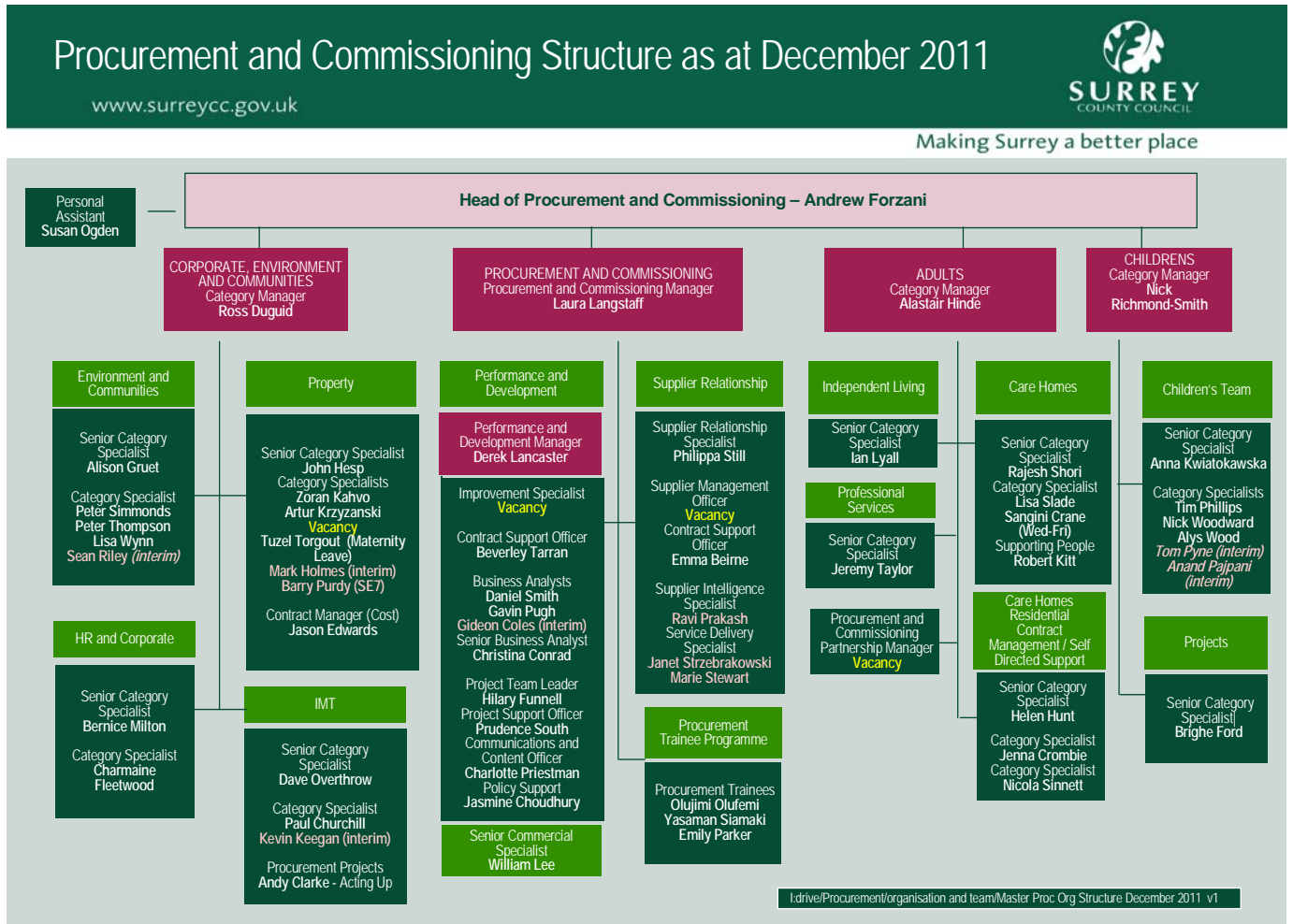
- Some coordination of existing collaborative projects (Highways, ICT through SE7 etc)
- Review and coordination of workplans to identify opportunities for 'convergence'
- Tracker of both benefits and project gateways
- Oversight of meetings / approvals and overall governance
- Coordination of specific projects (e.g. inflation)
- Lead on communications (shared and common suppliers)
- Coordination of communications (ESCC & SCC staff)

## Appendix C: East Sussex County Council procurement resource and structure

ESCC Procurement Structure as at December 2011



**Appendix D: Surrey County Council procurement resource and structure**



## **Appendix E: Business Analysis activities**

- i. Approaches to a number of benchmarking activities will need to be explored between SCC and ESCC (Process / Service / Price benchmarking)
- ii. Supplier Performance and Key Performance Indicator Reviews

## Appendix F: Systems, processes and data activities

- i. Comparison and standardisation of vendor data - number of vendors, use of purchasing group, plant, industry key (trade / non-trade), vendor account group, company code, local, SME.
- ii. Establishing a shared category landscape - map existing structures & update to latest Proclass classification. Agree use of material groups & equivalent in other systems, mapping to chart of accounts (and explore use of account assignment type) - to establish core data to support category planning.
- iii. Establishing and sharing a common spend map – agree approach to mapping suppliers (by value, volume and number of suppliers) by category & route to purchase. This will include mapping of common vendors to identify initial opportunities.
- iv. Contracts register - compare expiry / coverage / contract & non-contract spend. Explore and develop specification for a collaborative purchase of Contract Management System.
- v. Review and understand approach to use of E-procurement systems including best practise e.g. supplier portals, online evaluation and use of SE Business Portal.
- vi. Procurement / Contract Standing Orders - comparison & potential for joint development – assist in the establishment of a more common approach to governance of procurement.
- vii. P2P map - establish and compare the high-level process & system map for trade orders - to give a picture of the data flows and systems involved. Both organisations use SAP as core SRM system, although there are others across Adults, Children's and Property.
- viii. Comparison of published transparency data & alignment. No of suppliers and spend by category - comparison of level of consolidation of supply base.
- ix. Reporting – establish approach to report from SAP and share best practise on development of reports. Compare BI and other data warehouse systems in order to identify tools already available to enable joint category action planning.
- x. Procurement Toolkit - tools & templates for category management.
- xi. Use of Purchase cards - usage, value/volume, reconciliation system and approval process. Identify and share best practise.
- xii. Audit & Controls - share learning & understand approvals, thresholds, procurement governance compliance levels.

**DRAFT Surrey & East Sussex Procurement Partnership / East Sussex CC Category Structure**

**Joint Procurement Board (ESCC / SCC Reps)**

**Head of Procurement (Shared – SCC)**

**SCC Commissioning & Procurement Team**

**Head of Corporate Category Management (ESCC)**

**Social Care**

- Bed based care – Adults
- Community Care – Adults
- Social Care – Children
- Social Care – Other
- Housing Management
- Social Care – Disabled Children
- Children’s Bed Based Care (including SEN)
- Special Equipment & Adaptations
- Healthcare

Total Category Spend = £150m

**Construction, Environment, Waste & Transport**

- Construction & Maintenance
- Environmental Services
- Public & Client Transport
- Street & Traffic Management
- Vehicle Management

Total category spend = £125.8m

**Projects, Systems & Performance**

- E-procurement
- Business & Data Analysis
- Purchasing (?)

**Corporate & Professional**

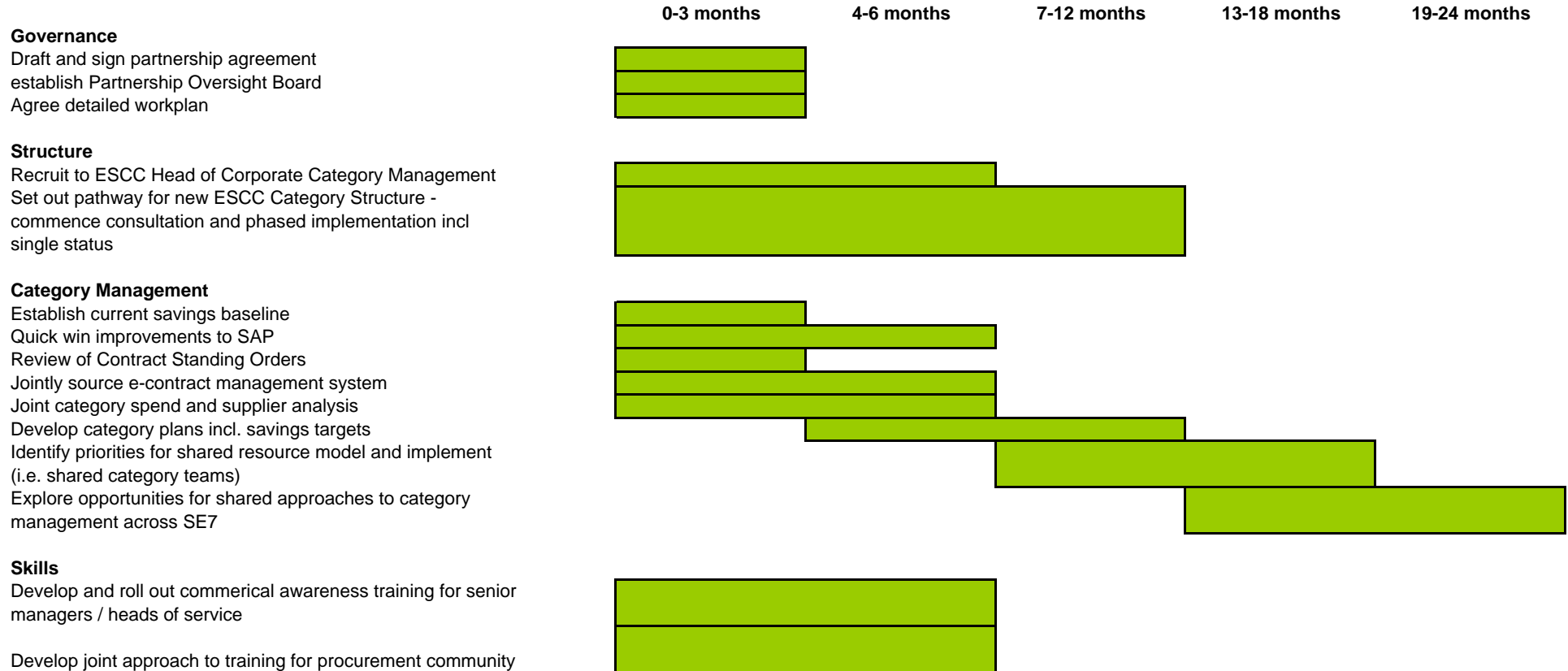
- Facilities Management
- Education
- Financial Services
- Legal Services
- Arts & Leisure
- Human Resources & consultancy
- ICT & Telecoms

Total Category Spend = £70.8m

**Surrey and East Sussex Procurement Partnership**

**High level activity and milestones**

Draft v1



## **Case Study - Adult Social Care**

### General

One of the benefits of the proposed approach to work with Surrey is that it enables us to each work within our existing Commissioning Strategies that will drive procurement activity. Commissioners will develop specifications and work with procurement staff and the market to develop services. It recognizes that our two organisations have taken a different approach to managing procurement for quite legitimate reasons. We will be able to collaborate on sourcing with Surrey, and with others when evidence suggests benefits will accrue.

This option allows for local differences and requirements to be taken into account, for example in Adult Social Care in East Sussex, the Contracts and Purchasing Unit combines procurement, day to day sourcing of care for individuals and contract management. It is considered important that the latter two of these functions are embedded in the social care department as they are a key part of the service user pathway and work closely with frontline staff teams. There are also significant benefits from aligning the procurement team with these staff as they are intrinsically linked and it gives particular benefit of a consistent message to providers.

There will inevitably be similarities and the ability to work together, where this is agreed with commissioners as the right thing to do will increase capacity and enable sharing of ideas and best practice as well as increase market leverage and value for money.

Specific areas where joint working will be of benefit

- Capacity of Procurement Staff

Both Councils have difficulty recruiting and retaining experienced procurement staff and training staff in CIPS and specific procurement courses is time consuming.

We will be able to consolidate our staff training and development activities.

Where appropriate we can undertake activity once for both organisations. A specific example is with regard to the supply chain. We are seeking to reduce costs for our core suppliers of bed and home based care. Establishing ways for them to access core supplies such as utilities, laundry, disposable gloves, food etc at best prices is something that could easily be done once for services in both authority localities.

- Suppliers In Common

In East Sussex approximately 47% of providers are local organisations without a national presence. However approximately 48% of spend is with providers with a parent company who will be used more widely than East Sussex. The remainder are out of county smaller specialist providers. Analysis is underway to determine the extent to which these providers are used by both Surrey and East Sussex however it is

reasonable to assume that we spend many £m with providers in common at parent company level. Using ESCC data and extrapolating this with some reasonable assumptions it is likely that this will be in the region of £40-50m.

Both local authorities have Integrated Community Equipment Services contracts (delivering special equipment in people's homes) with the same company, with annual spend from East Sussex of £2.3m and Surrey is £2.8m. As this substantial contract is supplied by the same provider for both Councils, opportunities to further develop and improve the savings and service standards for both as well as for the provider, e.g. one tender process and the use of similar business systems and quality standards.

There is considerable supplier consolidation taking place in the market, for example SAGA and Enara are taking over a number of existing smaller home care agencies. By meeting jointly with these larger national organisations we can influence service development and price more effectively.

- Information Analysis

Establishing a shared repository of information on price and KPIs for evidencing quality and outcomes will improve value for money and enable more specific benchmarking when required.

- Service and Market Development

Commissioning led service development and joint commissioning will continue in each authority. Examples include integrated working with the NHS locally and working toward innovative changes in provision that involve a much greater diversity of care suppliers in the market which involves increased use of Direct Payments and more micro-providers,

The procurement teams will work alongside their respective commissioners to implement this shift and will continue to proactively support the market shaping agenda. The sharing of experience of these issues between the two procurement teams will be of benefit and we might be able to share procurement approaches, timings and tactics.

If there is consistency of requirements market development activities are more likely to be successful over a wider market, and whilst local issues will be different there are likely to be national drivers and some issues of consistency that we can work on together.



## Appendix E

### **Savings made by SCC to date in what areas and what activities**

Savings delivered by improved procurement and commissioning at Surrey County over the last three years have been across a variety of areas. The table below shows the breakdown of savings delivered between the major directorates of the Council. This does not include decommissioning (or stopping) of services:

	2009/10 ('000s)		2010/11		2011/12 (year to date)	
	£	%	£	%	£	%
Corp, Environment & Communities	7,321,781	69%	10,828,220	50%	14,728,578	51%
Children & YP	673,465	6%	2,300,258	11%	5,402,560	19%
Adults	2,625,512	25%	8,419,685	39%	8,872,259	31%
Total	10,620,758		21,548,163		29,003,297	

Within the overall Corporate, Environment & Communities category, the predominant category where savings have been delivered is Highways and Property. The savings shown above are only those that meet what was the 'NI179' measure (as per DCLG Guidance issued in October 2009), i.e. ongoing cashable savings based on previous / baseline year actual and either a maintenance of, or measurable improvement, in service quality.

The Procurement & Commissioning service also captures 'other cashable savings' - these include cash efficiencies where another public sector organisation is the beneficiary, such as schools-related savings, and one-off savings.

Finally the service also measures 'Cost Avoidance' - non-cashable savings, or where procurement, commissioning or contract management activities have enabled a better agreement that does not meet the definitions for cashable. During 2009/10 £870k of non-cashable savings were achieved, in 2010/11 this figure was almost £300k and in 2011/12 (year to date) this is £1.7m.

Major projects that have delivered cashable savings achieved include:

In 2010/11; managing inflation across our portfolio of contracts within Adults Services, devising the strategy and leading the implementation for the Surrey Highways Improvement Projects, reviewing and improving the commercial approach to our range of utilities contracts, and a specific activity with a major provider around Physical Learning and Sensory Disability.

In 2011/12; managing inflation in both Adults Services and across contracts in Children's, Schools and Families has again contributed to savings, alongside continued work to implement and review the commercial arrangements in Highways. Working with our strategic Schools Services provider through a number of SRM and commercial initiatives, and a detailed negotiation activity with providers of High-cost Placements have also been major activities during the year to help deliver the £29m+ savings.