



Procurement Agency
for **Essex**

2004/5 Annual Report

Leading by Example

March 2005

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FOREWORD

We are pleased to present the first Annual Report for the Procurement Agency for Essex (the Agency). As you will know it has been a significant year since our launch with the publication of the results of the Spending Review 2004 (SR2004), the launch of the Gershon Efficiency Programme, and the creation of Regional Centres of Excellence (RCEs).

Against this background it is reassuring to know that the local authorities in Essex have been ahead of the game, researching and establishing a model for collaborative working and capacity creation which we believe sets an example for the rest of the UK public sector. By staying highly focused on what matters to our members, using available funds wisely and sharing existing knowledge and resources it is possible to make significant cashable and efficiency savings. Clearly there is room for improvement and we have learned a number of valuable lessons during the course of 2004/5. However, that should not detract from what has been achieved by people across the county who believe in collaboration and who understand that strategic procurement is infinitely more than buying low value commodities.

The outcome of the Efficiency Review has provided everyone with challenges and the need to look beyond the obvious. Working in isolation will not deliver the results needed to meet the 7.5% efficiency and cashable gains over the next three financial years. The Agency has proved that collaboration will deliver gains far in excess of the levels of investment made (which is between £8K and £12K for district councils). Our expenditure analysis database, which already contains two years of data for some members, has been an excellent tool for showing us the areas to target for making savings across the county. It also shows where it would be advantageous for individual authorities to work in small groups to exchange information on costs, performance and market trends.

This first Annual Report provides lots of valuable information, case studies and examples for chief officers and senior managers in Essex and beyond. We are delighted to commend it to you and will be pleased to provide more details for other public sector bodies in Essex wishing to join the Agency.

Dave Wheller, FCIPS

Chairman, PAE Board

Head of Procurement & Direct Services at Essex County Council

Ken Cole, MCIPS

Acting Director, PAE

April 2004 to March 2005

Visit www.paessex.gov.uk or contact Jenny Simkin (jenny.simkin@paessex.gov.uk, 01245 431818) for more information about the Procurement Agency for Essex.

1. THE STARTING POINT

The Agency is the first UK example of a genuinely self-funding cross public sector regional procurement organisation working to exploit the full benefits available from collaborative procurement. It went 'live' on 1st April 2004 after over eighteen months in planning. The concept was developed early in 2002 when Dave Wheller (Head of Procurement & Direct Services at Essex County Council) presented the Association of Essex Chief Executives with a paper that set out a convincing case for collaboration between public sector organisations in the county. The feasibility report for establishing a 'Procurement Agency for Essex' in March 2003, it noted among other things that *"the Agency was potentially the only means for delivering additional savings and efficiency gains given the scarcity of key procurement resources across the county and the demands being made against them"*. Therefore, the Agency was developed to create capacity to help the smaller organisations that could not justify investing in a dedicated procurement manager and the need to tap into cashable savings/efficiencies that could only be accessed through collaborative working.

The Agency comprises fifteen public sector organisations in the County of Essex. They are:

Basildon District Council	Braintree District Council	Brentwood Borough Council
Castle Point Borough Council	Chelmsford Borough Council	Colchester Borough Council
Epping Forest District Council	Essex County Council	Essex Fire and Rescue Authority
Harlow District Council	Maldon District Council	Rochford District
Southend Borough Council	Tendring District Council	Uttlesford District Council

Additionally, Thurrock Council and the Essex Police Authority have agreed to become associate members in the first instance. The longer-term goal is to reach out to the wider public sector in the County including the NHS, Prison Service and higher education as the Agency believes there are significant additional benefits to be achieved.

2. SUMMARY OF ACHIEVEMENTS

Much of what was achieved by the Agency in its first year of operation has only been made possible by the willingness of member organisations to collaborate voluntarily and work with colleagues in other councils to achieve positive outcomes. Although the Agency now has a dedicated team, we should point out that everything in 2004/5 was managed with a part-time Director (2 days a week) and a full time contracts officer, ably supported by the active and dedicated participation of colleagues in all member organisations.

STRATEGIC ACHIEVEMENTS

- The Agency set out to be cost neutral for 2004/5 for member organisations and stay within its assigned budget. It has achieved both of these targets and is set to have a positive balance of £16K to transfer to 2005/6

Case Study 1 – Savings and Return on Investment

The Agency sought to be cost neutral in 2003/4. Contributions from member organisations ranged from £8,000 to £12,000 for the district councils and the fire authority and up to £20,000 for the County Council. The Board agreed that the measures for savings, ranked in order of priority were the delivery of:

- Direct (Cashable) Savings
- Cost Avoidance & Additional Value
- Saved Officer Time & Reduced Member Costs
- A Reduction in Individual Member Activities

While we are still in the early stages of putting numbers together and validating claims, we are able to report the following:

- The collaborative Advertising Contract has shown a net positive saving for eleven of the twelve councils that took part in the measurement exercise. Cashable Savings ranged from £1,200 to nearly £11,000 per authority
- The collaborative Temporary Agency Staff contract will show a cashable saving for all councils that participate, particularly as in one instance the rates quoted are better than those of the OGC contract with a superior service level. One authority has already calculated that it will save £600 per annum using the same temporary member of staff under the new contract. With over twenty such staff this could provide a direct cashable saving of £12,000
- Preliminary work on the framework contract for refuse vehicles is showing that direct cashable savings of up to £10,000 are being made for each vehicle purchased as measured against what has already been paid in the past. This excludes the cost of having to go to tender, which would arguably produce further non-cashable
- Collaborative working on the 'Selling to Guide' reduced the unit cost of delivery to about £1,000 per member organisation. One council has already calculated that it would have cost around £10,000 to undertake the work in isolation

There are many other examples of areas where work has been undertaken collaboratively, but we believe that all member organisations that have actively participated in 2004/5 would have experienced a cost neutral situation.

Benefits

- Collaborative procurement can benefit an organisation by either reducing direct and indirect costs, by increasing capacity or by making the market attractive to more suppliers
- Joint working eliminates the need to duplicate effort and resources as well as making better use of existing skills and knowledge sets

- The cost to each member organisation is far less than when working in isolation

Lessons Learned

- Corporate decision-making machinery needs to be in place to allow a broader assessment of the outcomes from Agency work. There is some evidence showing that where such decisions are taken by individuals, cashable savings are missed due to a preference remaining in working with existing suppliers
- Early participation in collaborative working improves the quality of the added value upstream activities (i.e. pre-contract) and sends a strong message to suppliers that the public sector is serious about collaborative working

- The Agency received a “highly commended” by the judges in the prestigious LGC 2005 Awards (Procurement Category). No mean feat given that the entry was submitted less than six months after the Agency went live
- Collaborative Working Protocols have been drawn up by member organisations and signed-off by the Board. These are designed to help remove barriers to collaboration and are already being used as a model by other organisations.



COLLABORATIVE CONTRACTS

- The Agency was asked to target Advertising, Agency Staff, Vehicles and Utilities in 2004/5. Contracts have been let for Advertising and Agency Staff, with Vehicles well advanced. The groundwork for Utilities has been started
- The Agency was also active in the countywide stationery contract which saw significant cost reductions against tendered prices using an e-auction
- A national framework contract for refuse freighters, led by Braintree and Chelmsford and actively supported with resources from the Agency has been let. Already the Eastern and London RCEs have advertised it to all their councils

TACTICAL CONTRACTS

- Backed by the procurement team at Braintree, the Agency is well advanced with putting contracts into place for plastic sacks, cleaning equipment and personal protective equipment

EXPENDITURE DATABASE

- A full data analysis for all member organisations has been carried out and incorporated into a database. This underpins our business planning activities and has meant that we can do year on year comparisons for measuring improvements against specific targets as well as supporting the preparation of Efficiency Statements

Case Study 2 – Expenditure Database and ‘Gershon’ Reviews

The Agency started building its Expenditure Database in 2003 as part of the pre-launch planning activities. Using influenceable spend details from each member organisations finance systems, it has been possible to create a year on year profile of expenditure patterns and associated transactions. The database has been put together using Microsoft

Access and allows the Agency to plan, direct its resources and priorities, and set targets based on actual expenditure.

The database does not require investment in costly business intelligence tools or the persistent use of consultants. It is the Agency's intention to make a basic cut of the database available on on-line (subject to technical and commercial constraints) so that member organisations can identify common use of suppliers and issues by procurement category.

One of the spin-off services that the Agency has been able to offer is individual two-hour Gershon Reviews. These reviews have provided strategic consultancy advice and a comprehensive interpretation of the expenditure profiles and underlying trends for each member organisation. By June 2005, some councils will have three years' worth of comparative expenditure in the Database. The Agency has also run two programmes developed by the London RCE to transfer skills and knowledge to council officers, with a view to making this an in-house activity. Both programmes were fully attended and scored high satisfaction ratings.

The cost to build the Database per annum is just over £12,000 (i.e. £800 per organisation). This compares with upwards of £50,000 that some councils outside of Essex have paid external consultants.

Benefits

- A powerful tool to support evidence based analysis
- No reliance on proprietary third party products
- Cost to each member organisation far less than isolated working
- Creation of a unique repository to support Gershon work

Lessons Learned

- Need to support the introduction of a standard procurement classification and a common approach to describing suppliers
- Collaborative working and negotiation is extremely difficult without access to reliable expenditure data
- Importance of training people to carry out the work in-house – both on extracting and interpreting the data
- Importance of showing chief officers, particularly Treasurers, of what existing data can be used for

E-GOVERNMENT

- The Agency has developed an excellent website with a secure Members' Only area (open to all nominated representatives from member organisations) which provides a wealth of information and research on all aspects of the Gershon agenda and the National Procurement Strategy
- An electronic 'Selling to Guide' is up and running which connects to the procurement page of all member organisations. This allows all members to meet their IEG targets and was developed collaboratively over a period of eight weeks

Case Study 3 – Collaborating to Meet IEG Targets

All councils are required to produce an electronic 'Selling to Guide' as a part of the National Procurement Strategy. Rather than duplicate effort and tie up scarce resources, twelve authorities met in 2004 to produce a standard core specification for the county. This was then translated into a website linked from the Agency website directly to each member organisation. Member organisations are still responsible for advertising procurement opportunities on their own website to reduce overheads.

The site took eight elapsed weeks from the preparation of the specification to go-live and took ten days of Agency resources (£4,500). This works out at a notional cost of £300 to each member organisation, plus no more than two days of officer time from each member organisation – a figure that could not be matched with isolated working.

Spin-off activities include:

Moving towards common thresholds for quotations and tendering (over half the member organisations have already achieved this)

The creation of an Essex wide supplier portal, via the Essex Marketplace Team and EGS Ltd. to underpin this work

Benefits

- IEG target met ahead of schedule
- Fast track development removing duplication of effort and shared capacity
- Cost to each member organisation is far less than when working in isolation

Lessons Learned

- Do not start with a blank sheet of paper, use what is already out there
- Do not engage expensive consultants to do your thinking, except perhaps IT contractors to design the site
- Define your objectives for the site, particularly around what you are trying to achieve
- Understand the particular categories of supplier that you want to target
- Be clear on what can be made into a shared service and what is organisation specific
- Watch out for areas that create potential overheads, like on-line supplier registration and creating news pages

- A countywide contracts database will be piloted in early 2005/6, which allows contract details to be visible across the county as well as promote collaborative working and contract planning

Case Study 4 - Collaborating on a Countywide Contacts Database

One of the National Procurement Strategy requirements is the need to produce a forward contracts database. This can be expensive if traditional IT purchasing methods are used. About half of the member organisations collaborated to produce a core specification using common standards and approaches. This was then prototyped and shown to representatives from member organisations to further develop ideas and functionality.

A small IT company (New Information Paradigms Ltd.) is developing the solution with the Agency paying a small annual license fee to use the on-line service as opposed to the traditional approach of buying software. All member organisations will be able to access it from their Intranets for enquiry or data entry purposes. Chelmsford and Southend have agreed to pilot the solution. Member organisations will also be able to license their own version should they wish to use it differently.

The new system is very easy to use relying on pull-down selections, standard definitions and a standard approach to procurement classification based on the work of the London RCE and reflecting the expenditure profiles in the Agency's Expenditure database. The Agency version will be restricted to contracts greater than £100K in value at this stage.

Costs of development and the pilot are £5,000 and the Agency will be looking to pay an annual license fee less than this figure. Costs of Agency resources are currently at £4,050. Our investigation shows that it is possible to pay in excess of £80K for such a system in addition to the maintenance and overheads costs. Both Eastern and London RCEs are keen to work with the Agency in order to fund further developments.

Benefits

- NPS milestone met ahead of schedule
- Prototype development approaches removes duplication of effort and costly tendering processes
- Cost to each member organisation far less than isolated working
- Buying an annual service is far more cost effective than buying software and licenses

Lessons Learned

- Keep the specification simple, do not over elaborate and once you have developed the pilot only change those

things that are essential

- Remember the goal is to deliver a solution that is easy to use, delivers what it claims and people want to use it; and, above all is highly cost effective
- Build prototypes using low cost small IT companies
- Ensure that you use procurement specialists to define the functional content and IT people to build it
- By delivering the database as a service you can discontinue it at any time in the future should your needs change or a better solution presents itself

MARKETING, COMMUNICATIONS & WHITE PAPERS

- Electronic newsletters are sent to our growing list of contacts on a quarterly basis
- White Papers on Buying Consultancy (written with the support of ECC) and Water Deregulation have been added this year to the others already produced

DELIVERING THE GERSHON AGENDA

- A management programme *Making Expenditure Analysis Easy* has been delivered twice and attracted high ratings from senior officers attending. This has been done in collaboration with the London RCE
- A Gershon Review programme has been offered to all member organisations giving them feedback on their analysed creditors data and delivered to nine member organisations
- Management Briefings and Delivering Procurement Workshops have been commissioned and delivered to four member organisations

3. AREAS FOR IMPROVEMENT

The Agency's first year of operation was about establishing proof of concept. Limited resources have meant that the following areas of improvement have not been carried out and are therefore identified for 2005/6:

- Marketing & Communications did not really begin until late 2004. This is a key area as the Agency could suffer from chief officers in member organisations not being aware of it (e.g. eight of the fifteen Chief Executives have changed in the last 18 months). Also, access to the Agency newsletter and member area website needs to be enabled by IT departments
- Engagement with the Gershon process needs to be further strengthened. Although the Agency has offered Gershon Review sessions since November 2004, this has not connected with the current countywide initiatives
- Greater effort needs to be made on involving the Agency with strategic rather than tactical programmes. Although the latter does deliver 'quick wins' for member organisations, it is not the main reason for the Agency's creation
- Each member organisation needs to have a decision making process in place not only for deciding their own priorities from the Agency but also assessing, implementing and managing collaborative contracts that are let by the Agency

4. LOOKING FORWARD TO 2005/6

The Agency Board endorsed its 2005/6 Business Plan entitled ***Building on Success*** in March 2005 (copies available from www.paessex.gov.uk). The plan sets out how the Agency will move from becoming cost neutral in 2004/5 to returning twice the investment in 2005/6 by targeting a combination of strategic and tactical projects. The tactical projects will undoubtedly give a good return on investment, delivering the 'quick wins' that are essential for underpinning chief officer and member confidence in the Agency. The plan also seeks to pursue a small number of strategic projects which are not only much higher profile, but could attract greater investment into increasing the resources available to the Agency.

The table below sets out the main 2005/6 priorities. The tactical ones were ratified at the March 2005 Board, and the strategic ones will be considered at the June 2005 Board following on from bilateral discussions between the new Director and Chief Executives in April/May.

Strategic	Priority	Tactical	Priority
Waste Collection and Disposal	TBC	Contract Benchmarking & Utilisation	1
Revenue & Benefits Services	TBC	Utilities (Gas & Electricity)	1
Highways & Construction	TBC	Cash Collection	1
Broadband Services	TBC	Vehicles	1
		ICT Hardware and Software Licenses	1
		Professional Staff (Temporary)	1
		British Telecommunications Review	2
		Insurance	2