

*Research and Library Services*



*Northern Ireland Assembly*

**Research Paper**

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# **Collaborative Procurement in Local Government**

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This paper considers the evidence of the benefits of collaboration in local government procurement. Structural developments in England, Scotland and Wales are presented to provide a comparative background. Proposals for future policy on collaboration between Northern Ireland's councils are then considered in the light of a theoretical framework before the implications for the Committee for Finance and Personnel's Inquiry into Public Procurement in the light of the Review of Public Administration are considered.

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## KEY POINTS

- **Future policy on local government procurement and the potential for collaboration, standardisation and aggregation of contracts is of considerable interest to the small businesses of Northern Ireland. According to the results of a recent Federations of Small Businesses it is likely to become of increasing importance in the short term.**
- **There is a weight of evidence supporting the argument that collaboration between local authorities can deliver significant savings in terms of price and transaction costs.**
- **There are other possible results from collaboration and these could deliver benefits to local SMEs. For example, the standardisation of approaches to below-threshold procurements and to giving regular and constructive feedback. These would help overcome some of the barriers to SME involvement that have been identified to the Committee.**
- **There is a variety of different models for collaborating in procurement. These have corresponding pros and cons.**
- **Policy in relation to the promotion of future collaboration after local government reorganisation in 2011 is within the remit of the Department of the Environment. Some work has been undertaken but it is unclear how far this has progressed and to what level of detail.**
- **There are already some collaborative efforts made between councils – formally and informally. There does not appear to have been any evaluation of these processes. Nevertheless, there is some evidence of local SME involvement in the supply chain. If general barriers to SME involvement can be overcome, then these efforts could lead to benefits.**
- **There is a clear need for a strategic approach to procurement policy. At present there is no evidence of a strategy for local government, but this may be what is required.**
- **The effects of collaborative procurement on localised economies does not seem to have been the focus of much detailed research but in the context of the Committee's Inquiry, it would be useful to know whether DFP has evaluated the impacts of the Northern Ireland Public Procurement Policy on local businesses.**

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## 1. INTRODUCTION

During the Committee for Finance and Personnel's recent Stakeholder Conference on ***Maximising the Economic and Social Benefits from Public Procurement***<sup>1</sup> the Committee heard some evidence in relation to collaborative procurement between district councils.

Concern was expressed by some participants that following the 2011 reorganisation of local government in Northern Ireland, there may be a push towards councils procuring supplies, services and works jointly, possibly through a shared service. It was assumed at the time that logic behind such a move would be to attempt to increase value for money (VfM) by letting larger, more centralised contracts. An argument was presented that larger contracts may not always deliver more efficiency, although this is sometimes *assumed* to be the case.

The purpose of this paper is to explore evidence of efficiency gains through collaborative procurement; this is achieved through consideration of a number of case studies from England and other published sources. Consideration is also given to the effect on small businesses of local authorities procuring collaboratively and other issues in relation to local government reorganisation resulting from the Review of Public Administration.

## 2. THE COMMITTEE FOR FINANCE AND PERSONNEL'S INQUIRY INTO PUBLIC PROCURMENT IN NORTHERN IRELAND

The Terms of Reference for the Committee's Inquiry are to:

- examine the experience of SMEs and SEEs in tendering for and delivering public contracts;
- consider the nature, extent and application of social clauses within public contracts;
- identify issues to be addressed and which are within the remit of Department Finance Personnel (DFP);
- assess progress by DFP in achieving associated objectives and targets, including those contained in the Programme for Government and related Public Service Agreements; and

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<sup>1</sup> The conference was held on 21 October 2009 at the Dunsilly Hotel, Antrim. At the time of writing, the conference report has not yet been published. The Committee for Finance and Personnel will be considering a draft report at its meeting of 25 November 2009

- make recommendations to DFP for improvements to public procurement policies and processes, aimed at increasing access to opportunities for SMEs and SEEs and maximising the economic and social benefits for the local community, whilst taking account of the principles governing public procurement.

Consideration of collaboration in local government procurement is particularly relevant to the final bullet point of the Terms of Reference which refers specifically to **public** procurement policies. It was apparent from contributions at the Stakeholder Conference that many participants did not distinguish a difference between local and central government procurement: it is all public procurement.

Further, a recent survey by the Federation of Small Businesses Northern Ireland found that the majority of SMEs “bid for contracts below £50,000 with most of the work being provided to Local Authorities.”<sup>2</sup> It is perhaps unsurprising, therefore, that the issue of centralisation of local government procurement after reorganisation in 2011 was a topic of interest to participants at the Stakeholder Conference. Also, the survey found that:

*tendering to the public sector in Northern Ireland is becoming increasingly important to SMEs for income generation. Over 50% of those responding stated that they expect the proportion of their business from the public sector to significantly increase in the next two years.*<sup>3</sup>

The total value of local government purchasing per year is estimated to be around £220m. This figure must be treated with some caution as it was based on returns from only 17 of the 26 district councils. Consultants then extrapolated this figure. Officials in DoE’s Local Government Policy Division advised that, if anything, the figure is likely to be a little higher. A previous estimate by different consultants a year earlier had estimated total spend at in the region of £300m.<sup>4</sup>

### **3. CASE STUDIES: DOES COLLABORATION DELIVER EFFICIENCY SAVINGS?**

There has been considerable work in England on collaborative local authority procurement. The fundamental argument for collaboration is that it can realise benefits to contracting authorities in terms of getting better deals from the market and reducing internal transaction costs.

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<sup>2</sup> Federation of Small Businesses NI ‘Evaluating SME experiences of government procurement in Northern Ireland’ (Sep 2009) available at: <http://www.fsb.org.uk/policy/rpu/ni/images/final%20lestatas%20report.pdf> (accessed 10 Nov 2009) (see page 5)

<sup>3</sup> : <http://www.fsb.org.uk/policy/rpu/ni/images/final%20lestatas%20report.pdf> (see page 5)

<sup>4</sup> Source: personal communication with Local Government Policy Division

The policy and structural framework for collaboration in England is presented in detail in section 5 below. Before considering those issues, however, it is helpful to look at the potential within the local government sector for delivering efficiencies in this area.

Regional Improvement and Efficiency Partnerships (RIEPs) were established in April 2008 (building on the work of regional centres of excellence) with a three-year funding package from the Department of Communities and Local Government worth £185m. According to the Improvement and Development Agency (IDEA) they “harness the expertise of councils to add new capacity to local government in order to accelerate the drive for greater improvement and efficiency.”<sup>5</sup>

The IDEA website has a host of materials and case studies relating to good practice in collaborative procurement. A number of the case studies are presented below to illustrate the potential for efficiency savings. The case studies cover a range of procurement exercises, from purchase of capital goods such as vehicles to services such as insurance and temporary staffing.

It should be borne in mind when considering these case studies that they are published by an agency that is involved in promoting good practice in local authority management. It is in the interests of the authorities involved to sell their achievements as good practice and they submit them to the IDEA for publication. It is not clear exactly how much quality assurance of case studies there is beyond compliance with the style guidelines.

That said, given that local authorities have to report on efficiency savings as part of their Comprehensive Area Assessment, it is only possible to assume that the reported savings are accurate.

### **3.1 Procurement Lincolnshire**

*Procurement Lincolnshire*<sup>6</sup> is a partnership between eight local authorities and part of the Lincolnshire Shared Services Partnership.

#### Engagement with local communities

The partnership engages with local suppliers and the third sector through supplier engagement days which allow local businesses to meet procurement officers and learn about the tendering process. Also workshops are held to educate the local community and involve it in planning.

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<sup>5</sup> <http://www.idea.gov.uk/idk/core/page.do?pageId=8595264>

<sup>6</sup> The case study can be found online at:

[http://www.eastmidlandsiep.gov.uk/documents/case\\_studies/EMIEP-CS06%20Procurement%20Lincolnshire%20is%20saving%20money.pdf](http://www.eastmidlandsiep.gov.uk/documents/case_studies/EMIEP-CS06%20Procurement%20Lincolnshire%20is%20saving%20money.pdf) (accessed 10 November 2009)

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### A joined-up approach

The governance of *Procurement Lincolnshire* ensures each partner authority is equal. Each district can get specific and professional procurement advice, rather than have to rely on consultants which they previously would have done.

### One-stop services

A one-stop interactive website for all internal and external customers and a dedicated procurement helpline provide advice and support throughout the tender process. Internal customers (from the partner contracting authorities) have a defined liaison person to contact.

### Rationalised processes

Procurement policies and procedures are harmonised across partner authorities; e—tendering and a procurement card have been developed. A common set of Contract and Procurement Rules has been implemented to ensure uniformity. A single sustainable procurement strategy has been adopted across all partner authorities. Previously each had its own; this reduces replication of work and increases commonality of approach.

### Efficiency savings

In its first year of operation *Procurement Lincolnshire* delivered cashable savings<sup>7</sup> of over £1m in its first year. Forecasts in the business case predicted that gross savings of just over £9m will be generated over the first 5 years of operation but this is now thought to have been a conservative estimate.

Non-cashable process savings in the first year exceeded £400k; a single tender is now undertaken instead of eight individual tenders that would have been carried out previously.

## **3.2 The East Midlands Centre of Excellence: joint procurement**

This case study<sup>8</sup> relates to a partnership of eight local authorities in the Nottingham area of England.

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<sup>7</sup> ‘Cashable savings’ release financial resources to be deployed elsewhere, whilst maintaining outputs. ‘Non-cashable gains’ relate to productivity or quality increases without releasing financial resources. For more information see [http://www.ogc.gov.uk/documents/Measurement\\_of\\_SR04\\_Efficiencies\(1\).pdf](http://www.ogc.gov.uk/documents/Measurement_of_SR04_Efficiencies(1).pdf) (box 1)

<sup>8</sup> The case study can be found online at:

[http://www.eastmidlandsiep.gov.uk/documents/news\\_info/Refuse%20Vehicles%20FINAL.pdf](http://www.eastmidlandsiep.gov.uk/documents/news_info/Refuse%20Vehicles%20FINAL.pdf)

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### Joint procurement of refuse collection vehicles

The eight partners initiated a single tender process, in recognition that maximum efficiency would be achieved through development of a single common specification. The objectives were to:

- obtain a financial saving per vehicle below the benchmark price
- procure a single specification chassis, refuse body and bin lifter
- achieve added value by reducing the cost of spares and training
- obtain additional technical support from the supplier
- have a local source of impressed stock
- deliver a standardised, countywide fleet that ultimately allows vehicles to be shared.

### Efficiency savings

Under the contract 27 vehicles were purchased at a saving of £4,125 per vehicle. This delivered total cashable savings of £114k.

Also, the suppliers undertook to provide a technical fitter, operator and training programme at a central location at no additional cost – a benefit worth around £13k. Additional technical support is provided through a dedicated service engineer who is available to carry out diagnostic and minor repair work – a benefit estimated at around £35k.

Other benefits were identified in relation to the objectives although the value of these is more difficult to estimate. In total, one-off cashable savings of £114k are added to non-cashable efficiency gains of up to £143k during the first year of the contract.

### **3.3 The East Midlands Centre of Excellence: collaborative working and shared services**

This case study<sup>9</sup> centres on a partnership of Chesterfield Borough Council, North East Derbyshire Borough Council and Bolsover District Council. The councils were grant aided by the East Midlands Centre of Excellence to develop shared

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<sup>9</sup> The case study can be found online at:

[http://www.eastmidlandsiep.gov.uk/documents/case\\_studies/Collaborative%20Working%20and%20Shared%20Services%20in%20Derbyshire%20\(REduced%20FINAL\).pdf](http://www.eastmidlandsiep.gov.uk/documents/case_studies/Collaborative%20Working%20and%20Shared%20Services%20in%20Derbyshire%20(REduced%20FINAL).pdf)

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working in four areas: internal audit; building control; procurement, and; corporate services.

#### Collaborative procurement

District councils who have set up collaborative procurement units typically claim savings of approximately 2% of spending. It was estimated that the introduction of fully integrated e-procurement solution resulted in transactional savings of up to £40k per authority.

The shared procurement unit was established in May 2007 as was expected to deliver £200k cashable savings across the three authorities.

### **3.4 The Hampshire and Isle of Wight Procurement Partnership**

This is a partnership<sup>10</sup> of all the county, borough and district councils in the Hampshire and Isle of Wight region which reports to the region's Strategic Procurement Board.

#### Collaborative procurement of insurance

The councils created a framework arrangement for insurance services, led by a procurement officer of a participating council. Fareham Council and Gosport Council were looking to re-tender for insurance services as they had a requirement to renew existing arrangements. The opportunity was taken to broaden the scope and include other councils with expectation of getting better VfM.

#### The framework

The Framework Agreement does not guarantee any value of expenditure to the supplier. It serves instead as a vehicle to source services from the supplier as and when the need arises. Councils can approach the supplier for a quotation but are not obliged to use the framework provider. This is seen as having the advantage of stimulating a competitive offer from the provider on the grounds that the purchaser could still go elsewhere. The supplier is required to quote:

- a) best market rate premiums; and
- b) a collaborative discount matrix

#### Efficiency savings

Fareham council achieved overall premium savings of 26% and Gosport 45% when compared with their previous contracts. The collaborative discount

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<sup>10</sup> The case study is available online at:  
<http://www.southeastiep.gov.uk/uploads/files/CollaborativeprocurementofInsuranceProcurement.pdf>  
(accessed 11 November 2009)

element achieved by both councils under the framework will realise cashable savings of around £300k over the contract term.

A non-cashable benefit is that all parties of the framework are no longer required to tender individually for insurance services. This results in saving staff time and reducing duplicated effort. It should also be noted that from a global perspective it also benefits the supply market in terms of reduced tendering costs as they do not have to respond to a number of tenders.

### **3.5 The Eastern Shires Purchasing Organisation**

This case study<sup>11</sup> is a collaboration of 14 local authorities which formed a partnership to procure temporary staffing in a way that reduced the time and effort involved, whilst maximising the potential service-delivery options and cutting costs.

#### The Vendor Neutral Service Model

A managed service provider sits between the partner councils and the agencies used to source temporary workers. This provider is the single point of contact for communicating and handling requirements and also for reporting back on agency performance. It is thought that this encourages participation by the local supply base, including SMEs.

#### Efficiency savings

In the first year of the contract, eight authorities ordered over 200,000 hours of work by temporary staff. They saved, on average, 6% of their temporary staffing spend. By the end of 2008, 15 authorities had from contract delivery savings of nearly £695k, based on just over £9.6m worth of orders (a saving of over 6.4%).

Non-cashable benefits are reported as including: improved compliance with legislative and policy requirements; improved accuracy in the provision of management information and a reduction/elimination of unapproved/off-contract spend by hiring managers through the application of tighter controls and improved communication.

Additionally, less officer time was spent in sourcing agencies and in handling cold calls from agencies. Use of paper timesheets was reduced and a single consolidated weekly invoice for the participating authority was introduced.

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<sup>11</sup> The case study is available online at:  
<http://www.southeastiep.gov.uk/uploads/files/EastMidlandsAgencyStaffCaseStudy.pdf> (accessed 10 November 2009)

### 3.6 THE POTENTIAL FOR SAVINGS IN NORTHERN IRELAND

From the case studies presented above, it does appear that the evidence supports the assertion that Northern Ireland's district councils could achieve savings by pursuing a more collaborative approach to procurement. The extent to which there is already collaboration (and in the area of waste collection and disposal there is a lot) is considered in more detail in sections 8 to 10 below. It would be possible to present a large number of further case studies: it is my view, however, that this would simply repeat the lessons from those shown above and that the case for some level of collaboration is sufficiently well made.

It is also important to note that even after reorganisation in 2011, Northern Ireland's district councils will have a much narrower range of responsibilities than many of their counterparts in England. Their level of spend is lower, and consequently the potential for large savings is likely to be correspondingly lower.

### 4. DIFFERENT WAYS OF COLLABORATING IN PROCUREMENT

There is not a large body of academic work on procurement as a shared service between local authorities. Nevertheless it is possible to identify three structural options for the organisation of procurement:<sup>12</sup>

1. Traditional models:
  - a) centralisation
  - b) decentralisation
  - c) hard core/soft core
2. Consortia
3. Shared services

Table 1 below summarises some of the features of these models with analysis of some of the pros and cons of each approach.

An important note of caution is raised by academic research on collaboration between local authorities - albeit in relation to corporate services rather than service delivery. Huxham and Vangen noted a number of rationales for collaboration: access to resources; shared risk; efficiency; co-ordination and seamlessness; shared learning and moral imperative – there is no other way. (This 'no other way' compulsion seems to have been at least an element in the formation of the waste management partnerships in Northern Ireland – at least in part because of the large scale of infrastructure and capital investment required.)

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<sup>12</sup> For a helpful treatment of the structural options see Murray et al 'Procurement as a shared service in English local government' *International Journal of Public Sector Management* Vol. 21 No.5 (2008) pp. 540-555 (presented as Appendix 1)

Despite this, the authors arrived at the following conclusion:

*[T]he overwhelming conclusion from our research is that seeking collaborative advantage is a seriously resource-consuming activity so is only to be considered when stakes are really worth pursuing. Our message to practitioners and policy makers alike is **don't do it unless you have to.**<sup>13</sup> (emphasis added)*

In other words, the **process of collaborating itself** takes a lot of inter-organisational effort and therefore is not always the best approach. This evidence suggests a need to take an incremental approach to collaboration – starting small and building on successes. As authorities are sharing risk and resources when they collaborate, there is also a need to build trust between those authorities.

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<sup>13</sup> Quoted in Murray et al 'Procurement as a shared service in English local government' *International Journal of Public Sector Management* Vol. 21 No.5 (2008) pp. 540-555 (page 544)

<b>Table 1: Models of Collaboration</b>			
<b>Collaborative Model</b>	<b>Description of structure</b>	<b>Advantages</b>	<b>Disadvantages</b>
Centralisation of procurement within an authority	All procurement handled by a specialised procurement service or office. This unit develops and implements procurement strategy <b>and</b> organises tenders and lets the contracts.	Concentration of expertise in one place.  Maximisation of 'leverage' and ability to extract best deals from the market.	Recruitment and retention of relevant expertise requires business case justification that may not be sustainable at council level.  Assumes there will be sufficient internal demand.
Centralisation of procurement between authorities	As above, except the centralised unit serves a number of authorities.	Ability to aggregate larger volumes of demand.  Single point of contact for suppliers.  Expense of expertise more likely to be justified	Potential for disagreement on strategic political and socio-economic priorities between councils and the centralised unit.
Decentralisation within an authority	The opposite of centralisation. Procurement is handled by individual functional areas.	Localised control – better understanding of business areas' needs.	Buying power and expertise sacrificed.  Officers distracted from specialised work by need to organise procurement.
Hard core/soft core within an authority	A blend of centralisation and decentralisation. Strategy is centralised in the 'hard core'. The actual buying practice of operational procurement is devolved to the 'soft core' of business areas.	Economies of scale  Expertise can be built up in the hard core which can move from project to project.  Soft core staff are able to remain specialists in their own disciplines but can also draw on the experience of the hard core through project specific teams that deliver business-specific	Recruitment and retention of relevant expertise for the hard core requires business case justification that may not be sustainable at council level.  Assumes there will be sufficient internal demand.

		procurements when required	
Hard core/soft core between authorities	Rather like central government procurement structure in Northern Ireland with CPD as the hard core and the CoPEs as the soft core	<p>Economies of scale</p> <p>Expertise can be built up in the hard core which can move from project to project.</p> <p>Soft core staff are able to remain specialists in their own disciplines but can also draw on the experience of the hard core through project specific teams that deliver business-specific procurements when required</p>	Potential for disagreement on strategic political and socio-economic priorities between councils and the centralised unit.
Consortia	Various possible forms of consortium. They could be buying organisations that have a catalogue of framework contracts from which member organisations can choose. Or they can be formed for very specific one-off purposes – either formally or informally	<p>Aggregation of demand and economies of scale</p> <p>Reduced transactional costs.</p> <p>Could be more flexible than formalised models.</p>	<p>Relies on good information exchange – authorities need to know what the others are buying and when for one-off procurements.</p> <p>Small authorities may not have sufficient expertise to make an informed judgement about when it makes sense to use a consortium and when it does not.</p>
Shared service	A number of authorities jointly employ dedicated procurement resources which handle both strategic and tactical procurement.	<p>Unlike tactical consortia, provides access to expertise which can also handle strategic issues on a shared cost basis.</p> <p>Shared risk, potential for efficiency and strategic coordination</p>	<p>Time may be required to build trust in the organisation.</p> <p>Strong justification required of benefits over risks.</p>

## 5. LOCAL GOVERNMENT PROCUREMENT STRUCTURES IN ENGLAND

The National Procurement Strategy for Local Government 2003-2006 was produced jointly by the Office of the Deputy Prime Minister and the Local Government Association. It set out a programme to improve local government procurement – at that time there were more than 400 councils in England, spending over £40bn per year.

### Regional Centres of Excellence

The objectives of the strategy<sup>14</sup> were that, by 2006, councils would be:

- Delivering significantly better quality public services that meet the needs of all local citizens through sustainable partnerships they have forged with a range of public, private, social enterprise and voluntary sector organizations
- Confidently operating a mixed economy of service provision, with ready access to a diverse, competitive range of suppliers providing quality services, including small firms, social enterprises, minority businesses and voluntary and community sector groups
- Achieving continuous improvement from all categories of procurement expenditure, by putting in place an appropriate procurement strategy and the necessary resources for implementation
- Obtaining greater value for money by collaborating with partners at local, regional, national and European levels
- Realising economic, social and environmental benefits for their communities through their procurement activities
- Demonstrating improvement in equality and opportunity for businesses, service users and council staff
- Stimulating markets and using their buying power creatively to drive innovation in the design, construction and delivery of services.

There was a two-pronged approach to meeting these objectives. Firstly, Regional Centres of Excellence were established. Secondly, a national programme of training and development was initiated for members and senior managers.

The **Regional Centres of Excellence** had the remit to:

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<sup>14</sup> ODPM/LGA 'National Procurement Strategy for Local Government' (2003) see page 11  
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- *Develop centres of procurement and project management expertise;*
- *Communicate the key messages in the National Procurement Strategy for Local Government*
- *Disseminate good practice in procurement, project management and partnering;*
- *Provide high quality procurement advice to authorities in the region including, in particular, smaller authorities without procurement resources of their own;*
- *Promote collaborative procurement where this could lead to improved value for money in the acquisition of assets, services and supplies;*
- *Promote the development of e-Procurement in the region in collaboration with the National e-Procurement Project;*
- *Develop, manage and co-ordinate a pool of experienced procurement professionals and project managers to be shared between councils in the region;*
- *Act as a focus for training and development in procurement and project management skills extending beyond the 3 year horizon of the proposed national skills training programme (see below);*
- *Streamline and co-ordinate pre-qualification procedures in the region;*
- *Gather market intelligence and disseminate it in the region;*
- *Collate and publicise information on bidding opportunities; and*
- *Capture learning from projects for sharing across the region and nationally.*<sup>15</sup>

This strategy was developed against a backdrop where many authorities did not have a systematic approach to procurement. For example in 2003, only 20% of authorities had a procurement strategy in place that was being implemented:

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<sup>15</sup> ODPM/LGA 'National Procurement Strategy for Local Government' (2003) see page 16  
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### Local authorities development of procurement strategies 2003



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The strategy put in place a number of objectives in relation to partnering and collaboration, with the overall aim of the “delivery of better services to citizens through the creation of sustainable partnerships between councils and suppliers.”<sup>17</sup>

Collaboration was defined as “the various ways in which councils and other public bodies come together to combine their buying power, to procure or commission goods, works or services jointly or to create shared services.”<sup>18</sup>

#### Evaluation of the National Procurement Strategy (NPS)

A report by the Department of Communities of Local Government (that replaced ODPM) and the Local Government Association assessed the NPS.<sup>19</sup> Headline findings included:

- **£3.1 billion efficiency gains achieved by end 2006/07**, exceeding the target for the spending review period a year early.
- **46% of councils now working with their Regional Centre of Excellence** on improving procurement performance (from 14% in 2004).

<sup>16</sup> ODPM/LGA ‘National Procurement Strategy for Local Government’ (2003) see page 27

<sup>17</sup> ODPM/LGA ‘National Procurement Strategy for Local Government’ (2003) see page 33

<sup>18</sup> ODPM/LGA ‘National Procurement Strategy for Local Government’ (2003) see page 34

<sup>19</sup> The full report is available at:

<http://www.communities.gov.uk/documents/localgovernment/pdf/135268.pdf> (accessed 16 November 2009)

- **54% (i.e. more than half of councils) involved in joint commissioning** of services (not including health and social care). This compares with 31% in 2004.
- **38% of councils involved in a shared procurement function** with other councils.
- **24% (i.e. a quarter of councils) involved in sharing of other corporate functions.**
- **65% of councils have adopted the Small Business Friendly Concordat.**<sup>20</sup>

Analysis of the specific time-bound milestones found that only three of the 23 set in 2003 were “not being actively implemented across the sector”.<sup>21</sup> So from the perspective of the Government and the LGA, the strategy was judged to have been positive and that there had been “a high level of officer and member-level buy-in on procurement.”<sup>22</sup> Further, a strategic approach to procurement had become “firmly embedded with the support of the national programmes and the Regional Centres of Excellence.”<sup>23</sup>

### Regional Improvement and Efficiency Partnerships (RIEPs)

Nine RIEPs were established in April 2008 to assist local authorities in meeting the targets for efficiency savings set out in the Comprehensive Spending Review 2007. Essentially, the RIEPs merged the Regional Centres of Excellence and the former Regional Improvement Partnerships.

RIEPs are led by councilors and advised by groups drawn from council chief executives. Each also has a small team of dedicated staff to support the work of the partnership.<sup>24</sup> RIEPs are local councils’ “first port of call” for support on the efficiency agenda.<sup>25</sup> As well as guidance, they are able to fund projects designed to secure efficiencies.

The LGA published a summary of the RIEPs’ key achievements in the 2008-2009 year. It reported over £100m of efficiency gains in the first year on an initial

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<sup>20</sup> <http://www.communities.gov.uk/documents/localgovernment/pdf/135268.pdf> see page 6

<sup>21</sup> <http://www.communities.gov.uk/documents/localgovernment/pdf/135268.pdf> see pages 7 and 8

<sup>22</sup> <http://www.communities.gov.uk/documents/localgovernment/pdf/135268.pdf> see page 4

<sup>23</sup> <http://www.communities.gov.uk/documents/localgovernment/pdf/135268.pdf> see page 45

<sup>24</sup> A guide to the RIEPs is by the LGA (2008) ‘Accelerating the Improvement and Efficiency Drive’ is available at <http://www.lga.gov.uk/lga/aio/1105713> (accessed 16 November 2009)

<sup>25</sup> Department of Communities and Local Government ‘Delivering Value for Money in Local Government: Meeting the Challenge of CSR07’:

<http://www.communities.gov.uk/documents/localgovernment/pdf/value.pdf> (see page 29) (accessed 16 November 2009)

funding investment of just under £50m.<sup>26</sup> Further efficiency gains through collaborative procurement are projected by 2011.<sup>27</sup>

It should be noted that this is not an independent report – the Local Government Association and the Department of Communities and Local Government established the RIEPs through the National Improvement and Efficiency Strategy of December 2007.

Nevertheless, it is useful to consider the findings of the report in the context of this paper. Key messages are:

- RIEPs are led and owned by Councillors and local authorities
- RIEPs reported over £100m efficiency gains in their first year on an initial funding investment of just under £50m
- RIEPs communicate with all English local authorities and have engaged with over 95% of local authorities in their first year
- RIEPs are supporting authorities to respond to the economic downturn and deliver savings to operate within the next financial settlement
- RIEPs have supported 36 authorities facing difficulties over the past year
- RIEPs have facilitated innovative approaches so that authorities can take forward collaborative projects they may not otherwise have done

## 6. LOCAL GOVERNMENT PROCUREMENT STRUCTURES IN SCOTLAND

Collaborative procurement has been happening also in Scotland over a relatively lengthy period. But there has not been, until fairly recently, a co-ordinated approach. In total, the public sector spends approximately £8bn on goods and services per year; a “significant part of this is spent by local government.”<sup>28</sup>

In 2005, the Scottish Executive commissioned a review of public procurement in Scotland. This review (the McClelland Review) found that:

*there is [...] poor utilisation of fragmented yet substantial effort, with the same or similar commodities being procured by multiple public-sector organisations and often through separate contracts with the same supplier. As well as being a poor utilisation of scarce procurement skills this situation does not capture the other advantages listed above including in particular delivery of cost savings from aggregated spend.*

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<sup>26</sup> LGA ‘RIEPs: One year on’: <http://www.lga.gov.uk/lga/aio/1908547> (see page 4) (accessed 16 November 2009)

<sup>27</sup> See for example: <http://www.lga.gov.uk/lga/aio/1908547> page 9 (accessed 16 November 2009)

<sup>28</sup> Source: <http://www.improvementservice.org.uk/procurement>

*An unparalleled effort is therefore required to improve the infrastructure to support collaboration and in defining, once established, how support and utilisation can be guaranteed.*<sup>29</sup>

It recommended that Centres of Expertise should be established, not on a geographical basis, but on a commodity-by-commodity basis.<sup>30</sup>

The Centres of Expertise would operate a system of categorised commodities and services:

#### Category A – national contracts

A small number of high-value commodities and services which should be provided by a call-off national contract. These national contracts should be established centrally by the Scottish Executive's Procurement Directorate and **used on a mandatory basis by all public sector authorities.**

#### Category B – sector-specific contracts

These commodities and services should be provided by call off from common 'sector-specific' contracts which should be centrally established within each sector. This recommendation aimed to prevent individual sectoral organisations performing the same function multiple times without the advantage of procurement volumes or value consolidation. Examples suggested were the Scottish Health Service; Local Authorities, Tertiary education and the wider Scottish Executive (including NDPBs).

#### Category C – general contracts

All contracts not categorised as A or B would fall into category C and conducted within the remit of a single organisation. The report states this would give rise to "a substantial opportunity for local economic benefits as local suppliers are developed and encouraged to compete to win business in the C category."<sup>31</sup>

#### Category C1 – local/regional contracts

The final category provides an opportunity for items that are not consolidated as category A or B to be "consolidated in a region to the benefit of purchasing power and optimisation of resources."<sup>32</sup> Essentially this is a recommendation that authorities form regional consortia or collaborate in other ways.

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<sup>29</sup> The McClelland review is available online at:

<http://www.scotland.gov.uk/Publications/2006/03/14105448/0> (see page 39) (accessed 16 November 2009)

<sup>30</sup> <http://www.scotland.gov.uk/Publications/2006/03/14105448/0> (see page 40)

<sup>31</sup> <http://www.scotland.gov.uk/Publications/2006/03/14105448/0> (see page 42)

<sup>32</sup> <http://www.scotland.gov.uk/Publications/2006/03/14105448/0> (see page 42)

The remit of Improvement Scotland seems to be rather similar to the IDEA in England, and similarly its client bodies are local authorities. It is not specifically a procurement-oriented body.

### **Scotland Excel**

Scotland Excel was established as a Centre of Procurement Expertise following the McClelland Report. Its purpose is to:

*raise procurement standards in Scotland in collaboration with local authorities and suppliers to secure best value for our customers and in doing so, will build a reputation for being the Centre of Expertise for Procurement for Local Authorities offering a comprehensive, professional and customer-focused approach to working.*<sup>33</sup>

It has a strategic procurement team that is responsible for creating and delivering a procurement strategy for category B commodities and for managing contracts for all member councils (currently 28 of Scotland's 32 local authorities are paid-up members for an initial period of three years).

The organisation sets up rationalised frameworks and provides training and development. Prior to embarking on this, a process of detailed analysis was undertaken. This used IT to examine the spend profiles of local authorities which enabled the prioritisation of which areas of procurement the effort needed to be focused. There was also a marketing process required to convince authorities of the benefits.<sup>34</sup>

### Evaluation of progress

In July 2009, Audit Scotland produced a report on the reform of public procurement<sup>35</sup> that began in response to the McClelland Report. The report examined progress over the period 2006/7 to 2008/9.

The key messages found by the review were:

- *The Programme has made significant progress putting in place the processes, guidance and structures needed to improve public sector purchasing. However, some parts of the Programme have been delivered later than planned and it is not clear that it has yet achieved the level of improvement and impact sought at the outset. The*

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<sup>33</sup> <http://www.scotland-excel.org.uk/about/about.asp>

<sup>34</sup> Source: personal communication with Owen Patterson, Head of Relationship Management at Scotland Excel

<sup>35</sup> Audit Scotland 'Improving public sector purchasing' (2009) available online at: [http://www.audit-scotland.gov.uk/docs/central/2009/nr\\_090723\\_improving\\_purchasing.pdf](http://www.audit-scotland.gov.uk/docs/central/2009/nr_090723_improving_purchasing.pdf) (accessed 17 November 2009)

*Scottish Government intends to put in place a new plan from summer 2009 to help the Programme achieve its full potential.*

- *At the outset the Programme anticipated that, with urgent attention, better purchasing could deliver cumulative savings of £740 million in the three years to 2008/09.*
- *At the time of our audit there was no systematic basis for reporting savings directly attributable to the Programme – only 41 of 177 bodies had reported savings using the agreed indicators. However, around £327 million of savings reported under the Scottish Government's wider Efficiency Programme may be attributed to the Programme for the two years to 2007/08. This is broadly in line with the original Programme target for this period (£340 million), but owing to changes and delays in collecting and reporting savings data it is unclear how progress towards the third year target (£400 million) will be monitored.*
- *Savings from new collaborative contracts, a key feature of the Programme, are being achieved more slowly than expected. The health sector, which has the longest standing procurement centre of expertise, has been most successful, introducing 150 new contracts over the two years to 2007/08, with savings of £54 million.*
- *Overall, the wider impact of the Programme appears positive. It has helped purchasing on a number of levels – from promoting and developing purchasing skills and awareness to increasing the use of electronic purchasing. The Programme has improved cross-sector working.*
- *There are wide variations across public bodies in the quality of purchasing data, practice and skill levels. Best Practice Indicators (BPIs) to help improve purchasing have been agreed but many public bodies are still in the process of completing and using them. The Scottish Government is working with the centres of expertise and public bodies to encourage further improvement in these areas<sup>36</sup>.*

Overall, this seems to be a pretty positive assessment of the improvements despite the criticisms of data collection and reporting and the speed of benefit realisation compared with the initial targets.

### Efficiency Savings

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<sup>36</sup> Audit Scotland 'Improving public sector purchasing' (2009): [http://www.audit-scotland.gov.uk/docs/central/2009/nr\\_090723\\_improving\\_purchasing.pdf](http://www.audit-scotland.gov.uk/docs/central/2009/nr_090723_improving_purchasing.pdf) (see page 4)

Audit Scotland assessed the level of cumulative efficiency savings from the programme over £327m over the first two years. This is about 4% of the total public-sector spend of £8bn. While this did not meet the ambitious target, it is clearly significant progress.

Of this figure, for 2006/07 reported savings for local government were £30m. For 2007/08 reported savings were £59m. Over the two years that's over a quarter (27.2%) of the total savings being delivered by local government.<sup>37</sup>

By April 2009, Scotland Excel had introduced 12 new collaborative contracts. These ranged from catering supplies to specialist audio equipment, from cars to light commercial vehicles. These contracts have an estimated annual value of £55m, and Scotland Excel's estimate was an annual saving of £2.7m to councils.<sup>38</sup> It was reported that the set-up and running costs for Scotland Excel were £5.5m over 2007/08 to 2008/09.<sup>39</sup> £4.5m of this was provided from by Scottish Executive, but over time the body is required to be self-financing.

### Wider benefits

The Audit Scotland report notes a number of benefits of the reform programme including:

- The foundations for better purchasing are now in place;
- The Scottish government has introduced clearer guidance on purchasing policy;
- The programme has improved cross-sector collaboration;
- Public bodies are increasingly using e-purchasing; and,
- The programme is encouraging improved relations with suppliers.

It also identified some weaknesses:

- More assurance is needed on purchasing practice;
- Purchasing information needs to be improved, particularly at a local level; and
- Shortages of skilled staff and high staff turnover are risks for the programme.

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<sup>37</sup> Audit Scotland 'Improving public sector purchasing' (2009): [http://www.audit-scotland.gov.uk/docs/central/2009/nr\\_090723\\_improving\\_purchasing.pdf](http://www.audit-scotland.gov.uk/docs/central/2009/nr_090723_improving_purchasing.pdf) (see Exhibit 10, page 17)

<sup>38</sup> Audit Scotland 'Improving public sector purchasing' (2009): [http://www.audit-scotland.gov.uk/docs/central/2009/nr\\_090723\\_improving\\_purchasing.pdf](http://www.audit-scotland.gov.uk/docs/central/2009/nr_090723_improving_purchasing.pdf) (see page 18)

<sup>39</sup> Audit Scotland 'Improving public sector purchasing' (2009): [http://www.audit-scotland.gov.uk/docs/central/2009/nr\\_090723\\_improving\\_purchasing.pdf](http://www.audit-scotland.gov.uk/docs/central/2009/nr_090723_improving_purchasing.pdf) (see Exhibit 14 page 20)

Importantly in the context of this paper, it also found that **the impact of the programme on supporting the Scottish economy is unclear.**<sup>40</sup>

## 7. LOCAL GOVERNMENT PROCUREMENT STRUCTURES IN WALES

The Welsh Assembly Government has taken a slightly different approach to collaborative procurement. Instead of introducing new structures the approach is more about enhancing collaboration within and between existing structures.

A review of public services in 2004 identified the potential for £120m VfM savings by 2007/8 from smarter procurement – on an estimated annual public sector procurement spend of £4bn.<sup>41</sup>

In 2006, a consultation was launched on the *Welsh Public Sector Sourcing Plan 2006-2009*<sup>42</sup>. In the Executive Summary, the difficulties of collaborative working are noted:

*Collaboration is not an easy option. It requires much greater communication across sectors, greater clarity on business needs and the willingness to take the 'leap of faith' to allow decisions to be taken outside individual organizations and often sectors. However research has indicated that the production of a Welsh Public Sector Sourcing Plan which clearly states the planned approach to each expenditure area, will overcome some of the practical issues.*

*Collaboration is not suitable for all expenditure areas. Some areas will deliver better results from an all-Wales cross sector approach, others from a single sector or regional approach, while others are best approached locally.*<sup>43</sup>

UK-wide agreements are established by the Office of Government Commerce (OGC). All-Wales national contracts are agreed by *Value Wales*<sup>44</sup> and are available to all public or publicly-funded bodies.

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<sup>40</sup> Audit Scotland 'Improving public sector purchasing' (2009): [http://www.audit-scotland.gov.uk/docs/central/2009/nr\\_090723\\_improving\\_purchasing.pdf](http://www.audit-scotland.gov.uk/docs/central/2009/nr_090723_improving_purchasing.pdf) (see pages 23 to 29)

<sup>41</sup> Welsh Assembly Government 'Making the Connections' (2006) available online at: <http://cymru.gov.uk/dpsp/publications/policies/delivering/responsee.pdf?lang=en> (accessed 19 November 2009) see page 35

<sup>42</sup> Available online at: <http://new.wales.gov.uk/topics/improvingservices/bettervfm/publications/sourceplan/:jsessionid=mvc2K8WL0p2P98NJJQytbNcJmVsddtD109qftYRbTbTcJQLWGXSh!-973892656?cr=7&lang=en&ts=4> (accessed 19 November 2009)

<sup>43</sup> <http://new.wales.gov.uk/topics/improvingservices/bettervfm/publications/sourceplan/:jsessionid=mvc2K8WL0p2P98NJJQytbNcJmVsddtD109qftYRbTbTcJQLWGXSh!-973892656?cr=7&lang=en&ts=4> (see page 1)

<sup>44</sup> Value Wales is a division of the Department for Public Services and Procurement established after a review of public services in 2004.



Sectoral Contracts are established by consortia (such as Welsh Health Supplies and the Higher Education Purchasing Consortium Wales, for example) acting on behalf of their members.

Regional contracts are developed and managed by regional entities such as the North Wales Forum or sector-based shared services – such as the Gwent Joint Procurement Unit.

The approach is underpinned by a Document of Understanding whereby the procurement groups and consortia are guided by certain principles:

- *Collaborative procurement covers a range of activity from sharing best practice and joint supplier management, through to letting and managing collaborative framework agreements or contracts.*
- *To obtain the best overall result, different collaborative contracting models are required for different areas of expenditure, based on the pattern of demand for the goods and services and on the characteristics of the supply market place in which the procurement takes place.*
- *For some types of goods and services the Welsh public sector can often make better use of its resources through different consortia specialising in letting and managing contracts on behalf of identified user groups.*
- *Whilst collaboration is an important tool, it is recognised and accepted that each individual organisation's primary duty is to fulfil its' own remit effectively and work towards its' own policies, objectives and operational goals, to address local issues and provide the best outcome to its' organisation.*
- *Collaborative frameworks need not mean large contracts with large suppliers; aggregation of demand does not always require aggregation of supply.*
- *To be successful in the long-term collaborative procurement frameworks must be let and managed using professional procurement skills and must seek the best outcomes for all participating organisations – taking into account long term wider issues, such as sustainable development, on-going market development, and service standards as well as price.*
- *Different contract timetables exist and individual organisations may migrate to new arrangements at different times.*<sup>45</sup>

In turn, these principles result in a Collaborative Procurement Protocol.<sup>46</sup> The protocol requires signatory bodies to:

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<sup>45</sup> A copy of the document is available at: <http://www.buy4wales.co.uk/PRP/10728.file.dld> (accessed 19 November 2009) see section 4

- recognise the commodity allocation which states which commodities are to be procured at which level;
- agree to openly share information;
- consider the impact of their decisions on the Welsh public sector as a whole;
- where appropriate, work together to agree all-Wales procurement policies; agree to play an active part in wider collaborative work (such as allowing access to contracts to other users); and
- encourage usage of agreements let by other consortia to avoid duplication of effort.

## **8. COLLABORATION BETWEEN DISTRICT COUNCILS IN NORTHERN IRELAND.**

There have been in place for some time formal collaborative procurement structures in Northern Ireland. All 26 district councils are members of one of three sub-regional Waste Management Partnerships (WMPs) : arc21 (the eastern region), SWaMP 2008 (the southern region) and the North West Regional Waste Management Partnership. Each is a joint committee of the participant councils and the first two of these are formally established as bodies corporate under legislation.

There is an element of moral imperative that brought the WMPs together: the scale of infrastructure investment required to meet EC Landfill Directive targets for reducing waste sent to landfill seems to have played a large part in the impetus for their formation. The Department of the Environment also encouraged the formation of the WMPs and for some time distributed a Waste Management Grant to help with the implementation of the WMPs' waste plans.

The DoE has acknowledged the achievements of the WMPs, although no published evaluation of their effectiveness or efficiencies seems to be available:

*The Department recognises that the 3 existing Waste Management Groups are making good progress towards the provision of major new waste treatment facilities in line with this timetable [to meet EC landfill directive targets]. Accordingly, the Department is fully committed to supporting local government in delivering the necessary infrastructure.<sup>47</sup>*

There are also informal collaborations under the auspices of a Local Government Procurement Group (LGPG). The LGPG came together to consider ways of collaborative working and also with a learning and development remit where best practice is shared between officers.

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<sup>46</sup> <http://www.buy4wales.co.uk/PRP/10728.file.dld> see section 5

<sup>47</sup> [http://www.doeni.gov.uk/draft\\_consultation\\_paper\\_5\\_.pdf](http://www.doeni.gov.uk/draft_consultation_paper_5_.pdf) see page 52

While there is no published analysis of this process available, the experience has been that opportunities to form consortia have arisen and consequently savings have been made.<sup>48</sup>

## 9. FUTURE PROCUREMENT POLICY FOR LOCAL GOVERNMENT IN NORTHERN IRELAND

DFP's Central Procurement Directorate (CPD) is responsible for supporting the Executive's Procurement Board<sup>49</sup> in developing and reviewing procurement policy. It also aims "to develop and promote best practice in procurement within the Northern Ireland Public Sector."<sup>50</sup>

On the strength of this statement, there is a valid role for the Committee for Finance and Personnel considering issues that relate to local government procurement. A policy of collaboration between district councils would fall under the umbrella of the wider public sector.

Nevertheless, it should be noted that CPD's Northern Ireland Public Procurement Policy **does not apply** to district councils. On this issue, the policy states:

*As regards District Councils, the Executive accepts that their different and separate framework of accountability must be recognised and, under existing legislation, compliance can only be on a voluntary basis.<sup>51</sup>*

All of Northern Ireland's district councils are able to access CPD's contracts and framework agreements but it is their choice to do so, not a requirement.

Policy relating to local government falls within the remit of the Department of the Environment. It has undertaken a considerable amount of work on local government reform. In particular, it has recently published for consultation an economic appraisal of options for local government service delivery.<sup>52</sup>

In his statement to the Assembly on 20 October 2009, Minister Poots stated that:

*A regional business services organisation will be formed that is wholly owned, operated and run by local government, which will enable*

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<sup>48</sup> Source: personal communication with the Chairperson of the LGPG

<sup>49</sup> Membership of the procurement board comprises the Permanent Secretaries of the 11 Northern Ireland Departments, the Treasury Officer of Accounts, the Director of Central Procurement Directorate, observers from the Northern Ireland Audit Office and the Strategic Investment Board as well as 2 external members.

<sup>50</sup> <http://www.cpdni.gov.uk/index/about-cpd.htm>

<sup>51</sup> CPD Northern Ireland Public Procurement Policy (2009) [http://www.cpdni.gov.uk/pdf-public\\_procurement\\_policy.pdf](http://www.cpdni.gov.uk/pdf-public_procurement_policy.pdf) see page 12

<sup>52</sup> The full document is available at [http://www.doeni.gov.uk/index/local\\_government/local\\_government\\_service\\_delivery-2.htm](http://www.doeni.gov.uk/index/local_government/local_government_service_delivery-2.htm) (accessed 10 November 2009)

*collaborative solutions across local government. A single waste disposal authority wholly owned and operated by local government will be created, aimed at delivering efficiencies in future procurement and contract-management activities.*<sup>53</sup>

There are two separate strands to this in relation to procurement:

### 1) Business Services Organisation

The 'preferred option' presented in the economic appraisal is that the Business Services Organisation (BSO) "will initially focus on procurement, support services (such as ICT) and transactional services (within areas such as Payroll, Finance and Human Resources)."<sup>54</sup> It is suggested by the consultants who prepared the report that the BSO should be established as a mandatory joint committee of all the eleven new councils.

The Economic Appraisal assumes that in relation to procurement a regional Centre of Procurement Excellence will be established in 2011, which each council retaining local procurement. There is no recommendation made on the design of the collaborative model. Instead, "design of the collaborative model(s) to be applied to areas is a matter for the BSO implementation team and in conjunction with the 11 new councils".<sup>55</sup>

A case study in relation to procurement is included in the DoE Economic Appraisal, which is included as Appendix 2 for information. The most pertinent message from that case study could be: "clearly the achievement of these benefits will depend on the way in which procurement is organised within the new authorities."<sup>56</sup>

### 2) Waste Disposal Authority for Northern Ireland

The DoE recently consulted on a proposed Waste Bill<sup>57</sup> which would, among other things, transfer the statutory responsibility for waste planning and disposal to a Waste Disposal Authority (WDA). Councils would retain responsibility for waste collection.

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<sup>53</sup> The full text of the statement is available at: [http://www.doeni.gov.uk/ministers\\_statement\\_20.10.09.pdf](http://www.doeni.gov.uk/ministers_statement_20.10.09.pdf) (accessed 10 November 2009)

<sup>54</sup> See Executive Summary [http://www.doeni.gov.uk/index/local\\_government/local\\_government\\_service\\_delivery-2.htm](http://www.doeni.gov.uk/index/local_government/local_government_service_delivery-2.htm) (page 2)

<sup>55</sup> Identification of Options [http://www.doeni.gov.uk/lgsd\\_section\\_4\\_identification\\_of\\_options.pdf](http://www.doeni.gov.uk/lgsd_section_4_identification_of_options.pdf) see page 64

<sup>56</sup> Identification of Options [http://www.doeni.gov.uk/lgsd\\_section\\_4\\_identification\\_of\\_options.pdf](http://www.doeni.gov.uk/lgsd_section_4_identification_of_options.pdf) see page 66

<sup>57</sup> DoE Consultation Document – Proposals for a Waste Bill [http://www.doeni.gov.uk/draft\\_consultation\\_paper\\_5\\_.pdf](http://www.doeni.gov.uk/draft_consultation_paper_5_.pdf) (accessed 19 November 2009)

DoE has proposed that an enabling power should be included in legislation to allow for the establishment of a WDA in the future. An expressed aim of the WDA would be to “help to generate efficiencies through economies of scale, enhancing purchasing power and centralising procurement expertise.”<sup>58</sup>

### Policy Development

At present the development of policy is ongoing through the DoE/Local Government Strategic Leadership Board.

The DoE’s Economic Appraisal of options for service delivery raises a number of questions and recommendations. These highlight a need for further work on both the BSO and the WDA in terms of the consideration of models, governance arrangements, impact on existing arrangements and the exact specification of the services that should be delivered collaboratively.

In context of procurement alone, these are big issues. In relation to potential savings from the proposed WDA, the economic appraisal states:

*The main benefit of this approach would be a centralised disposal function which could potentially generate efficiencies through economies of scale, providing enhanced purchasing power and take responsibility for facilitating integrated waste management planning. Whilst these benefits could be potentially derived, there is insufficient evidence to quantify this benefit at present.*<sup>59</sup>

To what extent such developments would lead to increases in contract values (and therefore the potential exclusion of SMEs from the supply market) remains to be seen. From the evidence in the economic appraisal, it is not possible to make much of a judgement on potential savings from the preferred delivery option. But is clear that there is a certain impetus toward increased centralisation in pursuit of efficiencies and economies of scale.

For the purposes of the Committee’s Inquiry, therefore, it is too soon to assess which of the collaborative models presented in table 1 above the proposed structures may fit into – it could be a mixture of a number.

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<sup>58</sup> [http://www.doeni.gov.uk/draft\\_consultation\\_paper\\_5\\_.pdf](http://www.doeni.gov.uk/draft_consultation_paper_5_.pdf) see page 52

<sup>59</sup> See under the heading ‘Transformation benefits’ in section 5.50

[http://www.doeni.gov.uk/index/local\\_government/local\\_government\\_service\\_delivery-2.htm](http://www.doeni.gov.uk/index/local_government/local_government_service_delivery-2.htm) (page 132)

## **10. QUESTIONS FOR FUTURE DEVELOPMENT OF POLICY REGARDING LOCAL GOVERNMENT COLLABORATION**

As noted above, the development of policy for local government procurement is ongoing. For that reason, it is unclear how much work has been done on different models of collaboration and the impact these might have, either in terms of potential savings or the impact on Northern Ireland's SMEs, SEEs or micro businesses.

### **1) low-value tenders**

Written and oral evidence to the Inquiry has raised the issue of low-value procurement beneath the EU thresholds. The FSB's survey evidence was raised in section 2 – it is the contracts below £50,000 that local SMEs mostly bid for. In relation to these contracts, Lestas consulting argued “there is a need for the Committee to ensure there is consistency of approach across public bodies when tendering under EU thresholds and to ensure an open, objective and transparent process.”<sup>60</sup>

This evidence argued that the information provided in relation to low-value contracts was of poor quality and that award criteria are not published. This results in a lack of clarity in how award decisions are reached.

The Local Government Audit Office confirmed that district councils have different thresholds set through their standing orders.<sup>61</sup> These thresholds determine when the council will go out to tender and when it may choose to invite quotations from three or more potential suppliers. These are not standardised levels, which makes sense with the range in size of the current 26 councils: clearly, a small authority like Moyle District Council will have a different level of spend from Belfast City Council and it is reasonable that thresholds are set with regard to those differences.

After reorganisation, however, the new 11 councils will be more similar in terms of scale. It may make sense, therefore, to pursue a policy of standardisation.

### **2) aggregation of contracts**

The Value for Money argument presents the case that aggregated demand can deliver better prices to purchasers through larger deals. Yet it should be noted, that this does not appear to necessarily be the case and there are possible flexibilities – note, for example, the third principle from the Welsh Document of Understanding:

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<sup>60</sup> Written evidence to CFP 26 February 2009 see paragraphs 1.9 and 1.12.

<sup>61</sup> Personal communication with Denver Lynn, Deputy Chief Local Government Auditor

- *Collaborative frameworks need not mean large contracts with large suppliers; **aggregation of demand does not always require aggregation of supply.** (emphasis added)<sup>62</sup>*

It follows that opportunities can still exist for smaller suppliers. A counter argument to aggregation of supply is presented by the OGC in its publication *Smaller supplier... better value?* This states:

- *Bringing in more suppliers will often bring greater competition to the market place, so reducing the costs of procurement from all suppliers*
- *SMEs have lower administrative overheads and management costs than larger firms. Depending on the nature of the procurement, this can result in lower prices.*<sup>63</sup>

It is also argued that SMEs can provide better quality of service (through responsiveness, willingness and ability to tailor services to meet needs and the added importance of a contract to a smaller business in terms of proportion of total revenue) and innovation.

In waste procurement, for example, SWaMP2008 recently tendered for infrastructure (mechanical and biological treatment) with a capital value of £150m. Of the four bidders shortlisted, 100% of these contained a local element – all of them planned to use a local construction contractor for example.<sup>64</sup>

When it comes to ongoing operation and maintenance, the preferred supplier will have to either bring in an entire workforce or recruit one locally – which would probably be a local facilities management company. But in large procurements such as waste infrastructure, the technology is generally provided by large companies on a pan-European basis. Also, because of the PPP procurement route, the initial equity investment is unlikely to be local – but this means the risk also sits outside Northern Ireland.

It was the view of SWaMP2008's procurement advisor that the dynamics would not be very different in other sectors. Delivery would usually be expected to be locally based and scaling up does not necessarily disbenefit local players.

A smaller scale example was provided by arc21.<sup>65</sup> Provision of training is usually through a local supplier – costs from suppliers in GB tend to be higher because of additional travelling can push costs up. On bigger procurements such as the

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<sup>62</sup><http://www.buy4wales.co.uk/PRP/10728.file.dld> (accessed 19 November 2009) see section 4

<sup>63</sup> Available online at: [http://www.ogc.gov.uk/documents/CP0083\\_Small\\_supplier\\_better\\_value.pdf](http://www.ogc.gov.uk/documents/CP0083_Small_supplier_better_value.pdf) (see page 6)

<sup>64</sup> Information relating to the SWaMP2008 procurement provided by Martin Bowens, Head of Infrastructure Advisory, Ernst and Young, Ireland.

<sup>65</sup> Information relating to arc21 procurement provided by Ricky Burnett, Policy and Operations Director.

arc21 organics contract, a local supplier from Keady was successful. Even in the big residual (i.e. non-recyclable) waste contract which is being delivered by an international consortium, there are local firms further down the supply chain.

On the basis of this evidence, of course, it is not possible to generalise about the whole picture of local government procurement in Northern Ireland. The lesson from Scotland Excel's work is that a process of pursuing formalised collaboration should be underpinned by detailed analysis of spend profiles and the **rationalisation of products to increase volumes**, but not necessarily the rationalisation (i.e. reduction in number) of suppliers.

It would be interesting to know how much work DFP has done in this area in relation to central government spend and also if DoE progressed detailed work in this area before suggesting the Business Services Organisation.

### **3) the process of collaboration**

Policy aimed at encouraging more collaboration between district councils in Northern Ireland might recall the assertion of Huxham and Vangen (see section 4 above) that collaboration should not be pursued unless essential. Even if it is essential (and the case does not seem totally proven on the basis of the DoE Economic Appraisal), an incremental approach was advocated by the literature.

This suggests not taking a 'big bang' approach in 2011 but allowing the proposed structures to develop and build confidence. The DoE economic appraisal seems to suggest that the Business Services Organisation should be established as a **mandatory** joint committee of the new eleven councils. Nor does it imply that time will be taken to build trust.

Perhaps a lesson can be drawn from the approach of the Welsh Assembly Government to collaborative procurement. Is there really a good case for investing the effort in new collaborative structures, when an alternative would be to develop principles of co-operation and a binding memorandum of understanding?

It is an accepted maxim of change management that too much change should not be attempted at once. There is surely a question about the ability of officers to cope with being part of new organisations with new priorities and working environments as well as new methods of collaborative working.

### **4) procurement strategy**

Whatever model for collaboration is established, it seems from the theoretical framework that there is a clear need for the development of procurement strategy to be concentrated in the hands of those with a high level of expertise. In the socio-political context of Northern Ireland, great care may be needed in



generating a strategy that fits the diverse range of social and economic priorities of councils.

It was suggested by one of the commentators at the Stakeholder Conference that a crucial element of public procurement policy was missing at the strategic level in relation to the goal of maximising social and economic benefits, as these goals do not appear to have been clearly articulated, let alone permeating down to practitioners in CPD and the CoPEs. Simply put, if it is unclear what social objectives are being pursued, it will be difficult for procurement specialists to design social clauses or other means to deliver them.

It would be unfortunate if this same mistake was repeated at the local government level. It seems that the best approach to this strategic development would be through NILGA (seeing as it was the LGA in England that developed the National Procurement Strategy) working with DoE, all councils and – importantly – stakeholders from the small business community and the third sector.

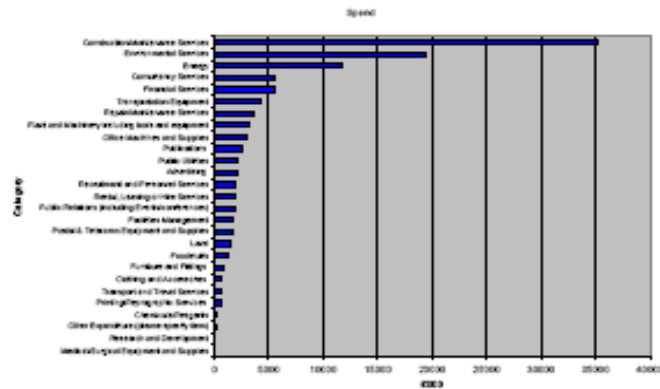
**Appendix 2 – Extract from Local Government Service delivery – Economic Appraisal**

**Case Study – Procurement**

Effective procurement will be at the heart of ensuring that local government provides value for money in future. The RPA provides an opportunity to consider how procurement services should be organised to best effect for the reduced number of authorities. At present local authorities spend an estimated £220m (extrapolated from a spend analysis of 17 councils) on third party goods and services. With additional functions being transferred, this is set to increase.

While a number of existing authorities work collaboratively with other councils and public bodies (mainly in areas such as energy procurement) most councils handle procurement independently. From a preliminary review of this expenditure, it is likely that, based on experience in other authorities, annual savings of between £10m and £20m may be achievable in future.

Clearly the achievement of these benefits will depend on the way in which procurement is organised within the new authorities. In recent years the quality of procurement has improved considerably in central government departments, by the introduction of Centres of Procurement Expertise (CoPEs). These have focused on development of procurement strategies aligned to overall corporate strategies, development of professional expertise among staff involved as well as the deployment of appropriate policies and performance measures. It will be important, therefore that a similar focus is placed on procurement in local government.



Our initial analysis suggests that:

- few benefits would be achieved by aggregating expenditure in 11 authorities as opposed to 26 since overall expenditure per council would remain relatively low;
- having a properly resourced central procurement team is most likely to deliver tangible benefits through savings and improved service delivery in key expenditure categories. Where the aggregated scale of demand makes it worthwhile for the relevant industry supply chain to provide a more effective service, costs are most likely to be reduced significantly.
- there is equally a raft of lower value expenditure, perhaps with a local sourcing element, where the opportunity to improve value is more limited and where responsiveness and flexibility are more valued.
- from a political, social and management point of view it will be important to ensure that procurement services are accountable to the individual councils, having procurement expertise in each council is also highly desirable.

Therefore we are assuming for the purposes of this business case option that a central procurement function for specific procurement categories with other procurement handled locally will provide the best balance between local accountability and overall efficiency, benefitting from more focused category management and efficiencies achievable for aggregated expenditure, while retaining local procurement control when it is effective to do so.

This model envisages having a central procurement function (CoPE) accountable to its clients through service level agreements and management/board representation. It would be responsible for procurement of a range of goods and services likely to yield the greatest cash and quality benefits across all councils. Other categories of expenditure and/or low value orders would be procured locally within individual Councils. This model would also have the flexibility to move aspects of expenditure to/from the central procurement function, depending on the business case for change.