

Services shared: costs spared?

An analysis of the financial and non-financial benefits of local authority shared services

Appendix 4: Review of Procurement
Lincolnshire shared services arrangements
- Boston Borough Council, City of Lincoln Council, East Lindsey District Council, Lincolnshire County Council, North Kesteven District Council, South Holland District Council, South Kesteven District Council and West Lindsey District Council

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Executive summary

Procurement Lincolnshire has made a substantial level of savings for the local authorities in the county between 2008 and 2011 – comprising £9 million in procurement savings and nearly £1.5 million in process savings. It has out-performed the targets originally set for the shared service of procurement savings of just over £4 million and process savings of around £660,000 for the period. The return on investment for the local authorities involved range from 91per cent to 341per cent for the period.

Established in April 2008, Procurement Lincolnshire is a single function shared service for all the local authorities in the county, made up of a county council, 6 district councils and a borough council. It provides strategic procurement advice for its partners.

The County Council hosts Procurement Lincolnshire. The district councils have delegated their procurement functions to the County Council.

The local authorities in Lincolnshire identified eleven possible shared services in 2007. Procurement Lincolnshire is to date the only shared service established that includes all of the Lincolnshire councils. Legal Services has also been set up as a shared service for six of the Lincolnshire councils. Both arrangements have provided a high level of service and significant levels of savings for the councils involved.

The set up costs for the shared service were modest at £148,000. Part of the reason for this is that the County Council had recently reviewed the size and capability of its own corporate procurement function before the shared service was established, so some of the groundwork had already been done. The County Council's contribution to the costs of the shared service is 73per cent and the remaining costs are apportioned between the seven other councils.

The savings from the shared service have not come from reducing staff. The staffing costs actually increased by just over 20per cent at the start of the shared service from £600,000 to £740,000. The savings have come from improvements and efficiencies secured in procurement practice and processes.

Excellent use is made of management information. Bespoke systems have been developed to allow Procurement Lincolnshire to analyse how much is being spent by which authority on what and who with. This information has been key in securing the £9 million savings through improved procurement to date, with an additional £14 million of potential savings identified. Specialist knowledge has been developed through the category management structure of the shared service.

There is real commitment from all the partners for the shared service to be successful. This has always been the case at senior level, but inevitably, this has taken some time to develop throughout all of the participating authorities.

Based on the notable successes of the function, a high level of trust has been established between the authorities and the shared service. As a result, Procurement Lincolnshire is seen by the partners as an effective joint service, rather than a County Council function.

Staff morale is high, with low staff sickness and turnover rates. There is a high number of professionally qualified staff in the shared service with experience from both the public and private sectors and staff survey findings have reflected positively on the service.

Two new priorities have been agreed for the shared service, building on the ones originally agreed when the shared service was set up. The first is to deliver additional year on year efficiencies, but not at the cost of quality.

The second is to develop and embrace socially responsible procurement, engaging with local and regional suppliers to promote the local economy and taking account of the social and environmental impact of spending decisions. Key performance indicators are in place for each of these priorities.

Past progress against these two priorities has been positive. Achievement against the first priority is clear from the levels of efficiencies secured to date.

In relation to the second, the service has received positive feedback from the Lincolnshire Chamber of Commerce and the Federation of Small Businesses, two of the organisations that Procurement Lincolnshire works closely with to implement socially responsible procurement.

The shared service has proved to be innovative, adaptable and effective. It has developed its strategic capacity and capability and is influencing procurement policy and practice at the regional and national level.

Introduction

The purpose of Local Government Association (LGA) research project is to substantiate, but not audit, a selection of five established and successful local government shared service arrangements. The research provides the sector with important evidence and numerical based analysis on the success of the projects in terms of financial returns and service delivery. The main themes explored were the impact of shared services on customer satisfaction and outcomes; the set up costs and timescales for delivery; the efficiencies achieved so far, and the extent to which the outcomes have varied from initial business cases.

Procurement Lincolnshire covers all the local authorities in a county and is a single function shared service. In theory the shared service should be relatively simple because it is a single function and in a clear geographical area. However, the reality is that working across eight local authorities is complex and it requires time to embed new methods of working. As the shared service has been running for more than three years, it now has an established operating model and a clear breakdown of the efficiencies achieved, that others can learn from.

This analysis was based on documentation provided by Procurement Lincolnshire from the partnership, the detailed business case, a review of Procurement Lincolnshire by a task and finish group of the participating authorities, 2010/11 annual report/ summary of three year review and the savings model.

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Shared services background

The eight local authorities in Lincolnshire recognise the opportunities shared services can provide. Five years ago they considered a programme of 11 services that could be shared. The objectives of the programme were:

- Engage with local people within their communities
- Develop and deploy a joined-up approach to achieve seamless service delivery
- Offer a “one stop” approach to customer services
- Simplify and rationalise the way in which services are delivered
- Realise efficiency savings to provide opportunities for service transformation
- Ensure Lincolnshire is able to attract and retain the best people to deliver its public services

To date two have been established – Procurement Lincolnshire and Legal Services. Both have been running for over three years and have led to high levels of savings for the local authorities and improvements in how the services are delivered.

The timing for the establishment of Procurement Lincolnshire was opportune. The County Council had decided to increase the size and professional skills of its procurement function.

At the same time the other councils recognised the need to bring together their buying power to achieve better deals with suppliers. The function was seen as a good one to start the shared services programme.

Procurement Lincolnshire was created in April 2008. It is a shared procurement service owned and run by the eight local authorities in Lincolnshire;

- Boston Borough Council
- City of Lincoln Council
- East Lindsey District Council
- Lincolnshire County Council
- North Kesteven District Council
- South Holland District Council
- South Kesteven District Council
- West Lindsey District Council.

The original aims for Procurement Lincolnshire were to realise:

- Enhanced value for money for partners
- Reduced tendering costs for partners
- Opportunities to standardise goods and services
- Opportunities for partners to learn from each other and consider alternative means of meeting needs
- Improved access to market for suppliers.

The service is hosted by Lincolnshire County Council and each of the authorities has formally delegated its procurement function to the County Council as the host authority. Each of the authorities is an equal partner in Procurement Lincolnshire. The delegation is a very important feature of the partnership that ensures the service can operate flexibly to deliver the best value options on behalf of all the partners.

Checks and balances have been put in place to allow individual local authorities can influence activity within the service, while ensuring that the collective approach is not diminished. The first level of the governance process is a senior manager at each authority who acts as a liaison stakeholder. They are the first point of contact in each authority and have regular contact with their dedicated Procurement Advisor, an officer within Procurement Lincolnshire. The dedicated Procurement Advisor spends one day each week working in their allocated authority. Monthly monitoring meetings and quarterly review meetings are held with Procurement Lincolnshire managers.

The work of Procurement Lincolnshire is overseen by a Strategic Procurement Board made up of representatives from each authority. This Board reports to the Procurement Advisory Board who has overall accountability and consists of a County Councillor, District Councillor, a District Chief Executive (who chairs the Board), two District Directors, a County Director and the Head of Procurement Lincolnshire. The Chief Executive provides an overview of the shared service to the Lincolnshire Chief Executive Group.

Procurement Lincolnshire allocates a Procurement Advisor to each authority who

is on site for at least one day per week. This officer is available throughout the rest of the week providing support remotely by telephone or email. Officer support is also available from other members of the Procurement Lincolnshire team, in particular the category management experts.

The service operates at a strategic level focussing on those activities which will deliver efficiencies and improve the way that services are delivered. Procurement Lincolnshire has committed itself to two clear priorities:

- Delivering year on year efficiencies, but not at the cost of quality
- Developing and embracing socially responsible procurement, engaging with local and regional suppliers to promote the local economy and taking account of the social and environmental impact of spending decisions.

It does not undertake operational procurement (such as placing individual purchase orders, expediting deliveries etc) which takes place at a local level in each of the councils.

For the first three years of operation the key performance indicators used were based on the purchasing performance indicators devised by the Audit Commission. They covered such areas as:

- Setting specific and measureable targets of the cashable and non-cashable benefits delivered by procurement (see Table 5);
- Percentage of tenders handled electronically
- Percentage of spend with a strategic sourcing plan

- Increase in number of procurement cards, number of transactions using these cards and in total spend using them
- Percentage of influenceable spend channelled directly through SMEs.

The shared service performed very well against these KPIs (see Table 1). For example, year on year the cashable and non-cashable benefits were exceeded and the overall cost of the shared service has been reduced from the original estimate (see Tables 4 and 5). The shared service has acknowledged that the original targets were cautious. As a result, more ambitious ones are being set for the future.

Table 1 sets out the direction of travel of performance against the original set of strategic objectives for the shared service between 2008/09 and 2010/11.

The vertical arrows show whether performance went up or down and the horizontal arrows represent no movement in performance. As the table shows the performance has been very good.

The one area that maintained performance in 2010/11 was because the use of the E-Procurement system was the same at 100per cent.

There has been an increase in collaborative working over the period. For example, between 2009/10 and 2010/11 the percentage of spend that was underpinned by a strategic sourcing plan increased from 62.5per cent to 88per cent.

Between 2009/10 and 2010/11 the number of procurement cards being used increased by 39per cent and the number of transactions using the cards increased 47per cent. This has led to an increase of total spend using the cards of 13per cent.

Influenceable spend is the amount of the expenditure by the eight local authorities that Procurement Lincolnshire has direct influence over. The percentage of this expenditure that was channelled through Small and Medium Enterprises (SME's) increased to just over 50per cent in 2010/11 compared to 44per cent in 2009/10.

Arrows have been used to show performance against the strategic objectives over the three years in Table 1 because each year tended to have different key performance indicators. For example, the first year the key performance indicators were narrative. They did not include figures. There are figures in the second and third years. Where these are consistent they have been used in the above text. Performance Lincolnshire are conscious of the lack of consistency in the key performance indicators for the three years. A great deal of thought has gone into linking the new key performance indicators to Procurement Lincolnshire's two new priorities. The intention is to use the new key performance indicators (see next paragraph) to show performance more clearly in the future.

Table 1 Performance against Strategic Objectives 2008/09 – 2010/11

Strategic Objective	2008/09	2009/10	2010/11
Efficiency and Value for Money	→	↑	↑
Training and Development	→	↑	↑
E-Procurement and Purchasing Cards	↑	→	→
Collaborative Procurement and Partnerships	↑	↑	↑
Community and Customer Involvement	→	→	↑
Socially Responsible Procurement	↑	→	↑
Ethical Procurement	→	↑	↑
Regeneration	↑	→	↑

Based on the lessons learnt and to provide greater focus on the important areas for the future of the shared service, a new set of key performance questions and indicators have been developed which will be in use from 2011/12. They match the priorities outlined in paragraph 3.10. The questions for the first priority, delivering year on year efficiencies, but not at the cost of quality, are:

- To what extent are we meeting our partners cost reduction expectations?
- Does the service continue to deliver value for money for the partnership?

The indicators are:

- Savings delivered by the shared service partnership
- Average partner Return On Investment from the service
- Percentage of contract spend through new collaborative arrangements

The questions for the second priority, developing and embracing socially responsible procurement, are:

To what degree are we engaging with the local supply base?

To what extent are we making a difference to the local supply base?

The indicators are:

- Number of planned training events to engage with local suppliers, within the next quarter
- Number of local suppliers trained as a percentage of the local supply market
- The percentage of bids received by local suppliers
- Increase in spend with local businesses

Set-up consolidation benefits

Cumulative savings of over £9 million have been made in procuring goods and services more efficiently and effectively in the first three years of operation (see table 1 below).

Cumulative savings of nearly £1.5 million have been made as a result of process improvements, in particular through the introduction of electronic tendering and procurement cards (see table 3 below).

Table 2 Cumulative procurement savings 2008-11

Category	Cumulative Saving 2008 – 11
Utilities	£3,960,267
Financial Services	£2,279,630
Information Communication Technology	£921,373
Miscellaneous	£179,858
Facilities & Management Services	£336,961
Works - Construction, Repair & Maintenance	£293,900
Vehicle Management	£231,700
Leisure Services	£188,891
Environmental Services	£176,065
Housing Management	£147,454
Consultancy	£112,135
Furniture	£54,987
Human Resources	£51,648
Sports & Playground Equipment & Maintenance	£38,947
Catering	£20,000
Procurement Cards	£5,500
Stationery	£5,451
Cleaning & Janitorial	£2,590
Total	£ 9,007,357

The process savings have been achieved between 2008–11 through improved procurement processes.

For example, 100per cent of tenders are now managed electronically.

Table 3 Cumulative process savings 2008-11

Process	Cumulative saving 2008-11
P-Card total	£ 651,366
E-Procurement total	£ 755,200
Total	£ 1,406,566

The set up cost for Procurement Lincolnshire was £148,000. This was spent mainly on new information technology (IT) – both equipment and systems – and training and development.

The figure does not include the time spent by officers on developing the business case or managing the transition. Each of the seven district councils funded £15,000 of the set up costs and the County Council funded the balance.

The actual set up and running costs are set out in Table 4 below.

For the district councils the average projected running cost per year was estimated at £41,000 with average full year benefits of £130,000.

Tables 4 and 5 show the full year benefits for the County Council and district councils have exceeded these projections.

Table 4 Savings profile

	2008/09	2009/10	2010/11	2011/12
Starting budget*1	£1.05m	£1.076m	£1.076m	£0.952m
Influenceable Expenditure*2	£194m	£194m	£194m	£194m
Total local government expenditure	£749m	£749m	£737m	£737m est.
Consolidation savings	£0.442m	£0.345m	£0.619m	
Procurement Savings*3	£1.285m	£3.065m	£4.125m	
Annual ongoing savings	£1.725m	£3.41m	£4.744m	
One-off costs	£148,000			

*1 Staff costs across all 8 local authorities for carrying put procurement was £600,000 in 2007/08. The 2008/09 budget was based on spending an additional £441,000 on staff.

*2 Amount of the expenditure by the 8 local authorities Procurement Lincolnshire was able to influence.

*3 The cumulative total for Procurement Savings in this table are £8.475 million. This is less than the total of £9.007 million given in Table 2 for the same period. The reason for this is the figures in this table are the ones given in the annual reports for the three years. They are the totals for the savings that had been validated at the time the annual reports were produced. Since then further savings have been validated through the process referred to in paragraph 4.9 below. This is the total given in Table 2.

The numbers of staff involved in procurement have increased from 10 full time equivalents working across the authorities before the shared service was established to 17 between 2008 and 2011. Importantly, the skills and expertise of the team have been increased.

For example, eight members of Procurement Lincolnshire have been supported in becoming Associate Members of CIPS (the Chartered Institute of Purchasing and Supply). Qualified staff have also been employed with experience from the private sector (two) along with from the public sector (three) and with experience across both sectors (one). The skills and expertise of individuals outside of the service, but with some responsibilities relating to have been improved across all 8 local authorities. 17 training events have taken place for staff with over 300 attendees.

Management information has been improved through the Procurement Information Management System (PIMS) and development of Lincolnshire Category Analysis Tool (LCAT). PIMS is a bespoke system that allows Procurement Lincolnshire to work plan, schedule and track benefits and their realisation. PIMS has improved the reliability of savings reporting and the confidence in the figures being reported.

LCAT is an in-house system that provides consistent and accurate data for efficiency reviews. Summary reports are provided to all partners to give a top level insight into their spend profiles.

These reports have identified savings areas in all the local authorities. High levels of future savings are anticipated from the increased use of the system. An estimated £14 million of potential savings have been identified from the first comprehensive analysis activity utilising the LCAT system. A savings model has been agreed through the Lincolnshire Financial Officers Group to ensure the savings are treated consistently and relate to the baseline costs of the service for each council.

For each project a savings evaluation sheet is completed in order to calculate the savings achieved. This has various different methodologies for calculating savings, including baseline comparisons, basket of goods etc. Only the savings value is entered into the reporting system by category.

Table 5 Cumulative savings by local authority

Authority	Cumulative Target Savings	Cumulative Actual Savings	Variance
Boston Borough Council	£ 102,719	£ 299,372	191per cent
City of Lincoln Council	£ 137,788	£ 507,990	269per cent
East Lindsey District Council	£ 273,906	£ 535,477	95per cent
Lincolnshire County Council	£ 3,045,721	£ 5,817,955	91per cent
North Kesteven District Council	£ 166,111	£ 446,096	169per cent
South Holland District Council	£ 159,079	£ 701,122	341per cent
South Kesteven District Council	£ 98,125	£ 370,321	277per cent
West Lindsey District Council	£ 115,138	£ 329,024	186per cent
Total	£ 4,098,585	£ 9,007,357	120per cent

The model has proved to be an important part of the process by providing figures the local authorities trust. These Information and Communication Technology (ICT) systems are fundamental to the continued delivery of efficient and effective procurement by the service.

The other key priority for Procurement Lincolnshire is to develop and embrace socially responsible procurement, engaging with local and regional suppliers to promote the local economy and taking account of the social and environmental impact of spending decisions. The awareness of local businesses has been raised to the opportunities and tendering has been made more accessible, by simplifying the process and providing them with training in it.

The main effort to stimulate markets and competition has been through the Training in Public Procurement programme (TIPPs) programme. This has sought to encourage local suppliers to participate in the public procurement market within Lincolnshire. This has involved three annual Meet the Buyer events where suppliers have been able to engage with Procurement Lincolnshire and to explore potential contract opportunities.

Wider business change benefits

Since its establishment Procurement Lincolnshire has developed a wide range of benefits. While not all of these can be quantified, these are felt to be of key importance to the effectiveness of the service.

There is a low and reducing sickness rate among staff; the average number of days sick for staff has reduced from 5 days in 2008/09, through 4 days in 2009/10 to 3 days in 2010/11. This compares with the County Council target of 9 days a year. The estimated quantifiable benefits of this reduction are as follows;

- Estimated cumulative FTE gained due to reduced sickness: 33per cent
- Estimated cumulative value of days gained due to reduced sickness: £13,300

Procurement Lincolnshire staff have high morale. An indicator of this is the 78per cent engagement index rating from the 2010 staff survey. The Engagement Index is a measure of respondents' commitment to Procurement Lincolnshire. Engagement goes beyond satisfaction and can be defined as employees' willingness to invest their personal effort in the success of the organisation. This compares with a national benchmark of 66per cent and a County Council benchmark of 68per cent.

The use of management information has resulted in savings (see previous section) but just as importantly it has provided trust

in the evidence-based approach the service has adopted to procurement. There has been a major change in the way Procurement Lincolnshire is perceived by the participant authorities. Originally it was seen as a County Council led service, whereas now it is regarded as a joint service. An indication of this is the level of sign up for collaborative projects, such as for Housing maintenance, dry recyclables and, potentially, waste collection and disposal. The benefits of these projects are measurable.

Dry recyclables

Procurement Lincolnshire has worked with the three of the district councils to agree one contract on dry recyclables. Before the contract each council had a separate contract with a service provider. The contracts were based on the councils paying the service provider to take the dry recyclables. The new contract now provides each council with around £700,000 in income a year.

The shared service has proved to be innovative and adaptable. This has helped to build the trust of the partners. When the shared service started operating in 2008 Procurement Lincolnshire staff were based in each district council offices for two days a week. Now that relationships and trust has been established, the councils were very comfortable in reducing this to one day a week, in the knowledge that officers are accessible as required.

Collaborative approach to housing refurbishment, improvement and maintenance

Procurement Lincolnshire led on a Housing Refurbishment, Improvement and Maintenance framework agreement on behalf of four of our partners with retained housing stock.

The framework agreement included nine service areas:

Electric Heating and Hot Water Installation

- Pre-Paint Joinery and External Decorating
- External Wall Insulation and Rendering
- Supply and Installation of Doors
- Kitchen and Bathrooms
- Central Heating
- Installation and Replacement of Windows
- Void Property Cleaning and Clearing
- Environmental Improvements and Civil Works

These works are delivered to council owned housing and surrounding communal areas with an estimated spend of £11-29 million over a 4 year period. The framework was let in works lots and was then broken down further into geographical lots to encourage small and medium enterprises (SME's) to bid for work.

Benefits include:

- One partner has generated savings of £147,000 in 2010/11
- Savings of over £630,000 are anticipated in 2011/12 based upon current budget proposals
- Up to 20 per cent savings for some partners on this new framework agreement in comparison to their previous spend
- Additional savings are being generated by conducting collaborative further competition exercises within the framework and aggregating spend
- Process savings have been generated due to conducting one collaborative framework agreement for nine works lots and four partners, rather than 36 individual tenders.

There are a number of benefits that are harder to measure. These include resource planning – being able to manage the peaks and troughs of procurement more effectively through the specialist approach to category management. Category management is the approach Procurement Lincolnshire has adopted to maximise the impact of its resources. Staff are given particular categories, such as utilities and ICT, to develop their understanding in that area of expenditure and manage procurement

activity relating to that. This approach is proving to be very effective (see Table 1).

There is a high level of compliance in using the standardised procurement systems, including best value regional and national framework arrangements. As well as leading to savings (again, see table 1) the increased compliance allows Procurement Lincolnshire and the local authorities to manage risk more effectively.

Procurement Lincolnshire has provided a single route for SMEs to provide services and products for the local authorities. Systems, such as e-tendering and the simplified PQQ, have been changed to encourage SMEs to bid for contracts more easily. Investment has been made in providing training and support for SMEs to ensure they understand the systems and the opportunities provided by Procurement Lincolnshire and receive a consistent response across the County. The shared service is currently working on reporting systems to allow it to track the impact of this within local SMEs.

The service works very closely with both the Lincolnshire Chamber of Commerce and the Federation of Small Businesses in this area. This is acknowledged by the Chamber:

“The partnership has done exceptionally well in supporting local businesses and helping them to tender for work within the public sector...Business feedback is always overwhelmingly positive, bearing in mind the partnership does not have funds in its own right but operates through in-kind activities of partners in both our areas, and we believe the work done by TIPPs has benefited the local business community. We are delighted and proud to be working in partnership with them.”

Procurement Lincolnshire has developed both its strategic capacity and its capability. This is clear in the region by the interest of the other local authorities in the PIMS and LCAT systems. It is recognised nationally through the role the Head of Procurement Lincolnshire plays on national procurement groups and directly through her work with the Local Government Association.

Third party services

Currently Procurement Lincolnshire provides limited services to third parties. For example, it has a contract to provide training on procurement to local authorities in the region. Although it does not have plans to expand its work to third parties at the moment, it is a potential area of strategic development (see the next section).

Strategic developments

There are a number of strategic options for Procurement Lincolnshire. The first group of options are based on providing services in the county. The second relate to providing services outside the county.

The options available within the county are:

- Carrying on with the current approach and using the management information to identify further areas for savings;
- Maximise the amount of collaboration on contracts among partners;
- Increase the level of influenceable spend among partners;
- Provide services for other public sector bodies in the county, such as Health bodies and the Police; and
- Increase the amount of involvement in strategic procurement in the County Council (the areas currently with dotted lines to the service).

The options available for operating outside the county are:

Increasing the number of partners to include other local authorities;

- Providing a service to other local authorities on a fee basis/including them in contracts;
- Providing a service to other public bodies on a fee basis/including them in contracts;
- Carrying out more fee-earning work at the regional or national level, including marketing and training organisations in the PIMS and LCAT system;
- Providing an inputting and interpretation service for the PIMS; and
- Providing strategic procurement advice and/or training.

Many of these options are not mutually exclusive. Most of them would require Procurement Lincolnshire to review the level of resource needed to carry them out. There would also be a need to consider what governance model would be most effective for the services provided and to what organisations.



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