



ISLINGTON

Housing Performance and Property

Report of: [Head of Strategic Procurement] [Centre of Commercial Excellence] [Draft 0.1]
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Meeting of	Date	Agenda Item	Wards
Procurement Board	20th November 2006		

1 Purpose

- 1.1 The purpose of this submission is to seek approval from the Procurement Board to set up a pilot Centre of Commercial Excellence for the London Borough of Islington for a period of twelve months commencing in January 2007.
- 1.2 The pilot is part of a collaborative development project developed for London boroughs by the London Centre of Excellence.

2 Background

- 2.1 The London Centre of Excellence (LCE) is one of nine Regional Centres of Excellence created by the former Office of the Deputy Prime Minister as part of the National Procurement Strategy for local government. The LCE works in support of the 32 London boroughs, the Corporation of London and the Greater London Authority and is hosted by the Association of London Government.
- 2.2 The LCE aims to facilitate efficiencies and service improvements within these organisations by actively promoting and funding collaborative projects, and identifying opportunities for further improvements in terms of cost savings, better use of existing resources, and more effective market management.

3 Contract and Relationship Management Project

- 3.1 In January 2006, LCE launched a project designed to develop and share best practice in contract and relationship management and help London local government get better value from its critical contractual relationships wherever third parties are contracted to deliver front-line services and back office functions.
- 3.2 A Status Review was completed in April 2006 and a report submitted to the LCE Board with recommendations for improving contract and relationship management in London.
- 3.3 The report concluded that contract and relationship management practice in London local government has matured significantly since the days of Compulsory Competitive Tendering, but the research highlighted some significant shortcomings, namely:
- strategically important contractual relationships do not enjoy co-ordinated top-level management sponsorship in some London Boroughs;
 - most contract managers fail to appreciate the need for competence in the commercial disciplines and there is a shortage of personnel with commercial experience;
 - there are issues with the effective management of contractor performance;
 - some authorities are failing to manage risks associated with these contracts effectively and changes are made to agreements without any formal record, exposing authorities to unnecessary risk;
 - in service contracts, benchmarking is undertaken at best only in broad terms;
 - contract managers often fail to revisit the business case or operate a clear process for reporting whether intended benefits were in fact being delivered; and
 - the majority of exit strategies or business continuity plans are simply non-existent.
- 3.4 The Best Value Review of Procurement also recommended that robust contract management needs to take place to ensure that the service specification is met by the supplier and that any

under performance is challenged and corrected. This initiative will help the council take a big step forward in achieving this.

4 Centre of Commercial Excellence

4.1 A leading recommendation of the Status Review Report was the creation of Centres of Commercial Excellence to support London Boroughs in the management of their key contracts and their critical contractual relationships.

4.2 The Status Review report identified a shortage of people in London local government who possess the right skills for successful contract and relationship management. It found that:

“It would not make economic sense to propose mass recruitment of commercial expertise to relieve the shortage in London contract and relationship management. Some recruitment may be necessary, but better use could also be made of existing resources, particularly from procurement or other commercial disciplines.”

4.3 The report went on to recommend that:

“London Boroughs should seek to establish a centre of commercial excellence in each authority that can provide commercial support to managers of strategically important contracts, handling the change control process, managing existing and emergent risks and conducting performance reviews. Ultimately, a single ‘shared service’ providing commercial support could be established for all London Boroughs.”

5 Proposed Centre of Commercial Excellence for Islington

- 5.1 It is proposed that London's first Centre of Commercial Excellence be piloted in the London Borough of Islington for a period of twelve months commencing in January 2007.
- 5.2 It will be staffed using existing resources in the [Corporate Procurement Unit]. The London Centre of Excellence will provide additional design and development resource during the initial phase.
- 5.3 The board are asked to identify a major procurement from each department to form part of this pilot initiative. The following are suggested contracts and contractual relationships that could be used in the pilot:
- The public-private partnership with Care UK for three care homes for older people, valued at £5m per annum;
 - The new contract for a school meals service, valued at £2.5m per annum;
 - The partnership for Islington's education service with [CEA@Islington](#), valued at £12m per annum;
 - The contract with ICSL Accord for waste services, valued at £25m per annum;
 - The contract for the supply of temporary workers with Comensura, valued at £30m per annum; and
 - The contract with Dunlop Heywood for a valuations service, valued at [£m] per annum.
- 5.4 Care will be taken by managers to ensure that the respective duties of service managers and the Centre are clearly defined from the start.

The responsibilities of the Centre with relation to a contract will be:

- To design, implement and operate a system for gathering and reporting performance data centrally for Members and senior management;
- To instigate performance reviews with each contractor on a regular basis, with the full involvement of service managers;

- To undertake the change control process, at the instigation of service managers, including negotiation and all documentary administration of changes to the contract;
- To support service managers in all mid-term negotiations that become necessary during the course of the contract and the relationship; and
- To advise service managers on all matters of a commercial nature, including relationship management.

The responsibilities of the Service Manager with relation to a contract will be:

- To remain as the principal contact for the contractor on a day-to-day basis;
- To remain as the Council's main source of technical expertise with regard to the service provided by the contractor;
- To manage the operational service for the Council and its interface with the contractor's operations;
- To plan and develop the service;
- To undertake all financial management with regard to the contract and the service; and
- To manage the political process with regard to the service.

5.5 A diagram showing the contracts proposed for inclusion in the pilot and illustrating the demarcation of duties and responsibilities for managers is given at Appendix A.

5.6 At the conclusion the pilot, a full report including an analysis of the benefits gained, costs incurred and lessons learned during the pilot will be compiled and submitted to the Procurement Board.

6 Benefits, Costs and Risks

6.1 Although good contract and relationship management is essential for best value for money to be achieved and sustained throughout the life of a contract, it is very difficult to forecast cashable savings in this area, though historically many organisations that have implemented improvements, both public and private, have yielded significant benefits.

6.2 The principal qualitative benefits of the pilot are:

- The Council will have, for the first time, a central view of performance, value for money and risks associated with its critical contractual relationships, supporting better strategic decision-making;
- Service managers will enjoy a specialist commercial support service in monitoring and reporting performance, negotiating and recording changes to contracts, handling commercial dispute resolution and managing the relationship with the contractor; and
- Service managers can better concentrate their time and energies on their specific areas of technical expertise.

These will have the benefit of better commercial management of critical contracts and relationships, leading to better performance by the contractor and better value for money.

6.2 The costs associated with the pilot are minimal, save for internal departmental development costs. The Centre will be resourced from the existing [Corporate Procurement Unit] and supported by the London Centre of Excellence in the initial phase.

6.3 The risks associated with the pilot are also minimal. In fact, a major driver behind this concept is that the Centre will enable the Council to achieve a central, strategic overview of all high- and intermediate level risks associated with its critical contractual relationships, supporting better and swifter decisions to be taken in anticipating and mitigating key risks.

6.4 The Procurement Board is asked to note in particular that the principal aim of the project is to improve value for money and services for end users through positive working relationships with contractors. The Commercial Centre will seek to demonstrate behaviours that are conducive to achieving this outcome. Every effort will be made to preserve and maintain good working relationships where these exist.

7 Recommendation

- 7.1 It is recommended that the Procurement Board approves the pilot Commercial Centre of Excellence in the London Borough of Islington for a period of twelve months commencing in January 2007.

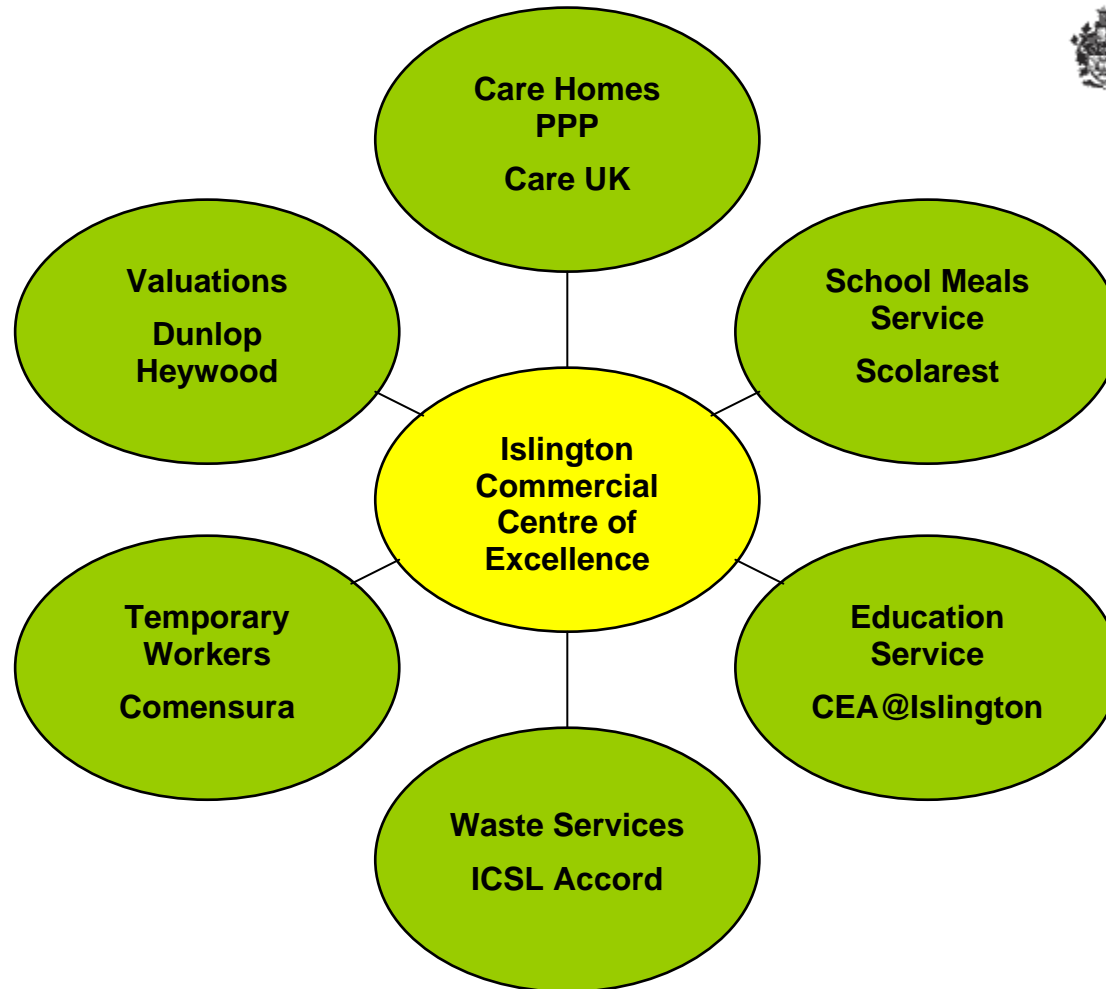
8 Next Steps

- 8.1 Upon approval by the Procurement Board, the next step would be to brief the service managers and other internal stakeholders associated with the six critical commercial relationships to be included in the pilot.
- 8.2 The briefing would be designed to set out clearly the terms of reference for the pilot, the demarcation of responsibilities between existing service managers and the Commercial Centre and agree the timescale for its implementation.
- 8.3 The pilot would be scheduled to commence in January 2007 and run for a period of twelve months.

Appendix A



- Commercial Centre**
- Performance Reporting
 - Performance Reviews
 - Change Control
 - Mid-term Negotiations
 - Commercial Advice
 - Relationship Management Advice



- Service Manager**
- Principal contact for contractor
 - Technical expertise
 - Day-to-day operational management
 - Service planning
 - Financial management
 - Political process

