



EASTERN SHIRES
PURCHASING
ORGANISATION

A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM

CONSORTIUM SECRETARY: JOHN SINNOTT, MA, DipI. P.A.,
CHIEF EXECUTIVE, LEICESTERSHIRE COUNTY COUNCIL

Date: 26 February 2014
My Ref: BS/ESPO
Please ask for: Ben Smith
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To: Members of the ESPO Management Committee

Dear Member,

ESPO MANAGEMENT COMMITTEE

A meeting of the Management Committee will be held at on Thursday, 6 March 2014 at 10.30 am in the Framland Committee Room, County Hall, Glenfield, Leicestershire.

A buffet lunch will be provided after the meeting. Please telephone or email me (details above) by Monday 3 March to confirm that you require lunch and, if so, whether you have any special dietary requirements.

Yours faithfully,

Ben Smith

for Consortium Secretary

AGENDA

Item

Marked

1. Minutes of the meeting held on 5 December 2013. (Pages 3 - 8)
2. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.
3. Declarations of interests in respect of items on this agenda.
4. Procurement and Compliance.
(Presentation of the Director)

During discussion of Item 5 below, the Chairman will be asked to consider Item 13 on the agenda which will involve the likely exclusion of the public.

5. Director's Progress Update. (Pages 9 - 14)
(Report of the Director)

6. Draft Medium Term Business Strategy 2014-18. (Pages 15 - 104)

During discussion of Item 7 below, the Chairman will be asked to consider Item 14 on the agenda which will involve the likely exclusion of the public.

7. Forecast Outturn 2013/14 and Draft Medium Term Financial Strategy 2014/15 - 2017/18. (Pages 105 - 122)
(Joint Report of the Director and Consortium Treasurer)

8. Public Procurement and SMEs - Progress Update. (Pages 123 - 128)
(Joint Report of the Director and Consortium Treasurer)

9. Proposed Changes to the Contract Procedure Rules. (Pages 129 - 162)
(Joint Report of the Director, Consortium Secretary and Consortium Treasurer)

10. Items referred by the Finance and Audit Subcommittee.

11. Date of Next Meeting.

10.30 am – Thursday 26 June 2014.

12. Any other items which the Chairman has decided to take as urgent.

The public are likely to be excluded from the meeting during the consideration of the following items of business in accordance with the provisions of Section 100 (A) (4) of the Local Government Act 1972 (Exempt Information).

13. Supplementary Information Informing the Progress Report of the Director. (Pages 163 - 171)

(Exempt under paragraphs 3 and 10 of Schedule 12(A))

(Report of the Director)

14. Supplementary Information informing the Forecast Outturn 2013/14 and Medium Term Financial Strategy 2014/15 - 2017/18. (Pages 173 - 178)

(Exempt under paragraphs 3 and 10 of Schedule 12(A))

(Joint Report of the Director and Consortium Treasurer)

Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield, Leicestershire on Thursday, 5 December 2013.

PRESENT

Cambridgeshire County Council

Cllr. J. Reynolds

Leicestershire County Council

Cllr. R. K. A Feltham and Cllr. D. Snartt

Lincolnshire County Council

Cllr. S. Rawlins (in the chair);

Peterborough City Council

Cllr. J. Holdich OBE

Warwickshire County Council

Cllr A. Cockburn and Cllr D. Parsons

Apologies for absence.

Apologies for absence were received from: Cllr Chapman - Cambridgeshire County Council, Cllr S. Ransome – Lincolnshire County Council, Cllr. I. Monson and Cllr T. Jermy – Norfolk County Council and Cllr. D. Seaton – Peterborough City Council.

35. Minutes.

The minutes of the meeting held on 26th September, 2013, having previously been circulated, were taken as read, confirmed and signed as a correct record.

36. Urgent Items.

The Chairman reported that there were no urgent items for consideration.

37. Declarations of interests.

The Chairman invited those who wished to do so to declare an interest in respect of items on the agenda.

No declarations were made.

38. Sales and Marketing.

The Chairman welcomed to the meeting Mr Trevor Phipps, ESPO's Assistant Director – Sales and Marketing, who delivered a presentation on ESPO's marketing strategy and the challenges ahead. A copy of the presentation is filed with these minutes.

Arising from the presentation and discussion, the following points were noted:

- i) The procurement landscape was becoming increasingly litigious which has reinforced the need for increasingly robust contracting procedures and staff training and development. The new EU procurement rules to be introduced early next year would require ESPO to provide support and training to its own staff which it would extend to staff members of constituent authorities. It was also intended to consider offering this service to other authorities at market rates;
- ii) Whilst the purchasing power of local authorities had been reduced as a result of budget constraints, ESPO had managed to grow the business. Much of that growth had been achieved by trading with non- consortium organisations and Academies;
- iii) ESPO was in an increasingly competitive market and as such needed to ensure not only that it was price competitive but also focused on providing high quality customer service. Although margins had reduced due to the increase in sales and greater focus on cost reduction ESPO had managed to increase its profits;
- iv) Looking ahead and building on the positive experience of the Phonics campaign, ESPO was now looking at possible expansion. In doing so the Senior Management Team was mindful of the need to ensure such an expansion did not adversely affect the customer experience or operating costs;
- v) Work was underway with a number of direct delivery suppliers to improve performance. Particular difficulties had been experienced with office furniture suppliers.

AGREED:

That the presentation on the marketing strategy and key market challenges be welcomed.

39. Arrangements for the withdrawal of Leicester City Council from the Consortium.

The Management Committee considered a joint report for the Director and Consortium Secretary concerning the progress in managing the withdrawal of Leicester City Council from the ESPO Consortium and consequent revisions to the Consortium Agreement. A copy of the report, marked 5, is filed with these minutes.

The Consortium Secretary advised that the proposal put forward at the last meeting of the legal and governance group that Leicester City Council could withdraw on the basis that it would not take the current year dividend and would not be required to sign up to any indemnities had not been accepted. Lawyers at Warwickshire County Council were finalising a new draft legal agreement which would be circulated to Constituent Authorities shortly.

In response to questions the Management Committee was advised that to date no significant issues had been identified as a result of the 'due diligence' exercise. The position would be kept under review up to the point at which

Leicester City Council withdrew. With regard to the timescale, the intention was to seek agreement and finalise the withdrawal by 31st March 2014 though it was recognised that this was a challenging timeframe.

RESOLVED:-

That the report be noted.

40. External Audit Plan 2013/14.

The Management Committee considered a joint report of the Director and Consortium Secretary which provided details of the scope of the audit undertaken by the external auditor. A copy of the report, marked 'item 6', is filed with these minutes.

The Chairman welcomed Thomas Gibbs from PriceWaterhouseCoopers, ESPO's external auditors, to the meeting.

With regard to audit risk relating to 'management override of controls' the Management Committee was advised that this risk was inherent in all organisations. The Finance and Audit Committee was set up specifically to monitor this situation and ensure robust arrangements were in place to prevent this.

The Chairman thanked Thomas Gibbs for his contribution to the meeting.

RESOLVED:-

That the report be noted.

41. Director's Progress Report.

The Management Committee gave consideration to a report of the Director, the purpose of which was to update members on the actions and progress made since the last ESPO Management Committee meeting held on 26th September 2013. A copy of the report, marked 'item 7', is filed with these minutes.

Members were advised that the high response rate to the staff survey was welcomed. A further survey would be undertaken next year to ascertain whether the actions taken had improved staff morale and addressed the concerns identified.

With regard to sickness absence levels the Committee was advised that the new reporting system was now in place and details of the latest absence report would be circulated to members shortly.

RESOLVED:

a) That the contents of the report be noted.

b) That the performance of all ESPO Staff and in particular the achievement of Michelle Brankovic who obtained a 'Finalist Award' for SOPO Procurement Professional of the Year, be noted.

42. Exclusion of the Public.

RESOLVED:

That under Section 100(A) (iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following item of business entitled: 'Supplementary Report Informing Director's Progress Update.' (Item '11') as defined in paragraphs 3 and 10 of Schedule 12A of the Act; and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

43. Supplementary Report Informing Director's Progress Update.

The Management Committee received an exempt report of the Director, which set out further supplementary information to Item 7, Progress Report of the Director. A copy of the exempt report, marked 'Item 12' is filed with these minutes.

The exempt report was not for publication by virtue of paragraphs 3 and 10 of Section 12A of the Local Government Act 1972.

The Committee was advised that the decision to retender the bailiff service was taken after external legal advice had been sought in relation to concerns that had been expressed about the evaluation process. Lessons learnt from this case would be cascaded through the organisation and would be incorporated into the training and development package being developed in relation to the new EU procurement rules.

RESOLVED:

That the contents of the report be noted.

[The meeting then reconvened into public session.]

44. Items referred by the Finance and Audit Subcommittee.

There were no items referred from the Finance and Audit Subcommittee as the previous meeting was inquorate.

45. 2014 Meeting Dates.

The following meetings programme for 2014 was agreed:-

Management Committee Meetings

Thursday, 6th March at 10.30am
 Thursday, 26th June at 10.30am
 Thursday, 25th September at 10.30am
 Thursday, 4th December at 10.30am

Finance and Audit Subcommittee

Monday, 17th February at 10.30am

Tuesday, 10th June at 11.00am
 Tuesday 9th September at 11.00am
 Monday, 17th November at 10.30am

46. Exclusion of the Public.

RESOLVED:

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following items of business entitled: as defined in paragraphs 3 and 10 of Schedule 12A of the Act; and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:-

- Item 13 - 2014/15 -2018/19 Medium Term Financial Strategy (MTFS) and Annual Budget Planning;
- Item 14 - GEMS Gas Billing System.

47. Four Year Medium Term Financial Strategy 2014/15 - 2017/18 and Annual Budget Planning.

The Management Committee received an exempt report of the Director which set out the planning assumptions and financial implications for the Medium Term Financial Strategy covering the period 2014/15 to 2018/19. A copy of the exempt report, marked 'Item 13' is filed with these minutes.

The exempt report was not for publication by virtue of paragraphs 3 and 10 of Section 12A of the Local Government Act 1972.

Members were advised that further work was needed to align the strategy cycle with the financial cycle and that the MTFS would need to be reviewed regularly to recognise the dynamics of the market in which ESPO operated. The Finance and Audit Subcommittee would be kept updated on a regular basis.

Members acknowledged the challenges facing ESPO and the need for investment to reduce the cost base (e.g. a new stock pick and control system) and to grow the business and hence enhance the value of the business.

RESOLVED:

That the report be noted.

48. GEMS Gas Billing System.

The Management Committee received an exempt report of the Director which sought approval for budgetary provision for the replacement of the GEMS gas billing system. A copy of the exempt report, marked 'Item 14' is filed with these minutes.

The exempt report was not for publication by virtue of paragraphs 3 and 10 of Section 12A of the Local Government Act 1972.

RESOLVED:

- a) That approval be given to the continued use of the current business model for gas bill validation and to work being undertaken to procure a proprietary system for future use;
- b) That as a consequence of (a) above, an amendment be made to the current Medium Term Financial Strategy to include an initial expenditure of £153,000 and annual operating cost of £55,500;
- c) That £100,000 of the initial £153,000 initial expenditure identified in (b) above be met from the renewals fund earmarked for this purpose.

10.30 am - 12.15 pm
05 December 2013

CHAIRMAN



ESPO MANAGEMENT COMMITTEE – 6 MARCH 2014

DIRECTOR'S PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of Briefing Note

- The purpose of this report is to update members of the actions and progress made since the last ESPO Management Committee meeting held on 5 December 2013.

Overall Financial Performance

- Overall financial performance can be summarised as:
 - Sales to December at £69.4m are ahead of budget of £63.4m.
 - Rebates, a proxy for framework engagement, are ahead of target at £2.77m against a budget £2.5m.
 - Overall surplus is at £1.37m year to date. Year to date is ahead of budget of £820k year to date.

Balanced Scorecard

- The balanced scorecard is circulated on a quarterly basis to members and is included as Appendix 1 to this report.
- Key figures underlying the total sales to December are as follows:

	<u>COMBINED PRELIMINARY RESULTS</u>			<u>Dec-13</u>		
				<u>MONTH</u>		
	ACTUAL	BUDGET	PRIOR YEAR	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000	£000	£000	£000
<u>SALES</u>						
STORES	2,115.5	1,776.7	1,793.7	32,428.0	31,625.7	30,713.6
DIRECT	1,260.2	969.3	1,363.2	16,931.9	15,776.0	17,070.7
GAS	2,699.7	2,412.7	2,434.0	16,240.2	12,439.3	13,483.6
CATALOGUE ADVERTISING	2.4	0.0	13.6	870.3	894.1	889.3
REBATE INCOME	125.3	182.7	(53.5)	2,774.4	2,502.7	2,972.9
MISCELLANEOUS INCOME	1.1	5.3	5.1	158.9	165.7	208.7
<u>TOTAL SALES</u>	6,204.1	5,346.7	5,556.0	69,403.8	63,403.5	65,338.7

External Activities and Developments

PBOs, Pro5 members and beyond

5. I have had several meetings with Yorkshire Purchasing Organisation (YPO) and various bodies in the private sector helping me to develop a further understanding of market dynamics, which is increasingly changing.
6. The Central Buying Consortium (CBC) led a Pro5 Directors meeting 16 December 2013 at ESPO. This was attended by myself (ESPO), Neil Jones (CBC), Ian Taylor (NEPO) and Simon Hill (YPO). Along with the Assistant Director, Procurement & Compliance, I also attended a meeting between the Local Government Association and Pro5 directors held 22 January 2014.
7. On 11 December 2013, a Member Category Open Day took place at ESPO. Member operational teams met their counterparts to gain a greater understanding of the change in scope and personnel within ESPO procurement teams. Nineteen attended from Leicestershire, Leicester City, Norfolk and Lincolnshire councils. Those attending took away comprehensive information packs to share with Heads of Procurement. Another Open Day is scheduled 26 March 2014.

Work is also underway to develop Heads of Procurement networking events generally.

8. ESPO is in the process of engaging a partner to support the training, interpretation and benefit realisation from the forthcoming new EU procurement directive for both ESPO and Member Authorities to utilise. This is likely to become statute in mid-2014, replacing the existing public contract regulations 2006.

Update on Consortium Membership

9. At its meeting on 5 December 2013, the Management Committee was advised that the Legal and Governance Group had met and that a proposal had been put to Leicester City Council establishing the basis for that authority to leave the Consortium. Leicester City Council has confirmed that they wish to leave subject to payment of the dividend for 2013-14 and an agreement as to liabilities which may arise prior to leaving the Consortium. A proposed form of words has been drafted by the Leicester City Council and is currently the subject of consideration by lawyers working for the other authorities. The Committee will be updated as to progress at the meeting and further reports will be presented to the ESPO Chief Officer Group.
10. ESPO has conducted a 'due diligence exercise' in relation to risks and liabilities arising from the departure of Leicester City Council and this issue is addressed within the exempt Director's Supplementary report, elsewhere on the agenda.

11. Management Committee is asked to agree that authorities in ESPO now take the necessary decisions to enable agreement to be reached on the terms for Leicester City Council to leave the Consortium.

ESPO Internal Developments

Member Liaison

12. I continue to meet members on a quarterly basis to discuss key themes which are arising and any items pertinent to members' specific needs. The regularity of these meetings will be reviewed to meet members' needs.
13. I informed members that ESPO had been reviewing the Spend Analytics offerings available including Apsiz solutions, Spikes Cavell and the Lincolnshire Category Analysis Tool (LCAT) offering at Procurement Lincolnshire. We have engaged with Member Authorities to get support for a trial to further inform the evaluation of these options. Leicestershire supported this critical appraisal. We will report further outcomes of this review, but acknowledge the Senior Officer Group (SOG) feedback that LCAT already hosts a significant amount of member spend data.

Staffing

People Plan

14. A 'People Plan' has been developed by the Senior Management Team (SMT) based on their interpretation of the staff survey responses and key themes which will form a key part of the 'People Plan' with ESPO's emerging strategy.
15. The key themes are:
 - Communication at ESPO
 - Reward and recognition
 - Investment in resources
 - Performance Development Reviews (PDRs) and learning and development
 - Team management and teamwork between departments
 - ESPO image
16. We have begun to address these themes by:
 - Implementing a new internal communications plan with a Weekly Update informing of activity across the business, a Director's Update issued monthly to keep everyone up to date with the strategic direction of the business and informing of progress on areas identified by the Staff Survey.
 - Developing a Reward & Recognition Scheme which the SMT hopes to roll out in April.

- Setting aside funding for appropriate technology for the Sales Team and the renewal of kit including the delivery fleet and forklifts in the Warehouse.
 - Setting SMT PDRs in January with the intention that everyone at ESPO will have had some form of PDR by the end of March.
17. In addition to the Monthly Director's Update, ESPO staff attended a briefing held 6 December 2013 to review feedback in more detail.
 18. I will sponsor this plan within the organisation, ensure its delivery and report regularly within the organisation and to the Management Committee.

Sales & Marketing

Website

19. The website development project, reported on at the last Management Committee, is currently in testing and will be implemented in April 2014.

ESPO Catalogue

20. Work is underway developing the new ESPO 2014/2015 catalogue for an April 2014 launch. New product ranges to be included cover Literature & Numeracy, Early Years, Science, ESPO Smart Buy and Value ranges. These will reflect the new September 2014 school curriculum.

ESPO Risk and Governance Update

Annual Review of Organisational Approach to Risk Management

21. ESPO continues to strengthen its approach to risk management, both in framework creation and catalogue procurement. Also, our procedures have recently been subjected to an audit which has prompted further improvements to be made. As a consequence, it is my intention to take the annual review and approach to risk to the June 2014 Management Committee. This will allow the report to contain any recommendations from the live audit on risk and also to implement enhancements identified by the Assistant Director, Procurement and Compliance.

Audit Reports

22. There have been a number of audits carried out by Leicestershire County Council.
23. ESPO continues to address items highlighted in the September Health & Safety audit, looking at Health & Safety Management in warehouse activities, fleet management and general property management. A weekly health & safety walk-around is now conducted and a Health & Safety Forum has been convened to keep on top of issues as they emerge.

Continuous Improvement

24. We have taken the approach of Continuous Improvement and sponsoring critical strategic projects through which to drive long-term strategic change into ESPO, as well as short-term performance by regular management. We are adopting the principles of PRINCE2 methodology and report progress through the Senior Management Team. In respect of the e-tendering project, we are sharing a Project Management resource with Leicestershire County Council.
25. The top eight key change projects are as follows:
- E-tendering
 - Peak planning
 - Warehouse & logistics review
 - Demand planning
 - GEMS
 - Customer Relationship Management system
 - Spend analytics
 - Supplier relationship system

With the following ongoing projects delivered through the existing structure:

- Thought leadership
- Indigo implementation
- Health & Safety
- People Plan
- Customer analysis
- Internal financial reporting

E-tendering

26. E-tendering is one of the projects on ESPO's Continuous Improvement programme for 2014 being monitored by its SMT. ESPO is 'behind the curve' on procurement technologies. The requirement to issue and receive tenders electronically is both government policy and also widely expected to be a mandatory feature of the new Public Procurement legislation.
27. Having completed the system procurement of Due North, ESPO is now actively implementing it. The project is being managed by an officer from Leicestershire County Council who is splitting their time between there and ESPO, given the synergies of both organisations implementing the same system. Internally, ESPO has formed a project team for implementation and ESPO's SMT will occupy the role of project board and steering group. The officer is in the final stages of completing and distributing a project plan and articulated project approach based on PRINCE2 (light).
28. The first milestone is 1 April 2014 for data migration which will allow the use of the 'e-mailbox' functionality over a phased timeline. The second

phase of the project focusses on the implementation of the wider functionality, e.g. contract management. This is expected to be completed by September 2014.

Supplementary Information Informing the Progress Report

29. Further information of a commercially sensitive nature which informs this report is contained under Item * (Exempt Report), on the agenda for this meeting.

Resources Implications

30. None arising directly from this report.

Recommendation

31. Members are asked:
 - a) to note the contents of the report;
 - b) to agree that authorities in ESPO now take the necessary decisions to enable agreement to be reached on the terms for Leicester City Council to leave the Consortium.

Officer to Contact

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ESPO MANAGEMENT COMMITTEE – 6 MARCH 2014

BUSINESS STRATEGY 2014-18

REPORT OF THE DIRECTOR

Purpose of Report

1. The purpose of this report is to advise members of the Four-Year Business Strategy 2014-2018, entitled 'Planning Our Future'.

Background

2. In planning ESPO's future direction, there are two key planning processes required to support the principles underpinning the ESPO governance and risk framework, which are ESPO's Business Strategy and the Medium Term Financial Strategy (MTFS) (contained elsewhere on the agenda for this meeting). This document sets out the 2014-2018 Business Strategy.
3. The previous strategy was written to consider the critical challenges of that period and the key objectives for the organisation in order to progress. These included the retirement of the Director and a number of members of the Senior Management Team, and the need to create more formal risk management procedures in the organisation.
4. The outcomes of that strategy were:
 - To put in place robust management to understand risk and take advantage of new opportunities;
 - To put in place fundamental management processes which were needed to allow the business to continue to grow and protect it from competitor and supplier challenge.
5. The previous strategy covered the period 2012-2016. These actions are well progressed (as summarised at the back of the attached document), a new senior management team has been installed, and firm foundations laid to move onto the next stage of ESPO's development.
6. In setting out the refreshed business strategy for 2014-2018, ESPO will now build up on these foundations, and has considered the current dynamic environment that our Members and customers are experiencing within the public sector.
7. Given the dynamic environment that we now operate in, it is critical that ESPO is alert to the challenging demands on our Members, and appreciates that their needs are evolving. To this end, ESPO is in a position to respond flexibly should it be called to do so.

8. The four-year strategy is aligned to the MTFS, and will be updated annually along with the MTFS and will be reported on, as necessary, as part of the Director's Progress Report.

Considerations in developing the 2014-2018 ESPO Four-Year Business Strategy

9. The assessment laid out in paragraphs 10-14 below considers ESPO's changing environment and how ESPO will respond to it. The challenges facing ESPO and its members are considerable, and now require more of an external focus than has been needed over recent years.
10. Development of the 2014-2018 strategy has involved:
 - Analysing the external environment including changes in the public sector landscape, the competitive environment and factors that are challenging through the impact of changes in social, technological, economic, environmental, political, and legal factors;
 - Further understanding ESPO's culture through an All Staff Survey and understanding how this will impact the business strategy. Also, reviewing ESPO's current resources, capabilities, and competencies;
 - Analysing the current and potential procurement activities, and the warehousing and logistics activities of ESPO.
11. The public sector in the UK is facing a number of significant challenges in terms of local authorities being required to deliver increasing levels of efficiency savings through transformational change and becoming strategic commissioning bodies, making high-level decisions for their local communities, rather than always directly providing services.
12. The focus on risk management as laid down in the preceding strategy is now well embedded within the organisation and will continue to evolve. Risk management processes are key within both the procurement and the warehousing divisions of ESPO, and importantly as a tool through which the Senior Management Team (SMT) considers the organisation and aligns appropriate resources and effort accordingly.
13. In anticipating members and customers' needs, ESPO continues to progress its investment in technology to deliver its business solutions, and seeks to seize the commercial opportunities that it pursues, and also those which arise.
14. The governance arrangements as agreed by the Management Committee will continue to be observed, and the draft Consortium agreement and the associated constitution will be followed accordingly following its expected adoption in 2014.

Summarising the key strategic planks

15. ESPO's Mission Statement and Vision are as follows:
- Our Mission is 'To work in partnership with our stakeholders to drive Value-for-Money for the Public Sector, through comprehensive procurement solutions'.
 - Our Vision is 'To be the first choice provider of Public Sector procurement solutions'.
16. In considering the challenges over the forthcoming four years, there are six strategic planks to be pursued; these are set out in paragraphs 17 to 29 below. These are our strategies for Customer, Procurement and Compliance, Operations, Our People, Enablers (Finance and IT), and Continuous Improvement (key change projects required within the business in order to make progress).

Customer strategy

17. We recognise that we need to focus our expertise based on Members' needs and those of our core customers. ESPO will continue to prioritise the pressing needs of its customer base, and develop solutions which demonstrate Value for Money.
18. ESPO's business over the past few years has moved from being purely a catalogue business and a procurer of goods to the comprehensive procurement of goods and services for the public sector. In developing this further, ESPO will need to engage more with the providers/suppliers, clients and customers, collate the data gleaned, and interpret such information into intelligence about specific markets, and then use this to develop our knowledge to give advice and support to clients, thus improving the benefits of better procurement.
19. ESPO's customer strategy has four key strands stretching across the common customer base of both of the key divisions. The four priorities are:
1. Protecting our core business and customer retention;
 2. Extending uptake of existing product range to existing customers;
 3. Expanding our customer geography with our existing offering; and finally
 4. Looking to new areas of business (both customers and product range) that we can readily adapt to, or require in order to ensure a strong customer base in the future.

Procurement and Compliance strategy

20. ESPO's agenda for procurement and compliance will be characterised differently to the efficiency and growth agenda of our catalogue and stores operation. The demonstrable value to Members is in the range and quality of our procurement activities be that framework agreements or public contracts. The Member rebate is very small in comparison to the cost and risk avoidance Members enjoy from using ESPO, as well the contract savings themselves as a consequence of ESPO growing its reputation for 'good procurement'.
21. That said, the function must continue to be commercially positioned to contribute to delivery against wider ESPO policies of a flat cost line with a

growing income line as a proxy measure for engagement in our procurement offering.

22. The 2014-2018 work programme can be summarised as follows:

- External focus
A programme of work to include continued efforts behind collaboration and extended use of ESPO's procurement solutions, a focus on training internal and member professional staff, and using our strength participate in shaping the National Procurement Strategy for Local Government.
- Internal focus
A programme of work invests in the appropriate level of resource and skills to deliver the desired procurement outcomes, continued attention to evolving and embedding ESPO's risk management processes and procedures including the development of a formal Risk Strategy. Further to this, we will invest in technology including e-tendering, GEMS replacement energy system, ISYS time management system, and critically an investment in Spend Analytics from a member perspective.

Operations strategy

23. ESPO's operational strategy is to provide an efficient and scalable supply chain capable of delivering products to its customers, on-time and in-full. To ensure that ESPO continues to meet customer requirements now and into the future, it will need to develop its logistics capability. This action plan sets out the direction of travel and highlights the improvements that are needed to deliver the strategy. This will ensure that we deliver Value for Money through an efficient service.

24. The 2014-2018 work programme can be summarised as follows:

- External focus
A programme of work to include a review of the warehouse operations and the logistics arrangements, followed by implementation of proposed changes.
- Internal focus
A programme of work invests in the appropriate level of resource and skills to deliver the desired customer focussed outcomes. The commitment to investment in technology includes the stock ordering system, and the RDT (Radio Data Terminal) system, with a view to continued warehouse automation, and an ability to transact with our customers electronically. Further to this, using intelligence to inform our customer promise in terms of order frequency, order value, and delivery frequency will further shape how we accommodate our customer demands.

Our People strategy

25. The delivery of ESPO's strategy will be realised as staff are further developed and coordinated to enable ESPO's strategic priorities to be delivered. ESPO needs to ensure that both the numbers of staff and their capabilities meet the future demands on the business.

26. To strengthen the organisation's capability to enable the business outcomes to be achieved in the future, the workforce needs the required skill sets to be developed.

27. It is intended to ensure the right people with the right skills at the right time and cost are available to meet the changing demands of our customers and deliver the required business outcomes.
28. ESPO undertook a staff survey in 2013, which was well supported and insightful. This has been used as a basis for an ESPO organisational development plan structured around the following key themes:
- Communication
 - Reward and recognition
 - Learning and development
 - Management and leadership
 - Investment in kit and resources to achieve customer outcomes
 - Brand update

Enablers (Finance and IT) strategy

29. The financial strategy supports the stated objective of ESPO to provide value for money for its users and to grow the net worth of the organisation. Inherent in that strategy is to drive headline growth, seek further efficiencies in the cost base (allowing growth with no further net investment), and to provide an appropriate return for members relative to the risks they take.
30. Key financial hallmarks of the strategy over the next four years are as follows:
- ESPO commitment to value for money, the organisation's main objective;
 - Clear focus on achieving cost efficiencies, being transferred into business growth initiatives and sustained lower prices;
 - Secure and adapt to maintain core business;
 - Grow Stores volume by 20% through competitive pricing and outstanding service;
 - Maintain rebate income through increased numbers of frameworks offset by pressure on rebate margins;
 - Develop staff capabilities and new skill sets;
 - Expand the services offered to customers thus broadening the offering and hence the customer base;
 - Spread the benefit of ESPO to all users in the form of competitive pricing;
 - A fair return to members relative to the risk they take;
 - Grow the net worth of the business;
 - Minimise risk and maximise opportunities by growing ESPO capability and unique skills.
31. As a result of the pricing and volume strategy, the trading surplus is forecast to rise from £2.1m in 2013/2014 to at least £3.0m in 2017/2018 and beyond. Of this, 80% will be returned to Members which will mean that over the four-year period, over £6.9m is targeted to be paid as dividends to the Members of the consortium.
32. Members have clearly stated that a dividend is not the principal reason for being a part of the consortium. A target of 3.5% return on capital has been set but ESPO will need to achieve more than this if it is to maintain sufficient working capital, asset and resource replacement, and contingency funding.

Continuous Improvement strategy

Key projects

33. The continuous improvement programme is seen as a means of delivering key change projects which are required to deliver the business strategy. We will move away from focussing on lists of small tasks to a programme focussed on business priorities. These will be aligned to the strategic priorities of the organisation.
34. The top eight key change projects are as follows:
- E-tendering
 - Peak planning
 - Warehouse & logistics review
 - Demand planning
 - GEMS
 - Customer Relationship Management system
 - Spend analytics
 - Supplier relationship system

With the following ongoing projects delivered through the existing structure:

- Thought leadership
 - Indigo implementation
 - Health & Safety
 - People Plan
 - Customer analysis
 - Internal financial reporting
35. The continuous improvement programme is led by a programme director supported by project managers to coordinate the activity. We currently draw upon resource from the Leicestershire County Council support team to deliver this.
36. The programme will look to mapping the organisation's key processes and stakeholders including management committee, customers, suppliers, staff, and unions. The European Foundation for Quality Management (EFQM) methodology provides a proven means of engaging with stakeholders and a project governance framework.
37. Investment pipeline for the continuous improvement activity - Using the business case approval process, the projects will be sponsored with all investments being fully supported by a business case and rigorous analysis before being enshrined in the project plan, and the annual budget. Operations and Finance within ESPO will work closely together to ensure mutual understanding of all costs and business benefits.

Resources Implications

38. Resources to support the deliverability of the Medium Term Business Strategy are contained within the Medium Term Financial Strategy

(MTFS) 2014/15 – 2017/18 contained elsewhere on the agenda for this meeting. Should Business Strategy priorities change over time, these will be reflected within future versions of the MTFS.

Conclusion

39. The four-year business strategy presents an understanding of ESPO's Member and customer requirements, an according growth plan, and a realistic approach to the finances required to achieve these ambitions.
40. The unique combination of ESPO being derived from a service-led organisation, but needing to survive in an increasingly aggressive commercial market makes this a very challenging period that we are embarking upon. I believe, with this management team and financial investment, we are capable of responding to these challenges.

Recommendation

13. The Management Committee is asked to approve the four-year business strategy document 2014-2018, attached as Appendix 1 to this report.

Equal Opportunities Implications

41. The business strategy impacts Members, staff, customers and suppliers but is unbiased in its impact.

Risk Assessment

42. Risks are addressed within the business strategy.

Background Papers

43. None.

Officer to Contact

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Appendices

Appendix 1: Business Strategy 2014-18

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Four Year Business Strategy

2014-2018

“Planning Our Future”

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Executive Summary

In planning ESPO's future direction, there are two key planning processes required to support the principles underpinning the ESPO governance and risk framework, which are ESPO's Business Strategy and the Medium Term Financial Strategy (MTFS).

The previous strategy was written to consider the critical challenges of that period and the key objectives for the organisation in order to progress. These included the retirement of the Director and a number of members of the Senior Management Team, and the need to create more formal risk management procedures in the organisation.

The outcomes of that strategy were:

- To put in place robust management to understand risk and take advantage of new opportunities;
- To put in place fundamental management processes which were needed to allow the business to continue to grow and protect it from competitor and supplier challenge.

The previous strategy covered the period 2012-2016. These actions are well progressed, a new senior management team has been installed, and firm foundations laid to move onto the next stage of ESPO's development.

In setting out the refreshed business strategy for 2014-2018, ESPO will now build up on these foundations, and has considered the current dynamic environment that our Members and customers are experiencing within the public sector.

Given the dynamic environment that we now operate in, it is critical that ESPO is alert to the challenging demands on our Members, and appreciates that their needs are evolving. To this end, ESPO is in a position to respond flexibly should it be called to do so.

The challenges facing ESPO and its members are considerable, and now require more of an external focus than has been needed over recent years.

Development of the 2014-2018 strategy has involved:

- Analysing the external environment including changes in the public sector landscape, the competitive environment and factors that are challenging through the impact of changes in social, technological, economic, environmental, political, and legal factors;
- Further understanding ESPO's culture through an All Staff Survey and understanding how this will impact the business strategy. Also, reviewing ESPO's current resources, capabilities, and competencies;

- Analysing the current and potential procurement activities, and the warehousing and logistics activities of ESPO.

The public sector in the UK is facing a number of significant challenges in terms of local authorities being required to deliver increasing levels of efficiency savings through transformational change and becoming strategic commissioning bodies, making high-level decisions for their local communities, rather than always directly providing services.

The focus on risk management as laid down in the preceding strategy is now well embedded within the organisation and will continue to evolve. Risk management processes are key within both the procurement and the warehousing divisions of ESPO, and importantly as a tool through which the Senior Management Team (SMT) considers the organisation and aligns appropriate resources and effort accordingly.

In anticipating members and customers' needs, ESPO continues to progress its investment in technology to deliver its business solutions, and seeks to seize the commercial opportunities that it pursues, and also those which arise.

The governance arrangements as agreed by the Management Committee will continue to be observed, and the draft Consortium agreement and the associated constitution will be followed accordingly following its expected adoption in 2014.

ESPO's Mission Statement and Vision are as follows:

- Our Mission is 'To work in partnership with our stakeholders to drive Value-for-Money for the Public Sector, through comprehensive procurement solutions'.
- Our Vision is 'To be the first choice provider of Public Sector procurement solutions'.

In considering the challenges over the forthcoming four years, there are six strategic planks to be pursued. These are our strategies for Customer, Procurement and Compliance, Operations, Our People, Enablers (Finance and IT), and Continuous Improvement (key change projects required within the business in order to make progress).

The customer strategy recognises that we need to focus our expertise based on Members' needs and those of our core customers. ESPO will continue to prioritise the pressing needs of its customer base, and develop solutions which demonstrate Value for Money.

ESPO's business over the past few years has moved from being purely a catalogue business and a procurer of goods to the comprehensive procurement of goods and services for the public sector. In developing this further, ESPO will need to engage more with the providers/suppliers, clients and customers, collate the data gleaned, and interpret such information into intelligence about specific

markets, and then use this to develop our knowledge to give advice and support to clients, thus improving the benefits of better procurement.

ESPO's customer strategy has four key strands stretching across the common customer base of both of the key divisions. The four priorities are:

- Protecting our core business and customer retention;
- Extending uptake of existing product range to existing customers;
- Expanding our customer geography with our existing offering; and finally
- Looking to new areas of business (both customers and product range) that we can readily adapt to, or require in order to ensure a strong customer base in the future.

ESPO's procurement and compliance strategy agenda will be characterised differently to the efficiency and growth agenda of our catalogue and stores operation. The demonstrable value to Members is in the range and quality of our procurement activities be that framework agreements or public contracts. The Member rebate is very small in comparison to the cost and risk avoidance Members enjoy from using ESPO, as well the contract savings themselves as a consequence of ESPO growing its reputation for 'good procurement'.

That said, the function must continue to be commercially positioned to contribute to delivery against wider ESPO policies of a flat cost line with a growing income line as a proxy measure for engagement in our procurement offering.

The 2014-2018 work programme includes an external focus, a programme of work to include continued efforts behind collaboration and extended use of ESPO's procurement solutions, a focus on training internal and member professional staff, and using our strength participate in shaping the National Procurement Strategy for Local Government. It also includes an internal focus, a programme of work invests in the appropriate level of resource and skills to deliver the desired procurement outcomes, continued attention to evolving and embedding ESPO's risk management processes and procedures including the development of a formal Risk Strategy. Further to this, we will invest in technology including e-tendering, GEMS replacement energy system, ISYS time management system, and critically an investment in Spend Analytics from a member perspective.

ESPO's operational strategy is to provide an efficient and scalable supply chain capable of delivering products to its customers, on-time and in-full. To ensure that ESPO continues to meet customer requirements now and into the future, it will need to develop its logistics capability. This action plan sets out the direction of travel and highlights the improvements that are needed to deliver the strategy. This will ensure that we deliver Value for Money through an efficient service.

The 2014-2018 work programme includes an external focus, a programme of work to include a review of the warehouse operations and the logistics

arrangements, followed by implementation of proposed changes. It also includes an internal focus, a programme of work invests in the appropriate level of resource and skills to deliver the desired customer focussed outcomes. The commitment to investment in technology includes the stock ordering system, and the RDT (Radio Data Terminal) system, with a view to continued warehouse automation, and an ability to transact with our customers electronically. Further to this, using intelligence to inform our customer promise in terms of order frequency, order value, and delivery frequency will further shape how we accommodate our customer demands.

The delivery of ESPO's people strategy will be realised as staff are further developed and coordinated to enable ESPO's strategic priorities to be delivered. ESPO needs to ensure that both the numbers of staff and their capabilities meet the future demands on the business.

To strengthen the organisation's capability to enable the business outcomes to be achieved in the future, the workforce needs the required skill sets to be developed. It is intended to ensure the right people with the right skills at the right time and cost are available to meet the changing demands of our customers and deliver the required business outcomes.

ESPO undertook a staff survey in 2013, which was well supported and insightful. This has been used as a basis for an ESPO organisational development plan structured around the following key themes:

- Communication
- Reward and recognition
- Learning and development
- Management and leadership
- Investment in kit and resources to achieve customer outcomes
- Brand update

The financial strategy supports the stated objective of ESPO to provide value for money for its users and to grow the net worth of the organisation. Inherent in that strategy is to drive headline growth, seek further efficiencies in the cost base (allowing growth with no further net investment), and to provide an appropriate return for members relative to the risks they take.

Key financial hallmarks of the strategy over the next four years are as follows:

- ESPO commitment to value for money, the organisation's main objective;
- Clear focus on achieving cost efficiencies, being transferred into business growth initiatives and sustained lower prices;
- Secure and adapt to maintain core business;
- Grow Stores volume by 20% through competitive pricing and outstanding service;
- Maintain rebate income through increased numbers of frameworks offset by pressure on rebate margins;

- Develop staff capabilities and new skill sets;
- Expand the services offered to customers thus broadening the offering and hence the customer base;
- Spread the benefit of ESPO to all users in the form of competitive pricing;
- A fair return to members relative to the risk they take;
- Grow the net worth of the business;
- Minimise risk and maximise opportunities by growing ESPO capability and unique skills.

As a result of the pricing and volume strategy, the trading surplus is forecast to rise from £2.1m in 2013/2014 to at least £3.0m in 2017/2018 and beyond. Of this, 80% will be returned to Members which will mean that over the four-year period, over £6.9m is targeted to be paid as dividends to the Members of the consortium.

Members have clearly stated that a dividend is not the principal reason for being a part of the consortium. A target of 3.5% return on capital has been set but ESPO will need to achieve more than this if it is to maintain sufficient working capital, asset and resource replacement, and contingency funding.

The continuous improvement programme is seen as a means of delivering key change projects which are required to deliver the business strategy. We will move away from focussing on lists of small tasks to a programme focussed on business priorities. These will be aligned to the strategic priorities of the organisation.

The top eight key change projects are as follows:

The continuous improvement programme is led by a programme director supported by project managers to coordinate the activity. We currently draw upon resource from the Leicestershire County Council support team to deliver this.

The programme will look to mapping the organisation's key processes and stakeholders including management committee, customers, suppliers, staff, and unions. The European Foundation for Quality Management (EFQM) methodology provides a proven means of engaging with stakeholders and a project governance framework.

Using the business case approval process, the projects will be sponsored with all investments being fully supported by a business case and rigorous analysis before being enshrined in the project plan, and the annual budget. Operations and Finance within ESPO will work closely together to ensure mutual understanding of all costs and business benefits.

The four-year business strategy presents an understanding of ESPO's Member and customer requirements, an according growth plan, and a realistic approach to the finances required to achieve these ambitions.

The unique combination of ESPO being derived from a service-led organisation, but needing to survive in an increasingly aggressive commercial market makes this a very challenging period that we are embarking upon. I believe, with this management team and financial investment, we are capable of responding to these challenges.

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Introduction

This document describes ESPO's environment and how ESPO will respond.

ESPO will build up on the foundations of the existing business, and has considered the current dynamic environment that our Members and customers are experiencing within the public sector.

The public sector in the UK is facing a number of significant changes in terms of local authorities delivering increasing levels of efficiency savings through transformational change and becoming strategic commissioning bodies, making high-level decisions for their local communities, rather than always directly providing services.

The apparent conflict between localism (driving national economic growth and the local/SME agendas) and the drive for savings through larger contracts ('buy once', standardisation of specifications and value through aggregation) presents challenges for the public sector, and specifically for ESPO. At the same time, schools are converting to academies, bringing them financial independence, and Clinical Commissioning Groups are set to take on responsibility for commissioning health and care services from the Primary Care Trusts.

Generally, the environment outlined above represents some of the challenges which ESPO is uniquely positioned to respond to on behalf of its broad base of stakeholders. This document sets out a strategic framework that will help guide our business planning for the next four years.

The public sector in the UK is facing a number of significant challenges in terms of:

- Year-on-year reduction in spend. Recent CSR announcements continue to set out further reductions in Local Authority and wider public sector funding, whilst still being expected to support core services.
- Striving to support economic growth through stimulating local economies and in particular small and medium sized enterprises whilst needing to achieve savings through collaboration ('buy once', standardisation of specifications).
- Empowering local communities and encouraging the growth of the third sector through supporting volunteering and charities.
- Continuing to address environmental concerns, improving recycling rates, reducing waste and carbon emissions and the environmental impact of goods, works and services bought.

As guided by its owners, and as a public sector buying organisation, ESPO has been organised to contribute towards these issues by setting out to:

- Demonstrate Value for Money (VfM) through the provision of a wide range of consumable products at competitive prices and delivered to customers to a consistently high service level;
- Further demonstrate VfM through a comprehensive range of framework solutions and procurement services, and insights into Members' procurement decisions to further inform their strategic agendas such as SMEs. In doing so, enabling customers to access services at competitive prices, knowing that they have been procured compliantly. A further customer benefit is not having to engage their workforce to achieve the same.
- Represent procurement views to the government and others on matters affecting the interests of our stakeholders (Energy, ICT, Professional Services Categories and participating in the creation of the Local Government National Procurement Strategy);
- Collaborate where commercially wise to do so, to enable customers to take advantage of the best procurement opportunities available;
- Operate a culture derived from the blend of public and private sector commercial skills and the public sector ethos of transparency, equality and fairness.

In seeking to respond to these and other challenges, ESPO will adopt a fresh approach to Continuous Improvement as it also faces mounting challenges from an evolving competitive landscape set out as follows:

- Changes in the procurement landscape including procurement legislation, and increasingly disaffected suppliers willing to formally challenge the decisions of evaluation processes, have heightened the need for ESPO to be even more risk aware.
- Increasingly competitive offerings from Crown Commercial Services (previously Government Procurement Services) and other Public Buying Organisations across all areas of ESPO's current offering, both consumables and procurement solutions.
- Private sector suppliers (new and existing) aggressively mounting their activity within the schools (academies) sector, with a focus on price and service. From a customer perspective this 'raises the bar' from the 'County Supplies' expectations which have gone before.

- Technology within the market is rapidly moving towards e-commerce and similar ways of supporting business processes, which brings opportunities to operate more efficiently, and compete more effectively.
- Further challenges have been identified through an external environment analysis, and represented through the SWOT and STEPE analyses set out in Appendices 7 and 8).

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ESPO Background

Eastern Shires Purchasing Organisation (ESPO) is the UK's largest public sector professional buying organisation currently with 350 employees, circa 500 procurement solutions and financial turnover/throughput of £750m. We provide a comprehensive procurement service to enable customers to acquire a wide range of products and services at the best possible price in compliance with current UK and EU procurement rules and regulations. ESPO operates as a Local Government Joint Committee on a self-financing basis and is committed to delivering best value to its Members, customers, and the local community. ESPO was established in 1981 to provide a comprehensive procurement service to its Member Authorities, which expanded over time. Leicestershire County Council is the Servicing Authority and ESPO will, where possible, align itself to relevant policies, procedures, and financial regulations of the Servicing Authority.

ESPO's customer base has traditionally been made up primarily of the education sector and local authorities within the boundaries of the founding Member Authority areas. However, recent years has seen strong growth outside of these areas and core customer groups. Consolidating this customer base, and planning the future around stretch in products to the core customer group, geographic growth to the same customer type, and targeting new public sector customer groups form the core planks of our growth strategy.

ESPO operates from a 120,000 square foot distribution facility in Leicestershire, where more than 350 staff are employed to provide customers with an efficient consumables supplies service and a suite of compliant procurement solutions, as well as a technical procurement operation.

Our purpose is to deliver Value for Money to our customers by offering leading procurement solutions - more choice, higher quality and excellent value.

In 2006, ESPO became a member of the Pro5 collaborative procurement group and has been the lead authority on the majority of national procurement projects such as Advertising and Recruitment Services, Playground Equipment, ICT, Temporary Staffing (MSTAR) and Consultancy. ESPO has also participated in collaborations with Crown Commercial Services (CCS), formerly Government Procurement Service (GPS), to drive further value for public sector consumers.

ESPO's commercial knowledge, operating capability, market insight, category expertise and best practice sourcing are key attributes that enable us to respond quickly and effectively to the changing dynamics of demand within the public sector. To ensure that we maintain our leading position in this market, we proactively collaborate with customers and other partners to engage markets,

challenge current practices and develop innovative new commissioning and sourcing strategies, when this makes commercial sense to do so.

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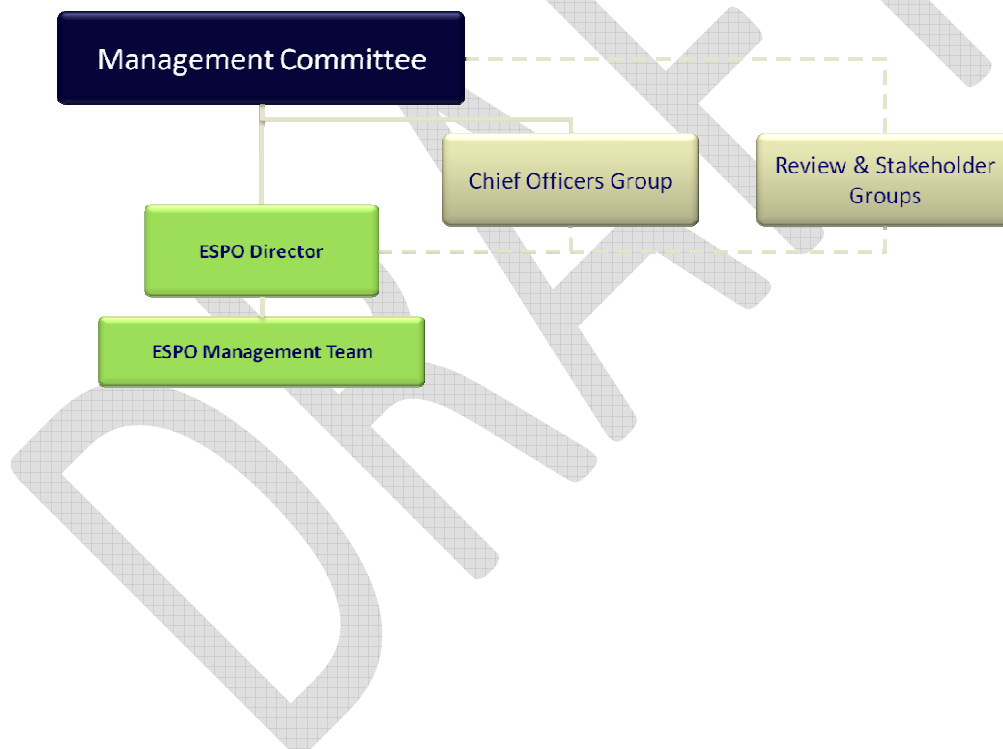
Ownership and Governance

ESPO will continue to work with the Member Authorities to ensure the effective implementation and embedding of the Governance Framework and help to ensure these remain appropriate for the future.

ESPO's management and governance procedures will be robust and transparent and ensure the effective and efficient delivery of the agreed strategic outcomes and objectives.

Although not part of the Governance structure, there is a Senior Officer Group in place which will act in an advisory capacity to the Chief Officer Group. ESPO's governance model has been designed to ensure that there is:

- Transparency of decision making;
- Rigour of risk management and financial control;
- On-going assessment of ESPO's value to the Consortium Authorities;
- Ease of decision making.



Our Mission, Vision and Values

Our Mission

ESPO is a local authority purchasing consortium. Our purpose is to deliver Value for Money (VfM) to all our customers and other client bodies by offering leading procurement solutions, more choice, higher quality and best value.

We do this through offering a comprehensive, cost effective contracting and procurement service, covering a diverse range of commodities, products and services, and a full procurement consultancy, aimed at assisting clients with complex procurement projects.

The Mission Statement is set out as:

'To work in partnership with our stakeholders to drive Value-for-Money for the Public Sector, through comprehensive procurement solutions'

VfM services will be achieved by ensuring a competitive offering is delivered primarily by ESPO or through collaboration where it is recognised that occasionally others are better placed to achieve those outcomes. Achieving competitiveness will be delivered through an absolute focus on the customer, improved operational efficiencies, and by working closer with our supply chains.

ESPO's objective is to demonstrate its ability to deliver VfM services to our customers. In doing this, we must ensure that our Member Authorities achieve a reward commensurate with the risk they share as ultimate funders of ESPO.

In return for their stake in ESPO, Members receive 3.5% return on capital. ESPO will also target an annual surplus of circa £2m to ensure sufficient working capital, asset and resource replacement, contingency funding, and that a dividend is maintained.

Both risk and performance management are an integral part of day-to-day operations. Risk management at ESPO is monitored and reviewed through a compliance process featuring a business case methodology and a risk strategy which is managed through the senior management team to the ESPO Management Committee.

Our Vision

ESPO operates across Local Government and the wider public sector in the UK, providing a comprehensive and cost effective procurement service for local authorities, schools and academies, voluntary and community organisations, charities and beyond. We fully embrace the needs of our Member Authorities and our customers and their economic, social and environmental requirements are the prime considerations when developing our procurement solutions. Further to this, ESPO has an obvious role to play in helping resolve critical financial challenges currently faced by the broader public sector.

Our Vision is:

'To be the first choice provider of Public Sector procurement solutions'

We will achieve this by bringing together a mix of commercialism, market insight, category expertise, and best practice sourcing. ESPO will work with all of its stakeholders, to engage markets and thereby achieve optimum outcomes for the benefit of its customers. ESPO will proactively challenge current practice, serving as a focal point for collaboration (where commercially sensible), bringing leadership and articulating new commissioning and sourcing strategies. We are committed to a programme of Continuous Improvement in our own operations as we seek to be the purchasing agent of choice in the local government/public sector.

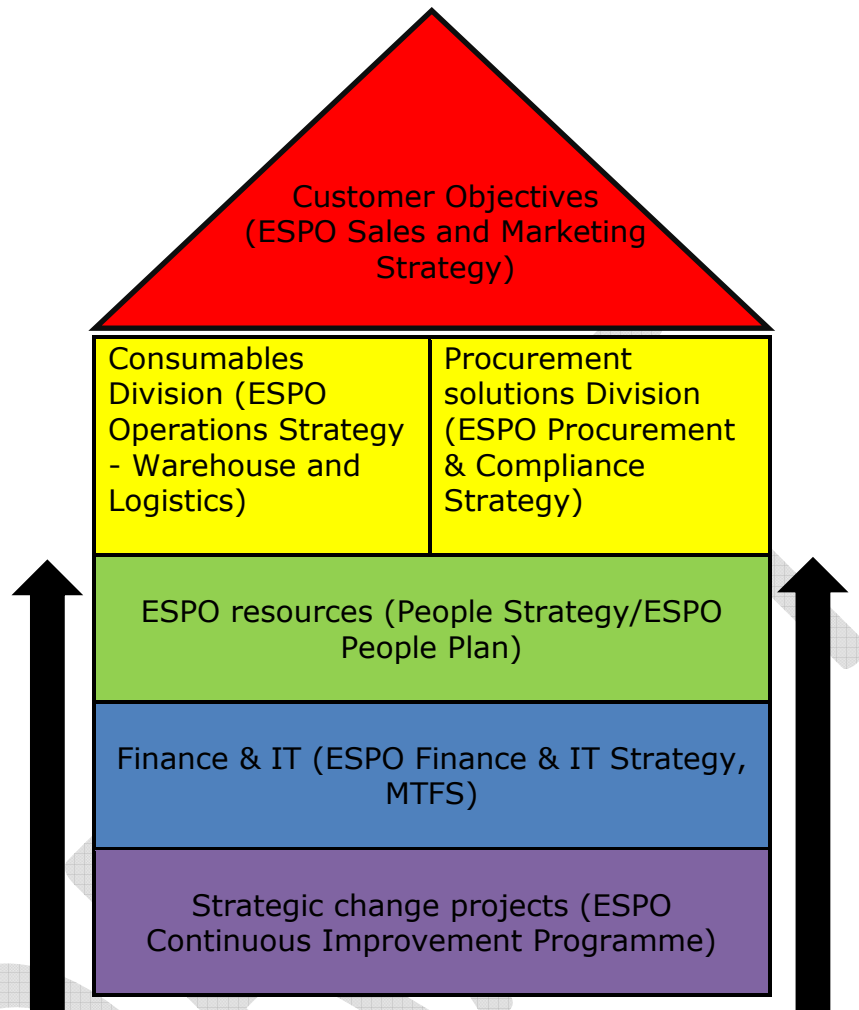
Our Values

ESPO's Core Values are that we will:

- Be customer focussed
- Be commercial
- Strive to develop and continually improve
- Be positive
- Exceed expectations
- Be flexible
- Work together

These values feature in every Performance Development Review (PDR) within ESPO. As well as our PDRs setting out real measureable targets, it is also important for us to be true to our values as an organisation.

Strategic Planning Approach



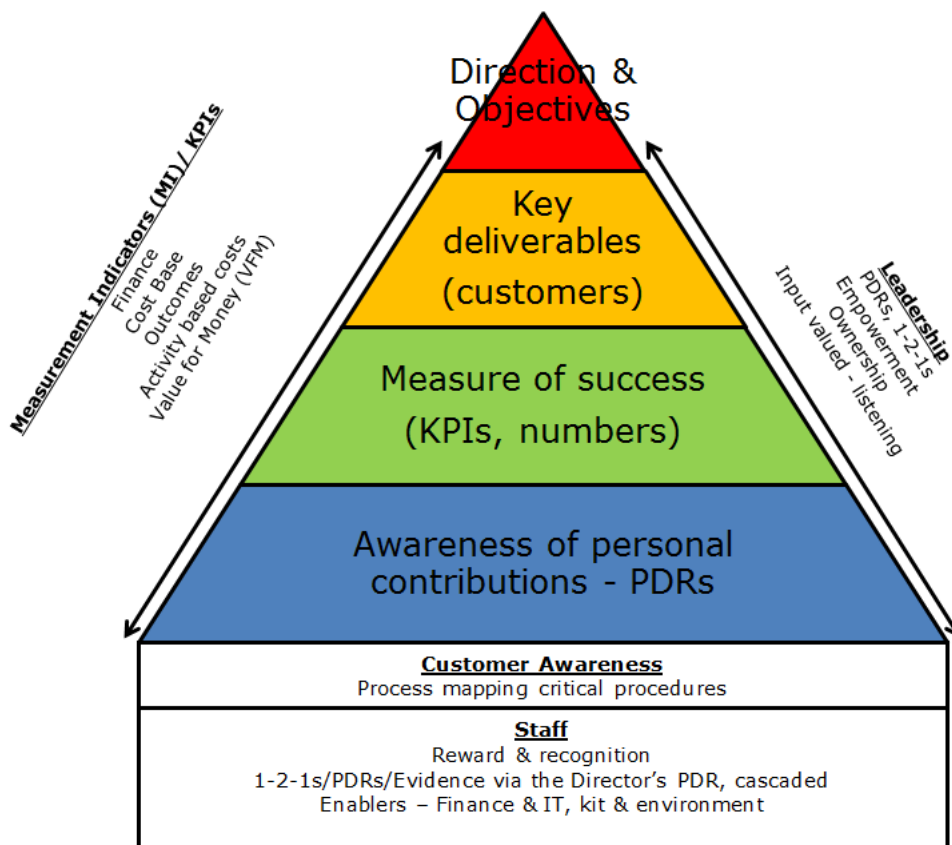
In planning our strategy, the Senior Management Team (SMT) has approached its planning in developing six core strategies for the organisation. By starting with the customer objectives, this then allows the two key functions of ESPO to plan their direction to both support the delivery of customers' needs and also to set out a direction for their function which will be sympathetic to challenges facing the customer groups.

In doing so, we will inform the expectations we have of our staff, the level of resource and skills required to succeed. Critical to this, we must also ensure that we create the desired 'ESPO environment' for them to do this which will be a fair environment where staff feel duly rewarded and recognised for their contributions.

To enable this, we will ensure through the Medium Term Financial Strategy (MTFS) that we have the right resources in place to succeed with regards to finance and IT. The MTFS will not only set out the shape of the business for the next four years, but allow for the right investment in the organisation to take place. The MTFS outlines the ambition for growing the net worth of the business, the shape of the profit and loss, and ultimately the return to our membership.

Finally, the agreed ambitions of the organisation will change many of the tried and tested processes within ESPO. These changes are important to the successful operation of the organisation in the environment that we have set out thus far. To this end, this change will be achieved by formalising our approach to Continuous Improvement. This will be comprised of a programme of strategic change projects, following many of the hallmarks of Prince2 methodology to project management. Each project will be sponsored by an SMT executive member, and the programme will be reported regularly to the SMT by the Programme Director.

Once our strategy and direction are agreed, the following framework will be embraced to ensure delivery. This encompasses the measurement, communication of activity, and sets out a performance environment where customer ambitions are key to success.



ESPO's Strategic Goals

1. To anticipate and respond to our customer's needs and objectives. To support our Member Authorities' strategic procurement agendas, thereby helping to resolve their financial challenges and procurement objectives.
2. To ensure that our customers see ESPO as responsive, reliable, value adding, easy to use, and competitive.
3. To expand our activities in terms of:
 - a. Consumables trading,
 - b. Provision of procurement solutions and consultancy to local authorities, the education market and the broader public sector.
4. To be famous for 'doing good procurement' - To ensure broader procurement and commissioning programmes are delivered using the commercial skills of ESPO staff by focussing on offering more choice, higher quality and best value.
5. To operate a warehouse and logistics solution which is cost efficient, capable of responding to and exceeding customer expectations, and accommodating future growth.
6. To shape and positively influence the development of procurement practice on behalf of our Members and more broadly local government through research, market analysis, training and advice.
7. To build the ESPO brand and reputation by being recognised as technically excellent in our chosen fields and a sharer of commercial knowledge within, and beyond, the public sector.
8. To create a working environment where our staff consider ESPO a good place to work.
9. To increase the net worth of the organisation, through increased income, a controlled cost base, driving efficiencies in the operation, and ensuring that both of the key operations of ESPO make a positive financial contribution to the organisation.
10. To understand and manage risk.

ESPO's 6 Core Strategies

ESPO's core strategies for the next four years are set out below:

1. ESPO Sales and Marketing Strategy (Appendix 1)

The traditional core business of the warehouse has provided ESPO not only with its growth for the first twenty years of the organisation's life but also provides a constant and predictable cash flow through which it provides stability to the overall organisation. Although it may be a mature business, there are still opportunities to grow the sales volume, particularly to the education sector, enabling greater efficiencies in both procurement and operations.

ESPO's business over the past decade has moved from being primarily a catalogue-based supplies business to a procurement organisation, delivering a comprehensive range of goods and procurement services for the public sector. In the warehouse operation, we will measure customer success by satisfying their orders 'on time, in full'. ESPO will seek to drive its warehouse and logistics operation much more efficiently to achieve this goal in the short term, but also to ensure we have capacity to grow further from the existing infrastructure. In the procurement operation, ESPO will need to engage further with the providers/suppliers, clients and customers, collate the data gleaned, and interpret such information into intelligence about specific markets, and then use this to develop our knowledge to give advice and support to clients, thus improving the benefits of even better procurement.

The gathering of intelligence and using this to build our knowledge will be a core capability to further enhance value to our Members. This will enable us to accommodate and respond to customer needs, as well as develop new services and solutions. Such knowledge will be difficult to be replicated by any other private sector organisation, thus putting the organisation in a strong position.

We recognise that we need to focus our expertise based on Members' needs and those of our core customers. ESPO will continue to prioritise the pressing needs of its customer base, and develop solutions which demonstrate Value for Money (VfM).

In order to become more customer focused, specification of the catalogue content has been separated from the procurement function into a merchandising function. Product content will form part of the aims and objectives of the Marketing Strategy for catalogue product sales.

The split in responsibilities supports the objective of introducing further products over the next four financial years. More research is required around:

- Product packs and packaging;
- Our pricing strategy around unit product sales and packs;
- Further development of own label products enabling customers to purchase VfM products suitably endorsed by ESPO's Smarter Buying brand.

In understanding the customer needs and working towards the customer priorities as discussed above, further ESPO activity will be informed by the following approach, with our growth priorities set in four categories. The continued financial growth of the organisation will be achieved by pursuing these customer protection and growth activities.

Marketing priority grid

- A. Retention & Protect
- B. New Customer Growth
- C. Business Development – Existing
- D. Business Development – New

<i>New</i>	<ul style="list-style-type: none"> ▪ Cross-Sell Bundles ▪ Upsell ▪ Value Range ▪ Frameworks – New ▪ Frameworks – Existing ▪ Spend Analytics 	<ul style="list-style-type: none"> ▪ Department for Education (DfE) National initiatives ▪ Academy Groups ▪ Health Trust Europe (HTE) ▪ FE/Universities/HE 	
Products & Services	C A	D B	
<i>Existing</i>	<ul style="list-style-type: none"> ▪ Retention/Loyalty Programme ▪ Customer Relationship Management (CRM) System ▪ Database Development ▪ Supply Chain Value ▪ E-Ordering ▪ Key Account Offers 	<ul style="list-style-type: none"> ▪ Geographic Growth (M5/Wales/North Home Counties) ▪ Healthcare ▪ Blue Light ▪ New Authorities ▪ MOD ▪ UK ESPO National 	
	<i>Existing</i>	Markets & Customers	<i>New</i>

- A. Retention & Protect (Protect core business)
 - a. Customer retention plan
 - b. Customer loyalty programme
- B. New Customer Growth (Grow into new geographies and customer groups)
 - a. Customer growth plan (consumables and procurement customers)
 - b. Added insights through spend analytics and insight solutions
- C. Business Development – Existing (Product range, including value ranges)
 - a. Extend new products into existing customer groups, including new procurement solutions
 - b. New product and framework development – driven through ESPO and collaborations

- c. Increased engagement in framework solutions
- d. Added insights through spend analytics and insight solutions

D. Business Development – New

- a. Exploring new relationships (e.g. Health Trust Europe) in new sectors

2. ESPO Procurement Strategy (Appendix 2)

ESPO's agenda for procurement and compliance will be characterised differently to the efficiency and growth agenda of our catalogue and stores operation. The demonstrable value to Members is in the range and quality of our procurement activities be that framework agreements or public contracts. The Member rebate is very small in comparison to the cost and risk avoidance Members enjoy from using ESPO, as well the contract savings themselves as a consequence of ESPO growing its reputation for 'good procurement'.

That said, the function must continue to be commercially positioned to contribute to deliver against wider ESPO policies of a flat cost line with a growing income line as a proxy measure for engagement in our procurement offering.

The 2014-2018 work programme can be summarised as:

External focus

- A. Ensuring customers' procurement needs continue to be at the heart of our purpose and outputs and solutions reflect this
- B. Using ESPO knowledge and insight to participate in the National Procurement landscape, being well regarded and welcomed in such debates
 - a. Reputational enhancement through active involvement at a national level through Society of Procurement Officers (SOPO) and the Local Government Association (LGA) to shape and implement national messages
 - b. Improved PR and reputation through entering awards, thought leadership and publication
- C. First in being at the forefront of all current EU procurement regulation
 - a. Supporting the cabinet office in its training agenda for public contract regulations (PCR) 2014 by having 'train the trainer' training and offering training by ESPO senior staff to four cohorts identified by Cabinet Office
 - b. Offering Members access to ESPO training partner for their own procurement training for PCR 2014
 - c. Developing a wider offering for procurement training
- D. A clear commercial basis for collaborations

- a. A documented and agreed collaborative position within Pro5 predicated distributing rebate on procurement and contracting effort (80%) wider support marketing (20%)
- b. Exploration of targeted 'franchising' collaboration e.g. across health or Blue Light services

Internal focus

- A. Ensuring customer demands are prioritised
 - a. A forward work plan for 2014 published (including a 'major procurements' programme)
 - b. Procurement category strategies authored and published
 - c. Spend analytics
- B. Ensuring all procurement process embodies ESPO's approach to risk management
 - a. Developing a risk strategy for compliance risk at ESPO
- C. Process embedding and improvement to ensure 'good procurement'
 - a. Refreshed senior structure in place of three commercial managers, commercial solicitor as Assistant Director, Procurement & Compliance direct reports (Quarter 1)
 - b. Clearer, better defined and fit for purpose legal service to support P&C activity
 - c. Provision of PCR 2014 training to staff via our appointed external training partner PP&CS Ltd
 - d. Launch of a suite of business processes and standard documentation
 - e. Continued cultural shift to raising standards, vigour and 'good procurement' model
- D. Technology advancement to enable future 'good procurement'
 - a. Implementation of Due North so as deliver an e-tendering system and functionality
 - b. Piloting of ISYS system to evidence our utilisation and cost recovery monitoring and reporting time/cost recording
 - c. Delivery of GEMS replacement project

3. ESPO Operations Strategy (Appendix 3)

ESPO's operational strategy is to provide an efficient and scalable supply chain capable of delivering products to its customers 'on time, in full'. To ensure that ESPO continues to meet customer requirements now and into the future, it needs to develop its operations and logistics capability.

The catalogue and warehouse deliver a predictable income flow and heavily support the ESPO organisation financially as well as externally the 'ESPO' brand.

The marketing strategy provides an overview of expectations of how and where ESPO's growth will be derived in terms of customers, geographical coverage, markets and pricing, which sets out a broad framework of expectations which need to be satisfied through this part of the organisation.

The investment in systems and processes in the warehouse operation will yield an advantage for the organisation as we seek to push for further growth. At this stage, it is critical that the change in approach to operating the warehouse is fully embedded, and the default mode of operation. This is changing 30 years of an accepted way of working (often by the same employees), which will contribute to the pace of change.

A key area of customer default is when key stock lines are not available. This area has been brought under the wing of operations to align the activity with the replenishment and stock movement activity.

A secondary area, due to the 'peakiness' of our customer demand, is when our operation is overwhelmed with demand and the organisation needs to respond at pace.

The 2014-2018 work programme can be summarised as follows:

External focus

Following from expectations on the customer operations as reinforced in the sales and marketing plan, a fresh drive within the organisation to operate efficiently to strive to exceed customer demand and prepare for growth will take place to include the following:

- Warehouse operational review

In seeking to manage service, the current and growing demand of existing and new customers, service levels will be considered as to how expectations can be exceeded with current geography and beyond.

- Logistics review

ESPO spends a significant sum in running and maintaining a fleet of circa 50 vehicles. The provision of this service is highly valued by ESPO customers. However, the dynamics of the operation have changed, and set to change further. The logistics solution will be considered to ensure that a solution is in place which will accommodate our future growth plans and customer profile.

Internal focus

- RDT System – full implementation to support future automation
- Service Proposition
 - Delivery Frequency – based on account spend
 - Pro-active Communication – to enable holiday deliveries
 - Next-Day Delivery Capability - to enhance offer
 - Minimum Order Quantity – as a means of cost recovery

- Staff Engagement
 - Info-Zone – information sharing area
 - Incentive Scheme – to reward excellent performance
- Management Structure – to up-skill and empower Shift Managers and Section Leaders
- Management capability: Training & Mentoring Programme – to enhance management skills
- Health & Safety – to manage health and safety obligations
- Management Control & Reporting System (MCRS) – to manage staff resource
- Transport Optimisation – to ensure optimal efficiency
- Permanent Night Shift – as a replenishment resource and support peak demand periods
- Warehouse Automation – to increase efficiency from 2015 onwards

4. ESPO People Strategy (Appendix 4)

The delivery of ESPO's strategy will be realised as staff are further developed and coordinated to enable ESPO's strategic priorities to be delivered. ESPO needs to ensure that both the numbers of staff and their capabilities meet the future demands on the business.

To strengthen the organisation's capability to enable the business outcomes to be achieved in the future, the workforce needs the required skill sets to be developed. It is intended to ensure the right people with the right skills at the right time and cost are available to meet the changing demands of our customers and deliver the required business outcomes.

Success through people

ESPO needs to achieve a positive workplace culture which will ensure a proactive and productive workforce consisting of well-motivated employees who are loyal to the organisation.

Success for ESPO's business strategy can only be realised if staff, as the key resource of the organisation, are managed and developed to enable ESPO's strategic priorities to be delivered. This will be achieved by operating in accordance with the management framework set out on Page 10 and further supported by cascading the organisation's objectives into a series of Professional Development Reviews (PDRs) from the top to the bottom of the organisation, which are then used to base constructive management conversations throughout the year and beyond.

The People Strategy has been developed around five strategic workforce themes to focus our priorities, and inform where activity is best concentrated and to generate annual delivery plans.

The themes are:

- Leadership and management capacity and capability
- Workforce learning and development

- Employee communication and engagement
- Employee reward and recognition
- Employee health and wellbeing (Facilities & Environment)

ESPO undertook a staff survey in 2013, which was well supported and insightful. This has been a critical input into an ESPO organisational development plan which aligns into the themes in the 'People Plan'. These are as follows:

- Communication
- Reward and recognition
- Learning and development
- Management and leadership
- Investment in kit and resources to achieve customer outcomes

The staff survey has provided the platform from which to have a 'conversation' with the organisation, to create a programme of work, and set a benchmark against which to measure progress.

5. ESPO Financial Strategy (Appendix 5)

Medium Term Financial Strategy (MTFS) - A commitment to delivering Value for Money (VfM) for 2014-2018

The financial strategy supports the stated objectives of ESPO to provide VfM for its users and to grow the net worth of the organisation. Inherent in that strategy are the ambitions to drive headline growth, seek further efficiencies in the cost base (allowing growth with no further net investment), and to provide an appropriate return for Members relative to the risks they take.

Key hallmarks of the financial strategy include:

- A need to demonstrate, measure, and report on VfM
- Increase the net worth of the organisation
- Control costs
- Grow top line performance
- Ensure the two core divisions independently make a financial contribution to the organisation

A key objective is the target of a further 20% growth in stores volume over the next four years. This will be supported by a pricing strategy that assumes sub inflation or minimal catalogue price increases. By keeping the cost base under tight control while at the same time driving volume through the warehouse, the organisation will be operating more efficiently and servicing the capacity for growth.

Customer engagement in our framework solutions is a critical measure of their success, which must continue to grow. Rebates are considered a financial outcome of the positive impact of strong customer engagement, as well as the supplier willingness to service the public sector needs at a fair commercial price. Rebates continue to be a key element of our profit and loss account, but the

growth ambitions have been kept constant as demand reflects the projected income of our customer base being set to fall.

As a result of the pricing and volume strategy, the trading surplus is forecast to rise from £1.5m in 2012/2013 to at least £1.9m in 2015/2016 and beyond. Of this, 80% will be returned to Members which will mean that over the four-year period, over £6m is targeted to be paid as dividends to the Members of the Consortium.

Members have clearly stated that a dividend is not the principal reason for being a part of the Consortium. A target of 3.5% return on capital has been set but ESPO will need to achieve double this if it is to maintain sufficient working capital, asset and resource replacement, and contingency funding. Therefore the target an annual surplus will be £2m.

We recognise the important part ESPO can play in this austere time for the public sector. By developing the role ESPO has between the supply side and the demand side of each chosen sector, and by strengthening our understanding of the needs of customers and capabilities of suppliers, ESPO can shape the market for the benefit of all. Therefore, it is expected that further stretch will be delivered through a renewed focus on gross margin, which will yield stronger surplus in the outer years. This will become clearer both in activities and the financial plan as the four-year period evolves.

6. ESPO Continuous Improvement Strategy (Appendix 6)

The Continuous Improvement Programme is seen as a means of delivering key change projects which are required to deliver the business strategy. We will move away from focussing on a list of small tasks, to a programme focussed on business priorities; these will be aligned to the strategic priorities of the organisation.

The delivery of the Continuous Improvement Programme will be underpinned by the European Foundation for Quality Management (EFQM) improvement ethos, using core elements of the Prince2 project methodology.

The projects included in ESPO's current strategy are as follows:

2014/2015 priorities

Project	Description	Owner
E-tendering	Due North system implementation enabling automation of procurement practices	Assistant Director, Procurement & Compliance
Spend Analytics	Understanding of Member-level spend and identify use of frameworks by partners	Assistant Director, Procurement & Compliance
Warehouse & Logistics Review	Transport model & labour productivity	Assistant Director, Operations & Continuous Improvement
Demand planning system	Stock optimisation support	Assistant Director, Operations & Continuous Improvement
Peak Review	Project plan for managing 2014 peak business periods	Assistant Director, Operations & Continuous Improvement
Customer Relationship Management (CRM) System	Account management and customer relationship	Assistant Director, Sales & Marketing
Supplier relationship system	System for managing supplier relationships (and margin), and visibility of direct orders	Assistant Director, Marketing & Communications

Ongoing projects with ESPO, being dealt with through the existing structure

Project	Description	Owner
Thought Leadership	Delivery of EU procurement training and expertise to staff of Member Authorities and broader procurement network	Assistant Director, Procurement & Compliance
Indigo Implementation	Roll out automated warehouse picking solution	Assistant Director, Operations & Continuous Improvement
Health & Safety	Implement and embed management system	Assistant Director, Operations & Continuous Improvement
People Plan	Including staff survey response and training	Human Resources Business Partner
Customer analysis	Service level with customer segmentation	Assistant Director, Sales & Marketing
Internal financial reporting	Key measures	Assistant Director, Finance

The Continuous Improvement Programme is headed by a Programme Director supported by project managers to coordinate the activity. We currently draw upon resource from the Leicestershire County Council support team to deliver this.

The assumptions made in the project plans will reflect the priorities and budgets in ESPO and work to guiding governance principles which address risk and provide on-going RAG reporting.

The programme will seek to map the organisation's key processes and stakeholders including management committee, customers, suppliers, staff, and unions. The EFQM methodology provides a proven means of engaging with stakeholders and a project governance framework.

Investment pipeline for the Continuous Improvement activity:

Using the business case approval process, the projects to be sponsored within the business will be investments which are fully supported by a business case and rigorous analysis before being enshrined in the project plan, and the annual budget. Operations and Finance within ESPO work closely together to ensure mutual understanding of all costs and business benefits.

All business cases will be monitored and reported on through the highlight reports and learning reviews to the Senior Management Team.

Risk Management

The Director and the Senior Management Team (SMT) are responsible for anticipating and identifying, assessing and managing risk. This is delivered through implementing and reporting on policies approved by the Management Committee. In adopting a formal approach to risk management, we have the knowledge both to anticipate potential risk and also to understand how through choice such risks can be minimised. ESPO's aim is to reduce the impact of risk, and/or increase its ability to react by maximising its flexibility through responding whilst maintaining organisational stability. Risk management therefore not only includes the ability to anticipate forward events through the marshalling of data into intelligence but also involves developing the organisation's capabilities through continuous improvement.

ESPO's Risk Management Statement covers health and safety, project compliance process and business continuity. The complexities of public sector procurement, the drive for transparency in decision making and for increased savings means that potential risks are increasing.

Managing risk will involve ensuring controls are in place and are regularly monitored, and are documented on the Corporate Risk Register which is reviewed quarterly by SMT, and Major Risk Record (MRR) setting out where further action is implemented. Any increased risk, or new risk identified that could have a material impact on ESPO's business will be immediately reported to the Chief Officer Group (COG), and with regular reporting to the ESPO Management Committee. The risk management approach at ESPO considers both internal and external risk which helps to inform key activities within the organisation. Therefore, the strategy considers all pertinent risks and are planned for accordingly.

Performance Management of the Strategy

The four-year strategy will be monitored routinely through the Balanced Score Card and through annual business plans developed to align with the Medium Term Financial Strategy, and refreshed each year. The objectives and outcomes in this annual action plan will be reported regularly to Management Committee. Regular feedback from customers and Member Authorities will also be used to evaluate progress.

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Support Infrastructure Underpinning the Strategy

Embedding the restructure of the Procurement and Marketing functions is a high priority to ensure ESPO continues to succeed.

The procurement function offers a wide range of services to Member Authorities and customers including procurement of goods and services, advice and guidance on products and services, markets and technical procurement issues.

The function was reorganised to take advantage of opportunities for process efficiencies and to introduce a more rigorous approach to risk management, a better customer service by bringing in a more coordinated approach to engaging with our customers about their service needs whether this is a catalogue or specialist procurement need. This is now in place and processes are developing to embed the principles.

The efficiency objectives are to introduce greater standardisation across process, procedure and documentation throughout the procurement function, enabling 'smarter buying' as well as defining clearer remits balancing the customer and supplier focus. We will utilise new technologies such as e-tendering and contract management systems to support some of this standardisation as well as being able to provide detailed reports to our Members and customers.

Further benefits of the restructure will be to take a more strategic approach to the categories that we service and have a deeper understanding of customer needs. We will also be able to adopt a more streamlined approach to create and manage framework solutions through following standard operating procedures and a better use of existing resources.

One of the key lessons from MSTAR was that it is essential that early considerations should be given to contract management strategies; therefore contract management will be one of ESPO's key priorities which will require engagement and continued understanding of the marketplace. This will be supported by necessary and appropriate data to meet contract management objectives, supporting engagement with customers and suppliers, facilitating market development and supplier relationship management.

Monitoring and understanding contract usage is essential to inform in advance what ESPO is likely to procure in the future and the reasons for it, i.e. legislative, governmental, landscape changes, and better understanding of customer requirements. Managing strategic contracts in this way across the organisation will provide information which will be significant and useful in terms of income streams, management and market knowledge for customers but can also be used for marketing purposes.

Appendix 1: ESPO SALES & MARKETING STRATEGY

PLANNING FOR GROWTH

Planned growth from existing customer base:

Increasing sales in existing markets is the easiest and most cost-effective way to grow the business. ESPO already has strong, loyal customer base across Education (circa 8500 schools) and corporate sectors (total unknown) in traditional trading area. Member areas are mature markets, with high penetration and little headroom for growth. Focus on strengthening existing customer relationships.

Education Sector	<ul style="list-style-type: none"> ▪ <i>Cross-sell catalogue offer to existing customers – buy more of same/new products to sell</i> ▪ <i>Introduce frameworks/contracts</i> ▪ <i>Tactical activity – Xmas/Academic year</i> ▪ <i>Pro-active promotion of ESPO Healthcheck</i> ▪ <i>Provide procurement solution/simplify process</i> ▪ <i>School Loyalty & Reward programme</i> ▪ <i>Support delivery of Account Manager area development plans</i> ▪ <i>Wales development</i> ▪ <i>Academy Groups in area</i>
Corporate Sector/ Frameworks	<ul style="list-style-type: none"> ▪ <i>Increase profile of existing framework offer</i> ▪ <i>Target sectors/departments within existing LA customers (Environment/IT/Fleet/Social Care)</i> ▪ <i>KAM existing client base – provide procurement solutions/consultancy service</i>

Planned growth from new areas:

Focus on customer acquisition to increase sales through planned expansion into new areas. ESPO has ad-hoc customer base in Education & Corporate across non-member areas. Focus on new customer acquisition to generate incremental growth through new customers. Target weaker competitors and ESPO border areas – Consortium (ex-WMS) and CBC. Recent campaign activity identifies a good appetite for ESPO products & services outside non-member areas.

Education Sector	<ul style="list-style-type: none"> ▪ <i>Primary focus on ESPO border areas:</i> ▪ <i>M5 corridor – Shropshire/Worcestershire to bridge gap between Midlands & Wales</i> ▪ <i>Northern Home Counties – Essex/Herts/Bucks/MK</i> ▪ <i>CBC – Suffolk & surrounding</i> ▪ <i>Introduce UK offer – develop and launch a new ESPO Direct proposition. UK delivery offering full UK mainland coverage on key product lines with express delivery option.</i> ▪ <i>New School Academy groups/consortiums</i> ▪ <i>Expand into FE/Colleges/University sector</i>
Corporate Sector/ Frameworks	<ul style="list-style-type: none"> ▪ <i>Increase profile of existing framework offer to new sectors across UK: Housing Associations/Healthcare/Blue Light & Emergency Services/MOD/Local Authorities/Charities</i> ▪ <i>Broaden framework offering to Scotland/Wales/N.I</i> ▪ <i>Deliver and manage more ESPO led national frameworks (Phonics, MSTAR).</i>

Store Sales revenue growth:

Deliver on current strategy objective of increasing stores turnover by 20% in volume over four years. ESPO to provide more product choice, available to more customers, faster.

Main Catalogue/ Store Product Range	<ul style="list-style-type: none"> ▪ <i>Main Catalogue development – new products for growth</i> ▪ <i>Product range reviews: Value Ranges/Smart Buy/Exclusives/Hero Products/Bundles</i> ▪ <i>Cross-selling opportunities – products/ordering channel</i> ▪ <i>Refine look, maximise impact and catalogue best practice</i> ▪ <i>Supplier Funding (£1m plus)</i> ▪ <i>ESPO Direct proposition</i> ▪ <i>E-tendering growth & online web development</i> ▪ <i>ESPO own product sourcing</i>
ESPO Direct	<ul style="list-style-type: none"> ▪ <i>Production 4 times per year ESPO Direct mini-catalogue.</i> ▪ <i>Product offering streamlined to focus on top 2,000 catalogue lines and expand current direct to customer offer.</i> ▪ <i>Next day delivery by courier through online order processing, backed by a price match promise and next day delivery guarantee.</i>

CUSTOMER FOCUS

All customers are the most important people in our business - they are not dependant on us - we are dependent on them. Exceptional customer focus will ensure our customers continue to receive excellent service, value and choice. It is vitally important for ESPO to develop customer service as a differentiated proposition and develop the USP to generate the leading position across our sector. Plan to focus on front and back office Customer Service operations, training & multi-skilling, communications, maximise order processing, call handling, resource planning, IT systems.

Customer Service	<ul style="list-style-type: none"> ▪ <i>Integrated channels, communications, propositions.</i> ▪ <i>Customer Focused Charter developed & implemented</i> ▪ <i>Improved processing systems – ACD screens/order processing/stock ordering/online ordering</i> ▪ <i>Complaints Management – tracking/resolution /source</i> ▪ <i>Loyalty/Reward/Recognition programme</i> ▪ <i>Order feedback initiative – card/e-mail</i> ▪ <i>Management of Supply Chain – Direct Deliveries/Stock Optimisation/Stock Availability</i> ▪ <i>Product price benchmarking - VFM</i> ▪ <i>Web Development project</i> ▪ <i>Databases/data capture/Information</i> ▪ <i>Customer Service benchmarking/Measures</i>
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RETAINING OUR CUSTOMERS**Customer Loyalty/CRM Programme:**

YPO Share of Profits Loyalty Scheme gives customers opportunity to receive a share of their annual profits, based on how much spent in a calendar year. ESPO to be first to market with a Schools focused, reward scheme proposition.

Recognise best customers and reward their loyalty. Identify potential best customers and tailor marketing activity to them. Objective of reward programme is to strengthen 2-way relationship between ESPO and customers. Create barrier to entry from competitors. Continue existing Member customer engagement. Keeping existing customers is considerably less expensive than acquiring new ones. Increased customer loyalty has a direct relationship with increased profitability.

ESPO Reward Card	<ul style="list-style-type: none"> ▪ <i>Develop, implement & launch ESPO Reward programme targeting education sector.</i> ▪ <i>Programme rewards linked to Catalogue and Framework usage. Increase in customer loyalty, transaction values, encourage new account acquisition, improved CRM/data, spend analytics/sales Information, increase/improved customer communications.</i> ▪ <i>Continued customer engagement (high % Member areas)</i>
Major Customer Rewards	<ul style="list-style-type: none"> ▪ <i>Develop Management Cottee scheme proposal to recognise major customers who are not members.</i>
CRM/Database Development	<ul style="list-style-type: none"> ▪ <i>Database development</i> ▪ <i>Customer Segmentation – Recency/Frequency/Value</i> ▪ <i>Improved Sales Team & Marketing Support</i> ▪ <i>Segmentation/Targeting/Positioning</i> ▪ <i>Improved Key Account Management</i> ▪ <i>Internal versus Bought-In data</i>

MARKETING & COMMUNICATIONS

To develop and improve ESPO's branding, marketing and communications capability.

Marketing & Communications	<ul style="list-style-type: none"> ▪ Develop ESPO brand ▪ Better manage PR/Media/Corporate/External communications. ▪ Improving internal communications ▪ Promote frameworks/contracts ▪ Tactical marketing and promotions ▪ Focus on Acquisition & Growth, Loyalty & X-selling ▪ Promoting E-communications/E-tendering ▪ Catalogue promotion ▪ Marketing, Campaigns/Events/Offers ▪ Case studies & testimonials ▪ Newsletters, events, intranet, briefings
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STRATEGIC COLLABORATIONS

The nature of multi-stakeholder collaborations are changing – becoming commercial, strategic, relational - more than transactional. Huge opportunity to strengthen and develop new and existing stakeholder relationships with greater understanding across partners, collective leadership, collaborative mind-sets, relationship management and output-focused. Key ESPO relationships – CCG, PRO5 members, Department for Education (DfE), Key Suppliers, Professional Associations and Membership.

Joint Relationships	<ul style="list-style-type: none"> ▪ <i>Develop top/key supplier strategy to strengthen commercial relationships.</i> ▪ <i>Supplier funding(+£1m)</i> ▪ <i>Joint marketing opportunities – CCG/DfE/OUP/Sinclair/Pearson/Youth Sport Trust/NASBM</i> ▪ <i>Partner with new and existing School Academy groups</i>
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ESPO's marketing objectives for the four-year plan are:

- To establish and embed a 'Customer Relationship Management' (CRM) ethos and methodology across the service lines. CRM will enable one view of any customer across the various activities of the organisation which will enable development of targeted marketing plans and improve information and communications both internally and externally.
- Establish, integrate and embed the capture of knowledge & information to provide market intelligence which will apply to all procurement activity and deliver better contract outcomes; this Intelligence model will provide guidance, support and know how at the front end of the procurement process and inform better decision making.
- To achieve a year on year increase in the visibility and memorability of the ESPO brand measured through feedback from customers and other stakeholders; consideration of brand differentiation between [fundamentally] our catalogue product offering and Framework Contracts/Procurement Consultancy will be part of a brand audit during 2012/2013.
- To increase the awareness of our Framework Contract solutions to the wider public sector and specifically to all UK local government customers measured by customer feedback (baseline 2010/2011) and rebate income levels. (baseline 2011/2012) Rebate income levels to increase by 25% over the business strategy period.
- Create a Marketing plan to promote key contract outcomes and align/embed this activity to the new procurement category teams and connect all to the development of key relationships with local authorities, wider public sector customers and other stakeholders.
- The overall volume of stores business increases by 20% over the business strategy period, through increasing our market penetration and generate new business into our existing customer base, new areas, including the Education Sector in London, South Wales and South West Midlands (M5 corridor).
- To achieve a target of stores catalogue product sales of £3.5m on our Smarter Buying ('Value') range of products.
- Improve supply chain management and collaborate with other PBO's to aggregate volume and procure, where commercially viable.

- To increase levels of customer satisfaction measured through feedback from our customers and other stakeholders; baseline survey data is from 2010/2011. Customer retention will be a key measure in any new survey and feedback activity.
- To direct efforts to support cost reduction and efficiency programme by encouraging customers to migrate to web and e-tendering channels. This activity will be supported by stronger closer relationship with DfE and their strategy to improve e-commerce in schools generally.

TEAM DELIVERABLES:

- To deliver a commercial offer which drives and maximises growth, sales and profitability.
- Deliver a customer focused proposition to ensure the customer experience is at heart of a service based ESPO culture.
- To develop and improve ESPO's brand, marketing and communications capability
- To develop partner relationships which support commercial and customer objectives.

ESPO CHALLENGES:

- Public sector customer base reduced budgets – Local Authorities; Education Sector,
- Complexity of procurement process – looking to simplify/solutions
- Increasing competition - private and public sector organisations
- Increasingly price sensitive customers who looking for Value for Money
- ESPO who? - outside traditional trading area/sector
- ESPO playing 'catch-up' in some commercial areas
- YPO – clear strategy for sales growth, customer service & commercial development
- Internal investment needed – systems/processes/people
- Resource restrained – staff/space/logistics

INTERNAL - FUNCTION CHALLENGES:

- Staff/Resources/Space – all at capacity
- Budget – OPEX versus Tactical
- People skills gaps – planning/commercial/team leadership
- IT – systems & processes (CRM, KPI reporting, integration, complex)
- Training/Development/Learning
- Management Information & KPI reporting
- Complaint management, root cause & resolution
- OWOW versus NWOW versus Behaviours
- Succession planning

EXTERNAL - FUNCTION CHALLENGES:

- Direct Delivery suppliers
- Customer complaints
- Stock availability – Key Lines

- Stock Future Forecasting
- Catalogue Team – resource & learning curve
- Customer Service Management - especially Peak periods
- Customer Experience - service level inconsistency
- PRO5 & YPO – collaborations/joint working
- KPI reports & dashboards
- Lack of Market Insight and Intelligence: Current versus Short versus Medium versus Long-Term

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Appendix 2: ESPO Procurement & Compliance Strategy

ESPO's agenda for procurement and compliance will be characterised differently to the efficiency and growth agenda of our catalogue and stores operation. The demonstrable value to Members is in the range and quality of our procurement activities be that framework agreements or public contracts. The Member rebate is very small in comparison of the cost and risk avoidance Members enjoy from using ESPO, as well the contract savings themselves as a consequence of ESPO growing its reputation for 'good procurement'.

Strategic Context

ESPO as a provider of procurement solutions via public contracts or framework agreements is required to undertake a larger number of public procurement competitions than nearly any other body nationally. It structures itself to deliver this by having nine category teams, each headed by a Head of Category reporting to one of two Commercial Managers; ultimately reporting to the Assistant Director and then Director of ESPO.

In support there is a 'compliance' function consisting of a commercial solicitor, a practice manager and a central administration function all reporting directly to the Assistant Director. The size of administration exists primarily as a result of a lack of e-tendering functionality. In addition administration features in category teams.

ESPO is inherently exposed to a high level of procurement compliance risk due to:

- The volume of its procurement activity
- The attractiveness of making a challenge against it based on likely damages (high value contracts)
- The fact it can be requested to undertake a whole range of complex activity as a delivery arm to its Members and wider public sector that may not be desirable to undertake themselves

There is also a growing trend of external economic and legislative factors that further increase risk namely:

- Increased legislative burden, e.g. remedies directive
- Increased pressure on businesses to win tenders due to global economic conditions
- An increased awareness of the legislative backdrop that public procurement operates within
- Procurement challenges are an increasing risk as a result of evolving UK and ECJ case law which provides bidders with increasing tools and routes to challenge

The impact of legal challenge is severe; not only is there clearly a reputational (perception) issue to be aware of with customers, but severe financial implications. These include the costs to defend spurious claims, settle claims

that are unclear/carry some risk or indeed defend successful claims. These costs are massively disproportionate to the income or benefit that can be attributed to the procurement offering in nearly all cases. As a business, ESPOs P&L is arguably most at risk as a result of this strategic context.

Clearly, as a consequence ESPO must have a tight and holistic approach to managing 'risk to benefit' in this complex environment. Currently the primary drivers to manage risk are the reliance on the volume and value of procurement expertise within the organisation, use of a 'procurement control record' (PCR) process and access to an internal commercial solicitor.

Do we have unacceptable risk?

In order to ensure that ESPO is best equipped to manage these procurement risks, ESPO must pay attention to improving its strong procurement foundations.

- Procurement re-training at Head of Category level and a clear management narrative of the expectations of the role to be a leading edge procurement professional in a public sector procurement context.
- We will consider how we can use our resources so as to divide the existing portfolio of nine categories to three categories each. This would aim to be freeing the existing Commercial Managers to focus more on the core procurement and compliance task ahead whilst also engaging more in Member liaison.
- A re-launch of the 'PCR' process to include commercial managers and that now enforces personal responsibility at the lowest point. Sign off progressing through to Head of Category and then Commercial Manager for compliance approval prior to a panel environment. It must be clear that the expectation is such and not just as a gateway to Assistant Director decision making on anything and everything.
- A greater emphasis of peer review of documents, front loading effort on conceiving appropriate procurement strategies and not over –focus on form filling.
- A realignment of tasks between the Assistant Director and the Commercial Managers to emphasise the role of the Assistant Director as the strategic lead, not the single point of forensic analysis of all procurements. These strategic tasks include strategy, learning and development, resource management, recruitment, representation of ESPO externally, development projects.
- Set out Actions to improve mitigation/resolution in the event of legal inquiries initiating.

The function must continue to be commercially positioned to contribute to delivery against wider ESPO policies of a flat cost line with a growing income line as a proxy measure for engagement in our procurement offering.

The 2014-2018 work programme

The activity can be summarised as follows:

Internal focus:

- Refreshed senior structure in place of three commercial managers, commercial solicitor as AD direct reports (quarter 1)
- Clearer, better defined and fit for purpose legal service to support P&C activity
- Provision of public contract regulations 2014 training to staff via our appointed external training partner PP&CS Ltd
- Launch of a suite of business processes and standard documentation
- Implementation of Due North so as deliver E-tendering functionality
- Piloting of ISYS time/cost recording
- Delivery of GEMS replacement project
- Developing a risk strategy for compliance risk at ESPO
- A forward work plan for 2014 published (including a 'major procurements' programme)
- Procurement category strategies authored and published
- Spend analytics
- Continued cultural shift to raising standards, vigour and 'good procurement' model

External focus:

- A documented and agreed collaborative position within Pro5 predicated distributing rebate on procurement and contracting effort (80%) wider support marketing (20%).
- Exploration of targeted 'franchising' collaboration e.g. across HE or blue light services
- Supporting the cabinet office in its training agenda for PCR 2014 by having train the trainer training and offering training by ESPO senior staff to four cohorts identified by Cabinet Office
- Offering Members access to ESPO training partner for their own procurement training for PCR 2014
- Developing a wider offering for procurement training
- Reputational enhancement through active involvement at a national level through SOPO and the LGA to shape and implement national messages
- Improved PR and reputation through entering awards, thought leadership and publication
- The four-year plan: what will good look like for procurement and compliance in four years' time?
- ESPO has a reputation as the accepted number one delivery arm for local government procurement policy and activity
- A more even distribution of procurement customers pan public sector
- The development of a different funding model(s)
- A structure which can provide for the accepted portfolio of goods and services of today, international sourcing of commodity catalogue items and a division that can credibly provide for outsourcing and commissioning of major services (a public sector consultancy arm that can compete with the well-known consultancy brands used currently)
- Technologically advanced and data driven to provide for saving statements, spend analytics and automated commodity procurement

Headlines of the Future Direction for Procurement & Compliance

In addition, for ensuring our core governance and risk management is improved, the core focus for procurement and compliance are shown below:

- To progress more aggressively with procurement technologies e.g. e-tendering, use of e-auctions, e-PQQs with storing of previous data.
- Data driven understanding of who uses our frameworks, what's in the pipeline for renewal and tracking effort to risk and income?
- In conjunction with extending the awareness/reputation of a pan public sector procurement solution provider to have greater customer insight, understanding of their procurement environments. To be ready to deliver on the promise.

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Appendix 2.1: Public Procurement law: Update and Trends

Synopsis

The financial crisis which took hold in 2008 has subsequently resulted in a range of austerity measures being adopted across the European Union. This has directly impacted on expenditure at national government and local government levels. As such there have been fewer and less sizable new opportunities being presented to the market place.

In turn, this has driven up competition between 'economic operators' (suppliers) competing for public contracts. In parallel trends towards longer term contracts, greater use of framework agreements and more joint working has led to something of a perfect storm for public procurers. It undoubtedly has driven an increase in informal disquiet within supply markets and more and better informed formal legal challenge activity being initiated. The introduction of the Remedies Directive in December 2009 into UK statute further enhances the probability and impact of formal legal action.

Although increasingly accepted as a real 'phenomena' amongst public procurement practitioners and subject of many presentations (see Society of Procurement Officers presentation by partner at law firm Veale Wasbrough Vizards); there has also been an absence of supporting empirical evidence to support the assertion of what is being experienced.

Trends

At an EU level the pattern is relatively mixed. In 1985, there were no cases decided by the ECJ, rising to a peak of 21 cases in 2008 and falling slightly to 19 in 2009. In 2013 there were 6 cases heard in the ECJ. In the UK in 2012 there were 16 reported procurement cases managed via the High Court. However, there was a significant amount of case law from the UK and European Court of Justice in 2013 and these are summarised in appendix one.

There is a complexity in seeking empirical evidence as much of the data available represents scenarios of dispute that have advanced down a formal litigation route. In practice, most public procurement disputes are resolved more informally; increasingly with public procurers not awarding contracts and agreeing 'costs' via a solicitor facilitation process. It is therefore consistent to see a more litigious environment but with a consistent pattern of eventual High Court or ECJ referrals.

The balance of power is alarming. Losing in the High Court a major public contract could result in a multimillion pound remedy, hence even cases where the public procurer believes the complaint or query to be unjust the risk of such a heavy financial burden tends to induce a preference to resolve outside of a litigation process.

Another aspect to understanding the trend is also the legal aspects arising from case law and the shift in emphasis and position through the European Directives

and UK statute itself. In the UK the Public Contract Regulations 2006 introduced increasing obligations for procurers and is soon to be replaced by the Public Contract Regulations 2014 which whilst does not seemingly seek to introduce anything more cumbersome, maintains the previous obligations for criteria, scoring and award.

What is driving the trend?

Aside from the economics of the EU, there is also seemingly a growing awareness of the rights and obligations within public contracting. Each piece of legislation and case law serves to provide the clarity over interpretation of what is and isn't acceptable. So whilst the 1957 Treaty of Rome principles to which the legal framework originates has not altered we are experiencing an increasing interpretation of the expectations of behaviour required to uphold them.

As a simple example, invitations to tenders moved from not listing criteria upfront, to having to be included, to having to be ranked in order of importance, to all criteria having to have a clearly assigned weighting. It is not uncommon to be challenged now on aspects such as common words 'good', 'poor' not receiving the exacting numerical value by evaluators across every criteria and sub criteria or indeed niche aspects such as the difference between averaging scores or moderating scores.

Whereas a broad and fair application of the Treaty Principles and legislative timeline and tender requirements used to be the measure of having being 'compliant'; at its worst total and exacting compliance is almost an unachievable without each and every aspect of the process being undertaken by people with a very developed understanding of the risks and up to date requirements.

Conclusion

Given the trend over a number of recent years to have more of and more complicated and litigious challenges to procurement decisions, there have been a number of developments to risk management.

The most effective way of managing risk is via a category management approach with upfront effort in the conception stage of a public procurement. This means having a developed understanding of the supply market, awareness of public sector procurement of others experiences and a general rising in standards and competency. An outdated position in the past of public buyers 'cutting and pasting' from tried and tested ITT's has been replaced to having to invest proper consideration and analysis prior to initiating any process. (PCR stage 1 and stage 2)

Thereafter the execution of any procurement process needs to stand up to both academic and legal scrutiny (PCR 3). In the past, following some very high level process requirements was largely tolerated by the supply market; however, today there is an ever increasing expectation to see invitations to tenders presented to market and tenders subsequently scored that show a high level of insight, fairness and legal application across the many obligations.

The key components of risk management evident at ESPO are an investment in procurement expertise via investment in a category management structure, a procurement control process for approval at initiation, execution and approval phases of our procurement processes and inclusion of a procurement solicitor in our decision making panels. To further enhance in 2014 there shall be training available on the incoming public contract regulations 2014, exploration of the protection (if at all) of professional indemnity insurance and a review and refresh of internal governance.

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Case law for 2013

The 18 procurement-related cases from the UK courts and the European Court of Justice in 2013 are summarised below:

Nordecon AS v Rahandusministeerium (C-561/12) [2013] EUECJ

The European Court was asked whether an authority is free to revise mandatory technical requirements included in its tender documentation as part of the negotiation process in the negotiated procedure, if a non-compliant tender is actually better than the authority's technical requirements would allow.

The Court refused to allow such a negotiation. Where a requirement was mandatory in the tender, it remained mandatory and could not be negotiated away. To do so would undermine the entire nature of a mandatory requirement.

Ministeriet for Forskning, Innovation og Videregaende Uddannelser v Manova A/S (Case C-336/12) [2013] EUECJ

A losing bidder challenged the Danish education ministry for having allowed (at pre-qualification stage) the two winning bidders to submit financial balance sheets after the deadline for submission of applications, and having been alerted to their absence by the ministry. The balance sheets were needed to permit the usual assessment of a potential supplier's financial strength.

The court rejected the bidder's challenge, on the grounds that provided the balance sheets themselves pre-dated the deadline, it was reasonable for the ministry to seek them as part of a post-submission clarification process, when it was normal to correct any obvious errors. The court did however confirm that had the ministry's documentation expressly stated that failure to provide information by the deadline would lead to exclusion, then the ministry could not have requested them, and any bidders concerned would have to be excluded.

Swm Costruzioni 2 SpA, Mannocchi Luigino DI v Provincia di Fermo (Case C-94/12) [2013] EUECJ

This case centres on a conflict between Italian state law, and European law. In European law, an applicant for a tender may cite the resources of third party entities in order to meet qualification criteria, provided that the applicant proves to the contracting authority that it will actually have at its disposal the resources of those entities necessary for the execution of the contract. Italian law limits the number of such third parties to one. The court ruled that European law takes precedence, and applicants may rely on the capacity of as many other parties as appropriate.

Healthcare At Home Ltd v The Common Services Agency [2013] ScotCS CSIH_22

The court rejected a challenge concerning the clarity of the award criteria for a framework agreement. The court said that the criteria were formulated in the ITT in such a way as to allow all reasonably well-informed and normally diligent tenderers to interpret the criteria in the same way, and in the way intended. The *subjective* views of any particular tenderer do not need to be taken into account by a purchaser when considering a challenge.

Evropaïki Dynamiki – Proigmena Systimata Tilepikoinonion Pliroforikis kai Tilematikis AE v European Commission (Cases T-457/10 and T-474/10) [2013] GC

Evropaïki Dynamiki (European Dynamics, or ED) claimed multiple failings on the part of the Commission in its procurement of information services. These included claims that the Commission should have excluded the winning bidder (whom ED suggested were ineligible because one of its subsidiaries relied on work carried out in a country which was not a signatory to the Agreement on Government Protocol), and that there were errors in the way ED's tender was evaluated. The court rejected all these claims, and dismissed ED actions.

Waste Services Ltd v Northern Ireland Water Ltd & Ors [2013] NIQB 41

This is a Utilities case, so doesn't *necessarily* apply to local authorities. The case mainly concerns whether a tender *award* evaluation scheme can involve two stages – e.g. a minimum quality threshold 'hurdle' which a tender must meet in order to qualify to proceed to a second stage of evaluation (which in this case focussed on price). A bidder challenged the purchaser's right to do this, claiming that it blurred the distinction between selection and award criteria. The court however rejected the challenge. This case (along with others) has thrown further light on the *Lianakis* (2008) case, which first established the strict split between selection and award criteria – more recent cases repeatedly imply that it may well be permissible to look at factors normally regarded as selection criteria at award stage, such as experience and resources, provided that the purchaser shows that these are 'properly linked to the subject matter of the contract'.

Montpellier Estates Ltd v Leeds City Council [2013] EWHC 166 (QB)

Leeds City Council conducted a competitive dialogue for the development of a music arena in the city. Montpellier Estates Ltd (MEL) participated, but feared from the start that they were being used by the Council as a 'stalking horse' and could not win, as the Council actually wished to develop its own scheme on its own land. The Council assured them this was not the case, but subsequently terminated the procurement, and duly developed its own scheme. MEL claimed that Leeds had breached the Regulations by prematurely terminating the procurement; and by introducing a public sector comparator secretly and in parallel to the procurement process.

The court rejected MEL's claim, confirming that the Council terminated the procurement at the point it became apparent that it was unlikely to deliver value for money (and in so terminating it the Council avoided imposing on bidders the cost of preparing final tenders). The court also confirmed that the Council had a right to develop its own fall-back solution.

Joined Cases T-339/10 and T-532/10 - Cosepuri Soc. Coop. pA v EFSA, judgment of 29 January 2013

Cosipura is a bus operator in Italy which having failed to win a contract asked to see, amongst other things, the tender submitted by the winning bidder. EFSA declined to disclose this document, which the court agreed they were correct to do, on the grounds that 'a successful tender can fall within the scope of the exception [i.e. the exception to the obligation be transparent in disclosing documentation] relating to the protection of commercial interests and this

restriction is integral to the objectives of the EU rules on public procurement, which are based on undistorted competition’.

Case C-115/12 - French Republic v European Commission (26 September 2013)

The case concerned public aid to a company renovating a holiday village in Martinique. The French government had allowed generous tax breaks on the project, which the court said amounted to a public subsidy. When this was added to a separate contribution from the European Regional Development Fund, the project was held to be publicly funded to more than 50% of its cost, and hence should have been subject to the (works) procurement regulations. The French government argued that a tax break was not a public subsidy, but the court did not agree.

European Dynamics Belgium SA and others v European Medicines Agency (Case T-638/11) [2013] GC

The court agreed with the claim of European Dynamics (ED) that the Agency had failed to provide a sufficient statement of reasons as to the grounds for rejecting ED’s tender for software applications. The court therefore annulled the Agency’s decision not to award to ED.

Covanta Energy Ltd v Merseyside Waste Disposal Authority [2013] EWHC 2964 (TCC)

A competitive dialogue process had already taken six years to conduct when the Authority declared Covanta’s bid to be fundamentally unacceptable. Covanta couldn’t use the 2009 remedies (automatic suspension) in challenging the decision – this wasn’t available, as the procurement had begun in 2006, so they instead called for an injunction preventing the Authority awarding a contract.

The court agreed and granted the injunction, on the basis that i) damages (if the contract were awarded and Covanta subsequently won a case) would be almost impossible to assess; ii) given the procurement had already taken so long, the consequence of further delay would be modest; and iii) any sizable damages payment would be a burden on the taxpayer.

Lowry Brothers Ltd and other v Northern Ireland Water Ltd [2013] NIQB 23

The water company (NIW) was facing a challenge to the award of a framework agreement, the grounds for which the court did not consider strong. NIW applied to have an automatic suspension of the award lifted, and the court agreed, stating that even if the case ultimately went against NIW, payment of damages would be an adequate remedy. (Whilst damages are hard to assess in procurement cases, this does not ‘give rise to the proposition that [they] would be inadequate’.)

Nationwide Gritting Services Ltd v The Scottish Ministers [2013] ScotCS CSOH_119

Nationwide Gritting Services (NGS) challenged the Ministers over the non-publication of an OJEU notice for winter road salt supplies; salt was apparently simply being bought from a range of suppliers, without formal tender process on what were claimed to be grounds of extreme urgency. The Ministers rejected NGS’s challenge on the grounds that it was launched more than three months

after the relevant purchases were made (i.e. it was outside the qualifying period for actions to be brought).

The court however upheld NGS's right to challenge, on the basis that NGS could not have known about the purchases at the time they were made, because no notices of any kind (including a notice of award) were posted. NGS's suspicions that they were missing opportunities to supply were founded on hearsay, market intelligence, and so on. They only knew for certain when they received a confirmatory e-mail reply from the Ministers, and the date of this e-mail was *within* the time limit, so the case was referred for full trial (at a later date).

Corelogic Ltd v Bristol City Council [2013] EWHC 2088 (TCC)

Corelogic challenged the Council's award of a contract, claiming breach of certain obligations under the Regulations concerning provision of feedback, and commenced proceedings within the permitted 30 day time limit. Subsequently Corelogic sought to amend the claim, raising specific objections about the Council's evaluation procedures. The court held that the amendments represented a fresh claim, and it was rejected as ineligible as it was by now outside the time limit. Although Corelogic claimed that the substance of their claim was the same, the court disagreed and even though the amended form apparently presented a far stronger case, the time limit ruling precluded this being considered. The case illustrates to bidders the importance of covering all possible grounds for challenge at the earliest opportunity.

Pearson Driving Assessments Ltd v The Minister for the Cabinet [2013] EWHC 2082 (TCC)

This case concerns the timing of the disclosure of information in a situation where a contract award is suspended as a result of a challenge (in this case by Pearson, an unsuccessful tenderer). The court acknowledged that bidders in such situations are often in a difficult position, but even so did not instruct the contracting authority (the Minister) to disclose documentation ahead of a planned hearing because of the burden this would place on the authority and also because the authority would then not be able to rely on any controversial witness statement evidence in its application. Further document disclosure could be ordered during the hearing itself if this proved necessary.

Roche Diagnostics Ltd v The Mid Yorkshire Hospitals NHS Trust [2013] EWHC 933 (TCC)

Essentially, this case also focusses on the timing of disclosure, but also on *what* documents should be disclosed by a contracting authority to a bidder challenging an award. The Trust had provided some documents to Roche by way of feedback, including spreadsheets created after the award in support of the decision. The court decided that the challenger was in fact entitled to see such documents as were necessary to allow them to take a considered view as to the legality and fairness of an evaluation process. These include instructions issued to evaluators, and contemporaneous records of the evaluation process.

R (All About Rights Law Practice) v The Lord Chancellor [2013] EWHC 3461 (Admin)

In error, in tendering for a contract to provide legal services, R submitted a blank tender form. The tender was rejected on these grounds – an action which R claimed was disproportionate, saying that the matter should have been remedied by post-tender clarification.

The court rejected this claim. Clarification could not deal satisfactorily with a situation where there was effectively no information to clarify. Moreover the tender documentation was clear as to what needed to be submitted and by when, and stated that no amendment would be permitted later. Had the purchaser allowed R to submit a completed tender, then this would have been to the disadvantage of other bidders whose tenders would by then already have been received and opened.

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Appendix 3: ESPO Operations Strategy

1. Operational Profile

In the 12 months to June 2013 the Leicester warehouse processed 2,211,453 order lines on 396,134 orders, and made 229,829 deliveries weighing 14m kilograms. The customer base comprises educational and local authority establishments. On average 85% of deliveries are made to schools with opening hours typically between 07.00 and 15.00 hours. ESPO has circa 14,000 active customer accounts, with 36,000 delivery point references.

The orders volumes are highly seasonal reflecting the buying habits associated with the academic year with peaks before and after term holidays. The geographical spread is shown on the schematic below (Figure A). It has been expanding over time out of the core Eastern shires region reflecting the opportunities to extend the reach of the organisation. Deliveries are made by a dedicated fleet of 50 vehicles operating from Leicester and Abertillery with a contractor, Fitzmaurice, delivering into the Norfolk/Suffolk area. 80% of volumes come from 10 postcodes, shown below (Figure B).

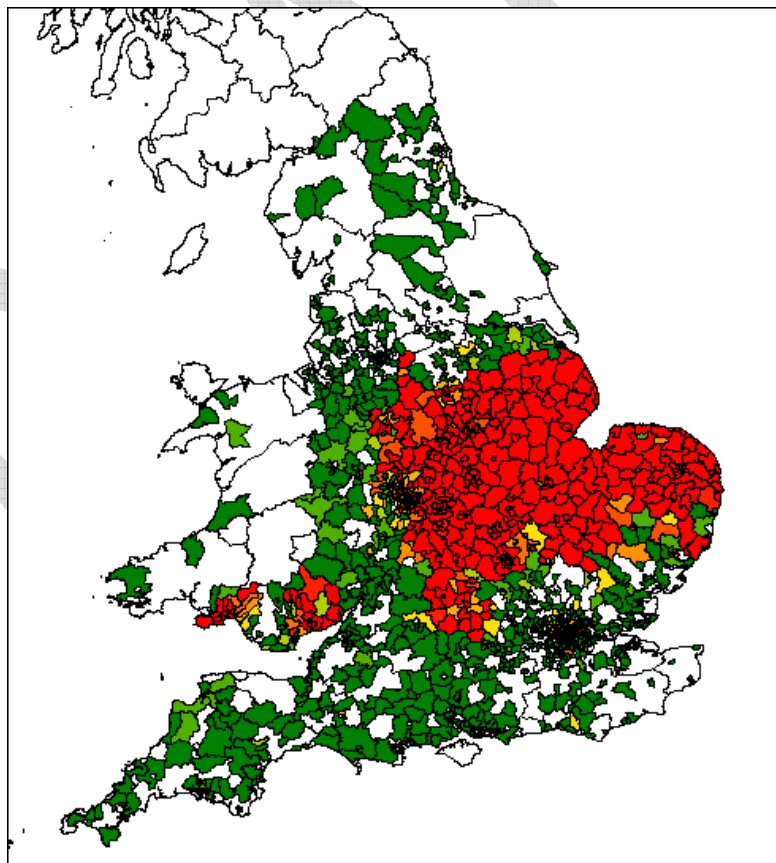


Figure A – Geographic spread of customer order volumes per year

PC Area	Total Weight (kgs)	% of Total Weight	Cumulative %
LE	2,705,898	15.7%	16%
PE	2,218,348	12.9%	29%
CV	1,980,128	11.5%	40%
NR	1,550,043	9.0%	49%
NG	1,196,477	6.9%	56%
NN	1,184,222	6.9%	63%
CB	998,059	5.8%	69%
B	930,496	5.4%	74%
LN	744,543	4.3%	78%
NP	461,955	2.7%	81%

Figure B – Percentage of deliveries by postcode

2. Service Levels

ESPO offers a range of service levels to its customers, from next-day to nominated-day delivery, depending on customer preferences and turnover. Analyses from customer surveys suggest that the majority of customers prefer a nominated day delivery, with the opportunity to use next-day for urgent orders. This manifests itself in a bus-stop delivery pattern within an agreed frequency band. For customers situated outside the ESPO catchment area a delivery frequency band is agreed with Sales and the delivery is made by a courier, currently Fed-Ex.

3. Distribution Profile

The volumes conform to a predictable demand profile that follows the academic year, as illustrated in the graph below (Figure C). This shows the peaks and troughs in the business, with up to 50% uplift in demand from the median.

This creates a number of challenges to the organisation in terms of manpower planning, stock control and warehouse capacity.

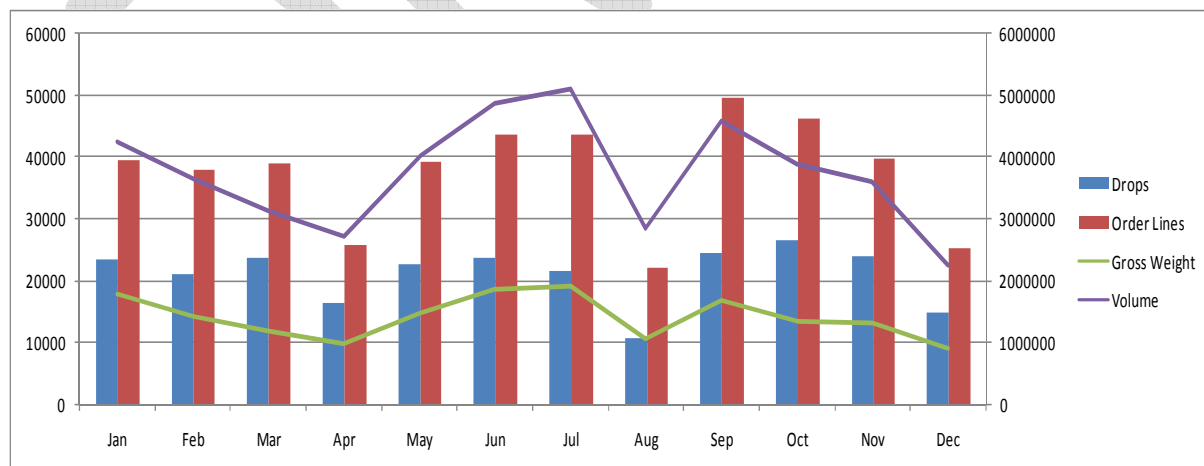


Figure C – Demand profile

The Operation processes 2,211,453 order lines per annum with 229,839 unique deliveries. This equates to 14,877,421 kilogrammes per annum. The number of drops is relatively constant with the order size increasing during peak periods.

A large number of agency workers are used across the year to meet the peak demands that cannot be met by ESPO permanent warehouse staff. The warehouse picks an average of 8,741 order lines per day. We process 1,566 sales orders per day with an average order line per customer of 10.00.

The average order weight is shown in the table below (Figure D).

Weight Band (Kg)	Deliveries %	Weight %	Number p.a.
1-15	40.7	3.3	94,796
16-300	54.2	57.0	126,436
300-500	2.9	14.8	6,660
500-1000	1.7	15.6	4,016
1000-2000	0.4	6.8	890

Figure D – Average order weights

This highlights that a large number of deliveries are parcel sized (40.7%), but only account for 3.3% of total weight. The bulk of the weight (94.2%) is delivered by the in-house fleet, but this accounts for 60% of the total deliveries per annum. The in-house fleet averages 702 deliveries per day

4. Stock Availability

The warehouse stock circa 12,500 product lines. Availability for these products is shown on the attached schedule (Figure E).

Month 2013	Total Orders	1st Desp	% 1st Time
January	36,319	33,525	92.3
February	31,929	28,354	88.8
March	33,186	30,719	92.6
April	26,362	24,491	92.9
May	33,089	29,480	89.1
June	38,696	32,472	83.9
July	39,924	28,973	72.6
August	13,731	11,005	80.1
September	42,262	32,898	77.8
October	30,741	27,092	88.1
	326,239	279,009	85.5

Figure E – Warehouse stock availability

Availability from July has been below standard, creating poor customer sentiment and driving additional costs into the operation with orders being picked and delivered up to three or four times before they were completed. Supplier lead times are not being consistently met, with three staff used for expediting orders.

Improvement Opportunity

The current manual method for reviewing stock is sub optimal and should be replaced with a stock control system. There has been little coordination with the

buying function to provide guidance and advice on demand trends. Supplier orders should be sent electronically wherever possible with the obvious advantage of speed and cost. Finally suppliers should be managed to conform to their contract lead times.

Date	June 2012	September 2012	December 2012	March 2013	June 2013	October 2013
Value £m	6,006	5,305	4,837	4,671	5,163	3,928
Stock Turn	6.40	7.51	8.43	8.63	7.89	10.53

Figure F – Stock value table

Stock levels have been reduced by circa £2m (Figure F). Whilst this is a creditable performance and indicates the amount of surplus stock in the system, it should be balanced by the need to keep full availability of the fast moving lines.

5. Resources

The operational manpower is shown in the table below (Figure G). The warehouse works a two-shift system between 0600 and 2200 hours Monday to Friday. During peak trading periods a night shift has had a positive impact. A permanent night-shift is actively been considered.

Resources	Payroll	Total
Admin	11	11
Drivers	45	45
Warehouse	91	144
Section Leaders	12	12
Managers	6	6
Total	165	218
Sick %	6.0%	

Figure G – Operational manpower

6. Warehouse Staff Productivity

The current pick rates equates to 28.3 lines per hour. This has remained stable for a long period. Consideration should be given to appointing a HR Admin resource to support all ESPO management in managing sickness, discipline and compliance with LCC processes, to complement the Business Partnering activity provided by the Servicing Authority.

7. Transport

A detailed logistics review will be carried out, with recommendations for the way forward expected in 2014/2015. The current fleet comprises LGV and vans which are in the main owned, with some on long term hire (Figure H). This fleet is ageing and is therefore incurring high maintenance costs. It is envisaged that the core fleet could be reduced by running tighter schedules or by outsourcing

other regions. This is currently being evaluated, with cost estimates being provided by potential suppliers. Given the analysis to date, it is anticipated that this will result in ESPO migrating towards a hybrid solution comprising Royal Mail, Carrier, dedicated provider (e.g. Fitzmaurice) and ESPO's owned fleet, due to a combination of factors being the size/weight of the order, geography and the customer profile.

Vehicle Type	Number
Ford Connect	1
3.5t Sprinters	6
4.05t Sprinter (type	3
7.5t	23
12t	14
Total	47

Figure H – Current fleet

The ESPO fleet averages 17 drops per vehicle/day.

8. Finance

The Operations budget for 2013/2014 is shown below (Figure I).

Operations Budget 2013/2014		Sales
Payroll Costs		Ex re-charge 42,300,000
Stores Supervision		5%
Store office		8%
Goods in		9%
Select		36%
Goods Out		9%
Transport		27%
Housekeep		4%
Wales Warehouse		3%
CP Recharge		
Sub Total		9%
Training/Medical		
Premises		
Transport		
Equipment		
IT		
Office	41,370	
Admin Charges		
Sub Total		9%
Total		17%

Figure I – Operations budget 2013/2014

Circa £5.3m of the budget relates to personnel. This highlights the need for staff engagement as a means to driving cost efficiencies into the operation. Analysis on transport cost reveals that the cost of dedicated transport per drop £10.60. The cost for a Fed Ex delivery is £4.50 per consignment. The Operational cost per unique order (excluding central overhead) is £32.02 per order.

The Operations budget includes the building at Barnsdale Way and associated facilities. This element draws in routine maintenance and ad-hoc activity in respect of security, welfare and accommodation.

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Appendix 3.1: Operations Strategy – Areas of Improvement Action Plan

ESPO's operational strategy is to provide an efficient and scalable supply chain capable of delivering products to its customer's on-time and in-full. To ensure that ESPO continues to meet customer requirements now and into the future it will need to develop its logistics capability. This action plan sets out the direction of travel and highlights the improvements that are needed to deliver the strategy.

A. RDT System

The Indigo RDT deployment is scheduled to be completed by March 2014. This will support picking productivity from the current pick rate of 28 lines per hour to a range of 32-35 lines per hour. The system will provide league tables of picking performance to enable performance to be rewarded and improved. It is seen that RDT is a necessary precursor to warehouse automation.

B. Service Proposition

a. Delivery Frequency

It is proposed to analyse accounts by spend to determine delivery frequency. This can be agreed with the Sales & Marketing team and the transport schedules can be re-calibrated to even-up volumes through the week. This will provide greater stability and cost efficiency in the transport and warehouse operation. Indications from smaller customers indicate the certainty of delivery is more important than frequency.

b. Pro-active Communication

It is proposed that Operations provide more pro-active communications with customer contacts to improve service quality. This would include for example confirming delivery windows with schools during summer holidays to enable schools to accept deliveries, obtaining caretaker mobile numbers, clarifying shortages and returns, alerting customers to any delivery delays.

c. Next-Day Delivery Capability

It is recognised that the operation should develop a capability for delivering a proportion of customer orders on a next day basis. This is likely to require a day shift picking resource that can be diverted to carrier deliveries, leaving the night shift to complete the standard orders. This will be fully evaluated once the RDT system is fully deployed.

d. Minimum Order Quantity

Consideration should be given to imposing a minimum order quantity to circa £50, excluding to-follow orders, as a means of recovering the cost of processing an order and a means of getting customers to trade-up. The enterprise cost per order should be derived and compared to the average gross profit contribution to

create a more precise MOQ figure. It might be possible for the system to hold orders until the MOQ threshold is reached.

C. Staff Engagement

Following the staff survey the management team has an ideal opportunity to create a new engagement culture based on improved two-way communications underpinned by progressive policies on reward and recognition.

a. Info-Zone

One of the strands to this policy will be the 'Info-Zone' in the warehouse which will create a lively impactful communication zone. This is being designed and ideas include the ESPO story, our values, pictorial description of ESPO's supply chain, Star of the Week, and the suggestion scheme. The warehouse Staff Forum is being given new life and will be used to create a conversation with warehouse employees. The Driver's Forum has been created and will continue during half-term breaks to enable face-to-face communication with our drivers, who are ESPO's ambassadors in the field.

b. Incentive Scheme

A sustainable incentive scheme will provide a much needed boost to morale and help to reward good performance. Using a store voucher reward mechanism to reward staff who have demonstrated superior performance should be actively considered. ESPO rates of pay are lower quartile, the UK minimum wage is £6.31/hour; the average rate for a Picker is £6.94/hour and Housekeepers £6.31/hour.

D. Management Structure

The Operations team has been restructured to create fewer layers of management enabling closer contact with Supervisory staff. This is intended to empower Section Leaders to motivate staff and to tackle poor performance. This structure allows for more focus on the delivery of key medium-term strategic projects.

E. Management capability: Training & Mentoring Programme

The current operations management team need to demonstrate leadership behaviours to get the best out of the workforce. This will require a programme of management training supported by a mentoring culture. This investment in capability is needed to underpin the efficient growth of the operation.

The first stage of a Training & Mentoring Programme has been delivered by Leicestershire County Council Learning & Development. This will focus on behaviours, conflict management, briefings and communications, time management, performance management motivation and leadership skills.

This will be supported with PDRs and by monthly one-to-one meetings with Shift Managers and in turn with Section Leaders to cascade support to the

management team and to create the leadership values that are seen as vital in transforming the organisation.

F. Health & Safety

A dedicated manager has been appointed to manage our health and safety obligations and to act as a catalyst for improving safety within the operation. A recent Leicestershire County Council audit highlighted the gaps in our management systems and Nigel has embarked on a programme to bring these up to date. We are working with Leicestershire County Council Health & Safety team to ensure that we are complying with the governance regulations. There is a daily shift Health & Safety briefing and weekly Assistant Director walkabout to engage staff and identify potential issues.

G. Management Control & Reporting System (MCRS)

It is intended to install a management system for converting workload metrics into a manpower plan. Further, with standard operating procedures to provide time estimates for the completion of specific loads. This can be used by Section Leaders to hold daily shift briefings and to manage staff resources in pursuit of the daily production target. This process will enable each person to understand their role in delivering the daily production targets.

H. Transport Optimisation

ESPO has engaged four logistics companies to provide an optimum transport solution based on the current distribution profile. These studies will be used to benchmark our current transport operation and to either improve the efficiency of the in-house operation or look to outsource to another provider. A report outlining the findings and recommendations will be made in early 2014.

I. Permanent Night Shift

It is planned to run a night shift throughout the year, to act principally as a replenishment resource, but capable of being ramped-up to provide a picking capability at peak periods. Staff will be consulted on the selection criteria for working nights in conjunction with HR. This will provide a safer and more productive environment for replenishing the pick face from bulk, and to out-load vehicles. This will ensure that the transport schedules run to time and all stock is prepared for the day shifts.

J. Warehouse Automation

Some 60% of picking hours are used in travelling to the pick face. This is implicit in the man-to-goods picking method. The payroll cost estimate of this activity including agency labour is £1.030m per annum. Through a powered conveyor model it is possible to move products to the picker, reducing travel time to a minimum. This method will also improve pick rates and reduce picking errors. The capital cost is circa £700k. A business case to support the capital investment will be submitted during 2014 with a view to implementing in 2015.

Appendix 4: ESPO People Strategy

1. Purpose of the Strategy

The purpose of the strategy is to set out how we will have the right people with the right skills at the right time to meet the changing demands of our customers and deliver ESPO's business outcomes.

It is not intended that this strategy will document every one of our people management activities but instead focuses on those activities that will make the biggest difference to our staff and ultimately the overall performance of ESPO and the customer experience.

2. Themes

a. Developing our leadership capacity and capability

ESPO is fully committed to ensuring that our leadership skills and capacity are developed and enhanced at all levels in the organisation. ESPO needs confident and competent managers who are clear about their management accountabilities for people, finance, service delivery and customers and are focussed on the right tasks. We want all our managers to operate effectively as leaders of transformational change, be able to inspire, motivate and empower individuals and create an environment for people to do well.

Both our leaders and managers will be faced with a number of challenges some of which are outlined in the current business strategy, therefore developing leadership capacity is fundamental to the ongoing success of ESPO.

To achieve this we need to :

- Ensure that managers continue to access the 'Leading for High Performance' development programme;
- Review the Management Competency Framework, and introduce an approach to the 360 degree assessment of managers;
- Develop the core management skills of supervisors and team leaders;
- Build managerial leadership capability at Section Leader level and empower managers to manage and teams to deliver;
- Embed our Performance Management framework including workforce and financial planning;
- Manage resources effectively and address poor performance (attendance and capability);
- Define our organisational culture which reinforces the ESPO's values and objectives where managers and employees are clear about their priorities and are accountable for delivering high quality services;
- Develop and embed a workforce Planning model across ESPO to understand future workforce requirements;
- Monitor and report workforce targets at a senior management meetings and take appropriate action where necessary;
- Benchmark staff costs, turnover, absence rates and equality targets;

- Improve HR systems and processes and guidance to ensure excellent people management and service performance;
- Focus on delivering outstanding customer services;
- Review management and organisational structures.

b. Workforce learning and development

We want our people to be flexible to embrace change, to look outside for new ideas and to find innovative ways to solve problems and improve services. In order to achieve this we need to:

- Embed ESPO's Learning and Development Strategy, setting out the workforce development priorities and how these will be achieved;
- Embed the Performance Development Review (PDR) paperwork and process and sustain a culture where all staff have a PDR and learning and development plan and that this is reviewed;
- Use the Investors in People (IIP) approach to engage, develop and support our staff;
- Review the provision of Leicestershire County Council courses to ensure they are providing both the workforce skills and capacity required;
- Encourage staff and managers to build networks outside the organisation.

c. Employee communication and engagement

Engagement of the workforce and gaining the commitment of employees is a key strand of this Strategy. Staff need to work in an environment of trust and openness, where employees feel well informed and listened to and where they feel empowered to do the best job they can. To achieve this we will:

- Promote ESPO as a great place to work locally and regionally;
- Continue the programme of Staff Briefings which will complement other activities within sections for employees to meet face to face with senior managers;
- Review ESPO's engagement initiatives;
- Manage change effectively by engaging, consulting and supporting employees appropriately and at the right time;
- Engage with Trade Unions and provide appropriate forums and mechanisms for informal and formal consultation.

d. Employee health and wellbeing (Facilities & Environment)

ESPO will have a proactive health and safety culture, where managers identify, assess and minimise risk. We will also be an organisation where our people work hard to make a difference for their customers, but also enjoy work, have a good work/life balance, work within a safe environment and engage in healthy activities and lifestyle choices.

To deliver this we will:

- Ensure all managers are competent in health and safety to sustain a healthy and enabling environment;

- Take appropriate action where the environment is having a detrimental impact on staff and their wellbeing;
- Implement clear operational policies that clearly define the expected health and safety standard within all areas of the Council
- Actively promote and encourage healthy lifestyles and wellbeing programmes for the workforce;
- Reduce sickness absence;
- Implementing the new flexible working scheme to enable staff to have a better work life balance.

e. Employee Reward and recognition

The staff survey indicated that staff feel that their pay is not competitive with external organisations or with other similar posts within the wider organisation. In addition there are staff who have greater potential than their current job requires therefore we need to increase the opportunity for staff to develop and extend their skills and knowledge to benefit both themselves and the organisation. In addition to offering learning and development opportunities we will develop an approach to succession planning.

To deliver this we will:

- Review salaries against other roles in external organisations and across the wider organisation;
- Develop schemes which recognise the contribution of individuals and teams through an award scheme or by individual managers;
- Review the benefit scheme and what is available to ESPO staff.

Appendix 4.1: Staff Survey

In August 2013, ESPO carried out a Staff Engagement Survey, the analysis of which will inform the ESPO People Strategy and Communications Plan, to which staff will be asked to align.

There was a 68% response rate to the ESPO staff survey conducted in August. This is a strong response to such a survey, and provides a sufficient number to form an accurate assessment of staff perception.

Responses indicate a workforce that enjoys working for ESPO, is proud to work for ESPO, and is motivated to see ESPO achieve and exceed its targets.

75% or more of the staff have indicated they 'Agree/Agree Strongly' with the following:

- Hope to be working for ESPO in 3 years;
- ESPO allows me a good work/life balance;
- Individual differences are recognised;
- A sense of job satisfaction;
- Regularly go beyond what is expected of me;
- My line manager supports me;
- My line manager is always approachable;
- ESPO is a trustworthy brand.

The Senior Management Team has reviewed all of the responses to the survey, identifying the following areas for improvement:

- Communications
- Reward and recognition
- Environment and equipment
- Team management
- Learning and development

Its review will be synthesised with the findings of the third-party analyst in order to develop the 'People Plan'.

The Director has created and will sponsor this plan within the organisation, ensure its delivery and report regularly within the organisation and to the Management Committee.

Appendix 5: ESPO Four-Year Medium Term Financial Strategy (MTFS) and Annual Budget Planning

ESPO's original Business Plan was first issued in March 2006 and was presented to the Management Committee in September 2008. It was updated a year later and again went to the Management Committee in September 2009. The MTFS was first drafted in June 2012 and presented to the Finance and Audit Sub Committee in that month. Subsequently it was presented and approved at the June 2012 Management Committee Meeting.

The financial implications of the original four-year strategy document can be summarised in the following table.

ESPO BUSINESS PLAN MODEL		SUMMARY				
	2010/11 Actual	2011/12 Year 1	2012/13 Year 2	2013/14 Year 3	2014/15 Year 4	2015/16 Year 5
	£m	£m	£m	£m	£m	£m
PROJECTED USE OF ESPO SERVICES						
INVOICED SALES	86.5	83.9	92.4	90.6	95.3	98.8
CONTRACTS & COMMISSIONING	449.1	452.0	445.0	499.0	514.0	529.0
TOTAL	535.6	535.9	537.4	589.6	609.3	627.8
TRADING INCOME	18.1	17.0	17.4	17.6	18.1	18.6
TRADING SURPLUS	3.1	1.8	1.5	1.4	1.6	1.9
MEMBERS' DIVIDEND	1.0	1.4	1.2	1.1	1.3	1.5
USABLE CASH RESERVES	5.9	6.1	6.2	5.9	5.9	6.4
NET WORTH	6.8	7.7	8.4	8.6	9.6	10.7
PROPERTY, PLANT AND EQUIPMENT	11.0	10.8	10.9	11.4	11.9	11.9
LOAN LIABILITY	-9.5	-9.0	-8.5	-8.0	-7.5	-7.0
FORECAST ASSUMPTIONS:						
Price Inflation - Energy		0.2%	15.0%	5.0%	6.0%	2.0%
Stores Income Growth		3.8%	7.5%	5.0%	5.0%	3.8%
Stores Price Inflation		3.0%	1.9%	0.3%	0.3%	0.3%
Stores Volume Growth		-3.3%	5.4%	4.7%	4.7%	3.5%
Stores Gross Mark Up		31.6%	31.3%	29.2%	28.1%	27.5%
Wage Inflation		0.0%	0.0%	1.0%	1.0%	1.0%
Headcount - Stores		196.4	192.8	191.0	192.0	195.5
- Procurement		150.9	168.1	170.2	170.2	170.2
-Total		347.3	360.8	361.2	362.2	365.7
Cumulative Warehouse Efficiencies £k			-160	-490	-830	-1180
Warehouse Payroll Costs as % of Stores T/O		11.76%	10.78%	10.22%	9.71%	9.36%

In November 2012 this was updated as part of the budgetary cycle for 2013-2014 and the ensuing four-year cycle, and this is presented below:

ESPO BUSINESS PLAN MODEL		SUMMARY					
	2010/11 Actual	2011/12 Actual	2012/13 Forecast	2013/14 Year 1	2014/15 Year 2	2015/16 Year 3	2016/17 Year 4
	£m	£m	£m	£m	£m	£m	£m
PROJECTED USE OF ESPO SERVICES							
INVOICED SALES	86.6	86.5	97.1	91.5	94.9	98.1	100.1
CONTRACTS & COMMISSIONING	449.1	1009.0	445.0	499.0	514.0	529.0	534.3
TOTAL	535.7	1095.5	542.1	590.5	608.9	627.1	634.4
TRADING INCOME	18.1	17.8	17.6	17.6	17.8	17.9	17.9
TRADING SURPLUS	3.1	2.6	2.1	1.6	1.8	2.0	2.0
MEMBERS' DIVIDEND	1.0	1.7	1.4	0.9	1.1	1.2	1.1
USABLE CASH RESERVES	5.9	6.6	6.2	6.8	7.5	8.2	9.1
NET WORTH	6.8	8.5	9.2	9.9	10.6	11.3	12.1
PROPERTY, PLANT AND EQUIPMENT	11.0	11.2	10.9	11.4	11.9	11.9	11.9
LOAN LIABILITY	-9.5	-9.0	-8.5	-8.0	-7.5	-7.0	-6.5
FORECAST ASSUMPTIONS:							
Price Inflation - Energy		0.2%	15.0%	5.0%	6.0%	2.0%	2.0%
Stores Income Growth		3.8%	12.7%	2.9%	1.9%	3.2%	2.0%
Stores Price Inflation		3.0%	1.9%	0.3%	0.3%	0.3%	0.3%
Stores Volume Growth		-3.3%	10.8%	2.6%	1.7%	3.0%	1.7%
Stores Gross Mark Up		31.6%	28.7%	26.6%	25.5%	24.9%	24.5%
Wage Inflation		0.0%	0.0%	1.0%	1.0%	1.0%	1.0%
Headcount							
- Stores Average FTE		196.4	194.7	191.0	192.0	195.5	195.5
- Procurement Average FTE		150.9	150.5	160.0	170.2	170.2	170.2
-Total		347.3	345.2	351.0	362.2	365.7	365.7
Cumulative Warehouse Efficiencies £k			0	200	400	600	800
Other Project Efficiencies			100	150	200	250	300
Warehouse Payroll Costs as % of Stores T/O		11.52%	10.78%	9.72%	9.71%	9.36%	9.30%

Twelve months on from the production of this MTFS clearly events have happened that will influence management thinking. The MTFS is prepared each year as part of the budgetary cycle and it is right that these events and our knowledge of the external environment that we operate in should be incorporated in to the latest version of the MTFS. This will also include actual performance to date driving a forecast for this current financial year and an assessment of 2017/2018 which was not part of the original MTFS.

A draft updated MTFS is presented below. This is in outline only but represents our current thinking based on the assumptions below.

ESPO BUSINESS PLAN MODEL		SUMMARY						
	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Forecast	2014/15 Year 1	2015/16 Year 2	2016/17 Year 3	2017/18 Year 4
	£m	£m	£m	£m	£m	£m	£m	£m
PROJECTED USE OF ESPO SERVICES								
INVOICED SALES	86.6	86.5	94.1	94.2	93.1	97.3	99.6	101.4
CONTRACTS & COMMISSIONING	449.1	1009.0	500.0	510.0	520.2	530.6	541.2	552.0
TOTAL	535.7	1095.5	594.1	604.2	613.3	627.9	640.8	653.4
TRADING INCOME	18.1	17.8	17.9	17.9	18.0	18.1	18.2	18.3
TRADING SURPLUS	3.1	2.6	2.7	1.8	1.8	1.9	1.9	1.9
MEMBERS' DIVIDEND	1.0	1.7	1.5	1.2	1.1	1.2	1.2	1.2
USABLE CASH RESERVES	5.9	6.6	6.2	6.9	7.6	8.3	9.0	9.7
NET WORTH	6.8	8.5	9.7	10.4	11.1	11.7	12.4	13.1
PROPERTY, PLANT AND EQUIPMENT	11.0	11.2	10.9	11.0	11.0	11.0	11.0	11.0
LOAN LIABILITY	-9.5	-9.0	-8.5	-8.0	-7.5	-7.0	-6.5	-6.0
FORECAST ASSUMPTIONS:								
Price Inflation - Energy		0.2%	15.0%	5.0%	6.0%	2.0%	2.0%	2.0%
Stores Income Growth		3.8%	7.0%	4.8%	4.2%	4.4%	2.0%	2.0%
Stores Price Inflation		3.0%	1.9%	0.3%	0.3%	0.3%	0.3%	0.3%
Stores Volume Growth		-3.3%	5.1%	4.6%	3.9%	4.1%	1.7%	1.7%
Stores Gross Mark Up		31.6%	32.3%	31.9%	30.7%	28.2%	28.0%	27.7%
Wage Inflation		0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Headcount - Stores Average FTE		196.4	194.7	191.0	192.0	195.5	195.5	195.5
- Procurement Average FTE		150.9	150.5	160.0	170.2	170.2	170.2	170.2
-Total		347.3	345.2	351.0	362.2	365.7	365.7	365.7
Cost Efficiencies			0	325	492	744	1003	1268
Warehouse Payroll Costs as % of Stores T/O		11.52%	11.35%	10.04%	10.06%	9.66%	9.30%	9.30%

The key financial drivers for the strategy over the next four years were stated as follows and these remain in place.

- ESPO commitment to value for money; the organisation's main objective
- Clear presentation of cost efficiencies;
- Secure and adapt to maintain core business - Grow Stores volume by 20% through competitive pricing and outstanding service;
- A fair return to Members relative to the risk they take;
- Grow the net worth of the business;
- Seek to ensure that the two core divisions of ESPO are profitable in their own right;
- Spread the benefit of ESPO to all users in the form of competitive pricing;
- Radical approach to developing service offering to expand the customer base;
- Minimise risk and maximise opportunities by growing ESPO capability and unique skills;
- Invest in developing staff capabilities and new skill sets.

The key variances to the original MTFS can be summarised as follows:

- Store sales are expected to be 4.9% ahead of the prior year in 2013/2014, this includes 0.3% price inflation. This is 1% ahead of

expectations for this financial year. Two years in to the original four-year MTFS we have achieved 10% volume growth through the warehouse.

- The headcount increases included in the budget for procurement and marketing is being achieved this year though some of the recruitment is happening later than planned. The savings as a result of this have to some extent been offset by higher than expected agency labour as a result of the drive in the July peak to maximise customer service levels.
- Indigo (warehouse picking electronically) has been implemented later than originally planned but we are gradually moving to full implementation by the end of this financial year when it is expected that only a small percentage of picking will be paper based.
- The assumption remains that supplier costs increases will be greater than the average stores prices increases of 0.3% per annum and this will result in lower stores gross mark up over the four-year period. This means more competitive prices for our customers. Supplier margins will become the focus of a strategic project.
- At the end of September 2013 total sales are ahead of budget mainly as a result higher low margin gas sales. Total gross margin is thus just ahead of budget. Total overheads are broadly in line with budget. For these reasons it is not expected that the year end result will be significantly at variance to the original budget.
- An annual allocation to reserves of £400k for building replacement/major refurbishment is included. The building replacement provision was first provided for in 2011/2012 and the assumption is that this will be provided for each year depending on results.

At the end of September 2013 the surplus year to date was £1.4m compared to a budget of £1.2m. The following risks should be considered:

- Competitive activity in the marketplace in particular from YPO.
- Impact on rebate income of the continued sluggish economic performance, particularly in the areas of furniture and food.
- Costs of legal challenges as a result of procurement exercises given the current litigious environment.

The annual budget will be prepared as year 1 of the medium term financial strategy and as such supports the long term plan for the organisation. The plan needs to accommodate financially the Continuous Improvement Programme and strategic projects. These are:

- Spend analytics
- E-tendering system
- Warehouse logistics review
- Stock system/demand planning software
- CRM
- Supply chain management – increasing gross margin into ESPO

Strategic projects/allocations

- Possibly doing a mini catalogue trial nationally
- Provision for increased legal challenges

Appendix 6: Continuous Improvement Plan

The continuous improvement programme is seen as a means of delivering the business strategy. It is envisaged that the delivery of the programme will be aligned to the EFQM methodology.

The projects included in ESPO's current strategy are as follows:

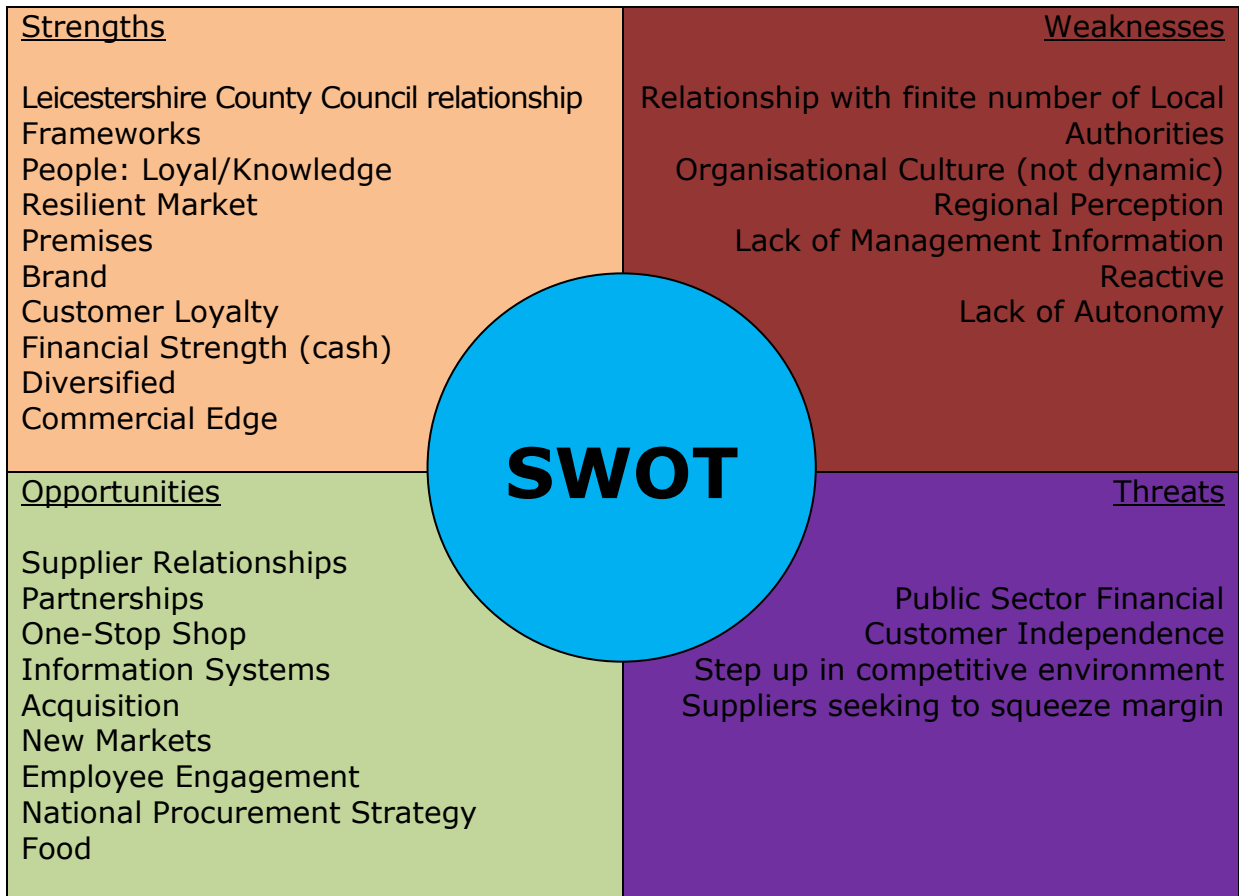
2014/2015 priorities

Project	Description	Owner
E-tendering	Due North system implementation enabling automation of procurement practices	Assistant Director, Procurement & Compliance
Spend Analytics	Understanding of Member-level spend and identify use of frameworks by partners	Assistant Director, Procurement & Compliance
Warehouse & Logistics Review	Transport model & labour productivity	Assistant Director, Operations & Continuous Improvement
Demand planning system	Stock optimisation support	Assistant Director, Operations & Continuous Improvement
Peak Review	Project plan for managing 2014 peak business periods	Assistant Director, Operations & Continuous Improvement
Customer Relationship Management (CRM) System	Account management and customer relationship	Assistant Director, Marketing & Communications
Supplier relationship system	System for managing supplier relationships (and margin), and visibility of direct orders	Assistant Director, Marketing & Communications
GEMS replacement	System for managing energy accounts	Assistant Director, Procurement & Compliance

Ongoing projects with ESPO, being dealt with through the existing structure

Project	Description	Owner
Thought Leadership	Delivery of EU procurement training and expertise to staff of Member Authorities and broader procurement network	Assistant Director, Procurement & Compliance
Indigo Implementation	Roll out automated warehouse picking solution	Assistant Director, Operations & Continuous Improvement
Health & Safety	Implement and embed management system	Assistant Director, Operations & Continuous Improvement
People Plan	Including staff survey response and training	Human Resources Business Partner
Customer analysis	Service level with customer segmentation	Assistant Director, Marketing & Communications

Appendix 7: ESPO SWOT Analysis



Appendix 8: ESPO STEPE Analysis

This STEPE analysis is very broad ranging, and serves the purpose of prompting areas of challenge for ESPO and the needs of its customer base.

Social

- Increased Use of Technology
- Age Profile of Staff
 - Longer Working Lifetime
 - Progress Planning
- Succession Planning
- Work-Life Balance Expectations
- Higher Expectations (Standard of Living)
- Austerity
- Living Wage
- Cost of Living Pressures on our Work Force
- Minimum Wage – Lower Quartile
- Health & Fitness Popularity up
- Experience with Ageing Population
- Physical Capability
- Single Parent Families
- Transparency in Public Life
- Institutionalised Workforce
- Perception of Security In-balance in the way different parts of the Organisation think
- Different Expectations i.e. Contractual Arrangements – Long-term staff stay, new staff short-term
- No Win No Fee claims culture
- East European Warehouse Workforce
- Increasing Immigration
- Ethnic Mix at Work
- Language Barriers

Technology

- Alternative Fuels – Electric Vans
- E-Tendering
- 3D Printers
- Funding Our Own Research
- Product Design Exclusivity
- Online Ordering
- Online Payments
- Web Business
- Customer Order Tracking
- Contract Management Offering
- Warehouse Automation
- Smarter Planning Systems
- IT Update - Important to not get Left Behind – Competitive Advantage

- SIMS System
- CRM & Databases
- Customer/Peer Group Forums & Communications
- Data Protection Issues
- IT Procurement Expertise & Increasing Importance
- Schools iPads

Economic

- Euro versus Pound
- Social Enterprise/Mutuals
- Low Interest Rates
- Low Inflation
- Fuel Inflation
- Cost of Living Challenges
- Household Incomes Static
- Customer Insights/Market Insights
- Improving Economic Climate – UK/EU/Global
- Coming out of Recession, are we well-placed – Capacity
- Exchange Rates Fluctuation
- Framework Users Shopping Around – but Marginal Benefit (a la Energy Switching) – Need New Areas
- Private Sector Competition - Benchmark Performance
- Market Intelligence
- Unemployment Legacy from Austerity – last thing to catch up
- Increasing Global Influence
- Education Customers More in Control of their Spending Decisions
- Expansion Outside of Area for ESPO
- Academies
- Different 'Forms' of Competition – Price/Service/Technology
- Schools Working Together to find Buying Solutions
- Mergers and Acquisitions Activity Set to Increase
- Industrial Productive Capacity Reducing
- Boom & Bust Economies
- Crown Commercial Services Activity in Our Space – partnering
- YPO Priorities
- Too Many Suppliers – Long-term Relationships
- Supplies – Access to Public Supply Chain is Key – Big Reaction if Not Successful
- Ordering Long-term could bring Supplier Costs Down

Political and Legal

- Membership of Europe
- UK EU membership – Procurement Law
- Change of Government
- 2015 General Election
- Conservative or Coalition
- European Elections – UKIP/Referendum
- European Procurement Legislation
- Risk Appetite
- Risk Management Strategy

- Risk/Reward Ratio re Litigation
- Government Spending Plans/Election
- TUPE Changes/Redundancy Changes
- Local Authority Future
- New School Curriculum 2014
- Schools Curriculum

Environmental

- Product Range
- Expectations associated with Being a Local Authority Organisation
- Supply Chain Sourcing
- Risk – Sweat Shop Products, need to have an answer
- Customer Expectations – Value of Green versus Price versus Fm Fuel Surcharge
- Health & Safety
- Fuel Pricing
- Ethical Sourcing
- Differentiator to the Competition – the Greenest
- CSR
- Carbon Footprint
- Emissions of Vehicles of the Fleet
- Bundling Green Frameworks
- Market Segmentation of Green Products – Will it work the same in all areas?
- Environmental Legislation
- Compliance

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Appendix 9: Review of Previous Eighteen-Month Targets

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
<p>To increase Stores turnover by 20% in volume Clive Pitt</p>	<p>8.1%</p> <ul style="list-style-type: none"> • The Office Supplies contract has been established, and customers are diverting business to it. • ESPO has enjoyed Phonics business this year, and has seen an up-lift from new customers buying in to the broader ESPO offering. • ESPO has continued to grow in its targeted areas • Tactical campaigns have continued, and include voucher offers for Phonics, discounting in target geographies, and tactically in the West Mids. • GP sales have been piloted in Warwickshire. Whilst not a great commercial success, 	<p>3.72%</p> <ul style="list-style-type: none"> • A direct supply arrangement for Office Supplies has been established to meet Member Authority requirements. This is delivering savings for Member Authorities but a reduction in ESPO turnover. Marketing of the new Office Supplies contract will see increased turnover and ESPO rebate income. • New AD – Operations & Continuous Improvement in post since May 2013. • ESPO enjoyed Phonics business this year, but match funding ends 31/10/2013. Phonics Countdown Campaign planned for September/October to maximise Phonics sales 	<p>5.34%</p> <ul style="list-style-type: none"> • Marketing of the new Office Supplies contract will see increased turnover and ESPO rebate income. • Sales and marketing campaigns to be based on recency, frequency and value data.

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
	sufficient learning have been gained to extend the trial in to Solihull.	<p>during this period.</p> <ul style="list-style-type: none"> • Tactical campaigns continue, and include voucher offers for Phonics, discounting in target geographies, and tactically in the West Midlands. • Main catalogue development plan to be developed, outlining how to generate Stores growth and cover short/medium/long-term by November 2013. • Account Manager area growth plans being developed. 1-2-1 feedback meetings set up with individual plans presented/discussed October 2013 	
<p>Strengthen school engagement by creating a dedicated resource for schools Trevor Phipps</p>	<p>Being established through the procurement and marketing restructure.</p>	<ul style="list-style-type: none"> • An Education Hub has been established through the Procurement and Marketing Divisions restructure. • Further development of EduBuy (originally 	<ul style="list-style-type: none"> • Start bulk projects for schools e.g. specific equipment, mini buses etc.

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
		implemented in early 2012/2013 as a means of 'signposting' schools to available frameworks)	
Create Value selections within product catalogues Kevin Willsher	Value range developed to include cleaning, hygiene, art and design. Expect a 'development trial' in Stationery mid-2013.	<ul style="list-style-type: none"> • Value ranges being developed. Expect 'development trials' late 2013. • Product range review to be undertaken as part of Catalogue Development Plan. Completed by Q2/2014. • More and better marketing intelligence and information will be provided for category teams 	
Rigorously evaluate options for lowering delivery costs for Stores items David Godsell	<ul style="list-style-type: none"> • Product range has been rationalised, particularly around ring binders and filing solutions. • Other areas are currently work in progress. • Delivery frequency review has taken place in Norfolk and Leicestershire, with certain segments increasing or 	<ul style="list-style-type: none"> • Get smarter information re customer order lines by sector/order lines • Look to two tier customer service/help desk and telesales operation. 	<ul style="list-style-type: none"> • Revisit transport and logistics operation

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
	<p>decreasing frequency.</p> <ul style="list-style-type: none"> Note that this has been aligned to the 'green agenda' particularly in Leicestershire. 		
<p>Implement e-commerce Kristian Smith</p>	<p>The first stage of the e-tendering process is to ensure customer participation, system design and procurement. This will provide a basis for all procurements, a portal for such activity and e-storage of all documentation. ESPO is working with the East-Midlands Heads of Procurement, and will be at system procurement stage by March 2013.</p>	<ul style="list-style-type: none"> ESPO has completed system procurement on an East Midlands Heads of Procurement initiative. This will procure an E-Tendering solution to support ESPO's operational requirement internally – and also provide a common platform solution across the East Midlands region. Due North have been awarded supplier status and a regional implementation plan is being agreed, with the solution rolled out in phases. ESPO is also updating its telecoms infrastructure in order to ensure sufficient data management capabilities. Transfer of data from Consys to new contract management system (Phase 3) 	<ul style="list-style-type: none"> Continue to roll-out e-tendering system Develop capability and capacity across various e-commerce systems and platforms, including marketplace(s), to accept, without intervention, orders into the ESPO back office system. This includes building on key relationships with Capita (SMS) and alternative school system providers in particular. Ambition for 2014/2015 is to grow customer e-orders from 20% (target for 2013/2014) to 40% in 2014/2015).
<p>Delivery and managing more national frameworks (the next 'MSTAR') Kristian Smith</p>	<ul style="list-style-type: none"> Delivered, ESPO led contract with YPO and GPS. Framework expected to be completed by June 2013 	<ul style="list-style-type: none"> Telehealth and Telecare Banking Services Consultancy Services Advertising & Recruitment 	

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
	<ul style="list-style-type: none"> Professional services team, Social care (incl. Tele-health) team and FM team to be delivered as a result of the procurement and marketing restructure, by end of March 2013. 	<p>Services framework completed in 3 lots, 2 of which are in place with the third to be completed later this year.</p> <ul style="list-style-type: none"> Professional Services, Social Care (including Telehealth), Environmental Services & Waste Management and Building & FM teams established as a result of the Procurement and Marketing Divisions restructure. 	
<p>Improving ESPO's marketing capability Trevor Phipps</p>	<ul style="list-style-type: none"> Established, and to be updated to include current market and customer challenges for 2013/2014 Health market intelligence increased with GP project and care category. DfE relationship established and further cemented through Phonics, EduBuy and potential for Phonics II Marketing and customer surveys completed. 	<ul style="list-style-type: none"> Implement CRM system New Assistant Director – Sales & Marketing now recruited and in-post since 24/06/2013. Strategic marketing plans to be developed, and will be updated to include current market and customer challenges for 2013/2014. Communications Manager recruited and in-post since 08/07/2013. Initiatives are already underway to improve internal communications, maximise PR and develop the ESPO website. 	

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
<p>Strengthen Supply Chain management Trevor Phipps & Kristian Smith</p>	<p>Improved supply chain management, and contract management to be delivered as an outcome of the current restructure.</p>	<ul style="list-style-type: none"> • Review/replenish software • Dedicated team established. • Objectives for 2013/2014 will be to implement new supplier classification system and a new ABC analysis of supply chain management. • Customer experience from Direct Suppliers to be investigated. Focus to improve supply chain (non-delivery rates/ late deliveries/customer service). Draft Direct Suppliers action plan expected by end-September 2013. 	<ul style="list-style-type: none"> • The emphasis will be on fine-tuning the ABC supply chain analysis and embedding the same relationship management principles into D and E suppliers. • Product availability KPI will be redefined according to product category and its direct impact on our customer groups. Current KPI is 98% and we will redefine targets that will include 100% availability for certain product types.
<p>Explore moving to Joint Procurement Kristian Smith</p>	<p>Relationship with YPO diluted from previous path. Common buying opportunities and relationship building with GPS ongoing. GPS relationship strengthened through an MOU, umbrella agreement, and three specific procurement contracts.</p>	<ul style="list-style-type: none"> • New Assistant Director – Procurement & Compliance will continue to develop strategic procurement relationships where it is in ESPO’s interests to do so. 	<ul style="list-style-type: none"> •
<p>Develop the Learning Organisation to support the strategic goal Sue Whitham</p>	<p>A marketing suite of knowledge, to be shared with Members, existing and potential customers for Energy, Food, FM and Fleet will be ready by Easter for</p>	<ul style="list-style-type: none"> • SMT member now overseeing L&D across the organisation to ensure consistency. • SOG annual work plan includes L&D – continue to 	

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
	<p>distribution – reinforcing ESPO as a resource of procurement knowledge as well as frameworks.</p> <p>A primary task following the restructure is to ensure that each category area has reviewed the market place, informed ESPOs participation strategy, but also created a bank of knowledge in a format to be shared with Members and customers – 2013/2014</p>	<p>develop areas of learning which are common and beneficial to Consortium Member Authorities.</p>	
<p>Implement continuous programme of staff development Sue Whitham</p>	<p>1-2-1 meetings in place at senior level. Performance management framework to be further embedded during 2013/2014</p>	<ul style="list-style-type: none"> • 1-2-1 meetings in place at senior level and now being extended to middle managers. • PDRs being rolled out in line with SMT timetable. • Performance framework to be further embedded during 2013/2014. • Further workshops on performance objectives scheduled for autumn 2013. • Staff survey planned to influence Staff Action Plan. 	
<p>Rebate Management Kristian Smith</p>	<p>Controlled as part of the financial process, but increasingly to be proactively managed through the category</p>	<ul style="list-style-type: none"> • Rebates controlled as part of the financial process, but are increasingly managed through the Category teams as part of 	

Objective & Owner	2012/2013 Revised March 2013	2013/2014 Revised August 2013	2014/2015 Revised August 2013
	teams as part of more robust supply chain management – 2013/2014.	a more robust supply chain management.	
Cost Monitoring Clive Pitt	ISYS system whereby time can be recorded and charged back reliably has been budgeted and will be implemented to coincide with the restructure.	<ul style="list-style-type: none"> • Implementation plan now being prepared. • Delegated budgets finalised and being cascaded in line with MTFS. 	<ul style="list-style-type: none"> • Review of charging for fee-based procurement activity undertaken.
Spend Analytics Kristian Smith		<ul style="list-style-type: none"> • ESPO undertaking work to establish an ESPO spend analytics and infrastructure solution, being informed by SOG. 	
Training Kristian Smith		<ul style="list-style-type: none"> • ESPO undertaking work with SOG on developing formal procurement training and networking opportunities for Members and regional procurement professionals 	
Warehouse and Logistics Review David Godsell		<ul style="list-style-type: none"> • Formal review of the warehouse and logistics review to be instigated. 	



ESPO MANAGEMENT COMMITTEE – 6 MARCH 2014

FORECAST OUTTURN 2013/14 AND DRAFT MTFS 2014/15 – 2017/18

**JOINT REPORT OF THE DIRECTOR AND
CONSORTIUM TREASURER**

Purpose of Report

1. To update the Management Committee on the financial implications of the Four Year Medium Term Financial Strategy document currently being prepared for 2014/15 -2017/18.
2. To present the 2014-15 budget.
3. To present draft outline budgets for 2015-16, 2016-17 and 2017-18.

Background

4. The intention to move to a four year Medium Term Financial Strategy was presented to the Finance and Audit Sub Committee and Management Committee in June 2012, together with a draft outline budget for 2013-14, 2014-15 and 2015-16.
5. The assumptions underlying this budget and MTFS were presented to the Finance and Audit Sub Committee on 19 November 2013. That meeting was however inquorate and the exempt report provided instead to the Management Committee meeting held on 5 December 2013 to ensure member consideration.
6. During consideration of those budget assumptions, the following principal points were noted:
 - a. Members were advised that further work was needed to align the strategy cycle with the financial cycle and that the MTFS would need to reviewed regularly to recognise the dynamics of the market in which ESPO operated. The Finance and Audit Subcommittee would be kept updated on a regular basis.
 - b. Members acknowledged the challenges facing ESPO and the need for investment to reduce the cost base (e.g. a new stock pick and control system) and to grow the business and hence enhance the value of the business.
7. An exempt report containing the draft 2013-14 budget and the MTFS was presented to the Finance and Audit Subcommittee on 17 February 2014. The report was considered in detail and arising from discussion the following additional points were noted, for presentation to the Management Committee:
 - (i) ESPO had developed its e-ordering capabilities and an improved web interface for customers was in progress, due to go live during the first quarter of the

2014/15 financial year; this, alongside working with suppliers to be able to fulfil 'just in time' deliveries, would create further efficiencies, improve the customer experience and stock accuracy/levels over the course of the MTFS;

- (ii) There remained strong demand from customers for the ESPO catalogue. Whilst this meant fixed 12 month headlining pricing for stores products, members supported the use of marketing initiatives and promotions applied throughout the year to drive sales and manage stock levels;
- (iii) As the new Indigo Warehouse system became fully operation, ESPO's agency manpower costs was expected to fall as a proportion of the previous year's budget;
- (iv) A contractor was currently being employed by the Servicing Authority to assess major spend on energy at Leicestershire County Council buildings. Members felt this could be extended to cover ESPO's Grove Park building, acting as a form of review as to whether elements of its 40 efficiency projects should be altered to gain greater returns.

Updated Outline ESPO Four Year Strategy 2014/15 – 2017/18

8. The financial implications of the four year strategy document along with the key assumptions can be summarised in the following table:

<u>ESPO BUSINESS PLAN MODEL</u>	<u>SUMMARY</u>							
	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Forecast	2014/15 Year 1	2015/16 Year 2	2016/17 Year 3	2017/18 Year 4
	£m	£m	£m	£m	£m	£m	£m	£m
PROJECTED USE OF ESPO SERVICES								
INVOICED SALES	86.6	86.5	94.1	99.7	100.1	103.9	106.4	108.6
CONTRACTS & COMMISSIONING	449.1	1009.0	500.0	510.0	520.2	530.6	541.2	552.0
TOTAL	535.7	1095.5	594.1	609.7	620.3	634.5	647.7	660.6
TRADING INCOME	18.1	17.8	17.9	18.4	18.7	18.9	19.4	19.7
TRADING SURPLUS	3.1	2.6	2.7	2.1	2.2	2.4	2.7	3.0
MEMBERS' DIVIDEND	1.0	1.7	1.5	1.4	1.4	1.6	1.8	2.1
USABLE CASH RESERVES	5.9	6.6	7.5	8.2	9.0	9.8	10.6	11.6
NET WORTH	6.8	9.8	11.0	12.2	12.6	13.4	14.2	15.1
PROPERTY, PLANT AND EQUIPMENT	11.0	11.2	10.9	11.0	11.0	11.0	11.0	11.0
LOAN LIABILITY	-10.0	-9.5	-9.0	-8.5	-8.0	-7.5	-7.0	-6.5
FORECAST ASSUMPTIONS:								
Stores Income Growth		3.8%	7.0%	5.7%	3.6%	6.2%	3.0%	2.0%
Stores Price Inflation		3.0%	1.9%	0.3%	0.3%	0.3%	0.3%	0.3%
Stores Volume Growth		-3.3%	5.1%	5.4%	3.4%	5.9%	2.7%	1.7%
Wage Inflation		0.0%	0.0%	1.0%	2.0%	2.0%	2.5%	2.5%
Headcount - Stores Average FTE		196.4	194.7	163.2	175.6	175.6	175.6	175.6
- Procurement Average FTE		150.9	150.5	178.0	182.6	182.6	182.6	182.6
-Total		347.3	345.2	341.2	358.2	358.2	358.2	358.2
Cost Efficiencies			0	0	115	447	621	884
Warehouse Payroll Costs as % of Stores T/O		11.52%	11.35%	10.04%	9.98%	9.63%	9.30%	9.30%

The figures for 2013-14 represent the forecasted out turn for this financial year. The figures for 2014-15 represent the draft budget as it currently stands. A detailed scenario analysis has been prepared to allow members to see the impact of various events and allow consideration as to whether they should be included in the budget for 2014-15. This information is of a commercially sensitive nature and it is thus included in the exempt report providing supplementary information informing the forecast outturn and draft MTFS elsewhere on the agenda.

The Four Year MTFS presented in February 2013 was as follows:

ESPO BUSINESS PLAN MODEL			SUMMARY				
	2010/11 Actual	2011/12 Actual	2012/13 Forecast	2013/14 Year 1	2014/15 Year 2	2015/16 Year 3	2016/17 Year 4
	£m	£m	£m	£m	£m	£m	£m
PROJECTED USE OF ESPO SERVICES							
INVOICED SALES	86.6	86.5	91.6	94.5	96.6	99.7	102.4
CONTRACTS & COMMISSIONING	449.1	1009.0	445.0	499.0	514.0	529.0	534.3
TOTAL	535.7	1095.5	536.6	593.5	610.6	628.7	636.7
TRADING INCOME	18.1	17.8	17.9	17.8	17.8	17.9	17.9
TRADING SURPLUS	3.1	2.6	2.7	1.8	1.9	2.2	2.3
MEMBERS' DIVIDEND	1.0	1.7	1.5	1.1	1.2	1.4	1.6
USABLE CASH RESERVES	5.9	6.6	7.8	8.0	8.7	9.4	10.2
NET WORTH	6.8	8.5	9.6	10.5	11.2	11.9	12.7
PROPERTY, PLANT AND EQUIPMENT	11.0	11.2	11.0	11.1	11.9	11.9	11.9
LOAN LIABILITY	-9.5	-9.0	-8.5	-8.0	-7.5	-7.0	-6.5
FORECAST ASSUMPTIONS:							
Price Inflation - Energy		0.2%	15.0%	5.0%	6.0%	2.0%	2.0%
Stores Income Growth		3.8%	8.1%	3.7%	5.3%	3.3%	2.0%
Stores Price Inflation		3.0%	1.9%	1.5%	1.0%	1.0%	1.0%
Stores Volume Growth		-3.3%	6.2%	2.2%	4.3%	2.3%	1.0%
Wage Inflation		0.0%	0.0%	1.0%	1.0%	1.0%	1.0%
Headcount - Stores Average FTE		196.4	192.0	189.4	188.4	188.4	188.4
- Procurement Average FTE		150.9	149.2	170.7	179.9	179.9	179.9
- Total		347.3	341.2	360.1	368.2	368.2	368.2
Cumulative Indigo Warehouse Efficiencies £k			0	200	400	600	800
Other Project Efficiencies			100	150	350	650	900
Warehouse Payroll Costs as % of Stores T/O		11.52%	11.19%	9.97%	9.43%	9.21%	9.10%

Key financial drivers for the strategy over the next four years are as follows:

- ESPO commitment to value for money; the organisation's main objective;
- Clear focus on achieving cost efficiencies, being transferred in to business growth initiatives and sustained lower prices;
- Secure and adapt to maintain core business

- Grow Stores volume by 20% through competitive pricing and outstanding service;
- Maintain rebate income through increased numbers of frameworks offset by pressure on rebate margins.
- Development of staff capabilities and new skill sets;
- Expand the services offered to customers thus broadening the offering and hence the customer base.
- Spread the benefit of ESPO to all users in the form of competitive pricing;
- A fair return to members relative to the risk they take;
- Grow the net worth of the business;
- Minimise risk and maximise opportunities by growing ESPO capability and unique skills.

As with all strategies ESPO will be flexible to the impact of external events and will respond accordingly should the need arise. In particular note is taken of the pressure on Member budgets and this is allowed for in the scenario analysis.

9. A critical contribution underpinning the financial strategy will be the use of efficiency projects to support the sub inflationary price rises predicted over the next four years. In simple terms the efficiencies will support the margin which would otherwise have been eroded by unavoidable supplier price increases. This supports the value for money key objective and maintains the appropriate surplus level.
10. The Indigo warehouse efficiency project is largely implemented now with up to 90% of despatches being processed through this system.
11. Beyond the headcount increases allowed for in the 2013-14 budgets and rolled forward in to the 2014-15 budget, there are no significant further increases built in. Payroll inflation has been kept at minimal levels throughout the 4 year period.
12. As a result of the tight headcount controls, minimal wage inflation, new systems and a policy of driving volume through the warehouse, the warehouse payroll costs as a percentage of stores turnover decreases from 11.52% in 2011-12 to 9.30% in 2017-18.
13. The financial model includes allowance for the training and development of staff in both procurement and finance. Structured training schemes are in place in both areas to ensure staff have the best and latest capabilities and skills.
14. The model has been structured to generate a growing surplus from £2.2m to £3.0m in 2017-18 of which 80% each year would be distributed as a dividend. In total over the four year period 2014-18 £6.9m is forecast to be distributed to members. This is after allowing £0.4m each year for the building replacement fund which was not included in the original MTFS presented in June 2012.
15. In 2014-15 net debt will be zero as cash will be greater than the outstanding loan liability. The business will thus have zero net gearing and this represents a strong balance sheet for ESPO going forward.

Detailed Review of Forecast Outturn 2013-14 Compared to Budget

Income

16. A breakdown of the Forecast Income for 2013-14 compared to budget is show below

	FCAST	BUDGET	PRIOR YEAR
	£000	£000	£000
<u>SALES</u>			
STORES	42,598.6	42,254.0	40,316.1
DIRECT	22,288.3	21,132.4	23,296.1
GAS	29,440.6	25,639.7	24,404.2
CATALOGUE ADVERTISING	872.6	896.3	918.5
REBATE INCOME	4,345.4	4,073.8	4,858.0
MISCELLANEOUS INCOME	196.9	203.7	278.1
<u>TOTAL SALES</u>	99,742.4	94,199.8	94,071.0

17. Total Sales are 5.8% ahead of budget or £5,543k. The key positive variance is in gas sales which is £3,801k ahead of budget driven by higher gas usage and increasing customer footprint. Store sales are forecast to be 1% ahead of budget.
18. Total Rebates at £4.3m are ahead of budget by £272k.
19. Direct Orders are £1,156k ahead of budget driven by higher Phonics orders as a result of a targeted marketing campaign in Q3.
20. Other income includes bank interest which is higher than budget due to maintaining a higher average cash balance than expected.
21. Catalogue advertising is £24k behind budget
22. Total gross margin is £18,408k compared to the budget £17,823k.
23. The increased margin is principally down to additional rebates and higher store sales.

Employee Expenditure

24. A breakdown of Employee Expenditure for 2013-14 compared to budget is shown below.

	FCAST	BUDGET	PRIOR YEAR
	£000	£000	£000
EMPLOYEES			
Staff	9,330.7	9,828.7	9,180.5
Agency/Contract	982.0	323.1	830.0
Total	<u>10,312.7</u>	<u>10,151.8</u>	<u>10,010.5</u>

25. The 2013-14 budget included an allowance of £0.6m for the implementation of the Procurement and Marketing restructure. This has now been implemented and the full year impact will be shown in the 2014-15.

26. The benefits and impacts of the restructure has been as follows:

- Additional services to members as outlined in the ESPO strategic review at no additional cost.
- Lower risk
- Growth in the number of framework contracts available to members and non-members and hence directs/rebates
- Sustained growth in the stores operation
- Strong marketing function supporting a national procurement operation leading to further growth

27. Included in employee expenditure are agency costs. These are running substantially ahead of budget due to the delayed implementation of Indigo and a heightened focus on ensuring that store business is delivered as far as possible in line with customer expectations during peak trading periods despite the increased volume. This has been offset by lower full time staff costs as the vacancies that have arisen as a result of the restructure have proved difficult to fill.

28. Total average FTE is expected to end the year at 341.2 compared to a budget of 360.1.

Non Employment Expenditure

29. The summary position for non-employment expenditure for 2013-14 compared to budget is shown below:

	FCAST	BUDGET	PRIOR YEAR
	£000	£000	£000
OVERHEAD EXPENSES			
Stores	3,928.1	3,684.1	4,016.0
CP	2,069.8	2,169.8	1,984.0
Total	<u>5,997.9</u>	<u>5,853.9</u>	<u>6,000.0</u>

30. In total non-employment expenditure is £145k over budget. The key variance is in Transport as a result of the aged fleet.

Surplus

31. As a result of the additional income (£585k), higher employment costs (£161k) and higher non employment costs (£144k) the surplus for 2012-13 will be £280k ahead of budget at £2,097k. This compares with an outturn last year of £2,685k. The detailed P&L is included in appendix 1E for 2013-14.

Efficiencies

32. The total number of projects supporting the efficiency drive total 45 and when fully implemented will generate £1.0m of annual savings on a cost base budget for 2013-14 of £16.3m, a target saving of 6%. These projects are currently being reviewed so that management can focus on a reduced number of projects that will deliver the savings required.

Balance Sheet

33. A summary balance sheet compared to the prior year is detailed in Appendix 1A and 1B.
34. Stock has decreased by 2% in line with the increase in stores turnover. Stock turn will end the year at approximately 9x with a key target next year to increase this to 10x.
35. Debtor days are expected to outturn at 31.7, a fractional increase on the prior year of 30.8.
36. At year end the land and buildings will not be re-valued in line with the decision at Management Committee in December 2013.
37. During the year £1.5m was paid to members for prior years dividends and it is forecast that a provision will be required for £1.4m this year.
38. Other creditors represents, VAT, Climate Change Levy, specific accruals, PAYE/NI, Directs/Gas not invoiced etc.
39. A detailed cash flow is included in appendix 1C for 2013-14.

Service Line Analysis

40. One of the requirements of the ESPO strategic review was the production of detailed service line analysis and this is produced in the exempt report elsewhere on the agenda.

Capital Expenditure

There has been minimal capital expenditure during the year and this has been reflected in the budget for next year to maintain the organisations infrastructure and capability.

Detailed Review 2014-15 Budget**Income**

42. A breakdown of the Budget Income for 2014-15 compared to the prior year is show below:

	Forecast 2013-14	Final Budget 2014-15
	£000	
<u>SALES</u>		
STORES	42,598.6	44,140.7
DIRECT	22,288.3	19,519.1
GAS	29,440.6	30,939.4
CATALOGUE ADVERTISING	872.6	940.2
REBATE INCOME	4,345.4	4,338.0
MISCELLANEOUS INCOME	196.9	200.0
<u>TOTAL SALES</u>	<u>99,742.4</u>	<u>100,077.4</u>

43. Total Sales are broadly flat compared to the prior year. Store sales are budgeted to grow by 3.6% next year compared to 5.6% the prior year. We remain on track to deliver the 20% volume growth identified in the original four year business plan.
44. Total Rebates at £4.3m show no significant change on the prior year.
45. Direct Sales fall due to the DofE Phonics initiative coming to an end in October 2013.
46. Other income includes bank interest and sales of fixed assets which we expect to increase on the prior year as a result of the planned capital investment programme.
47. Catalogue advertising increases by 7.8% as a result of a concerted marketing campaign with suppliers to advertise in key pages in the catalogue e.g. the inside front cover.
48. Total gross margin is £18,693k compared to the prior year £18,408k.

Employee Expenditure

49. A breakdown of Employee Expenditure for 2014-15 compared to the prior year is shown below.

	Forecast 2013-14	Final Budget 2014-15
	£000	
EMPLOYEES		
Staff	9,330.7	9,551.7
Agency/Contract	982.0	901.8
Total	10,312.7	10,453.5

The year on year movement is explained as follows:

Opening Payroll Value	10,312.8
Agency & contractor Saving/Loss	- 81.4
Vacancy Provision & Staffing Efficiencies	- 300.0
Employee Number Decrease/Increase	224.5
Pay Scale Annual Increases	88.7
Inflation Increases	97.4
Pension Fund Increases	87.2
Other Increases/(decreases)	24.4
Closing Value	10,453.5

50. The 2013-14 budget included an allowance of £0.6m for the implementation of the Procurement and Marketing restructure. This is now implemented and has been rolled forward in to this budget. The benefits of the restructure will be:

- Additional services to members as outlined in the ESPO strategic review at no additional cost;
- Lower risk;
- Growth in the number of framework contracts available to members and non-members and hence directs/rebates;
- Sustained growth in the stores operation;
- Strong marketing function supporting a national procurement operation leading to further growth.

51. It is assumed that Indigo will be implemented and that efficiency savings in agency labour of £0.1m will be achieved.

52. Included in this is a 1% pay award across all grades at a cost of £0.1m.

53. Total average FTE is expected to end the year at 358.2. The movement in FTE over the previous 4 years has been as follows

2011-12	347.3
2012-13	345.2
2013-14	341.2
2014-15	358.2

Ten agency staff have been converted to full time employees in the warehouse, this explains the bulk of the increase in the FTE's the balance is the full year impact of the Procurement and Marketing restructure. The additional warehouse staff are the drivers behind the £300k efficiencies in staff identified in paragraph 46.

Non Employment Expenditure

54. The summary position for non-employment expenditure for 2013-14 compared to prior year is shown below:

	Forecast 2013-14	Final Budget 2014-15
	£000	
OVERHEAD EXPENSES		
Stores	3,928.1	3,960.6
CP	2,069.8	2,108.2
Total	<u>5,997.9</u>	<u>6,068.8</u>

55. In total non-employment expenditure is budgeted to increase by 1.1% which is sub inflationary and is reflective of the delivery of some of the 45 efficiency projects.

Surplus

56. As a result of the higher income (£286k), higher employment costs (£141k) and higher non employment costs (£70k) the surplus for 2013-14 will be £75k higher than prior year at £2,172k. The detailed P&L is included in appendix 1F for 2014-15.

Efficiencies

57. The total number of projects supporting the efficiency drive total 45 and when fully implemented will generate £1.0m of annual savings on a cost base budget for 2013-14 of £16.3m, a target saving of 6%. Further efficiency projects will evolve during the year, as the current efficiency activity nears completion.

Balance Sheet

58. A summary balance sheet compared to prior year is detailed in appendix 1B
59. Stock has decreased by £89k in line with the target stock turn of 10x. This will be one of the benefits of the new stock optimisation system implemented as part of the restructure with no adverse impact on stock availability.
60. Debtor days are expected to outturn at 32.0, a consistent on the prior year of 31.7.
61. Other creditors represents, VAT, Climate Change Levy, specific accruals, PAYE/NI, Directs/Gas not invoiced etc.
62. Over the year the Net Worth of the business as measured by net assets has increased by £0.41m as a result of a reduction in the loan of £0.5m and

retailed surplus.

63. A detailed cash flow is included in appendix 1F for 2014-15.

Service Line Analysis

64. One of the requirements of the ESPO strategic review was the production of detailed service line analysis and this is produced in the exempt report elsewhere on the agenda.

Capital Expenditure

65. There had been minimal capital expenditure in the prior year but draft budgetary provision has been made as follows – this expenditure will be managed in line with the ‘standing orders’ set out in the constitution.

£000

Replacement of 12 Vehicles	£360k
Replacement of Fork Lift Trucks	£100k
Total	£460k

Performance Management Framework

66. To ensure the successful delivery of this budget a performance management framework will be implemented around the recently introduced balanced scorecard. This will include a number of specific procurement measures as well as the balance sheet and cash flow targets mentioned earlier in this paper. These will flow down in to the PDR’s of the Senior Management team, their direct reports, and through the business.

Detailed Scenario Analysis of 2014-15 Budget

67. A detailed scenario analysis has been prepared as follows for members to consider alongside this budget. This will allow members to review alternative financial solutions for ESPO, but also to be satisfied that risk scenarios have been considered throughout this exercise. Each scenario can be considered in isolation or grouped. The full impact of each scenario on its own has been assessed though the impact of several being implemented may not be a simple sum of the parts.
68. The detailed scenario analysis is included in the exempt report elsewhere on the agenda.

Supplementary Information Informing the Budget

69. Further information which informs the budget, of a commercially sensitive nature, is contained elsewhere on the agenda for this meeting.

Resources Implications

70. The Medium Term Financial Strategy is the key financial plan for ESPO.

Recommendation

71. Members are asked to note:

- a) The forecast outturn for 2013/14; and
- b) Approve the four year medium term financial strategy which incorporates the recommended budget for 2014-15, and draft projected budgets for 2015-16, 2016-17 and 2017-18.

Equal Opportunities Implications

72. None

Risk Assessment

73. None identified

Officers to Contact

Mr J Doherty – Director (Tel: 0116 265 7931)
Mr B Roberts – Consortium Treasurer (Tel: 0116 305 7831)

Appendices

Appendix 1A Detailed Balance Sheet 2013-14

Appendix 1B Detailed Balance Sheet 2014-15

Appendix 1C Detailed Cash Flow 2013-14

Appendix 1D Detailed Cash Flow 2014-15

Appendix 1E Detailed P&L 2013-14

Appendix 1F Detailed P&L 2014-15

EASTERN SHIRES PURCHASING ORGANISATION**Appendix 1A****CONSOLIDATED MANAGEMENT BALANCE SHEET AS AT****Mar-14****31st March 2013**

<u>£</u>	<u>£</u>		<u>£</u>	<u>£</u>
	11,505,799	<u>FIXED ASSETS :</u>		
		Net tangible Fixed Assets		11,164,612
		<u>CURRENT ASSETS :</u>		
4,540,052		Stocks	4,449,251	
7,951,309		Debtors	8,030,822	
750		Cash	750	
8,889,000		Short Term Investments	9,571,935	
	21,381,111	Other Current Assets		22,052,758
		<u>CURRENT LIABILITIES :</u>		
656,723		Short Term Loan	499,075	
11,984,386		Creditors	11,385,167	
576,937		Other current Liabilities	665,787	
-328,925	12,889,121	Cash Overdrawn		12,550,029
	<u>8,491,990</u>	<u>NET CURRENT ASSETS</u>		<u>9,502,729</u>
		<u>LONG TERM LIABILITIES</u>		
	9,000,000	Long Term Borrowings		8,500,000
	<u>10,997,789</u>	<u>NET ASSETS</u>		<u>12,167,341</u>
		<u>REPRESENTED BY:</u>		
	9,096,589	Usable Reserves		10,102,216
	1,901,201	Unusable Reserves		2,065,125
	<u>10,997,790</u>	Total Reserves		<u>12,167,341</u>
				0
1.31		Acid Ratio		1.40
30.8		Debtor Days		31.7
53.0		Stock Days		49.0
70.4		Creditor Days		62.1

EASTERN SHIRES PURCHASING ORGANISATION**Appendix 1B****CONSOLIDATED MANAGEMENT BALANCE****Mar-15****31st March 2014**

<u>£</u>	<u>£</u>		<u>£</u>	<u>£</u>	
	11,164,612	FIXED ASSETS :			
		Net tangible Fixed Assets		10,933,356	
		CURRENT ASSETS :			
4,449,251		Stocks	4,360,266		
8,030,822		Debtors	8,111,130		
750		Cash	750		
9,571,935		Short Term Investments	9,744,293		
	22,052,758	Other Current Assets		22,216,440	
		CURRENT LIABILITIES :			
499,075		Short Term Loan	499,075		
11,385,167		Creditors	11,396,552		
665,787		Other current Liabilities	672,445		
0	12,550,029	Cash Overdrawn		12,568,072	
	<u>9,502,729</u>	NET CURRENT ASSETS		<u>9,648,368</u>	
		LONG TERM LIABILITIES			
	8,500,000	Long Term Borrowings		8,000,000	
	<u>12,167,341</u>	NET ASSETS		<u>12,581,724</u>	
		REPRESENTED BY:			
	10,102,216	Usable Reserves		10,516,599	
	2,065,125	Unusable Reserves		2,065,125	
	<u>12,167,341</u>	Total Reserves		<u>12,581,724</u>	0
	1.40	Acid Ratio		1.42	
	31.7	Debtor Days		32.0	
	49.0	Stock Days		48.0	
	62.1	Creditor Days		62.2	

Appendix 1C**Cash Flow from 31/3/2013 to****Mar-14**Surplus 2,097,250**AFINIMOFS**

Allocations to Maintenance and Equipment Re 438,426

Movement in Fixed Assets 341,187

Movement in Unusable Reserves 162,373

Total 3,039,236

Movement in Long Term Borrowings (500,000)

Payment of Dividend (1,528,497)

Movement in Long Term Items (2,028,497)

(Increase)/Decrease in Stock 90,801

(Increase)/Decrease in Debtors (79,513)

Increase/(Decrease) in Creditors (668,017)

Movement in Working Capital (656,729)Total 354,010Movement in Cash Balances 354,010

Appendix 1D**Cash Flow from 31/3/2014 to****Mar-15**Surplus 2,171,633**AFINIMOFS**

Allocations to Maintenance and Equipment Reserves 450,000

Movement in Fixed Assets (278,366)

Movement in Unusable Reserves 162,372

Total 2,505,639

Movement in Long Term Borrowings (500,000)

Capital Purchases (460,000)

Payment of Dividend (1,400,000)

Movement in Long Term Items (2,360,000)

(Increase)/Decrease in Stock 88,985

(Increase)/Decrease in Debtors (80,308)

Increase/(Decrease) in Creditors 18,043

Movement in Working Capital 26,720Total 172,359Movement in Cash Balances 172,359

0

COMBINED PRELIMINARY RESULTS**Full Year 2013/14****Appendix 1E**

	Forecast 2013-14	BUDGET	PRIOR YEAR
	£000	£000	£000
SALES			
STORES	42,598.6	42,254.0	40,316.1
DIRECT	22,288.3	21,132.4	23,296.1
GAS	29,440.6	25,639.7	24,404.2
CATALOGUE ADVERTISING	872.6	896.3	918.5
REBATE INCOME	4,345.4	4,073.8	4,858.0
MISCELLANEOUS INCOME	196.9	203.7	278.1
TOTAL SALES	99,742.4	94,199.8	94,071.0
Cost of Sales			
STORES	32,225.0	32,037.0	30,482.2
DIRECT	20,181.3	19,034.2	20,790.6
GAS	28,928.2	25,303.4	24,117.5
CATALOGUE ADVERTISING	0.0	0.0	0.0
REBATE INCOME	0.0	0.0	0.0
MISCELLANEOUS INCOME	0.0	0.0	0.0
TOTAL COST OF SALES	81,334.5	76,374.7	75,390.3
Margin			
STORES	10,373.6	10,217.0	9,833.9
DIRECT	2,107.0	2,098.2	2,505.5
GAS	512.5	336.3	286.7
CATALOGUE ADVERTISING	872.6	896.3	918.5
REBATE INCOME	4,345.4	4,073.8	4,858.0
MISCELLANEOUS INCOME	196.9	203.7	278.1
TOTAL MARGIN	18,407.9	17,823.2	18,695.3
Margin %	18.5%	18.9%	19.9%
EXPENDITURE			
EMPLOYEES			
Staff	9,330.7	9,828.7	9,180.5
Agency/Contract	982.0	323.1	830.0
Total	10,312.7	10,151.8	10,010.5
OVERHEAD EXPENSES			
Stores	3,928.1	3,684.1	4,016.0
CP	2,069.8	2,169.8	1,984.0
Total	5,997.9	5,853.9	6,000.0
TOTAL EXPENDITURE	16,310.6	16,005.7	16,010.5
TRADING SURPLUS	2,097.3	1,817.5	2,684.7

COMBINED PRELIMINARY RESULTS**Appendix 1F**

	Forecast 2013-14	BUDGET	PRIOR YEAR	Final Budget 2014-15
	£000	£000	£000	
SALES				
STORES	42,598.6	42,254.0	40,316.1	44,140.7
DIRECT	22,288.3	21,132.4	23,296.1	19,519.1
GAS	29,440.6	25,639.7	24,404.2	30,939.4
CATALOGUE ADVERTISING	872.6	896.3	918.5	940.2
REBATE INCOME	4,345.4	4,073.8	4,858.0	4,338.0
MISCELLANEOUS INCOME	196.9	203.7	278.1	200.0
TOTAL SALES	99,742.4	94,199.8	94,071.0	100,077.4
Cost of Sales				
STORES	32,225.0	32,037.0	30,482.2	33,391.5
DIRECT	20,181.3	19,034.2	20,790.6	17,410.0
GAS	28,928.2	25,303.4	24,117.5	30,582.0
CATALOGUE ADVERTISING	0.0	0.0	0.0	0.0
REBATE INCOME	0.0	0.0	0.0	0.0
MISCELLANEOUS INCOME	0.0	0.0	0.0	0.0
TOTAL COST OF SALES	81,334.5	76,374.7	75,390.3	81,383.5
Margin				
STORES	10,373.6	10,217.0	9,833.9	10,749.1
DIRECT	2,107.0	2,098.2	2,505.5	2,109.1
GAS	512.5	336.3	286.7	357.5
CATALOGUE ADVERTISING	872.6	896.3	918.5	940.2
REBATE INCOME	4,345.4	4,073.8	4,858.0	4,338.0
MISCELLANEOUS INCOME	196.9	203.7	278.1	200.0
TOTAL MARGIN	18,407.9	17,823.2	18,695.3	18,693.9
Margin %	18.5%	18.9%	19.9%	18.3%
EXPENDITURE				
EMPLOYEES				
Staff	9,330.7	9,828.7	9,180.5	9,551.7
Agency/Contract	982.0	323.1	830.0	901.8
Total	10,312.7	10,151.8	10,010.5	10,453.5
OVERHEAD EXPENSES				
Stores	3,928.1	3,684.1	4,016.0	3,960.6
CP	2,069.8	2,169.8	1,984.0	2,108.2
Total	5,997.9	5,853.9	6,000.0	6,068.8
TOTAL EXPENDITURE	16,310.6	16,005.7	16,010.5	16,522.3
TRADING SURPLUS	2,097.3	1,817.5	2,684.7	2,171.6



ESPO MANAGEMENT COMMITTEE – 6 MARCH 2014

REPORT OF THE CONSORTIUM TREASURER

PUBLIC PROCUREMENT AND SMALL & MEDIUM-SIZED ENTERPRISES

Purpose of Report

1. The purpose of this report is to update the ESPO Management Committee on progress against the SME action plan which it had agreed on 7th March 2013.

Background

2. The Management Committee considered a report of the Interim Director on 27th September 2012, the purpose of which was to consider the extent to which ESPO supported SMEs and how this support could be developed.
3. The Senior Officer Group (SOG) was asked to undertake work on further improving the accessibility of ESPOs procurement processes to SMEs; in particular to prioritise and move forward on the top four or five possible actions referred to in paragraph 18 of the above report;
4. At its meeting on 7th March 2013, the Management Committee formally endorsed the priority activities suggested by SOG. These priority activities form the detailed workplan in relation to SMEs as referenced in the SOG Workplan 2013/14 elsewhere on the agenda for the meeting.
5. It is worth remembering that although there are benefits to encouraging small businesses there are similarly good reasons for ESPO to work with a mixed economy of providers including large companies. These include: -
 - ESPO having access to the full market in order to drive competition and innovation
 - The actual price benefits available from aggregating expenditure,
 - The reduced transaction and contract management costs associated with maintaining fewer suppliers
 - The ability to vary contractual arrangements easily to meet changing needs

Update on Progress

6. SOG has continued to work on the priority activities and reported its progress to the Chief Officer Group (COG) at its meeting on 3 March. In considering that progress, a more comprehensive update of which is included as Appendix 1 to this report, COG noted that in the last 12 months SME takeup of ESPO contracts was at 55%, although this needed to be taken in context, i.e. a number of contracts issued by ESPO to national companies were then subcontracted to local suppliers which would not be included in the headline figure. COG also considered that to provide an ongoing direction of travel for Members, of appropriate SME performance data should be included within future updates to ESPO's balanced scorecard.

7. In considering progress, Management Committee should note that COG does not consider the SME workstream as a task and finish project. It is recommended that this workstream remains part of the on-going SOG workplan with progress reported annually to COG as part of the general report against the SOG workplan and to Members via the Director's Progress Report, as appropriate.

Management Committee is specifically asked to note the following key points: -

- I. ESPO demonstrated its commitment to the SME agenda by signing a Small Business Charter in September 2013
- II. A common definition of SMEs, a common data set and arrangements for baselining have been agreed consortium wide.
- III. ESPO has further simplified its PQQ and reinforced its approach in relation to Social Value.
- IV. Member authorities have agreed to retain local practice in relation to the flagging of contracts as 'SME' friendly following local consultation regarding the benefits or otherwise.

Recommendation

8. That the Management Committee:
 - (a) notes the progress made against the action plan;
 - (b) supports the COG recommendation to continue the development of this workstream with future SOG workplans;
 - (c) approves the inclusion of appropriate SME performance data within the ESPO balanced score card;
 - (d) confirms any additional activity it considers appropriate.

Background Papers

Report of the Director to Management Committee, 27 September 2012
– Public Procurement and SME's.

Report of the Consortium Treasurer to Management Committee 7th
March 2013 – Public Procurement and SME's.

Equal Opportunities Implications

9. The subject of this paper is how to remove the obstacles that restrict SMEs' access to public procurement processes and put them at a disadvantage to larger organisations, whilst ensuring compliance with procurement legislation, including the principle of non-discrimination.

Appendix

Appendix 1 – SME Progress

Officers to contact:

Brian Roberts
Consortium Treasurer (Chair of the Chief Officer Group)
brian.roberts@leics.gov.uk

Paul White
Strategic Procurement Manager
Warwickshire County Council (on behalf of the Senior Officer Group)
paulwhite@warwickshire.gov.uk

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No	Objective	Decisions Taken / Evidence	Further Proposed Actions
1	Agree a common definition of SMEs, as well as SME-related key performance indicators (including establishing baselines), across the member authorities	<p>SOG agreed to adopt the following common definition of SMEs Micro is 9 or less employees Small – 10-49 employees Medium – 50-249, employees Large 250+ employees</p> <p>References to turnover of organisations will not form part of the definition</p> <p>SOG agreed the following in relation to data capture baselining.</p> <p>All authorities will capture the same tendering data as currently captured by ESPO i.e.</p> <ul style="list-style-type: none"> • Number (and %age) of PQQ responses from SMEs broken down by micro, small, medium, large. • Number (and %age) of SMEs invited to tender broken down by micro, small, medium, large • Number (and %age) of successful SMEs broken down by micro, small, medium, large <p>All authorities and ESPO will baseline and commence data capture as and when electronic systems start to deliver this data.</p> <p>September 2013 – ESPO signed the FSB Small Business Charter.</p>	<ol style="list-style-type: none"> 1. Development of SME KPI's 2. Further consideration in relation to how we measure the supply chain in terms of SME usage by primary contractors. 3. In addition to ESPO measuring suppliers going through the tendering process, ESPO to baseline its own spend with SMEs.including stock into warehouse 4. ESPO / FSB Charter – Action Plan.
2	Ensure that internal procedures (for example, the ESPO Business Case proforma) prompt consideration of the need for, and means of, making individual procurement exercises as SME-friendly as possible. Prompts may include consideration of the letting strategy, the extent to which the specification could be based on outcomes, whether to hold a Bidders Conference, SME-friendly contract conditions, allowing enough time for consortia bids ¹ , and directly notifying known SMEs in the respective market of the contract opportunity	<p>ESPO final versions of Business Case Pro Forma and PQQ were formally agreed by SOG on 22nd January 2014. Revised documentation includes questions/prompts to buyers to consider the social value 'as is' position as well as social value during the procurement process. ESPO PQQ reduced in size from 36 pages to 28 pages ESPO have removed the requirement for an insurance company letter as part of the standard PQQ ESPO has removed the need for all members of a consortia to complete and submit a PQQ and instead reserved the right to request further information from all consortium members if required ESPO agreed to consider Social Value in all procurements i.e. including Supplies and Works as well as Services (this is over and above the requirements of the Act).</p> <p><u>Social Value conditions in contracts</u> ESPO's standard framework agreement and customer agreement both require the Supplier to supply the Goods and/or Services in accordance with their tender submission and therefore if the supplier made promises in relation to Social Value questions then they would be incorporated into the contract.</p>	<ol style="list-style-type: none"> 1. ESPO to test new financial evaluation methodology with FSB (via Leicestershire/Leicester City infrastructure group) 2. ESPO to produce SME breakdown for all members (in the format already produced for Leicestershire) and circulate annually. 3. Review of the ESPO approach to Social Value following the launch of the new EU Regulations
3	Ensure that the new Pre-Qualification Questionnaire (PQQ), including guidance (currently being developed by ESPO) is not excessively onerous, and can be tailored to be proportionate to a particular procurement exercise (e.g. insurance requirements);	<p>SOG agreed for a social value clause specific to the requirement of the contract/framework to be drafted and included in relevant contracts/frameworks. This would be tailored to the requirement and relevant and proportionate (and therefore more useful – carrying more weight than a general clause and perhaps therefore would be given more consideration by suppliers and therefore more beneficial to customers)</p>	
4	Develop, a co-ordinated approach to giving advanced warning of upcoming contract opportunities and the advertising of contract opportunities, including the flagging of SME-friendly contracts	<p>ESPO members have their own approaches to flagging / not flagging contracts as SME friendly. Following consultation with the local FSB's, there is no common view as to whether flagging contracts as SME friendly is helpful or unhelpful. SOG has agreed that each member Authority will determine and implement its own practice and ESPO will apply the practice as required where ESPO is leading the procurement on behalf of an individual member.</p> <p>The implementation of ESPO's E Tendering portal will provide much more transparency in relation to the upcoming contract opportunities available via ESPO</p>	

		Some member authorities have chosen to include links to the tender opportunities pages of other members within their own websites.	
5	Consider if, and how, the evaluation process can take account of the contribution made to the local economy, including SMEs (e.g. Members community strategy and targets).	This action has been deferred pending the launch of the new EU Regulations	1. Review following launch of new EU Regulations
6	<p>Include SME friendly contract conditions in contracts with prime contractors, where appropriate. For example, requiring the prime contractor to:</p> <p>Apply the same payment terms as agreed with Primary to the payment of the sub-contractors they use in delivering the contract;</p> <p>Advertise sub-contracting opportunities, relating to the council contract, on an agreed portal (for example, the appropriate Source East Midlands website)</p>	<p>The majority of ESPO's framework agreements contain the following clause:</p> <p><i>Where the <u>Contractor</u> enters into a sub-contract with a supplier or contractor for the purpose of performing its obligations under the <u>Contract</u>, it shall ensure that a provision is included in such a subcontract which requires payment to be made of all sums due by the <u>Contractor</u> to the subcontractor within a specified period not exceeding 30 days from the receipt of a valid invoice.</i></p>	<p>1. Further consideration to be given to the adoption of a Fair Payment Charter</p> <p>2. Explore potential linkages to Warwickshire's Business to Business portal</p>
7	Develop a programme of market development/tendering capacity-building work, including delivering presentations at SME forums, attending 'Meet the Buyer' events, providing advice of how to set up consortia, creating a database of SMEs, and targeting SMEs that have previously been unsuccessful when pre-qualifying/tendering	Most of this activity is considered to be relevant locally but less so consortium wide. As a consequence there are no joint actions / activities that have been pursued	



ESPO MANAGEMENT COMMITTEE – 6 MARCH 2014

PROPOSED CHANGES TO THE CONTRACT PROCEDURE RULES

JOINT REPORT OF THE DIRECTOR, CONSORTIUM SECRETARY AND CONSORTIUM TREASURER

Purpose of Report

1. The purpose of this report is to seek approval to ESPO's Contract Procedure Rules (CPRs), which have been updated in order to align with those of the Servicing Authority.

Background

2. Leicestershire County Council has recently undertaken its annual review of its CPRs. The proposed amendments to Leicestershire County Council's CPRs for 2013-2014 were approved at the County Council meeting of 4 December 2013.
3. Where applicable any amendments that were made by Leicestershire County Council have been incorporated into ESPO's CPRs.

Proposed Revisions to the Contract Procedure Rules

4. Since the review of the CPRs last year, officers of Leicestershire County Council proposed 16 revisions to the Rules which were revised and supported by the Head of Procurement and Resilience, Head of Legal Services, Head of Democratic Services and Administration, Head of Internal Audit Service and Assistant Director (Strategic Finance and Procurement). Details of the revisions are set out in Appendix A to this report.
5. One of the more significant proposed revisions (not applicable to ESPO) was the addition of an exception to Leicestershire County Council's Rule 5 to accommodate cases where service users are able to choose their own providers. Most of the other amendments were to make provision for best practice to be applied to all procurements.
6. As the remaining amendments were considered to be applicable to ESPO, they have been incorporated into the draft revised CPRs. The revisions have been reviewed by the Deputy Director of ESPO, Assistant Director Procurement and Compliance, Commercial Solicitor and Practice Manager Procurement and Compliance.

A copy of the draft revised CPRS is set out at Appendix B to this report.

7. In addition, ESPO has taken the opportunity to amend the CPRs to reflect the change in designation of 'Group Buyer' to 'Head of Category'.
8. Should the Management Committee approve the draft revised Contract Procedure Rules they will be published on ESPO's intranet and internet sites and communicated to all relevant managers and staff within ESPO, including via newsletters and other appropriate communication channels.

Resources Implications

9. None.

Recommendation

10. Members are asked to approve the changes to the Contract Procedure Rules for ESPO.

Equal Opportunities Implications

11. ESPO must follow relevant laws and Council policies on equal opportunities. This includes making sure contractors are appointed fairly.

Risk Assessment

12. The purpose of this report is to support ESPO's approach to the management of risk.

Background Papers

13. Proposed Changes to the Contract Procedure Rules – Report to Leicestershire County Council meeting of 4 December 2013.

Leicestershire County Council Contract Procedure Rules (Part 4G of the Constitution)

Officers to Contact

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Brian Roberts, Consortium Treasurer
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Appendices

Appendix A – Proposed Amendments to the Contract Procedure Rules
(origin of table – Leicestershire County Council)

Appendix B – Draft revised Contract Procedure Rules

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Proposed Amendments to the Contract Procedure Rules

Appendix A

References to the rule numbers in the table below relate to the current rule numbers prior to the proposed amendments being made.

LCC Rule No.	ESPO Rule No.	PROPOSED AMENDMENTS - AS HIGHLIGHTED	EXPLANATION
5(a) (iv)	N/A	<p><u>for the following social care services:</u> <u>A.</u> residential placements sought for an individual with a registered care provider of their choice; <u>B.</u> supported living services sought for an individual with an appropriate care and support provider of their choice under the National Health Service and Community Care Act 1990; <u>C.</u> individual school placements sought for a child with Special Educational Needs (SEN); <u>D. social care packages managed by or on behalf of individual clients under the personalisation agenda;</u> <u>E.</u> where certain needs of an individual (either an adult or a child) require a particular social care package, which is only available from a specific provider in the opinion of the Appropriate Chief Officer.</p> <p>In each case the Appropriate Chief Officer must ensure that the provider meets the relevant national minimum standards (for example those standards set by the Health and Social Care Act 2008, OFSTED and HMI) and that a record of the reasons for the choice of provider is maintained on the individual's case notes. A record of the annual cumulative expenditure with each provider will be maintained by each directorate and made available for audit.</p>	<p>Clause amended to include numbering to aid readability. Clause (D) added to include other services where service users are able to choose their own providers.</p>
<u>5 (a) v</u>	<u>N/A</u>	<p><u>for those unforeseen emergencies, where immediate action is required in order to fulfil the Council's statutory obligations under the Civil Contingencies Act 2004.</u></p>	<p>New Clause added to take account of Civil Contingencies Act.</p>

8 (b) (ii)	8 (b) (ii)	commit an offence under the Bribery Act 2010 or <u>give any fee or reward, the receipt of which is an offence under</u> Section 117(2) of the Local Government Act 1972; or	Clause improved.
9	8	Move Rule 9 higher up the Contract Procedure Rules to promote the Procurement Principles	Rule 9 moved to be between Rule 4 and 5 to raise the profile of Procurement Principles (ESPO amendment - Rule 8 moved to between Rules 3 and 4).

11(b)	10	<p>Table 1: Estimated value £1,000 to £20,000 under column headed 'Minimum Contract Opportunity Publication': None <u>When inviting quotations officers should consider the benefits of including a local supplier in the invitation to quote where appropriate or applicable to the contract¹</u></p> <p><u>Footnote 1</u> <u>The Council cannot give preference to local suppliers, as there are legislative constraints and such a policy would be incompatible with Best Value. However the Council recognises that there can be barriers limiting or restricting the ability of smaller suppliers to compete for Council business. The Council will seek to reduce the impact of such barriers, where it can do so legally, without discrimination, and without placing unacceptable levels of risk on the Council</u></p> <p>Table 1: Estimated value £1,000 to £20, 0000 under column headed 'Documentation': (If three Quotations cannot be obtained a record of the reasons for this must be maintained <u>and forwarded to the appropriate Category Manager</u>)</p>	<p>To support the Council's objective of supporting local businesses and at the same time to operate within procurement legislation.</p> <p>Footnote 1 will be added to the end of Table 1.</p> <p>To be consistent with other areas of the Contract Procedure Rules where we are engaging with the Category Manager</p>
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13 (c)	12 (c)	<p>In the case of a Procurement Exercise with an Estimated Value of £100,000 – £20,000 or more the award methodology <u>process for identifying the most economically advantageous Tender, including selection and award criteria</u>, must be agreed in consultation with the appropriate Category Manager <u>and included in the RFQ/Invitation to Tender</u> and recorded in writing by the Procuring Officer in advance of the issue of the Invitation to Tender and a copy retained on file.</p>	<p>Clause amended so that lower value procurements adhere to best procurement practice - threshold reduced from £100,000 to £20,000 and, ITT/RFQ to include details of selection and award criteria.</p>
13 (d)	12 (d)	<p>In all cases where the Estimated Value is equal to or exceeds the EU Threshold the process for identifying a most economically advantageous Tender, including evaluation criteria, must be prepared in consultation with the Category Manager in advance of the issue of the Invitation to Tender and a copy retained on file.</p>	<p>Clause deleted - redundant due to revised Clause 13 (c).</p>

14(a)	13 (a)	<p>Unless otherwise agreed by the Director of Corporate Resources Appropriate Chief Officer, the Procuring Officer must ensure, for all Procurement Exercises with an Estimated Value of £20,000 or more but less than the relevant EU Threshold, that Contract Opportunity Publication is given on a website approved by the Director of Corporate Resources for the purpose of notifying the supply market.</p>	<p>Clause amended to replace reference to Director of Corporate Resources to appropriate Chief Officer so as to be consistent with other areas of the Contract Procedure Rules.</p>
14 (b)	13 (b)	<p>The publication of the Contract Opportunity Publication must be made <u>For all proposed contracts where the Total Value is below the EU threshold, a period of</u> at least fifteen days <u>should be allowed between the closing date for requests for the Invitation to Tender and either :</u> <u>i) the deadline</u> before the last date for receipt of Tenders where an Open Tendering procedure is being used, <u>or</u> <u>ii) and at least fifteen days before the last date</u> <u>the deadline</u> for receipt of Pre-Qualification Questionnaires or Expressions of Interest, where a Restricted Tendering procedure is being used.</p>	<p>Clause amended to clarify it relates to below EU thresholds and to ensure 15 days are allowed for suppliers to complete and return the ITT to LCC.</p>

22 (a)	21 (a)	In the case where the Estimated Value was below the EU Threshold, and following the closing date for receipt of Tenders but before acceptance of any Tender, the Procuring Officer <u>in consultation with the appropriate Category Manager</u> may carry out Post Tender Negotiations in an attempt to secure improvements in the price or economic advantage in one or more of the following circumstances:	Clause amended to add reference to appropriate Category Manager to be consistent with other areas of the Contract Procedure Rules.
30 (a)	29 (a)	Prior to any extra-variation being agreed <u>which would result in an increase in the Total Value of the contract</u> the Procuring Officer must ensure that sufficient additional budget provision has been approved by the budget holder.	Clause amended to account for the financial implications of a variation (some variations may not have financial implications) and the deletion of redundant wording.
30 (b)	29 (b)	If the Total Value of the contract is under £100,000, <u>including the planned variation</u> , the Appropriate Chief Officer <u>in consultation with the appropriate Category Manager</u> shall be authorised to vary the contract.	Clause amended to include the cost of variation within the threshold and consultation with the appropriate Category Manager.

30 (c)	29 ©	<p>In the case of a contract with a Total Value of £100,000 or more: <u>i) for any extra(s) or variation(s) that would increase or decrease the Total Value of the contract by 10% or more, the Appropriate Chief Officer <u>in consultation with the appropriate Category Manager and the County Solicitor</u> must gain the prior approval of the Director of Corporate Resources. This authorisation must be issued before the work is carried out, or in the case of an emergency, immediately thereafter.</u></p> <p><u>(ii) for any variation(s) that would increase or decrease the Total Value of the contract by less than 10% the Appropriate Chief Officer in consultation with the appropriate Category Manager shall be authorised to vary the contract. This authorisation must be issued before the work is carried out, or in the case of an emergency, immediately thereafter.</u></p>	<p>Clause amended to clarify requirements for variations that are less than 10% with the addition of a new Clause 30 © (ii). Wording to include consultation with the appropriate Category Manager and County Solicitor added to mitigate procurement risks. Redundant wording (extra) removed to be consistent with other areas.</p>
30 (d)	29 (d)	<p>In the case of a contract which was originally approved by the Executive and where any extras or variations are considered significant by the Director of Corporate Resources <u>or the County Solicitor in consultation with the appropriate Category Manager</u>, then the Executive must be informed as soon as practicable.</p>	<p>Clause amended to include County Solicitor and appropriate Category Manager to mitigate procurement risks. Deletion of redundant wording (extras).</p>

30 (e)	30 (e)	<u>All contract variations must be within the scope of the original contract.</u>	New Clause added to ensure variations are in keeping with the original scope of the contract.
31(iii)	30 (iii)	If the Total Value of a contract, including the planned extension, is under £100,000 and the contract does not provide for the extension the Appropriate Chief Officer, <u>in consultation with the Procuring Officer and appropriate Category Manager,</u> shall be authorised to extend the contract on a one-off basis, provided that the extension does not exceed 6 months or a Total Value of £25,000, whichever is the greater. If the extension does exceed the greater of 6 months or a Total Value of £25,000 then the Appropriate Chief Officer must gain the prior approval of the Director of Corporate Resources;	Clause simplified by the deletion of unclear wording so that the clause is appropriate for the level of spend and associated procurement risk. Wording amended to include consultation with the Procuring Officer and Category Manager.



**Eastern Shires Purchasing Organisation
(ESPO)**

Contract Procedure Rules

DRAFT

ESPO Contract Procedure Rules

These Contract Procedure Rules are to be read in conjunction with the Eastern Shires Purchasing Organisation (ESPO) Constitution and the Scheme of Delegation to the Director of ESPO and in the event of conflict the provisions in the ESPO Constitution and the Scheme of Delegation shall prevail.

ESPO is a joint Committee of Local Authorities which operates within the Local Government (Goods & Services) Act 1970.

ESPO acts as a purchasing agent for its member authorities which include the county councils of Leicestershire, Lincolnshire, Cambridgeshire, Norfolk, Warwickshire, and the city councils of Leicester and Peterborough, as well as non-member local authorities and other customers, including public sector commercial organisations, charities and voluntary sector organisations.

The Contract Procedure Rules apply where ESPO is acting alone or for a wider group of member authorities and/or non-member local authorities and/or other customers. Where ESPO is acting on behalf of one of its members, the member's Contract Procedure Rules will apply. Where ESPO is acting on behalf of one non-member authority or customer, ESPO's Contract Procedure Rules shall apply, unless it is agreed with the non-member or customer that their Contract Procedure Rules apply.

Leicestershire County Council acts as ESPO's 'Servicing Authority', providing appropriate professional support, including secretarial, administrative, legal, personnel, and financial services. Leicestershire County Council's Director of Corporate Resources acts as ESPO's Treasurer, and has a responsibility to ensure that decisions relating to the finance and financial management of ESPO are sound. Leicestershire County Council's County Solicitor ("the County Solicitor") provides legal advice to ESPO on behalf of the Consortium Secretary.

GENERAL

RULE 1

Compliance

Officers must comply with these Rules. Failure to do so may result in disciplinary action.

The Director of ESPO may delegate his responsibilities under these Rules in accordance with Rule 6 of Section D (General scheme of delegation to heads of departments) of Part 3 (Responsibility for Functions) of the Constitution.

RULE 2

Interpretation

Words and expressions used in these Rules are to be interpreted in accordance with the provisions of Schedule 1.

RULE 3***Application***

These Rules apply to every procurement Contract made by or on behalf of ESPO, and every procurement Contract made on behalf of a group of ESPO members and/or non-members except Contracts:

- (i) for only the acquisition or disposal of any interest in land;
- (ii) for the lending or borrowing of money;
- (iii) of employment (making an individual a direct employee of ESPO).

PROCUREMENT PRINCIPLES**RULE 4*****General Requirements***

- (a) Every Contract or official order for works, supplies or services made by ESPO shall be in accordance with ESPO's Business Strategy and duty of Best Value.
- (b) When proposing to procure or making arrangements for procuring a service contract where the Estimated Value exceeds the EU Threshold then consideration must be given as to how the Contract might improve the economic, social and environmental wellbeing of the relevant area as required by the Public Services (Social value) Act 2012. This duty also relates to Part B Services where the Estimated Value exceeds the EU Threshold for Services.
- (c) Procedures set out in the relevant EU Directives, EU Treaties, Acts of Parliament and UK legislation must be complied with at all times.
- (d) Based on criteria laid down by the Director of Corporate Resources, the Director of ESPO will be responsible for evaluating the financial status of Tenderers and suppliers.
- (e) The Procuring Officer/ESPO Client must ensure that sufficient budget provision has been agreed with the budget holder prior to any Procurement Exercise being undertaken.
- (f) Procurement Exercises may be undertaken by electronic means provided that:
 - (i) the requirements of these Rules are followed with only such modifications as may be necessary to allow for procurement by such means; and
 - (ii) any electronic tendering system has been approved by the Director of ESPO.
- (g) Subject to the provisions of Rule 27(b) (Framework Agreements) Contracts shall not be longer than 5 years (including extensions) or of indeterminate length without the written approval of the Director of ESPO on advice of the appropriate Head of Category. Any such approval shall be sought prior to the commencement of the Procurement Exercise.

RULE 5**Exceptions**

- (a) Subject to the requirements of EU Directives, EU Treaties, Acts of Parliament and UK Regulations the following Contracts may be placed by direct negotiation with one or more suppliers, Contracts:-
- (i) for supplies, materials, services or works which are available only as proprietary or patented articles, services or works from one contractor or supplier and for which the Director of ESPO, on the advice of the appropriate Head of Category, decides that there is no reasonably satisfactory alternative available in the European Union and for repairs to, or the supply of, parts of existing proprietary or patented articles or works including machinery or plant; a note of that decision and the reasons for it must be retained on the appropriate file and where the Contract exceeds £100,000, a copy of the note and reasons must be provided to the Director of Corporate Resources.
 - (ii) for works of art, museum specimens or historical documents;
 - (iii) which constitute a variation or extension of an existing Contract, as permitted by the Contract and/or ESPO's Standard Financial Instructions subject to the provisions of Rule 29 (Contract Variations), Rule 30 (Contract Extensions) and Rule 31 (Novation of Existing Contracts);

In the above circumstances, the Procuring Officer must retain on file a record of the negotiations surrounding the Contract awards and notify the Director of ESPO.

- (b) Other exceptions to these Rules may only be made within the relevant law and with the authority:-
- (i) of the Director of ESPO where the Estimated Value of the proposed Contract is under £100,000. The Director of ESPO shall maintain a record specifying the reason for all such departures; or
 - (ii) of the ESPO Management Committee where it is satisfied that an exception is justified on its merits. In an urgent case the Director of ESPO in consultation with the Chairman or Deputy Chairman of the ESPO Management Committee (save where this is not practicable) may direct that an exception be made subject to this being reported to the next meeting of the ESPO Management Committee.

RULE 6**Financial Thresholds and Delegation**

- (a) Financial limits and thresholds within these Rules may be varied from time to time by the Servicing Authority's Corporate Governance Committee.
- (b) Arrangements for delegation of functions to officers within these Rules may be varied from time to time by the Chief Executive.

RULE 7***Annual Reporting***

The Director of ESPO in consultation with the County Solicitor shall at least once in each financial year submit a report to the ESPO Management Committee in relation to the operation of these Rules including among other things details of the approved exceptions to these Rules and approved extensions to contract where not provided for in the contract, and proposed revisions to these Rules and/or changes required to accommodate the requirements of UK and EU procurement law as may be necessary from time to time.

RULE 8***Prevention of Corruption / Conflict of Interest***

- (a) The Employee Code of Conduct (Part 5b of the Servicing Authority's Constitution) applies to any Procurement Exercise.
- (b) The following clause, or a clause that is substantially similar, will be included as a standard term and condition in every written Contract in accordance with Rule 24(c):

"ESPO/[ESPO Client] may terminate this Contract and recover all its loss from the Contractor if the Contractor, its employees or anyone acting on the Contractor's behalf do any of the following things:

- (i) offer, give or agree to give to anyone any personal inducement or reward in respect of this or any other ESPO/[ESPO Client] Contract (even if the Contractor does not know what has been done); or
- (ii) commit an offence under the Bribery Act 2010 or give any fee or reward, the receipt of which is an offence under Section 117(2) of the Local Government Act 1972; or
- (iii) commit any fraud in connection with this or any other ESPO/ESPO Client Contract whether alone or in conjunction with contractors or employees.

Any clause limiting the Contractor's liability shall not apply to this clause".

PROCUREMENT EXERCISE

RULE 9

Pre-Estimate

- (a) Before any Procurement Exercise is begun the Procuring Officer must calculate its Estimated Value in accordance with this clause.
- (b) The Estimated Value shall be calculated as follows:
 - (i) Where the Contract period is fixed the Estimated Value shall be the total estimated maximum value of the supplies, services or works to be supplied over the period covered including any extensions to the Contract;
 - (ii) Where the Contract period is indeterminate the Estimated Value shall be calculated by multiplying the estimated average monthly value by 48;
 - (iii) For feasibility studies the Estimated Value shall be the value of the scheme or Contracts which may be awarded as a result;
 - (iv) For Concessions the Estimated Value shall be the estimated gross value of the service before income over the Contract period.
 - (v) The Estimated Value must exclude Value Added Tax (VAT) but must include all other taxes and duties.
 - (vi) Periodic purchases for the same requirement, whether that is from the same or different suppliers, must be aggregated over a minimum of a 12 month period.
 - (vii) Where ESPO / ESPO Clients contribute to the total value of a Contract, it is the total Estimated Value that should be applied in determining the correct procedures to be applied under these Rules.
- (c) Where there is any doubt as to the Estimated Value then the procedure for the higher threshold in Rule 10 must be used.

RULE 10

Procurement Exercise Process

- (a) Based on the Estimated Value, as identified in Rule 9, Table 1 below makes provision for the minimum requirements for the subsequent Procurement Exercise.

Table 1: Minimum requirements for a Procurement Exercise (for exceptions see Rule 5)

Estimated Contract Value		Procurement Process	Minimum Contract Opportunity Publication	Documentation
From (£)	Up to (£)			
£0	£1,000	Obtain a minimum of one oral/written Quotation	None	Record details

Estimated Contract Value		Procurement Process	Minimum Contract Opportunity Publication	Documentation
From (£)	Up to (£)			
£1,000	£20,000	Obtain three written Quotations (where practical)	When inviting quotations officers should consider the benefits of including a local supplier in the invitation to quote where appropriate or applicable to the contract. ¹	Record details. (If three Quotations cannot be obtained a record of the reasons for this must be maintained and forwarded to the appropriate Head of Category).
£20,000	£100,000	Seek written Quotations (to be based on a Request for Quotation document where practical)	Website approved by the Director of ESPO for the purpose of notifying the supply market.	Request for Quotation issued by the Procuring Officer and Quotations received.
£100,000	EU Threshold	Formal Tender Process	Website approved by the Director of ESPO for the purpose of notifying the supply market	Formal Tender and sealed bids (may be submitted via an electronic tendering system, see Rule 4(f))
EU Threshold	Above	Formal Tender Process	OJEU and on a website approved by the Director of ESPO for the purpose of notifying the supply market	Formal Tender and sealed bids (may be submitted via an electronic tendering system, see Rule 4(f))

(b) Details of oral Quotations must be recorded appropriately.

RULE 11

Selection and Award Evaluation Criteria

- (a) A Procurement Exercise must include both selection and award criteria;
- (b) Selection criteria must be included in the evaluation process where employing the Open Tendering procedure (Rule 14) or must be the only criteria used for the shortlisting methodology where employing the Restricted procedure (Rule 15).

RULE 12

Award Methodology and Evaluation Criteria

- (a) The award methodology must be either:
- the most economically advantageous Tender based on a range of predetermined evaluation criteria which must be set out in the Invitation to Tender; or

¹ ESPO cannot give preference to local suppliers, as there are legislative constraints and such a policy would be incompatible with Best Value. However, ESPO recognises that there can be barriers limiting or restricting the ability of smaller suppliers to compete for ESPO business. ESPO will seek to reduce the impact of such barriers, where it can do so legally, without discrimination, and without placing unacceptable levels of risk on ESPO.

- the lowest price (where ESPO/ESPO Client is to pay the supplier); or
 - the highest price (where the supplier is to pay ESPO/ESPO Client).
- (b) Before a Contract can be awarded the supplier must meet the minimum standard for the selection criteria where included in the evaluation process where employing the Open Tendering procedure (Rule 14) or where the only criteria used for the shortlisting methodology where employing the Restricted procedure (Rule 15).
- (c) In the case of a Procurement Exercise with an Estimated Value of £20,000 or more the process for identifying the most economically advantageous Tender, including selection and award criteria, must be agreed in consultation with the appropriate Head of Category/ESPO Client and included in the RFQ/Invitation to Tender and a copy retained on file.
- (d) The Procuring Officer must notify all Tenderers of the award methodology and evaluation criteria being used in the case of the Contract in question. If weightings are to be applied to the criteria then the Procuring Officer must ensure that these are also incorporated into the Invitation to Tender.

RULE 13

Contract Opportunity Publication

- (a) Unless otherwise agreed by the Director of ESPO the Procuring Officer must ensure, for all Procurement Exercises with an Estimated Value of £20,000 or more but less than the relevant EU Threshold, that public notice is given on a website approved by the Director of ESPO for the purpose of notifying the supply market.
- (b) For all proposed contracts where the Total Value is below the EU threshold, a period of at least fifteen days should be allowed between the closing date for requests for the Invitation to Tender and either:
- i) the deadline for receipt of Tenders, where an Open Tendering procedure is being used, or
 - ii) the deadline for receipt of Pre-Qualification Questionnaires or Expressions of Interest, where a Restricted Tendering procedure is being used.
- (c) The Contract Opportunity Publication must express the nature and purpose of the Procurement Exercise, stating where further details may be obtained and inviting Tenders or Quotations in response to the Contract Opportunity Publication.
- (d) If the Estimated Value exceeds the relevant EU Threshold the Procuring Officer must ensure that the Contract Opportunity Publication is first published in the OJEU and then on a website approved by the Director of ESPO for the purpose of notifying the supply market. Part B Services need only be advertised on a website approved by the Director of ESPO for the purpose of notifying the supply market.
- (e) Under no circumstances must a Contract Opportunity Publication appear in any form before publication in the OJEU and neither should any advertisement contain any more information than that published in the OJEU.

- (f) Rule 13 is a minimum requirement and does not preclude further Contract Opportunity Publication where appropriate (e.g. in the local newspaper, trade or professional journal, the ESPO website).

PROCUREMENT PROCESS

RULE 14

Open Tendering

Under Open Tendering, the Procuring Officer must send Invitations to Tender to all those Persons who respond to the Contract Opportunity Publication and who meet the requirements stated therein.

RULE 15

Restricted Tendering

- (a) Rule 15 applies to Tenders where the Estimated Value is equal to or exceeds the EU Threshold.
- (b) Under Restricted Tendering, the Procuring Officer need only send Invitations to Tender to:
- (i) not less than five of the Persons who respond to the Contract Opportunity Publication and who best meet the shortlisting methodology agreed in Rule 12(b); or
 - (ii) where fewer than five Persons have applied or are considered suitable, to all those Persons who equal or exceed the minimum requirements for the shortlisting methodology agreed in Rule 12(b).
- (c) The shortlisting criteria and process must be prepared (in consultation with the ESPO Client) in advance of the issue of the Pre-Qualification Questionnaire and a copy retained on record.
- (d) All Persons that do not qualify for inclusion on the shortlist to receive an Invitation to Tender must receive notice that they have been excluded from the Procurement Exercise. Any Person requesting in writing the reasons why they were unsuccessful shall be informed by the Procuring Officer of the reasons for ESPO/ESPO Client decision.

RULE 16

Negotiated Procedure and Competitive Dialogue Procedure

- (a) Where the Negotiated Procedure or Competitive Dialogue Procedure is used the requirements of the EU Directive and where appropriate these Rules shall be followed.
- (b) The Negotiated Procedure or Competitive Dialogue Procedure must only be used with the prior approval of the Director of Corporate Resources.

[Note: A short briefing note for the approval of the Director of Corporate Resources, in consultation with the County Solicitor, is required to justify the use of the Negotiated Procedure or Competitive Dialogue Procedure. For example, in the case of the

Competitive Dialogue Procedure, this note would need to show how the proposed procurement satisfied the twofold test, that:

(i) the use of the open or restricted procedure would not allow the award of Contract; and

(ii) the procurement would be considered complex.]

RULE 17

Invitations to Tender

- (a) Every Invitation to Tender must specify the latest day and hour and the place appointed for the receipt of Tenders and, for Tenders where the Estimated Value is £100,000 or more, must state the effect of Rule 18.
- (b) The Procuring Officer must give all Tenderers the same information about the Procurement Exercise and in particular information relating to the tender process, specification, award methodology and evaluation criteria.
- (c) The Procuring Officer must also give all Tenderers the same information relating to questions, answers and clarifications raised during the Procurement Exercise unless they relate solely to another Person's Tender.
- (d) Tenders, where the Estimated Value is £100,000 or more, must be addressed to and opened by the Director of ESPO or handled via an electronic tendering system approved in accordance with Rule 4 (f).
- (e) Where Tenders are to be received by the Director of ESPO, the Procuring Officer must send to the Director of ESPO a note of the subject and the closing date and time and (where appropriate) a list of the Persons invited to tender together with the Estimated Value before the closing date for receipt of Tenders.

RULE 18

Irregular Tenders

- (a) An Irregular Tender must not be accepted by either the Director of ESPO or the Procuring Officer, other than in accordance with this Rule.
- (b) A Tender is not valid unless it has been delivered to the place appointed in accordance with Rule 17 and not later than the appointed day and hour.
- (c) Tenders where the Estimated Value is £100,000 or more are not valid unless they are received in a plain sealed envelope or parcel addressed to the Director of ESPO. The envelope or package must bear the word "Tender" followed by the subject to which it relates.
- (d) Where a Tender has been received which is an Irregular Tender in that it does not fully comply with the instructions given in the Invitation to Tender and/or because it is received after the appointed time for receipt or does not comply with Rules 18(b) and 18(c), the provisions of Rules 18(e) and 18(f) apply.
- (e) A Tender received after the closing date and time can be opened and evaluated in accordance with Rule 19 if there is clear evidence of it having:-

- (i) been posted by first class post at least a day before the closing date; OR
 - (ii) been posted by second class post at least three days before the closing date;
OR
 - (iii) been placed in the custody of a courier who has provided written assurance of delivery prior to the closing date and time.
- (f) If in other cases of Irregular Tenders the Director of ESPO, in consultation with the County Solicitor, considers that there are exceptional circumstances and that the Tenderer who submitted the Irregular Tender has gained no advantage from its irregularity he or she may determine to accept the Irregular Tender and authorise that it be opened and evaluated together with any other Tenders in accordance with Rule 19. The Director of ESPO shall record in writing the reasons why each Irregular Tender has been accepted or rejected.
- (g) Irregular Tenders that the Director of ESPO has rejected under this Rule must be returned to the Tenderer by the Director of ESPO with a covering letter stating the reason for their rejection.

RULE 19

Receipt and Opening of Tenders

- (a) Rule 19 applies to Tenders where the Estimated Value is £100,000 or more except where using an electronic tendering system that does not allow Tenders to be accessed until the deadline for Tender submissions has passed, and where Rule 4 (f) has been followed.
- (b) On receipt, envelopes containing Tenders must be date and time stamped by the Director of ESPO and shall remain in his custody until they are opened. The Director of ESPO must keep a record of all Tenders received.
- (c) Tenders must be opened at one time in the presence of not less than two Officers one of whom is not involved in the Procurement Exercise and who is designated by the Director of ESPO. Each Officer must initial each Tender once opened which must also be date stamped.
- (d) Particulars of all Tenders opened must be entered by the Director of ESPO upon the record which must be signed by the Officers present at the opening, together with a note of all irregular Tenders.
- (e) The Director of ESPO must forthwith send a copy of the record to the appropriate Procuring Officer (with the Tenders) and must retain a copy himself.

RULE 20

Errors or Discrepancies in Tenders

- (a) Tenderers are not allowed to alter their Tenders after opening save in accordance with this Rule or Rule 21.
- (b) Where it is suspected that there has been an error in a Tender and following the closing date for receipt of Tenders but before acceptance of any Tender discussions may take place with Tenderers in order to seek clarification from Tenderers.

- (c) A written note of the discussions must be made by the Procuring Officer to record the suspected error, date, time, detail of the discussion and any agreement reached.

RULE 21

Discussions and Post Tender Negotiations

- (a) Subject to Rule 21(c), in the case where the Estimated Value was below the EU Threshold, and following the closing date for receipt of Tenders but before acceptance of any Tender, the Procuring Officer in consultation with the appropriate Head of Category may carry out Post Tender Negotiations in an attempt to secure improvements in the price or economic advantage in one or more of the following circumstances:
- (i) where the most competitive Tender (according to the pre-determined award methodology and evaluation criteria) submitted exceeds the Estimated Value;
 - (ii) where it is considered that the price of the most competitive Tender submitted does not represent the Best Value for money that can reasonably be obtained;
 - (iii) where Tenders have been invited only on the basis of unit prices or a schedule of rates and the lowest in aggregate is not the lowest on all items;
 - (iv) where the most competitive Tender contains conditions, trading terms, guarantees, or provisions relating to performance or service delivery less favourable than in other Tenders, or than stipulated for and this defect appears capable of being remedied by Post Tender Negotiations.
- (b) When conducting Post Tender Negotiations, as part of a Procurement Exercise where the Estimated Value is £100,000 or more (but below the EU Threshold) and subject to Rule 21(c), only the Tenderer submitting the most competitive Tender in accordance with the award methodology and evaluation criteria (Rule 12) may be invited to participate in Post Tender Negotiations.
- (c) When conducting Post Tender Negotiations, the following additional rules shall apply:
- (i) At no time during the negotiations must a Tenderer be informed of the detail of any other Tender submitted or as to whether or not the Tender he submitted was the lowest.
 - (ii) During negotiations in person there must always be present at least two Officers or ESPO Client officers.
 - (iii) A note of the negotiations will be made by one of the officers referred to in the proceeding rule present recording those present, the time and location of the negotiations, detail of the discussion and any agreement reached.
 - (iv) Post Tender Negotiations shall not enable any material departure from the published specification. The County Solicitor shall determine whether any proposed change to the specification constitutes a material departure and whether as a consequence other Tenderers shall be permitted to participate in Post Tender Negotiations and/or whether new Tenders should be invited, to avoid any potential allegations of competition being distorted.

- (d) Post Tender Negotiations are not allowed in the case of Contracts with an Estimated Value exceeding the relevant EU threshold. However, clarifications of errors or discrepancies in Tenders may take place in accordance with Rule 20.

AWARD OF CONTRACT

RULE 22

Acceptance of Tenders

- (a) A Tender can only be accepted in accordance with the initial award methodology and evaluation criteria as set out in Rule 12. Any evaluation sheets must be maintained on file in accordance with Rule 33.
- (b) Any Tender with an Estimated Value of below £20,000 (where a Request for Quotation or an Invitation to Tender is not used) may only be accepted with the prior written approval of the Director of ESPO.
- (c) If the Tender to be accepted exceeds the budget which was agreed in accordance with Rule 4(e) the Procuring Officer must ensure that sufficient funds are available and approved by the ESPO Client, appropriate budget holder, Director of ESPO, or the ESPO Management Committee as appropriate, prior to accepting the Tender.
- (d) An abnormally low Tender may not be rejected without first giving the Tenderer the opportunity to explain the tendered price.
- (e) The Director of ESPO shall have the authority to accept a Tender but in any particular circumstance may decline to give approval and refer the decision to the ESPO Management Committee to determine.

RULE 23

Notification of Contract Award

- (a) The Procuring Officer must notify the successful Tenderer of the acceptance of their Tender and for all Procurement Exercises with an Estimated Value of £1,000 or more this notification must be in writing.
- (b) In the case where the Estimated Value is £20,000 or more the Procuring Officer must notify in writing all Tenderers who submitted a Tender of the decision as soon as possible after the decision has been made.
- (c) In the case where the Estimated Value is equal to or above the appropriate EU Threshold, the following additional Rules shall apply:
 - (i) The notice in rule 23 (b) shall include the award criteria, the reasons for the decision, including the successful Person's score, the score (if any) of the Person receiving the notice, and the characteristics and (if appropriate) relative advantages of the successful Person's Tender, any reasons why the recipient of the notice did not meet the technical specification, the name of the Person awarded the Contract, as well as the date when the standstill period required in accordance with Rule 23 (c) (ii) will come to an end.

- (ii) A minimum period of 10 calendar days must elapse between the day of sending the notice in Rule 23 (b) and the date on which ESPO/ESPO Client enter into a Contract if the notice is sent electronically. Where the notice is sent by other means then either 15 days from the day of sending the notice or 10 days from the day of receipt of the notice by the last Tenderer to receive the notice must elapse. In all cases counting the day after sending the notice as day 1. The standstill period must end on a working day.
- (iii) The Procuring Officer shall ensure that an OJEU Contract award notice is placed within 48 days of the Contract award.

RULE 24

Form of Contract

- (a) A Contract shall be formed:
 - (i) by exchange of letter or electronic communication accepting the successful Tender and incorporating the Invitation to Tender or Request for Quotation and the outcome of any subsequent negotiations and discussions; or
 - (ii) by completion of a formal Contract incorporating the Invitation to Tender or Request for Quotation, the Tender or Quotation and the outcome of any subsequent negotiations and/or discussions; or
 - (iii) by placing an order in accordance with Rule 25.
- (b) In determining and negotiating the terms and conditions of Contract, the Procuring Officer must ensure that the appropriate Standard Terms and Conditions are incorporated unless the Procuring Officer having consulted the Director of ESPO and the County Solicitor considers it inappropriate to do so.
- (c) All Contracts with an Estimated Value of £20,000 or more must be in writing and where appropriate the Director of ESPO shall:
 - (i) ensure that the Contract includes a definition of the circumstances that will be considered to constitute a default on the terms of the Contract by the supplier. The Contract must provide for notice of default to be given to the supplier and for any resulting losses to be recovered from the supplier if the default is not rectified.
 - (ii) decide whether it is necessary to require suppliers to provide a Performance Bond with a third party. The need for this will depend on an assessment of the risk associated with the Contract or the supplier.
 - (iii) ensure that the Contract provides for the supplier to have an insurance policy, which can be inspected during the Contract period. The Director of ESPO shall be consulted on the insurance requirements.

[Note: Insurance Levels (which may be amended for a specific Procurement Exercise, where appropriate, and agreed by the Procuring Officer with the Servicing Authority's Insurance Manager):

- *Employers Insurance = £10m (for each and every occurrence)*

- *Public/Third Party Insurance (including Products Liability, if needed) = £10m (for each and every occurrence)*
- *Professional Indemnity (where appropriate) = £2m.*

To vary the insurance levels for a particular Procurement Exercise approval must be gained from the Servicing Authority's Insurance Manager, or the ESPO Client Insurance Manager as appropriate.]

- (iv) consult the Director of ESPO on the appropriate VAT requirements.

[Note: Should any advice on VAT be required for a particular Procurement Exercise, contact the Servicing Authority's Technical Accountant - Taxation Co-ordinator]

- (d) Every Contract must be signed by the Director of ESPO or an Officer designated by him or her and in cases determined by the County Solicitor shall be under seal in the form prepared or approved by him or her.
- (e) Except after consultation with the County Solicitor, work or services must not be authorised to commence or goods to be supplied where such works, services or goods are to be the subject of a Contract under seal until the County Solicitor has advised that the Contract has been signed by the supplier.

RULE 25

Orders for work, goods and services

Orders for work, goods and services must only be placed in accordance with Instruction 8 of the Standard Financial Instructions.

STANDING LISTS

RULE 26

Standing Lists

- (a) Standing Lists must not be created or added to without the prior written approval of the Director of ESPO in consultation with the appropriate Head of Category.
- (b) The Procuring Officer must not use a Standing List where the Total Value of Contracts to be awarded using the Standing List is estimated to exceed the relevant EU Threshold.
- (c) The Standing List must contain the names of all Persons who are approved and indicate the categories of Contract and the values or amounts in respect of those categories for which those Persons are approved.
- (d) At least four weeks before a list is first compiled, the Procuring Officer must publish on a website approved by the Director of ESPO for the purpose of notifying the supply market, a Contract Opportunity Publication inviting applications by a specified date for inclusion in it.
- (e) The Procuring Officer must renew all Standing Lists at intervals not exceeding four years. At least four weeks before each renewal, each Person whose name appears in the list must be notified by the Procuring Officer of the intention to review the list. If

they wish to remain on the list they must re-apply for inclusion. The Procuring Officer must ensure that the Contract Opportunity Publication inviting applications for inclusion in the list are published in the manner provided by Rule 26(d).

- (f) In the case where the use of a Standing List has been authorised the Procuring Officer must send Invitations to Tender to not less than four of the Persons from among those approved for a Contract of the relevant category and amount or value. Where fewer than four Persons are approved for a Contract of the relevant category and amount or value Invitations to Tender shall be sent to no fewer than three Persons. Where there are fewer than three Persons the procedure for Standing Lists must not be used unless the appropriate Head of Category advises otherwise.
- (g) The Procuring Officer in consultation with the appropriate Head of Category shall determine the criteria for selecting Persons from the list.
- (h) In such circumstances as the Director of ESPO shall determine, the Procuring Officer shall provide such information as shall reasonably be necessary of the extent to which Standing Lists have been utilised.

FRAMEWORK AGREEMENTS

RULE 27

Framework Agreements

- (a) The Procuring Officer must establish all Framework Agreements in accordance with these Rules.
- (b) Framework Agreements must not be awarded for more than 4 years, including any extensions without the prior written consent of the Director of ESPO.
- (c) All suppliers on the Framework Agreement capable of performing the Contract must be invited to participate in a Further Competition unless it is clear from the terms of the Framework Agreement which supplier best meets the award methodology set out in the Framework Agreement in which case that supplier may be selected.
- (d) Additional suppliers may only be added to a Framework Agreement throughout its duration in circumstances where:
 - (i) the Estimated Value is below the EU Threshold;
 - (ii) the services tendered are Part B Services to which the full regime of the Public Contracts Regulations 2006 is not considered to apply; and

provided that the Invitation to tender states:

 - (i) that new suppliers may be added to the Framework Agreement;

and

 - (ii) how many suppliers can apply to be added to the Framework Agreement; and

that the same evaluation criteria and award methodology are applied when deciding whether to award a place on the Framework Agreement to new suppliers as were applied at the time of the original award.

RULE 28***Dynamic Purchasing Systems***

The Procuring Officer must only establish Dynamic Purchasing Systems with the prior written approval of the Director of ESPO and in accordance with the requirements of the EU Directives and these Rules where appropriate.

CONTRACT AMENDMENTS**RULE 29*****Contract Variations***

- (a) Prior to any variation being agreed which would result in an increase in the Total Value of the contract the Procuring Officer must ensure that sufficient additional budget provision has been approved by the budget holder, or ESPO Client.
- (b) If the Total Value of the Contract is under £100,000 including the planned variation, the Director of ESPO, in consultation with the appropriate Head of Category and the County Solicitor, shall be authorised to vary the Contract. This authorisation must be issued before the work is carried out, or in the case of an emergency, immediately thereafter.
- (c) In the case of a Contract with a Total Value of £100,000 or more:
 - i) for any variation(s) that would increase or decrease the Total Value of the Contract by 10% or more, the Director of ESPO shall before making any variation(s) consult with the Head of Category and the County Solicitor and must gain the prior approval of the ESPO Client (where the variation relates to an ESPO Client contract). This approval must be issued before the work is carried out, or in the case of an emergency immediately thereafter.
 - ii) for any variation(s) that would increase or decrease the Total Value of the contract by less than 10% the Director of ESPO in consultation with the appropriate Head of Category shall be authorised to vary the Contract. This authorisation must be issued before the work is carried out, or in the case of an emergency, immediately thereafter.
- (d) In the case of a Contract which was originally approved by the ESPO Management Committee and where any variations are considered significant by the Director of ESPO or the County Solicitor in consultation with the appropriate Head of Category, then the ESPO Management Committee must be informed as soon as practicable.
- (e) All contract variations must be within the scope of the original contract.

RULE 30***Contract Extensions***

If the Contract was originally approved by the ESPO Management Committee and where the duration of the planned extension is more than three months and not provided for in the Contract then authority must be gained from the ESPO Management Committee. In all other circumstances the following applies:

- (i) If the Total Value of a Contract, including the planned extension, is under £100,000 and the Contract provides for the extension the Director of ESPO shall be authorised to extend the Contract.
- (ii) If the Total Value of a Contract, including the planned extension, is £100,000 or more and the Contract provides for the extension the Director of ESPO shall be authorised to extend the Contract in consultation with the appropriate Head of Category.
- (iii) If the Total Value of a Contract, including the planned extension, is under £100,000 and the Contract does not provide for the extension the Director of ESPO, in consultation with the Procuring Officer and appropriate Head of Category shall be authorised to extend the Contract on a one-off basis.
- (iv) If the Total Value of a Contract, including the planned extension, is £100,000 or more and the Contract does not provide for the extension the Director of ESPO must gain the prior approval of the Director of Corporate Resources to extend the Contract.
- (v) In the case of Contracts tendered in accordance with the EU Directive any extension will only be permissible if this was properly described in the original OJEU notice, where applicable.

RULE 31

Novation of Existing Contracts

The novation of a Contract to a new Person requires the prior written approval of the Director of ESPO in consultation with the County Solicitor.

RULE 32

Early Termination of Contracts

Unless a provision for early termination is clearly stated in the Contract the Procuring Officer shall seek advice from the County Solicitor where it is intended to terminate a Contract early. Where the Total Value of the Contract is £100,000 or more the prior written approval of the Director of ESPO shall also be obtained.

MISCELLANEOUS PROVISIONS

RULE 33

Document Retention

- (a) All Contract records that might be required in court proceedings must be retained for at least six years and any under seal for at least twelve years from expiry of the Contract.
- (b) Where the Contract is externally funded any contingent liabilities and/or grant conditions must be taken account of by the length of the retention period.

RULE 34

Supervision of Contracts by Third Parties

- (a) The Procuring Officer shall ensure that it is a condition of any Contract between ESPO and any Person (not being an Officer of ESPO) who is involved in a Procurement

Exercise or the management of a Contract on behalf of ESPO that in relation to that Contract he or she must comply with the requirements of these Rules and other reasonable requirements of ESPO.

- (b) Such Person must:
 - (i) at any time during the carrying out of the Contract produce to the Director of ESPO or his representative or ESPO Auditor on request all records maintained by him or her in relation to the Contract; and
 - (ii) on completion of the Contract transmit all records to the Director of ESPO.

RULE 35

Nominated Sub-Contractors and Suppliers

- (a) Where a sub-contractor or supplier is to be nominated by ESPO/ESPO Client to a main contractor, the provisions of these Rules shall have effect.
- (b) The terms of an Invitation to Tender under Rule 17 must require an undertaking by the Tenderer that, if selected, they will be willing to enter into a Contract with the main contractor on terms which indemnify the main contractor against their own obligations under the main Contract in relation to the work, supplies or services included in the sub-contract.

SCHEDULE 1***Interpretation***

1. "Best Value" means the duty of ESPO to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. The "Chief Executive" is the Chief Executive Officer of the Servicing Authority, Leicestershire County Council
3. "Concessions" are contracts of the same type as public service contracts, except for the fact that the consideration for the provision of services or works consists either solely in the right to exploit the service or work, or in this right together with payment.
4. "Contract" means a binding agreement between two or more parties for performing, or refraining from performing, some specified act(s) in exchange for lawful consideration.
5. "Contract Extension" means an extension to the duration of the Contract, but not including any alteration to the scope of the Contract.
6. "Contract Opportunity Publication" is the means by which a Procurement Exercise is advertised and includes (where appropriate) the 'Contract Notice' as defined in the Public Contract Regulations 2006.
7. "Contract Variation" means an alteration to the scope of the Contract, but not the extension of the duration of the Contract.
8. The "County Solicitor" is the County Solicitor of the Servicing Authority, Leicestershire County Council.
9. The "Director of Corporate Resources" is the Director of Corporate Resources of the Servicing Authority, Leicestershire County Council, and acts as the ESPO Treasurer.
10. "Dynamic Purchasing System" means a completely electronic process, which has a limited duration, for making commonly used purchases, as more particularly defined and described in the Public Contract Regulations 2006.
11. The "ESPO Management Committee" is a joint committee appointed by ESPO's member authorities with the purpose of managing ESPO in accordance with Section 102 of the Local Government Act 1972. The committee comprises an equal number of elected members from each member authority.
12. "ESPO Client" means a group of ESPO member authorities and/or non-member local authorities and/or other customers, including commercial organisations, charities and voluntary sector organisations, for which ESPO is managing a procurement process.
13. "Estimated Value" means the value as estimated under Rule 9.
14. "EU Threshold" means the respective threshold for Supplies, Works or Part A Services Contracts referred to in the Public Contract Regulations 2006.
15. "Formal Tender Process" is a process following the requirements of Open Tendering, Restricted Tendering, Standing List, Negotiated Procedure or Competitive Dialogue

16. "Framework Agreement" is a general term for agreements with suppliers which set out terms and conditions under which specific purchases (call-offs) can be made throughout the term of the agreement. The Framework Agreement may, itself, be a Contract to which the EU procurement directives apply.
17. A "Further Competition" is undertaken where not all the terms of a proposed Contract are laid down in a Framework Agreement. It involves re-opening competition between the economic operators which are parties to the Framework Agreement and which are capable of performing the proposed Contract, on the basis of the same or, if necessary, more precisely formulated terms, and where appropriate other terms referred to in the Contract documents based on the Framework Agreement.
18. The "Head of Category" is the most senior Procurement Officer within an ESPO Category Team, and is responsible for managing the section
19. "Invitation to Tender" means the document(s) containing the specification, proposed terms and conditions and other appropriate information as issued to the Tenderers to solicit Formal Tenders.
20. "Irregular Tender" means a Tender that does not fully comply with the instructions given in the Invitation to Tender.
21. "Officer" means an employee of ESPO.
22. "OJEU" means Official Journal of the European Union.
23. "Part A Services" are defined in [The Public Contract Regulations 2006](#), and are distinct from the other type of services, Part B Services, defined in the Regulations. The Regulations that apply to the two types of service are different, with the procurement of Part A Services being more heavily regulated than for Part B Services.
24. "Part B Services" are defined in [The Public Contract Regulations 2006](#), and are distinct from the other type of services, Part A Services, defined in the Regulations. The Regulations that apply to the two types of service are different, with the procurement of Part A Services being more heavily regulated than for Part B Services.
25. "Person" includes a partnership, body corporate or unincorporated association.
26. "Post Tender Negotiations" means the ability to negotiate with a Tenderer after a Tender has been opened and evaluated in accordance with the published evaluation criteria for the purposes of securing an improvement in the delivery of the Contract including but not limited to improvements in price.
27. "Procurement Exercise" means any process by which goods, services and/or works are to be procured including but not limited to Request for Quotations and Formal Tender Processes. For the purpose of these Rules a Contract for a Concession shall be treated as a Procurement Exercise.
28. "Procuring Officer" means any Officer, acting under the delegated powers of the Director of ESPO, who is responsible for the procurement of goods and services.
29. "Public Contracts Regulations 2006" means the Public Contracts Regulations 2006 as amended, modified, consolidated, extended, re-enacted or replaced, including the Public

Contracts (Amendment) Regulations 2009. These Regulations implement the EU Consolidated Directive on Public Procurement into UK law and reflect the principles of the EU Treaty of Rome.

30. A "Quotation" is an offer to sell works, goods and/or services at a stated price under specified conditions. A Quote or Quotation may or may not be written.
31. "Request for Quotation" ("RFQ") means a document or documents containing the specification, and proposed terms and conditions issued to potential suppliers to solicit written Quotations.
32. "Standard Terms and Conditions" means the standard contractual terms used by ESPO, including those attached to procurement orders (or orders generated by 'line of business' systems, those included in Request for Quotation templates, and standard industry terms.
33. "Standing List" means a list of Persons which has been established in accordance with Rule 26.
34. "Tender" means the formal offer from a Tenderer, which is capable of acceptance by ESPO/ESPO Client, which is a response to an Invitation to Tender. It shall include all documents comprising the submission including pricing, technical specification and method statements as well as information about the Tenderer. A written Quote or Quotation is also a Tender.
35. "Tenderer" or "Tenderers" means the Person or Persons invited to participate in a Procurement Exercise.
36. "Total Value" means the value of a Contract which has been calculated in accordance with Rule 9(b) (excluding Rule 9(b)(vi)) reading where appropriate Total Value for Estimated Value.
37. "In writing" or "written" for the purpose of interpreting these Rules includes transmission by any electronic means which have been approved by the County Solicitor in consultation with the Director of Corporate Resources.
38. Words imparting the masculine include the feminine gender.

[end of Contract Procedure Rules]

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