

## **ESPO MANAGEMENT COMMITTEE – 24 JUNE 2011**

### **AGENDA ITEM NO. 11**

#### **MANAGEMENT OF BUSINESS RISK**

#### **REPORT OF THE INTERIM DIRECTOR**

##### **Purpose of Report**

1. The purpose of this report is to:
  - (a) outline the business processes and risk management activities to manage all procurements generally but to underpin and properly risk manage the procurement activities in respect of Pro5 in particular;
  - (b) seek approval to progress a range of procurement projects pending the further development and embedding of this risk management approach.
2. The Management Committee will be asked to note the actions to date and to agree to receive a further report at its September meeting, when it is anticipated that the actions taken to manage Business Risk can be appropriately linked to the progress being made on the Implementation Plan and which should underpin the governance structure established as a consequence of the Review outcomes.

##### **Background**

3. The Management Committee received an initial report on the Management of Business Risk at its meeting on 25 March 2011, which outlined the action taken up to that point to improve ESPO's understanding and operational practices in respect of the increased risk that attaches to more complex procurement projects. In particular the Committee noted the ongoing work to improve collective management of risk in respect of the framework agreements procured on behalf of the Pro5 collaborative arrangements.
4. The Management Committee was advised that operational risk would be managed through a comprehensive Business Case process for all procurement activity. This process will ensure and enable a consistent approach to evaluating risk associated with a range of pre-procurement issues which could influence the outcome of the procurement. A comprehensive Contract Risk Assessment 'Tool' that will enable buyers to assess the impact of a range of influences is being developed to

enable identified risks to be properly managed and mitigated for the likelihood of risk to be appropriately scored in a consistent manner.

5. Applying the Contract Risk Assessment methodology will enable individual procurement projects with any abnormal risk scoring to be identified. The introduction of a Pre-procurement Contracts Panel at which all Business Cases will be reviewed, will enable the escalation of projects with any identified abnormal risk being escalated from the Compliance Division through to the Senior Management Team, and any projects thereafter with significant operational or organisation reputational risk will then be referred to the Management Committee for decision in terms of ESPO's continued involvement or otherwise.
6. The draft Contract Risk Assessment Tool is a work in progress and a copy of the current working draft is attached to this report as Appendix 1.
7. It is intended that all procurement projects will pass through a range of pre-procurement organisational processes to help support the risk management and outcomes of all procurement exercises. These processes include a market intelligence element involving industry reviews, market research and source planning. There will follow a pre-procurement customer engagement and demand management element with all Member Authorities. The intention is that this will then be followed by completion of a Contract Risk Assessment and production of the Outline Business Case. The content and format of the Business Case have been previously described.
8. A separate Procurement Risk Register will be maintained throughout each individual procurement project to ensure the management of risk at a macro level (see Appendix 2 as an example).

### **Current Procurement Projects**

9. The following Pro5 procurement projects have been identified by the Senior Management Team as warranting referral to the Management Committee:

- i) **Synthetic Phonics Products and Training**

The Department for Education (DfE) invited expressions of interest from a range of wider public sector professional buying organisations and following a competitive exercise appointed ESPO to undertake the procurement of a national framework solution for the supply of Synthetic Phonics Products to all schools with Key Stage 1 pupils throughout the UK.

Members will note that the evaluation criteria to be applied for these products have been established by the DfE. From a risk management perspective, the DfE have confirmed that any challenge from the supply market during the procurement process in relation to those criteria will be defended and funded

entirely by the DfE. The main purpose therefore in bringing this particular project to the attention of members is the fact that it has a high national profile within central government and the schools sector generally. The Secretary of State for Education receives a weekly report on the progress of the project generally and may well issue press releases on progress that could make reference to ESPO as the procurement vehicle to market.

ii) Consultancy Services Framework

This framework will replace a previous ESPO national framework solution. Considerable work has been ongoing within the Local Government Sector on 'Consultancy Value' – sponsored by the former Office of Government Commerce via the Local Government Professional Services Group – of which ESPO is a member (on behalf of Pro5).

ESPO's national framework for a range of Professional Consultancy Services will be renewed as a Pro5 solution providing both national and regional consultancy solutions. This will provide opportunity for both large 'first tier' consultants and also local small and medium enterprise (SME)'s (i.e. second 'tier' consultants) where appropriate. This is the first occasion such an approach has been applied and will result in a large response from the supply market that will require careful management.

iii) Advertising and Recruitment Consultancy

This framework will replace a previous ESPO national framework Solution. Over the life of ESPO's current contract (which expires in March 2012) there has been a considerable change away from 'traditional' media advertising (i.e. newspapers, trade journals etc) into a more e-enabled media approach.

The renewal of ESPO's contract is therefore 'timely' as it will enable the flexibility of new technologies, with the increased aggregation benefits of a collaborative approach through Pro5 (ie potential committed volumes of the Member Authorities of all Professional Buying Organisations (PBO's). Such new technologies will potentially attract new challenges and risks that will require managing.

iv) Catering Services Framework

This framework agreement is subject to a separate Management Committee report elsewhere on this agenda under Item 13. This is a new national initiative 'sponsored' by the Department for Education and the Efficiency Reform Group. It has applications across the wider public sector and provides a framework solution for schools, local authorities, prisons etc. This is the first occasion such a framework solution has been established on a pan-sector basis.

v) Cleaning and Grounds Maintenance

With the increased devolution of schools budgets and the advent of 'Academies' there is an increasing risk that schools will need established solutions to meet their facilities management requirements.

Individual PBO's recognise that they cannot meet all the demands of individual schools. However the establishment of a national framework solution but with a local/regional delivery model will mean schools will be able to access cost effective, compliant solutions. The Pro5 Education Services Category Board therefore intend to establish such a framework and ESPO is the nominated procurement lead. Responding to the increasing demands of schools is a challenge for PBO's at a time when Local Authority support and funding is greatly reducing. With the onset of Academies schools are becoming increasingly independent, and the key risk is about maintaining continuing relationships and supplying their needs. Similarly Member Authorities want to retain their existing relationships and continue to supply central services to schools. Above normal risk is seen in this new approach in achieving local solutions, maintaining relationships and achieving efficient and effective solutions.

vi) Liquid Fuels

The supply market for Automotive and Heating Oils is relatively small and the 'demand' market can be disadvantaged as a consequence. The benefit of engaging this market through the increased purchasing power of Pro5 should leverage better economies of scale and more competitive pricing.

The collaborative approach will also improve the PBO's performance against other indicators eg CO<sub>2</sub> reduction targets and bio fuel sourcing.

The fuel market is extremely volatile and unpredictable. Security of supply in key risk and high profile service areas is critical in terms of project outcomes.

vii) Cultural and Delicatessen Speciality Foods

Whilst not of a significantly high financial value a number of speciality foods are categorised a 'High Risk' (e.g. samosas – manufactured and stored chilled).

Arrangements for supply that are therefore contractually regulated and meet the requirements of the Food Safety Act 1995, including all HACCP compliance, is therefore essential.

viii) IT Hardware, Goods and Services

This framework agreement has historically provided IT hardware solutions in the Local Government sector and has accordingly relatively high value.

As a consequence of the high number of specific customer requirements the framework has been awarded to a relatively high number of suppliers to service the diverse demand. On this occasion the renewal will aim to generate further efficiencies and value for money by standardising on specifications wherever possible and also rationalising on the number of suppliers. The potential loss of opportunity to some suppliers may raise the risk of challenge to this approach. It is however consistent with the strategy being adopted by the Efficiency Reform Group through Government procurement.

The framework will support a number of reverse e-auctions to meet committed volume requirements of the customer base, e-auctions will be run (and hosted by ESPO) at least annually.

Pro5 Operational Developments

10. All of the above projects being submitted for approval by the Management Committee are now subject to the outputs of specific Pro5 Category Teams. These teams have been established to progress the procurement demand management requirements of all five professional buying organisations and are subject to the same risk management and business case processes being adopted by ESPO generally.
11. Attached as Appendix 3 to this report is the current list of Pro5 Category Teams that have now been established and which shows a nominated Lead Director for each Category Team and named representatives of each of the PBO's that support each Team. The intention is that each Category Team will invite wider stakeholder representation and/or sponsors e.g. the Department for Education, where appropriate, to ensure that the ultimate solution meets the 'Fit for Purpose' requirements of the relevant customer base.

ESPO General Contract Renewal Plan

12. Over the course of the next few months a number of ESPO national and/or Consortium framework agreements will be subject to renewal. Attached, as Appendix 4 to this report, is a list of those contracts that will be required to be put in place with potential commencement dates prior to the ESPO Management Committee meeting on 26 September 2011. All the procurement projects listed will be subject to the Outline and Detailed Business Case process referred to in this report and to the application of the Contract Risk Assessment as a fundamental element of the process.

13. Assuming the application of the Contract Risk Assessment and Business Case approach to pre-procurement along with the Compliance Division involvement in approving Business Cases prior to market engagement, it is not envisaged that all national and/or Consortium framework agreements will be required to be submitted to the Management Committee for approval. Members are asked to confirm their agreement that the framework agreements that support ESPO's catalogue sales be subject to the internal Risk Assessment procedures that are being put in place and only those projects where residual risk is regarded as potentially high will there be an intention to refer to the Management Committee for approval prior to any contract award.
14. It is however intended to submit reports on an ongoing basis to the Management Committee in respect of all contracts awarded between Committee meetings for the information of Members.
15. Dates have been established during July 2011 for the internal training of buyers to ensure a full working understanding of the new Risk Management procedures to ensure appropriate risk management prior to and during any procurement exercise. The Compliance Division will be operating a two Contracts Panel process to ensure that all pre-procurement risk management and compliance issues are properly addressed prior to market engagement and subsequently upon potential award of contract to ensure that all processes have been properly applied.

#### Post Contract Award

16. The procurement cycle will continue with the involvement of ESPO's marketing function to ensure appropriate promotion of the contracted solutions and an established Contract Management process to ensure ongoing engagement and supplier management. Buyers will be encouraged to manage contracts more diligently and to ensure timely and appropriate management information is made available to Member Authorities. Channels will be agreed to ensure the delivery of required market intelligence to enable better individual and collaborative procurement decisions to be made going forward.

#### Business Continuity Plan

17. One of the key operational documents outlined in the Review of Business Strategy is the business continuity plan. The report suggested such a document defines how ESPO will maintain its business and support Member Authorities in the event of an incident, which impacts adversely on business critical services.
18. The scope of the current programme work, using BS25999, covers the above in terms of business recovery for ESPO, but also how ESPO fits with our Member Authorities' business continuity plans, and the Local Resilience Forum. The project plan has an end date of 2011.

19. Current action undertaken includes:

- Formalising the aims, objectives, and programme for the project;
- Formalising and strengthening the current callout system for senior management;
- Identifying appropriate communication tools for notifying staff, suppliers, customers, and other key stakeholders;
- Assessing Member authorities and the Local Resilience Forum requirements of ESPO;
- Seeking resilience reassurances from key suppliers; and
- Identifying strategic recovery solutions for the recovery of all or part of ESPO's services. Currently the existing recovery solution only identifies the impact on IT systems and limited desk space, rather than the wide implications of the business in terms of the impact on staff availability, the warehouse, office space, etc.

### **Supplementary Information Informing the Management of Business Risk**

20. Further information of a commercially sensitive nature which informs this report is contained elsewhere on this agenda under **Item 19 (Exempt Report)**. Member approval is sought for the business cases for those contracts referred to in paragraph 8 i) – iii) and v) – viii) of this report and to authorise the Interim Director to award those contracts.

### **Resources Implications**

21. These procurement projects proposals are now operational requirements and have no new resource implications.

### **Conclusion**

22. The details above are an evolving process. The projects demonstrate differing aspects to risk management in terms of:

- increasing scale of projects and the implied financial risks in terms of potential supplier challenge;
- reputational risk at a national level, and potentially at a local level with schools;
- risk through delivering solutions by a new approach to the market
- risk through health and safety; and
- supplier risk in unpredictable markets.

However they demonstrate an improved managed approach to scrutinising new procurement projects and the development of a more robust challenge to the procurement process.

### **Recommendation**

23. The Committee is asked to:
- a) note the actions taken to date and the future planned actions to the improved management of risk;
  - (b) provide guidance on the level of risk which should be escalated to the Management Committee for decision;;
  - (c) note that the framework agreements which support ESPO's catalogue sales will be subject to a risk assessment;
  - (d) agree that those procurement projects where residual risk is regarded as potentially high will be referred to the Management Committee for decision;
  - (e) agree to a further report being submitted to the next meeting of the Management Committee.

### **Equal Opportunities Implications**

24. Adherence to equal opportunities legislation is mandated within the terms and conditions of individual contracts/frameworks.

### **Risk Assessment**

25. None required.

### **Background Papers**

26. Report of the Interim Director to the ESPO Management Committee – 25 March 2011 – Management of Business Risk.

### **Officer to Contact**

Dave Summersgill, Interim Director  
[d.summersgill@espo.org](mailto:d.summersgill@espo.org)  
0116 265 7931

### **Appendices**

Appendix 1 - Draft Contract Risk Assessment Tool  
Appendix 2 - Example Procurement Risk Register  
Appendix 3 - Pro5 Category Teams  
Appendix 4 - ESPO General Contract Renewal Plan