



**ESPO MANAGEMENT COMMITTEE – 3 NOVEMBER 2011**

**AGENDA ITEM NO. 4**

**PROGRESS REPORT OF THE INTERIM DIRECTOR AND TO  
REPORT URGENT ACTION TAKEN BETWEEN MEETINGS  
BY THE CONSORTIUM SECRETARY**

**Purpose of Report**

1. The purpose of the report is to:
  - a) update ESPO Management Committee of the action and progress made since the last Committee Meeting on 24<sup>th</sup> June 2011; and
  - b) inform the Committee of urgent action taken between meetings by the Consortium Secretary, in consultation with the Chairman, in respect invest to save funding of a new Warehouse Order Picking System, previously agreed by the Management Committee on 25 March 2011.

**Background**

2. Since my last progress report work has continued across a number of fronts. Work continues on the initial efficiency and improvement projects as well as shaping the actions from the Review. The items highlighted below are intend to follow up on previous reports and to reassure Members of the continued drive to improve overall performance.

**Update on MSTAR (Managed Services for Temporary Agency Resources)**

3. Following Management Committee approval for the award of the Managed Services for Temporary Agency Resources (MSTAR) framework contract on behalf of ESPO and Pro5 at the 25 March 2011 meeting, the framework commenced in April 2011 and to date over a hundred individual customers have expressed an interest in using the framework.
4. Eighteen authorities have accessed the framework, mainly awarding their contracts under lot 1(a) – Supply Chain Management (or neutral vendor to use old terminology) for corporate staff only. This profile of usage in the first six months is as we predicted on the basis that first generation users (those who have not previously had a managed

service provider in place) would wish to migrate to a model which they are familiar with, and which is proven, and second or third generation users who want the same or similar service delivery model who needed to migrate to a compliant solution at the earliest opportunity.

5. The 'early adopters' authorities (eleven authorities and a collaboration of six authorities) have completed their market engagement resulting in savings of £3.06m (9.2% of their annual spend). This profile of usage in the first six months has been as predicted and savings have been achieved even from second generation users (these already having a managed service provider previously) and from a simple calling off process.
6. Where further competitions have been undertaken there has been varying degrees of complexity with some customers expanding their requirements from the core specification to include additional services as allowed for in the framework. Furthermore, some customers have used reverse e-auctions which have proved to be beneficial; the collaboration used a reverse e-auction and ultimately saved the councils approximately 10% on their combined annual spend.
7. ESPO has been supporting customers with their further competition exercises as required, and in respect of the London Collaboration has been providing support with drafting documentation and formulating evaluation models. This is an area of potential service development for ESPO as historically it has not actively supported customers with further competitions where guidance and template documents are provided. Managing framework contracts is a key element in increasing market intelligence and supports the knowledge management mantra that will be crucial for maintaining our procurement capability. A further six authorities and a London collaboration are awaiting final contract awards. These contracts represent a potential turnover of circa £250m which would mean the costs associated with the framework will be recovered within the first twelve months of it being used.
8. First review meetings have taken place with the eleven suppliers, which from an ESPO's perspective is a new direction. Managing suppliers, gaining market intelligence and updating market knowledge should be a developing capability of the organisation.

### **Update on the Catering Services Framework**

9. The framework was tendered on behalf of Pro5 and the former Office of Government Commerce and was awarded on 30<sup>th</sup> June 2011, following approval on 24 June 2011 by the Management Committee. It covers the whole of the public sector catering service requirement in the UK, split by sector, but let on a sub-regional basis to encourage SME participation. There are twenty six suppliers on the framework.

10. Five contracts have already been awarded with average annual saving per school of just over 8% saving. Several tender exercises are in progress including two City Councils, a large school and a social housing organisation. Current expressions of interest in using the framework include two London boroughs, a county council, two borough councils and additional schools and colleges.

### **Phonics**

11. The Synthetic Phonics Products and Training project for the Department of Education (DfE) has progressed, with a high national profile as suggested in the report to the 24 June Management Committee. Problems with the approach to the commissioning have been highlighted in the Times Educational Supplement. Most issues have been to do with the day to day decisions, and a lack of understanding as to how it will operate. The catalogue was finally sent to the printers last week and will be sent out to schools week commencing 31<sup>st</sup> October. Despite some of the adverse publicity there has been already a high level of interest and in the last two weeks over a hundred new school accounts have been opened. Orders in excess of £250k have already been received.

### **'Schools Hub'**

12. An exciting and innovative resource, initially dedicated to academies, has been developed over the past three months with the intention of launching a new website in November. This website will enable schools to access information on academies, access to ESPO's Guide detailing an extensive portfolio of public sector compliant contracts, access to a free procurement health-check, online web area where best practice can be shared, and a help/query area. Through a dedicated resource the intention is to build ESPO's market intelligence, develop skills in managing frameworks, develop online guides, and develop better relationship management skills. The intention is to bridge the 'gap' between our procurement expertise at a high level (e.g. framework contracts), with an ability to provide schools with a low cost solution to simple procurement (e.g. a one off minibus). Initially designed with a focus on academies it will be extended to cover all schools.

### **Management of Business Risk**

13. The Management Committee received reports on management of business risk at its meetings on 25 March 2011 and on 24 June 2011. Those reports outlined how business risk was now being managed within the procurement process and in particular the introduction of full Risk Assessment and Business Plans in advance of any procurement activity.
14. Since the Management Committee meeting held on 24 June 2011 members of the Senior Officer Group have had presented to them a

demonstration of the Compliance function within ESPO including the Business Risk Assessment Tool and completion of Business Cases which require approval prior to procurement activity. Details of that process have now been provided to each member of the Senior Officer Group and this process will be followed for all procurement activity going forward.

15. The main purpose in bringing this particular project to the attention of elected Members is the fact that it has a high profile within the East Midlands region and will provide an infrastructure backbone for high speed broadband connectivity between public sector bodies in the form of Public Service Networks throughout the East Midlands region.
16. The procurement exercise is being conducted on behalf of the East Midlands Broadband Consortium Limited, being a company limited by guarantee, of which all members of the East Midlands region within the ESPO Consortium are members of the company Board. ESPO has been commissioned to provide the procurement resource for and on behalf of the company with full legal accountability and responsibility remaining with the company. Eversheds LLP have been commissioned by the company to provide comprehensive legal advice and support to the project. The procurement is being managed in accordance with the competitive dialogue procedure as specified by the Public Contracts Regulations 2006.
17. The main purpose and benefit for performance and delivery of the contracted solution is intended to be education sites including schools, the tertiary sector and life-long learning together with local authority sites, other unitary authorities and the wider public sector throughout the East Midlands region. The third sector and institutions of higher education and colleges of further education within the region will also benefit.
18. The new contracted solution will replace a current broadband infrastructure contract supporting many schools throughout the East Midlands region and which is due to expire on 31<sup>st</sup> October 2012. The current schools demand for these services is circa eighteen hundred schools plus other local authority and education sites meeting the needs of approximately 600,000 children and adults forming the National Education Network for the East Midlands.
19. The procurement exercise will see the delivery of an East Midlands Public Service Network providing broadband infrastructure and services, with infrastructure being provided for a seven year term with an option to extend the period up to ten years. This period to November 2021 will provide a return on investment required to ensure the coverage of the required quality and network reach. The services element of the solution will be in place for four years from the end of this year (2011) until 2015.

20. It is intended that the contracted solution should be scalable such that all participating authorities throughout the region can easily transition to the offered solution or such part thereof as they may wish to avail themselves. The network infrastructure will provide a means for extranets, virtual private networks and secure communication links to be established between groups of users in different local authority and related public sector organisations. It will provide the capacity to establish secure communications for working groups that cross organisational and geographical boundaries. The contracted solution will support Digital Economy initiatives and potentially report on efforts being made to breakdown the digital divide within the East Midlands region. It will be able to provide an infrastructure to support the Shared Services agendas together with programmes such as Total Place as they develop further under the 'Localism' initiative.
21. The estimated value of both the infrastructure requirements and the services element over the entire life of the contract is between £100m and £500m.

#### **Update on HR and Training**

22. As reported to your 29 June Management Committee meeting two Trainee Buyers started with the organisation on 6<sup>th</sup> June 2011. Unfortunately one of these left in September as she received an offer in the career she had intended to follow. When she notified us of her intention we were also considering a further Trainee because of increasing workloads. At the time of interview we had four candidates who had been assessed at a similar level. We went back to the remaining two candidates (both partly trained) and both accepted our offer and have subsequently joined ESPO.

#### **Update on Efficiency Savings**

23. Indigo Warehouse Order Picking System – Urgent Action Taken by the Consortium Secretary

Approval was given at the 25 March Management Committee to proceed with the solution offered by the Indigo 'Real Time' Interactive Warehouse (IW). Initial meetings were held in April, and detailed meetings throughout May and June to confirm requirements and specifications.

The key to developing such a system is actually finding a compromise between IT systems and current ways of working and this has involved trialling and teasing out a detailed specification. It became evident that the standard system as reviewed and tested, even with requirements as originally perceived, and enhancements discussed in 2009, would not be adequate. The solution would not have provided ESPO with the necessary system to provide both the efficiency savings in the current operations, and opportunities to increase throughput in the future, even at a marginal additional cost. However it was apparent that with an integrated system, the potential

direct and indirect benefits were also likely to be greater than originally envisaged. Further discussions were held with the supplier to consider if there was any alternative solution which integrated with the current systems, which could be considered by ESPO.

An alternative product was reviewed, but the potential costs were far greater than those now being indicated by Indigo. Any decision to pursue an alternative paperless system would have delayed implementation of any improved system by at least another twelve months, and hence also lost the opportunity for savings in that same time period. (Implementation needs to be done in the quieter Winter months.)

The following table lists the key goals and objectives of the project:

<b>Business Goal/Objective</b>	<b>Description</b>
Reduce the cost of the warehouse operation.	A paperless system eliminates both the need for paper, and the time taken preparing the paper for issue to the direct staff. Within the picking operation walking time and picking cycles are reduced. The streaming of orders automatically to the data guns eliminates walking back to the control point, physical selection and natural interactions that occur wherever people congregate.
Increase the output of the warehouse operation	Multi order picking now available instead of the single order picking system presently in use.
Increased order accuracy	Location and Item bar code scanning will reduce 'wrong item sent' errors.
Improved stock management information	Real time confirmation of pick at the pick face improves stock replenishment cycles, reduces picking failures and eliminates the existing manual operation.
Improved staff management information	Real time information for the planning and monitoring of work in each area of the warehouse and appropriate staff resources with the ability to hand over work easily at the end of shift.
Perpetual Inventory introduction (Phase 2)	Improved stock accuracy and reduced staffing levels to check stock records. Elimination of the requirement to 'stop picking' while annual stock count is undertaken.

In designing a new system not only the costs but also the potential savings that would ensue on a long term continuing basis have been considered. In order to develop the comprehensive system it was recognised that ESPO would need to spend an additional circa £100k. However, the perceived benefits will increase the savings

from a reported £230k to an estimated £330k, resulting in a return on investment over a period of twenty months.

The additional cost can be easily absorbed within our current trading predictions for this year with the resulting annual savings starting to feed in from 2012/13.

The expected staff savings of £270k per annum are from a total Warehouse annual budget (excluding delivery driver costs) of £2,886k. This annual budget includes £170k of temporary /agency staff costs for the additional staff needed to meet the peak summer months of the year. Whilst a total of seventeen posts are affected, the potential for redundancy would only apply to one or two of these posts, but alternative opportunities for redeployment are being considered. Currently permanent staff numbers are less than budgeted for and temporary staff are being used to flexibly manage vacancies to enable staff savings to be achieved when the Project is completed. Additional savings in direct picking costs above the original estimated savings are as a consequence of the enhancements to the software to allow multi order picking.

As it was necessary to progress the project quickly to enable it to be put in place over the winter months a decision to proceed with the Project to ensure completion in the Winter months was needed prior to this meeting of the Management Committee. The Consortium Secretary therefore exercised his delegated powers to take urgent action in between meetings, in consultation with the Chairman, to agree to the additional circa £100,000 expenditure for the project. As a result of the further work undertaken, the original action plan milestone, which was 'Go Live November 2011', is now planned for February 2012, ensuring savings will still be generated by the start of the new financial year.

24. Waste

Following initiatives to recycle more of ESPO's waste, costs associated with waste disposal have been balanced with income from recycling resulting in a direct saving of over £5000.

25. Lighting

Further to previously reported improvements in warehouse lighting, both to improve the quality of lighting and lower maintenance, energy consumption continue to improve and was down more than 16% in August when compared to the previous year.

**Resources Implications**

26. There are no additional resource implications from those detailed above.

## **Conclusion**

27. As highlighted in other reports on the agenda significant developments continue to take place within ESPO. These will continue over the next few months as part of the ongoing improvements to ESPO's operational and strategic performance.

## **Recommendation**

28. Members are asked to:
- a) note the contents of the report and progress made since the last update to Management Committee;
  - b) note the urgent action taken between meetings by the Consortium Secretary, in consultation with the Chairman, in respect of the Indigo Warehouse Order Picking System.,

## **Equal Opportunities Implications**

29. None

## **Risk Assessment**

30. Not applicable.

## **Background Papers**

31. National Temporary Staffing Framework (MStar) – Report of the Interim Director to ESPO Management Committee, 25 March 2011

## **Officers to Contact**

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