

Rethinking Contractor Value

12th May 2021 Ken Cole and Rowena Ward





Today's agenda



- >About our third party contracting
- >Why we need to rethink our approach to getting contractor value
- ≻What we need to rethink
- >The Government's response to this challenge
- ≻How East of England LGA can help make a difference



About our third party contracting

Business metrics



English Context

- English local government spends about £55 billion per annum on third party services, products and works
- Scope of expenditure is greater than any multi-national corporation covering a complete range of markets
- >80% of expenditure will be with less than 3% of suppliers
- ➢95% of the top 50 suppliers by spend in each authority are used by other local authorities

East of England (2011)

≻Tier 1

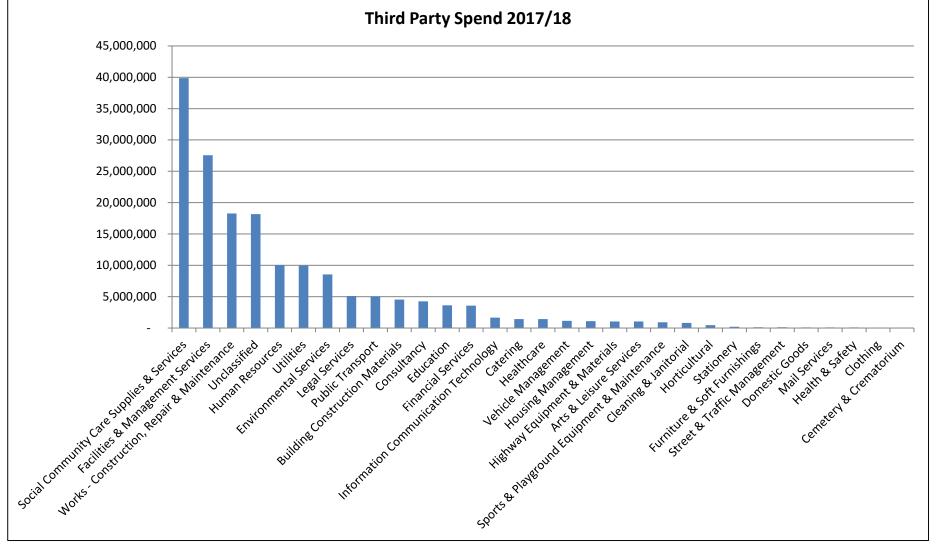
- ➤Total spend nearly £3.4B with 44,514 suppliers
- 191 suppliers trade with 6 or more Tier 1 councils - 11% of total spend or more than £380M

≻Tier 2

- ➤Total Spend £863M with 24,615 suppliers
- 156 suppliers trade with 15 or more Tier
 2 accounting for nearly £150M or 17% of
 - total

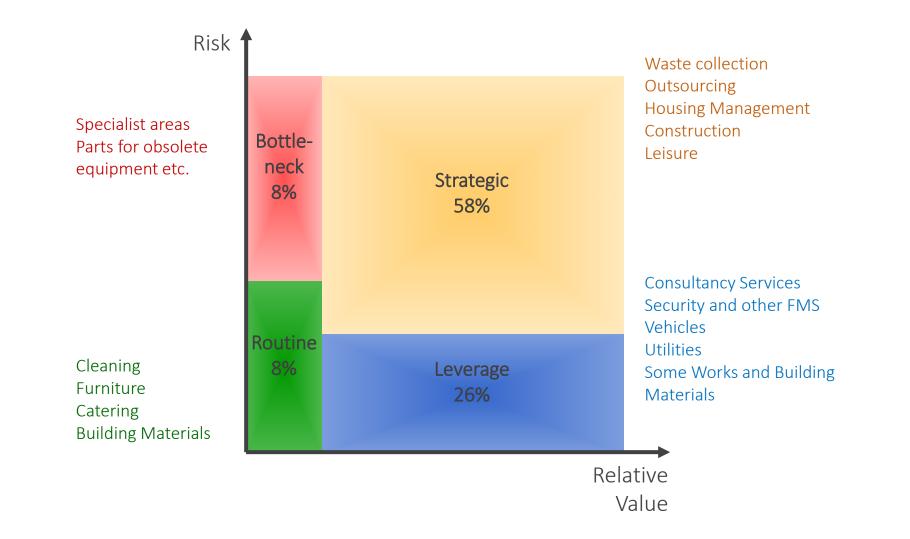
Typical local authority expenditure profile





The markets from which we buy







Why we need to rethink our approach to getting contractor value



Accountability and transparency

Compliance - particularly with EU law governing public procurement

➢Risk averse – playing it safe, greater reliance on "larger" contractors

>Focus on the correct process rather than achieving the best outcome

➢ Focus on cost rather than overall value achieved in the full life cycle

Some of this can be traced back to the Northcote Trevelyan reforms of 1858

The Public Procurement landscape of the 1970s





UK position

- Economic turbulence inflation at 25%, industrial disputes, shortages
- Corporate government airlines, car production and telecoms all state owned
- Most companies supplying the public sector were UK / US owned and based
- Manufacturing accounted for 66% of our economic activity
- Technology ?! mainframe computers IBM vs ICL

International position

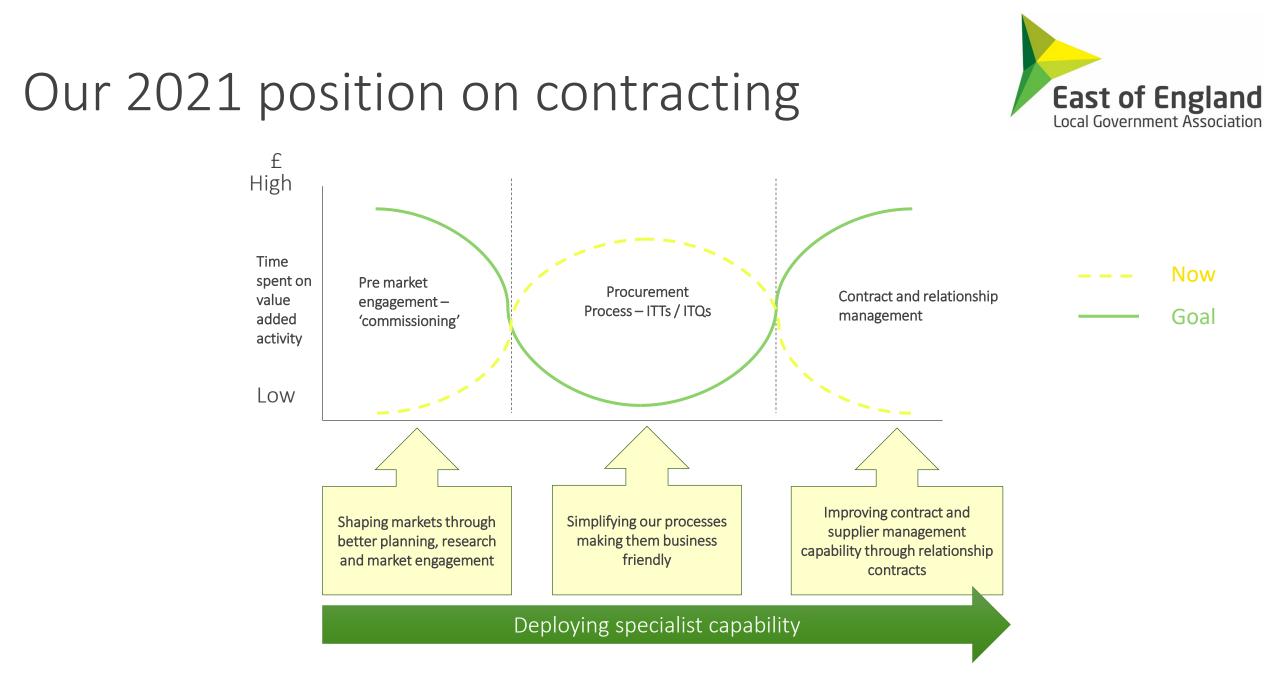
- China a rural economy emerging from the cultural revolution
- Germany the post war 'economic miracle'
- Japan expanding its economic influence
- The Cold War US / Soviet dominance



EU Public Procurement Directives and the Single Market



- Paulo Cecchini argued in 1987 that savings of about 4% could be made from opening up the domestic markets of EU member states to intra community competition
- ➢ Principles governing EU public procurement competition are:
 - ≻Equal Treatment
 - ➤Transparency
 - Mutual recognition
 - > Proportionality
 - Value for money (optimum combination of whole-life cost and quality to meet the user's requirements)
 - ➢Non-Discrimination



Why we need to flip that graph



"So much effort is put into getting the contract in place and then, more often than not, it is either forgotten about or the relationship management is handed to someone with no experience or even time to make it work." Sally Guyer, Global CEO World Commerce and Contracting, WCC " 50% of English Local Authority services are now commissioned and that figure is going to increase. We need, not only to be able to let contracts, but to client manage them effectively too, as that is where the real money is." Rob Whiteman, CEO CIPFA

> "... contracts are incomplete instruction manuals. They cannot specify what to do in every case. Instead, they must stipulate how decisions should be made."
> Oliver Hart and Bengt Holmstrom, Winner, 2016 Nobel Prize in Economic Sciences

WCC global research shows that the cost of a contract erodes on <u>average</u> by 9.2% over its life time meaning that a £100,000 contract will end up costing £109,200, but possibly a lot more.



What we need to rethink



>How we plan, shape and engage markets in a globalised environment

- ≻How we view and manage risk in a post Covid-19 world
- How we manage our third party contracts as financial assets not just legal documents
- > How we deploy our scarce resources in the commercial cycle
- > How we define value and understand how best to create it
- > How we make the most of modern technology



The Government's response to this challenge

Transforming public procurement CP353, December 2020

Highlights from the Green Paper



Bad News

- Written from a civil service viewpoint (e.g. an emphasis on SMEs rather than local)
- Status quo is the starting point no questioning fitness for purpose
- Too much central control and direction
- No recognition of relationship management or relational contracting

Good News

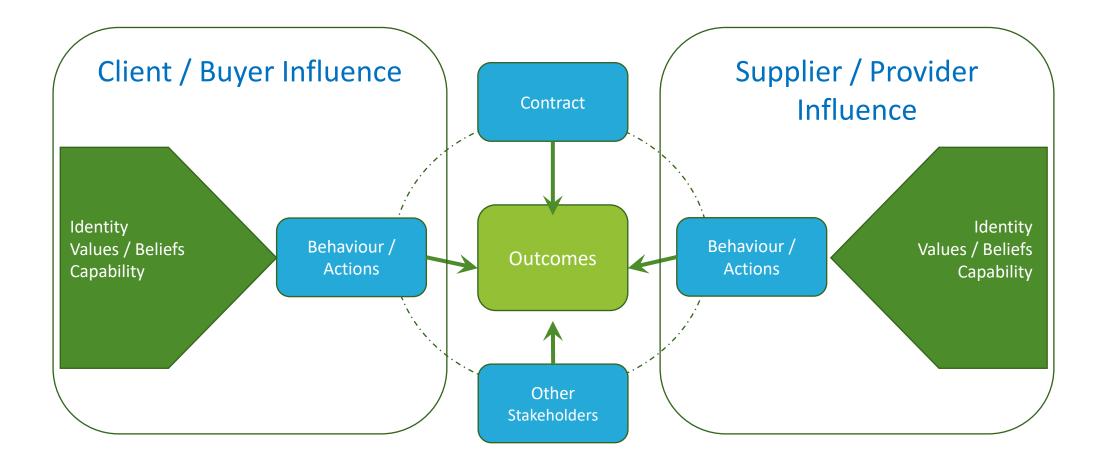
- Single uniform framework for procurement
- ➢ More focus on innovation
- Most "advantageous" bid, removing the word "economically"
- >Other forms of value (e.g. social) recognised for the first time
- Widen scope for emergency



How East of England LGA (EELGA) can help you make a difference

Generating contractor value





Introducing The Challenge diagnostic



Understand and measure the many drivers that determine contracting performance and outcomes

- Information Storage
- Contract Documentation Access
- Forward Planning
- Contract Management
- Cost Control

- Change Control
- Contractor Relationships
- Contract Standing Orders
- Use of Terms & Conditions
- Skills and Knowledge

- Recognition
- Social Value
- Commercial Value
- Receptiveness to Change
- Making Change Happen

Contractor Relationships Value Code

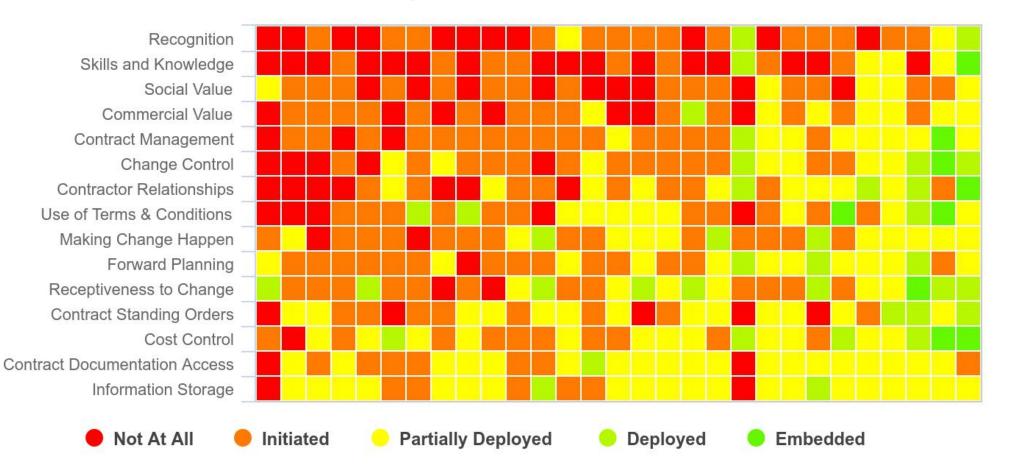


1 - Not at All	Contractor relationships are not seen as important. Contractors are only contacted in the event of poor performance or possible failure.
2 – Initiated	Contractor relationships are seen as only necessary for longer term or higher value contracts. Meetings are held with contractors to review performance or where service levels /specifications are being varied.
3 - Partially Deployed	Contractor relationships are seen as important for strategic, longer term contracts. Meetings are largely influenced by ensuring compliance with terms and conditions and ensuring service levels/performance targets are met. Building relationships with contractors for lesser value contracts is seen as an overhead.
4- Deployed	The contribution and benefits that good contractor relationships can deliver are widely recognised across the organisation. Meetings with contractors are well developed for all strategic, high value/high risk and contracts and are starting to show improved outcomes. This approach is starting to be adopted for lesser value contracts too.
5 - Embedded	Relationship management is seen throughout the organisation as an integral aspect of delivering successful contractual outcomes and getting the most from appointed contractors. Meetings with all contractors are flexible in timing and content and are proven to deliver long term thinking, innovation and a shared approach to dispute resolution and savings generation. Progression has moved beyond meetings to encompass shared agendas, information exchange, and systems and process alignment.

Finding good practice and targeting improvement

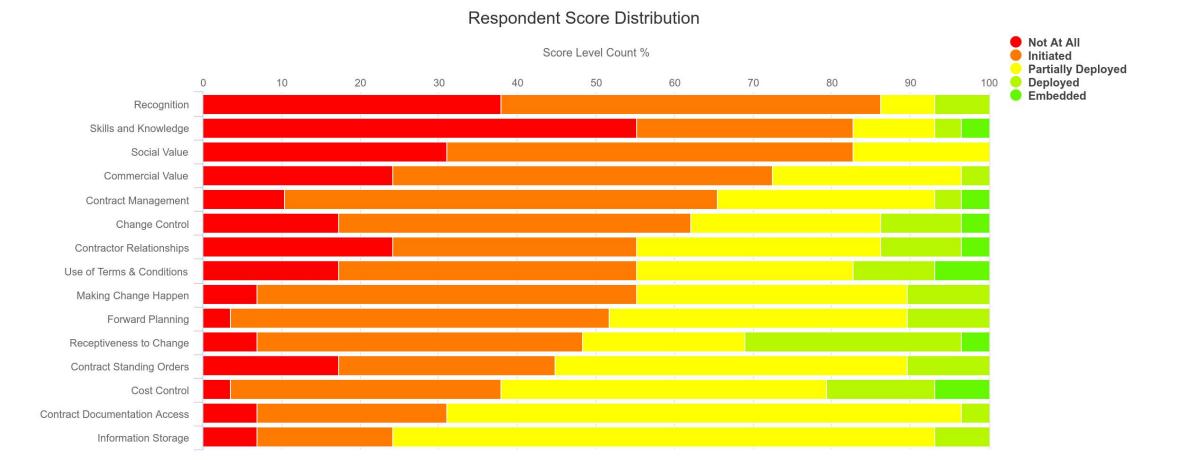


Respondent Scores



Finding good practice and targeting improvement



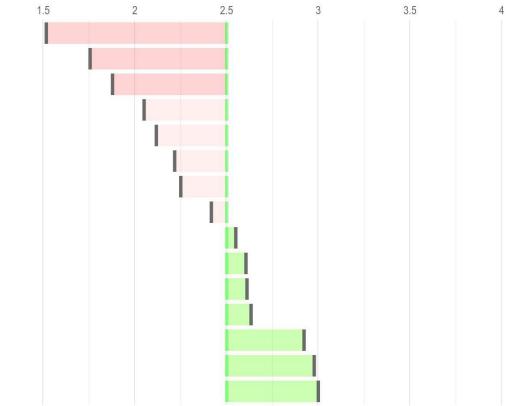


East of England Local Government Association

Score

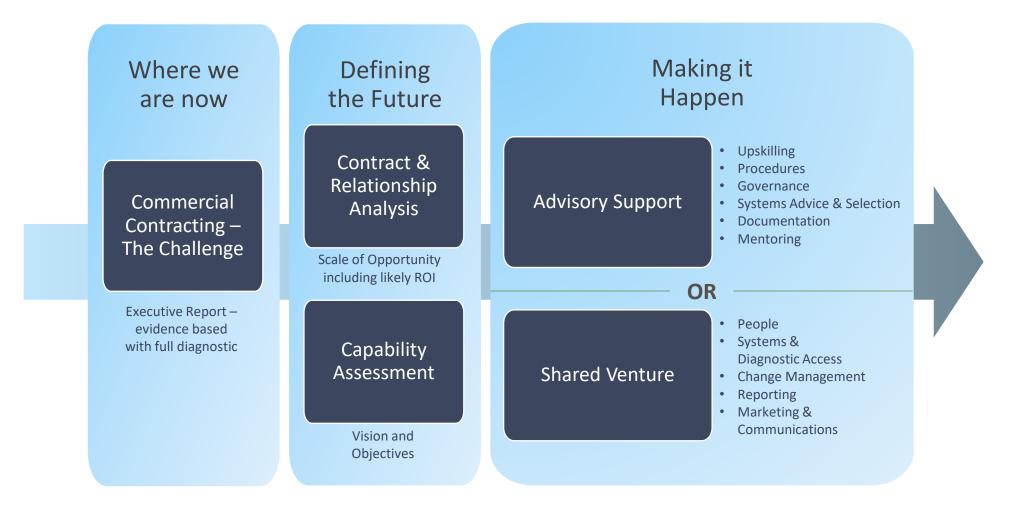
You determine what matters to you and your council and where you want to be





East of England

The journey to rethinking contractor value



Thank you for listening.



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