

AGENDA

Cabinet

Date: **Thursday 22 July 2010**

Time: **2.00 pm**

Place: **The Council Chamber, Brockington, 35 Hafod Road,
Hereford**

Notes: Please note the **time, date** and **venue** of the meeting.

For any further information please contact:

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Agenda for the Meeting of the Cabinet

Membership

Chairman Councillor RJ Phillips

Councillor LO Barnett
Councillor AJM Blackshaw
Councillor H Bramer
Councillor JP French
Councillor JA Hyde
Councillor JG Jarvis
Councillor PD Price
Councillor DB Wilcox

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AGENDA

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To receive any apologies for absence.	
2. DECLARATIONS OF INTEREST	
To receive any declarations of interest by Members in respect of items on the Agenda.	
3. MINUTES	1 - 6
To approve and sign the minutes of the meeting held on 17 June 2010.	
4. NEW EXECUTIVE ARRANGEMENTS	7 - 10
To advise Cabinet of the models of the new Executive Arrangements as set out in the Local Government and Public Involvement in Health Act 2007 and to seek approval on the process for consultation and implementation of the new Arrangements.	
5. JOINT COMMERCIAL STRATEGY	11 - 58
To invite Cabinet to consider a Joint Commercial Strategy for Herefordshire Public Services (HPS).	
6. SHARED SERVICES	59 - 64
On 18 March 2010 the Cabinet agreed that the Council's preferred option for the delivery and commissioning of shared services would be a Joint Venture Company (representing a public public partnership) involving Herefordshire Council (HC), NHS Herefordshire (NHSH) and Hereford Hospitals NHS Trust (HHT). The Cabinet authorised the Deputy Chief Executive (DCE) to progress and take all necessary steps to establish a JVCo in consultation with the Leader and Deputy Leader of the Council and Trust Boards.	
7. DATA QUALITY REPORT	65 - 82
To provide Cabinet with the annual report on progress against the data quality action plan.	

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HEREFORDSHIRE COUNCIL

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HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Cabinet held at The Council Chamber, Brockington, 35 Hafod Road, Hereford on Thursday 17 June 2010 at 2.00 pm

Present: Councillor RJ Phillips (Chairman)

Councillors: LO Barnett, AJM Blackshaw, H Bramer, JP French, JA Hyde, JG Jarvis, PD Price and DB Wilcox

In attendance: Councillors

33. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr TM James, Liberal Democrat Group Leader.

34. DECLARATIONS OF INTEREST

There were no declarations of interest made.

35. MINUTES

RESOLVED: That the Minutes of the meeting held on 18 March 2010 be approved as a correct record and signed by the Chairman.

36. DIRECTOR OF PUBLIC HEALTH ANNUAL REPORT 2009

The Director of Public Health presented the annual report to Cabinet, which had been made in light of the current economic climate and the needs of Herefordshire. The main points made were:

- This was a long term appraisal, looking at the priorities that could be achieved now as well as in five years time, with some elements requiring immediate investment.
- The report looked at the work of the partnership and bringing all providers together on issues of health and well being.
- The report highlights the areas of need and has been circulated to GPs, hospital doctors and health practitioners.
- GPs are working with families and with HALO Leisure to instigate healthy practices to help change people's lifestyles.
- The report outlines the support provided to patients prior to their going home after a stay in hospital.
- The report looks at the current level of demand in hospital care and at the work being carried out at hospitals across the country in order to examine what Herefordshire might wish to do differently and subject to transition board agreement.
- It was emphasised how essential it was that the community work in collaboration on health and wellbeing issues and that ways were being investigated as to how to reward and encourage people to practice healthy living.

Cabinet was advised that the report was launched at the recent health and wellbeing board conference and focused on the key achievements over the past year. It was

emphasised that wellbeing was an issue for communities and that communities needed to develop their own leaders for this role.

Cabinet noted that HALO were key to the joint work proposed and that local authorities across the country had just been advised that the grant funding from the Department for Culture, Media and Sport for free swimming for the under 16s and over 60s had been withdrawn. Cabinet referred to the financial implications on page 7 of the report and the need for the partnership to consider the recommendations and to agree which recommendations could be taken forward to the budget meetings.

RESOLVED

THAT:

- a) **the 2009 Annual Report of the Director of Public Health be received; and**
- b) **Cabinet noted that the implementation of the report's recommendations and the proposed approach and actions highlighted in the report would inform service development and commissioning during the next planning cycle and in the medium term.**

37. ANNUAL CORPORATE PERFORMANCE REPORT 2009/10

The Cabinet Member Corporate and Customer Services and Human Resources presented the report and reminded Cabinet of the loss of grant funding that was expected due to the current economic situation. The Cabinet Member advised that it would be difficult to achieve targets, but it was important to continue to monitor performance.

The Head of Policy and Performance stated the year end report measured progress achieved against the annual operating report. He referred to the key points summary and advised that the rate of improvement was slowing and the authority had to get better at setting challenging yet intelligent targets. Cabinet reviewed the key considerations in relation to each of the themes and noted paragraph 8 Local Area Agreement and the childhood obesity target which had previously been miss reported and the figure was increasing rather than decreasing.

In referring to the summary of progress Cabinet was advised that it was a mixed picture and the figures lacked consistency or steady improvement. The weakest indicators were in organisational improvement. The report would be presented to the Overview and Scrutiny Committee on 2 July 2010.

In discussion Cabinet noted:

- The affect the loss of Local Area Agreement grant funding would have on some areas. However, targets were still relevant and the authority was still looking to achieve targets even though funding was no longer available.
- National Indicators for the unemployed, the Cabinet Member Economic Development and Community Services advised that this must be viewed in context as there had been 75,000 jobs lost in the West Midlands region.
- Stronger Communities – affordable housing it was noted that officers were looking for innovative ways to gain European funding.

- To monitor the Key Stage 1 and 2 SATS results for improvement or decline as there had been a decline in recent years. It was noted this was a general decline and not particular to any one area.

The Director of Children's Services informed Cabinet that performance overall nationally and in the counties had risen, therefore, the results were significant for Herefordshire. He added that results had improved over the last 12 months but more work was required.

THAT:

- (a) Cabinet noted performance for 2009-10;**
- (b) Overview and Scrutiny Committee to consider and make recommendations on the Local Area Agreement targets and priorities;**
- (c) Children's Services Scrutiny Committee to consider and make recommendations on improved performance at Key Stages 1 and 2.**

38. FINAL REVENUE AND CAPITAL OUTTURN REPORT 2009/10

The Cabinet Member for Resources presented the report to Cabinet and advised on the overall position stating that a balanced year end had been achieved despite pressures from severe winter weather resulting in an additional £1 million spend. In addition there was pressure on the social care budget resulting in use of the social care contingency requirement of £772k.

Cabinet was reminded:

- Of the £70 million that had been spent on capital schemes in 2009/10 such as flood alleviation and schools' projects funded from various sources including government grants.
- A review of the 2010-11 capital programme had taken place and unallocated funds had been allocated to the refurbishment of the Hereford Leisure Pool and to disabled facilities grants.
- As of 2010/11 that there was a £5.4 million general reserve.

The Group Leader for the Alliance group referred to the use of £10 million in prudential borrowing utilised in 2009/10, Members were reminded that this was within the budget. The Group Leader for the Independent group referred to the Connects programme and the original savings expected. Cabinet was reminded of the strategic pause that had taken place which had resulted in not being able to deliver on both the expenditure and the savings timeline. Since July 2008 the programme had recommenced and savings of £700k were achieved in 2009/10. In referring to mileage claims, Cabinet was advised that all claims were now paid on the basis of the shortest route.

THAT Cabinet approved:

- (a) The final outturn for 2009/10;**
- (b) The movements to new reserves outlined in the report;**
 - **Insurance Reserve**

- **Pool Car Reserve**
 - **Local Development Framework**
 - **Area Based Grant**
- (c) **The allocation of £1.5m from the capital programme for the maintenance & refurbishment of Hereford leisure pool; and**
- (d) **The allocation of £0.25m for disabled facilities grants.**

39. 2010/11 LOCAL GOVERNMENT SAVINGS

The Director of Resources presented the report on 2010/11 Local Government Savings but advised that since writing the report there had been further changes made by government. He informed Cabinet:

- The government's decision to withdraw grants for free swimming for those under 16 and over 60 years of age.
- Advised Cabinet that there were to be public sector savings of £6.2 billion of which local government savings were to be £1.165 billion from which £805million would relate to revenue grants, the rest reduced from capital grants.
- That government had indicated that council tax increases could be "capped" at 2.5%.
- That Formula Grant for local authorities is to remain at £29 billion and similarly the Dedicated Schools Grant would not be reduced. However, there was a general lack of clarity on Department of Education grants.
- Revenue grants had been reduced or fall within area based grants.. It was noted that the majority of the reduction would come from the Department of Education, although as the grant was not now ring-fenced other services may deliver the saving requirement.
- Ring fencing has been removed on some grants which affected five Herefordshire grants totalling £1.148 million.
- £836k in grant funding that had not been included in the budget (because of uncertainty about receipt) would not be received. This meant the approach adopted to exclude these grants from the budget had been correct.
- Cabinet was reminded that potential cuts had been anticipated when setting the budget in 2009/10. It was also noted that the decision on which items of grant would be reduced within the overall revised grant would be made locally and the Chairman of the Overview and Scrutiny Committee was asked to seek recommendations from his committee.

Members noted the points made and expressed concern over:

- Possible reductions in funding for highways particularly the Integrated Transport Plan (ITP).
- Members were reminded that the overall ITP amounted to £12 million and had been topped up by an additional £1 million from the capital programme.
- It was anticipated that highways would be an area the government would make savings.

- Following reference to the Outer Distributor Road proposals, Cabinet was reminded that government was encouraging authorities to look to the private sector for funding.
- The Stroke Strategy grant was no longer ring fenced funding and there was concern over the impact on the Adult Social Care budget. Members were reminded of the partnership with the PCT and how the budgets would be used to allow new investment in treatment for stroke patients.

Finally Cabinet thanked the staff in the resources directorate for their work and how well prepared the Council had been when closing the accounts.

RESOLVED: That Cabinet noted the position outlined in the report.

The meeting ended at 3.20 pm

CHAIRMAN

MEETING:	CABINET
DATE:	22 JULY 2010
TITLE OF REPORT:	NEW EXECUTIVE ARRANGEMENTS
PORTFOLIO AREA:	CORPORATE STRATEGY AND FINANCE

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To advise Cabinet of the models of the new Executive Arrangements as set out in the Local Government and Public Involvement in Health Act 2007 and to seek approval on the process for consultation and implementation of the new Arrangements.

Key Decision

This is not a Key Decision.

Recommendation(s)

THAT:

- (a) the statutory duty placed on the Council to resolve to adopt Executive Arrangements in accordance with Local Government and Public Involvement in Health Act 2007 by 31 December 2010, to come into effect in May 2011, be noted; and**
- (b) the Monitoring officer (in consultation with the Leader of the Council) be authorised to consult on the options to ensure compliance with the statutory requirements.**

Key Points Summary

- The Local Government Public Involvement in Health Act 2007 provides the framework for strengthening the leadership arrangements in Councils.
- It does so by limiting the options to either an Elected Mayor and Cabinet or a Leader (for a 4 year term) and Cabinet model.
- The current model of a Leader elected annually with a Cabinet is not an option.
- The Council must consult with the public on its choice of model and must decide its arrangements that will take effect from the May 2011 election by 31 December 2010. There is

ministerial guidance relating to the level of consultation required.

Alternative Options

- 1 There are no alternative options to consulting on and considering its options for Executive Arrangements which comply with the Local Government and Public Involvement in Health Act 2007.

Reasons for Recommendations

- 2 The Council is statutorily required to consult on and implement change to its Executive decision making arrangements as detailed in Part 3 of the Local Government and Public Involvement in Health Act 2007.

Introduction and Background

- 3 The Local Government and Public Involvement in Health Act 2007 requires the Council to change its Executive decision making arrangements to adopt what has been described as a 'strong leader' in governance terms for executive arrangements. The Council will need to move to either:
 - A Leader and Cabinet Executive (with the Leader elected for a 4-year term); or
 - Directly-elected Mayor and Cabinet
- 4 This legislation means that the Leader and Cabinet model (implemented following the Local Government Act 2000) cannot continue in its current form. The Council must consider afresh whether it wants a Leader for a four year term or a directly elected Mayor; both options would involve the appointment of a Cabinet in much the same way as currently occurs. The arrangements will need to be implemented after the next elections to be held in May 2011.
- 5 In both models, the responsibility for the executive functions will be vested in the Leader or Mayor, who will decide how those functions are to be discharged and the extent of delegations. Cabinet Members would be appointed directly by either the Leader or Mayor.
- 6 Non-executive functions (Scrutiny, Planning, Regulatory and Standards) would remain unaffected regardless of the model adopted.

Key Consideration

- 7 Under the new Leader and Cabinet model, the Leader would continue to be elected by the Council, but for a four year period.
- 8 Under the new directly-elected Mayor and Cabinet model, the Mayor would be elected by the local electorate for a four year term.
- 9 Under both models, the Leader or Mayor would
 - Determine the size of the Executive (two or more – to a maximum of 10)
 - Appoint and/or remove Cabinet Members
 - Be responsible for all Executive functions and allocate responsibilities

10. The Council as a whole would be able to remove the Leader (subject to appropriate provision in the constitution). Elected Mayors may only be removed in very limited circumstances and could not be removed from office by Council. The Council would need to appoint a Councillor to chair the Council meeting as the elected Mayor is precluded from this role.
11. The Council must comply with the requirements of the 2007 Act and as such must draw up proposals and set out a timetable for moving to and implementing a new form of governance. Reasonable steps will need to be taken to consult with the local electorate and other interested parties prior to the Council drawing up its proposals. The Act requires the proposal to be made available for public inspection before a special meeting of the Council and a notice to be published in one or more local newspapers setting out the main features of the proposed model.
12. The Council would need to decide on its preferred option for the new executive model in order that the second stage consultation to take place.
13. In coming to its decision, the Council must consider the extent to which the model would be likely to assist in securing continuous improvements in the exercise of its functions, having regard to economy, efficiency and effectiveness.
14. Under the 2007 Act, the Council must also agree transitional arrangements for the period between the new model coming into effect after the local elections in May 2011 and the Annual Meeting of Council.
15. The Council, at a special meeting for this purpose, will need to pass a resolution to adopt changes Executive arrangements to the preferred governance model before 31 December 2010. That meeting could on the same date as the Council meeting in November 2010.

Community Impact

16. The purpose of consultation prior to taking a decision is to test the views of the community and assess the impact of any decision on Herefordshire communities

Financial Implications

17. The level of allowances under either model would be determined by Council, following recommendations from the Independent Remuneration Panel.
18. If the Council chooses to move to a directly elected Mayor model there would be some additional costs in running an election. It is anticipated that such an election would be combined with the Herefordshire Council elections.

Legal Implications

19. The Council is required to change its Executive decision making arrangements from May 2011. If it fails to pass a resolution to this effect by 31 December 2010, the Secretary of State can pass an order requiring such a change.
20. The Council must comply with the requirements of the 2007 Act.

Risk Management

21. If the Council fails to comply with the requirements of the 2007 Act, the Secretary of State can pass an order requiring change. This decision will enable work to commence to ensure

compliance.

Consultees

- 22 As required by the 2007 Act, a public consultation will be undertaken to seek views on the preferred model of governance and to receive any additional comments for consideration.

MEETING:	CABINET
DATE:	22 JULY 2010
TITLE OF REPORT:	JOINT COMMERCIAL STRATEGY
PORTFOLIO AREA:	CORPORATE & CUSTOMER SERVICES AND HUMAN RESOURCES

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To invite Cabinet to consider a Joint Commercial Strategy for Herefordshire Public Services (HPS).

Key Decision

This is not a Key Decision:

Recommendation

THAT Cabinet: Recommends the approval of the Joint Commercial Strategy for Herefordshire Public Services

Key Points Summary

- Procurement in various forms is taking place across the Partnership in many areas, but there is no overall strategy for this, or co-ordination of effort. To address this, a Joint Procurement Strategy was commissioned and it has been agreed to establish a Procurement Centre of Expertise as part of the Shared Services Programme
- The proposal is that we agree a *Joint Commercial Strategy* for HPS, which is broader than the traditional and narrower view of Procurement. This will enable a focus on all aspects of the Commissioning Cycle. A draft Commercial Strategy, produced by our interim consultant, Steve Carter, is attached. This has been produced following many interviews with employees and senior managers involved in commissioning and procurement across the Council, NHSH and Hereford Hospitals Trust (HHT). It has also been agreed by the Joint Management Team for submission to Cabinet and NHS Herefordshire Board
- The Strategy will form part of the HPS Transformation Programme, supporting delivery of the work streams on *Streamlining the Business* and *Better Services*. It will also support our Efficiency Programme and savings targets, where the need for additional commercial skills is emerging as a high priority

Further information on the subject of this report is available from
Dean Taylor, Deputy Chief Executive on (01432) 261855

- The Strategy is clear that there is a substantial opportunity to achieve savings and service improvements from our Third Party Spend by adopting a different approach to how we commission, procure and contract manage. In short, a more commercial approach that focuses on market development, supplier relationships and constant challenge about the value we are achieving from external spend
- To drive delivery and provide essential commercial expertise, we need to establish a corporate hub (Centre of Expertise or similar). However, it is clear that we do not currently have the commercial expertise in house to deliver the Commercial Strategy (particularly the early and intense work on delivering savings). We will buy in interim skills and knowledge on a return on investment basis. The interim resource will also be tasked with establishing the Centre of Expertise, bringing people together and ensuring knowledge transfer so we can be self sufficient in the medium term
- We will produce robust Business Cases for each Category of spend; including resources required and benefits realisation. Strong and effective programme governance and reporting arrangements will be put in place to underpin successful delivery. To support the change, a cross service Commercial Board will be established to own the delivery of the agreed programme of activity
- Finally, introducing new commercial approach will challenge existing ways of working and long held professional beliefs about how we commission and procure services and commodities – this will need leadership across HPS to ensure that the changes required are supported by senior managers across the organisation

Alternative Options

- 1 We can adopt a different Commercial Strategy and different priorities. It is not considered however that we do not agree a Commercial Strategy at all, given the significant opportunities that exist for savings and service improvements.

Reasons for Recommendations

- 2 HPS needs to agree a Commercial Strategy as part of our overall Transformation Programme. This will provide the framework for us to implement core processes and capabilities in the areas of: defining our requirements, category management, supplier relationship, market development, contract negotiation and contract management. Implementation will enable HPS to reduce third party spend and deliver better outcomes for our residents.

Introduction and Background

3. This report invites Cabinet to agree a Commercial Strategy for Herefordshire Public Services. The Strategy has been produced by Steve Carter, an interim Procurement Specialist, who has been working with HPS for the past three months. It builds on an initial Joint Procurement Strategy produced earlier this year. The strategy has also been produced for HHT, who are considering their engagement in this and the proposed Centre of Expertise.

Key Considerations

- 4 The draft Commercial Strategy is attached. The key recommendations in the Strategy are:
 - *To adopt the Commercial Strategy as the basis of the future approach across HPS (and HHT subject to their engagement) to managing all commercial activity and third party spend*

- *The remit of the Procurement Centre of Expertise be expanded to include all commercial matters and be renamed the Commercial Centre of Expertise;*
- *The basis for achieving HPS commercial objectives be an effective combination of category and commercial management, a supplier relationship management programme and enhanced contract management;*
- *All Commissioning activity be required to adopt and integrate with Centre of Expertise processes and ways of working;*
- *The Centre of Expertise to be the custodians of all commercial processes; and*
- *The Centre of Expertise to work with Commissioners and local Procurement to set commercial strategy, set commercial targets and monitor HPS-wide achievement of those targets*

Community Impact

- 5 HPS spends significant sums of money with local suppliers. The Commercial Strategy will help us to develop existing relationships and to develop new market opportunities for services within Herefordshire. A key principle is that we need to ensure that our commissioning requirements for services and commodities are informed by appropriate customer and community engagement. This follows best practice commissioning principles, including those set out in World Class Commissioning.

Financial Implications

- 6 It is estimated that we spend £440m per year across the three organisations on third party spend. The Strategy sets out an opportunity to save between £3-5m over the next two years. Business Cases setting out the full costs and benefits of each Category of Spend will be required. The cost of setting up the Centre of Expertise will be assessed. This will be based upon bringing together existing resources and people engaged in this activity and augmenting this with time limited external support. Costs will be from existing budgets, subject to additional external costs that will be met from the savings on a return on investment basis.

Legal Implications

- 7 None.

Risk Management

- 8 Risk Registers will be put in place for the Commercial Strategy and for each project.

Consultees

- 9 Managers across Herefordshire Public Services and Hereford Hospitals Trust; the Joint Management Team.

Appendices

- Appendix 1: Joint Commercial Strategy

Background Papers

None.



Working together for the people of Herefordshire

HEREFORDSHIRE PUBLIC SERVICES

Commercial Strategy

“Analyse, Understand, Realign, Deliver”

2010

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Version	Date	Reason for change	Person making the change
3.0	20.5.10	First draft of document	Steve Carter
3.1	01.6.10	Incorporate Dean Taylor's feedback	Steve Carter
3.2	03.6.10	Incorporate David Powell's feedback	Steve Carter

1. Executive Summary

Introduction

A key aspiration for Herefordshire Public Services (HPS) is the idea of a shared procurement function to drive out greater value for money by leveraging the combined spending power and to bring best practice in the management of commercial matters to Herefordshire.

In order to achieve these aims a commercial strategy is needed that sets out clearly a direction of travel, what is needed to make it happen and the benefits that will be gained. This document is this strategy.

The basis for the strategy has been:-

- a review of existing documents relevant to shared services and procurement;
- analysis of data from previous reviews supplemented by refreshes of this data where available; and
- input from a range of meetings with both Procurement and non-Procurement staff from HPS and Hereford Hospitals Trust (HHT).

One conclusion from this is that a significant part of the overall process for achieving the strategy lies within Commissioning (in its widest sense and not just that associated with Social Care and NHS). As a result, this strategy paper incorporates some of the commissioning activities into the overall approach for achieving the HPS and HHT commercial needs.

The strategy has been written on the understanding that HHT's participation has still to be agreed. Consequently, the approach and benefits in the strategy have been structured in such a way that HHT's participation would enhance the opportunities but not be dependent on that participation.

Challenges for Procurement and Commissioning

HPS and HHT between them spend a significant amount (about £440m a year) with third party suppliers. A wide range of approaches currently dictate how best value is achieved from this spend but all of them are based on one assumption – that market competition delivers the best outcome in terms of cost.

Even if this was ever the case, it is no longer sufficient to meet Herefordshire's needs. This is because Herefordshire has:-

- a dependency on key suppliers (such as Amey) who deliver a substantial range of the services previously delivered in-house;
- long term contracts (such as the Private Finance Initiative (PFI)); and
- supply arrangements negotiated by others on behalf of Herefordshire (such as national tariffs for purchased healthcare or goods and services procured through consortia arrangements such as Healthcare Purchasing Consortium (HPC)).

The range of such dependencies could increase over coming years as Herefordshire take advantage of external expertise and leverage that come from such arrangements.

Against this background, the need is less about getting "the best deal" on price and more about:-

- how to retain flexibility and adaptability to changing requirements (for example that resulting from Individual Budgets and Self-Directed Support in Adult Social Care);
- how to work with critical and strategic suppliers in finding ways to reduce and eliminate costs so that prices can be reduced and at the same time suppliers can improve their margins in order to re-invest in services and service delivery;
- how to shape and stimulate markets to bring about innovation in services, quality, processes and cost; and
- how to identify and manage commercial risk.

Setting the direction for Procurement and Commissioning

The recent study by PA Consulting suggested that a procurement Centre of Expertise (CoE) within shared services but working closely with local commissioners and procurement staff could best meet these needs.

This strategy document sets out how the CoE could deploy modern approaches such as category management, supplier relationship management and contract management to significantly reduce costs and at the same time achieve the objectives outlined above.

This approach is based on:-

- A step change in current procurement ways of working in order to do things differently;
- Different skills to those present in HPS and HHT;
- A collaborative approach between commissioners, CoE and local procurement teams;
- The ability to leverage suppliers’ skills, knowledge and capabilities;
- An understanding of how to create, shape and manage markets; and
- The creativity to package HPS and HHT requirements in such a way that they are more attractive to suppliers and so encourage new entrants to local supply markets.

Inevitably, this means investing in the new skills needed to secure these benefits. The savings target identified for an initial two year period is estimated at £3m (with £5m as a stretch target). This equates to a return of between 4.3 and 9.6 times the investment for the stretch target.

Links to other programmes

HPS is developing its Transformation Programme to bring together the full range of strategic and corporate change required to deliver our objectives for the people of Herefordshire and the aims of integration and efficiency.

The Transformation Programme is illustrated in the table below:

CUSTOMER FOCUS	COMMUNITIES FIRST	STREAMLINING THE BUSINESS	BETTER SERVICES	PEOPLE AND PERFORMANCE
<ul style="list-style-type: none"> • Accessible Services • Personal services • Customer insight 	<ul style="list-style-type: none"> • Better engagement • Localised services • Empowered communities 	<ul style="list-style-type: none"> • Reduced management costs • Removing duplication • Shared Services savings 	<ul style="list-style-type: none"> • Services that meet residents’ needs • Smarter commissioning • Market development 	<ul style="list-style-type: none"> • Developing employees • Using new technology • Information management
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- *Increasing efficiency and productivity*
- *Better outcomes for Herefordshire residents*

- Customer focus: ensure that we are **delivering services how and when our customers want**;
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- Better services: identifying and using the best service providers to **meet Herefordshire's aspirations**;
- People and performance: services delivered by the **best people** with the **best tools** to do the job.

A whole partnership strategy for commercial and procurement activities is central to the Transformation Programme. It links in particular to the workstreams on Streamlining the Business and Better Services and People and Performance.

The Commercial Strategy will also help to achieve the significant saving that HPS will need to make. As such links will need to be established with the medium term financial strategy.

Finally, the Strategy contains proposals for the development of the CoE, which is a key element of the Shared Services Project.

Key recommendations

- To adopt this Commercial Strategy as the basis of the future approach across HPS (and HHT subject to their engagement) to managing all commercial activity and third party spend
- The remit of the procurement CoE be expanded to include all commercial matters and be renamed the Commercial CoE;
- The basis for achieving HPS commercial objectives be an effective combination of category and commercial management, a supplier relationship management programme and enhanced contract management;
- All commissioning activity be required to adopt and integrate with CoE processes and ways of working;
- The CoE to be the custodians of all commercial processes; and
- The CoE to work with Commissioners and local procurement to set commercial strategy, set commercial targets and monitor HPS-wide achievement of those targets

2. Challenges for the Commercial Centre of Expertise

What drives procurement in Herefordshire

Between them, Herefordshire Council, NHS Herefordshire (NHSH) and HHT spend somewhere in the region of £440m on procuring goods and services. By any standards, this is a major cost stream and should provide a significant benefit if its procurement is managed appropriately.

There are a range of different approaches and directives that govern how procurement is currently done:-

- Local Authorities - The National Procurement Strategy was launched in 2003 by central and local government. It was developed to help councils recognise the potential of effective and innovative procurement to improve service delivery and to realise potential savings and other benefits from working together in partnership;
- Commissioning in adult social care – approaches based on “Every Adult Matters”;
- Commissioning in Children and Young People (CYP) – outcomes based models such as the one proposed by Freidman;
- Primary Care Trusts (PCT's) - The World Class Commissioning approach, launched by the Department of Health in December 2007 requires PCTs to demonstrate 11 key competencies which include stimulating the market to meet demand and secure required clinical, health and well being outcomes and securing procurement skills that ensure robust and viable contracts; and
- European Union (EU) Directives - The EU Treaty and Public Procurement Directives (enshrined in UK Law) require competition as the mechanism by which contracting authorities ensure that the EU principles of equality of treatment, transparency and non-discrimination are met. There are differences in detail as to how the regulations apply to Health Trusts such as the PCT, as opposed to Local Authorities. The financial thresholds are different to those for the Council, and a large part of PCT expenditure is excluded from the Regulatory provisions, namely clinical services. Furthermore, ‘health and social services’ came under “Part B Services”, which are subject to less stringent rules than the majority of purchases.

At the heart of all of these approaches is a cycle of activity that is often captured in a diagram such as that from the Department of Health (shown in Diagram 1).

The outer (green) circle represents the commissioning activities which are responsible for carrying out a needs assessment, turning this into services that are to be commissioned (or de-commissioned), developing markets and suppliers so that there is the capability and capacity to deliver these services and a review mechanism to ensure that what was commissioned has actually been delivered and was effective.

The inner circle represents the procurement activity that secures the services that commissioners require in a manner that is compliant with all relevant legislation, achieves the best price and then puts in place a legally binding contract.

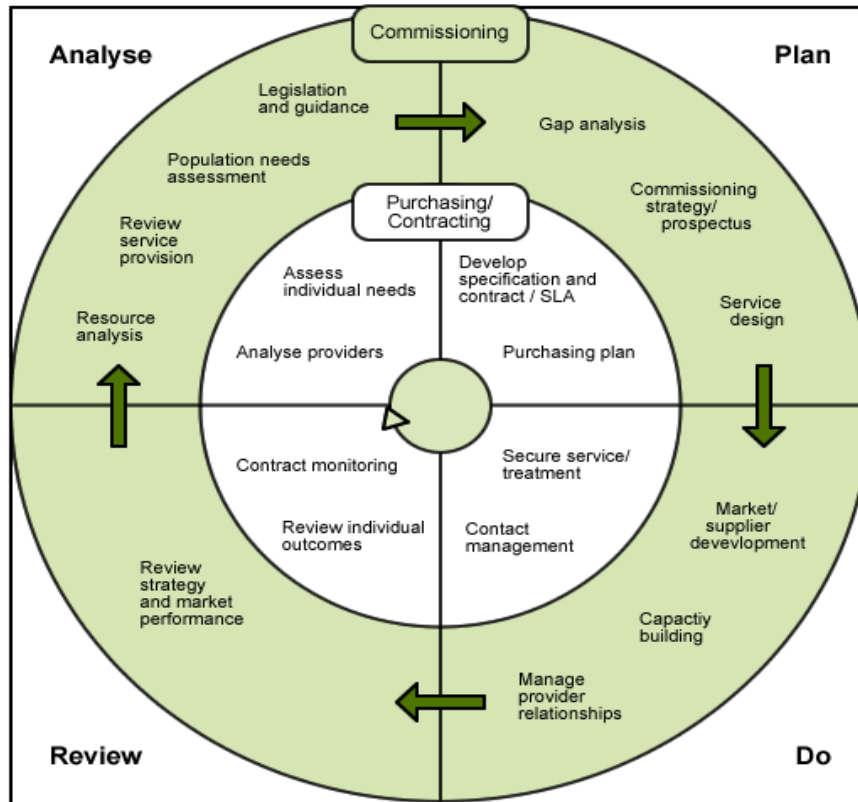


Diagram 1

Why this does not lead to the best outcome

The approach described uses competitive tendering and market forces to drive a “fair” price and this is then documented in a contract. Often these contracts are not seen as anyone’s specific responsibility and so not managed effectively. This is a general comment on the approach and is not meant as a reflection of the situation in Herefordshire.

This leads to a number of problems:-

- i) Competitive tendering assumes markets are perfect in the sense that decision-making information is fully and readily available to all. Markets are rarely perfect in that sense and so often do not lead to reduced prices or good value for money.

For example, the NHS London Procurement Programme recently let a framework that combined spend volume for a number of PCTs and Acute hospitals across a wide range of products. The expectation was that prices would fall but the result was that prices actually rose in more than 95% of cases.

This is not surprising when suppliers have to factor in forecast cost rises over the term of the contract (often several years) and when volume does not always help to reduce supplier costs which in turn allow savings to be passed on in the shape of reduced prices (for example, if you run a residential care home, have a high quality rating and also a waiting list, there is no incentive to reduce the weekly rate from being offered additional business);

- ii) Depending on the supplier’s circumstances, some may “buy” the contract by quoting low but then recover the margin by charging extra for any variations to the contract;

- iii) Equally, the best provider from a service and quality point of view may have sufficient business already and charge a premium for taking on more;
- iv) The crucial activity of market sounding as to options for achieving the necessary balance between service and cost and positioning of suppliers is often inadequate with the result that tenders do not achieve their full potential;
- v) Failure to optimise the contract as circumstances change over time due to a lack of proper contract and supplier management as well as a failure to pick up any adverse trends in supplier performance until it is too late and service then suffers; and
- vi) The critical roles of market shaping, market development and supplier management are the preserve of commissioners whose background, expertise and experience results in a focus on the technical aspects of service delivery sometimes at the expense of a balanced consideration of commercial outcomes.

For Herefordshire this will progressively create more of a challenge due to:

- a dependency on key suppliers (such as Amey) who deliver a substantial range of the services previously delivered in-house;
- long term contracts (such as Shaw and PFI initiatives); and
- supply arrangements negotiated by others on behalf of Herefordshire (such as national tariffs for purchased healthcare or goods and services procured through consortia arrangements such as HPC).

The range of such dependencies could increase over coming years as Herefordshire takes advantage of external expertise and leverage that come from such arrangements.

Further challenges from commissioning

Typically more than 80% of the cost of a procured service is determined at the specification stage and by market structuring decisions. This requires a joint service design and commercial strategy approach to get the best outcome.

The skills and experience that the CoE can bring to bear will complement the needs and analysis and service design that are the core competencies of commissioners.

This strategy, therefore, advocates that the CoE work closely with commissioners (both those in Integrated Commissioning and commissioners in the widest sense of the term in the rest of the organisations) to develop the most appropriate sourcing strategy to meet both service and commercial outcomes and to set and achieve commercial targets.

The challenge for procurement

Against this background, the need is less about getting “the best deal” on price and more about:-

- how to retain flexibility and adaptability to changing requirements (for example that resulting from Individual Budgets and Self-Directed Support in Adult Social Care);
- how to work with critical and strategic suppliers in finding ways to reduce and eliminate costs so that prices can be reduced and at the same time suppliers can improve their margins in order to re-invest in services and service delivery;

- how to shape and stimulate markets to bring about innovation in services, quality, processes and cost; and
- how to identify and manage commercial risk.

The purpose of this strategy document is to set out how the Commercial CoE can best operate against the requirements of these initiatives to deliver best value for its constituent organisations.

3. Vision for the Commercial Centre of Expertise

The vision for the CoE has three parts; overall goal, focus and overriding principles.

The overall goal is to create and then continually develop a CoE group which acts as the first link in integrated supply chains from suppliers to the public; supply chains that deliver high quality services at an affordable cost and which are flexible enough to cater for changing needs of the services and the public.

The focus should be on:

- developing a role as custodians of all supply markets and producing sourcing strategies that integrate with demand strategies;
- articulating and agreeing a vision for what kind of markets Herefordshire needs and which takes into account the nature of the county, caters for the requirements of Individual Budgets and Self Directed Support (SDS) and the policy towards Small and Medium Enterprises (SMEs) and the third sector;
- maximising the value (over and above just competitive prices) CoE gets from suppliers;
- engineering supply markets where needed to support new and emerging needs and to create a competitive supply position and foster innovation;
- delivering cost down and cost out solutions with suppliers so that they achieve a fair profit but at a substantially lower cost of ownership;
- managing commercial risks from supply chains and the way in which we interact with suppliers;
- continually measuring and monitoring the performance, reliability and viability of key suppliers.

The overriding principles should be:

- the outcomes from the CoE should be transformational in nature and not incremental;
- an ethos of team working whether this be with colleagues, other partners or with suppliers;
- openness and transparency in everything we do;
- respect for ourselves and for others;
- honesty and integrity;
- determination in pursuing maximum value that delivers an acceptable return on investment and outcomes that are sustainable;
- an entrepreneurial attitude that challenges conventional thinking in looking for best value and innovation;

- outcomes that embed an ethos of continuous improvement over the life of a contract or Service Level Agreement (SLA);
- a willingness to consider all possible vehicles for service delivery whether this be in-house, private sector, joint ventures, managed services, third sector Limited Liability Partnership (LLP) or Trusts;
- an approach to risk taking that maximises the outcome from a measured and agreed degree of risk.

Links to other programmes

HPS is developing its Transformation Programme to bring together the full range of strategic and corporate change required to deliver our objectives for the people of Herefordshire and the aims of integration and efficiency.

The Transformation Programme is illustrated in the table below:

CUSTOMER FOCUS	COMMUNITIES FIRST	STREAMLINING THE BUSINESS	BETTER SERVICES	PEOPLE AND PERFORMANCE
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A whole partnership strategy for procurement is central to the Transformation Programme. It links in particular to the workstreams on Streamlining the Business and Better Services and People and Performance.

The Procurement Strategy will also help to achieve the significant saving that HPS will need to make. As such links will need to be established with the medium term financial strategy.

Finally, the Procurement Strategy contains proposals for the development of the CoE, which is a key element of the Shared Services Project.

4. Setting a Direction for the Commercial Centre of Expertise

Introduction

Procurement can be a major contributor to the adoption of public sector policies and initiatives through the strategies it adopts, the contract award criteria it uses and the subsequent management of contracts and suppliers.

These policies include:

- Sustainability: this has three aspects – environmental, social and local economy.
 - A role for procurement is to promote environmental issues not only with the suppliers that are used to provide goods and services directly to HPS but also to encourage these suppliers to incorporate the same issues in their dealings with their own suppliers and sub-contractors;
 - Procurement can also help to promote social sustainability through initiatives such as apprenticeships and requiring suppliers (particularly those involved in major capital projects) to directly employ a targeted proportion of local apprentices in their workforce or by asking suppliers who bid for large contracts to provide a social asset free of charge;
 - Finally, procurement can also influence the local economy by, for example, encouraging the formation of local consortia which would then have the necessary capability and capacity to win HPS contracts.
- Equality: as with sustainability, procurement can influence the adoption of by immediate suppliers and their extended supply chains.

However, these can conflict with the objective of achieving cost reductions and best value.

Ultimately, there needs to be an agreement as to how these different initiatives should rank and be balanced but in the short term and for the purposes of this strategy document it is assumed that Value for Money (VFM) and cost reductions are the priority to provide the financial platform from which to widen the CoE brief in future.

Achieving the financial platform - the Procurement Maturity Matrix

Any strategy for the procurement CoE needs to set out a rationale for where it is going, why it is going there and how you will recognise when it has arrived.

The starting point for understanding where the CoE should be going is the Procurement Maturity Matrix which is outlined in Diagram 2 below. The current performance of the three organisations is annotated on the diagram together with where the CoE needs to be.

Procurement Maturity Matrix

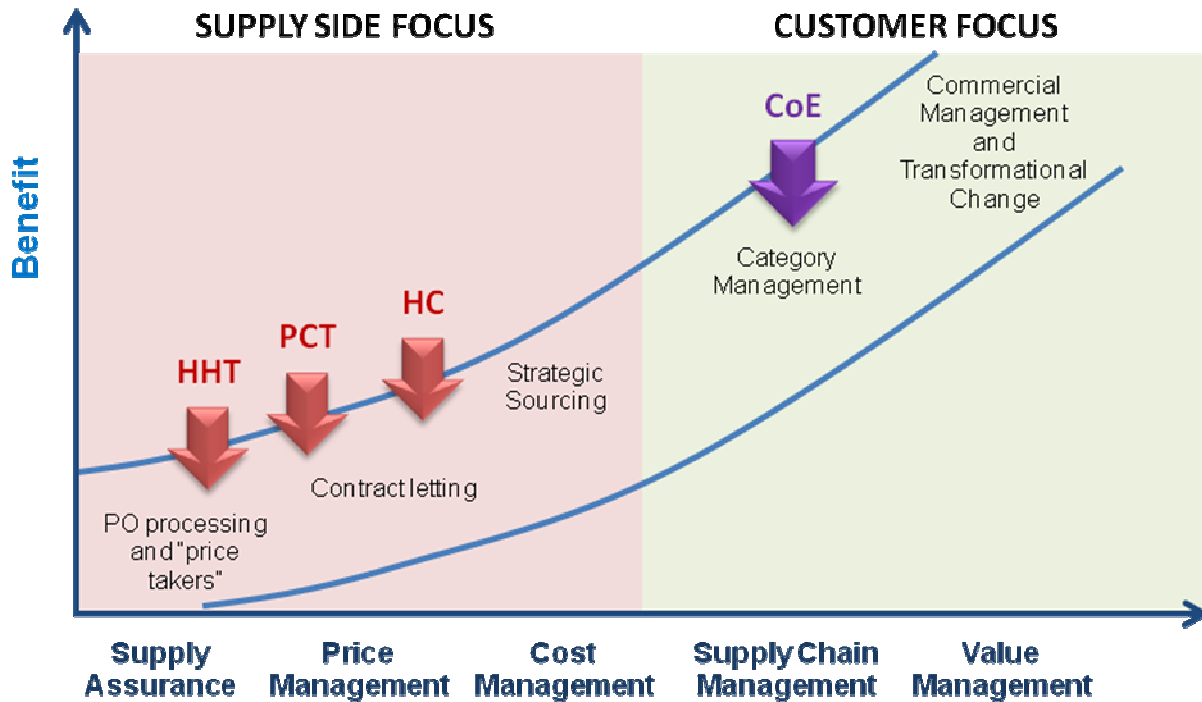


Diagram 2

Procurement Maturity

The focus of each step along the maturity pathway is:

- Supply assurance (“right goods and services at the right time and place”);
- Price management (“right goods and services at the right price”);
- Cost management (“shift from lowest price to lowest total cost of ownership”);
- Supply chain management (“integrate client needs with supply side capabilities and capacities to achieve a regime of better, faster, cheaper”);
- Value management (“increase business value derived from the spend rather than just reduce total cost of spend”).

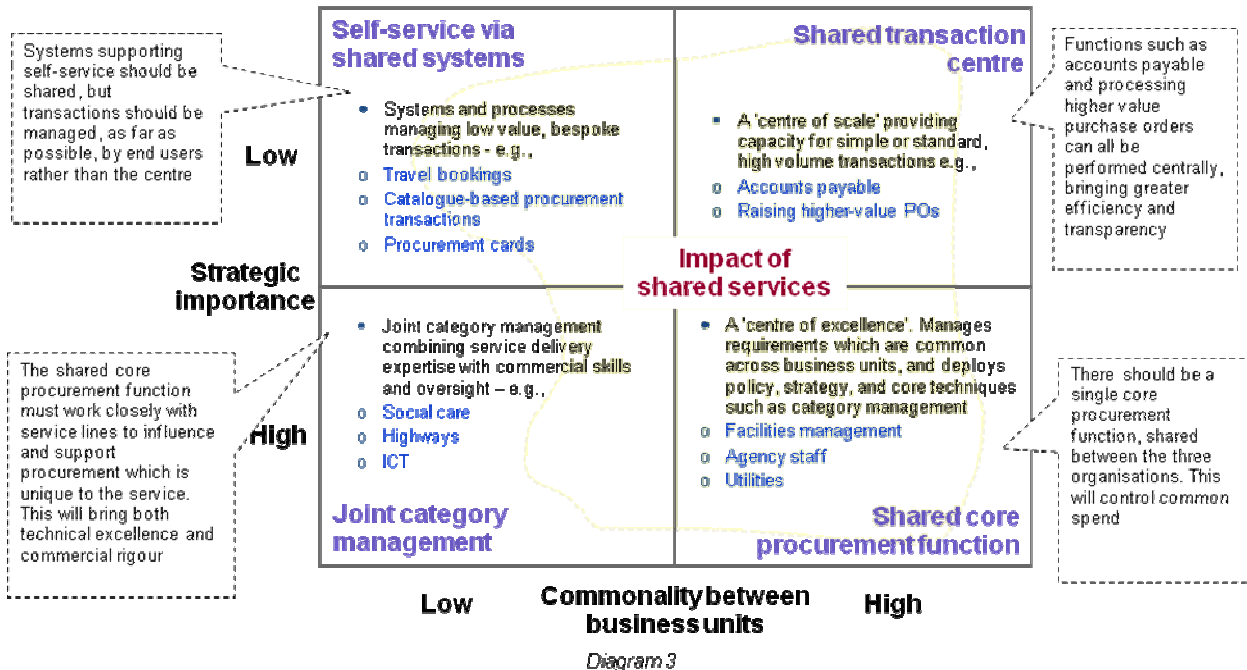
The diagram also sets out some of the key activities that are crucial to each stage.

Much of what procurement does currently in Herefordshire is characterised by the “supply assurance” and “price management” stages.

Where it needs to be in order to meet the challenges already described is the “supply chain management” stage as an initial starting point.

What is needed at the supply chain management stage

Diagram 3 is a summary of the PA Consulting view as to how procurement should be addressed by a CoE approach in order to progress in the maturity model described above.



The key points of this are:

- Items of low strategic importance should be managed using self-service systems and shared transaction systems;
- Items that are of strategic importance but which have little or no commonality across HPS and HHT should be managed locally but under the oversight of the CoE which can provide commonality of best practice process and commercial skills; and
- Items that are of strategic importance and have a high degree of commonality should be managed directly by the CoE using core best practice techniques.

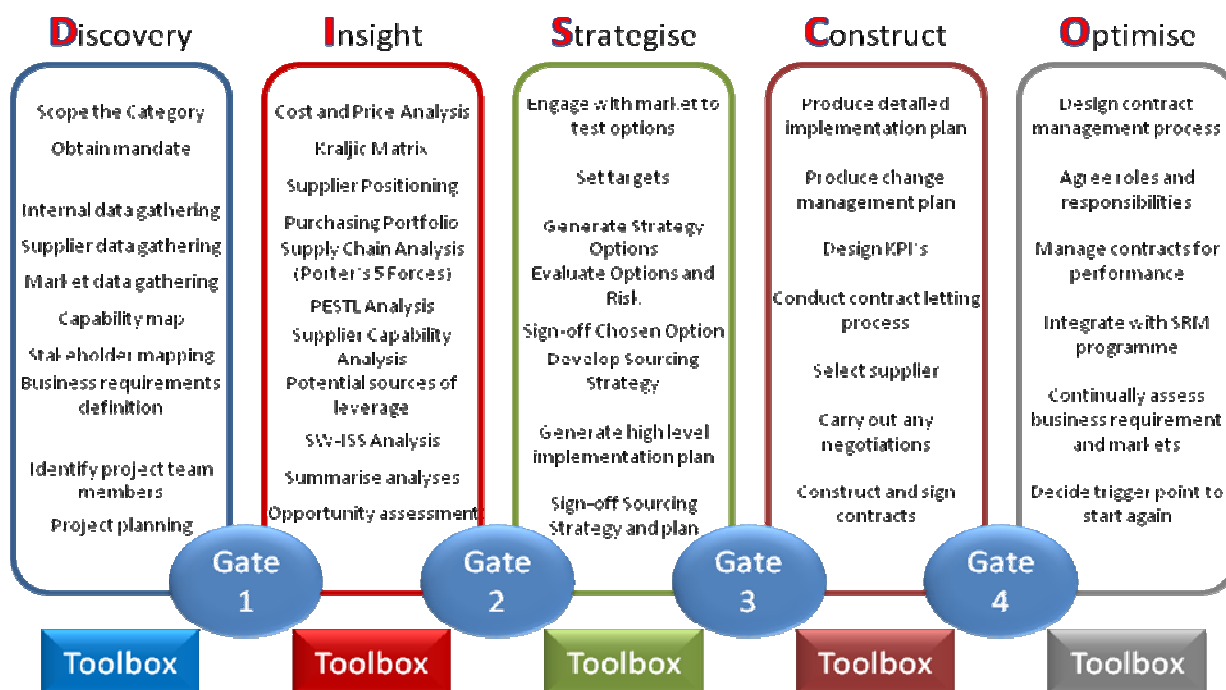
The main core techniques that need to be used for strategic items (irrespective of their commonality) are **category management** to help shape and manage markets and which integrates with a programme of **supplier relationship management** to deliver strategic cost management as opposed to tactical price management. This needs to be integrated with an effective process for **contract management** to ensure that the benefits are delivered as expected. The following is a brief overview of these three components.

Category Management

Category Management is an approach which groups together products and services that have similar supply chain characteristics into categories. These categories undergo regular commercial reviews to determine the categories' growth, structure, profitability, trends and future opportunities as a means of identifying ways to strategically manage or re-engineer the supply markets.

The Category Manager oversees all activities connected with this approach and applies sound commercial principles to optimise value and at the same time allow suppliers a fair profit as a means of minimising supply risk.

There are five key stages to category management described by the acronym DISCO as shown in the diagram below.



Discovery

This defines requirements by defining for the service to be commissioned the regulatory, legal, quality, service, cost and innovation needs that the sourcing strategy must meet.

It also covers aspects such as scoping the category, data gathering, understanding stakeholder and business requirements and obtaining a mandate and project approval.

Insight

These are activities which lead to an understanding of the commercial levers available to the buyer. It covers aspects such as deep financial, supplier and market analysis, understanding strengths, weaknesses and issues in the supply market. It also establishes any quick wins.

Strategise

This stage uses the intelligence gathered in the previous stages to generate, assess and test options for going to market. It leads to the setting of targets and creation of an agreed sourcing strategy and sourcing plans. Interventions that can be applied include supply chain re-engineering, cost down and cost out approaches, work process improvements and technical applications such as specification changes.

Construct

The activities in this stage deliver a value added commercial solution. They cover planning and management of the implementation of contract letting including contract design.

Optimise

The purpose of this stage is to unlock additional value outside of the contract as well as from good contract management. It covers the setting up and managing of post award relationships and performance, including continuous improvement.

Supplier Relationship Management (SRM)

If Category Management is about ensuring maximum value from a supply category, SRM is about capturing that value and maximising the value from relationships with key suppliers.

The approach recognises that even though requirements will be procured through a rigorous and transparent process (such as the Official Journal of the European Union (OJEU) process) and that contracts cannot just be awarded to suppliers, nevertheless some major suppliers will in all probability continue to win a regular amount of business into the longer term or even be granted long terms contracts as strategic partners.

As a result, it is possible to work with these suppliers on joint initiatives to improve the supply chain and ways of working and so reduce costs. These initiatives are entered into voluntarily by both parties and at their own investment of time and money with the intent that any learning is shared with other suppliers so that the supply base as a whole can be improved.

It does not imply any favouritism or guarantee of future contracts. However, if a supplier carries out one initiative, they will receive the benefits not only of that initiative but benefits from all of the other SRM initiatives that CoE carries out with other suppliers.

Contract Management

The purpose of managing a contract is to maximise the financial and operational performance of the contract and to minimise risk. It continues throughout the life of the contract and enables both parties to react to changing needs which could not be anticipated at the time the contract was let.

Good contract management also builds and manages a relationship with the supplier so that problems can be resolved equitably and a process of continuous improvement started. All of this means that the best way to manage a contract is to have someone who has the role of the “intelligent client”.

The purpose of the intelligent client role is to avoid problems in contract delivery that result from a misunderstanding between the customer and the service provider as to what was expected or from unrealistic expectations. In order to achieve this, whoever has the role of the intelligent client needs both an in-depth knowledge of the client organisation and its needs as well as an understanding of what the service provider is and is not capable of doing.

Further details category management, SRM and contract management can be found in Appendix 1.

Diagram 4 outlines how category management supplements strategic commissioning to provide greater commercial outcome by combining a deep understanding of supply markets, their structure, cost drivers and market intelligence to produce a sourcing strategy that meets commissioning requirements. It also engages with supply markets in a market sounding exercise to ensure that suppliers are properly briefed and motivated to deliver the commercial outcome needed.

Together, commissioning and category management provide the platform on which procurement can build an appropriate route to market (using procurement events such as tendering or eAuctions) and construct an appropriate contract.

Operational purchasing can then draw off requirements when needed from these contracts using the self-service or shared transactional systems mentioned earlier.

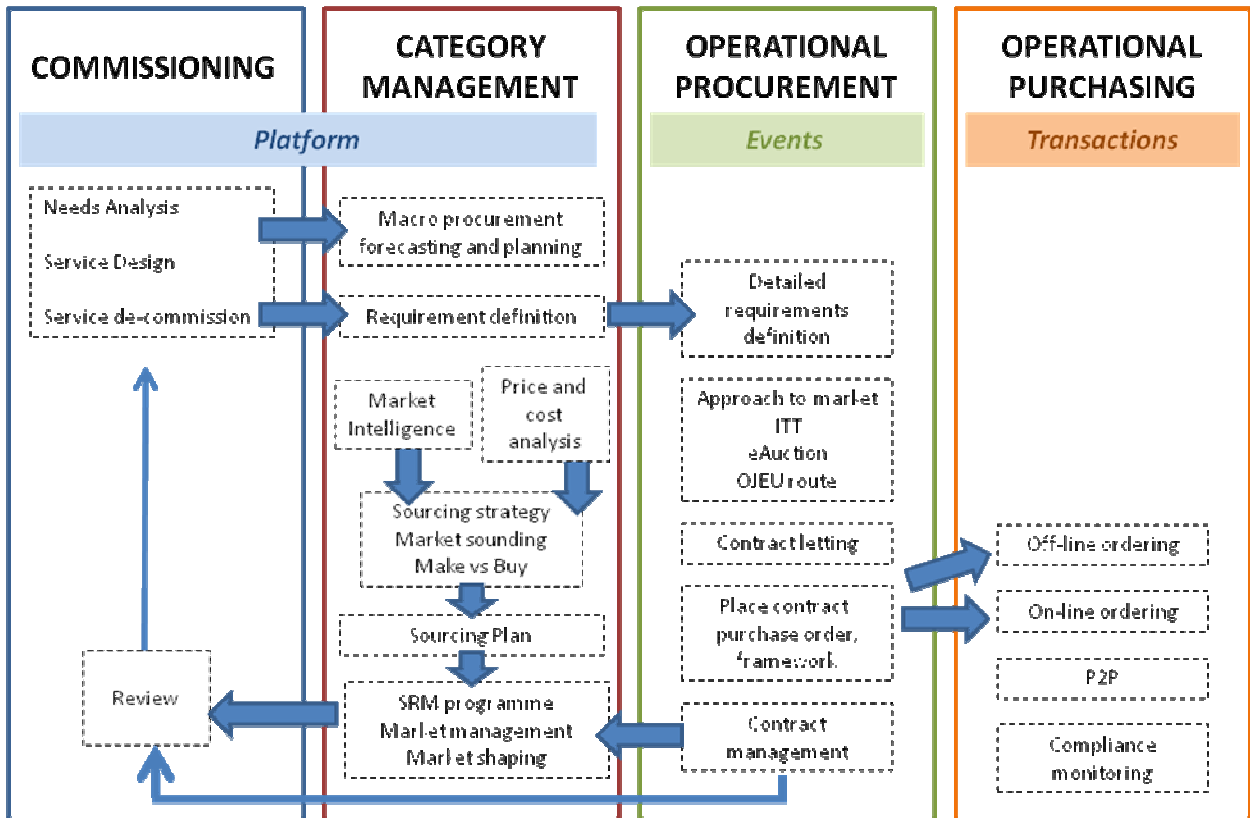


Diagram 4

This process requires commissioning, procurement and contracting activities to be coordinated in both the planning and execution stages if customer needs are to be met at lowest cost and supply markets managed, formed and shaped to meet both current and future needs.

The process in Diagram 4 closely mirrors the commissioning and procurement cycles used by the NHS and social care and can also be used for other categories.

Where Category Management, SRM and Contract Management can be best deployed

Herefordshire have three types of supply arrangement:

1. Categories under local control (e.g. adult social care, CYP and transport);
2. Categories where price and terms and conditions are set by others (e.g. NHS national tariffs, HPC and West Mercia Supplies (WMS)); and
3. Long-term existing contracts (e.g. PFI and Amey).

Type 1 supplies lend themselves to category management approaches that introduce commercial rationales other than competitive tendering.

For example, a local authority has recently gone to market for home care services. The previous approach had been to let a framework contract to any provider who met the technical and quality standards and use perceived market competition to arrive at the “best price”. The plan was to use this approach again and it was not envisaged that any price saving could be achieved.

The category management approach was to re-engineer the supply base by splitting the county into four areas and letting a contract to just one provider in each area. These tier 1 suppliers were tasked with delivering all of the services for their area but were allowed to sub-contract for capacity or capability reasons (but at the same price as that agreed between them and the county). This meant that each provider received more business than usual but with little or no increase in their fixed costs, allowing them to reduce the unit price (expressed as an hourly cost) with no reduction in quality or service standards and still make an acceptable profit. The net result was a 13% price reduction for the county.

Another issue that HPS and HHT are faced with is the question of how to develop supply markets when it is perceived that the attributes of the county make it unattractive to new entrants. What category management can do is to find ways of structuring requirements to make the Hereford account more attractive.

For example, residential care homes have three main functionalities; an asset (the home), a management service and care staff. Traditionally, these are bought as a combination from providers who range from owner-managers to homes owned by large corporate.

An alternative way to look at it is to group together each of these three functionalities and go to market for a provider for each. So, you might approach a property company/investment house to provide and manage all of the assets (homes) at a cost per person; let a management contract to a provider to run all of the assets and staff; and let a contract to a managing agent to provide the staff needed. Aggregating requirements in this way can provide a higher value opportunity to specialists that could attract new entrants outside of the traditional market of residential care home providers. It would also provide the means of creating competition for the management and staff elements as providers would not need to invest in assets.

Equally, other means of providing assets could be explored. For example, in the USA and Germany many residential homes are bought as modular units that can be added or taken away as demand changes. This would create a more flexible approach to providing homes which could be very important in a world of individual budgets and self-directed care.

For type 2 supplies category management cannot address the price directly. What it can do (for items bought through a collaborative arrangement) is to provide a level of understanding of markets, trends and costs to challenge the consortium's approach and achievements. If the consortium consistently under-performs or specific items can be sourced cheaper elsewhere then the organisation can make a decision based on facts.

In other cases, SRM can be used to identify and drive out waste in the value chain.

For example, PCT buys operations from an Acute under a national tariff and on an outcome basis. However, if an operation is cancelled, although the PCT doesn't pay, there is, nevertheless, a cost involved even if it is a reputational cost and not a financial cost. SRM finds inefficiencies like this, provides a solution and then shares with providers any savings that accrue.

Type 3 supplies can also be managed through a SRM programme.

For example, a local authority has a 25 year contract with a residential home provider and it wasn't thought that any savings could be made as the price was determined by an agreed pricing mechanism and enshrined within the contract.

SRM identified a range of improvement activities in the first three months that will deliver £600,000 of savings. For example, the homes were first set up with a particular mix of resident need in mind which determined the number of staff needed. Over the years this mix had changed which meant that the provider had more staff than was strictly required. By correcting this mix over time by placing people with this provider rather than higher cost providers, a saving will be made which can be shared.

An example of the baseline for this approach for the Amey contract can be found in Appendix 2.

What is needed

The previous sections have described how category management and SRM can be used with a customer focus to drive out significant cost reductions for Herefordshire.

However, to make it work needs a **STEP CHANGE to DO THINGS DIFFERENTLY** which in turn requires **DIFFERENT SKILLS, TEAMWORK ACROSS THE PARTNERSHIP AND THE ABILITY TO LEVERAGE SUPPLIERS' SKILLS, KNOWLEDGE AND ABILITIES**. It also needs the ability to **SHAPE MARKETS** and **FIND NEW SUPPLIERS**.

Where and how this can be achieved is the subject of the following sections.

Will this work in Herefordshire?

There is a belief that it is difficult, if not impossible, to develop, shape and manage markets due to Herefordshire's geographic location, being on the edge of the West Midlands. The consequence of this is that critical and key suppliers are unwilling to invest in serving this market.

The challenge for Herefordshire is to make the HPS account attractive enough for suppliers to reconsider this. Ways in which this could be achieved could include:-

- Being creative in the way that services are specified to maximise the opportunity for suppliers (for example, uncoupling the property element of residential care homes from the staffing and management of those homes and negotiating with a property investor to finance the complete portfolio);

- Agreeing to prototype new services in a low risk way (for example, helping suppliers with an existing structure for handling the back office element of brokerage to enter the individual budget SDS market);
- Developing processes that reduce a provider's costs of bidding or create value for them that can be used on other accounts (such as the supplier relationship management programme).

5. An Assessment of the Opportunity

Category management looks at spend in two ways – its importance to the organisation (typically based on the value of spend) and the complexity and supply risk inherent in sourcing it. The result is the matrix shown in diagram 4.

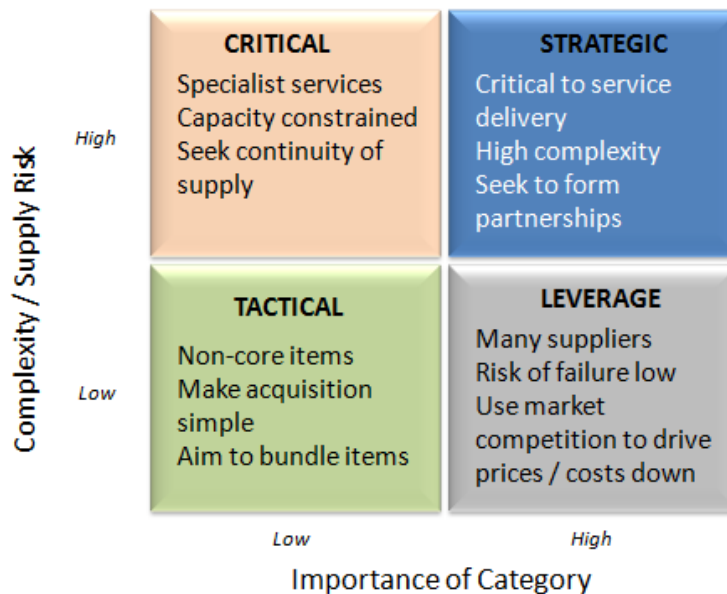


Diagram 5

This matrix suggests a number of possible sourcing strategies for each of the quadrants. In terms of the scope for the CoE as outlined in Diagram 2, the strategic categories that deliver greatest benefit are those in the strategic and leverage quadrants.

Diagram 6 shows a first-cut analysis of the combined spend together with indicative spend.

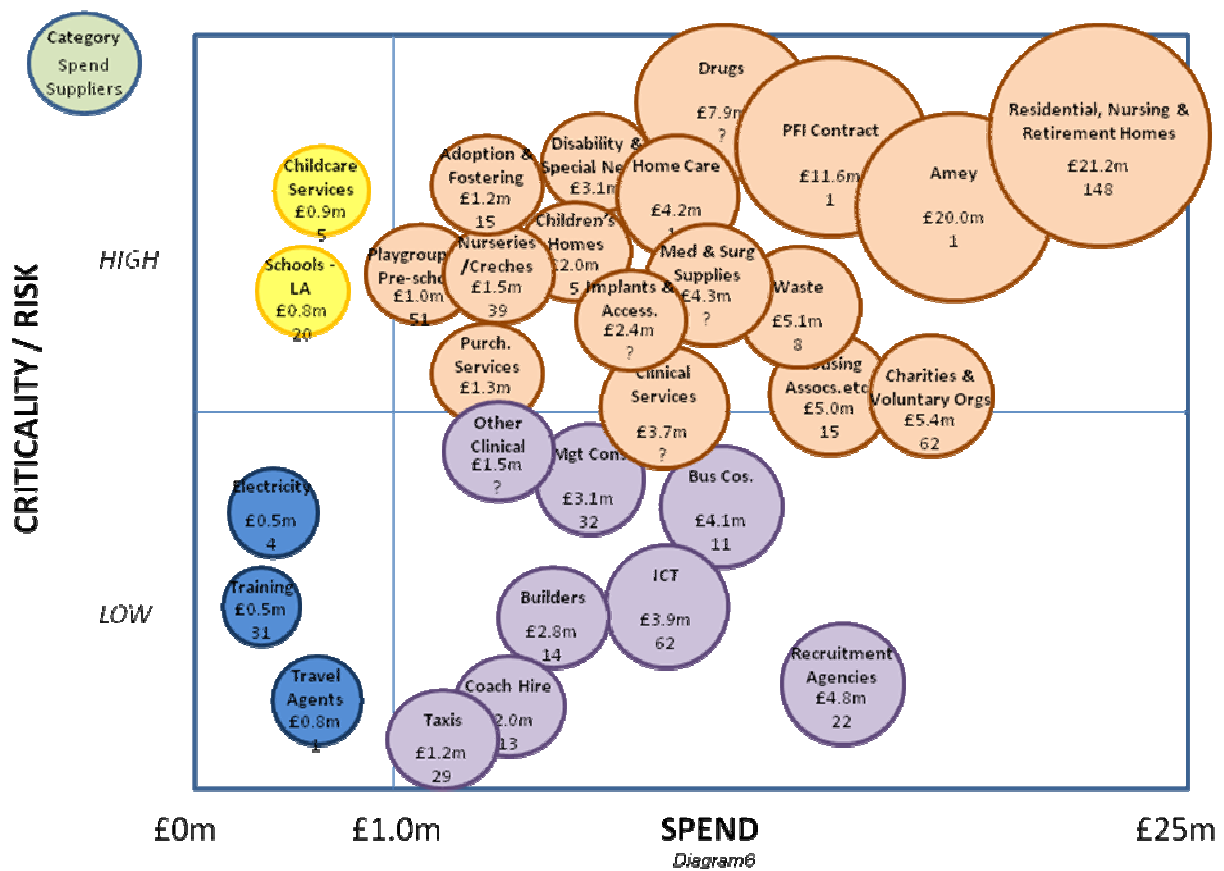


Diagram 7 is a table which summarises the category spend for the strategic and leverage items.

The important thing to note here is that the route to improve value for money or secure cost reductions is **not** necessarily via price management (by re-tendering) or contract re-negotiation.

Other approaches, such as using a supplier relationship management programme to work with critical and strategic suppliers to identify waste, for example, and eliminate it, are proven methods for achieving cost reductions that can be shared with the supplier or for stimulating and shaping markets to develop new or improved services. This is the suggested approach for categories that are currently under long-term contract such as those with Amey and Shaw.

Where categories are purchased through a collaborative arrangement, such as HPC or WMS, the approach is more one of measuring and monitoring price indices and the consortia's approach to managing markets to ensure that sufficiently aggressive targets are being set and achieved and the savings shared equitably.

		All figures in £000			
		HC	PCT	HHT	TOTAL
STRATEGIC CATEGORIES	Res, Nursing and Retirement Homes	£21.3			£21.3
	PFI Contract			£11.6	£11.6
	Drugs			£7.9	£7.9
	Waste Disposal Services	£5.1			£5.1
	Medical & Surgical Supplies			£4.3	£4.3
	Home Care Services	£4.2			£4.2
	Amey	£4.0			£4.0
	Disability & Special Needs - Services	£3.8			£3.8
	Clinical Services			£3.7	£3.7
	Business & Management Consultants	£3.1	£0.3		£3.4
	Implants & Accessories			£2.4	£2.4
	Children's Homes	£2.0			£2.0
	Nurseries & Creches	£1.5			£1.5
	Purchasing Services	£1.3			£1.3
	Adoption & Fostering	£1.2			£1.2
	Playgroups & Pre-school Education	£1.0			£1.0
	Sub-total	£48.5	£0.3	£29.9	£78.7
LEVERAGE CATEGORIES	Transport	£7.3	£0.4	£1.1	£8.8
	ICT	£3.9	£1.3	£1.8	£7.0
	Employment & Recruitment Agencies	£4.8	£1.2		£6.0
	Builders	£2.8			£2.8
	Other clinical			£1.5	£1.5
	Sub-total	£18.8	£2.9	£4.4	£26.1
TOTAL IN SCOPE		£67.3	£3.2	£34.3	£104.8
TOTAL OUT OF SCOPE		£32.5	-£3.2	£7.0	£36.3
TOTAL SPEND		£99.8	£0.0	£41.3	£141.1

Diagram 7

With that in mind, the accuracy of the data used in this analysis is less important than the sense of scale it suggests so that categories are prioritised appropriately. The data needed for a more in-depth analysis of a category (not all of which comes from transactional systems) will be collected and sanitised at the time the category management work starts.

Previous studies have excluded some of these categories from scope. For example, PFI contract, drugs and categories purchased through consortia or under national tariffs. The contention is that cost savings (as opposed to price savings) can be made if they are looked at in a different way as previous examples in this strategy paper have suggested.

If this extended scope is accepted, the questions are:

- what is a sensible savings target; and
- how long will they take to deliver?

The recent PA Consulting study identified some savings opportunities, albeit limited in scope. These have been included in their original format and may already have been delivered as some of them were underway at the end of the study. The savings identified by PA were £147k in 2009/10, £693k in 2010/11 and £830k in 2011/12.

For other categories, a sensible target is that set out in Comprehensive Spending Review (CSR) 07 which calls for a 3% cash saving in the year 2010/11. A stretch target is 5% overall. However, these targets may need to be revised upwards depending on the outcome of the forecast Government Budget cuts.

For each of these categories, a time to deliver the benefits (in months) has been set based on experience elsewhere and the number of organisations that need to be involved (for example, an opportunity involving just HC requires less time, typically, to deliver than one that involves all three organisations).

On this basis, Diagram 8 sets out the programme of savings initiatives and the timing of their impact on budgets.

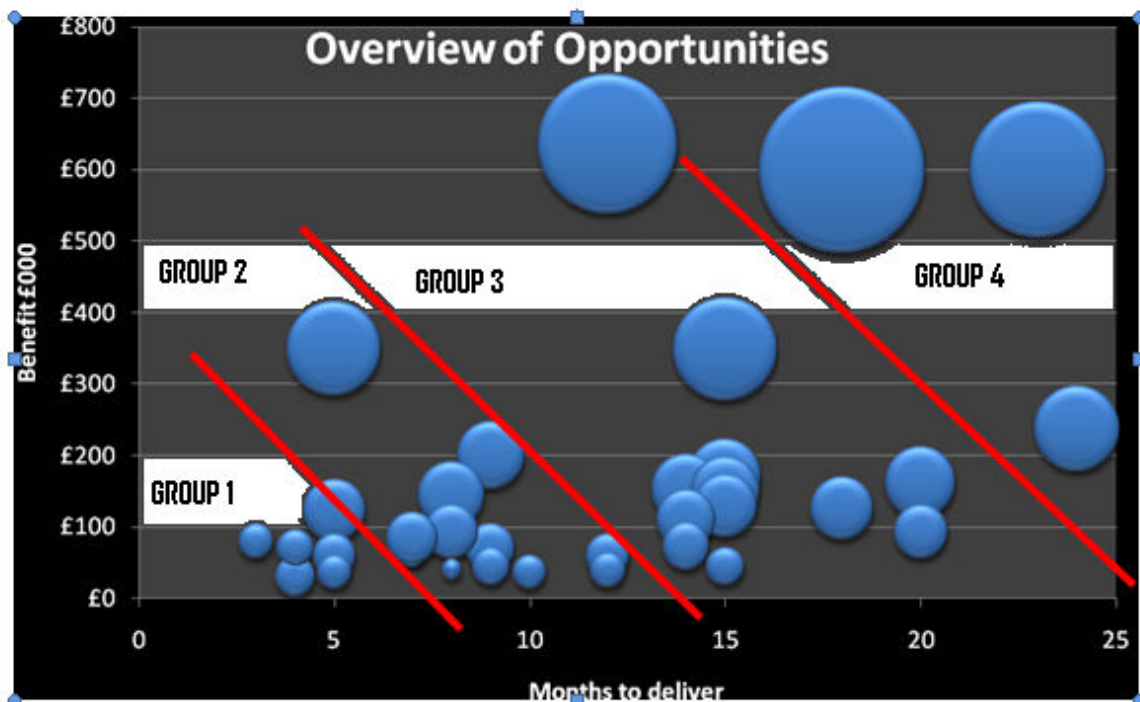


Diagram 8

The specific means of achieving these target savings in each category needs a period of data collection and analysis as well as consultation in order to describe the current situation, the target saving and the rationale for it and an outline proposal for how to secure it. Appendix 3 contains a one page format for documenting this. Populating these for all of the initiatives should be an early priority for the CoE.

The groups in Diagram 8 are based on the size of the potential benefit and the likely time to deliver them and the circles represent specific categories of spend (size of the circle represents the value of spend on that category). The data used for this graph is summarised in the tables in Appendix 5.

So, for example, Group 1 contains relatively low value spend categories that are quick to implement but offer relatively low benefits. Group 4, on the other hand, are those categories of spend that are high in value (but equally offer significantly greater benefits) but would take longer to deliver.

The proposition is that Groups 1 and 2 would be delivered by local procurement under the guidance of the CoE and the CoE would lead on the work to deliver Groups 3 and 4.

	Savings (£000)	Spend (£000)	
GROUP 1	£399	£11,680	
GROUP 2	£1,271	£35,700	
GROUP 3	£2,196	£73,200	
GROUP 4	£1,437	£57,900	
TOTAL	£5,303	£178,480	3.0%

The tables in Appendix 5 set out the likely timing of these savings.

Future possibility

Once this programme of initiatives has been delivered, the CoE will have a strong capability in bringing commercial expertise to bear on commissioning outcomes. This opens up the possibility of marketing this capability to other public sector organisations as a managed service. The benefit to Herefordshire is that this would turn a cost into a revenue stream and enhance the funds available for further investment in the county. This needs to be linked to the Shared Services project for a Joint Venture company.

6. Policy

The key policies that will shape how the CoE operates are:

1. Tasks and activities will be shared between the CoE and the three organisations on the basis of who has the capability and capacity so that best use is made of limited key resources and experience;
2. The CoE will own and co-ordinate a shared plan of spend and agreed targets so that savings are delivered in the timeframe expected and so that opportunities to leverage spend are not missed;
3. No budget commitment over an agreed threshold will be made without a sound commercial strategy, engagement plan and subsequent continuous improvement plan;
4. “Islands of good practice” across the organisations will be identified and tailored for use by others in such a way that improves outcomes but does not result in a “one size fits all” solution;
5. Processes and procedures for the effective commercial management of all third party spend will be developed and adopted so that best practice becomes the norm;

6. Our approach to finding market solutions for service requirements will be based on an entrepreneurial attitude that challenges conventional thinking, is transformational in nature and delivers maximum value for money;
7. Our approach to delivering transformational change will accept an identified and where possible quantified degree of risk;
8. All strategic and critical suppliers will be managed as an extension to Herefordshire's own organisation and be required to participate in a supplier relationship management programme that delivers continuous improvement and innovation;
9. We will deliver value for money by securing the best mix of quality and effectiveness for the least outlay over the whole lifetime of the goods or services, from purchase through to disposal;
10. We will have a "mixed economy" approach to supply markets that embraces the private sector, public sector partners and the third sector and which utilises the most effective means of working with them whether that be arms-length contract, joint venture or collaboration as appropriate;
11. We will use best practice contract management to ensure that we receive the goods and services as intended and to develop good supplier relationships;
12. We will commit to collaborative procurement arrangements where the nature of the goods and services means that this approach is best placed to deliver the highest level of value for money;
13. We will adopt an early market involvement approach to shape our requirements to what the market can offer when designing complex, innovative or high risk requirements;
14. We will adopt a market sounding approach to test market reaction to our ideas and requirements for improved commercial performance and service delivery;
15. We will adopt market shaping and creation strategies where appropriate so that there are sufficient capable and willing suppliers to meet our needs in the future; and
16. We will work with colleagues, other partners and third party suppliers in a way that complies with corporate standards on openness, honesty, transparency, respect and ethics.

7. Roles, responsibilities and organisation

What is needed from the Centre of Expertise

Research by Aberdeen Group concluded that a centre-led structure delivers greater and more sustainable savings than any other organisational model.

What this means for the CoE model is that:

- The CoE should be small in terms of numbers of people;
- It should be located within the shared services organisation;
- As much use as possible should be made of skills and experience that already exist in HPS and HHT;
- CoE staff should bring capability and experience that is not currently available in HPS and HHT in sufficient numbers and which is best acquired on a shared basis;

- A key role for CoE is to set policy, agree strategies, identify savings opportunities and set targets, manage the delivery of savings and tailor best practice ways of working to the needs of the three organisations.

Current capability and experience in local procurement

Appendix 4 contains some of the capabilities for roles in CoE that this implies. A number of people in the existing procurement organisations carried out a self-assessment using a questionnaire to identify two aspects of their procurement work against this set of capabilities. Section 1 addressed where individuals spend their time and Section 2 the experience and capabilities they have acquired in performing current and previous roles in their career. The results are also shown in Appendix 4.

Although this assessment is a snapshot in time and does not necessarily include everyone in all three organisations who have a procurement role, it does nevertheless capture the essence of the current procurement skills landscape and has been validated as such by a number of people who are qualified to comment.

What this shows is that local procurement in the main does not have the range of skills and experiences needed to deliver the commercial CoE requirements.

The role of the Commercial Centre of Expertise

A key component of the commercial approach described in previous sections is that of commissioning. The assessment above does not include any commissioners but their activities need to be integrated into the overall process outlined in Section 3 Diagram 3.

The roles that do not currently exist or only exist partially and so need to be acquired for the CoE are outlined in the table below.

Position	Number	Role
Head of Procurement	1	<ul style="list-style-type: none"> • Professional leadership of the Procurement function and all procurement activity across the organisations • The Corporate Procurement and Commissioning framework including Strategy, Policy, Process, Practices, Standards and Guidance • Ownership of the end to end process for Procurement and Commissioning, including PFI policy • Ownership of the end to end strategic and transactional supply chain processes • The Corporate Procurement Strategy and Category Sourcing Plans • Category Management and Information • Procurement and Commissioning Performance and Management Information • Contracting and Tendering activities • Compliance to standards and regulatory requirements • Procurement Performance Management Information • Strategic aspects of supply management and contract management coordination
Category Manager Lead	2	<ul style="list-style-type: none"> • Lead year-on-year 3rd party related savings projects which result in meeting the agreed using CoE and local commissioning and

		<p>procurement resources effectively</p> <ul style="list-style-type: none"> • Lead innovative approaches to the delivery of complex projects which result in enhanced levels of service and minimised commercial risk and costs whilst ensuring compliance with the overall strategy • Influence senior/middle management corporate, commissioning and procurement strategies decision making (with key internal and external stakeholders) which results in the right decision taken on commercial and financial viability of differing sourcing options and processes for specific projects including in-sourcing, out-sourcing, partnerships and collaboration, framework agreements and traditional procurement • Manage category sourcing programme dealing effectively with risks and contingencies which result in delivering high value adding commercial results by developing and implementing CoE's category management strategy and framework and taking the commercial lead on specific procurement projects, including outsourcing and partnering arrangements, PFI, PPP and Joint Venture projects • Lead, manage and communicate supply market improvement projects, departmental, cross-functional and external project teams and panels which result in the management of commercial issues throughout the commissioning and procurement cycle with new, underperforming and strategic suppliers, and continuous improvement in commercial programmes including strategy and business planning, continuous cost and service improvement, using of leading edge practice across the corporate planning horizon • Manage high performance employees/teams which result in commercial skills development across the three organisations • Deliver management information on projects / programmes to Directors / Sponsors and other Responsible Officers which result in effective communications to the appropriate senior internal and external groups and committees • Lead on market sounding initiatives to test approaches to markets prior to starting a tender process • Lead on prototyping projects with critical and strategic suppliers to develop approaches for creating and shaping markets both existing and new
SRM Lead	1	<ul style="list-style-type: none"> • Lead the development of a Supplier Relationship Management programme for key suppliers to unlock benefits over and above the letting of specific contracts by promoting a joint approach to continuous improvement and to encourage innovation and seek to safeguard contractual and commercial risk • Provide effective professional leadership to local Supplier Relationship Managers exercising overall management responsibility. Create a culture, focus and objectives that ensure the team has the capacity and capability to deliver challenging savings targets whilst at the same time providing leading edge services • Lead strategy for the management and maintenance of the relationship between the CoE and its suppliers ensuring that regular review meetings for major contracts and suppliers are held and the effective management of any disengagement • Define and implement the process for registering and approving suppliers • Develop appropriate performance indicators and publish

		performance and service improvement results. Work with suppliers on plans to reach targets
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How the Centre of Expertise will work with local Procurement

If this model is to be efficient and effective it needs the roles of CoE, local procurement and commissioners (in the widest sense) to integrate seamlessly. Referring to Diagram 4 on Page 16, this means the following.

Purchasing transactions

This is a role for local procurement as it is heavily dependent on local systems, policies such as delegated authority for spend levels and the need to monitor and manage contract compliance levels.

Procurement events

These are events such as tenders and eAuctions. This is a role that is shared between CoE and local procurement depending on the nature of the item being procured. Local procurement is fully responsible for all activities where the item being procured is non-strategic.

For strategic items, CoE determines the strategy to be adopted in terms of what event is used, supervises the development of the specification and tender documents, takes the lead in any market sounding and supplier positioning activities and takes a role in tender evaluations. All other activities are the responsibility of local procurement.

Categories which are strategic but local to one organisation

These are categories such as residential care homes, drugs and medical supplies. The platform for achieving the outcomes needed is a combination of the front end commissioning activities and those of commercial category management.

This combination for strategic and local items is the responsibility of the commissioners or equivalent. The role of the CoE is to:

- define and develop the category management and SRM processes;
- coach and mentor commissioners in their application;
- review the resulting sourcing strategies and act as “critical friend” in challenging them ;
- act as a catalyst in identifying good practice and propagating it to other categories of spend;
- set and agree commercial targets and their achievement;
- agree market sounding and supplier positioning approaches and help deliver where requested;
- develop sound contract management processes and coach and mentor contract managers;
- monitor and review supplier management and development programmes; and
- sit on supplier review Boards where appropriate.

Categories which are strategic and common to two or more organisations

For categories that are strategic and common to two or more organisations, Diagram 9 outlines the key activities of Category Managers and the SRM lead and how they interact with local procurement and commissioners.

The main interface for Category Managers will be commissioners (to understand service requirements, generate sourcing strategy options, understand supplier capabilities, agree the

market shape and structure needed and then deliver it) and local procurement (on procurement processes, policies, savings programmes and operational events such as eAuctions and contract letting).

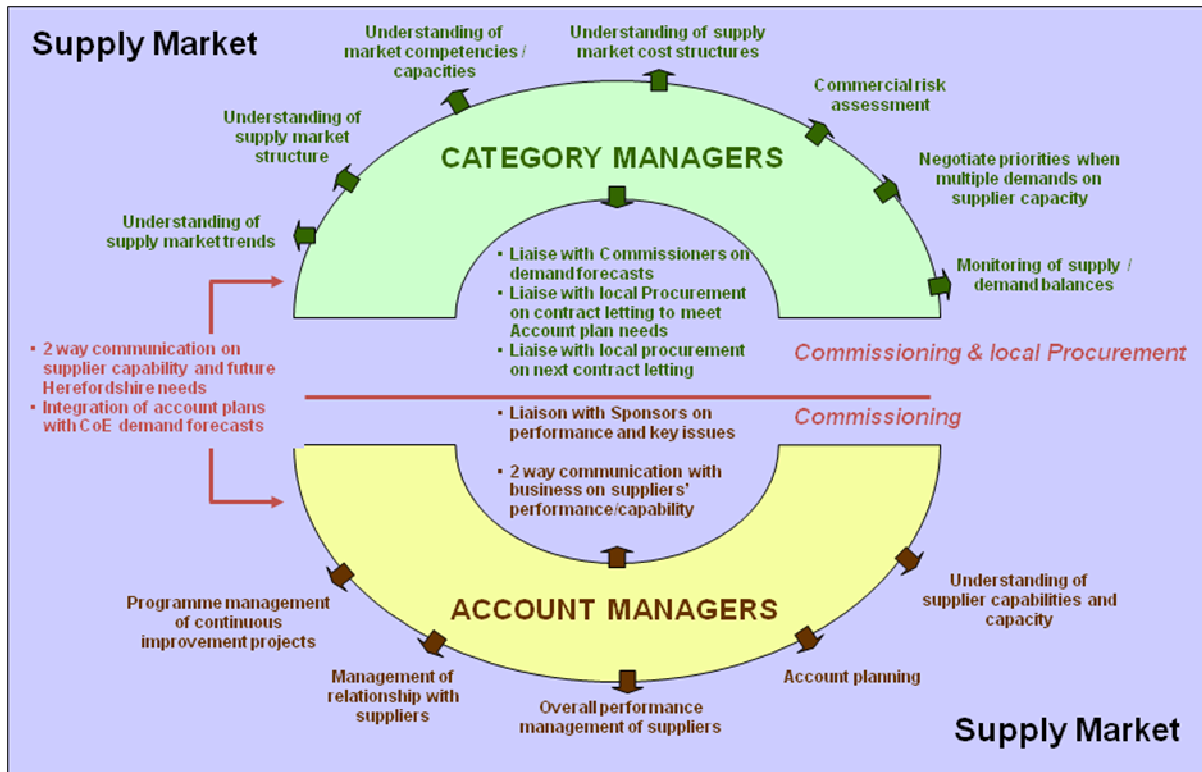


Diagram 9

The main interface for the SRM Lead will be a range of business managers who can act as local supplier relationship managers under the umbrella programme generated by the SRM Lead and Directors and senior managers who act as sponsors for critical and strategic supplier relationships.

The role of the CoE listed as bullet points in the previous section will also apply to this section.

Other roles for the CoE include:

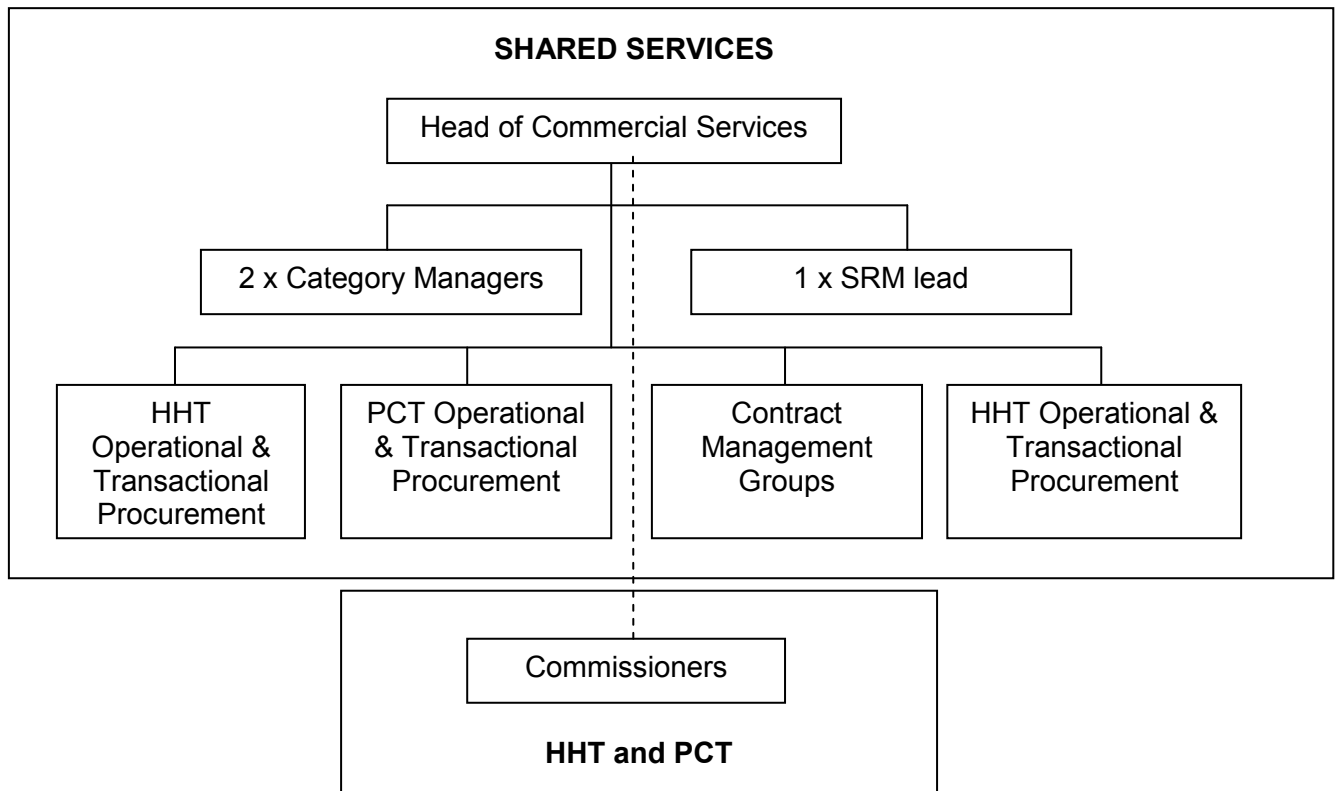
- Co-ordinating and reporting on procurement/commercial savings targets and their achievement;
- Recording and monitoring a consolidated plan of all commissioning and procurement projects;
- Carrying out benchmarking exercises and cost and price analyses;
- Providing commercial and negotiating expertise to senior management;
- Identifying external good practice and tailoring for Herefordshire needs;
- Developing an annual Commercial Service Plan and keeping the commercial strategy up to date;
- Transferring skills across HPS and HHT where appropriate;
- Developing commercial and procurement policies, standards and ways of working;
- Developing and managing a procurement and resource plan that also identifies recruitment, training and succession needs; and
- Balancing the needs of competing policies on such matters as sustainability, local economic regeneration, equality and diversity and value for money through a vision and strategy for the shape and size of key supply markets needed to meet defined outcomes.

Outline organisation structure

The organisation structure will be as in the diagram below.

One point to note is that “Chinese walls” will be necessary between HHT and PCT procurement and commercial activities due to the commercially sensitive information they will be processing and storing.

An advantage of this structure is that it will facilitate training, development and career progression that could not be achieved by the individual organisations working on their own.



The exact scope and numbers of FTE's to populate this organisation will be an early priority for the CoE.

Implementation and the need to invest

Other components of a shared service (such as IT, Finance and HR) have a high degree of commonality amongst the three organisations and the right level of capability already exists. This means that you can combine the requirements and achieve cost savings.

Commercial Procurement, on the other hand, has little in common amongst the three in terms of the categories of spend and so savings from leveraging volume are not possible with the exception of categories such as office supplies which are low value in nature.

The opportunity that can be gained from a procurement CoE is through a more strategic management of spend such as the application of category management principles to supplement commissioning practices and from eliminating waste through a supplier relationship management programme.

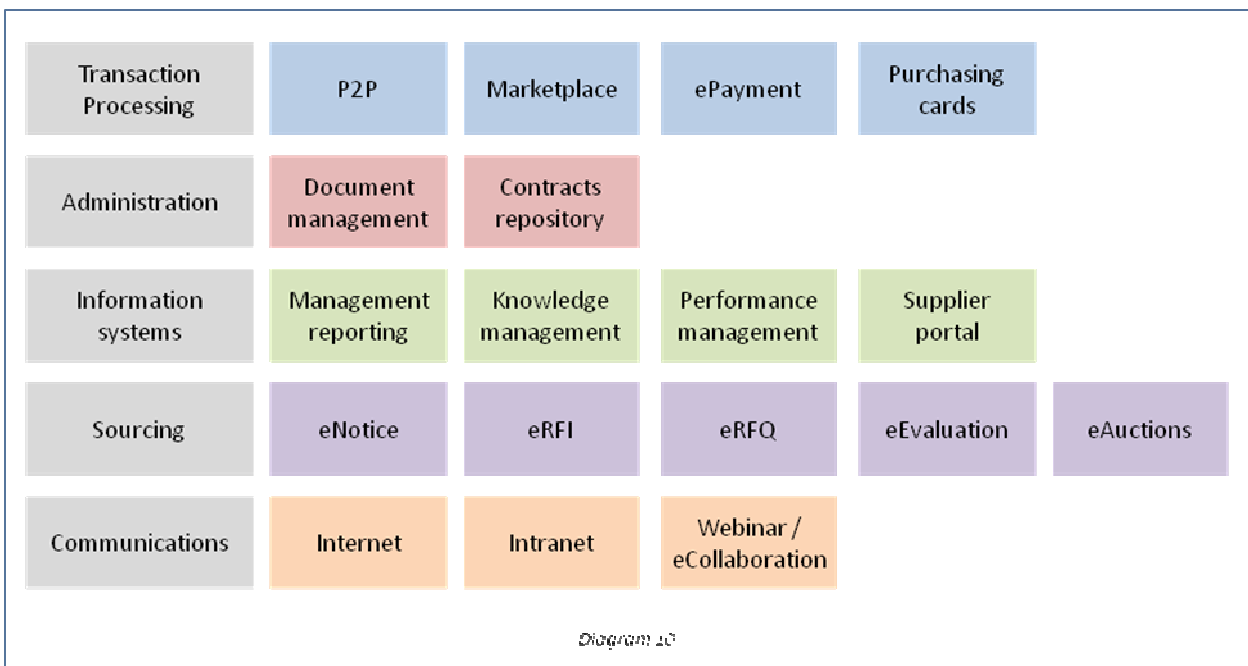
This requires skills and experience that largely do not currently exist in the three organisations. As a result, for the CoE to be effective an investment is needed in order to secure the £5m+ of savings that are possible over the next two years.

Depending on the procurement and commercial target set, the estimated financial return on the required number of people ranges from four to nine times the investment that is needed.

8. Procurement process and technology

Technology needed

There are five main groupings of technology required to support an effective Procurement operation, shown in the grey boxes in Diagram 10.



A task for the CoE is to take an inventory of existing systems and processes against these requirements and produce a plan for how any significant gaps should be filled together with a timing plan and business case.

An early priority will be to review the Purchase to Pay (P2P) systems of each organisation as this is the backbone of an efficient data collection process and the means to achieve compliance with contracts.

One issue raised in discussions is whether or not a common transaction platform and ledger is needed. The key for procurement is to be able to access transactional data and turn it into actionable information. A common platform with reporting can do this but so also can middleware connected to a front end application such as Cognos or Business Objects. As long as there is a map of how different codes relate to each other, data can be extracted, transformed and loaded into the front end for analysis and reporting.

Compliance

One of the key functions this technology needs to address is that of achieving compliance. By monitoring how much spend is under contract and the extent to which there is off-contract buying, quick wins can be identified (by ensuring that all available spend is used to leverage prices where volume drives price and that the lowest available price is used).

Without appropriate technology, compliance becomes a labour intensive activity that diverts scarce resource from more value adding work.

Governance

A role for the CoE is to create a forward plan of procurement activity and the resource needed to achieve it and also to monitor savings.

One way to do this is through a gated approach for major spend projects. A typical format is shown in Diagram 11.

COMMERCIAL BOARD - STATUS OF PROJECTS AS AT 7 APRIL 2010									
		GATE 1	GATE 2	GATE 3	GATE 4	GATE 5	ANNUAL SPEND £M	TARGET SAVINGS £000	SAVINGS %
TOTAL							£0.0	£0	
WHAT IS THE OPPORTUNITY?		DO YOU HAVE A STRONG BUSINESS CASE?		DO YOU HAVE A STRONG COMMERCIAL CASE?		DO YOU HAVE A STRONG DELIVERY ROUTE?	SHOULD WE AWARD THE CONTRACT?		
EVIDENCE REQUIRED									
Mandate Budget Definition of benefits Measurement methodology Resources Timing plan		Commissioning need Assessment of opportunity Business requirements Confirmation of benefits Confirmation of resources Issues / Risks		Commercial options Assessment of options Preferred option & reasons Fallback option Action plan		Procurement route Tender documents KPIs or SLA Draft contract Implementation plan Contract management process	ITT evaluation report Confirmed financial benefits Updated fallback Implementation plan SRM plan Trigger details for re-start		
OUTPUT DOCUMENT									
STATEMENT OF OPPORTUNITY / PROBLEM DEFINITION		BUSINESS CASE		COMMERCIAL STRATEGY		PROCUREMENT STRATEGY OR IMPLEMENTATION PLAN	CONTRACT		
ID	PROJECT						ANNUAL SPEND £M	TARGET SAVINGS £000	SAVINGS %
AFW01	Project name	Date entered gate							
AFW02	Project name								

Diagram 11

This approach achieves a number of objectives:

- it creates a forward procurement and commissioning plan;
- it ensures that a commercial viewpoint has been considered;
- it identifies the financial impact of all projects and any associated savings;
- from knowing when projects are forecast to enter the tendering stage and what triggers a refresh of the cycle, it allows a forward resource plan to be created; and
- the process checks that post-contract activities such as contract management and supplier relationship management have been planned for.

9. Performance management and plans for the next 12 months

The major strategic direction for the CoE can be neatly captured in a set of themes which form part of a Balanced Scorecard approach to performance management.

Examples of these themes are:

- **Customer objectives** to support HPS and HHT in meeting their commissioning and corporate outcomes by providing a capable, flexible and responsive commercial and procurement service;
- **Financial objectives** to realise significant cash and non-cash benefits through improved sourcing practices and effective supplier and contract management;
- **Process objectives** to make procurement activities as efficient as possible and to acquire the market intelligence needed to support commercial and procurement roles; and
- **Learning and Growth objectives** to acquire capability by developing Category Management and Supplier Management skills across HPS and HHT.

The themes can then be described in terms of:

- their objective;
- a strategy to deliver the objective;
- the assumptions made and the dependencies identified;
- possible risks to implementation;
- ways in which the objective can be measured;
- specific actions we need to take to deliver the objective.

The plan for the next 12 months in terms of the balanced scorecard measures is as follows.

Customer objective

- To work with commissioners and others to establish category strategies designed to meet business needs;

Strategy:

- *Build relationship with key staff to build trust and knowledge by supporting their commissioning projects*
- *Develop Category Management Strategies for common strategic categories*
- *Establish knowledge depth in key categories*
- *Make use of appropriate tools*
- *Fully develop Category Management / SRM capabilities*

Financial objective

- To plan and realise benefits by:-
 - *Aligning activities and priorities with savings targets*
 - *Identify new cashable savings*
 - *Building a pipeline of future savings.*
 - *Developing business cases*

Strategy:

- *Identifying a list of current projects and populating the governance map in Diagram11.*
- *Identifying where CoE can add value to existing projects*
- *Carrying out an opportunity assessment for each of the categories listed in this strategy document and agreeing a programme of work*
- *Implementing the savings programme*
- *Implementing a benefits tracking process*

Process objective

- To manage transformational change in key supply markets to find creative options to deliver services.

Strategy:

- Identification of critical and strategic suppliers
- Implementation with these of a SRM programme
- Carry out market analysis as described in Category Management above
- Identification of options for alternative service delivery. For example:-
 - *In-sourcing and outsourcing*
 - *Creation of arms length companies, joint ventures or franchises*
 - *Automation of processes and creation of web based solutions*
 - *Use of trusts or the third sector*
 - *Partnerships and collaboration*

Learning and Growth objective

- To develop Category Management and Supplier Management capability

Strategy:

- *To review processes and procedures and update them in line with an end-to-end-supply chain management approach. This may involve process re-engineering skills and the provision of intranet self help tools.*
- *To develop a technology plan to establish the required systems.*
- *To develop existing staff in undertaking Category Management roles supported by CoE, already skilled in Category Management.*

An early task for the CoE is to develop a more detailed implementation plan.

10. Performance management and plans for the next 12 months

Herefordshire has:

- a dependency on key suppliers (such as Amey) who deliver a substantial range of the services previously delivered in-house;
- long term contracts (such as PFI initiatives); and
- supply arrangements negotiated by others on behalf of Herefordshire (such as national tariffs for purchased healthcare or goods and services procured through consortia arrangements such as HPC).

The range of such dependencies could increase over coming years as Herefordshire take advantage of external expertise and leverage that come from such arrangements.

Against this background, the need is less about getting “the best deal” on price and more about:

- how to retain flexibility and adaptability to changing requirements (for example that resulting from Individual Budgets and Self-Directed Support in Adult Social Care);
- how to work with critical and strategic suppliers in finding ways to reduce and eliminate costs so that prices can be reduced and at the same time suppliers can improve their margins in order to re-invest in services and service delivery;
- how to shape and stimulate markets to bring about innovation in services, quality, processes and cost; and
- how to identify and manage commercial risk.

CoE should deploy modern approaches such as category management, supplier relationship management and contract management to significantly reduce costs.

These approaches are based on:

- A step change in current procurement ways of working in order to do things differently;
- Different skills to those present in HPS and HHT;
- A collaborative approach between commissioners, CoE and local procurement teams;
- The ability to leverage suppliers’ skills, knowledge and capabilities;
- An understanding of how to create, shape and manage markets; and
- The creativity to package HPS and HHT requirements in such a way that they are more attractive to suppliers and so encourage new entrants to local supply markets.

Key recommendations:

- To adopt this Commercial Strategy as the basis of the future approach across HPS (and HHT subject to their engagement) to managing all commercial activity and third party spend;
- The remit of the procurement CoE be expanded to include all commercial matters and be renamed the commercial CoE;
- The basis for achieving HPS commercial objectives be an effective combination of category and commercial management, a supplier relationship management programme and enhanced contract management;
- All commissioning activity be required to adopt and integrate with CoE processes and ways of working;
- The CoE to be the custodians of all commercial processes; and
- The CoE to work with commissioners and local procurement to set commercial strategy, set commercial targets and monitor HPS-wide achievement of those targets.

APPENDIX 1

Category and Contract Management and SRM

Category Management

Category Management is an approach which groups together products and services that have similar supply chain characteristics into categories. These categories undergo regular business reviews to determine the categories' growth, structure, profitability, trends and future opportunities as a means of identifying ways to strategically manage or re-engineer the supply markets.

The Category Manager oversees all activities connected with this approach and applies sound business principles to optimise value and at the same time allow suppliers a fair profit as a means of minimising supply risk.

Continually building on initial cost savings and driving additional performance improvements requires constant monitoring of markets and the suppliers in them by experienced professionals who know the category and the supply base.

The main activities in Category Management are:

- collect and analyse data on supply markets;
- understand supplier capabilities and competencies and industry and supplier cost structures;
- develop sourcing strategies to meet Service demands;
- re-engineer supply chains / develop new markets for maximum responsiveness and lowest total cost of ownership;
- identify and manage commercial risk in supply chains;
- let major contracts.

An important component of the approach is strategic cost management. This is the way that major cost reductions are achieved without impacting on the outcome of the service or goods provided.

Strategic cost management is fundamentally different to tactical price management which uses competition in the supply market to drive prices down. The extent to which this produces the lowest possible price consistent with the required quality and service is entirely dependent on the number of suppliers who bid for the work and their motivation.

In some cases suppliers may have enough work to meet their business objectives and so bid high. Others may want to "win" the business and bid at a level that covers just their marginal costs but later increase the cost through variations to the contract.

With tactical price management the relationship with suppliers is very much arms-length with suppliers left to manage their own costs. The result can be that some may earn super profits whilst others trade at a loss or withdraw from the market, both scenarios creating a potential supply risk.

All of the above may be a valid strategy if there are many capable and willing suppliers in the marketplace and the service provided is transactional in nature (for example office supplies).

However, evidence nationally suggests that this approach produces at best price reductions of no more than 5% or so. The arguments presented so far imply that cost reductions of 10% and more should be the goal. This is achievable but requires a strategic cost management approach which attacks waste in the value chain and re-engineers supply chains by taking cost out. Typical activities that this entails include:

- value analysis and value engineering, activity based costing, lean management and Six Sigma to identify cost reductions;
- supply chain re-engineering to invigorate supply markets and deliver an improved service at lower total cost;
- joint ventures and strategic alliances to allow joint business planning which will provide flexibility at an assured cost;
- strategic sourcing strategies that are integrated with demand plans to create lean and responsive supply chains.

Strategic cost management requires significant input from suppliers to make it happen. The perfect vehicle for doing this is a SRM programme as described in the previous section.

Supplier Relationship Management (SRM)

If Category Management is about ensuring maximum value from a supply category, SRM is about capturing that value and maximising the value from relationships with key suppliers.

The approach recognises that even though requirements will be procured through a rigorous and transparent process (such as the OJEU process) and that contracts cannot just be awarded to suppliers, nevertheless some major suppliers will in all probability continue to win a regular amount of business into the longer term or even be granted long terms contracts as strategic partners.

As a result, it is possible to work with these suppliers on joint initiatives to improve the supply chain and ways of working and so reduce costs. These initiatives are entered into voluntarily by both parties and at their own investment of time and money with the intent that any learning is shared with other suppliers so that the supply base as a whole can be improved.

It does not imply any favouritism or guarantee of future contracts. However, if a supplier carries out one initiative, they will receive the benefits not only of that initiative but benefits from all of the other SRM initiatives that CoE carries out with other suppliers.

The basic premise of SRM is that both the buyer and the supplier have goals they wish to achieve in developing their business or organisation. Some of these goals will map from one organisation to the other (for example a supplier goal of continuously improving its employee skills will map to a buyer goal of improving supplier capability). Goals like these (which support each other) are the basis of joint initiatives for the SRM relationship.

The means by which SRM is enacted is to have a relationship management team composed of an account manager from each side and a business Director from each side to oversee the outcome. This team is responsible for setting the mission for the relationship, setting its objectives, developing strategies to deliver the objectives and managing the delivery of improvement initiatives that come out of the process.

Typical activities of SRM include:

- ensuring the capability of specific suppliers to deliver needs consistently;
- improving that capability to make service delivery better, faster and lower cost;
- developing new capability to meet emerging needs;
- delivering additional value from the relationship over and above contracts;
- measuring and managing overall supplier performance.

Contract Management

The purpose of managing a contract is to maximise the financial and operational performance of the contract and to minimise risk. It continues throughout the life of the contract and enables both parties to react to changing needs which could not be anticipated at the time the contract was let.

Good contract management also builds and manages a relationship with the supplier so that problems can be resolved equitably and a process of continuous improvement started. All of this means that the best way to manage a contract is to have someone who has the role of the “intelligent client”.

The purpose of the intelligent client role is to avoid problems in contract delivery that result from a misunderstanding between the customer and the service provider as to what was expected or from unrealistic expectations. In order to achieve this, whoever has the role of the intelligent client needs both an in-depth knowledge of the client organisation and its needs as well as an understanding of what the service provider is and is not capable of doing.

If no-one is assigned the role of the intelligent client function, a number of problems may occur.

These include:

- The contract being managed by the supplier with the result that the outcomes are skewed in favour of the supplier;
- Misunderstandings and problems proliferating with too many of them being escalated inappropriately to senior management;
- A failure by both parties to understand their roles in delivering the contract with the result that service is less than anticipated;
- Processes that deliver the new contract not integrating with existing processes resulting in either a failure to deliver or re-work having to be carried out;
- Missed opportunities to improve contract performance or increase value for money;
- Slow progress, reduced morale and ultimately an unworkable contract.

With an intelligent client role, you will be able to manage the contract in the best way possible and achieve a number of outcomes. These include:

- A common understanding between the customer and the supplier of what can be achieved to meet customer expectations;
- The ability to influence the factors that maintain and improve good working relationships to deliver maximum benefit for both parties;
- The ability to manage change and its impact on customer-supplier relationships;
- The flexibility that is needed to cater for changes in both service expectations and demand levels;
- The ability to be proactive and anticipate and react to change;

- Assurance that standards and procedures are achieved consistently.

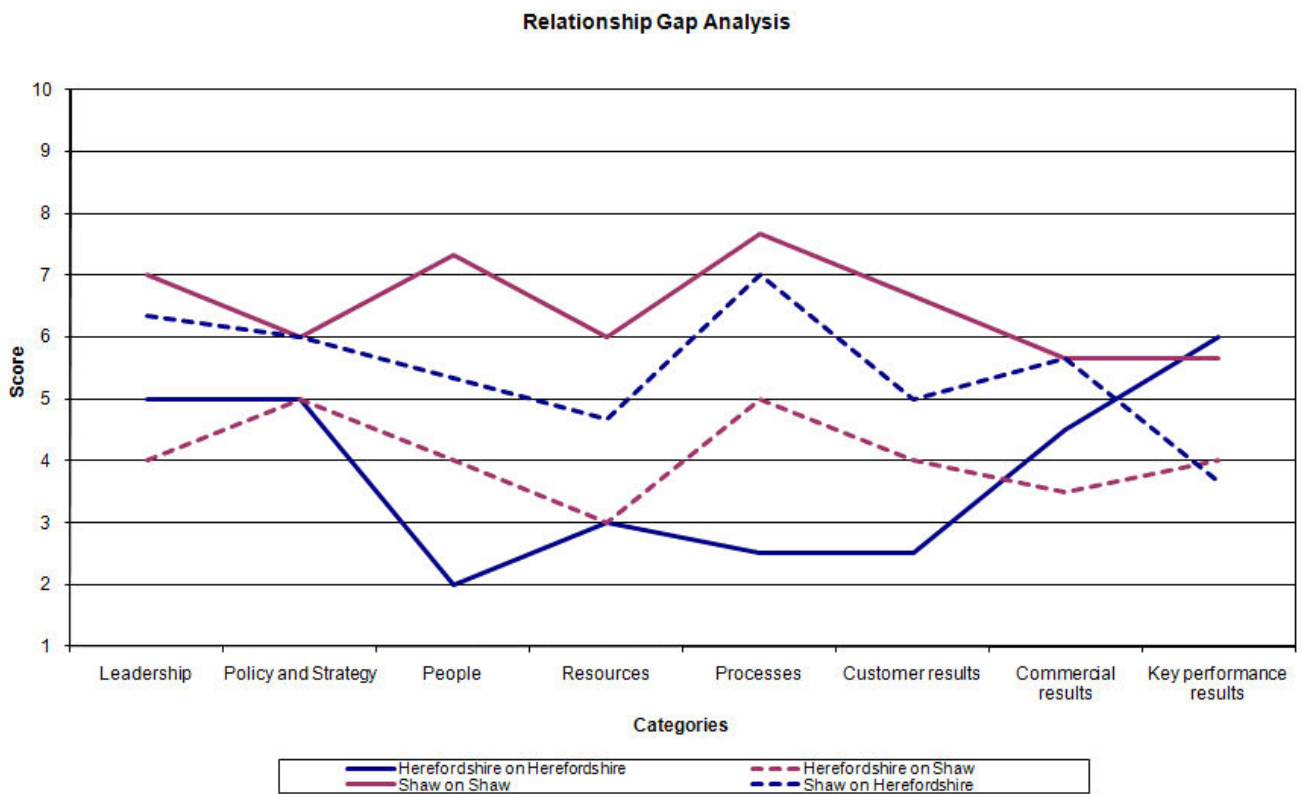
The key elements for successful contract management are:

- There should be a documented plan for managing the contract to ensure a focus across the organisation on delivering value for money from service contracts.;
- Establish Key Performance Indicators (KPIs) to measure and drive the performance of suppliers effectively;
- There should be a detailed agreement of the required outputs and thus the expected performance and quality of service to be delivered;
- Monitor whether the service is being delivered according to the specification, and that the costs of the service are no higher than expected;
- Continue to assess and manage risks to service delivery and ensure that business continuity plans are in place to ensure critical services continue to be delivered through a range of contingencies;
- Assess service delivery against your business case through the life of the contract;
- Ensure you are continuing to achieve value for money by regularly testing for example price benchmarking or market testing. Where contracts do not include provision for value for money testing, organisations should negotiate such clauses at the earliest opportunity;
- Depending on the precise nature of your contract, administration and change management activities may focus on: Cost monitoring and forecasting, ordering, payment and budget monitoring procedures, resource management, forward planning, management reporting systems, asset management;
- Ensure that your supplier has issue management procedures in place, including escalation procedures for when operational problems cannot be resolved, and that these are used when needed;
- In the event of poor supplier performance, make financial deductions where relevant (where mechanisms for financial penalties are in place);
- You can work with suppliers on a voluntary basis, after contract award, to improve their environmental and/or social performance. In addition to relevant social and environmental requirements included in the contract. For example, putting in place measures to reduce energy use or recycle packaging.

APPENDIX 2

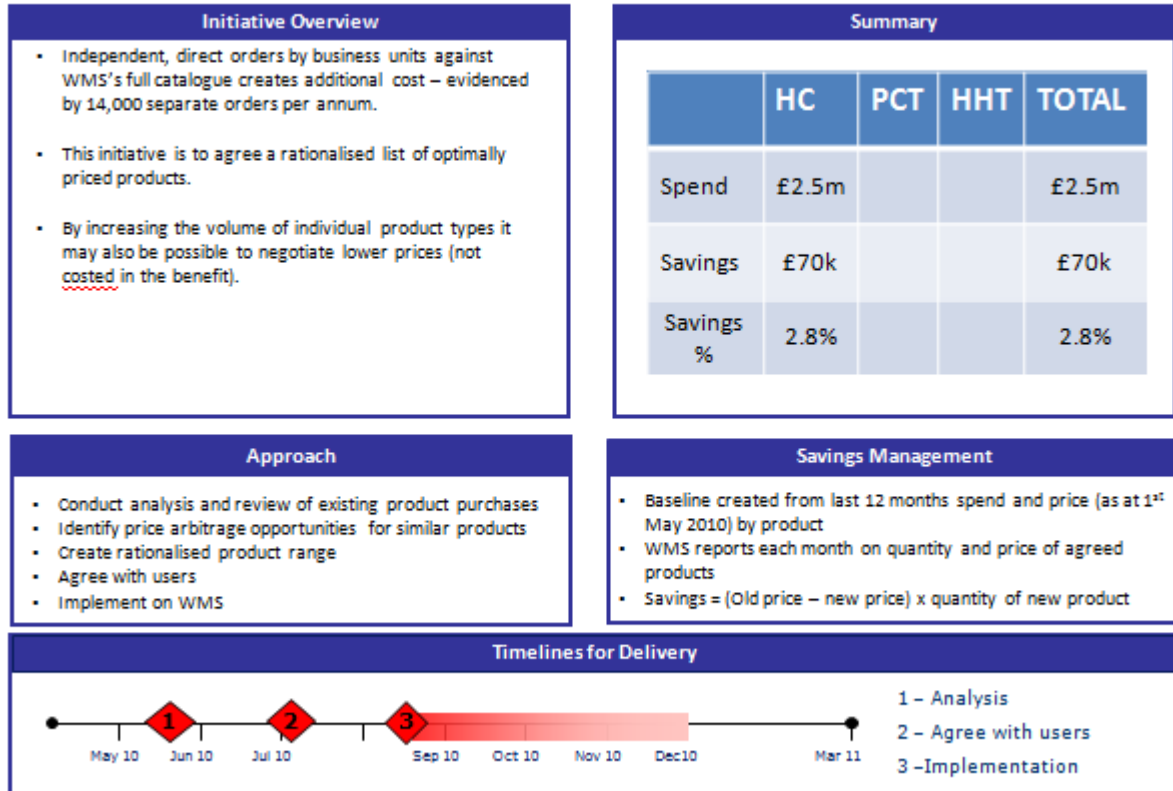
Example of baselining a supplier relationship

Example of SRM with Shaw:



APPENDIX 3 Example of an Opportunity Assessment

WMS Catalogue Rationalisation



APPENDIX 4 Centre of Expertise Capabilities

Capabilities needed for roles within the Centre of Expertise



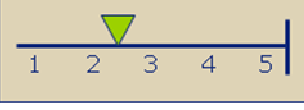

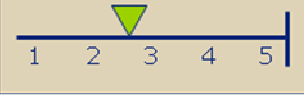
Band	9	9	8	7	6	8	7	6	5	7	6	6	5	4
Role	Assistant Director	Head of Supply Development Policy & Strategy	Supplier relationship Manager I	Supplier relationship Manager II	Supplier relationship Manager III	Category Manager I	Category Manager II	Category Manager III	Assistant Category Manager	Procurement Development Manager	Strategy Manager	E-Sourcing Manager	Process Improvement Manager	Procurement Analyst
Competency														
Collaboration	4	4	4	3	3	4	3	3	2	3	4	3	3	2
Communication and Influence	4	4	4	3	2	4	3	2	2	3	4	3	3	2
Performance, Drive and Results-Delivery	4	4	4	3	3	4	3	3	2	4	3	3	3	2
Customer Focus	4	4	3	3	3	4	3	3	2	4	2	3	2	1
Leading and Developing	4	4	4	3	2	4	3	2	2	3	3	2	2	1
Analysis and Problem Solving	4	4	4	3	3	3	3	2	1	3	3	4	3	3
Change and Innovation	4	4	4	3	3	4	3	3	2	3	3	3	3	2
Planning and Organising	4	4	4	3	2	4	3	2	1	3	3	3	3	2
Procurement Strategy, Tools & Techniques	4	4	3	3	2	3	3	2	2	2	3	3	2	1
Negotiation	4	3	3	3	3	4	3	3	2	1	2	2	1	1
Procurement Relationships	4	4	3	3	3	3	3	2	2	2	2	2	2	1
Compliance	3	4	2	2	2	3	3	2	2	2	3	3	3	1
Risk	4	3	2	2	2	4	3	2	2	1	1	2	1	1
Market Analysis	3	3	3	3	2	4	3	3	2	4	1	2	1	3
Corporate	4	4	3	3	3	3	3	3	2	4	3	2	2	2
Technical	3	4	3	3	3	3	3	3	2	4	3	3	3	3



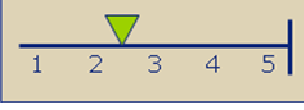

Procurement staff in HC, HHT and PCT were asked to complete a self-assessment questionnaire. This had two sections. Section 1 was an assessment of where people perceive they spend their time and section 2 was an assessment of the skills they believe they have. The average scores for each question are shown below together with the number of people who assessed themselves at the highest level.

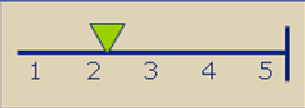
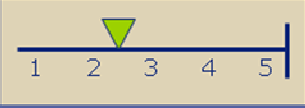
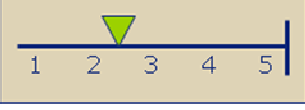

Section 1	Assessment score	Number with maximum	Section 1	Assessment score	Number with maximum
Achieving savings / value add		2	Contract management		1
Administration		2	Finding out prices		1
Advice and support		3	Identifying and managing commercial risk		1
Analysing and understanding supply markets		2	Market / supplier development		0
Contracting / tendering		1	Measuring and reporting performance		2






Scale


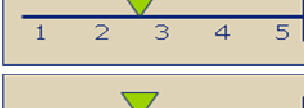



1. No involvement at all
2. This happens but I have no direct involvement
3. This happens and I am consulted by the person who does it
4. This happens and I am involved in some way but others lead
5. This happens and I lead on the task

Section 1	Assessment score	Number with maximum
Negotiating prices and T&Cs		1
Purchase order/ req. processing		0
Receiving and inspecting goods		0
Selecting suppliers		1
Developing sourcing strategies		1

Section 1	Assessment score	Number with maximum
Supplier relationship management		1
Writing business cases		0
Writing procurement strategy		1
Writing specifications		0

Section 2	Assessment score	Number with maximum
Procurement strategy, tools and techniques		0
Negotiation		1
Procurement relationships		1
Compliance		1

Section 2	Assessment score	Number with maximum
Risk		0
Market analysis		0
Collaboration		0
Communication and influence		0
Performance drive and results delivery		0

Section 2	Assessment score	Number with maximum
Customer focus		0
Leading and developing		0
Analysis and problem solving		0
Change and innovation		0
Planning and organising		1

APPENDIX 5

Summary of savings opportunities

GROUP 1	Months	Savings (£000)	Spend (£000)	
Microsoft licences	3	£80	£1,250	
Servers	4	£30	£1,700	
Utilities	4	£70	£1,430	
Bus companies	5	£123	£4,100	
Coach hire	5	£60	£2,000	
Taxis	5	£36	£1,200	
TOTAL		£399	£11,680	3.4%

GROUP 2	Months	Savings (£000)	Spend (£000)	
WMS catalogue rationalisation	9	£70	£2,500	
Temporary staff - mark up	9	£200	£4,900	
Consultancy value programme	9	£50	£1,000	
Transport	5	£350	£9,600	
Catering and cleaning	7	£60	£600	
Continence products	8	£40	£400	
Recruitment agencies	8	£144	£4,800	
Management consultancies	8	£93	£3,100	
Builders	7	£84	£2,800	
Children's homes	12	£60	£2,000	
Nurseries and creches	9	£45	£1,500	
Purchasing services	12	£39	£1,300	
Adoption and fostering	10	£36	£1,200	
TOTAL		£1,271	£35,700	3.6%

GROUP 3	Months	Savings (£000)	Spend (£000)	
Care homes	12	£636	£21,200	
PFI contract	15	£348	£11,600	
ICT	15	£171	£5,700	
Charities & voluntary organisations	20	£162	£5,400	
Waste	14	£153	£5,100	
Housing associations	15	£150	£5,000	
Medical & surgical supplies	15	£129	£4,300	
Homecare	18	£126	£4,200	
Clinical services	14	£111	£3,700	
Disability and special needs	20	£93	£3,100	
Implants & accessories	14	£72	£2,400	

Other clinical	15	£45	£1,500	
TOTAL		£2,196	£73,200	3.0%

	Savings (£000)	Spend (£000)	
GROUP 1	£399	£11,680	
GROUP 2	£1,271	£35,700	
GROUP 3	£2,196	£73,200	
GROUP 4	£1,437	£57,900	
TOTAL	£5,303	£178,480	3.0%



MEETING:	CABINET
DATE:	22 JULY 2010
TITLE OF REPORT:	SHARED SERVICES: UPDATE
PORTFOLIO AREA:	CORPORATE & CUSTOMER SERVICES AND HUMAN RESOURCES

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

On 18 March 2010 the Cabinet agreed that the Council's preferred option for the delivery and commissioning of shared services would be a Joint Venture Company (representing a public public partnership) involving Herefordshire Council (HC), NHS Herefordshire (NHSH) and Hereford Hospitals NHS Trust (HHT). The Cabinet authorised the Deputy Chief Executive (DCE) to progress and take all necessary steps to establish a JVCo in consultation with the Leader and Deputy Leader of the Council and Trust Boards.

A further report seeking a formal decision to agree terms of the Council's participation in the JVCo is to be presented in September 2010. The purpose of this report is to update the Cabinet on the progress to date and next steps on the Shared Services Programme.

A similar update report is scheduled for the NHSH Board on 21 July 2010.

Key Decision

This is not a key decision.

Recommendation

THAT Cabinet

- (a) **Note progress made on the Shared Services Project since March 2010 and**
- (b) **Note the current challenges and risks, principally:**
 - i. **Review of the Business Case;**
 - ii. **Partnership agreement for establishing the JVCo;**

Further information on the subject of this report is available from Dean Taylor, Deputy Chief Executive on Tel: (01432) 260037

- iii. **Fundamental requirement for cultural and process change across the whole of HPS to deliver savings;**
- iv. **Implementation of the Agresso system in April 2011;**
- (c) **Note the key role of all stakeholders in leading the organisational and cultural changes required to deliver transformed support services and savings;**
- (d) **Note that a further report seeking formal decision to agree terms of the partners' participation in the JVCo will be presented to the Board and Cabinet in September.**

Key Points Summary

This report outlines progress made on Shared Services.

- The current scope of services included are:

Finance	Procurement
ICT Services	Human Resources
Payroll and Expenses	Estates
Transport	Internal Audit
Legal	Printing and Distribution
Communications and PR	Emergency Planning

- The Cabinet and the PCT Board endorsed the decision of a public/public joint venture company ("JVCo") as the preferred option for Shared Services in March 2010;
- The Business Transformation Board (BTB) have recommend a two stage process; (1) the establishment of JVCo to deliver short to medium term (1/2 years) benefits and (2) the further consideration of the strategic private sector partner option for the longer term (after 2/3 years);
- The Cabinet and the PCT board authorised the Deputy Chief Executive (DCE) to progress and take all necessary steps to establish a JVCo in consultation with the Leader and Deputy Leader of the Council and Trust Boards;
- Key areas of work since March have included:
 - Engaging support services in scope and users of those services in the design of the future functions and what this means for changes to processes and how we work, including increasing self service
 - Updating the investment appraisal in the Business Case, to reflect changes to structures since August 2009 and the decision to use a JVCo as the delivery vehicle
 - Appointment of legal advisers and an interim CEO for the JVCo

Reasons for Recommendations

1. To ensure that the Cabinet is briefed and is able to give guidance as appropriate on the work on Shared Services, to enable the projected benefits and costs savings to be delivered.

Introduction and Background

2. The scope of this work is the implementation of a shared services strategy for the Council, NHS Herefordshire (the PCT) and Hereford Hospital Trust (HHT) which collectively form the Herefordshire Shared Services Partnership (HSSP).

Key Considerations

3. A number of key public service drivers underpin the Shared Services work, these include:
 - i. Making local public services more joined up, customer focused and responsive, so that they are easier to understand and access
 - ii. Maintaining a strong sense of place for Herefordshire
 - iii. Consideration the likely outcomes of the Public Sector finance review and need to secure efficiencies and provide value for money
 - iv. Increasing the quality of service with against a background of increasing demand for many front line services

These drivers are reflected in the design principles for the shared services within the business case already agreed by the Cabinet. The Shared Services Project forms a key part of the Streamlining the Business workstream of the overall Transformation Programme.

Background Information

4. The Cabinet and the PCT Board approved the choice of a public/public joint venture company ("JVCo") as the preferred option for Shared Services in March 2010;
5. The Business Transformation Board (BTB) have recommend a two stage process; (1) the establishment of JVCo to deliver short to medium term (1/2 years) benefits and (2) the further consideration of the strategic private sector partner option for the longer term (after 2/3 years);
6. The Cabinet and the PCT board authorised the Deputy Chief Executive (DCE) to progress and take all necessary steps to establish a JVCo in consultation with the Leader and Deputy Leader of the Council and Trust Boards;
7. A detailed investment appraisal for the JVCo is being prepared. This will include; the anticipated costs of transitioning to and then operating the JVCo (the PA business case was based on the strategic partner delivery model), updated estimates on the anticipated benefits (using current expenditure and performance data) and the resulting return on investment;

Progress Since March 2010

8. **Preparation for Transformation:** Service Change Managers (SCM) have been nominated by members of the BTB from both shared service providers and users. Their role is to work on the development of the organisation blueprint for the new operating model for the in-scope shared services. This work is scheduled for completion in September. This will also include the development of costed service directories in conjunction with the Organisational Design Programme. In this way, outputs from the SCM work will support both the Organisational Design and Shared Services initiatives;
9. **Review of the Business Case:** A detailed investment appraisal for the JVCo is being prepared. This will include; the anticipated costs of transitioning to and then operating the JVCo (the PA business case was based on the strategic partner delivery model), updated estimates on the anticipated benefits (using current expenditure and performance data) and the resulting return on investment;
10. In respect of the estimated benefits it has been agreed by the BTB that these are to be updated as a high priority. It has been noted that the business case is now one year old and that changes have been made in a number of service including to achieve the 5% efficiency target. A two pronged approach has been agreed by the BTB; firstly a view from the Directors / Heads of Services on a current projection of the level of efficiencies and secondly to build in the more detailed information from service change managers;
11. **Legal Advice:** The selection and procurement of legal / commercial advisors for the JV Co public / public partnership has been completed by a selection panel representing the partners. Mills and Reeve LLP were selected, with the work beginning 8th of July. The priorities will include; review of powers of the partners to participate in the JV Co and assessment of the suitability of the preferred model , producing a Heads of Terms outline for use in detailed negotiations, advice on employment considerations (terms and conditions, pensions, TUPE etc) and taxation (including VAT considerations);
12. **Interim CEO:** The BTB have agreed the process for the appointment of an interim CEO to set up the 'shadow' JVCo. Suitable candidates are currently being shortlisted. It is anticipated that an appointment will be made during July. The interim appointment will be for a period of up to 12 months. This appointment is key to driving the transformational change, establishing a joint shared services model and bringing commercial skills and knowledge to the JVCo;
13. **Systems Implementation:** The Agresso implementation (new HR, Finance and Procurement systems) has started. Project teams have been drawn together across the three partners, with colleagues participating in design during May and June. The new systems are crucial to transforming and integrating support services. This encompasses and subsumes the remaining Connects Programme and is fully integrated with the Shared Services Project. There is, however, a separate Project Board, Chaired by David Powell, because the size and nature of the project requires senior, targeted and focused leadership;
14. **Partnership Agreement:** Although, HHT remain fully committed to the principle of shared services in Herefordshire, the Trust Board has not formally adopted the JVCo preferred model at this stage. It has asked for a range of issues to be further explored before reaching a final decision on the preferred model - but has committed resources to taking forward the shared services programme on an integrated joint basis notwithstanding that. In addition, a sub-committee of the Service Integration

Programme Board has been established to consider the shared services programme from an Integrated Care Organisation (ICO) perspective so that the linkages between the two can be managed;

15. **Consultation and Engagement:** A staff / Trade Union consultative group has been established and meetings are being held. All three partner organisations are represented on the group;
16. Head of Service briefings have taken place to enable Heads of Service to engage with and communicate progress to staff;
17. A fundamental ingredient to achieving our agreed outcome is cultural change across HPS in relation to expectations of support services. This will require clear SLAs, transparency about costs, more self service and demand management. A change plan will be put in place for this. JMT have received an update on the project and have acknowledged the corporate leadership role alongside the other key elements of the Transformation Programme;
18. **Decisions Required in September:** The reports to Board and Cabinet in July are updates on progress as outlined above; this is important given the scale and importance of the Project. The outcomes from the current work on legal advice, employment considerations and investment appraisal will form the basis of formal recommendations in respect of JVCo which will be presented to the Cabinet and Trust Boards in September. The nature of the final decision may be subject to legal confirmation that these are the appropriate bodies to make this decision.

Community Impact

19. The preferred option outlined in this paper will deliver improved quality, more efficient and effective back office support to front line services across the 3 partner organisations, will release savings to deal with future financial constraints and/or for reinvestment in front line services, will protect jobs and investment in the County in future. In particular, the preferred option provides an opportunity for the partners to provide those services to other public services providers in Herefordshire in line with the Total Place agenda.;

Financial Implications

20. The PA Business Case assumed savings from the Shared Service project of between £4.2m to £5.4m and a reduction in posts of between 104-140 FTEs. Implementation costs were based upon a strategic partner procurement;
21. As stated above, the Business Case is being revised to address:
 - a. Current estimated range of savings
 - b. Estimated implementation costs, based on a JVCo model
 - c. Estimated Pay Back

Legal Implications

22. There are a range of complex legal issues to be addressed and resolved as the initiative progresses. External legal advisors who are expert in the set-up of the public/public JVCo have been appointed for this purpose. These legal implications will be fully explored and resolved and presented for Board and Cabinet consideration;

Risk Management

23. A full risk analysis has been undertaken and is subject to regular review;

Alternative Options

24. Alternative options have been evaluated as part of the options appraisal;

Consultees

25. Consultations have commenced and will continue to take place during the Shared Service Review with members, directors, heads of service, service managers, staff, Unions, non-executive directors (NHSH) and partners. A comprehensive communications strategy has been developed to support this work going forward;

Appendices

- None.

Background Papers

None

MEETING:	CABINET
DATE:	22 JULY 2010
TITLE OF REPORT:	DATA QUALITY – ANNUAL REPORT AND REVISED POLICY
PORTFOLIO AREA:	ICT, EDUCATION AND ACHIEVEMENT

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To provide Cabinet with the annual report on progress against the data quality action plan.

Key Decision

This is not a Key Decision.

Recommendation(s)

THAT Cabinet:

- (a) Endorse the annual report, and**
- (b) Note the revised policy.**

Key Points Summary

- The essential elements of the 2009/10 data quality action plan have now been completed although 7 tasks remain amber rated and, as previously reported, the original timetable for completing some tasks has not been met.
- The rate of progress has improved compared with the forecast at nine months. Of the remaining amber rated tasks; three are ongoing, two depend on the approval of the attached policy for completion and the final two require responses from other organisations
- One of the tasks in the action plan was to revise the existing data quality policy which has stood for two years. The opportunity has been taken to develop this from a Council policy to a joint one for use with NHS Herefordshire (NHSH) across the partnership.
- Data quality was part of the Use of Resources assessment for both the Council and NHSH under the comprehensive area assessment. This national auditing and reporting requirement is being replaced. However, the need to maintain and improve data quality remains. The action necessary should be a visible, integral part of the local performance improvement framework.

Further information on the subject of this report is available from
Tony Geeson Head of Policy and Performance on (01432) 261855

Alternative Options

- 1 To cease work on maintaining and improving data quality which would increase the level of risk in relation to reliability of data.

Reasons for Recommendations

- 2 The recommendations are made so that the 2009/10 data quality action plan can be formally signed off.

Introduction and Background

- 3 The Council's existing data quality policy requires six monthly and annual reports to Cabinet. The last report was on 29 October 2009. The revised data quality policy attached at Appendix 2 sets out future reporting arrangements.

Key Considerations

Annual report

4. The data quality action plan spans the period from May 2008 to April 2010. When Joint Management Team considered progress to December 2010 thirteen amber and six red rated tasks remained to be completed. Since then, the rate of progress has improved and there are now only seven amber rated tasks. This rating hides the point that all essential elements of the plan have now been completed.
5. The detailed plan is attached at Appendix 1. This shows the seven 'amber tasks' of which two still depend for completion on responses from data sharing partners. This has been an issue for the last 18 months and, although there have been repeated requests, a small minority have not yet responded. Two more tasks require approval of the revised policy at Appendix 2 before completion and the remaining three are ongoing, repeatable processes that can never be considered truly completed.
6. Now that CAA is to be replaced there is no external audit requirement for a data quality action plan. However, the fundamental imperatives to maintain, and where necessary, improve data quality remain. These imperatives are accountability and as the basis of sound decision making. It is therefore proposed that future actions to improve data quality (along with other relevant aspects of the former use of resources framework) be incorporated into the local performance improvement framework. This is based on the joint corporate plan and will be reported, as appropriate, through P+.
7. The risks assessment of the issues that would prevent the new data quality policy succeeding indicates that three areas in particular require continued attention over the next 12 months. They are; communications - including raising awareness of the policy, availability of support - including training and local management action - continuing to develop of local policies & procedures, complete data quality audits etc. These issues should be the basis of future action plans.

Joint data quality policy

8. One of the tasks completed during the final three months of the 2009/10 action plan was a review of the existing Council data quality policy. The revised policy is attached for information, and has been developed as a joint policy with NHSH.

9. Major areas of change /addition to the policy are as follows
- Identifying consequences of non compliance
 - Impact on key priorities, values and behaviours
 - Cross references to other policies and the
 - Monitoring arrangements.
- Separate three, six, nine month reports have been dropped in favour of one annual report and incorporating data quality into the regular corporate performance reporting processes.

Community Impact

10. No direct impact. However, local communities quite rightly expect public bodies to operate with the highest levels of data quality and any failure has reputational consequences.

Financial Implications

11. There are no direct financial implications. However data quality is a key requirement underpinning grant claims and other financial returns

Legal Implications

12. There are no legal implications arising directly from this report.

Risk Management

13. The risks are reputational and the inefficient use of resources at a time of significant constraint. Insufficient attention to data quality is currently corporate risk CR35. The risk assessment carried out for the new policy as required by the policy for adoption of policies and procedures is referred to in paragraph 7 above.

Consultees

14. Relevant staff in all directorates and partner organisations have been consulted. In particular the draft policy has been consulted upon widely across both HNSH and the Council in line with the relevant procedures. Those consulted are listed in the policy itself.

Appendices

15. Appendix 1 Data Quality action plan 2009/10
Appendix 2 Revised data quality policy

Background Papers

None identified.

APPENDIX 1 DATA QUALITY ACTION PLAN – JULY 2010 (ANNUAL REPORT)

REFERENCES IN [BRACKETS] RELATE TO AUDIT COMMISSION RECOMMENDATIONS IN THEIR DATA QUALITY AUDIT REPORT FEBRUARY 2008

KLOE Ref	Action	Detailed tasks (Those responsible)	Original Date (revised)	Year end position	Reasons
2.1	2.1.3 Communicate policy to all external data sharing partners and partnerships and get them to sign up to the policy or provide higher standards [R7 Formal protocols with Council Partners need to be developed to ensure accuracy of data]	12 Replies returned by (Head of Policy and Performance)	June 2008 (Nov 09)	Underway (Amber) completion depends on others	3 of 25 replies are still awaited despite a number of reminders
		13 Identify and meet with partners who are unable to sign up etc. (Relevant managers and improvement managers)	June 2008 (June 09)	Will remain Amber until all the responses are received completion depends on others	Ultimately depends on the results of task 12 above. There has been no adverse reaction from 22 responses to date
2.1	2.1.8 Include DQ requirements in all contracts, service level agreements and similar documents where this is relevant and not currently explicit set	21 Contact all high risk organisations & those renewing during the Financial Year (relevant managers)	May 2008 (July 09)	Green / completed	All directorate contract monitoring officers have risk assessed their contracts

Further information on the subject of this report is available from
 Tony Geeson Head of Policy and Performance on (01432) 261855

KLOE Ref	Action	Detailed tasks (Those responsible)	Original Date (revised)	Year end position	Reasons
	<p>up monitoring systems starting with the highest risks</p> <p>[R7 Formal protocols with Council partners need to be developed to ensure accuracy of data]</p>	<p>23 Insert appropriate DQ text where it is currently not explicit in new and renewing contracts (DCX legal and democratic services & relevant managers)</p>	<p>From March 2008 (March 2009)</p>	<p>Green / completed</p>	<p>Text agreed with legal services.</p>
		<p>24 Consider appropriate monitoring systems (relevant managers and improvement managers)</p>	<p>May 2008 (July 2009)</p>	<p>Green / completed</p>	<p>Directorate contract monitoring officers confirmed these were complete in February</p>
		<p>25 Consult and advise all contractors (as task 24)</p>	<p>May 2008 (August 2009)</p>	<p>Green / completed</p>	
		<p>26 Implement monitoring systems (as task 24)</p>	<p>From June 2008 (August 09)</p>	<p>Green / completed</p>	
<p>2.2</p>	<p>2.2.1 Existing corporate and directorate policies, procedures and guidelines [and amendments in future] to be promulgated in a variety of ways such</p>	<p>27 Notify all e-mail users, cascade via key managers (Head of Policy and Performance)</p>	<p>June 2008 (July 2009)</p>	<p>Amber / underway</p>	<p>Will be completed once Cabinet and PCT Board approve the revised HPS policy</p>

KLOE Ref	Action	Detailed tasks (Those responsible)	Original Date (revised)	Year end position	Reasons
	<p>as 121's, Staff Review & Development sessions (SRD's), service planning, emails, news and views, notice boards, performance clinics, team meetings, computer based training (CBT), leaflets and wider training etc [R9 Guidance for staff should be readily accessible for all involved in the compilation process and R10 Roles and responsibilities of all staff included within the DQ process need to be clearly defined]</p>	<p>28 Devise and include appropriate requirements in SRDs for employees for whom data quality has been identified as a key element of their job and get signatures for receipt of documentation (Head of Policy and Performance, relevant managers, DCX - HR)</p>	<p>April 2008 (September 2009)</p>	<p>Amber / underway</p>	<p>Training course material will be circulated with policy (task 27 above) to relevant employees and used as required in September 2010 appraisals</p>
<p>29 Set up CBT links / tests for all documents sent to staff covered by task 28 (Head of Policy and Performance)</p>		<p>June 2008 (October 2009)</p>	<p>Green / completed</p>	<p>Material created and will be made available</p>	
<p>30 Poster campaign and N&V cascade (as task 29)</p>		<p>June 2008 (July 2009)</p>	<p>Green / Ongoing</p>	<p>Will be repeated periodically</p>	
<p>31 Include in performance clinics, team meetings and training – the improvement managers to identify and log opportunities (relevant managers and improvement managers)</p>		<p>Ongoing</p>	<p>Amber / Ongoing</p>	<p>A continuing process</p>	
<p>2.2</p>	<p>2.2.3 Improvement managers to log examples of actions that improved DQ as they occur centrally and publicise these locally through N&V.</p> <p>Authority wide publicity periodically</p>	<p>34 Set up central log and monitor at each Improvement Network meeting (Head of Policy and Performance)</p>	<p>Ongoing from April 2008 onwards</p>	<p>Amber / Ongoing</p>	<p>A continuing process</p>

KLOE Ref	Action	Detailed tasks (Those responsible)	Original Date (revised)	Year end position	Reasons
4.2	4.2.4 Ultimately identify impacts of all residual systems on DQ staff skills and capacity and ensure training is provided where needed	36 Identify residual systems – Use the Hereford Connects audit as a starting place supplemented by paper systems which are out of the Connects scope (Hereford Connects Project manager & Improvement managers)	From April 2008 (July 2009)	Green	List identified
4.2	4.2.7 Ensure DQ weaknesses identified by external or internal reviews are addressed by training or appropriate de-briefing sessions	Task 52 (relevant managers, improvement managers and internal audit)	Ongoing	Amber / Ongoing	A continuing process

NEW TASKS FOR 2009/10 IN ADDITION TO COMPLETING THOSE ABOVE

KLOE Ref	Action	Detailed task (those responsible)	Original date	Year end position	Reasons
	53	Training programme for at least 150 key staff (Head of Policy and Performance / Information management group)	March 2010	Green	Over 200 staff have now been trained
	54	Data quality assessments of at least 24 performance indicators on a risk basis (Improvement managers / internal audit)	December 2009	Green	Number confirmed
	55	Consider a common format for directorate and service data quality procedures (Improvement managers)	October 2009	Green	The variety of these means that it is not possible to implement a common format in one step

KLOE Ref	Action	Detailed task (those responsible)	Original date	Year end position	Reasons
	56	Consider a rolling programme of systems audits potentially involving the mapping of data flows and controls (Internal audit)	December 2009	Green	Confirmed by Chief Internal Auditor
	57	Implement PMR application as part of the Connects programme according to corporate priorities with appropriate data quality processes (Head of Policy and Performance)	March 2010	Green	All PMR Board requirements completed. The implementation is an ongoing process
	58	Review of information sharing protocols (Records manager)	January 2010	Green	Review completed - agreement of all parties is now required
	59	Revise data quality policy (Head of Policy and Performance)	April 2010	Green	Scope extended to joint (HPS) policy which will be agreed by Cabinet on 22 July then recommended to the Board of NHSH

Reference number	IMDQ001
<i>Approved by</i>	Cabinet & Information Governance Management Forum
<i>Date approved</i>	May 2008
<i>Version</i>	2.03
<i>Last revised</i>	July 2010
<i>Review date</i>	May 2013
<i>Category</i>	Information management (HC)/General - Information Governance (NHS)
<i>Owner</i>	Deputy Chief Executive
<i>Target audience</i>	All employees, suppliers and data sharing partners of Herefordshire Council and NHS Herefordshire

DATA QUALITY POLICY

Further information on the subject of this report is available from
Tony Geeson Head of Policy and Performance on (01432) 261855

After the Review Date has expired, this document may not be up-to-date. Please contact the document owner to check the status after the Review Date shown above.

If you would like help to understand this document, or would like it in another format or language, please contact the document owner.

Document Classification

Author Name and Role	Tony Geeson - Head of Policy and Performance
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Consultation Log

Date sent for consultation	
Consultees	<p><u>Herefordshire Council</u></p> <p>Isobel Gibson – interim head of research Tony Ford – chief internal auditor Trish Marsh – sustainability manager Carol Trachonitis – equality and diversity manager Charlie Adan – interim head of legal and democratic services Geoff Hardy – special projects lawyer Zack Pandor – joint director of ICT Ellen Pawley – knowledge manager John Pritchard – information security and data centre manager Lesley Bees – support services manager, ICT David Powell – director of resources Anthony Featherstone – strategic asset manager Anthony Sawyer – senior archivist, records management Richard Beavan–Pearson, head of customer services John Eades – improvement manager, environment & culture Chris Jones – performance and improvement officer, regeneration Hilary Hall – head of performance, children & young people Melanie White – contracts officer, children & young people Mike Emery - head of business support, integrated commissioning Paul Ryan – integrated commissioning Andrew Rewell – corporate risk manager James O’Grady – Herefordshire connects data manager Julie Gethin – head of partnership support Gordon Howells - HR Adrian Chard –HR manager Robert Blower – Head of Communications Alex Fitzpatrick – Third sector liaison officer</p>

	<p><u>Herefordshire Primary Care Trust</u> Simon Collings – information governance manager Wendy Huxley Marko – Head of Corporate Risk and Local Security Management Expert Sue Doheny – Director of Quality and Clinical Effectiveness (Caldicott Guardian) Karen Wells- Information Governance Team Leader Sarah Roach – Information Governance Officer Helen Compton – Information Governance Officer Richard Carroll – Managing Director Provider Services Graham Taylor- Deputy Managing Director Margy Fowler – Directorate Manager – Adult and Older People’s Services Jane Terry – Directorate Manager – Children’s Services Mark Hemming – Directorate Manager – Mental Health Services Lynda Steele – Associate Director – Clinical Governance (Provider) Sarah Aitken – Public health consultant Jan Reynolds - Head of Community hospitals and intermediate care facilities Nicky Willett – Associate Director nursing quality & clinical leadership Marcia Pert – Director of Resources</p> <p><u>Trade Union</u> Elaine Lloyd- UNISON Bill Bloxsome - UNISON</p>
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Approval Log

		Date
<i>Impact assessment completed by</i>	Tony Geeson – Head of Policy and Performance	23/2/10
<i>To be agreed by</i>	Deputy Chief Executive	
<i>To be approved by</i>	Joint Management Team (JMT) (HC/NHSH) / Audit & Assurance Committee (NHSH)	
<i>Finally to be ratified by</i>	Cabinet (HC) / Board (NHSH)	
<i>To be reviewed by:</i>	Head of Policy and Performance (HoP&P)	23/2/13.

Version Log

<i>Version</i>	<i>Status</i>	<i>Date</i>	<i>Description of Change</i>	<i>Reason For Change</i>	<i>Pages affected</i>
1.01	Draft	23/2/10	Update of a two year old policy by HoP&P	Required by previous version of the policy	All
1.02	Draft	8/4/10	Inclusion of comments from consultees	Improves the policy	All
2.02	Draft	20/05/10	Inclusion of Comments from IG Team	To incorporate patient data quality issues within the policy	All
2.03	Draft	29/6/10	JMT comments added	Governance	

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1. Introduction and statement of purpose

- 1.1 This policy sets out the intentions of Herefordshire Council & NHS Herefordshire to assure data quality as accountable public bodies and as the basis for sound decision making, complying with legal & professional obligations & responsibilities.
- 1.2 The Council & its Cabinet, the NHS Herefordshire Board & its sub-committees and the Joint Management Team all recognise the importance of ensuring data quality is of the highest standard in order to maintain effective corporate & clinical governance. Governance includes ensuring that patient, client & service user safety is not compromised and accounting for performance to the public, partners & government. Across both organisations data are used to aid decision making, including providing & improving patient, client and service user care, the allocation of resources, in transactions and to comply with legal rights of access to information
- 1.3 Maintaining high quality data where it exists and continuing to improve data quality where needed are two of the underpinning elements of the joint performance improvement framework. Data are essential for sound planning, commissioning, routine service and performance management. Across both organisations, data are collected, analysed and used to monitor service delivery and outcomes, report performance and to drive continuous improvements in services and outcomes for customers and the public.
- 1.4 This policy is given effect through the joint performance improvement framework and associated clinical and information governance policies & procedures.
- 1.5 Good quality data has the following attributes: accuracy, validity, reliability, timeliness, relevance and completeness. These need to be balanced to ensure data are fit for the intended purpose. In reaching the correct balance in each case consideration should be given to the importance of the information requirement, including legal obligations, and the cost of collecting the supporting data.

2. Application of this policy

2.1 This policy applies to:

- all employees of the Council or NHS Herefordshire including agency workers, contractors and interim appointments, in particular those involved in creating, using or sharing data and / or information.
- suppliers of goods and / or services to the Council and / or NHS Herefordshire where these include the provision of data and / or information who need to demonstrate its quality through an equivalent approach.
- those with whom the Council and / or NHS Herefordshire share data who need to demonstrate an equivalent approach to quality.

2.2 A deliberately wide definition of data has been adopted including what can be considered information. Data covered by this policy takes many forms, including numerical, alphabetical, audio, visual etc. It includes that which is stored electronically, transmitted across networks, printed out or written on paper, sent by fax, stored on tapes, discs or C/DVD.

3. Policy statement

- 3.1 Data quality is an integral part of all the Council and NHS Herefordshire's business; their accountability, service provision and decision making processes including resource allocation.
- 3.2 Data used to inform plans, provide services, manage or report performance, effect transactions, secure resources including grants or make decisions should be right first time and adequately evidenced. Where draft data has to be used any limitations should be explained
- 3.3 Maintaining and improving data quality is the responsibility of all who contribute to it, directly or indirectly, whether they are producers of data, purchasers or users of it.
- 3.4 All employees must be aware of the importance of maintaining and improving data quality and take responsibility for securing this including judgements about its fitness for purpose and the risks involved in its use.
- 3.5 Clear performance management arrangements must be in place across both organisations to ensure that data are used appropriately.
- 3.6 A variety of approaches will be taken to assuring data quality including the routine reporting and correction of errors, internal & external audit, performance reviews, external assurance (e.g. CBSA), internal assurance (e.g. via the Caldicott guardians) and by training employees. Up-to-date arrangements and control procedures must be documented, available and in operation for the ownership, collection, recording, collation, analysis and reporting of data.
- 3.7 All out-turn data and collection processes must be subject to periodic audit and review.
- 3.8 Business continuity and security arrangements must be in place for all data and information systems. All new systems should incorporate processes for maintaining and ensuring data quality from the outset
- 3.9 In furtherance of the commitment to working with partners to deliver the *Herefordshire Sustainable Community Strategy* and in accordance with the *Herefordshire Compact*, protocols agreed with partners and any relevant third parties must be in place to ensure that fit-for purpose data can be shared in compliance with legal and confidentiality standards. Such protocols will reflect the amount, frequency, sensitivity and purpose for which the data is intended. Any quality issues should be indicated before data are shared between partners.
- 3.10 A documented validation process must be in operation for all data provided by partners or third parties. Any assumptions they make should be clear and any equipment they use should be correctly calibrated. Appropriate clauses will be inserted into the relevant contracts to ensure records are kept and are accessible.
- 3.11 The Council and NHS Herefordshire are determined to embed a culture of data quality across both organisations. Elected members, executive and non executive directors, managers and employees must act at all times with an awareness of the importance of maintaining and improving data quality and of accuracy, integrity and presentation in the use of data.
- 3.12 Employees must be equipped with the knowledge, understanding, skills and tools necessary to maximise the quality of data and its effective presentation and use. It is therefore imperative that all employees are informed about the data quality requirements and receive the formal training or local development appropriate for their particular roles, responsibilities and accountabilities. This should be reviewed and refreshed over time to meet changing requirements, needs and circumstances.

4. Responsibilities

- 4.1 Overall responsibility and accountability for data quality rests with the Chief Executive on behalf of the Joint Management Team. It is the role of the Leader and Cabinet in the Council and the Audit and Assurance Committee in NHS Herefordshire to ensure that this system is properly held to account.
- 4.2 Strategic responsibility and accountability is vested in the Deputy Chief Executive. Data quality is included in the formal Council Cabinet portfolio for ICT, Education and Achievement. For NHS Herefordshire, information governance is within the brief of a specific non-executive director in addition to the executive responsibilities covered in 4.4. Both organisations have active Caldicott guardians.
- 4.3 Operational responsibility and accountability for the Council is vested corporately in the Head of Policy and Performance and, for their respective services, the Heads of Services. They are currently supported in the discharge of these duties by designated employees responsible for ensuring that data quality protocols, procedures and systems are in place and operating efficiently and effectively in their Directorates. In this respect the employees account to the Head of Policy and Performance.
- 4.4 In the PCT operational responsibility and accountability is vested corporately in the Director of Clinical Leadership and Quality, Director of Resources & Joint Director of ICT and, for their respective services the relevant managers.
- 4.5 All managers and employees have a personal responsibility and accountability for the accuracy and sound presentation of data freedom from duplication and confusion. Protocols, procedures and systems that apply to their designated areas of work including the provision of audit trails and supporting evidence should be observing. Data should be recorded by the person performing the activity at the time it is completed or as soon after completion as possible. Reasonable efforts should be made to ensure that data is accurate and complete at the point of collection, or as soon after collection as possible and every reasonable effort should be made to ensure data quality is maintained and where necessary improved.
- 4.6 As such every employee has a responsibility for ensuring that the highest possible standards relating to data quality are adhered to.

5. Training and awareness requirements

- 5.1 Managers, employees, non-executive directors, elected members, partners and suppliers will be informed about this policy via the usual communications channels and regular publicity posters and leaflets. Where appropriate induction, performance clinics, the appraisal system and team meetings will be used. This policy is available from the Council's document library and the PCT's Intranet and Departmental Policy folders and reflected in local policies and procedures. Information management training is available and can be developed to suit the needs of individual teams or services. Advice is available from the Research or Information Governance teams.

6. Consequences of non compliance

- 6.1 Both the Council and NHS Herefordshire have a statutory duty to provide and publish certain information about their performance and to assure that the data are accurate. There are a variety of statutory returns. Both organisations are judged by regulatory bodies, auditors, government and the public on the adequacy of their arrangements to do this. This requires robust systems

and processes to be in place across both organisation for the collection, recording, collation, analysis and reporting of performance data.

6.2 There is no law or statutory guidance that sets definitive data quality standards applicable for all purposes although the requirements may be specified in individual cases. However accuracy, timeliness and relevance are data protection principles and as such are governed by the Data Protection Act 1998, enforceable by the Information Commissioner.

6.3 Advisory documents from the Audit Commission and other regulators are available in the document library and on the intranet to establish a common understanding of what good quality data entails.

6.4 Failure to act in accordance with this policy may:

- impact on the lives of individual customers, patients, service users, clients and the public at large
- damage the organisations' reputations and public confidence
- adversely affect various inspection results
- have financial consequences including the potential loss of grants, penalties for data protection breaches and claims for damages or negligence
- result in the misuse of resources
- produce poor quality decisions
- break the law
- result in patient safety being affected
- result in poor quality service provision including waiting list management

6.5 As such, failure to manage data quality in accordance with this policy may be investigated and this may lead to formal action under the Council's Managing Performance or Disciplinary Policy and Procedure or the NESH Disciplinary Procedure.

7. Impact on key priorities, values and behaviours

7.1 This policy provides clear statements about responsibilities for ensuring that data quality standards are maintained at a high level and, where necessary, improved. Data quality underpins service user, patient and client care, service provision, public confidence & reputation and enables both organisations to effectively meet their key priorities. High quality data supports *Herefordshire's Sustainable Community Strategy, the Herefordshire Compact* and the *Joint Corporate Plan* as well as the joint values of people, excellence, openness, partnership, listening and the environment. Maintaining and improving high quality data furthers the vision for Herefordshire through more accountable governance and better decision making.

8. Cross references

8.1 This policy should be cross referenced to:

- HC corporate information security policy and procedures
- HPS Information sharing overarching protocol,
- HC records management policy
- NESH policy on the Data Protection Act
- HC Data Protection procedures
- NESH Confidentiality Code of Conduct
- NESH Health Records Policy
- NESH Corporate Records Policy

- NESH Information Lifecycle Policy
- NHS Number Tracing and Verification Procedures
- NESH Procedures for Standards for Keeping Health Records
- G094 Information Quality Assurance policy
- Joint performance improvement framework
- NESH Freedom of Information Policy
- HC Freedom of Information procedures

9. Monitoring, evaluation and audit

9.1 Progress in giving effect to this policy and its effectiveness will be monitored regularly through the policies, processes, protocols, procedures and systems appropriate to each service. The Head of Policy and Performance will report corporately to the Joint Management Team, Cabinet and the Overview & Scrutiny Committee through the corporate performance report. The Information Governance Management Forum is responsible for monitoring the implementation of this policy for NESH.

9.2 Local performance management arrangements based on the *Joint Corporate Plan* and other appropriate local indicators are being developed to replace the national CAA process. They will continue to cover data quality. The Annual Audit plan includes the Performance Improvement Framework, Data Quality Assurance (compliance with policy) and audits of the quality of agreed performance indicators. Any issues identified will be reported to the Audit and Governance Committee.

10. Review

10.1 This document will be reviewed after three years unless circumstances demand a review before then.