

Public sector supply chain: risks, myths and opportunities

Today, local authorities are in the midst of a significant period of change, undertaking a new role as community leaders and strategic commissioners of services. This includes dramatically increasing the level of back office outsourcing and frontline partnerships. This introduces a significant, new and challenging area of risk to the authority executive board, *supply chain risk*.

Supply chain risk can jeopardise the stability of the authority, its services, target LAA outcomes and reputation.

50% of outsourcing contracts failed to meet expectations within five years in the private sector.

A wide range of supplier and delivery partner failures has identified supply chain risk as urgent.

The Public Accounts Committee found that 56% of contracts did not have a contingency plan in case of supplier failure.

The private sector has been struggling for some time to understand and control supply chain risk; in just one research report by Gartner (2005), responders reported that 50% of outsourcing contracts failed to meet expectations in the first five years.

Supply chain risk must be tackled from the start, both at a strategic and operational level. If not, it can jeopardise not only the success of individual projects but also the very stability of the local authority itself; its services, target Local Area Agreement outcomes and its reputation.

A wide range of public sector embarrassments, caused by supplier and delivery partner failure, have identified supply chain risk as topical, potentially catastrophic and urgent. These crises hit the desks of the chief executive officer and the senior management team. They threaten not only the service users who have been let down, but also the trust, confidence, legality, financial stability, and regulatory compliance of the organisation.

Recently, the House of Commons Public Accounts Committee's 2009 report, *Central Government's Management of Service Contracts*, found there were no documented plans for managing 28% of contracts. A further 56% of contracts did not have a contingency plan in case of supplier failure.

Outsourcing and partnership working is so much more than simple sub-contracting or logistics management. Outsourcing places core elements of the organisation entirely into the hands of third parties.

Realistically, day to day risk management must often be delegated but responsibility for failure remains with the local authority.

Common supply chain risks

- Partner or supplier failure
- Hidden costs & cost budget overruns
- Losing control over the service delivery and standards
- Potential loss of quality of service
- The ability to remain compliant with legislation
- Threats to reputation

Never before has outsourcing been such a topical and urgent challenge for public service executive leadership.

David Kaye, a leading global expert in supply chain risk, has developed a Briefing Paper, **Public sector supply chain: risks, myths and opportunities**. This paper serves to inform local authority executive leaders, managers and their service providers about the risks and opportunities of outsourcing and partnerships. The Briefing Paper has been commissioned by Zurich Municipal as an independent perspective on the public sector supply chain challenge, especially focusing on Local Government.

"The responsibilities of the public sector, and the consequences of failure, are diverse, serious and wide-ranging. Authorities not only have contractual and legal responsibilities in tort, but crucial statutory and political responsibilities too. These need to be embraced by the chosen partner organisation."

David Kaye (FCII, FBCI, FRSA, MIRM)



Day to day risk management can be delegated, but the responsibility to meet statutory, in tort, political, contractual and other promises can not be.

Third Sector organisations may need considerable support to bring their risk understanding to the authority's minimum standards.

The Risk Manager role needs to be significantly widened and adequately skilled to meet this challenge.

The Briefing Paper identifies and explores *nine commonly held myths and minefields* about risk, the responsibility for those risks and risk management itself. These include:

Outsourcing makes life easier with less to worry about as the responsibility for risk can be delegated to others

An authority may have delegated the delivery process, and the day to day risk management processes, but the responsibility to meet statutory, in tort, political, contractual and other promises has not changed. The further challenge is to bring the wider cultural, political, reputational, regulatory, funding constraints and statutory responsibilities into a relationship with a third party who may not be familiar with these sensitivities.

Third sector and social enterprise organisations are easier to handle

Some charities, social enterprises and voluntary community groups may not have the skills to rigorously assess their risk of failure. They may have very little spare resources to react to events. They may need considerable additional support and investment to bring their risk understanding and resilience up to the authority's minimum standards.

No new skills are required to manage outsourced delivery

Many risk managers have been charged with simply managing financial risk through insurance products. Their role needs to be significantly widened. More than that, the chief executive must ensure that these new challenges in risk management are addressed.

Key questions for local authority leaders

- Does the CEO understand that the responsibility for risks in service delivery rests with them and cannot be delegated; internally or externally?
- Does the project design brief require an exit strategy and plan?
- Do risk registers embrace the potential loss of:
 - intellectual and other assets
 - losing control over the process itself
 - data privacy
 - quality of service
 - ability to communicate
 - the ability to remain legal
 - threats to confidence and reputation?
- Are the supply chain project managers skilled, resourced, and supported adequately to respond to the challenge of understanding outsourcing risk and its effective management?
- Does the project brief demand that the deliverer of services has adequate risk processes; including resilience plans that embrace the authority's own sensitivities?

The full Briefing Paper

The Briefing Paper aims to support local authorities in meeting their responsibilities, the secure delivery of Local Area Agreements and to satisfy statutory and governance requirements.



The Executive Summary and the full Briefing Paper are available online at www.NewWorldofRisk.co.uk

For more information, go to: www.zurichmunicipal.com.

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