

**The Highland Council**  
**Resources Committee - 24 August 2016**

<b>Agenda Item</b>	<b>12</b>
<b>Report No</b>	<b>RES/47/16</b>

**Procurement – Shared Services Proposal with Aberdeen City and Aberdeenshire Councils**

**Report by the Director of Finance**

**Summary**

The purpose of this report is to allow members to consider the proposal for a shared Commercial and Procurement Service and to agree to this in principle, pending the agreement of the other two Councils.

**1. Background**

- 1.1 Since late 2015, following a meeting between Chief Executives of Aberdeen City, Aberdeenshire, and Highland Councils, officers have been working to develop a Business Case to explore opportunities for a shared procurement service across the three councils. This will build on the existing shared service between Aberdeen City and Aberdeenshire Councils.
- 1.2 The Business Case has considered a range of models for a Shared Service, and proposes a formal partnership and delegation model, whereby Highland Council will delegate responsibility to Aberdeen City Council for the delivery of this preferred model. The lead agency model proposed is an equal partnership between the three councils.
- 1.3 Whilst focussing on Procurement in the first instance, the business case and framework provides opportunities to investigate other opportunities for shared services, with Council Tax and Benefits currently under active consideration.

**2. Discussion**

- 2.1 Any shared service model that is proposed must show benefits for each of the partners. The proposed model has more capacity and resilience, whilst also providing the ability to drive efficiencies through a significantly higher buying leverage on common commodities.
- 2.2 The existing joint model for procurement between Aberdeen City and Aberdeenshire Councils is already attracting interest from other partners than just Highland. Whilst the current focus is on the initial opportunity for shared working between the three councils, the vision is to create a centre of expertise in the north of Scotland for Procurement.
- 2.3 It is worth highlighting the “branding” of the proposal as Commercial and Procurement Shared Service. This stresses a more commercial and strategic

approach to be adopted by all three councils. This will consist of:-

- Data management, performance, analytics and insight
- Procurement strategy, legislation, policy and advice
- Category management (for all strategic categories of spend)
- Strategic commercial management

2.4 Combined, the three councils have a revenue spend of circa £1bn that is commissioned on goods and services. Capital expenditure is above this. The sheer scale of this spend should provide the catalyst to drive efficiencies.

2.5 The proposal represents a tremendous opportunity to deliver a shared service across the North and East of Scotland that provides clear benefits for the Council. As well as financial benefits, there are strong reputational benefits to deliver a shared service, and the Scottish Government is known to be taking a keen interest in this development.

2.6 At present the current Procurement Service within Highland has a strong focus on governance, and the management of contracts. The proposal takes the Council to a much more strategic level, with a focus on:-

1. a more commercial approach to focus on alternative delivery models and income generation
2. a strategy, policy and performance hub with expertise in community benefit and benefits tracking
3. access to a much greater buying power that can drive down prices and achieve greater efficiencies

2.7 The Council is aware that its performance in Procurement, through the independent external assessment undertaken by Scotland Excel, has been steady rather than progressive, and many other councils have overtaken Highland in procurement best practice.

2.8 Given the significant and ongoing budget pressures facing local government, the Council needs to be open to proposals that offer significant financial savings with no impact on front line service delivery.

2.9 The vision is to *“deliver innovative, cost effective, and high quality strategic procurement services that maximise best value from all commercial relationships, exploiting new opportunities, whilst ensuring a robust and effective governance framework in support of the wider strategic, financial and operational needs of the individual Councils and their partners.”*

### **3. Rationale for the Recommendation**

3.1 ***Greater Economies of Scale – Leveraging Strategic Category Management***

A small proportion of invoices (and therefore suppliers) constitute the bulk of contract spend. This has been evidenced from data held by all three councils. It is this area that Category and Strategic Contract Management will target to deliver economies of scale. Based on the combined opportunity it is projected that there will be opportunities to achieve 0.5% savings each year, for five years.

3.2 In the case of Highland Council, with an annual contract expenditure of £272m, a 0.5% reduction in spend equates to a total of £1.36m savings. The cumulative effect over 5 years means that the Council will be spending £6.8m less per year than is currently the case. Expenditure in the other two councils is broadly similar, meaning that annual savings for the three councils is targeted in the region of £4.4m (cumulative over 5 years £21.9m).

3.3 Whilst the savings target is based on a percentage of total estimated spend, the data analysis has identified 1746 suppliers with a total spend of £227m where the focus will be, with some 40 – 50 commodities targeted initially to deliver lower costs greater than 0.5%.

3.4 ***A Greater Voice in Shaping National Frameworks***

All three councils wish to have a greater say in shaping procurement frameworks to ensure that the needs of communities across the North and East are considered. This can be better achieved through a single regional voice, able to compete with the scale of the largest Scottish councils. A ripple effect could see neighbouring authorities associating themselves with this partnership to gain from the scale offered.

3.5 ***More Efficient Use of Resources***

Small and Medium Sized Enterprises (SMEs), and national providers, will be attracted to the volume of opportunity offered through a combined procurement exercise. SMEs, looking to grow, will be attracted to the volume of opportunity offered through a combined procurement exercise. Whilst aggregation of buying power can be achieved without a partnership agreement, having a single procurement team is far more efficient as it avoids each council having to repeat the same procurement work.

3.6 ***Greater Capacity and Resilience***

Service demand for Business as Usual (BAU) procurement activities currently outstrips the capacity of the individual teams. By pooling resources it becomes easier to address peaks in demand by making better use of a single, larger team of procurement professionals.

3.7 With short and medium term financial savings targets set both directly for the teams, and indirectly through their support in delivering savings for services, the need to focus on the more strategic items of spend is vital. At present, the teams predominantly deliver BAU services, and as a result have less time to focus on the “big ticket” items. A new combined structure allows a more dynamic, flexible organisation to be implemented, where peaks in demand can

be managed more effectively.

### 3.8 ***Deliver Value and Innovation***

Through the use of category and commercial management techniques, and analytical tools, decision making decisions can be improved and, where appropriate, collaborative strategic procurement. The proposal will allow for the analysis and provision of sector-specific market intelligence to commissioning experts in services to inform their decision making and allow for market making and market shaping.

## 4. **Options Considered**

4.1 The following options were considered as part of the appraisal process for the business case:-

- Do Nothing
- Joint Working (shared management resource)
- Lead Authority
- Joint Committee (Public/Private partnership)
- Local Authority Trading Company (arms length organisation)
- Joint Venture (Public/Private partnership)
- Outsourcing

4.2 The advantages and disadvantages of each option are detailed in the full Business Case which has been sent to Members separately by email and is available on the relevant web page for this Committee. The option recommended offers the best model to deliver success to the three Councils.

## 5. **Financial Implications**

5.1 The Council is being asked to commit additional resources to the shared service, in addition to the transfer of the existing team. The additional investment is £0.49m and will fund an additional 5 posts, based in Highland, as well as contributing to the wider team based in Aberdeen.

5.2 The financial savings target is £1.36m, giving a net saving to the Council of £0.87m (177% return on investment).

5.3 The savings target is based on a detailed assessment of opportunities available to Highland Council through this collaboration that can only be achieved through a shared service. Nevertheless, in assessing savings from future expenditure, there needs to be a "leap of faith" that the professionalism of this new service will deliver the savings targeted.

## 6. **Staffing Proposals**

6.1 It is proposed that all current Highland Council Procurement staff will transfer to Aberdeen City and that all employees of the new Shared Service will have the same terms and conditions of service.

- 6.2 Work has to be undertaken to map existing terms and conditions of service to identify differences. Part of the proposal will involve Highland Council staff moving from a 35 to 37 hour week. Staff are supportive of this, but there will be an additional cost which has been built into the business case.
- 6.3 Further negotiations with staff and trade unions will need to take place to consider the implications of changing terms and conditions of service.
- 6.4 All existing Highland Council staff will remain in Inverness, and the Business Case supports an increase of five posts based here. Whilst staff will have direct management support from Aberdeen, there will be local support as per the current management responsibilities aligned with the Director of Finance.

## **7. Measures of Success**

7.1 In addition to tracking actual financial savings against those forecast, a series of key performance indicators will be agreed as part of the Shared Service. In brief these include customer, staff and financial measures, including:-

- % spend with local businesses
- Contracts with community benefits
- Cashable efficiency savings
- Non-cashable efficiency savings
- % spend covered by contract
- % off-contract spend

7.2 Performance will be reported on a regular basis to this Committee, with the focus being on performance against the above key indicators. This will be a key element of the governance framework, and ensure that members can hold officers to account for the successful delivery of the key outcomes.

## **8. Risk Implications**

8.1 The implementation of the new service delivery model will take the form of a two year programme and be structured and governed through the Council's agreed project management governance policy, with appropriate leadership, direction and governance provided by a project board with representation from each service.

8.2 Failure to put the new arrangements in place, in accordance with the timescale, may lead to a failure to achieve the full improvements anticipated, and deliver financial savings.

8.3 The savings are estimated to arise from the award and management of existing and future contracts. Until these new arrangements are put in place and negotiated, there is some degree of uncertainty over the absolute value of savings that can be achieved.

8.4 These risks can however be mitigated through the direct professional support, both locally and nationally to deliver the outcomes necessary.

## 9. Other Implications

- 9.1 There are no specific equalities issues arising from this proposal. As stated above in Section 6, staff issues will be considered through further analysis and discussion. TUPE will apply to staff transferring. Whilst this is felt to be the best option, the success of the Shared Service is not conditional on this being achieved.
- 9.2 There are no specific legal issues. Work is required to review schemes of delegation, as staff across the three councils will be responsible for preparing and issuing contracts for goods and services pertaining to all, or any one of the three councils.
- 9.3 A key element of the procurement strategy will be to support local businesses across the Highlands. This will be a key element of the performance framework to demonstrate that this is being achieved. It is believed that the proposal will actually enhance opportunities for businesses across Highland to expand across the North and East. As such, any rural implications will be positive.
- 9.4 There are no climate change/Carbon Clever; or Gaelic implications.

### Recommendations

Members are asked to:

1. support the creation of a Shared Commercial and Procurement Service;
2. agree to fund investment of £0.49m per annum;
3. agree to transfer staff, subject to negotiation, to Aberdeen City Council;
4. agree and note that a savings target of £1.36m will be built into future budget projections (net of cost of investment)

Designation: Director of Finance

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