



Business Case

Shared Strategic Procurement Services

Version: 1.06

Governance Information

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2 EXECUTIVE SUMMARY

2.1 PURPOSE

This paper presents the business case for a Partnership and Delegation Agreement (PDA) between The Highland Council and the joint Commercial and Procurement Services (CPS) team of Aberdeen City Council (ACC) and Aberdeenshire Council (AC). The aim being to deliver financial benefits and improvements to the quality of services for all three councils, as well as provide a proof of concept for the joint provision of other council services in the future; building trust and confidence in the ability of a combined team to provide affordable, effective services to the partners, and if decided in the future, to other public sector bodies.

The primary role of the CPS is to enable the partner councils to achieve their strategic objectives through the delivery of goods, works and services procured externally and to deliver improved value from them. Achieving value for money is where Category Management comes in, before supplier selection, and where Commercial Management comes in, after contract signature.

2.2 SCOPE

The scope of this proposal is defined as *“the provision of those strategic commercial and procurement activities to THC that are currently delivered by the Commercial and Procurement team of ACC and AC”,* as agreed by the Project Board and Project Sponsors.

The strategic services provided are:

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

2.3 VISION

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

2.4 RECOMMENDATION

The recommendation is for The Highland Council to delegate responsibility for the provision of those strategic procurement services identified at section 2.2 to Aberdeen City Council, through a formal Partnership and Delegation Agreement.

The proposal will deliver:

- Combined buying power of over £1 billion, including grant-funded spend.
- £20.76m savings (equivalent to £51.95m compound¹ savings) for the three councils on contract spend over 5 years from 2017/18 through to 2021/22, based on 0.50% annual reduction in contract spend.
- More say, by virtue of the partnership, to shape national and regional procurement frameworks.
- Improved staff morale, with more and varied career opportunities to attract and retain good people.
- Improvements to resilience, responsiveness and effectiveness thanks to an increased capacity.
- A pilot project to assess the viability of broader shared services across the partner organisations.
- An annual investment of £490,000 from THC to provide ACC with the funds to adequately resource the supply of strategic procurement services.

Note 1: Compound savings refers to the rate of return that represents the cumulative effect that a series of gains or losses on an original amount of capital over a period of time. Simple cumulative contract savings would be £20.76m rather than £51.95m.

2.5 RATIONALE FOR THE RECOMMENDATION

Greater Economies of Scale – Leveraging Strategic Category Management

A small proportion of invoices (and therefore suppliers) constitute the bulk of contract spend, as evidenced in the following figures taken from the Spikes Cavell system used 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 to achieve 0.50% savings each year for 5 years we have:

Financial Benefits to THC

In the case of THC, with an annual contract expenditure of £272M, a 0.50% reduction in spend each year equates to a total of £1.36m savings. The cumulative effect of this over five years means THC will then be spending £6.8M less per year than is currently the case.

Financial Benefits to AC

In the case of AC, with an annual contract expenditure of £292M, a 0.50% reduction in spend each year equates to a total of £1.46M savings. The cumulative effect of this over five years means AC will then be spending £7.3M less per year than is currently the case.

Financial Benefits to ACC

In the case of ACC, with an annual contract expenditure of £313M (excluding grant-funded expenditure), a 0.50% reduction in spend each year equates to a total of £1.56 savings. The cumulative effect of this over five years means ACC will then be spending £7.8M less per year than is currently the case.

A Greater Voice in Shaping National Frameworks

All three councils wish to have a greater say shaping procurement frameworks to ensure the needs of the 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.

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More Efficient Use of Resources

SMEs looking to grow, and national providers 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.

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, without increasing costs by making better use of a single, larger team of procurement professionals.

Figure 1 – Aberdeen City Council – Invoice Distribution

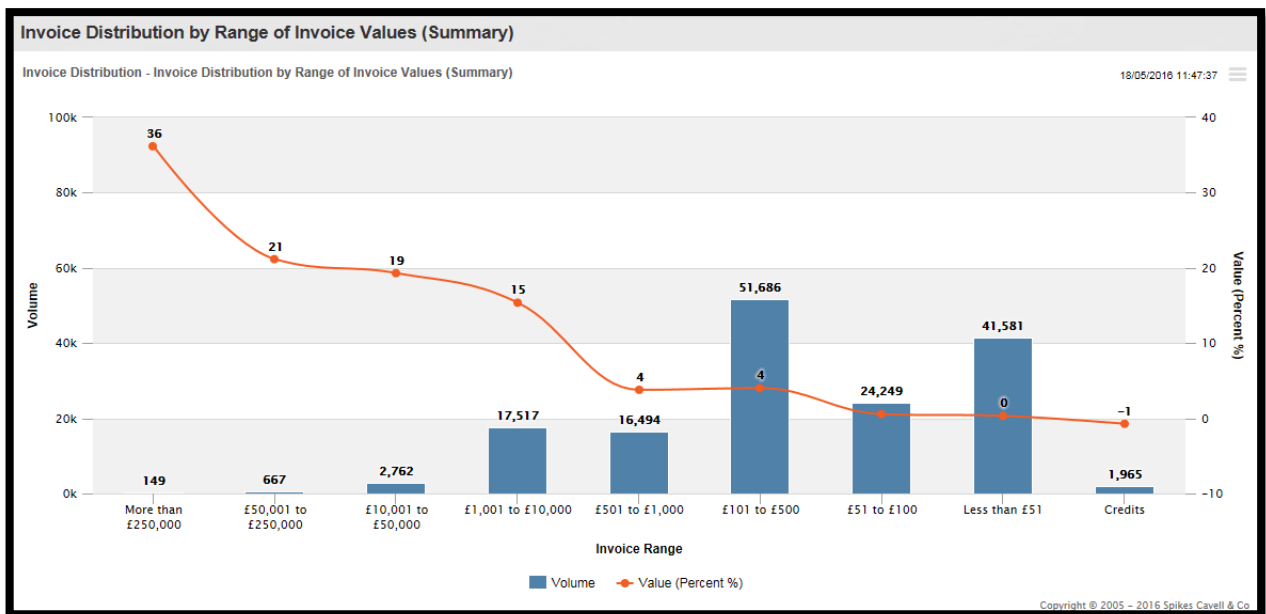


Figure 2 – Aberdeenshire Council – Invoice Distribution

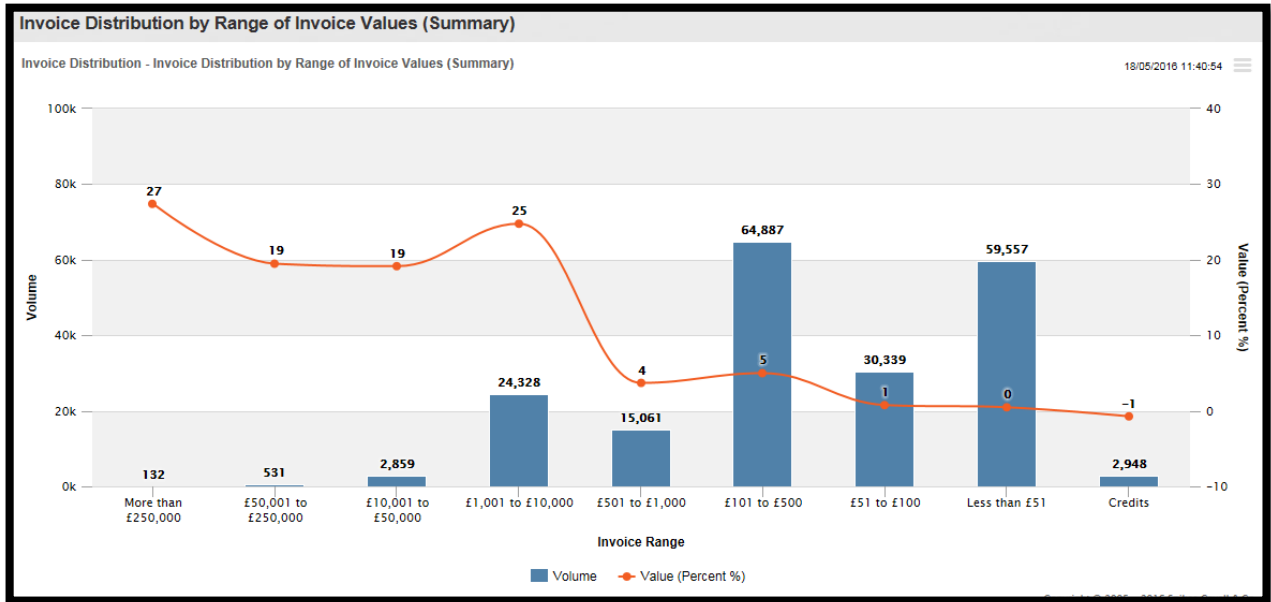
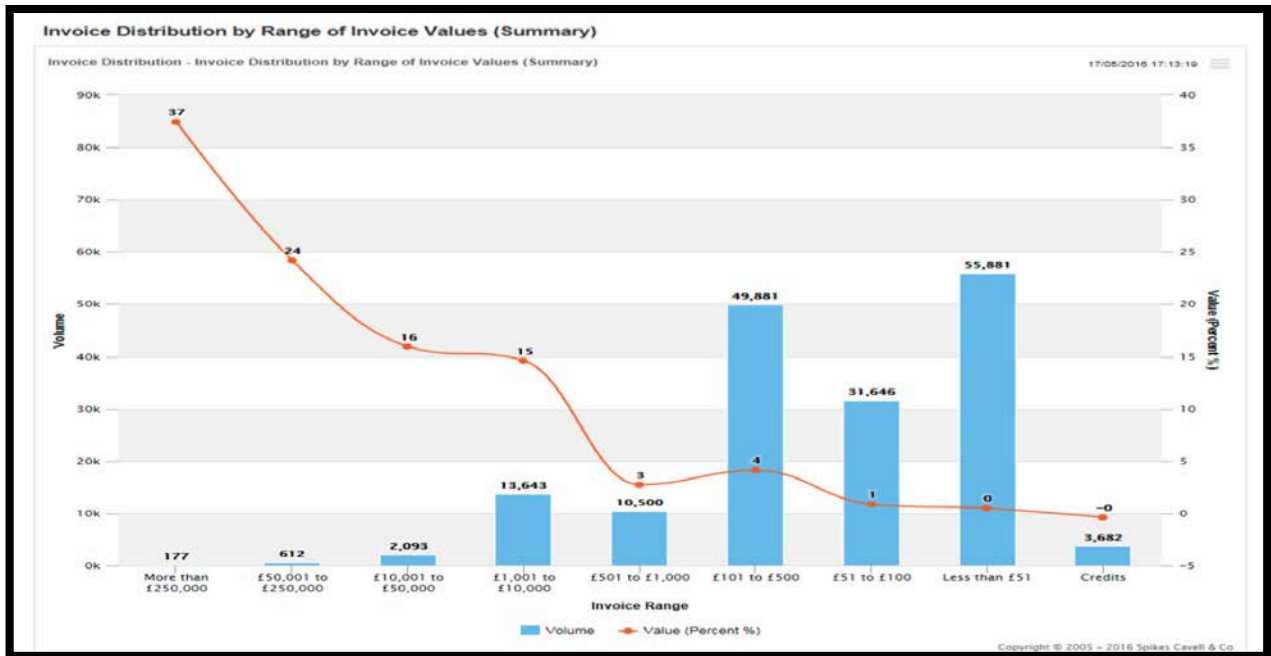


Figure 3 – The Highland Council – Invoice Distribution



With short and medium term financial savings targets set both directly for the teams, and indirectly through their support 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.

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Existing legislation allows the delegation of service provision between public sector bodies through a Lead Authority model. This also allows the partnership to evolve into, for example, a Joint Committee structure, with other services being shared once the principle has been proven.

Other benefits identified include:

- Faster implementation than for more complex Alternative Delivery Models (ADMs).
- 100% control of the services remains within the public sector.
- Other public sector bodies can delegate activities without the need for a procurement exercise.
- An upper limit can be set on the cost of delivering services in advance of the financial year.
- The public sector relationship is maintained for employees transferring to the Lead Authority.

2.6 STRATEGIC FIT

The Local Government Association (LGA) compendium of shared services compiled in October 2015, shows that currently at least 337 councils across England are engaged in 416 shared service arrangements resulting in £462 million of efficiency savings.

While back office functions, such as legal, audit and human resources are the most popular services to share, the LGA said they tend to offer the smallest savings. The biggest savings were made in sharing procurement and capital assets, and the LGA suggested councils with less developed shared initiatives could focus on these initially.

The Highland Council Corporate Plan 2015 – 17 states that its procurement activities shall: *“support local businesses and social enterprises, as well as maximising spend and benefit within the Highland economy, whilst ensuring that these provide value for money for the council and meet legislative requirements.”*

Aberdeen City Council has a stated priority *“to ensure efficient and effective delivery of services by the council and with its partners.”*

The CPS plays a key role in supporting the delivery of strategic priorities as follows:

- **Supports the delivery of financial savings and non-financial efficiencies.**
 - We will leverage a combined contract portfolio of up to £1,046m, with £272m from THC, £292m from AC, and £313m from ACC. An annual saving of 0.50% equates to £20.76m across the three councils over 5 years.
- **Delivers value and innovation.**
 - We will use category and commercial management techniques and spend analytic tools to enable smarter decision-making and, where appropriate, collaborative strategic procurement.
 - We will analyse and provide sector-specific market intelligence to commissioning experts in the Services to inform their decision making to allow for market making and market shaping.
- **Supports the local economy.**
 - We will have a greater say shaping procurement frameworks to ensure the needs of the communities across the North and East are considered. A single regional voice will be able to

- compete with the scale of the largest Scottish councils. Neighbouring authorities can align themselves with this partnership and so too benefit in discussions with Scotland Excel.
- 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 more efficient as it avoids each council having to repeat the same procurement work.

2.7 OPTIONS CONSIDERED

The following option was considered as part of the appraisal process for the business case:

- Do Nothing option
- Joint working (sharing management resources)
- Lead Authority
- Joint Committee (Public/Public partnership)
- Local Authority Trading Company (Arms Length External Organisation)
- Joint Venture (Public/Private partnership)
- Outsourcing

2.8 FINANCIAL AND NON-FINANCIAL BENEFITS

Combining the teams into a shared service provides the following benefits to the councils:

- A greater voice in shaping procurement frameworks enables local interests to be promoted.
- Delivers combined savings when carrying out major procurements across the councils.
- Improves the quality and capacity to provide supplier, contract and category management.
- Proves the shared services model and its scalability, laying a foundation to build upon.
- Supports local economies by offering greater contract opportunities to SMEs.
- Increases the teams' ability to attract staff, with more job opportunities and greater resilience.
- Raises performance, productivity and customer satisfaction for the procurement customer base.

2.9 DIS-BENEFITS

The main dis-benefits identified for the implementation of a shared CPS are:

- Greater geographic movement
- Potential competing priorities across the organisations
- Having to operate with different systems and processes
- Issues of governance and control
- Staff issues (e.g.: concerns if TUPE were to be a consideration)
- Disproportionate service needs for one Council over the others at any stage of the partnership.

2.10 COST-BENEFIT SUMMARY

The following table shows the cost-benefit summary for the recommended option. Costs shown include those for THC, ACC and AC and are rounded for ease of reference.

Table 1 – Cost-Benefit Summary (see also Table 21)

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Cost or Benefit	16/17 £ 000's	17/18 £ 000's	18/19 £ 000's	19/20 £ 000's	20/21 £ 000's	Cumulative £ 000's
A. Recurring annual operating costs for THC ¹	-	-490	-490	-490	-490	-1,960
B. Combined value of contracts	1,046,000	1,046,000	1,043,000	1,040,000	1,037,000	N/A
C. Annual contract savings (assume 0.50% p.a.)	-	5,230	5,178	5,152	5,185	20,764
D. Compound cumulative annual contract savings ²	-	5,230	10,407	15,585	20,737	51,959

Assumptions:

- *The combined value of contracts falls by 0.50% each year as a result of savings realised.*

*Note 1: For simplification, it is assumed that THC will start to pay for the provision of strategic support from April 2017. This figure does **not** include costs for the management of THC procurement staff. If the project does go live before April 2017, then a pro-rata amount of the £490K payment from THC to ACC for 7 additional resources will be required.*

Note 2: The compound return is the rate of return that represents the cumulative effect that a series of gains or losses have on an original amount of capital over a period of time. Simple cumulative contract savings would be £20.76m rather than £51.9m.

2.11 MEASURES OF SUCCESS

In addition to tracking actual financial savings against those forecast and presented in table 1, a series of Key Performance Indicators (KPIs) will be agreed as part of the PDA.

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

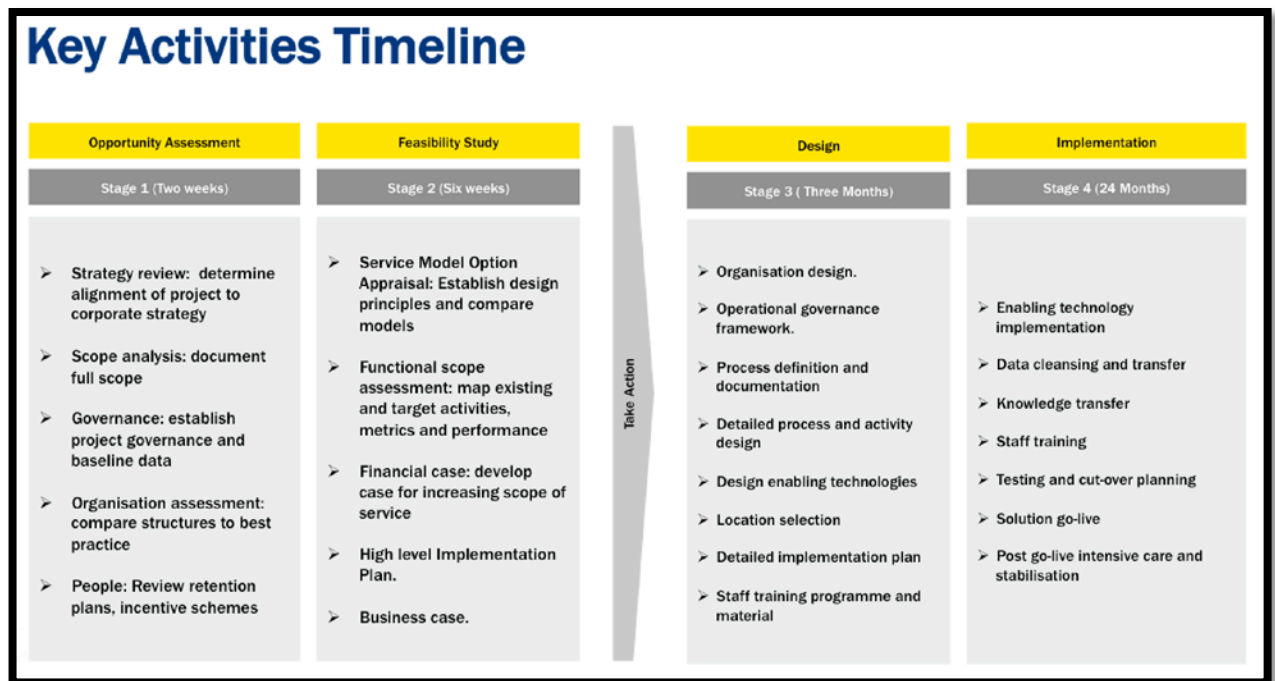
A KPIs and agreed targets are presented in Appendix N.

2.12 PROJECT STAGES, STEPS AND TIMELINE

The project has four stages. The date of project close is dependent on the time lag between each stage, where decisions on whether to progress to the next stage need taking by the appropriate governance bodies. These time lags are not included in the overall duration estimates.

1. **Opportunity Assessment** – completed Mar 2016

2. **Feasibility Study** – completion date: June 2016
3. **Service Design** – estimated duration: 3 months from approval of stage 2
4. **Implementation** – estimated duration: 3 months from approval of stage 3



3 OVERVIEW

3.1 INTRODUCTION

Since 2008 councils have faced a series of cuts to grants that are set to continue. Non-statutory services, including Commercial and Procurement, are taking the brunt of these cuts, impacting their ability to deliver their services in a way, which is of maximum benefit to the councils.

This paper sets out proposals for the provision of strategic procurement services to THC from ACC.

As part of the appraisal process a range of ADMs have been reviewed. There is a large volume of research into how local authorities are implementing them as a way of reducing the impact of cuts whilst helping maintain service delivery.

The benefits identified include solutions to deliver short and medium term savings targets, improvements to the overall quality of service, an increase in resilience, and using this project to provide a ‘proof of concept’ for future shared services opportunities between the councils; building trust and confidence in the ability of a joint team to provide effective services across all partners.

3.2 RATIONALE FOR THE PROPOSAL

Collectively, THC, AC and ACC have an annual third party spend of circa £1,046m, including grant-funded expenditure. The combined cost of the Commercial and Procurement teams for the three councils, including corporate overheads, is circa £2.6m per annum. Collectively the teams employ around 50 staff. The existing structures of the teams are provided in Appendix H.

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Challenges include:

- Budget cuts, together with voluntary redundancy and early retirement initiatives have impacted the teams' ability to carry out proactive value-add work (e.g.: preparation of Invitations to Quote and Tender) with little capacity in THC to provide strategic category and commercial management.
- Independent assessments by Scotland Excel have shown a progressive slide in performance from THC over the past two years.
- There are no plans in place to achieve the savings targets set for THC's procurement team.
- Having already combined the purchasing power of the ACC and AC, greater negotiating power is now needed if they are to generate further savings on existing contracts. The addition of THC buying power provides the needed increase in potential.

Opportunities include:

- A staffing structure that can meet the strategic and commercial procurement needs of each council within revised-down budgets, improving capacity and resilience.
- Systems, tools and processes to be joined up, standardised, and a 'best practice' approach taken.

By far, the biggest opportunity arises from the interest that would be generated in the marketplace by the combined buying power of the three Councils, putting us on the same standing as Glasgow and Edinburgh. Effectively, creating the foundation for a North East Scotland "Power House". Both SMEs and the larger national providers would find the potential scale of contract much more attractive than that of the three councils taken individually. It would also likely attract the interest of neighbouring councils to "join in", in order to get their voice heard in national contract and framework negotiations. It could also generate new employment opportunities, if providers decide to locate a "regional" hub to serve the combined councils.

3.3 BACKGROUND AND CONTEXT

National policy has helped shape the approach taken in preparing this paper:

1. The Scottish Government has developed the Scottish Model of Procurement (see Appendix A), the intention of which is to drive public value: *'it is about the best balance of cost, quality and sustainability.'*
2. The Scottish Model of Procurement aligns with the Procurement Reform (Scotland) Act that was given Royal Assent in June 2014. Sustainability in its widest sense features heavily in the requirements on the Act and public bodies are required to comply with a new sustainable procurement duty.
3. A shared service approach to procurement reflects the pillars of public service reform set out in the Scottish Government's response to the Christie Commission:
 - Partnership and collaboration.
 - Workforce development and effective leadership.
 - Improving performance, through greater transparency, innovation and use of digital technology.

With these principles in mind, the following priorities are seen as common across the teams:

- Delivering public value in line with the Scottish Model of Procurement

- Ensuring that the teams effectively support the strategic objectives of the organizations they serve
- Attracting top quality staff and provide opportunities for staff to grow and develop
- Implementing best practice systems, processes and procedures
- Providing Commercial Services either in a leading or a supporting capacity

3.4 CURRENT PROCUREMENT SERVICES

Each council has slightly differing needs and the teams are at different levels of performance against national benchmarks for each of the services they provide. These performance figures are provided in Appendix J. These differences highlight the opportunity to learn from one another and best practice.

3.4.1 Current Service Provision

Commercial and Procurement teams have responsibility for a number of aspects of service provision.

These include BAU activities:

- Providing a procurement support and review service to Services and for individual contracts
- Ensuring co-ordination and consistency within the procurement process

As well as more strategic activities:

- Establishing corporate processes for the purchase of goods and services on behalf of all Services
- Delivering appropriate e-procurement and purchase-to-pay (P2P) solutions
- Developing procurement strategy, policies and procedures
- Promoting collaboration and collaborative working with other public bodies
- Supporting the activities and providing support to external agencies including Scotland Excel
- Developing Category Plans and Sourcing Strategies
- Contract and supplier relationship management

The existing organisation structures of the teams are provided in Appendix H.

3.4.2 Aberdeen City Council and Aberdeenshire Council

The CPS reports into the Director for Corporate Governance (ACC) and undertakes the role of a corporate procurement team for both councils. It currently carries out all of the above BAU and strategic activities, as well as providing a number of additional services. It is made up of seven teams.

- Commercial (Major Projects) Services
- Category Management Services
- Social Care Contract Management (Regional Hub)
- Business and Procurement Improvement (including BAU)
- Commercial Legal Services
- Programme Management Office (PMO)
- Accounts Payable and Insurance

The CPS business plan for 2016/17 highlights the opportunity to develop the service *“expanding the centre of expertise by providing a shared service to other public sector organisations.”* The first goal within the plan states that we will *“establish a regional centre of expertise for commercial, procurement and programme management”*, whilst our second goal is to exploit *“joint procurement initiatives and alternative delivery models.”*

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3.4.3 The Highland Council

The central Procurement Service reports into the Director of Finance. It is made up of three teams:

- Corporate Services
- Facilities Management Services
- IT Services

Other major categories that are in scope are currently devolved across THC Services, including:

- Social Care
- Highways & Transport
- Waste & Environment
- Housing

4 SCOPE AND VISION

4.1 SCOPE

The scope of this proposal is defined as “the provision of those strategic commercial and procurement activities to THC that are currently delivered by the Commercial and Procurement team of ACC and AC”, as agreed by the Project Board and Project Sponsors.

The strategic services provided are:

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

Appendix K lists the specific tasks that will be provided by the combined CPS and what will remain as a residual function within each Council.

Tables 2 through 4 summarise those activities in scope. Tables 5 and 6 reflect the non-strategic activities not in scope. The ratings, from 0 to 3 reflect the following:

0. *Not currently provided.*
1. *Provided, but under-resourced.*
2. *Resourced, with scope for improvement (e.g.: occupied with BAU workload, no self-service option).*
3. *Resourced and performing well.*

Table 2 – Procurement strategy, Legislation, Policy and Advice

Activity	ACC	AC	THC
Strategy (including category) development	2	2	0
Procurement legislation	3	3	2
Service Legislation, Regulatory and Policy	3	3	2

Table 3 – Data Management, Performance, Analytics and Insight

Activity	ACC	AC	THC
Needs analysis and business requirements	2	2	0
Spend analysis, conducting savings opportunities and benchmarking analysis	2	2	0
Insights, Market, category and supplier analysis / intelligence reports	2	2	0
Gap analysis	2	2	0

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Active data management – data profiling, cleansing, categorisation and classification	1	1	0
Standardised reporting – spend reports, benefits tracking and performance dashboards	2	2	2
Process Improvement, self service design and maintenance, end user training, knowledge management	1	1	0

Table 4 – Category and Contract Management

Activity	ACC	AC	THC
Supplier on-boarding	2	2	2
Contract administration, management and reviews	2	2	1
Supplier performance management	2	2	1
Category review and management	2	2	0

Table 5 – Quotations, requests and tender management (not in scope)

Activity	ACC	AC	THC
E-RFx (electronic requests)	0	0	0
E-auctions	0	0	0
E-marketplace management	0	0	0
Quotation management	2	2	2
Tender management	2	2	2
Tender evaluation support	2	2	2
Risk analysis	2	2	1
Options appraisal and business case development support	2	2	1

Transition and contract creation support	2	2	2
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Table 6 – Tail Spend Management (not in scope)

Activity	ACC	AC	THC
Supplier set-up	2	2	2
Supplier validation	2	2	2
Spot buying	2	2	2
Tail spend management	2	2	2
Purchase requisition/order processing*	2	2	0
Payment and invoice management*	2	2	0
Early payment discount programmes*	2	2	0

*Note: The activities marked * are provided by the ACC/AC CPS. However the Financial Service team is not included in the development of this business case.*

4.2 VISION

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

4.3 THE PROPOSITION

The CPS proposition is based around a combined team of strategic category and commercial management staff for THC, AC and ACC providing:

4.3.1 Commercialisation & Procurement Strategies

The development of strategies will be the responsibility of the CPS. However they will need to be tailored to the needs of each of the participating councils.

4.3.2 Savings

The CPS will assist the participating organisations to achieve savings through collaborative procurement, sharing best procurement practice and ensuring efficiencies are implemented in procurement processes and systems. It will also assist the councils to achieve revenue generation through commercialisation activities.

4.3.3 Category Management

Category management is a strategic process-based approach that focuses on the majority (>50%) council spend on goods and services with third-party suppliers. It will be used by the CPS to structure the new

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organisation and as a basis for providing future services. It will reflect to a large extent the Scotland Excel template for high value category management, covering IT, Highways and Transport, Waste, Social Care and Facilities Management.

4.3.4 Market Management

The activities that will be undertaken typically include researching and analysing the market as a whole to gain an understanding of who are the key players in the market, their relative strengths, which councils are using them and how important each council is to a particular supplier. This work will assist with the development of strategic procurement options and can be added to business cases. In the main the CPS will provide advice and guidance on markets to clients.

4.3.5 Needs Analysis

The first step in any procurement process is to identify and fully define the need in relation to the activity. This is predominantly performed by services, and the CPS will provide advice and guidance should it be required.

4.3.6 Specification Development

The specification is developed to define the business requirements clearly and communicate these to suppliers effectively to facilitate the evaluation of goods, services and works against the agreed specification. The CPS will provide advice and guidance but the ownership of the specification will continue to be with the service.

4.3.7 Drafting of Tender Documentation

A standard set of tender documentation will be available for all clients and services. It will be developed and maintained by the CPS team, and services will be made aware of how to access it through a central document repository.

4.3.8 Tendering

For high value (above a value to be determined) and/or high-risk procurements the CPS will provide a project manager to manage the tender. For smaller value or less complex tenders the CPS will provide an oversight and advisory service as well as any template documentation that is required.

4.3.9 Negotiation

Negotiation is defined as a process of *“communication with the objective of reaching an agreement by means, where appropriate, of compromise”*. A successful negotiation is one that accomplishes this goal and that secures supplies, materials and services of the right quality, in the right quantity, at the right time, from the right source and at the right cost. The CPS will provide an oversight and advisory service.

4.3.10 Commercial and Procurement Advice and Support

The CPS will be available to provide advice and support locally initially through the use of local experts.

4.3.11 Contract Management

Once a contract has been awarded and a new service procured, contract management falls under BAU. However this activity varies across different clients and services and good contract management depends upon the commissioner or actual contract manager. The CPS will implement an improved process for contract management across all councils.

4.3.12 Support New Business Models/Opportunities

As part of the CPS, commercialisation and revenue generation will form a key part of the service moving forward. The team will assist services in identifying opportunities, advise on possible corporate structures as required and lead on the creation of companies.

4.3.13 Ensuring Compliance to Legislation and Council Policies

The CPS will ensure that national and EU legislation is complied with and that each council's policies will be applied consistently.

4.3.14 Commercialisation

The CPS will have the capacity to explore commercialisation opportunities in each council. This will also enable sharing of different council approaches to commercialisation and by combining teams will increase the likelihood of maximising opportunities.

4.3.15 Social Value

The Public Services (Social Value) Act 2012 requires public authorities to pursue community benefits with regard to economic, social and environmental well-being as part of their procurement of public services contracts. The coming together of the three organisations will allow for social value to be embedded into the procurement process consistently to drive an increase in community benefit realisation through collaborative procurement.

4.3.16 Governance

Governance is the process to manage procurement activity and report on performance of the CPS. Initially the governance arrangements will be specific to each council with the aim of standardising them over time.

4.3.17 Systems

Systems covers all IT systems and these could include bespoke or off the shelf solutions. Whilst it is possible that some systems will be common between councils, in the short term it will not be possible to integrate or standardise them. The longer-term aim will be to standardise systems and processes across the CPS. Links and the way the systems are used will be reviewed once the shared service goes live.

5 RECOMMENDATION

5.1 RECOMMENDATION

The recommendation is for The Highland Council to delegate responsibility for the provision of those strategic procurement services identified at section 2.2 to Aberdeen City Council, through a formal Partnership and Delegation Agreement.

The proposal will deliver:

- Combined buying power of over £1 billion, including grant-funded spend.
- £20.76m savings (equivalent to £51.9m compound¹ savings) for the three councils on contract spend over 5 years from 2017/18 through to 2021/22, based on 0.50% annual reduction in contract spend.
- More say, by virtue of the partnership, to shape national and regional procurement frameworks.
- Improved staff morale, with more and varied career opportunities to attract and retain good people.
- Improvements to resilience, responsiveness and effectiveness thanks to an increased capacity.
- A pilot project to assess the viability of broader shared services across the partner organisations.
- An annual investment of £490,000 from THC to provide ACC with the funds to adequately resource the supply of strategic procurement services.

Note 1: Compound savings refers to the rate of return that represents the cumulative effect that a series of gains or losses on an original amount of capital over a period of time. Simple cumulative contract savings would be £20.76m rather than £51.9m.

5.2 RATIONALE FOR THE RECOMMENDATION

Greater Economies of Scale – Leveraging Strategic Category Management

A small proportion of invoices (and therefore suppliers) constitute the bulk of contract spend, as evidenced in the following figures taken from the Spikes Cavell system used 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 to achieve 0.50% savings each year for 5 years we have:

Financial Benefits to THC

In the case of THC, with an annual contract expenditure of £272M, a 0.50% reduction in spend each year equates to a total of £1.36M savings. The cumulative effect of this over five years means THC will then be spending £6.8M less per year than is currently the case.

Financial Benefits to AC

In the case of AC, with an annual contract expenditure of £292M, a 0.50% reduction in spend each year equates to a total of £1.46M savings. The cumulative effect of this over five years means AC will then be spending £7.3M less per year than is currently the case.

Financial Benefits to ACC

In the case of ACC, with an annual contract expenditure of £313M (excluding grant-funded expenditure), a 0.50% reduction in spend each year equates to a total of £1.56M savings. The cumulative effect of this over five years means ACC will then be spending £7.8M less per year than is currently the case.

Other Benefits

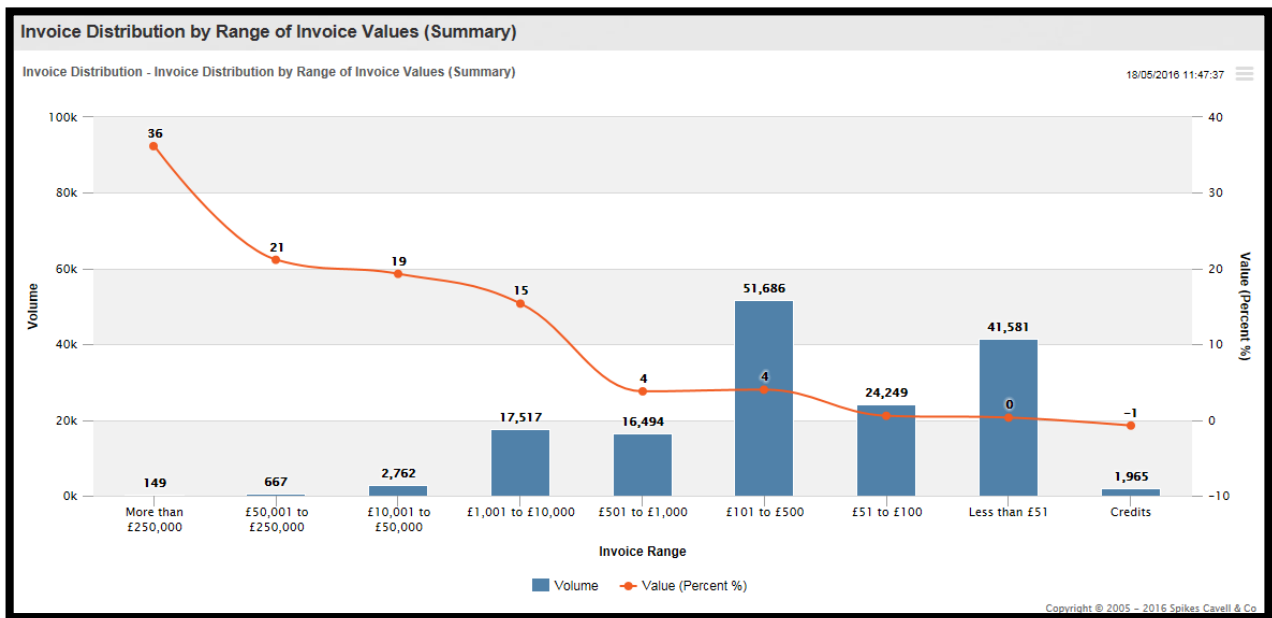
All three councils wish to have a greater say shaping procurement frameworks to ensure the needs of the communities across the North and East are considered. This can be better achieved through a single, regional voice, able to compete with the scale of the largest Scottish councils. A ripple effect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

SMEs looking to grow and national providers offering economies of scale will be attracted to the volume of opportunity offered through a combined procurement exercise. Whilst such aggregations of buying power can be achieved without partnership agreements, having a single procurement team reduces the time and cost associated with multiple procurement teams carrying out similar activities on behalf of each council.

Demand for procurement services currently outstrips capacity for all three councils. Pooling resources provides an opportunity to address the demand, without increasing the cost of procurement, by making better use of the greater combined number of staff.

A small proportion of invoices (and therefore suppliers) constitute the bulk of contract spend, as evidenced in the following figures taken from the Spikes Cavell system used by all three councils. It is this are that Category and Contract Management can target to deliver scale economies.

Figure 4 – Aberdeen City Council – Invoice Distribution



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Figure 5 – Aberdeenshire Council – Invoice Distribution

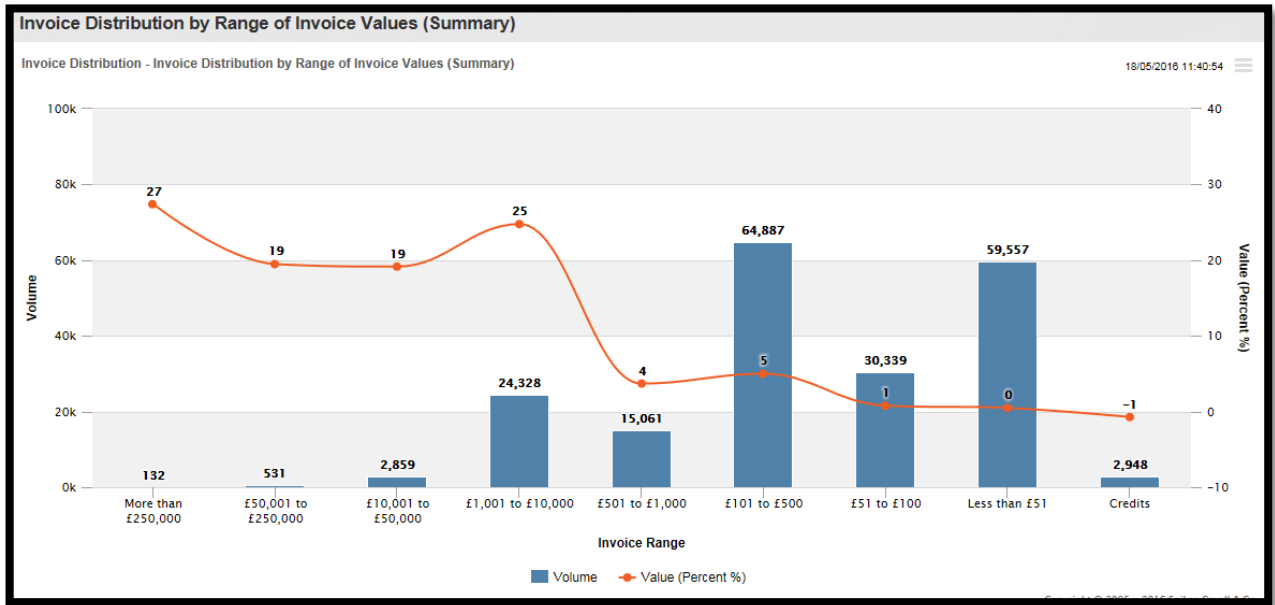
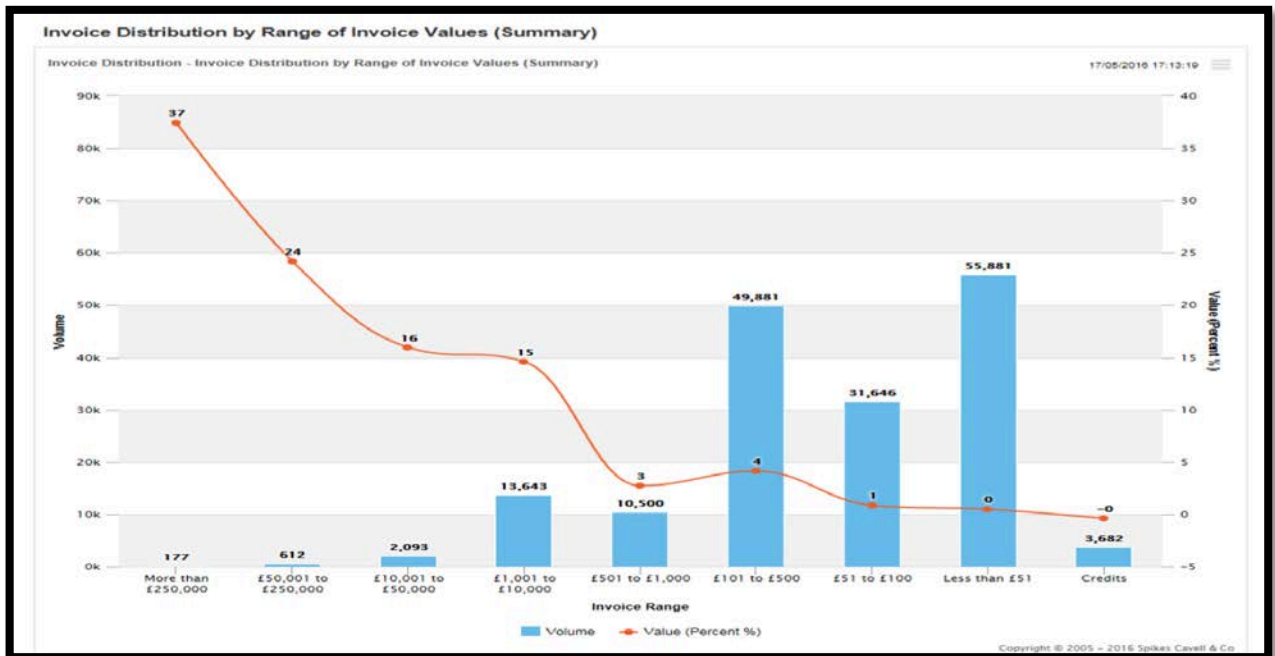
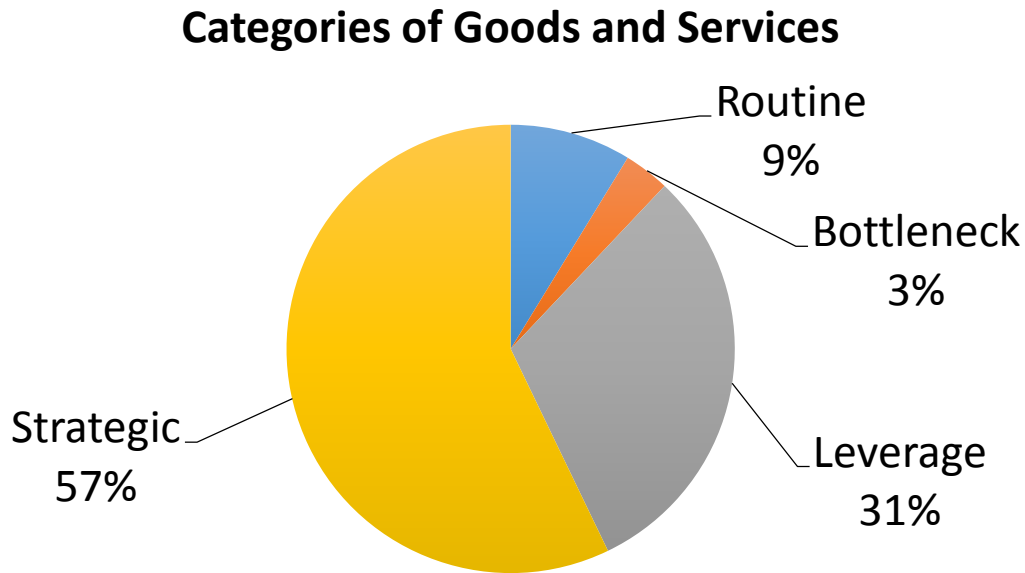


Figure 6 – The Highland Council – Invoice Distribution



With short and medium term financial savings targets set both directly for the teams, and indirectly, through their support to deliver category savings across the Services, the need to focus staff on the more strategic items of spend is important. At present, the teams predominantly deliver BAU services and as a result have less time to focus on the high value categories, including Social Care, Property Management, Waste Management, and Housing.

Figure 7 – Percentage spend by category of goods and services (ACC/AC – February 2014)



The recommended option avoids a long procurement exercise by using existing legislation to delegate the service provision between public sector bodies. It allows for the straightforward development of the partnership into, for example, a Joint Committee, with other services being shared once the model has been proven successful.

Other benefits identified include:

- Implementation takes less time than for the more complex models considered.
- 100% control of the services remains within the public sector.
- Other public sector bodies can delegate activities without carrying out a procurement exercise.
- An upper limit can be set on the cost of delivering services in advance of the financial year.

6 STRATEGIC FIT

6.1 INTRODUCTION

As part of the feasibility assessment of this proposal, consideration was given as to whether or not there was an outcome based “strategic fit”, with each of the participating councils’ overall objectives. The following paragraphs reflect the priorities and goals that this proposal responds to.

The Local Government Association (LGA) compendium of shared services compiled in October 2015, shows that currently at least 337 councils across England are engaged in 416 shared service arrangements resulting in £462 million of efficiency savings.

While back office functions, such as legal, audit and human resources are the most popular services to share, the LGA said they tend to offer the smallest savings. The biggest savings were made in sharing procurement and capital assets, and the LGA suggested councils with less developed shared initiatives could focus on these initially.

6.2 ABERDEEN CITY COUNCIL

One of the six priorities for Aberdeen City Council is “to ensure efficient and effective delivery of services by the council and with its partners.” New ways of delivering services will result from improved and closer working with partners in the public, private and voluntary sectors.

6.3 THE HIGHLAND COUNCIL

The Highland Council Corporate Plan 2015 – 17 states that its procurement activities shall: “support local businesses and social enterprises, as well as maximising spend and benefit within the Highland economy, whilst ensuring that these provide value for money for the council and meet legislative requirements.”

THC procurement team have a 2016/17 saving target of £500K directly related to sharing services, and have been asked to contribute to delivering £1.5m further savings by 2018/19.

The CPS plays a key role in supporting the delivery of strategic priorities as follows:

- **Supports the delivery of financial savings and non-financial efficiencies.**
 - We will leverage a combined contract portfolio of up to £1,046m, with £272m from THC, £292m from AC, and £313m from ACC. An annual saving of 0.50% equates to £20.76m (£51.95m compound return) across the three councils over 5 years.
- **Delivers value and innovation.**
 - We will use category management techniques and spend analytic tools to enable smarter decision-making and, where appropriate, collaborative strategic procurement.
 - We will analyse and provide sector-specific market intelligence to commissioning experts in the Services to inform their decision making to allow for market making and market shaping.
- **Supports the local economy.**
 - We will have a greater say shaping procurement frameworks to ensure the needs of the communities across the North and East are considered. A single regional voice will be able to

- compete with the scale of the largest Scottish councils. Neighbouring authorities can align themselves with this partnership and so too benefit in discussions with Scotland Excel.
- o 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 more efficient as it avoids each council having to repeat the same procurement work.

6.4 OUTCOME BASED SPECIFICATION

The proposal aligns to the councils' priorities through the following outcomes:

Table 7 – Outcome Based Specification for the Proposal

What is the outcome?	How will the outcome be achieved?
Supports the delivery of financial savings and non-financial efficiencies from contracted services.	<p>Through competitive procurement and supplier negotiations.</p> <p>We will leverage a combined contract portfolio of up to £1,046m, with £272m from THC, £292m from AC, and £313m from ACC. An annual saving of 0.50% equates to £m net (£51.95m compound) across all 3 councils over 5 years.</p>
Delivers value and innovation through a programme of procurement across the shared service.	<p>Through a combined strategic Contract Management and Supplier Relationship Management team across the three authorities.</p> <p>We will use category management techniques and spend analytic tools to enable smarter decision-making and, where appropriate, collaborative procurement.</p> <p>We will analyse and provide sector-specific market intelligence to commissioning experts in the Services to inform their decision making to allow for market making and market shaping.</p>
Supports the local economy and SMEs in particular.	<p>Through a single, regional voice that is able to compete with the scale of the largest Scottish authorities and reflect the needs of the region.</p> <p>We will have a greater say shaping procurement frameworks to ensure the needs of the communities across the North and East are considered. A single regional voice will be able to compete with the scale of the largest Scottish councils. Smaller local authorities can align themselves with this partnership and so too benefit in discussions with Scotland Excel.</p> <p>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 more efficient as it avoids each council having to repeat the same procurement work.</p>
Streamlines procurement for Services, makes joint Council contract negotiations more efficient financially, and enhances probity of contract awards.	<p>Through a common set of policies, processes and shared best practices that allow the combined team to carry out strategic contract work once on behalf of all councils.</p> <p>We will develop set of contract standing orders for the shared services that is generic where it is able to be whilst recognising the respective councils making up the shared service will have specifics that they will</p>

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	<p>wish to maintain.</p> <p>We will ensure procurement processes are standardised and support the lean delivery of projects, whilst at the same time ensuring good governance and probity.</p> <p>We will procurement boards across the shared services to ensure adequate officer scrutiny is given to decisions to commence procurement and award contracts.</p>
<p>Provides staff with greater opportunities for personal and professional development.</p>	<p>Through the increased size of the combined team and the choice of locations.</p> <p>We will shape the structure of the organisation to provide CPS staff at all locations with the opportunity to develop professionally “through the ranks”.</p> <p>We will also offer development to CPS staff and training to Services, using a “build-once, deliver-many” approach. Again, the benefit of common processes means a lower cost of delivery of training and development to the authorities.</p>

6.5 ASSUMPTIONS

Fixed costs will be split between the three councils in proportion to the budgets provided and on-going annual costs identified at the outset. These figures will be reviewed on an annual basis. This means any surplus or deficit will be apportioned in line with said proportions.

Any variable costs in future years will be split on the basis of the commissioned service as set out in a shared service plan.

Not all of the procurement activities within THC such as the devolved social care commissioning activities will transfer from day one into the CPS. These will be reviewed on a case-by-case basis at a later date.

6.6 EXPECTED BENEFITS (FINANCIAL AND NON-FINANCIAL)

Combining the teams into a single shared service provides the following benefits:

6.6.1 Reduces overall cost

An overall reduction in costs can be achieved by reducing the cost of staffing and systems, and enabling combined procurements, releasing efficiencies to reinvest in frontline services. These latter savings will be achieved by:

- Combining expertise in category management to share knowledge and resources and to determine the potential collaborative opportunities.
- Aggregating spend on common goods and services to make savings, but without compromising on providing opportunities for local businesses.
- Delivering a programme of contract management training in order to improve our supplier management capabilities and developing three council-wide approaches to contract management in order to gain most value from the supply chain.

- Undertaking a comprehensive spend and supplier analysis across the three councils in order to identify where improvements, savings and efficiencies might be achieved.
- Developing and delivering a pipeline of collaborative procurement projects.

6.6.2 Increases our ability to attract staff, improves morale and provides resilience

All three councils have struggled to attract sufficient high-calibre staff. In part this may be due to location, but the salaries that can be offered and the lack of subsequent career opportunities are also key determinants. If the size of the individual teams shrink this situation will be exacerbated.

Combining the teams offers the opportunity to provide a structure that can provide career opportunities at the levels to attract good staff. Having staff of the right quality will also enable procurement teams to hold discussions at the appropriate level with service-based staff on forthcoming procurements and to be able to influence the direction of those.

Further benefits include greater capacity, a wider capability and better resilience.

6.6.3 Raises performance, productivity and customer satisfaction

As reflected in Appendix J, the overall performance of the three teams is generally good, according to Scotland Excel annual assessments. All three teams demonstrate areas of excellence and weakness. By adopting the practices of the best performing of the three teams across the others, the individual and overall ratings of the teams can be improved.

Implementing a well-balanced team, with the influx of combined resources, allows the Head of Procurement to deliver a more productive and flexible team, through increased resilience, a greater skills pool and the adoption of those best practices described earlier.

Modernising processes will allow the team to develop a standardised approach and, as a result, achieve a better customer experience.

6.6.4 Enables a more commercial approach to be adopted

Related to the issues of attracting staff with the correct skills and calibre, it is proposed that any shared service structure adopts a commercial approach to its work. In particular this will involve having a remit to drive income generation, work with services to establish trading vehicles and taking a risk based approach to procurement.

6.6.5 Facilitates contract savings

Over time it will be possible to align many of the procurements of the councils. The area where 'quick wins' can be made will be in areas such as corporate procurements and commodities (i.e. insurance, telecommunications, commodities, etc.) as typically these areas do not have 'owners' so decisions will be able to be made quite quickly about joining these up. Contracts owned by service departments will, typically, be harder to join up and will take a longer period to do so. Notwithstanding that, significant benefits are anticipated from being able to approach relevant markets with greater purchasing power and from a consistent offering.

In addition to the direct savings, savings are also possible from standardising documentation (e.g. ITT and contracts) and other support services, such as legal and finance support. However it is recognised that partners may require that the provision of other support services could need to remain with the procuring council. Further discussion is required between partners about how this support will be provided.

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6.6.6 Improves supplier, contract and category management

The councils use a number of common suppliers. Over time as the councils increasingly undertake joint procurements this number will change. The benefits of sharing suppliers are that a cohesive approach can be taken to their contract and supplier relationship management to reduce costs and improve performance. This will assist to ensure that suppliers aren't using differential pricing across the councils' contracts.

6.6.7 Supports local economies

The CPS will ensure that all participating councils' objectives in relation to social, economic and environmental aims are delivered. Best practice will be shared across the three organisations, using a base set of policies and principles that take the best elements of each council. In particular the CPS team will consider the following activities:

- Include criteria relating to social, economic and environmental objectives in all contracts;
- Ensure equality of opportunity to bid for all suppliers, which would include improving accessibility for sole traders, small and medium sized enterprises (SMEs);
- Improving management information so that spend can be tracked consistently across the CPS, in particular with local businesses and SMEs;
- Including targets for waste, recycling and energy consumption in requirements wherever possible;
- Maintaining best practice by ensuring Equality and Diversity requirements are addressed in all procurement documentation.

6.6.8 Improves support to schools

All three councils include procurement resources for schools. It is considered that there is a significant opportunity to better utilise these roles to provide a more comprehensive schools service that can expand to provide a service to an increased number of schools. This will require active marketing and promotion to reach into areas where opportunities may exist and will be achievable out of existing budgets.

6.6.9 Increases the number of services the team can provide

The additional benefit from joining up the teams is that it provides a platform for sharing procurement services with other public sector bodies by providing a clear track record of cost and performance.

6.7 POTENTIAL DIS-BENEFITS

The main dis-benefits identified for the implementation of a combined service are:

6.7.1 Greater geographic movement

Whilst there will be staff located on their respective council locations the operating model assumes that some of the more senior roles will be peripatetic. It is also possible that peaks of workflow may require movement between locations, especially if system access is not permitted remotely, but this will be kept to an absolute minimum.

6.7.2 Potential competing priorities across the organisations

A combined CPS might result in more competition for resources across the wider group of councils.

6.7.3 Having to operate with different systems and processes

In the short term it is unlikely that there will be standard processes and systems. The culture and way of working in each council will also vary and add challenges to the CPS. Whilst this will be less of a concern for those staff based on specific sites, it may mean some staff will need to work with different systems and processes.

A further complication will also be the different requirements expected from each councils Legal and Finance teams.

6.7.4 Issues of governance and control

There could be issues of governance and control of the procurement service, from management, staff and Members.

6.7.5 Staff issues

There are potential issues arising from harmonization of terms and conditions.

6.7.6 Disproportionate service needs

There is a risk that weaker parts of the procurement service may require proportionately more input than the more established ones.

6.7.7 Decentralised (shadow) procurement services and staff

There may be teams or individuals outside of the main procurement team, carrying out those activities, acting as category managers that are not in scope.

6.8 CRITICAL SUCCESS FACTORS

Having a clear understanding of exactly what the model will deliver and manage is essential. Once this is understood then it needs to be defined in an agreement. The agreement needs a clear set of performance indicators that measure the success of the business; it is also vitally important to agree how and when these indicators are measured and the implications of success and failure. Benchmarking of the services is essential as it allows the service to compare itself against the best in the industry enabling continuous development.

The following critical success factors have been identified as part of this project:

Table 8 – Critical Success Factors

Critical Success Factor	Priority	Definition
Delivery of savings (MTEP)	1	Delivers cashable savings for all parties
Delivery of low cost, quality services	1	Sustainable, cost effective and efficient services that are competitive and can provide economies of scale
Investing in people and skills	1	Supporting sustainable business model
Resilience	1	Continuously improving and ensuring the capacity to deal with changing demand
Ease of delivery	2	A TOM that is not complex in terms of implementation

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Anticipating service user needs	2	Service user focussed shared service that highlights an understanding of cultural needs. It has a flexible and proactive approach towards its customers to realise service user satisfaction; and has a 'can do' attitude at its core
Mandatory first request / refusal	2	To prevent fragmentation and duplication of provision, the shared service should be the first port of call for all procurement needs for all councils. Alternative provision should only be agreed where requests cannot be met.
Flexible	2	Provides a flexible model which can provide resources for peaks in demand and where partner authorities can join at a later date
Revenue streams	2	Develop revenue streams by looking for innovative ways to grow and be on the competitive edge by planning / reviewing market trends.
Governance and compliance	2	Robust be flexible in approach
Multi-channel	2	Utilises IT to deliver procurement service innovation

7 OPTIONS APPRAISALS

7.1 INTRODUCTION

This describes the most common ADMs adopted by local authorities across the UK. A detailed comparison ranking the ADMs against a number of key evaluation criteria, listed below, can be found at section 7.15. Those key criteria are:

- Timescale for implementation
- Impact on service delivery
- Financial impact
- Staffing impact
- Deliverability and potential risks.

Table 9 is a summary of ADMs and some of the key benefits of each model. Later sections highlight the pros and cons of each ADM in detail. Further information can be found in Appendix M.

Table 9 – Summary of Alternative Delivery Models and Key Benefits

Alternative Delivery Model	Some Key Benefits
In-house provision (service improvement)	Minimal disruption Existing management approach and structures can be maintained
Joint Working (sharing management staff)	Flexible arrangement Can offer good value for money
Local Authority Trading Company (LATC)	Council retains ownership and any surplus Reduce staffing and corporate costs Able to be flexible to market needs
Shared Service (Public / Public) – Lead Authority, Joint Committee	Build on best practice / reduce investment needs Reduce indirect costs / overhead Ability to restructure workforce
Joint Venture (Public / Private)	Make use of commercial partners supply chain and infrastructure Gain initial investment from the private sector
Outsource	Commercially independent Risk transferred to a third party Private sector capital and enterprise can boost delivery
Trust	Facilitate greater operational integration of service Sharing of costs & risks Ability to restructure workforce
Social enterprise	Able to access alternative funding streams Risk transferred to a third party Commercially independent & able to reinvest its profits into the business
Mutual / Cooperative	Offers flexibility in reducing high costs associated with in-house, to generate additional income as well as the potential for accessing additional funds and grants

Source: PWC – *Growing your income and creating new revenue (ACC March 2016) et.al.*

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7.2 BASELINE MEASURES

A number of measures were gathered as part of the options appraisal, to provide a foundation for articulating the comparative financial and non-financial benefits of each ADM. Those measures are summarised in Tables 10, 11 and 12.

Table 10 – Baseline staff numbers for THC, AC and ACC

Measure	ACC/AC	THC	Combined
FTE count	38	12	50

Assumptions:

The above figures do not include the Legal Commercial, PMO and Finance teams in ACC/AC. With their inclusion the total FTE count for ACC/AC rises to 52.

Table 11 – Some comparative metrics for THC, AC and ACC (Source: Spikes Cavell 2014/15)

Measure	ACC	AC	THC	Combined Totals
Number of suppliers	4,629	7,322	5,922	17,873
Total spend on all contracts*	£313M	£292M	£272M	£877M
Number of transactions	161,444	213,327	176,144	550,915
Average invoice value	£61,690	£39,904	£45,952	Average = £49,182

Note: From 15/16 (figures not yet published) the total spend on ACC/AC contracts will increase to include grant-funded expenditure. This is estimated to give 28% uplift on 14/15 expenditure, increasing the total from £605m to £774m. This takes the combined spend of all three councils from £877m to £1,046m.

Table 12 – Current operational costs for THC, AC and ACC

Annual Costs	ACC/AC £ 000's	THC £ 000's	Combined £ 000's
Staff costs (with on-costs)	1,967	638	2,605
Other service costs	102	22	124
Scotland Excel costs ¹	272	136	408
Corporate overheads ²	171	TBC	171
Total operational costs	2,420	796	3,008

Assumptions:

- *No change in running costs for CPS before or after combining the teams together.*
- *The above figures do not include the Legal Commercial, PMO and Finance teams in ACC/AC. With their inclusion the total operational budget for ACC/AC combined is £3.398M.*

Note 1: Scotland Excel costs for ACC are £129K. For AC they are £143K.

Note 2: Corporate Overheads and Central Support Allocation are synonymous in this paper.

7.3 THE “DO NOTHING” OPTION

The first option considered was a baseline option to ‘Do Nothing’. A number of implications can be drawn should the councils choose this option, reflected in Table 13.

Table 13 – Pros and Cons of the “Do Nothing” option

Pros	Cons
Minimal disruption	Inability to make significant cost savings in future years without affecting service levels
Existing management approach and structures can be maintained	Difficulty to recruit to vacant positions
	Limited resilience, and further cuts weaken this further
	Limited career progression
	Limited training opportunities or skills development
	Resources would need to focus on transactional, and away from strategic procurement
	Difficulty in assisting services to make their savings targets
	Limited ability to collaborate on procurement opportunities
	Inability to support commercialisation activities

As a whole, this option does nothing to address any of the existing issues, financial and non-financial, for any of the teams.

7.4 JOINT WORKING (SHARING MANAGEMENT RESOURCES)

This is a model that some councils use to consolidate senior jobs within existing structures. This often begins by merging **internal** services into a single unit, and can be extended to apply across organisations. Each “partner” acts independently and retains responsibility for their service in-house. For example, several local authorities might collaborate on commodities procurement and jointly negotiate with suppliers, but they each continue to employ and manage their own purchasing staff. This could also be the sharing of a post across organisations, such as sharing the Head of Service.

Joint working is an ad-hoc sharing of learning and agreements to co-ordinate action. Whilst it can be formal or informal, it is more likely to be small-scale agreements, such as sharing a post. It can provide access to extra skills and resources and will be a relatively cheap and less disruptive option. As in sharing a post it will be a good way to develop trust between organisations and will be relatively cheap, as there will be no procurement costs.

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It will be difficult to change or streamline processes, as will sustaining significant change. It does not resolve resilience issues nor fill gaps in resourcing. Further improvements might prove difficult to achieve without further integration.

Table 14 – Pros and Cons of the Joint Working Model

Pros	Cons
Control of in-house team and expertise	May lack resources to invest in technology, including latest processes and procedures.
Flexibility – able to supplement in-house resource with locum, secondment or case-work from shared service or private sector as need arises	May lack resources for development of team
Responsibility, accountability and clear governance	Lower perceived commitment and productivity – but depends on the people and the service
Good value for money if properly resourced and managed	May lack depth of legal resource and have poor resilience
Management can address weaknesses, e.g. skills gaps and performance directly	May not be perceived as giving good value for money, whether they do or not
Potential for better accessibility and team working across Council functions	
Continuity of staff/operations (and no need for an exit strategy)	
No tax/VAT issues	
Corporate input and corporate memory retained	

7.5 IN-HOUSE PROVISION OR A LOCAL AUTHORITY TRADING COMPANY (LATC)

In-house provision and a LATC are very similar in concept, but very different in execution. They both require 100% council management and investment in resources from existing budgets. The main difference is the legal status and positioning of the LATC. The in-house provision option would legally remain within the same public body – i.e. the council. All cultural changes would have to be managed as they have been before and the commercial and trading powers would remain the same; they would have to rely on the Supply of Goods and Services Act 1982 and certain other powers, which limit trading to other public bodies. They may not use their powers under that Act to trade with an individual or the private sector. Local authorities are able to trade with individuals or the private sector, but to achieve this they need to set-up a company and conduct business under the Local Government (Scotland) Act 2003. This is where the creation of a LATC provides the council with a trading benefit – i.e. it expands the trading abilities of the council. Instead of simply trading with other public bodies the LATC allows the council to trade like any other private sector company and, therefore, opens up more potential opportunities.

7.6 JOINT VENTURE (PUBLIC / PRIVATE) PARTNERSHIP

A public / private joint venture partnership would require a significant procurement exercise which would take in the region of one to two years. This does not take into account any delays for processes like a judicial review or the period between the decision to go down a procurement route and the start of the actual procurement exercise. In reality it seems more sensible to allow a period of three years for the procurement process.

Based on this view and assuming a procurement route was agreed in July 2016, and then in reality we could not expect to complete such a process until July 2019, i.e. within the 2019/20 financial year. This is outside the current financial savings window. As savings are required before this date it not possible to proceed with this option.

A similar logic applies to outsourcing. As such, this option was not considered for the purposes of this business case.

Table 15 – Pros and Cons of the Public-Private Joint Venture Model

Pros	Cons
Ability to work for anyone	Additional risks as to generation of new business and profitability
Creates a new brand/identity in the market	Limits on delegation to a third party under Local Government law
Provides opportunities for third party investment in the service	Potential loss of in-house expertise, unless seconded and loss of input to corporate policy and decision-making
May produce a revenue income stream for the council	Limited in-house capacity to manage/ monitor provider
A share company can form part of a tax group	Extra regulation and marketing that results in additional costs, increasing prices & reducing viability of the service
Ring fences risk away from the local authority	Longer set-up time and potential for management distraction
Can invest in staff without "bureaucratic" constraints of local authority service provision	Start up capital, set-up and operational costs will need to be outweighed by gains and extra responsibilities of directors, who may end up with personal liability in limited circumstances
Could be formed as a social enterprise/ mutual	Need to tender for parent work where Teckal exception does not apply (e.g. if private sector ownership/equity or main rationale is to target third party work).
May be sold in due course and realise a capital receipt.	Potential tax/VAT costs.
	Time and resources involved in set-up with no guarantee that the SRA will grant a licence or if it will be qualified
	Clear governance, accountability and exit strategies

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	required
	May be hidden costs, such as the inability to save on CEC's/overheads

7.7 JOINT VENTURE (PUBLIC / PUBLIC) OR A LATC

In considering these two options the following factors were considered:

7.7.1 Control

The councils would retain 100% control of a LATC. The councils would control management and all decisions taken by the new company. This contrasts to the Public / Private Joint Venture where the councils would share ownership of the company with another public sector partner and, therefore, have to share the control. Management decisions would be shared – these decisions would need to be agreed through a partnership board. Shared ownership varied between the examples studied; however, the partner would probably expect to control at least 51% of the shares. The actual percentage of shareholding held by either party is academic because neither party would be able to trade the shares.

7.7.2 Financial Risk

A LATC (and, therefore, the councils) would retain 100% of the profits that it created. The LATC along with its council owners would also be 100% responsible for any losses generated. In contrast the Public / Public Joint Venture parties would share any profits or losses. The typical profit share for a Public / Public Joint Venture is 50-50, i.e. equally shared.

In summary the LATC provides greater risks and reward. The Public / Public Joint Venture reduces the potential risks and reward. The Public / Public Joint Venture can also provide a financial guarantee which can greatly assist when setting new budgets and savings targets, for example, guaranteeing a savings level or profit amount for a number of years. This reduces short-term risk and adds certainty to the process.

7.7.3 Resources & Experience

At some stage, councils need to invest in new systems and technology to improve productivity and efficiency. Without this investment council services become less competitive over time as technology advances, and councils find it very difficult to compete in generating external income. The same can be said of experience. In order to make any council commercially competitive it needs to invest in staff development and ensure it builds commercial experience.

If the council decided to create a LATC it would need to invest heavily in new systems, technology and experience. All of the funding for these new resources would initially need to come from the council budgets.

Sufficient time would also need to be put aside to procure any of the new IT systems or technology required to deliver services within the new model.

In contrast an established Public / Public Joint Venture partner could be selected (without the need of going through a procurement exercise) on the basis that it would bring established systems, technology

and commercial expertise to the contract. This would substantially reduce any implementation timescales and costs for the councils. They would also provide management experience from having worked with the systems and technology in the past. As a partner they would share the costs of introducing the change that would help the councils collectively in this financially difficult time.

7.7.4 Managing Cultural Change

Cultural issues include:

- Sickness and absence
- Improving the working relationship between staff and management
- Embracing new systems and technology, and

A LATC would need to address these cultural issues by using council resources. Any required change would have to be funded from council budgets. In addition to this the same management would still be negotiating with the same staff and trade unions – apart from a change in legal status very little would be different and it is likely that such limited change would not be enough to make the required difference.

Bringing in a Public / Public Joint Venture partner would mean a cultural change for management, staff and trade unions. Working relationships would need to be redefined with a new third party that would be asked to implement cultural change. Addressing cultural difficulties such as the high sick rates and implementing new systems and technology would increase efficiency and generate savings.

7.8 LEAD AUTHORITY (PUBLIC / PUBLIC SHARED SERVICE)

For the purposes of this proposal, a shared service is considered to be where one public sector organisation provides services to one or more other organisations. It would mean that the lead authority would be the service provider and other organisations would delegate their service delivery to that lead organisation. This would have the benefits of increasing the size of the team, pooling skills and resources, enabling greater resilience and the ability to achieve economies of scale. As a delegation to another public sector organisation there would be no requirement to undertake an expensive and lengthy procurement exercise. The drawbacks include possible political issues about governance and control of the shared service, opposition from staff, especially around potential relocation and a risk that weaker clients may require proportionately more input than more established ones. A significant consideration would be the choice of an appropriate employment model that minimises management, pay and reporting complications.

The Lead Authority model is a popular vehicle for initiating shared services in local government. It provides clarity as one authority delivers the service to another under delegated agreements. A Partnership and Delegation Agreement (PDA) generally govern arrangements, which is set-up for a defined purpose. The services are delivered and managed within the decision-making framework of the Lead Authority, which would be underpinned by comprehensive delegation agreements and service level agreements. Staff from other authorities might TUPE to the lead authority, which would make cultural change less challenging.

Table 16 – Pros and Cons of the Lead Authority Model

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Pros	Cons
Delivers cost savings and better value for money	Unlikely to be comprehensive (external expertise still required for major projects/ sensitive / specialist work.
Retains flexibility - able to supplement in-house resource with locum, secondment or case-work from shared service or private sector as need arises	Perception of reduced accessibility and control (depending upon proximity of councils and availability of staff
Better recruitment and retention within a larger structure	Potential for occasional conflict
Better resilience	Slightly weakened responsibility and accountability unless proactively managed
Clear responsibility and accountability	Potential for lead or host to end up with additional costs or responsibilities if not covered in Collaboration Agreement
"Keeps it in the family"	Requires a satisfactory exit strategy
Relatively straightforward	Requires warranties and indemnities to be clearly scoped
Management can address weaknesses, e.g. skills gaps and performance directly, but performance should be managed pro-actively	Investment decisions may need to be agreed between participating authorities (and may not be forthcoming)
Can be structured as a delegation of functions rather than an outsourcing, avoiding a potentially costly procurement	May be hidden costs, such as the inability to save on CEC's/overheads
No tax/VAT issues	
Corporate input and some corporate memory retained	

7.9 SHARED SERVICES (JOINT COMMITTEE MODEL)

Section 56(1) of the Local Government (Scotland) Act 1973 states that subject to any express provision contained in the Act or any Act passed afterward, local authorities may arrange for the discharge of any of their functions by a committee of the authority.

A Joint Committee has no legal personality. It cannot enter into contracts on its own account, own assets, buy goods and services, or employ staff; such functions would be carried out its behalf by the partner organisations.

It has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

The Joint Committee also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

In discharging this overall responsibility, the Joint Committee is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the organisation’s functions and which includes arrangements for the management of risk.

A Joint Committee is an elected body responsible for the discharge of the functions of the partner authorities. The structure can, for example, be formed of the Chief Executives and two councillors from each organisation. Members would be nominated to reflect the balance of the political parties in each partner authority.

A Joint Agreement determines a number of strategic policies and provides financial regulations for the business. It operates under a system of Standing Orders, an annual business plan (including budget) and strategic policies. Usually these policies derive from those of the partner councils.

Delegation and authority levels relating to the business need to be outlined in a Joint Committee Scheme of Delegation.

One of the partner organisations may act as the Lead Authority, if so agreed. In such a case it would employ staff and hold property employed on behalf of the partner authorities. A Secretary and a Treasurer to the Joint Committee are appointed from the officers of the partner authorities. A director, appointed by the Joint Committee, operates and manages the business on a day-to-day basis.

The duties normally carried out by partner Audit Committees may be transferred to the Joint Committee. These duties include review of the financial and performance reporting of the organisation, the adequacy of the internal control, governance and risk management framework and considering any issues arising from the auditing of the organisation either by Internal or External Audit.

Objectives, targets and performance measures are set in Annual Business Plans, which reflect the outcome of external and customer consultation, analysis of current and future needs and consideration of current performance.

Members, officers and staff behaviours are governed by Codes of Conduct, which include a requirement for declarations of interest to be completed by Members and Managers annually. Their own councils maintain registers of interests for Members.

The Joint Committee makes key decisions based on written reports. These may include assessments of legal and financial implications, consideration of risks and how these will be managed. Managers make other day-to-day decisions and these are referred to the Director as appropriate.

Risk Management procedures are formalised within the Risk Management Strategy, which is reviewed on an annual basis. Similarly, a Business Continuity Plan is formalised and reviewed on the same basis.

More detail on the governance arrangements of a shared service is provided in Appendix E.

Table 17 – Pros and Cons of the Joint Committee Model

Pros	Cons
Joint Committees permit the authorities to retain member-level control over the arrangements, which may be attractive politically.	This model is potentially less scalable than other models as the constitution of the Joint Committee would potentially need to be reviewed with each new Partner.

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Joint Committees are scheduled employers to the Local Government Pension Scheme, enabling staff to be ring fenced for pension purposes. This allows the partners to determine the actual cost of the arrangements and their respective contributions more accurately.	A Joint Committee has no corporate status and cannot hold property or enter into contracts. Any contracts will have to be entered into by one or more of the Partner authorities directly. The Joint Committee would need to make provision for sharing the benefit and burden of such contracts.
The committee model of governance is familiar for local authorities.	As the Joint Committee cannot employ staff directly it can mean cultural change is slower to achieve.
It is a relatively straightforward model to establish and non-threatening to staff as it does not involve a transfer of employment.	

7.10 OTHER DELIVERY MODELS

Social Enterprise and Mutual options were not considered as part of the appraisal work as these would require transferring staff into a new organisation, 100% owned by the council partners, and able to carry out commercial activities. They were considered outside of scope for this proposal.

7.11 MAJOR RISKS AND ISSUES

The following issues and risks were identified as part of the due diligence in preparing this paper:

7.11.1 Shadow commercial and procurement work teams

The existing THC procurement team offer limited category management. For example, the Transport and Waste contracts are managed within the Services, or, in the case of Social Care, commissioned with the NHS. As a consequence, the benefits realised through joint procurement will reduce proportionately if those contracts remain out of scope.

7.11.2 Reduced capacity of THC procurement team

Following the VSER initiative by THC in early 2016, the size of the Procurement team has reduced from 16.4FTE to 12FTE. In addition the Head of Service and two management posts are or will be vacated in the near future. With three senior roles being vacant, the ability of the team to be managed effectively may be severely tested. Their capacity to carry out anything more than reactive BAU is questionable.

7.12 RESOURCE AND INVESTMENT REQUIREMENTS

A number of resources will be required to carry out the work to setup and run the strategic functions for THC.

Once implemented, there will be a recurring annual cost for additional resources to provide the strategic category and commercial management functions for THC. Using the existing headcount across AC and ACC as the baseline (14 FTE), it is estimated that a further 7 FTE will be required to provide a similar level of service. The cost of those resources is estimated at £490,000, based on an average of £70,000 per resource (including on-costs).

System integration costs are not included in the breakdown.

7.13 EQUALITY IMPACT CONSIDERATIONS

An Equality Impact Assessment based on the recommendation is provided in Appendix D.

7.14 CONSULTATION

Consultation with staff, unions and Members will be carried out as appropriate during the Design and Implementation stages of this project.

7.15 COMPARISON OF KEY EVALUATION CRITERIA

In evaluating the ADMs a number of key criteria were compared by degree, using the “Do Nothing” option as the baseline. Those criteria were:

- Timescale for implementation
- Impact on service delivery
- Financial impact
- Staffing impact
- Deliverability and potential risks

The results of the comparison are shown in the following table. The Lead Authority model has the highest ranking, based on the comparison of each criterion, followed by the Joint Committee model.

Table 18 – Comparison of Key Evaluation Criteria

Criterion	Do Nothing	Joint Working	Lead Authority	Joint Committee (Public – Public)	LATC (ALEO)	Joint Venture (Public - Private)
Timescale for implementation	Nil	Near immediate. However, some formal agreement should be put in place, e.g.: MOU, SLA, PDA	Three to six months. A formal agreement should be put in place.	Six to twelve months. A formal agreement should be put in place. Agreement on senior roles across the authorities, governance board with Members and Executive reps.	Twelve to eighteen months. For example as a limited company, an executive board would need nominating, all assets, staff and licenses transferring, governance established.	Eighteen to twenty-four months. A procurement exercise would be required to establish the partner. Protracted contract negotiations.
Impact on service delivery	THC: Staff reduction through VSER and 3 senior vacancies	No Change	THC: Improved Category Management	THC: Improved Category Management	THC: Improved Category Management	THC: Improved Category Management
Implementation costs	Nil	Very Low	Low	Medium	High	High
Financial impact	THC: No firm plans on how	ALL: Benefits of Joint	ALL: Benefits of combined	ALL: Benefits of combined	ALL: Benefits of combined	ALL: Benefits of combined

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	to achieve in-year and three year savings targets.	Working to identify savings opportunities	scale to identify savings opportunities. Ability to provide services to other public sector organisation, raising income and offsetting costs.	scale to identify savings opportunities. Ability to provide services to other public sector organisation, raising income and offsetting costs.	scale to identify savings opportunities. Ability to compete with public and private sector organisations to generate income. Having to compete would increase costs. All income would go to the councils.	scale to identify savings opportunities. Ability to compete with public and private sector organisations to generate income. Having to compete would increase costs. Not all income would go to the councils.
Impact on staff	THC: Requirement to recruit senior staff. Possible impact on morale.	THC: Impact on morale, no formal structure, just a manager from Aberdeen.	No TUPE issues if roles don't already exist in THC.	No requirement for TUPE transfer for Joint Committee partners.	TUPE transfer of staff to the LATC. Reaction of staff to not being employed by the council.	TUPE transfer of staff to the JV. Reaction of staff to not being employed by the council.
Deliverability and potential risks	No deliverables. Major risk for THC is the inability to deliver an effective procurement service with reduced numbers of staff. Further risk is the missed opportunity to deliver contractual and process efficiency savings for all councils.	Formal agreement required to avoid, for example, unexpected withdrawal of management, disputes over time sharing, etc.	Formal agreement required avoiding, for example, unexpected withdrawal of management, disputes over time-sharing, etc. Clear financial and performance objectives need setting and agreeing for a reasonable period (three years).	Formal agreement required avoiding, for example, unexpected withdrawal of management, disputes over time-sharing, etc. Clear financial and performance objectives need setting and agreeing for a reasonable period (three years).	Creating a separate commercial entity has significantly greater start up costs than the other models considered. A separate management team with commercial as well as public sector skills needs to run the LATC. It has to compete with private sector specialists.	Private partners in JVs have annual profit targets to achieve. In later years these targets can change the working dynamic between the partners, as evidenced by other local government joint ventures (e.g.: Suffolk & BT, Essex and BT, Somerset & IBM, HMRC and Cap Gemini)
Count of Positive Outcomes (cells not greyed out)	2	3	7	4	2	2

8 COST-BENEFIT ANALYSIS (RECOMMENDED OPTION)

8.1 REDUNDANCY COSTS

Awaiting advice from HR&OD.

8.2 OTHER COSTS

Awaiting advice from HR&OD

8.3 SUMMARY INVESTMENT APPRAISAL

The following table summarises the required investment to deliver strategic category and commercial management services to THC through a Lead Authority model with ACC. The table includes one-off set-up costs (detailed in table 19) and on-going annual THC operational costs. These costs **do not** include management costs of THC procurement staff.

Table 20 – Required Investment

	ACC £ 000's	AC £ 000's	THC £ 000's	Total £ 000's
Recurring annual operational costs	0	0	490,000	490,000

8.4 COST-BENEFIT SUMMARY

The following table provides a cost-benefit summary of the recommended option. Costs shown include those for THC, AC and ACC.

Table 21 – Cost-Benefit Summary (see also Table 1)

Cost or Benefit	16/17 £ 000's	17/18 £ 000's	18/19 £ 000's	19/20 £ 000's	20/21 £ 000's	Cumulative £ 000's
A. Recurring annual operating costs for THC ¹	-	-490	-490	-490	-490	-1,960
B. Combined value of contracts	1,046,000	1,046,000	1,043,000	1,040,000	1,037,000	N/A
C. Annual contract savings (assume 0.50% p.a.)	-	5,230	5,204	5,178	5,152	20,764
D. Compound cumulative annual contract savings ²	-	5,230	10,407	15,585	20,737	51,959

Refer to Table 1 for assumptions and notes.

9 ORGANISATION DESIGN AND GOVERNANCE (PROJECT STAGE 3)

The TOM is based on a commercial model that can deliver innovative, flexible, end-to-end procurement solutions, enabling the councils to increase value across their supply chain. A network of local procurement hubs will deliver a range of services, with centralised centres of excellence providing high-end professional commercial and procurement services and solutions.

ACC will act as the Lead Authority with responsibility for managing strategic category and commercial management on behalf of delegating councils. Staff will be located where it is most appropriate to carry out their work; this approach retains flexibility to respond to local circumstances and requirements. However it still permits the full benefits of economies of scale, effective process design and re-design, career development and cost reduction.

Underpinning the new approach to management is a focus on the long-term strategic goal of expanding as a shared service, promoting income generation and creating stakeholder value. Thus the service re-design will include changes to the overall business model, not just efficiency savings.

Governance arrangements will need to be agreed by all parties prior to the detailed work on creation of the service. It is proposed that a three-council governance board meets quarterly to review performance and consists of Directors from each organisation. Initially this board will need to agree the governance arrangements, agree the role profiles and appointment process and how future partners could be brought into the arrangement. The CPS will report on performance and outcomes annually. To assist with this a set of Key Performance Indicators (KPIs) have been developed as part of the PDA and are presented at Appendix N.

9.1 ORGANISATION STRUCTURE

A high level proposed functional structure and proposed outline structure are provided at Appendix I.

9.2 DESIGN PRINCIPLES

A set of design principles has been created, which support working together more effectively:

Table 22 – Design Principles

Area	Principles
Processes	Standardise processes unless they need to be different.
	Greater efficiency of process – faster – better for customers – easier – simpler.
	Optimal use of resource.
Organisation	Use internal talent to redesign the business, taking the best from each other to capitalise on strengths and reduce weaknesses.
	Sustainable, cost effective and efficient shared services that are highly competitive and that can provide savings/economies of scale.
Information and	Each council will continue to use their existing line-of-business systems. The benefits from implementing one system across all three organisations do not outweigh the significant costs

Technology	(investment, implementation and change) that would be incurred through the implementation.
	The CPS will look to implement common systems across the three councils, where opportunities arise. These would include sharing tendering packages, contract management systems and so forth.
	In order to obtain benefits and economies of scale the proposal is to align category management and analysis across the three councils.
Location	In order to maximise efficiencies the TOM will specify that some jobs, probably the more senior roles, will require the post holder to travel between the various council HQ locations.
	The TOM will be designed so that staff can be co-located, enabling effective and efficient coverage for each of the partner organisations.
	Unless a system is specific to one partner, it is envisaged that the systems team will be based in one location. This will help to create a centre of excellence for systems and enable the team to share knowledge.
Business	The TOM will be designed to adapt to meet the changing needs of the councils.
Growth	Services will be designed for business focus and to be attractive to others.
	Costs and performance will afford a competitive advantage to develop income generation opportunities.

9.3 LEGAL CONSIDERATIONS

Section 56(1) of the Local Government (Scotland) Act 1973 states: *“Subject to any express provision contained in this Act or any Act passed after this Act, a local authority may arrange for the discharge of any of their functions by a committee of the authority, a sub-committee, an officer of the authority or by any other local authority in Scotland.”*

The associated Partnership and Delegation Agreement, which is associated with this proposal, will be reviewed and approved by the relevant Legal teams of the participating authorities, prior to senior officer review and agreement.

9.4 HR CONSIDERATIONS

9.4.1 Provision of strategic procurement services

HR&OD advising on process.

9.4.2 Redundancy

The proposals in this paper will not result in any redundancies for any of the authorities involved.

9.4.3 Protected Pay

As no changes to roles are envisaged that would reduce the pay of any member of staff, there should be no concerns relating to pay protection.

9.4.4 Other Considerations

During the design phase of this project, a review of the roles and responsibilities of the Category Managers and the Strategic Commercial Managers within ACC will need to be undertaken. Dependent

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on the outcome of that review, there may be a requirement to carry out consultation with staff on changes to terms and conditions.

Other areas for consideration may include:

- Travel cost differences between organisations
- Car parking availability for staff
- Working hours and flexible working arrangements
- The identification of staff on maternity and sick leave need to be included in consultation
- The importance that HR representatives meet with all staff (on a one-to-one basis) to understand individuals specific employment details (such as home working arrangements, part-time working).

9.4.5 Consultation

Staff and union consultation is an important part of this project and will be required across all the councils once the business case is approved, as part of the Design and Implementation stage.

9.4.6 Location considerations

The intention is for staff to continue to work in their current offices until the shared service operating model is implemented. From that date onwards the location of staff will be dependent upon the specific role profile.

9.5 TECHNOLOGY CONSIDERATIONS

IT engagement will be needed to support this project, ensuring staff can perform their duties to each council with minimal disruption. Details of proposed working practices are provided in Appendix C.

9.6 DURATION OF AGREEMENT

The length of the CPS is proposed to be unlimited. Should organisations wish to exit the arrangement they will be required to give the remaining partners **twelve** months' notice of their intentions.

Should an organisation withdraw from the partnership the following will apply:

- The withdrawing partner will receive those staff that that can be assigned to that partner;
- The withdrawing partner will incur redundancy costs where staff are unable to be reassigned;
- The withdrawing partner will incur any other costs linked to their withdrawal, including any other redundancy costs and legal costs; and
- Should there be a dispute the withdrawing partner will be liable for the legal costs.

If a partner leaves the arrangement, then the remaining organisations will meet to discuss the viability of the operation, and whether it can continue.

10 SERVICE IMPLEMENTATION (PROJECT STAGE 4)

10.1 OVERVIEW

From experience of merging the two individual teams from ACC and AC one of the most important considerations is ensuring that Members and existing customers within the councils are fully engaged. This is particularly important for Procurement as the added value from the Procurement team generally comes at the very start of the procurement process.

10.2 IMPLEMENTATION PLAN

The main deliverables, key milestones and due dates for implementation are set out in the following table.

Table 23 – Main deliverables, milestones and due dates (ACC)

Stage	Deliverable / Milestone	Owner	Due Date
S1 - Opportunity Assessment	D1 – Project Mandate	Head of Service	
	D2 – Project Brief	“	
	D3 – Project Governance and Terms of Reference	“	
	D4 – Outline Project Implementation Plan	“	
	D5 – Project Executive Status Report	“	
	D6 – Stakeholder and Communications Plan	“	
	M1 – Executive approval to proceed to Stage 2	Director of Corporate Services	29/04/2016
S2 - Feasibility Study	D7 – Options Appraisal Paper	Head of Service	
	D8 – Business Case & Cabinet Paper	“	
	D9 – Information Sharing Agreement	“	
	D10 – Equality Impact Assessment	“	
	D11 – Benefits Realisation Plan	“	
		M2 – Executive approval to proceed to Stage 3	SMT/CMT
S3 - Design	D12 – Partnership Delegation Agreement and SLA	Head of Service	
	D13 – Target Operating Model	“	
	D14 – Operational governance framework	“	
	D14 – Process definition and documentation	“	
	D15 – Detailed process and activity design	“	
	D16 – Design enabling technologies	“	
	D17 – Location selection	“	
	D18 – Detailed implementation plan	“	
	D19 - Staff training programme and material	“	

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	M3 – Executive approval to proceed to stage 4	SMT/CMT	30/09/2016
S4 – Implementation	D20 – Enabling technology implementation	Head of Service	
	D21 – Data cleansing and transfer	“	
	D22 – Knowledge transfer	“	
	D23 – Staff training	“	
	D24 – Staff consultation	“	
	D25 – Testing and cut-over planning	“	
	D26 – Solution go-live	“	
	D27 – Post go-live intensive care and stabilization	“	
	M4 - Executive approval to close project	SMT/CMT	

10.3 TRANSITION TO LIVE

The live service will be delivered in three steps:

10.3.1 Live Service Step One – Working together to achieve quick wins

This step will start on day one and focus on identifying a lead for THC. Their role will be to support the Head of Procurement in engaging directly with relevant THC Members, representing strategic Procurement at relevant Committees and engaging with stakeholders in THC to provide continuity during the period of change. Their role will be to ensure any potential negative impacts are mitigated during the period of change and to develop a constructive working relationship and understanding of the forward work plans and priorities for THC.

This step will also build on the work done as part of the business case in developing a single set of data relating to supplier spend and details of existing contracts.

We will jointly work on areas for immediate collaboration such as on those contracts for services included in the future scope of the expanded CPS as well as other obvious areas where economies of scale can be gained from combining our committed procurement spend.

In addition we should commence merging our contract registers and forward procurement plans into single work plans to enable future consolidation where this is applicable. We will also begin work on reviewing all three partner’s Contract Regulations to create a best practice approach, whilst allowing some opportunities for local issues. This standardisation will support the potential benefits from joint procurement and a cross council service. It is recognised Contract Regulations will need to be defined in conjunction with each council and formal approval may take some months.

We will continue to refine the proposed organisational structures including reporting lines, leadership roles, and any areas of obvious overlap or where existing vacancies can be released based on the efficiencies gained by merger.

Whilst any new structure is unlikely to be implemented in full from the start, one option is to move to a structure based on the current category cluster in CPS adding in additional responsibilities relating to business partners for each council as soon as this is practical and the benefits outlined are based on this option.

The key outputs from this will include:

- Business partners identified and clients fully engaged.
- Consolidated spend information and contract registers.

10.3.2 Live Service Step Two – Consolidate Plans, Contract Rules and Processes

The outputs from this step should include a single forward procurement work plan that categorises contracts and spend areas into:

- Where we will be able to consolidate and commit spend in a future single contract in areas where control and budgets are likely to remain part of the retained organisations e.g. agency resource engaged by individual councils, community care equipment contracts.
- Where we are unlikely to be able to commit spend to a single contract for example where local provider markets are best placed but where we can still apply the optimal procurement approach (e.g. selective use of e-auctions where appropriate) and specialist category expertise in each separate contract e.g. local transport contracts or contracts for care services.
- For service lines moving into a future shared service we will help to identify areas where we can consolidate and commit spend in a future single CPS-led contract e.g. software for business support solutions, mobile phones, occupational health. In these cases the saving will be shown in the relevant service area business case.

The other outputs from this step would include:

- Consultation with Members and other key stakeholders on the development and adoption of a common set of Contract Regulations (Contract Standing Orders) with applicable local variations to reflect any local political priorities such as key decision limits and the importance of local supplier spend. The aim should be to complete in step two depending on the level of change necessary to both sets of Contract Regulations. We should also be working to common procurement policies and processes allowing for local priorities where appropriate.
- Defining common templates for procurement activity and contracts, to simplify processes for procuring officers and to increase efficiency.
- A risk based approach to procurement activity, with use of flexible resource to support category specialist when required.
- Review opportunities to deliver improved value from reviewing and re negotiating existing contracts particularly but not limited to where we are using common suppliers across the partner councils.
- Development of a single forward work plan and firm plans to move to a single e- tendering solution as well capturing, utilising and reporting supplier spend data via one solution.
- We will develop and expand our commercial offering where appropriate to reduce the net cost of the Procurement team to our owning councils and this could include extending the quotation management service to other public bodies.
- Increase awareness of benefits from effective procurement across all council staff providing guidance and training to raise commercial skills.

This step can be carried out alongside and build on step one and should be complete within eighteen months of go-live.

10.3.3 Live Service Step Three – Convergence of Policies, Systems and Category Management

We recommend operating specific category teams responsible for spend across all CPS partners and customers regardless of location. It is also recommended that an on-going local presence in each council location be maintained with a business partner and point of escalation for each partner council. The physical location of members from each category team will be determined based on the needs of our customers as well as the suitability for individual members of staff.

If not achieved within step two, by the end of step three we will have adopted a single e- procurement solution.

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This step can take place in parallel with the other steps but may take a little longer depending on the success of the first two steps and any changes that are required based on feedback from our partner councils should be completed within two years of go-live.

10.3.4 Ambition for three years time

By 2018/19 we will have a well-established team with the majority of staff undertaking work focussed on their areas of expertise for the benefit of all CPS partners and customers and not just for one council at a specific location.

The team will build on the existing strategic work already being done and increase the traded income received in order to reduce the net cost of the team to THC, AC and ACC. They will do this via a mix of:

- Further growth in contingent fee income by opening up CPS contracts to other public sector bodies.
- Lead on sub regional and regional procurement contracts where THC, AC and ACC. are an interested party and CPS can charge other participants.
- Use opportunity to drive further economies of scale where a wider committed volume can be secured beyond THC, AC and ACC.

Expand the commercial offering of Procurement as a service to other public bodies in the geographical area building on the success so far in the health sector, districts and educational establishments.

11 APPENDIX A – PROCUREMENT REFORM (SCOTLAND) ACT 2014

This legislation has now received Royal Assent. The date for implementation has not yet been announced, but the latest information from the Scottish Government is that the end of 2015 will produce regulations giving effect to this legislation. The legislation includes a number of changes in approach bringing more flexibility to the way councils can procure goods and services.

Some aspects of the Act include:

11.1.1 Thresholds

The Act regulates procurements that exceed the following thresholds:

Goods and/or services	£50,000
Works	£2,000,000

These values exclude VAT and requirements must be aggregated appropriately.

This is in addition to the Public Contracts (Scotland) Regulations 2012 that give effect to the EU Directive on public procurement. The current thresholds for this legislation are:

Goods and/or services	£111,676
Works	£4,322,012

(Note: These thresholds are due to be reviewed in 2016.)

11.1.2 Sustainable Procurement Duty

The Act requires contracting authorities to comply with a new sustainable procurement duty. This requires us to consider the following before conducting the procurement:

- How to improve the economic, social and environmental wellbeing of our area
- How to facilitate the involvement of SMEs, third sector and supported businesses

- Promote innovation

The procurement must then be carried out with a view to securing these improvements.

11.1.3 Procurement Strategy

Contracting authorities that have more than £5m worth of regulated procurements per annum (the Service will exceed this level) are required to have a strategy setting out how it intends to carry out regulated procurements. This must include how our regulated procurements will:

Contribute to carrying out our functions and achieving our purpose

Deliver value for money

Comply with our duties under the Act (e.g. sustainable procurement duty)

Include a policy statement on:

- Community benefits.
- Consulting and engaging with those affected by our procurements.
- Payment of the living wage.
- Promoting compliance with the Health & Safety at Work Act 1974.
- Procurement of ethically and fairly traded goods and services.
- How we ensure that payments to contractors, sub-contractors and third tier sub-contractors are made within 30 days.

The Service will be required to publish the above online (as a minimum).

11.1.4 Annual Report

Contracting authorities are required to produce an annual report including:

- A summary of the regulated procurements that have been completed that year.
- A review of whether these complied with the procurement strategy.
- A summary of community benefits obtained.
- A summary of steps taken to facilitate the involvement of supported businesses.
- A summary of the regulated procurements expected in the next 2 years The Service will be required to publish the above online (as a minimum).

11.1.5 Community Benefits

Contracting authorities must consider whether to include community benefits in all regulated procurements above £4m.

The contract notice must include what community benefits are required or a statement of the reasons why they are not included.

The award notice must include a statement of the community benefits that will be derived from the contract.

Community benefits are contractual requirements relating to training and recruitment (e.g. young people, long term unemployed etc.), availability of sub- contracting opportunities, other things intended to 'improve the economic, social or environmental wellbeing of the authority's area in a way additional to the main purpose of the contract'.

11.1.6 Giving of Reasons to Unsuccessful Participants

More detailed feedback will need to be provided to unsuccessful suppliers.

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11.1.7 Contract Register

Contracting authorities must publish their contract register for regulated procurements.

The Service will be required to publish the above online (as a minimum).

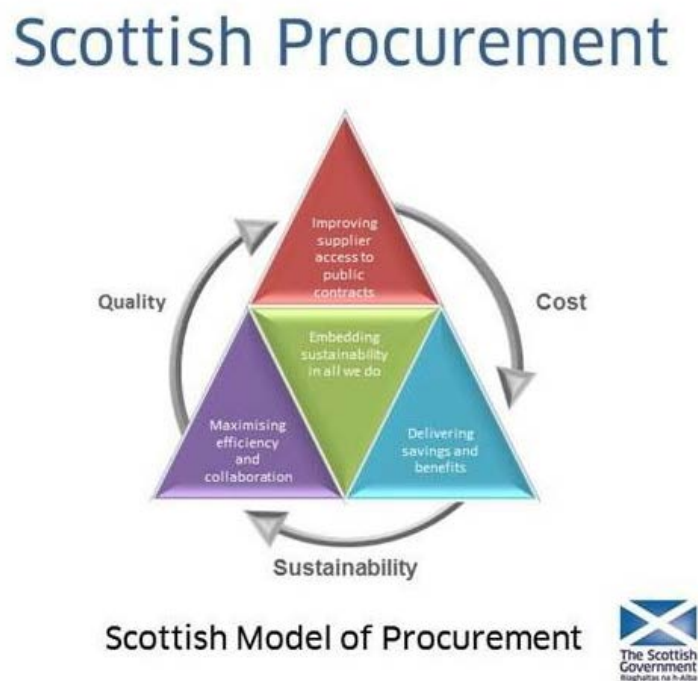
12 APPENDIX B – DEFINITION OF PROCUREMENT

Procurement is the process of acquiring goods, services and works from third party providers to meet stakeholders' needs.

In the public sector context, Procurement is regulated by a number of EU Directives that are implemented through regulations, and shaped by a variety of other central and devolved government legislation, strategy and policy. New EU Directives on public procurement have been agreed by the Commission and must be implemented by member states by early 2016.

The Scottish Government has developed The Scottish Model of Procurement (see Figure 8). The Scottish Government states that the intention of the Model is to drive public value: 'The Value for Money triangle sums up the Scottish Model of Procurement; it is not just about cost and quality, but about the best balance of cost, quality and sustainability.' It supports the Government's National Purpose of achieving sustainable economic growth.

Figure 8 – The Scottish Model of Procurement



The Scottish Model of Procurement aligns with the Procurement Reform (Scotland) Act that was given Royal Assent in June 2014. Sustainability in its widest sense features heavily in the requirements on the Act and public bodies are required to comply with a new sustainable procurement duty.

13 APPENDIX C – IT AND WORKING PRACTICES

The proposal is for staff to receive IT support from their local provider, as the systems provided for THC, AC and ACC will be on separate platforms. However this means that there is complexity for staff that are not located on their employer’s premises and for those that travel between sites. The following table describes the variety of types of staff needs and the recommended solution for each set.

Table 24 - Ways of Working

Way of Working	Requirement
Peripatetic	Ability to work remotely and flexibly Access to all three councils’ systems and printers Email account that can be access from any location
Based in one location, serving all councils	Potentially desk base role. However may need flexibility to work in other locations Access to all three councils’ systems and printers Email account that can be access from any location

THC will need to provide remote access into their systems from an ACC managed device, and vice versa. Depending on how that is provided there might be some configuration work on both councils’ devices to enable this, such as installing remote access client software. An estimated cost has not been included within the set-up costs, given that all three councils provide remote access facilities, which significantly simplifies the set-up of such access.

In terms of specific procurement systems, the proposal is to continue to use local council-specific systems in the short term to ensure service continuity. It is likely that some systems will require more users than currently, and an exercise will be undertaken to determine the impact of this during implementation. Due to the current arrangements it is unlikely that this will be a significant cost.

14 APPENDIX D – EQUALITY IMPACT ASSESSMENT

This Equality Impact Assessment (EIA) is based on the recommendation presented in this paper.

14.1.1 What is the title and aim of the activity?

This EIA concerns the Commercial and Procurement service of the Council. This business case contains proposals to extend the reach of the service and it is proposed that the number of personnel will not decrease in the short term as a result of the combining of resources from THC, AC and ACC.

It has long been recognised that, whilst fit for purpose in the largely transactional environment which typified local government some years ago, the current structure, emphasis and capability within the service as a vehicle to add best in class value to the Council, is now in need of being significantly enhanced to face the demands of a more complex commercial environment. The service must also respond to the need to deliver greater value for money from key strategic programmes.

14.1.2 What evidence was used in the assessment?

- **Internal data** – reporting dashboards providing detail spend, supplier and contract analysis for the Services.
- **Internal consultation with employees and services affected** – the proposed activity will touch every Service across the Council. Consultation will take place at all levels.
- **External consultation (partner organisations)** - The Council undertakes an annual Procurement Capability Assessment, which is administered by external auditors. From this assessment an annual Improvement Plan is thereafter presented to the Corporate Management Team and the appropriate Member Committee. As part of the exercise to ascertain the gap analysis for improvement consultation has been undertaken with partners from other local authorities.
- **External data sets** – Research was gathered through commissioned work (ACC with PWC, and through online research from CIPFA, CIPS and other national bodies, including Scotland Excel.
- **Other** – The Scottish Government is undertaking reforms and implementing policies to promote regional partnership working between public sector bodies.

14.1.3 Are there any gaps in evidence and what measures will be taken to fill them?

No gaps have been identified

14.1.4 What are the positive impacts on protected groups?

The work of the team has a positive impact mainly due to the mandated emphasis on equalities and community benefits within contracts being procured. We ensure all tender requirements show full transparency, non-discrimination and equal opportunity to all who wish to participate.

14.1.5 What are the negative impacts on protected groups?

None identified.

14.1.6 What steps are being taken to improve relations between groups?

Once the business case is approved, consultation on the proposal, the Target Operating Model, and the changes to terms and conditions will be carried out. The outline of that plan is contained within the business case.

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14.1.7 How does it create opportunities for advancing equality of opportunity?

The adoption of standard procurement policies and procedures, in line with national guidelines will improve the equality of opportunity for all those involved in the provision of, and engagement with the Commercial and Procurement Service.

14.1.8 What equality monitoring arrangements will be put in place?

Tenderers are asked specific questions within the bid documentation. The responses are validated and the actions will be monitored as part of the contract management process with the successful contractors.

14.1.9 What is the outcome of the assessment?

No negative impacts have been identified.

15 APPENDIX E – JOINT COMMITTEE GOVERNANCE

Similar to Lead Authorities, formal arrangements for Joint Committees are stated as a Delegation and Joint Agreement document between the partner organisations. The key differences between the two models are that, in a Joint Committee model there is actual participation by each partner organisation through formally nominated councillors and senior officers, and TUPE rules do not apply, as staff from all councils may take an active role in the delivery of delegated services. Below are examples of the principles that a typical Joint Committee would adopt.

15.1.1 Membership

- The Joint Committee structure may be formed of the CEO and councillors from each organisation.
- Members are nominated to reflect the balance of the political parties in each partner authority.

15.1.2 Constitution

- Members have full voting rights Nominated substitutes may attend providing they are nominated in advance councils can change nominated members providing they inform the secretary in writing.
- Members cease to be members of the committee when the Council removes them or if they are no longer elected members.
- Chair changes each year, and the chairs Authority is the host.
- Joint committee must meet quarterly unless they decide not to.
- Five clear days notice of additional meetings.
- Agenda circulated five business days in advance of the meeting.
- Minutes are required to be written.
- Quorum of two members from each council.
- Decisions are taken based on simple majority of those at the meeting.
- General operation of the meeting as expected including allowing amendments (which are discussed and voted on in turn).
- Joint committee can delegate functions to sub-committee or officer.

15.1.3 Committee Functions

- To approve the Service plan
- Set the Budget for the shared service within the parameters of the amounts defined by the councils.
- To manage the performance of the shared service against agreed SLAs
- To agree any decisions with implications of >£500k.

15.1.4 Service Plans

- Partner councils notify the Joint Committee of the amount of funding available, for the next three years by September.
- By end of October the Managing Director supplies a draft set of proposals for managing budget reductions (to be incorporated in budget documentation as appropriate).
- Managing director for the shared service needs to submit to the Joint Committee an annual written service plan for the next three financial years by November.
- On receipt of the service plan, the Joint Committee will make amendments and approve the service plan and service level agreements.
- Joint Committee is responsible for reviewing actual performance of the shared services against the service plans and service level agreements.

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15.1.5 Annual Report

- The annual report will be submitted to the Joint Committee by end of April each year. This report will include the activities of the shared services, the financial position and an explanation of the plans for the future years.
- The Joint Committee will consider the report before referring to the partner Cabinets (or appropriate Committee).

15.1.6 Office Accommodation

- The partners will provide suitable accommodation to relevant staff. Relocation of staff can occur to promote increased efficiency and will be undertaken in accordance with the employing council's procedures.

15.1.7 Assets

- An asset register will be maintained and assets will be owned by the partners of the shared service for the use of the shared service, unless otherwise determined at the point of entry to the arrangement.
- The sharing of asset value will be in accordance with the agreed distribution formula.

15.1.8 Costs and Liabilities

- Costs will be shared as agreed by the councils, or based on the distribution formula.
- Councils are jointly liable for claims and costs, which will be distributed in accordance with the distribution formula (unless otherwise agreed).

15.1.9 Insurance

- Councils will maintain public liability insurance of at least £25m and employee liability cover for premises.

15.1.10 Staff

- Staff are appointed and managed by the Managing Director and Service Directors of the partnership.
- The Joint Committee will be responsible for the appointment of the Managing Director and will be involved in the recruitment of Service Directors.

15.1.11 Funding

- The shared service finance officer will prepare a base budget for at least the following three financial years, alongside the development of the service plan. This will set out the financial contributions from partners (based on the information provided by individual councils).
- Cash flow forecasts will be prepared for the period, including identification of the cash payments by partners (not the proportional contribution) to determine if the cash flow has a material impact on any partner authority (determined as a loss of interest of >£50k), and if normalisation payments are required during the financial year.
- If payments are required to offset the cash flow impact these will be implemented on no more than a quarterly basis.

15.1.12 Exit Notification

- 18 months notice to the other partners required, if they wish to leave the Joint Committee.
- Need to pay reasonable costs for withdrawal.

15.1.13 Termination

- Requires payment of costs
- Division of assets and Intellectual property rights.
- Acting to minimise losses

15.1.14 Dispute Resolution

- Heads of paid services, if can't be resolved in ten days
- Escalated to heads of paid services, if can't be resolved referred to Joint Committee.
- If can't be resolved by Joint Committee referred to arbitration.

15.1.15 Scrutiny and External Audit

- Scrutiny of the agreement and functions is the responsibility of each council. Accounts will be subject to audit by the auditor appointed by the Audit Commission until this responsibility transfers to individual councils. When this happens the Joint Committee will appoint the external auditor.

15.1.16 Contract Procedure Rules

- Align contract procedure rules to best practice in support of a shared procurement service. This approach allows for different key decision limits to operate in individual councils.

15.1.17 Scheme of Delegation

- The Capital virements – none, capital programme remains subject to individual Cabinet decisions.
- Revenue virements – none apart from technical changes.
- Debt write off - £20k, any amounts above this level are reported to the Joint Committee for approval
- Loans to people or organisations - £75k
- Property transaction, capital value – n/a
- Property transaction, revenue value – n/a
- Expenditure for goods and services - £500k

16 APPENDIX F – LEGAL CONSIDERATIONS

The following is a list of the key Acts and Regulation governing ADMs in local government:

- EU Public Procurement Directives 2014
- Local Government Act 1972
- Local Government (Scotland) Act 1973 & 1994
- Public Contracts Regulations 2006
- Public Utilities Regulations 2006
- Data Protection Act 1998
- Human Rights Act 1998
- Localism Act 2011
- Scottish Govt. Identity Management & Privacy Principles
- FOI Act 2000
- Public Bodies Corrupt Practices Act 1989
- Public Contracts Regulations 2015
- Prevention of Corruption Act 1916
- Sale of Goods Act 1979
- Supply of Goods and Services Act 1982
- Public Services (Social Value) Act 2012

In particular:

- Section 69 of the Local Government (Scotland) Act 1973 gives local authorities power, subject to other enactments, to do anything which is conducive or incidental to the discharge of any of their functions.
- Chapter 65, Part 5, Section 56 of the Local Government (Scotland) Act 1973 (Arrangements for the discharge of functions by local authorities), allows for the discharge of any of their functions by a committee of the authority, a sub-committee, any officer of the authority, or by any other local authority in Scotland. Two or more local authorities may discharge any of their functions jointly and, where arrangements are in force for them to do so, they may also arrange for the discharge of those functions by a joint committee.
- Section 1 of the Local Government in Scotland Act 2003 gives local authorities a duty to secure best value. This duty, with the related power to amend legislation, may be considered if the general powers given by section 69 of the Local Government (Scotland) 1973 Act are deemed insufficient.
- Section 57 of the Local Government in Scotland Act 2003 gives Scottish Ministers power to modify enactments.
- By virtue of section 20 of the Local Government in Scotland Act 2003 a Local Authority (defined in section 61(c) of this Act as one of the 32 Scottish Councils, a joint fire board or a joint police board) has power to do anything which it considers is likely to promote or improve the well-being of its area and of the persons within that area. This is widely known as the power to advance wellbeing and has been interpreted as placing an obstacle in the path of collaborative working. However, the power of well-being should be considered along with the provisions set out in section 1 of the said Act which

state that it is the duty of a local authority to make arrangements which secure best value, defined as continuous improvement in the performance of the authority's functions.

17 APPENDIX G – STAKEHOLDER ENGAGEMENT

The following stakeholders were interviewed and/or involved in the collection and preparation of the information contained within this proposal:

Table 25 - Project Stakeholders

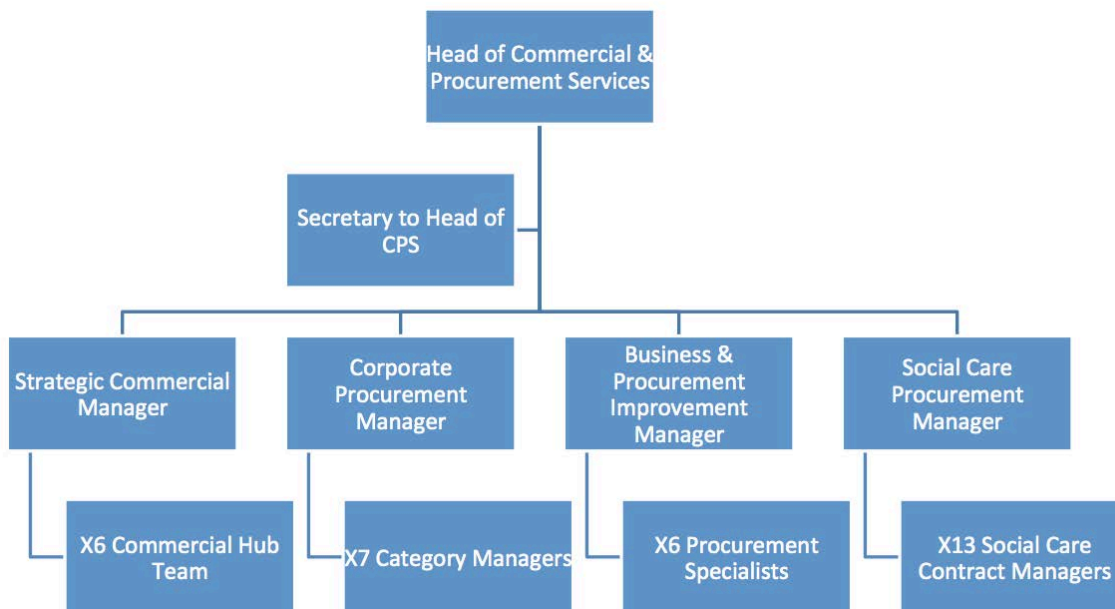
Name	Role	Authority represented
Richard Ellis	Project Sponsor Director of Corporate Resources	ACC
Derek Yule	Director of Finance; Business Owner;	THC
Craig Innes	Project Owner Head of Commercial and Procurement Services	ACC
Lynnsey Urquhart	Business Change Manager	THC
Zoe Shankley	Customer Account Manager	Scotland Excel
Carol Wright	Business and Procurement Improvement Manager	ACC
Alison Macleod	Social Care Procurement Manager	ACC
Joan McCluskey	Corporate Procurement Manager	ACC

18 APPENDIX H – EXISTING ORGANISATION STRUCTURES

18.1.1 Aberdeen City Council and Aberdeenshire Council

The team comprises 38 FTEs in the Commercial and Procurement services team. Not included in the organisation chart below are the Strategic Infrastructure Programmes (PMO) team, the Financial Services Management team and the Commercial Legal Team, all of which report into the Head of Commercial and Procurement Services.

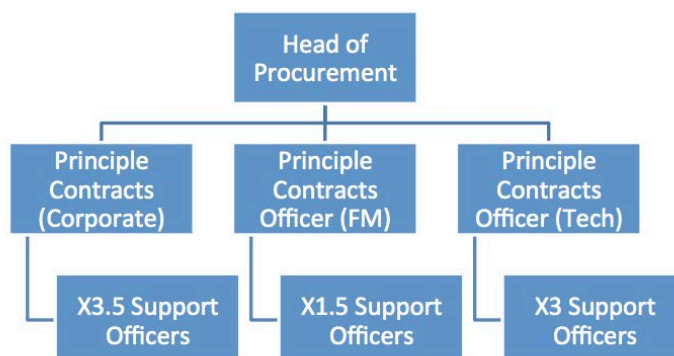
Figure 9 - The Aberdeen City and Aberdeenshire Councils CPS team



18.1.2 The Highland Council

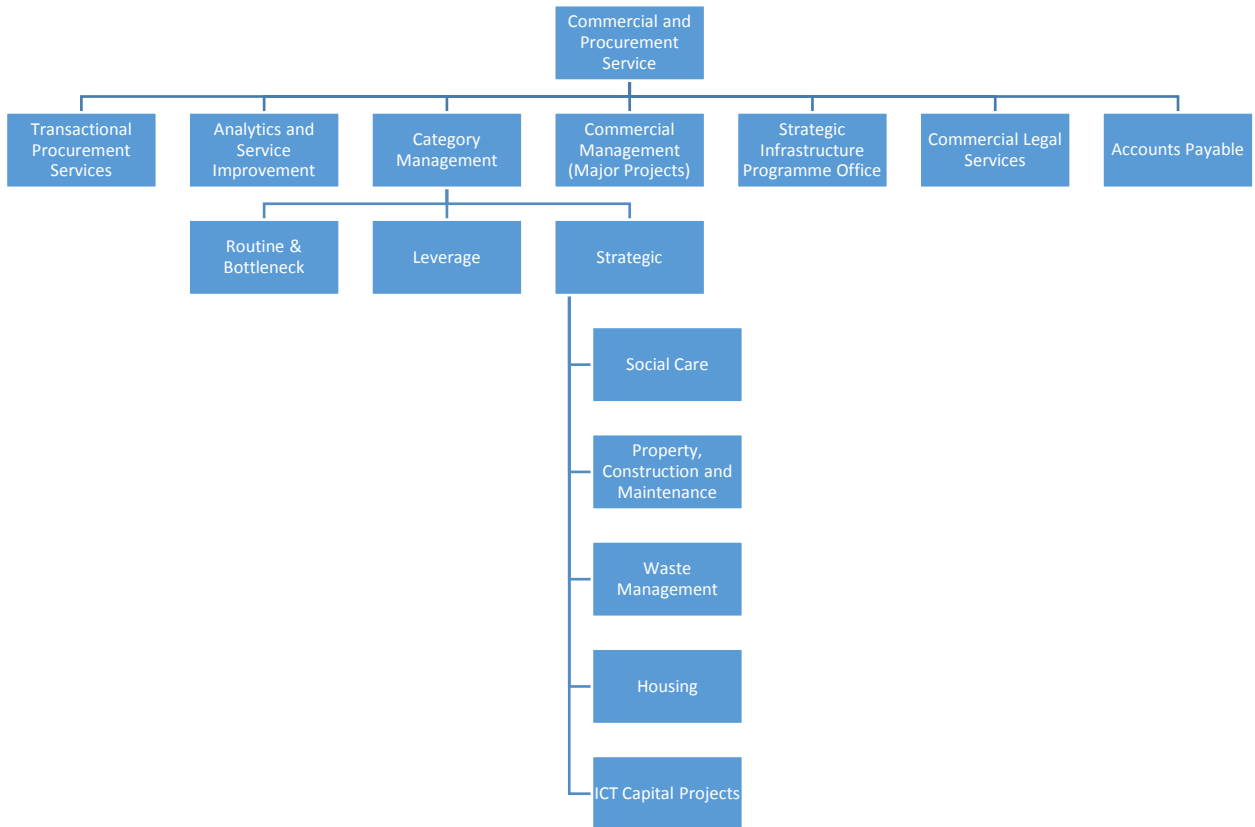
The Procurement team was formed of 14.6 FTE prior to the VSER exercise, reducing by 3 FTE as a consequence of that work. At the time of writing a further three posts (Head of Procurement, Principle Contracts Facilities Management and Technology have or will shortly be vacated. This takes the THC team down to 9 FTE, with 3 vacant posts to be filled.

Figure 10 - The Highland Council Procurement team



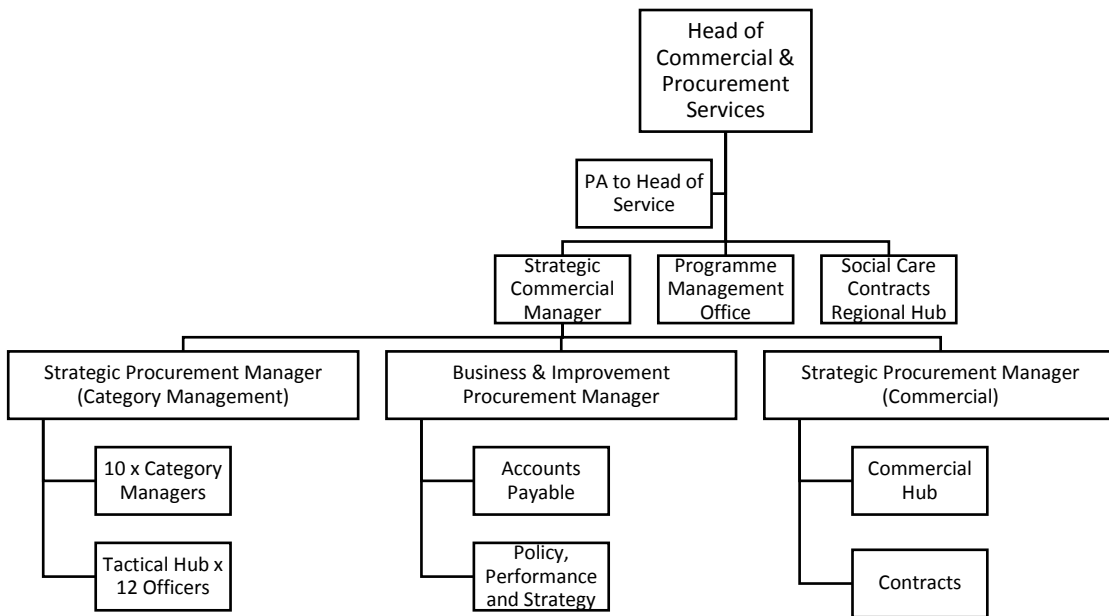
19 APPENDIX I –COMBINED FUNCTIONAL STRUCTURE

Figure 11a –Combined Functional (not organisational) Structure



1 APPENDIX I –PROPOSED OUTLINE STRUCTURE

Figure 11b –Proposed Outline Structure



2 APPENDIX J – SCOTLAND EXCEL PERFORMANCE FIGURES

The following table has been provided by Scotland Excel and lists the questions asked of all 32 councils in Scotland to assess their comparative performance. The overall scores of the three councils are shown on the second row of this table. The individual performances against each question are also shown below.

Table 26 - Summary of Annual Scotland Excel Procurement Performance for the Three Councils

	2014 Questions	ACC	AC	THC
	Total Score	72%	70%	54%
1.1	Does the organisation provide clear leadership of the procurement activity?	3	3	2
1.2	Is the procurement function responsible for the effectiveness and quality of sourcing activity across the organisation?	2	2	1
1.3	Does the procurement function effectively manage relationships with internal stakeholders?	3	3	2
1.4	How clear is the process of delegation and authority for procurement?	2	2	2
1.5	Does internal audit provide assurance that the organisation's internal control systems for procurement are adequate and effective?	3	2	2
2.1	How developed is the organisation's procurement strategy?	3	3	2
2.2	Is there a clear process for procurement involvement in strategic reviews of service provision? These reviews would normally consider options such as outsourcing, insourcing, shared services, etc.	3	1	1
2.3	How well is the procurement strategy supported by senior management within the organisation?	3	3	2
2.4	Has the procurement function developed, and acted on, an improvement plan for the organisation?	3	3	2
2.5	What level of external collaboration exists to identify and adopt good procurement practice?	3	3	3
3.1	Are specifications for the procurement of goods and services designed to maximise value for the organisation and its customers? (e.g. output specs. technology roadmaps, legislation, and whole life costing)?	1	1	2
3.2	How early and to what extent is the procurement function involved with internal customer teams in the design and development of their business plans and strategies?	3	2	2
3.3	To what extent are the development and management of commodity strategies and the rationalisation of goods, works and services based on reliable and robust internal information?	2	2	1
3.4	Is there effective Demand Management early in the procurement process?	2	2	1
3.5	To what extent, and how, is detailed and rigorous supply market analysis used to drive strategy development? E.g. understanding whole life cost, benchmarking price, quality etc.	2	2	1
3.6	Are mechanisms in place to encourage new suppliers and ensure openness and transparency?	3	3	3
4.1	Are commodity strategies and business cases for Cat C contracts and Cat A & B mini-comp's developed in line with good practice in the Procurement Journey?	2	2	1
4.2	To what extent is the (cat C or mini-comp's on cat A or B) requirement developed as part of a cross functional team (e.g. a UIG type activity) when demand crosses departmental boundaries?	3	3	3
4.3	How much of the overall spend (CAT A, B & C) is covered by signed-off commodity / project strategies? All strategies should include forecast savings and/or benefits.	1	1	1
4.4	How does the organisation take account of sustainability in its procurement activity? N.B This includes Community Benefit Clauses	2	2	2

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	(CBCs) and capacity building for SMEs (including 3rd Sector).			
4.5	How does the organisation monitor its progress towards demonstrating sustainable procurement practices and processes?	1	1	1
4.6	How does the organisation manage and mitigate risk during the sourcing process?	2	2	1
4.7	How are suppliers selected within the organisation?	2	2	2
4.8	Do post procurement reviews take place to identify lessons to be learned from the process and to determine whether planned benefits and VFM was achieved?	2	2	3
4.9	How is the organisation increasing its C1 local collaborative procurement with other public bodies?	3	3	1
4.10	Is the organisation working with centres of expertise on collaborative procurement?	3	3	3
4.11	Which evaluation criteria are used during local procurement exercises?	2	2	2
4.12	Does the organisation place business with supported businesses through Cat A, B or C contracts?	3	3	3
5.1	How does the organisation ensure that Cat A, Cat B and Cat C contracts are being used?	1	1	1
5.2	Does the organisation have a clear understanding of its contract coverage?	2	2	2
5.3	How are contracts and suppliers managed across the organisation?	2	2	1
5.4	During the life of the contract, how proactive is the organisation's approach to the review of specification of current products and services to deliver benefits?	1	2	1
5.5	Does the organisation manage supply risk during the life of the contract?	1	1	1
5.6	Do suppliers have an opportunity to provide structured feedback to the organisation during the life of the contract?	2	2	1
5.7	How are supplier and organisational processes developed during the life of the contract to deliver benefits to the organisation?	2	2	1
6.1	How effective is the process for receiving and authorising payment for goods, services & works?	1	1	0
6.2	What is the organisation's performance in terms of payments to suppliers?	2	1	2
6.3	How established is quality assurance in the procurement process for goods and services?			
6.4	Are suitable technology-based tools in place and used?	2	2	2
6.5	How does the organisation ensure that products and services are correctly and consistently coded, that prices are correct and updated in a timely manner and that this information is available in the general ledger/finance system.	1	1	1
6.6	Has the organisation assessed its procurement process automation and information requirements and implemented an IT strategy to meet them?	1	1	1
6.7	To what extent is the supplier delivery framework tailored to meet specific product needs?			
6.8	How developed are the processes for stock management & is inventory managed efficiently?			
7.1	How proactive is the Procurement department in terms of planning future resources?	3	3	2
7.2	Do Procurement Professionals contribute to initiatives to improve procurement efficiency and effectiveness? E.g. improving efficiency in procurement processes, removing duplication etc.	3	3	2
7.3	Do Procurement Professionals and Officers have their competency levels assessed using the Scottish Procurement Competency Framework or a similar competency framework?	2	2	2
7.4	How well established are the training and development support structures for Procurement Professionals and Officers? Is there a	3	3	2

	designated budget for procurement training, which is equivalent to the training budget allowed for other specialist areas?			
7.5	Is there a process in place for ensuring that non-procurement staff that have authority to procure have the appropriate competency levels?	2	2	2
7.6	How proficient with EU Procurement Legislation are the Procurement Professionals and Officers within the organisation (including those with delegated purchasing authority)?	3	3	2
8.1	How well defined are the procurement performance measures?	3	3	1
8.2	Do Procurement Officers and relevant managers get appropriate, timely and accurate procurement spend information?	3	3	1
8.3	Do all appropriate stakeholders receive, and act on, relevant procurement reports?	2	2	1
8.4	Is procurement spending monitored to ensure that it realises its anticipated benefits and savings against targets?	2	2	1
8.5	How does procurement use customer feedback to improve its performance?	1	1	1
8.6	Does the organisation contribute to analysis of trends in Scottish procurement by supplying relevant information?	1	1	1

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3 APPENDIX K – PROCUREMENT AND COUNCIL-RETAINED TASKS

To help the Councils understand what the CPS will provide, and what will remain as a residual function within each authority the following table of services has been developed. Two crosses indicate whether CPS or the retained function takes the lead, with support from the other.

Table 27 – Procurement and Council Retained Tasks

Ref	Service Description	CPS Provision	Retained Function
	Tender Management		X
1	Identify requirement		X
2	Prepare business case		X
3	Research markets	X	
4	In house research	X	X X
5	Develop procurement strategy and options	X X	X
6	Prepare specification	X	X X
7	Supplier selection	X	
8	OJEU notices	X X	X
9	Pre Qualification Questionnaire	X X	X
10	PQQ Evaluation	X X	X
11	Invitation to Tender	X X	X
12	Receipt of Tenders	X X	X
13	Tender Evaluation	X X	X
14	Contract Award	X	
15	Tenderers' debrief	X	
16	Implementation	X X	X
17	Communication/Liaison	X	X
18	Liaison with client manager	X	X
19	Project Closure	X	
20	Contract Management		X
21	Support in disputes	X	X X
22	Contract Review	X	
23	Contract Administration	X	
	Contracts Register		
24	Establish register of existing contracts	X X	X
25	Maintain contracts register	X X	X
	Guidance and Advice		
26	Provide advice on procurement, EU legislation and contract management	X	
27	Provide advice on financial regulations and who should be placing orders	X	
28	Provide advice on suppliers and supplier management	X	
29	Provide advice on sourcing	X	
	Compliance		
30	Undertake training/awareness raising exercises of contracts and procedures	X	
31	Monitor compliance across organisation	X	

32	Identify compliance issues	x	
33	Take remedial action		x
	Supplier Management		
34	Manage supplier enquiries	x	
35	Foster supplier base	x	
36	Develop markets	x	
37	Supplier analysis	x	
	Spend Analysis and Research		
38	Analyse spending across partners	x	
39	Identify opportunities for savings	x	
	Procurement Strategy Development		
40	Develop a procurement strategy for the partnership	x x	x
41	Develop a work programme to implement the strategy	x	
42	Monitor progress against the work programme	x	
	Policies and Procedures	x	
43	Develop contract procedures	x	
44	Develop contract documentation	x	
45	Identify opportunities for process efficiencies	x	
	Consultancy		
46	Input into best value reviews	x	
47	Introducing systems involved in procurement	x	
48	Input in working groups	x	
49	Input into use of resources	x	
50	Input into sustainability agenda	x	
	Training End Users		
51	Commercial and Procurement awareness	x	
52	Corporate and unit training	x	
53	Induction of new staff	x	
	Web presence		
54	Establish and maintain intranet pages	x	
55	Establish and maintain internet pages	x	
	Other		
56	Liaison with external bodies	x	
57	Purchase order administration	x	
58	Authorise orders out of central budgets	x	
59	Administrator for purchase order system	x	
60	System administration for corporate credit cards	x	
61	Creditor Management accounts payable	x	

4 APPENDIX L – BENEFITS AND DELIVERABLES

The following table provides detail on the benefits identified, how they will be delivered, and to whom those benefits will accrue.

Table 28 – Benefits and Deliverables

Benefits	Deliverables (How and to whom)
1. Concrete plans on how to achieve budgeted savings in-year and over the next three years.	Adoption of Scotland Excel frameworks has delivered £2m to ACC and AC in 2016/17, whilst THC have achieved only around £60,000 savings over the past 6 years. As a result, early adoption of those frameworks will result in significant savings for THC.
2. An increase in combined buying power will facilitate savings through greater economies of scale on strategic categories of spend.	This will be achieved primarily through tender negotiations using Scotland Excel frameworks for IT, Highways and Transport, Waste, Social Care and Facilities Management categories. For other categories of expenditure it will be achieved through the combined purchasing power of the three authorities.
3. By sharing best practice the combined rating from the external assessment conducted each year by Scotland Excel should improve.	Refer to Appendix J for the Scotland Excel PCA 2014 results of the three councils highlighting, which council(s) perform best for each benchmark. The best performing team(s) will share their practice with the other(s) to raise the overall standard.
4. Savings can be achieved through a reduction in duplicate functions, change activities (developing policies, processes, and training), subscriptions, IT assets and service contracts.	It is anticipated that, at the conclusion of the three steps of implementation of this plan, between 5% and 20% efficiencies will be achievable.
5. Having a single, combined team will afford greater resilience and improved demand management.	This is reflected in the proposed organisation structure described in Appendix I. The benefit to all parties is that of additional capacity in both BAU and strategic activities.
6. A team with the right capacity, quality and cost of provision offers a viable option for public sector bodies looking to find alternative delivery models.	On the assumption that the combined team shares and adopts best practice, the overall annual Scotland Excel results could see them topping the chart for high performance across all 32 councils. Combined with a cost effective delivery model, this would position the team well to offer those same services to other public sector bodies.

5 APPENDIX M – ALTERNATIVE DELIVERY MODELS - PROS AND CONS

The following table lists the pros and cons identified for the various ADMs considered in this paper.

Table 30 – ADM Pros and Cons

Model	Pros	Cons
In-House		
	Control of in-house team and expertise	May lack resources to invest in technology, including latest processes and procedures.
	Flexibility – able to supplement in-house resource with locum, secondment or case-work from shared service or private sector as need arises	May lack resources for development of team
	Responsibility, accountability and clear governance	Lower perceived commitment and productivity – but depends on the people and the service
	Good value for money if properly resourced and managed	May lack depth of legal resource and have poor resilience
	Management can address weaknesses, e.g. skills gaps and performance directly	May not be perceived as giving good value for money, whether they do or not
	"Light touch" regulation as in-house lawyers	
	Potential for better accessibility and team working across Council functions	
	Continuity of staff/operations (and no need for an exit strategy)	
	No tax/VAT issues	
	Corporate input and corporate memory retained	
Shared Services (generic)		
	Delivers cost savings and better value for money	Unlikely to be comprehensive (external expertise still required for major projects/ sensitive / specialist work.
	e.g. on legal library materials, staffing and productivity (usually at least 20% in total)	
	Retains flexibility - able to supplement in-house resource with locum, secondment or case-work from shared service or private sector as need arises	Perception of reduced accessibility and control (depending upon proximity of Councils and availability of staff
	Better recruitment and retention within a larger structure	Potential for occasional conflict
	Better resilience	Slightly weakened responsibility and accountability unless proactively managed
	Clear responsibility and accountability	Potential for lead or host to end up with additional costs or responsibilities if not covered in Collaboration Agreement

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	"Keeps it in the family"	Requires a satisfactory exit strategy
	Relatively straightforward	Requires warranties and indemnities to be clearly scoped
	"Light touch" regulation as in-house lawyers and can delegate functions between authorities	May still lack resources to invest in technology, including latest processes and procedures and development of team
	Management can address weaknesses, e.g. skills gaps and performance directly, but performance should be managed pro-actively	Investment decisions may need to be agreed between participating authorities (and may not be forthcoming)
	Can be structured as a delegation of functions rather than an outsourcing, avoiding a potentially costly procurement	May be hidden cost e.g. inability to save on CEC's/overheads
	No tax/VAT issues	
	Corporate input and some corporate memory retained	
Joint Committee		
	Joint Committees permit the authorities to retain member-level control over the arrangements, which may be attractive politically.	This model is potentially less scalable than other models as the constitution of the Joint Committee would potentially need to be reviewed with each new Partner.
	Joint Committees are scheduled employers to the Local Government Pension Scheme, enabling staff to be ring fenced for pension purposes. This allows the partners to determine the actual cost of the arrangements and their respective contributions more accurately.	A Joint Committee has no corporate status and cannot hold property or enter into contracts. Any contracts will have to be entered into by one or more of the Partner authorities directly. The Joint Committee would need to make provision for sharing the benefit and burden of such contracts.
	The committee model of governance is familiar for local authorities.	As the Joint Committee cannot employ staff directly it can mean cultural change is slower to achieve.
	It is a relatively straightforward model to establish and non-threatening to staff as it does not involve a transfer of employment.	
Lead Authority		
	This model provides clarity of direction for the new legal practice. One authority is responsible for the structure and establishment of the new service. The service is delivered and managed within the decision-making framework of the lead authority. A clear, visible, change with clear leadership	Procurement rules will apply if the model creates a commercial arrangement between the lead authority and the Councils to which it provides legal services.
		This model could be viewed as one authority taking control, or as a loss

		of control by other authorities which both staff and Members may be uncomfortable with.
		In this arrangement the balance of risk between the lead authority and its partner Councils would need to be evenly distributed and would require managing through a robust agreement, which itself would increase the risk of the arrangement being perceived as a commercial one.
Outsource		
	Potential for reduced costs, since well-developed market likely to offer competitive fees	Price likely to fluctuate with demand, so unlikely to achieve comprehensive capped fee
	Reduced management input/focus to the service	Loss of in-house expertise and lesser input to corporate policy and decision-making
	No separate legal entity created (unless social enterprise/mutual created)	Potential loss of influence in market place if full outsourcing
	Limited control over day to day conduct of cases except for decision making and values (may also be seen as a con)	Limited in-house capacity to manage/ monitor provider, which may erode savings over time
	Could operate concurrently with outsourced service on a 'partnership basis' & to sell capacity	Limits on delegation to a third party under Local Government law
	Provider accountable through contract	Requires clear exit strategy and expectations of Council future direction
	Opportunities for new ways of working, including investment in technology	Potential for weaker accountability/governance
		May be hidden cost e.g. inability to save on CEC's/overheads
Limited Company		
	Enhance the quality of service to our current customers;	There are increased set-up costs and time required would be longer than other models, creating the potential for loss of momentum.
	Increase resilience and flexibility;	A robust business case would need to demonstrate that the start up, set-up and operational costs would be outweighed by increased income from a wider market.
	Reduce the overall cost of the service through economies of scale;	If the main rationale is to target public service third party work, the ABS would need to tender for that work and may need to tender for parent authority work where Teckal3 exemption does not apply. For this reason one option is to form an ABS only for the work undertaken on behalf of third

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		parties, rather than for the Councils' work – retaining the rest in-house. This is the model that Essex CC has recently adopted.
	Create a sustainable model with the ability to grow and develop;	There is a tax/VAT liability, which would not be incurred with other models. An ABS would pay corporation tax and be required to recover VAT in the way that other commercial organisations do.
		Time, financial investment and resources would be required for the set-up
Joint Ventures		
	Ability to work for anyone	Additional risks as to generation of new business and profitability
	Creates a new brand/identity in the market	Limits on delegation to a third party under Local Government law
	Provides opportunities for third party investment in the service	Potential loss of in-house expertise, unless seconded and loss of input to corporate policy and decision-making
	May produce a revenue income stream for the Council	Limited in-house capacity to manage/ monitor provider
	A share company can form part of a tax group	Extra regulation and marketing that results in additional costs, increasing prices & reducing viability of the service
	Ring fences risk away from the local authority	Longer set-up time and potential for management distraction
	Can invest in staff without "bureaucratic" constraints of local authority service provision	Start up capital, set-up and operational costs will need to be outweighed by gains and extra responsibilities of directors, who may end up with personal liability in limited circumstances
	Could be formed as a social enterprise/ mutual	Need to tender for parent work where Teckal exception does not apply (e.g. if private sector ownership/equity or main rationale is to target third party work).
	May be sold in due course and realise a capital receipt.	Potential tax/VAT costs.
		Time and resources involved in set-up with no guarantee that the SRA will grant a licence or if it will be qualified
		Clear governance, accountability and exit strategies required
		May be hidden cost e.g. inability to save on CEC's/overheads

6 APPENDIX N –KEY PERFORMANCE INDICATORS

The next table lists the KPIs and target values contained in the Partnership and Delegation Agreement.

Table 31 –Key Performance Indicators

Key Performance Indicators	Target
Local indicators (measured for each individual council, and each individual geography)	tbc
% Spend with local SME businesses	tbc
Number of contracts with community benefits to be realised	tbc
Efficiency savings - cashable	tbc
Efficiency savings – non cashable	tbc
% Spend covered by contract	tbc
Off-contract spend as a percentage of total supplier spend	tbc

7 APPENDIX O - GLOSSARY OF ACRONYMS

Table 32 – Glossary of Acronyms

AC	Aberdeenshire Council
ACC	Aberdeen City Council
ADM	Alternative Delivery Model
BAU	Business as Usual
CPS	Commercial and Procurement Shared Service
CPS	Commercial and Procurement Service
HR	Human Resources
IT	Information and Technology
KPI	Key Performance Indicator
LGA	Local Government Association
PDA	Partnership and Delegation Agreement
P2P	Purchase to Pay
SME	Small Medium Enterprise
Teckal	The Teckal case set out an exemption for contracts awarded by Contracting Authorities to legal persons under their control that took these outside the application of the procurement rules. See http://curia.europa.eu/juris/liste.jsf?language=en&num=C-107/98 for information.
THC	The Highland Council
TOM	Target Operating Model
TUPE	Transfer of Undertakings (Protection of Employment)
VSER	Voluntary Severance including Early Redundancy