
REPORT FOR: CABINET

Date of Meeting:	20 January 2016
Subject:	Procurement Shared Services
Key Decision:	Yes
Responsible Officer:	Terry Brewer, Divisional Director, Commercial, Contracts and Procurement
Portfolio Holder:	Councillor Sachin Shah, Portfolio Holder for Finance and Major Contracts
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All
Enclosures:	Appendix 1: Procurement Shared Services Business Case Appendix 2: EqlA

Section 1 – Summary and Recommendations

This report requests authority from Cabinet to establish a Shared Service between LB Harrow, LB Brent and Buckinghamshire County Council (Bucks) for the provision of Procurement and Commercialisation Services.

The arrangement will be one of a Lead Authority Model where Harrow is the

Lead Authority. The shared service will be created in two stages; firstly with a delegation of the procurement function from Brent and Bucks to Harrow with affected staff transferring their employment from Brent and Bucks to Harrow under TUPE, and following this the creation of an operational shared service with a new Target Operating Model.

Recommendations:

Cabinet is requested to:

1. Note the business case set out in Appendix 1.
2. Approve the creation of a Procurement Shared Service, with Harrow Council as the Lead Authority.
3. Agree the cost sharing arrangement set out in the financial section.
4. Accept a delegation from Brent and Buckinghamshire Councils of their procurement functions under section 101 of the Local Government Act 1972.
5. Subject to such delegations, to authorise the Corporate Director of Resources, following consultation with the Portfolio Holder for Finance and Major Contracts, to:
 - Agree the terms of and execute an Inter Authority Agreement which reflects the principles outlined in this report; and
 - Implement a Shared Procurement Service in accordance with that Agreement.

Reason: (For recommendation)

Cabinet approved the Commercialisation Strategy at the Cabinet Meeting on the 17th June 2015. The creation of a Procurement Shared Service will enable the Council to meet its MTFS savings targets of £290k in 2016/17 and 2017/18 and put in place a mechanism to achieve further savings of £180k in 2018/19.

It will also allow the development of a resilient and cost effective procurement and commercialisation service which can provide improved support to the these Councils at a reduced cost.

Section 2 – Report

2.1 Introductory paragraph

LB Harrow, LB Brent and Buckinghamshire Councils have a combined annual third party spend of over £750m. Commercial and Procurement teams across these councils are providing professional commercial and procurement support to service departments whilst under downward budgetary pressures and with limited resources in terms of capacity and expertise.

Creating a Procurement Shared Service (PSS) from the three councils will help assuage cuts to budgets and bring together best practice, knowledge, skills and resources. The creation of a shared service will enable Harrow Council to achieve savings of £290k and Brent Council £270k over the next two years. Buckinghamshire have already made cuts and will benefit from collaborative procurements and access to a larger team which will provide greater resilience and expertise.

If the 3 councils do not take action now, the impact will be that Brent and Harrow will have to make cuts over the next three years of 34% and over 50% respectively. This would seriously jeopardise the ability to provide even a basic transactional procurement service to those councils, and mean that any development of commercialisation/civic enterprise activity would be severely limited. Failure to do anything now will also affect Buckinghamshire's ability to provide procurement services due to the difficulty in attracting staff.

Individually the Councils have very high procurement expenditure for the purchase of most goods, works and services but collectively they will become a significant customer for a number of areas of major spend. The aggregated spend on specific categories will open up greater opportunity to deliver savings, value for money and social value for the councils whilst making it much more interesting for suppliers to work with the three councils.

The main benefits of the PSS will be significant savings in terms of budgeted spend alongside an increase in the skills and resources available for Commercial and Procurement activity in each of the councils, improving resilience and giving staff more opportunities to progress their careers. Other benefits include the ability to identify collaborative procurement opportunities and implementing standardised, best practice systems and processes. In addition it will provide a platform to do work for other agencies and give greater influence to deliver collective aspirations with regard to SME engagement, apprenticeships and social value.

There will be a two stage process to creating the PSS. The first stage will be to create an amalgamated procurement service, with staff from Brent and Buckinghamshire TUPE transferring into Harrow Council. The new PSS will be created from the newly amalgamated Procurement Service through a process of interview and selection that will be run jointly by the three councils. The main features of the new service will be senior staff that will be peripatetic supported by small teams that will be based on site with each Council.

The recommendation from this paper is to create a shared service, whereby Brent and Buckinghamshire Councils formerly delegate their procurement and commercialisation activity to Harrow Council, and Harrow provides the service from a Procurement Shared Service (PSS). Staff working in the PSS would be employed by Harrow Council, meaning impacted staff from Brent and Buckinghamshire Councils would TUPE transfer to Harrow Council.

The aspiration for the PSS is to be able to provide Commercialisation and Procurement services to the founding partners at no cost within 5 years.

2.2 Options Considered

Doing nothing was not an option given that Brent and Harrow have significant budgetary pressures. This means that the current models will not be viable in the future, with the levels of savings required. With both looking at cuts to the service of over 34%, the result would be a significantly reduced, transactional service. Buckinghamshire require a service that is resilient and can attract high quality staff. It also requires access to procurement specialists that it struggles to recruit currently. It is for these reasons that the option to 'Do Nothing' or continue operating as today, is not a viable solution.

Three other options were investigated as part of the business case:

- **Joint working:** in which participants try to consolidate functions within existing institutions – the least sophisticated of the three options. This often begins by merging internal services into a single unit, but can be extended to apply across organisations. However, each partner acts independently and retains responsibility for the service in-house. For example, several local authorities might collaborate on commodities procurement and agree to negotiate jointly with suppliers, but they each continue to employ and manage their own purchasing staff. This could also be the sharing of a particular post across two organisations, such as sharing the Head of Commercial and Procurement across Brent and Harrow.

Joint working is 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. However it will be difficult to change or streamline processes and sustaining significant change will be difficult. It would not resolve resilience issues nor fill gaps in resourcing. Progress will be difficult to sustain without further integration.

- **Shared Services**, in which one organisation assumes responsibility for running services for others.

A shared service in this instance is 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.

- **Outsourcing**, in which participating bodies decide to establish, or use another, organisation to deliver services for them at arms-length. This would require a procurement exercise.

For the purposes of the Procurement Shared Service there was no appetite to create an arms-length organisation to deliver the service due to the complexity in procedural terms of establishing a special purpose vehicle or other local authority controlled company. In addition outsourcing to an external provider was not considered as the way forward, as it would limit the savings potential and the scale of the outsource would be too small to generate the savings required and limit the ability to include other councils in the arrangement at a later stage. This effectively ruled out this option, and no further analysis is provided.

On the basis of the research, and taking into account the requirements of the three organisations, the Shared Service model is recommended.

2.3 Background

The Council's financial challenges were laid out in the Medium Term Financial Strategy and Corporate Plan in February 2015. The Council faces a gap in its funding of £83m up to 2018/19.

The following table shows the MTFs savings that Harrow's Commercial and Procurement Service has to make over the next three years against a budget in 2015/16 of £863K.

MTFS	Saving £	Cumulative Saving £
2016/17	108,000	108,000
2017/18	182,000	290,000
2018/19	180,000	470,000

The impact of these cuts is 54%¹ on the current service and would that only a very basic, transactional procurement service could be provided. Similarly Brent Council has to find approximately 34% of savings in the next two years, which would also severely deteriorate the current service.

Buckinghamshire County Council are in a slightly different position as they have achieved their savings targets and do not come into the arrangement looking for additional savings at this stage; however their team is struggling to maintain levels of service due to a number of vacant posts, the inability to attract new staff due to high competition and a lack of resilience. This is a position that both Harrow and Brent could be in if nothing is done to halt the decline.

2.4 Current situation

There are a number of services currently being run as shared services with partner councils, such as shared legal services (with Barnet and Hounslow) and organisational development (with Bucks). The Divisional Director, Commercial, Procurement and Contracts is also a role currently shared with Brent and there are investigations into further shared services such as expanding legal services, and a shared service for Human Resources.

The current staffing within each council's procurement teams is shown in the table below.

2015/16 Staffing	Harrow	Bucks	Brent	Total
Posts	14	9	11	34
Full Time Equivalents	14	8.2 ²	11	33.0

Budgets for 2015/16 for each organisation have been gathered and the target operating model has been created using these budgets less the MTFs savings for 2016/17 and 2017/18. The impact of this can be seen in the next table.

2015/16 Budget £	Savings Required³ £	Amount Available £
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¹ Excluding the impact of SSC's

² There are 3 posts in Bucks that are not full time

	2015/16 Budget £	Savings Required³ £	Amount Available £
Harrow ⁴	863,000	290,000	573,000
Brent	813,176	272,000	541,176
Bucks	430,146	12,388	417,612
Total	£2,106,322	£574,388	£1,531,788

2.5 Why a change is needed

As highlighted in the background information the status quo is not an option. Harrow and Brent Councils are under pressure to make significant savings and Bucks are suffering from the inability to fulfil positions, thereby reducing the effectiveness of their service.

2.6 Implications of the Recommendation

The implications of this recommendation will be an increase in the number of staff employed by Harrow. The team size will increase from 15 to an anticipated 24 posts, but these will not all necessarily be on-site. The intention would be for senior management posts to be peripatetic and some roles will be based on site at Brent or Bucks. The intention is to enable directorates to receive similar services in the future to those they receive now, in spite of the large level of savings required. It will also enable three councils to receive a standardised, high quality and resilient procurement service whilst achieving considerable savings. The impact of not doing this for Harrow would mean that there would need to be 54% cuts to the current budget, which is predominantly staff costs, and the team size would drop to approximately 6 staff. This would mean that the only activity the future team could provide would be of a transactional or advisory basis.

By joining the three teams together it will allow for more collaborative procurement opportunities to be identified, as senior category staff will have visibility of three organisations procurement plans.

Finally the creation of a Harrow-led shared service will provide all councils with the reassurance that critical activities will not fail as there will be resilience in the new structure.

The recommended approach to creating the new organisation is in two stages. The first stage would be for Brent and Bucks to delegate their procurement functions to Harrow supported by an Inter Authority Agreement between the three councils and subject to these delegations the subsequent TUPE transfer of Brent and Bucks staff to Harrow. This would have the effect of creating a combined joint team, with staff located in Brent Bucks and Harrow. Once this is complete the second

³ Savings required in 2016/17 and 2017/18

⁴ Notional as there will be no budget transfer

stage would be the creation of a shared service operating model, which will be consulted upon in April and May 2016.

2.6 Performance Issues

There are no performance issues to consider, although services may notice a slight deterioration in service until the new shared service is bedded down.

2.7 Environmental Implications

There are no environmental implications resulting from the recommendations in this report.

2.8 Risk Management Implications

Risk included on Directorate risk register? No

Separate risk register in place? Yes

Risks associated with the Procurement Shared Services project have been effectively managed through the project controls established at the commencement of the project. These were documented on the project risk register and proactively managed through the Project Reporting arrangements.

2.9 Legal Implications

The result of the proposals in this report is that

- Brent and Bucks will need to agree to delegate their Procurement & Civic Enterprise (Brent) and Procurement (Bucks) activity to Harrow Council under section 101 of the Local Government Act 1972 and the relevant Executive Function Regulations. Brent and Bucks staff will transfer to Harrow's employment then all staff in the team will be made available to Brent and Bucks under section 113 of the Local Government Act 1972 which will enable each Council to delegate decisions to them etc. as if they were their own staff.
- Procurement staff from Brent & Bucks would TUPE transfer into Harrow Council;
- An Inter Authority Agreement (IAA) will be required between Harrow and Brent and Buckinghamshire Councils;
- Agreement over sharing of costs, including potential redundancy costs, will be agreed between the three parties under the IAA; and
- It is possible that there will be some redundancies, although it is hoped that the restructure will remove a number of vacant posts in the first instance.

See Appendix 1 for the detailed business case for a Procurement Shared Service.

2.10 Financial Implications

Financial implications arise out of the following key points:

1. The initial budget has been taken from the three Councils' existing budgets, after allowing for the savings targets that Brent and Harrow have for the next two years (2016/17 and 2017/18).

	2015/16 Budget £	Savings Required⁵ £	Amount Available £
Harrow	863,000	290,000	573,000
Brent	813,176	272,000	541,176
Bucks	430,146	12,388	417,612
Total	£2,106,322	£574,388	£1,531,788

2. Costs will be shared between the three partners in the same proportion as the budgets that they have provided at the onset of the shared service.

Council	Original Budget	Allocation Proportion⁶
£'000s		
Harrow	573	0.3711
Brent	541	0.3504
Buckinghamshire	430	0.2785
Totals	£1,544	1.0000

3. The three year forecast for the Procurement shared service shows a slight increase in costs, due entirely to an assumption around a pay settlement of 1%.

⁵ Savings required in 2016/17 and 2017/18

⁶ Proportions based on a %age of the Total Original Budget and rounded to 4 decimal places

C&P Shared Service Summary				
	Yr 1	Yr 2	Yr 3	Annual Uplift
	£'000s	£'000s	£'000s	
Contributions:				
Brent	541.181	546.013	550.894	0%
Buckinghamshire	417.565	421.294	425.060	0%
Harrow	573.042	578.159	583.327	0%
Total Contributions	1,531.788	1,545.466	1,559.281	
Salary Costs	1,332.000	1,345.320	1,358.773	1%
Other Staffing Costs				0%
	40.000	40.000	40.000	
Other Procurement	124.000	124.000	124.000	0%
Overhead Contribution	35.788	36.146	36.507	1%
Total Costs	1,531.788	1,545.466	1,559.281	
Surplus / (Deficit)	-	-	-	

Contribution to Harrow overheads by Brent and Buckinghamshire will be discussed as part of the negotiations of the Inter Authority Agreements. The current overheads incurred by the Harrow Procurement Team are calculated at £9k per person (£7k excluding capital items) and as such it is expected that each of the partnering councils will contribute to Harrow based on this amount and dependent upon how many staff transfer to Harrow Council.

4. Details of the costs are shown below.

Annual Costs	Yr 1	Yr 2	Yr 3
	£	£	£
Salary costs	1,332,000	1,345,320	1,358,773
Other staffing costs⁷	40,000	40,000	40,000
Other procurement related costs (see 7.5)	124,000	124,000	124,000
Overheads Contribution	35,788	36,146	36,507
Total Cost of Shared Service	£1,531,788	£1,545,466	£1,559,281

Assumptions behind the figures outlined above include:

- i. Each year above has been considered as a full year.
- ii. The salary costs relate to a full year of the new TOM.
- iii. An uplift in salary costs of 1% has been added to subsequent years.

⁷ Travel, training and telecommunications

iv. Salary costs (including on-costs) are based on the following number of roles.

5. First Year Operational Considerations:

Whilst the amalgamation of the three teams is intended to take place in April 2016 there are considerations that need to be taken into account during the first year of operations. Firstly the shared service operating model will not be in place until July 2016 at the earliest. This will mean that the merged team will be operating at the current cost until the new model is fully staffed. In effect this would mean an increase of approximately £143,633 for the first three months. The impact of this on each Council is shown in the following table.

Council	Original Budget £	PSS Contribution £	Saving £	3 Months Current Cost £
Harrow	863,000	573,000	290,000 ⁸	72,500
Brent	813,176	541,176	272,000 ⁹	68,000
Bucks	430,146	417,612	12,534	3,133
Total	£2,106,322	£1,531,788	574,534	143,633

There is the possibility of additional year one costs should any redundancies be made. These will be effective from 1st July 2016 and may include notice periods of up to 12 weeks. No impact of this has been taken into account due to not knowing the impact of vacant posts, difficulty in determining likely notice periods and redundancy terms but the method of apportionment will be agreed by all parties. This will be confirmed and agreed before the 31st March 2016.

In addition it is possible that individuals may take roles that are below their current salary or grade. In these cases the individuals are allowed to continue for a period¹⁰ on current salaries which would reduce the saving potential until they move onto the new pay grade.

These two factors can be offset against a combination of current vacancies and that £180k of Harrow's savings are not due until 2017/18, and the current case has them being realised earlier.

Finally the treatment of set up costs that will be incurred through the creation of the new shared service will need to agree as a first year

⁸ Savings relate to 2016/17 and 2017/18

⁹ Savings relate to 2016/17

¹⁰ This period will vary between councils, and it is possible that a reduced difference is also required for the second year

cost that the partners will share. These include one-off ICT costs, HR advisory costs and legal advice on the creation of Inter Authority Agreements. These costs will be incurred by Harrow and funded from the Procurement budget in the short term, with the intention of reimbursing the budget once the new shared service is operational.

6. The MTFFS Savings target for Harrow in 2018/19 £180,000. This will be achieved through either a growth of the procurement shared service by selling into other organisations or a worst case scenario of decreasing the size of the team.

2.11 Equalities Implications / Public Sector Equality Duty

An EqIA has been completed and it is not considered that the recommendations before Cabinet have specific equalities implications, or that the proposed variations to staff terms and conditions will have any material impact on those with a protected characteristic. This will however be kept under review as the project develops.

2.12 Council Priorities

The Procurement Shared Service has been developed in order to support the Council in achieving its objectives in the context of the financial challenges that the Council is facing.

Section 3 - Statutory Officer Clearance

Name: Sharon Daniels	<input checked="" type="checkbox"/>	on behalf of the Director of Finance
Date: 7 January 2016		
Name: Stephen Dorrian	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 8 January 2016		

Ward Councillors notified:	NO
EqIA carried out:	YES

EqIA cleared by:

Alex Dewsnap

Section 4 - Contact Details and Background Papers

Contact: Rob Bonneywell, Project Manager, x8902,
rob.bonneywell@harrow.gov.uk

Background Papers: Procurement Shared Service Business Case (see enclosure - Appendix 1)

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE

[Call-in applies]