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**REPORT FOR: CABINET**

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<b>Date of Meeting:</b>	14 July 2016
<b>Subject:</b>	Procurement Shared Services
<b>Key Decision:</b>	Yes
<b>Responsible Officer:</b>	Terry Brewer, Divisional Director of Commercial, Contracts and Procurement
<b>Portfolio Holder:</b>	Councillor Adam Swersky, Portfolio Holder for Finance and Commercialisation
<b>Exempt:</b>	No, except for the Appendix which is exempt from publication under paragraph 3 of part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any person (including the authority holding that information) and legally privileged information
<b>Decision subject to Call-in:</b>	Yes
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendix 1: Procurement Shared Services Business Case

## **Section 1 – Summary and Recommendations**

This report requests authority from Cabinet to establish a Shared Service between Harrow Council and Brent Council 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 to Harrow with affected staff transferring their employment from Brent to Harrow under TUPE, and following this the creation of an operational shared service with a new Target Operating Model.

This is a submission that has been revised by the withdrawal of Buckinghamshire County Council from the original case that was presented to Cabinet in January 2016.

### **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 Council of their procurement function under section 101 of the Local Government Act 1972 ;
5. Subject to such delegations, to authorise the Corporate Director – Resources and Commercial, following consultation with the Portfolio Holder Finance and Commercialisation 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 17<sup>th</sup> June. 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 Councils at a reduced cost.

## **Section 2 – Report**

### **2.1 Introductory paragraph**

- 2.1.1 Harrow and Brent Councils have a combined annual third party spend of over £500m. 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.
- 2.1.2 Creating a Procurement Shared Service (PSS) from the two 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.
- 2.1.3 This report is being brought to Cabinet as a result of Buckinghamshire County Council's (Bucks CC) decision to withdraw from the original proposition to create a tri-partite shared service between LB Harrow, LB Brent and Bucks CC. Their decision was based on a strategic decision to pause shared service initiatives with LB Harrow, and not a reflection on the particulars of the PSS.
- 2.1.4 If the 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.
- 2.1.5 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 councils.
- 2.1.6 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.

- 2.1.7 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 TUPE transferring into Harrow Council.
- 2.1.8 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 two 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.
- 2.1.9 The recommendation from this paper is to create a shared service, whereby Brent Council formerly delegates their procurement and commercialisation activity to Harrow Council, and Harrow provides the service from a Procurement Shared Service (PSS).
- 2.1.10 Staff working in the PSS would be employed by Harrow Council, meaning impacted staff from Brent Council would TUPE transfer to Harrow Council.
- 2.1.11 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

2.2.1 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 50%, the result would be a significantly reduced, transactional service. It is for these reasons that the option to 'Do Nothing' or continue operating as today, is not a viable solution.

2.2.2 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.

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

## 2.3 Background

- 2.3.1 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.
- 2.3.2 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

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

## 2.4 Current situation

- 2.4.1 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.
- 2.4.2 The current staffing within each council's procurement teams is shown in the table below.

2015/16 Staffing	Harrow	Brent	Total
Posts	14	11	25
Full Time Equivalents	14	11	25

- 2.4.3 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.

	2016/17 Budget £	Savings Required <sup>2</sup> £	Amount Available £
Harrow <sup>3</sup>	876,990	290,000	586,990
Brent	813,176	272,000	541,176
<b>Total</b>	<b>£1,690,166</b>	<b>£562,000</b>	<b>£1,128,166</b>

## 2.5 Why a change is needed

<sup>1</sup> Excluding the impact of SSC's

<sup>2</sup> Savings required in 2016/17 and 2017/18

<sup>3</sup> Notional as there will be no budget transfer

- 2.5.1 As highlighted in the background information the status quo is not an option. Harrow and Brent Councils are under pressure to make significant savings.

## **2.6 Implications of the Recommendation**

- 2.6.1 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 17 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. 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 two 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.
- 2.6.2 By joining the two teams together it will allow for more collaborative procurement opportunities to be identified, as senior category staff will have visibility of two organisations procurement plans.
- 2.6.3 Finally the creation of a Harrow-led shared service will provide both councils with the reassurance that critical activities will not fail as there will be resilience in the new structure.
- 2.6.4 The recommended approach to creating the new organisation is in two stages. The first stage would be for Brent to delegate their procurement functions to Harrow supported by an Inter Authority Agreement between the two councils and subject to these delegations the subsequent TUPE transfer of Brent staff to Harrow. This would have the effect of creating a combined joint team, with staff located in Brent and Harrow. Once this is complete the second stage would be the creation of a shared service operating model, which will be consulted upon in July and August 2016.

## **2.7 Performance Issues**

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

## **2.8 Environmental Implications**

- 2.8.1 There are no environmental implications resulting from the creation of these trading vehicles.

## **2.9 Risk Management Implications**

- 2.9.1 Risk included on Directorate risk register? No

2.9.2 Separate risk register in place? Yes

2.9.3 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.

## 2.10 Legal Implications

2.10.1 The result of the proposals in this report is that

- Brent will need to agree to delegate their Procurement & Civic Enterprise activity to Harrow Council under section 101 of the Local Government Act 1972 and the relevant Executive Function Regulations. Brent staff will transfer to Harrow's employment then all staff in the team will be made available to Brent and Harrow under section of the 113 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 would TUPE transfer into Harrow Council;
- An Inter Authority Agreement will be required between Harrow and Brent Councils;
- Agreement over sharing of costs needs to be agreed between the two parties; 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.

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

## 2.11 Financial Implications

2.11.1 Financial implications arise out of the following key points:

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

	<b>2016/17 Budget</b>	<b>Savings Required<sup>4</sup></b>	<b>Amount Available</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Harrow	876,990	290,000	586,990
Brent	813,176	272,000	541,176

<sup>4</sup> Savings required in 2016/17 and 2017/18



	<b>2016/17 Budget £</b>	<b>Savings Required<sup>4</sup> £</b>	<b>Amount Available £</b>
<b>Total</b>	<b>£1,690,166</b>	<b>£562,000</b>	<b>£1,128,166</b>

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

<b>Council</b>	<b>Original Budget £'000s</b>	<b>Allocation Proportion<sup>5</sup></b>
<b>Harrow</b>	586	0.5203
<b>Brent</b>	541	0.4797
<b>Totals</b>	<b>£1,127</b>	<b>1.0000</b>

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%.

<b>C&amp;P Shared Service Summary</b>				
	<b>Yr 1 £'000s</b>	<b>Yr 2 £'000s</b>	<b>Yr 3 £'000s</b>	<b>Annual Uplift</b>
<b>Contributions:</b>				
Brent	540.868	545.839	550.861	0%
Harrow	586.644	592.037	597.484	
<b>Total Contributions</b>	<b>1,127.512</b>	<b>1,137.876</b>	<b>1,148.344</b>	
Salary Costs	1,036.432	1,046.796	1,057.264	1%
Other Staffing Costs	15.000	15.000	15.000	0%
Other Procurement Related Costs	76.080	76.080	76.080	0%
<b>Total Costs</b>	<b>1,127.512</b>	<b>1,137.876</b>	<b>1,148.344</b>	
<b>Surplus / (Deficit)</b>	<b>-</b>	<b>-</b>	<b>-</b>	

<sup>5</sup> Proportions based on a %age of the Total Original Budget and rounded to 4 decimal places

4. Details of the costs are shown below.

<b>Annual Costs</b>	<b>Yr 1</b>	<b>Yr 2</b>	<b>Yr 3</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Salary costs</b>	1,036,432	1,046,796	1,057,264
<b>Other staffing costs<sup>6</sup></b>	15,000	15,000	15,000
<b>Other procurement related costs (see 7.5)</b>	76,080	76,080	76,080
<b>Total Cost of Shared Service</b>	<b>£1,127,512</b>	<b>£1,137,876</b>	<b>£1,148,344</b>

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

5. First Year Operational Considerations:

Whilst the amalgamation of the two teams is intended to take place in August 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 November 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 £327,834 for the first seven months. The impact of this on each Council is shown in the following table.

<b>Council</b>	<b>Original Budget</b>	<b>PSS Contribution</b>	<b>Saving</b>	<b>7 Months Current Cost</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Harrow</b>	876,990	586,990	290,000 <sup>7</sup>	169,167
<b>Brent</b>	813,176	541,176	272,000 <sup>8</sup>	158,667
<b>Total</b>	<b>£1, 690,166</b>	<b>£1,128,166</b>	<b>562,000</b>	<b>327,834</b>

There is the possibility of additional year one costs should any redundancies be made. These will be effective from 1<sup>st</sup> October 2016 and may include notice periods of up to 12 weeks. No impact of this

<sup>6</sup> Travel, training and telecommunications

<sup>7</sup> Savings relate to 2016/17 and 2017/18

<sup>8</sup> Savings relate to 2016/17

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. [to be confirmed]

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 period<sup>9</sup> 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 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 TPIF Fund in the short term, *[to be confirmed]* with the intention of reimbursing the fund once the new shared service is operational.

6. The MTFs 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.

## **2.12 Equalities Implications / Public Sector Equality Duty**

- 2.12.1 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.

## **2.13 Council Priorities**

- 2.13.1 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.

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<sup>9</sup> This period will vary between councils, and it is possible that a reduced difference is also required for the second year

### Section 3 - Statutory Officer Clearance

Name: Sharon Daniels	<input checked="" type="checkbox"/>	on behalf of the Director of Finance
Date: 29 June 2016		
Name: Puja Shah	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 10 June 2016		

<b>Ward Councillors notified:</b>	<b>NO</b>
<b>EqIA carried out:</b>	<b>YES</b>
<b>EqIA cleared by:</b>	Alex Dewsnap(DETG Chair)

### 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)

<b>Call-In Waived by the Chairman of Overview and Scrutiny Committee</b>	<b>NOT APPLICABLE</b> <i>[Call-in applies]</i>
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