

**Report To:** Cabinet

**Date of Meeting:** 27<sup>th</sup> May 2014

**Lead Member / Officer:** Cllr Julian Thompson-Hill and Paul McGrady

**Report Author:** Arwel Staples, Strategic Procurement Manager

**Title:** Procurement Transformation Projects

---

**1. What is the report about?**

1.1 The purpose of the report is to update Cabinet on two procurement transformation projects:

**2. What is the reason for making this report?**

2.1 For Cabinet to consider and agree the final business case for the merger of the Flintshire and Denbighshire Corporate Procurement Units (CPU).

2.2 For Cabinet to consider and agree the final business case for the Three Counties Procurement project.

**3. What are the Recommendations?**

3.1 Cabinet endorse the final business case for the merger of the Flintshire and Denbighshire procurement teams into a single CPU hosted by Denbighshire.

3.2 The development and agreement of the SLA for the joint Unit to be delegated to appropriate officers (Head of Finance & Assets, Head of Legal and Democratic Services and Strategic Procurement Manager) in consultation with the Cabinet Member for Finance & Efficiency.

3.3 Cabinet endorse the final business case for the Three Counties Procurement Project.

**4. Background**

4.1 At its meeting on the 25<sup>th</sup> September 2013, Cabinet agreed to support the merger of the two CPU's subject to a final business case and detailed arrangements for the merger being agreed.

4.2 Additionally at the same meeting Cabinet also agreed to support the development of a business case for the Three Counties Procurement project involving initially Denbighshire CC, Flintshire CC and Gwynedd CC based upon a category management structure.

**5. Considerations**

**Current procurement arrangements within DCC**

5.1 During the last few months the Council has been subject to a number of internal and external reviews regarding the way procurement activities

are undertaken. The KPMG Procurement Health Check commissioned by Welsh Government classified the Authority as “Developing towards Conforming”. The work undertaken by the Institution for Competition and Procurement Studies at Bangor University in developing the Three Counties business case also highlighted current issues and weaknesses as did the recent Internal Audit report on construction procurement. A summary of the current issues and weaknesses are highlighted in Appendix 9.

5.2 The above reviews and reports clearly demonstrate that as a Council we need to improve and radically change the way procurement and commissioning is currently carried out. In addition to the proposals contained in this report, this requires a procurement transformation programme that requires a number of key procurement improvements as highlighted below to be implemented:

- Implementation and roll-out of the Proactis e-sourcing system
- Implementation and roll-out of new centralised invoicing system
- Revise Contract Procedure Rules
- Revise Procurement Strategy
- Implement new corporate procurement training programme

#### **Merger of DCC and FCC Corporate Procurement Units**

5.1 Since September 2013, a considerable amount of work has been undertaken in agreeing the final business case relating to the CPU's. There have been workshops with Procurement teams, HR, ICT and Finance representatives from both Councils.

5.2 The business case attached at Appendix 1A has been agreed by the project board and will be considered by Cabinets of both Councils this month.

5.3 A proposed new Operating Model and structure for the combined unit has been designed which involves creating a Joint Unit of 10 staff (See Appendix 5). It is not intended to increase the headcount across the current 2 units but by creating a single team we will reduce duplication and increase productivity, developing specialist category and policy roles which is not possible currently due to the small size of the 2 individual units.

5.4 Other benefits from the merger will include enabling us:-

- To leverage the current level of limited procurement resource capacity across both councils.
- To reduce the duplication of effort
- To maximise the cashable efficiencies through economies of scale
- To introduce Category Management principles
- To ensure a greater cohesive approach in the implementation and management of the common e-procurement solution,

- To implement more robust contract management especially across strategic critical contracts.
  - To ensure greater focussed capacity can be allocated in ensuring procurement policy is integrated within all procurement projects, especially around delivery of community benefits and supporting SME friendly procurement initiatives.
  - Ability to access regional funds for implementation of IT systems and support for change implementation
- 5.5 It is proposed that the new Joint Corporate Procurement Unit (JCPU) will be hosted by Denbighshire and the current Flintshire procurement team will transfer over and be employed by Denbighshire. The staff implications have been fully considered, HR advice has been given and full consultation has taken place with employees and trade unions. A recent meeting held between HR staff from both Councils considered the need to apply TUPE provisions, DCC will confirm following discussions locally with the Trade Unions.
- 5.6 The new JCPU will be overseen by a Joint Management Board with equal senior management representation from both Councils. The service will be provided to Flintshire under a robust SLA to ensure their service and organisational needs and expectations are met. It is proposed that the costs of the JCPU are split on a 55% Flintshire and 45% Denbighshire basis reflecting the level of individual Council procurement spend.

### **Three Counties Procurement Project**

- 5.7 The business case for the Three Counties Procurement Service has been developed by the Institute for Competition and Procurement Studies at Bangor University.
- 5.8 The business case demonstrates how a category management approach implemented across the Three Councils could realise major strategic purchasing and financial savings for each Council, once effective governance are put in place, supported by a shared procurement support service.
- 5.9 The business case has considered a number of options for implementation and has recommended the following option:
- Model 4 – Category Management implementation on a shared service basis across the 3 Councils with also a shared procurement support service being created that would require the proposed Joint Corporate Procurement Unit between DCC and FCC to be further expanded to involve Gwynedd CC in the future. This new shared procurement support could be operated on a virtual basis.

5.10 However, in recognition of major change management implications involved in implementing model 4, consideration could also be given to implementing model 2 initially as a first phase. This would involve each Council independently albeit in co-ordinated manner undertaking a category management implementation at a local level and then rapidly moving to model 4.

5.11 The benefits arising from an implementation as proposed by the Three Counties project include:

- identification and delivery of procurement savings per individual category of spend
- economies of scale when collaborating across common spend areas
- enhanced procurement capability within the procurement function and across the organisation
- reduced cost of procurement through reducing process and staff
- clear category vision and strategy for category improvements
- improvements in planning of procurement and demand management
- ensure category purchases are co-ordinated
- ensure compliance with relevant legislation and guidance
- ensure compliance with procurement policies regarding promoting regeneration and the local economy
- access to regional funding to support implementation of new procurement processes
- this is a scalable project that would allow expansion to include any additional partners such as other Councils to join a later date

## **6. How does the decision contribute to corporate priorities?**

6.1 The approval of the recommendations within this report will provide the Council with maximum opportunity to identify and realise the efficiency savings in order to modernise the council to deliver efficiencies and improve services for our customers.

6.2 Both projects contained within this project will also support the development of the local economy, by ensuring our procurement practices are aligned to SME friendly procurement best practice and aim to deliver the procurement themes contained within the Economic and Community Ambition Strategy.

## **7. What will it cost and how will it affect other services?**

7.1 The additional costs for the CPU merger over the existing base budget in Year 1 will be £12,002 this includes one off IT costs relating to the merger, In future years; the on-going budget increase will be a maximum of £13,629. These costs will be contained within existing Finance and Assets budget.

7.2 The final cost implications for the Three Counties project are unclear at this stage. Any implementation costs will partially be funded from the WG Regional Collaboration Fund. However the return on investment from the business case highlights that significant efficiency savings can be

realised through: demand management, smarter procurement, cost avoidance strategies as well as potential headcount reduction of staff (circa 19 staff in DCC). It is estimated that either of the recommended options i.e. Model 2 or Model 4 will deliver between £8.7m and £9.2m of combined efficiency savings across the 3 Councils over 5 years.

7.3 The final full business case will be distributed once it has been received in the next few days. The Head of Finance & Assets will give a verbal update at the meeting.

**8. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?**

8.1 None directly from this report

**9. What consultations have been carried out with Scrutiny and others?**

9.1 Full involvement of procurement team members in developing the operating model, structures and business case has taken place with regard to the joint CPU. Full consultation will continue with the procurement team and trade unions up to implementation of the new joint arrangements.

9.2 With regard to the Three Counties project a number of workshops have been held involving corporate procurement unit officers as well as service related managers. The workshops were arranged by Bangor University to identify current practices as well as obtaining feedback on preferred future target operating models.

**10. Chief Finance Officer Statement**

These two projects have the potential to significantly improve the way procurement is carried out within the Council leading to greater compliance with regulations, improved value for money and reduced cost. It is however reliant on the engagement with, and support of, services within the Council as this cannot be delivered by the procurement staff alone.

**11. What risks are there and is there anything we can do to reduce them?**

11.1 Risks for both projects are outlined in the respective business cases. Any project involving working with other organisations carries a degree of risk around willingness to collaborate, differing policies and strategies and different capabilities. The three councils have worked closely together to reduce these as much as is feasible.

11.2 There is also the risk that individual departments within the Council fail to engage in the programme and do not see the benefits. Careful engagement will be needed with them.

**12. Power to make the Decision**

12.1 CPR 7.1 of the Contract Procedure Rules