

National Procurement Service

Business Case - Executive Summary

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1 Executive Summary

Introduction

The Efficiency and Innovation Board, chaired by the Minister for Business and Budgets, was set up in early 2010 to provide practical leadership to help the public sector improve public services in the context of reduced budgets. Its aims were to achieve a step change in operational efficiency and innovation and transformation in public service design and delivery. The Programme built on the principles first set out in the Assembly Government's public service policy statement 'Making the Connections' and confirmed in the Beecham 'Review of Local Service Delivery'¹.

A Procurement Board was set up as part of the Programme and commissioned a Procurement Taskforce to carry out the Category and Capability Review and generate priority ideas and concepts for the Board to consider. The report 'Buying Smarter in Tougher Times' outlined the conclusions and recommendations of the Category and Capability Review.

One of four key themes of recommendations that emerged from the issues identified with the report was the potential for the development of a National Procurement Service which would be responsible for ensuring common and repetitive commodities were only procured once for Wales. This was also endorsed by Jane Hutt AM, the then Minister for Business and Budget who said that *"common and repetitive spend needs to be carried out once for Wales. We need to organise our expenditure and develop collective sources of expertise in high spend areas such as construction, social care, and ICT."*

Following the Welsh Government elections in May 2011, the Efficiency and Innovation Board was replaced by the Public Service Leadership Group (PSLG) which was established to provide national leadership for public service reform and collaboration, and to drive the pace of improvement in public services of Wales.

Three national work programmes, each led by a senior public service leader help to drive forward this reform agenda:

- Effective Services for Vulnerable Groups;

- Asset Management and Procurement; and

- Organisational Development and Simpson Implementation.

This project forms part of the Asset Management and Procurement work programme, chaired by Tracey Lee (MD Newport City Council).

The Case for Change

With an objective to transform public procurement in Wales through world class collaboration, there is a need to identify where improvements can be made in the approach to procurement across sectors. "Buying Smarter in Tougher Times" recognised a number of challenges that are currently facing public sector procurement and these support the development of a National Procurement Service. The key conclusions from the report included:-

- There is a need for clear leadership and commitment if change is to be adopted, to address barriers and issues and ensure decisions are made for the greater good of Wales.

- There is a need to organise the Welsh public sector spend, so the public sector go to market effectively and secure value from even stronger collaboration.

- There is a need to invest in the capability to drive commercial value, such as improved contract management and the consistent development of specifications across organisations.

- There is a need to rely on technology to reduce transaction processing costs by automating manual processes, increase commitment and contract usage and use management information to identify

¹ Beecham Review of Local Service Delivery, the Welsh Assembly Government – November 2006

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further opportunities for price savings and cost reductions.

The key objectives for the development of a National Procurement Service are therefore as follows:-

to deliver a strategic vehicle for procuring common goods and services once for Wales saving resources and maximising potential economies of scale;

to improve the quality of procurement for the identified categories to ensure maximum value for money;

to support the national policy agenda through the effective delivery of procurement best practice;

to ensure the continuous development of public sector procurement skills;

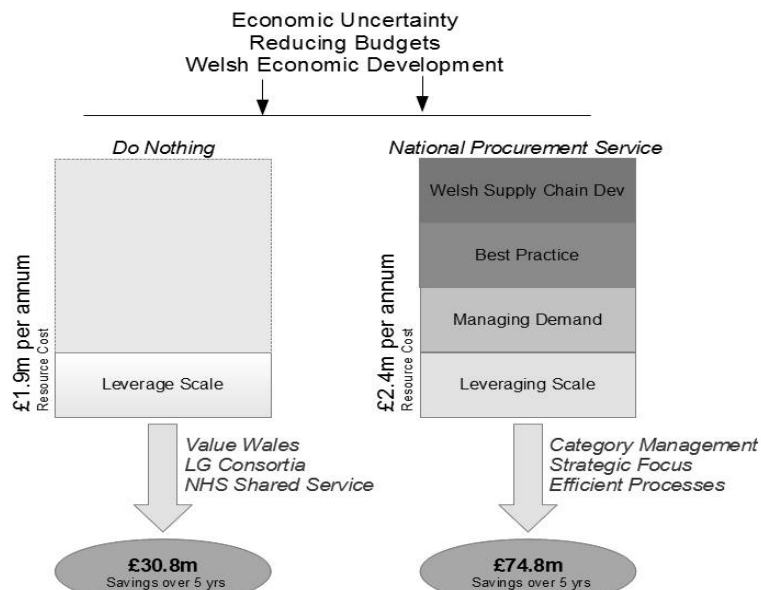
to support the development of a competitive supply base and have a positive impact on the Welsh economy.

While it is recognised that there has been a significant amount of procurement collaboration across Wales to date, this has traditionally been focused on leveraging the scale of public sector procurement spend and has not fully exploited other potential procurement strategies that relate to demand management i.e. the consideration of what is bought as well as how it is bought. We also do not have a robust vehicle that is has the right resource and governance to effectively procure ‘once for Wales’.

The development of the National Procurement Service is based on the principle that to achieve the investment objectives and address the recommendations within “Buying Smarter in Tougher Times”, a step change is required in the scope of collaborative procurement and how it is undertaken. The strategies employed need to move beyond only leveraging scale to fully exploit the full potential benefit. These wider strategic approaches to managing spend and influencing demand are fully aligned to the fundamental principles of category management. To deliver the benefits using these wider strategies and a category management approach, there must be recognition that a different skill set and approach to procurement needs to be employed which is over and above traditional competencies.

Current collaborative strategies primarily focus on securing savings through leveraging scale by going to the market with a range of needs and on behalf of a group of organisations. To continue with this strategy for the commodities in scope the cost of resources will be £1.9m which will deliver savings of £30.8m over a five year period. If additional investment in capacity and capability is made which facilitates a category management approach to common and repetitive spend categories; focusing on a combination of leveraging scale; demand management; specification standardisation and development of welsh supply chains, then £2.4m per annum resource costs (£500k more) will deliver savings of £74.8m over five years. The diagram below in Figure 1.1 demonstrates the differences between the current “do nothing” environment and the proposed National Procurement Service.

Figure 1.1 – Current Collaborative Procurement versus a National Procurement Service



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National Procurement Service Category Scope

The scope of the National Procurement Service is a defined set of common categories of goods and services that are procured across the Welsh public sector. 'Common and Repetitive' spend categories have been defined as those goods and services purchased by multiple sectors each year. These are not necessarily high value or complex – and by their very nature are often transactional; other categories that fall outside of these areas will always need to be managed using local and regional sourcing strategies which are outside of the scope of the National Procurement Service. They represent 23% of total Public Sector Spend.

Figure 1.2 – NPS Category Scope

Category	Subcategories considered within the scope of a National Procurement Service	Factors already considered when defining spend in scope	Subcategories included in NPS review (£m)	Accessible spend (%)	Accessible spend in NPS (£m)
Information Communication Technology	Hardware, Consumables, Software, Telecoms, Network and Support	Local nature of some support services; Relevance of infrastructure-based ICT	£288.0	58%	£165.8
Utilities	Electricity, Gas and Petroleum	Different buying behavior in each Sector	£154.7	35%	£54.6
Facilities & Management Services	Maintenance Services, Travel, Advertising and Printers	Local nature of some services; Outsourcing	£100.1	47%	£47.3
Human Resources	Employment agencies and translators	Existence of Vendor Neutral and Managed Service contracts	£74.6	86%	£64.4
Consultancy	Business and Technical consulting	Local nature of some services; Outsourcing	£68.9	57%	£39.3
Vehicle Management	Vehicle acquisition, Lease and Hire	Managed Service Contracts	£76.1	54%	£41.4
Catering	Catering Supplies, Food and Vending	Impact on local Suppliers and quality of food; Local nature of some services	£53.2	46%	£24.6
Legal Services	Solicitors	Local nature of some services; Partnerships	£35.3	62%	£21.8
Healthcare	Medical and Mobility Equipment	Only applies to community equipment	£30.0	52%	£15.7
Construction Materials	General Materials, Electrical Supplies and Equipment Hire	Existence of frameworks in dominant spend area (LG); Specialist supplies	£20.1	48%	£9.6
Stationery	Paper and General Stationery Supplies	Some specialist Suppliers	£15.0	56%	£8.4
Furniture & Soft Furnishings	Office Furniture & Equipment	Some specialist Suppliers in Health and Education sectors	£14.2	60%	£8.6
Mail Services	Postal Services, Couriers and Mailing Equipment	Significant proportion of spend results from how organisations manage mail	£15.8	60%	£9.4
Clothing	Uniforms, Workwear, Protective and Safety Equipment	Some specialist Suppliers (e.g. Police)	£10.9	58%	£6.3
Cleaning & Janitorial	Cleaning Materials and Equipment	Some specialist products (e.g. Health)	£5.7	55%	£3.1
Education	Audio-visual Equipment & Supplies	TBC	£4.3	50%	£2.1
TOTALS			£967	54%	£522

'Common and Repetitive' spend categories include commodities such as stationery, office furniture, travel, IT hardware and software, postal services and cleaning materials etc and were agreed at Procurement Board on 9th December 2011. They do not include products or services such as: social care; construction; waste management or specialist clinical goods and services.

Category Management

It is recommended that the NPS is based on a category management approach where goods and services are organised into distinct groupings based on their related supply markets. Procurement professionals are then allocated to the defined categories and the staff are therefore focused on a particular supply market and become experts in that category area. CIPS (Chartered Institute of Purchasing & Supply) define category management as "the entire science of the procurement subject applied to a single genre of expenditure".

The category management approach needs to incorporate developing a thorough understanding of spend and future demand, and the market, and developing relevant category sourcing strategies based on the understanding, implementing the strategies and then ensuring effective supplier performance management.

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National Procurement Service Operating Principles

There are a number of critical operating principles that the operating model will need to be built upon to ensure that the delivery of the National Procurement Service can be effectively achieved. These operating principles have been reviewed by the Procurement Board, the NPS Project Team and Task & Finish Group to ensure stakeholder input.

The NPS will be a strategic vehicle for procuring common goods and services for Wales, taking into account the needs of all sectors;

The NPS will focus on three key aspects of the procurement process – Developing Common Specifications, Tendering and Contract Management;

The NPS will be structured on a category management basis;

The NPS will seek to leverage the procurement scale of the Welsh public sector, but also focus on influencing demand management and implementing best practice approaches;

The NPS will seek to develop strategies that will have a positive impact on the Welsh economy;

The NPS will utilise Welsh Public Sector Procurement policy to support best practice implementation (Ministers policy priorities will be adopted by the NPS), seek to adopt one standard procurement process and utilise technology to support processes and systems;

Commitment to the NPS will be for an agreed period (3-5 years being considered) with a notice period;

During this period the NPS will require stakeholders to fully commit to using the contracts that are created by the Service, this would need to be supported by Chief Executives and mandated to their Heads of Service and Service Leads. Any opt out provision would be in advance of tender processes commencing.

The Procurement Board reiterated on 9th May 2012 that stakeholders should recognise that commitment to the NPS would be for an agreed period and once the commitment was made that stakeholders must remain part of the Service. It was recognised that some contracts may not be appropriate but this should be by exception and members must use as much of the Service as possible to support its success and not dilute the benefits for other members through picking and choosing contracts.

Development of Options

A series of workshops were held to develop the long list of options for the National Procurement Service. Workshop attendees were asked to consider the range of options between the two extremes of doing nothing through to outsourcing the required service to a private sector service provider.

The options identified were as follows:-

Option 1 - Do Nothing

Option 2 – Utilise Existing Structures & Consortia

Option 3 – Utilise Existing Structures & Consortia with Additional Central Resources

Option 4 – Revise Existing Structures & Consortia for Regional Delivery

Option 5 – Hosted Operation

Option 6 – Welsh Government Service (building on the work of Value Wales)

Option 7 – Standalone Public Sector Organisation (Joint Venture)

Option 8 – Outsource to Third Party

The Short List

The recommended shortlist of options included in the options analysis stage are as follows:-

Build on Existing Consortia & Structures – this includes two delivery options:

Networked Delivery Model - achieved via a virtual model utilising existing structures &

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network of consortia, a National Contract Plan agreed by NPS Board & delivered by existing consortia who take responsibility for delivery of an agreed set of contracts and procure on behalf of all sectors.

Central Delivery Model² - Value Wales would take responsibility for the delivery of the NPS and would oversee the day to day management of the NPS. Staff would be employed by Value Wales to deliver the agreed plan and the NPS would be separate to Value Wales internal procurement.

Hosted Operation⁴ – by a nominated public sector organisation - a host public sector organisation would take responsibility for the delivery of the NPS and oversee the day to day management of the NPS. Staff would be employed by the public sector organisation to deliver the agreed plan and would be separate to the public sector organisation's internal procurement.

Standalone Organisation - Public Sector Joint Venture - Sectors collaborate to form a new joint venture (JV) organisation. The JV would be a new legal entity and create contracts on behalf of members. Staff would be employed by JV and undertake all aspects of service delivery.

It should be noted that the Do Nothing option (Option 1) forms part of short list options process and will be used as the baseline to compare the potential benefits of the other options in comparison to the current as is structure and associated costs. It was identified by the Procurement Board that Do Nothing would only be a viable option if there were no benefits identified through the other options.

Preferred Option for National Procurement Service

The Procurement Board recommend a Central Delivery model to deliver the National Procurement Service. The delivery model is based on the premise that the NPS will have independence from the chosen host organisation's own operation as the Service will have its own discreet governance structure with appropriate representation from all sectors. The NPS will be responsible to the NPS Board and will operate as an independent entity governed through its own leadership and operational structure, with the host organisation providing the required facilities, employment and professional mentoring for the NPS.

At Procurement Board there was full consensus that this option would be the best way to deliver the envisaged benefits and would be the option most likely to meet the PSLG ambition for greater benefits. It is expected that the NPS would be fully adopted by Local Authorities and the NHS with other sectors making maximum appropriate use of its services. The consensus of the Economic Impact Assessment Group was that while there are some risks in the collaborative procurement actions of the proposed NPS, these are outweighed by the opportunities both within and outside the scope of the NPS. Both risks and opportunities can be effectively managed if current SME friendly policies and Welsh Government best practice procurement policy, provided through Value Wales guidance, is applied.

The Board also recommend that some initial work should be put in train to support the preferred operating model, facilitating the early delivery of the identified benefits and thereby strengthening the evidence. This work would improve timely implementation of the preferred model.

Benefits

The benefits of the National Procurement Service will fall into a number of categories from tangible cash releasing savings from the implementation and use of national contracts through to more qualitative benefits gained from developing more innovative contracts across sectors.

The approach to determining the potential benefits from a National Procurement Service has included:

- Drawing upon the expertise of a Procurement Leaders Task Force (PLTF) to develop an approach and model for identifying savings. The model developed uses a number of factors to ensure that

² It is recognised that if the Hosted option were to be delivered by Value Wales then this would be the same as the Central Delivery Model within Building on Existing Consortia & Structures.

⁴ It is recognised that if the Hosted option were to be delivered by Value Wales then this would be the same as the Central Delivery Model within Building on Existing Consortia & Structures.

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savings identified have a **clear rationale**, are **incremental**, **achievable** and consider **Sector-specific** constraints. By using a series of factors that influence the resulting savings, a clear understanding of the rationale behind the saving is obtained.

- Undertaking a series of cross sector workshops; facilitated by Ray Legge (Spike Cavell) , with procurement professionals and service leads to populate the model to determine achievable savings

It is important to note that identified savings will only be realised through the combined commitment of individual organisations and their ability to ensure effective and consistent compliance to the contracts that are created through the National Service. This commitment will require leadership from senior stakeholders across the Welsh public sector to ensure effective buy-in to the National Service.

A summary of the potential benefits are as follows:-

- **Cashable savings** will be achieved through a reduced total cost of acquisition for the common and repetitive spend goods and services. This will be achieved through leveraging the scale and combined buying power of the Welsh public sector and standardising specifications across users. Based on implementing the procurement strategies identified, the potential for incremental annual savings ranges between **£9.2m** and **£24.6m** across the Welsh public sector or **£74.8m over 5 years** with a NPV of 3.5% applied.
- **Cost avoidance** benefits will also be delivered through the simplified procurement arrangements for common and repetitive spend items and the increased compliance through the use of national contracts.
- There are potential savings in relation to **resource efficiencies**, and there could be potential opportunity to be gained by individual stakeholder organisations by redeploying their scarce resources onto other critical spend areas. However, this is a decision that must be made at local level and any savings achieved from this will be recognised locally. Whilst the resource cost of establishing a NPS is £2.4m; there is an existing resource cost of sourcing Common and Repetitive spend categories of £1.9m. Whilst there is a net difference of £0.5m between the current “do nothing” environment and the proposed NPS, it would be a local decision on how the current £1.9m resource is used. It is not within the gift of the business case to ‘bank’ the £1.9m but this would need to be considered at a local level when considering the investment decision. In his recent review, ‘ Maximising the effect of Welsh procurement policy’, John McClelland makes it clear that there is an overall deficit in procurement capacity both at a local and collaborative level.
- There will also be further **qualitative benefits**, which include:-
 - driving innovative and intelligent procurement activity for the benefit of end users and ultimately the citizens of Wales;
 - the positive impact that co-ordinated and common procurement could have on the Welsh economy and the development of the SME community within Wales;
 - the ability to provide effective supplier relationship management through a single route. This would include supplier development and influencing the market structure to leverage further opportunities for the users of a National Procurement Service;
 - supporting and further developing the professionalism and capability of the procurement community in Wales. This includes leveraging and sharing the existing knowledge and expertise across sectors.
 - Having a ready strategic vehicle to act on behalf of the Welsh public sector to procure as yet unknown new or innovative solutions in support of public service reform.

Financial case

In developing the cost/benefit model, both low and high savings projections were considered (£9.2m low savings; £24.6m high savings). Assuming high resource costs, the NPS is projected to return a positive cumulative NPV in Year 1 (high savings) and Year 2 (low savings).

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Financial Strategy:

- The NPS is centrally funded directly through WG budget process until it reaches a point of maturity; estimated in Year 3 of operation; at which point it is proposed that the funding switches to a self funding rebate model (as per the Scottish model and GPS).

Figure 1.3 – NPS Cost Benefit Analysis

Average Savings/High Resources	Y0	Y1	Y2	Y3	Y4	Y5
	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
	£000s	£000s	£000s	£000s	£000s	£000s
Total Cost of Hosted Option	1,682	2,368	2,368	2,368	2,368	2,368
Cash Savings	0	2,987	13,177	16,902	16,902	16,902
Deficit/Surplus	-1,682	619	10,809	14,534	14,534	14,534
NPV (3.5%)	-1,682	598	10,091	13,108	12,665	12,238
Cumulative NPV	-1,682	-1,084	9,006	22,115	34,780	47,017

The Procurement Board recognised that whilst the cost of establishing a NPS was £2.4m; that there is an existing resource cost of sourcing Common and Repetitive spend categories of £1.9m. Whilst there is a net difference of £0.5m between the current “do nothing” environment and the proposed NPS, it would be a local decision on where the £1.9m is invested. It was agreed that it was not within the gift of the business case to ‘bank’ the £1.9m but that this would need to be considered at a local level when considering the investment decision.

Expressions of Interest to Host the NPS

Whilst the preferred operating model for the NPS is that of Central Delivery, the ‘host’ organisation has not been confirmed at this point. It was agreed at Procurement Board on 22nd May 2012, that an Expression of Interest (EOI) process to identify the host organisation, run in parallel with the consultation exercise on the Business Case.

Interested organisations will have six weeks to compile their response which will be reviewed by an **independent** evaluation panel, chaired by the SRO, Tracey Lee. Panel members forming the recommendation to Procurement Board consist of procurement professional across the wider public sector and include: Claire Russell (NQC Consulting); Alastair Merrill/Paul McNulty (Procurement Scotland), Des Armstrong (Procurement Ireland) and a representative from Welsh Government; Local Government and NHS to be confirmed.

This panel will also include ‘observers’ who will be nominated from the largest sectors (by spend) to ensure that the decision making process is a fair, transparent and rigorous process. Steve Thomas (WLGGA) will represent Local Government; (TBC) will represent NHS and Martin Sollis will represent Welsh Government.

Review of the submissions will be supported by a presentation by the respondees before a decision is made by the end of December 2012. The outcome of the process will be communicated after consultation has closed on the Business Case.

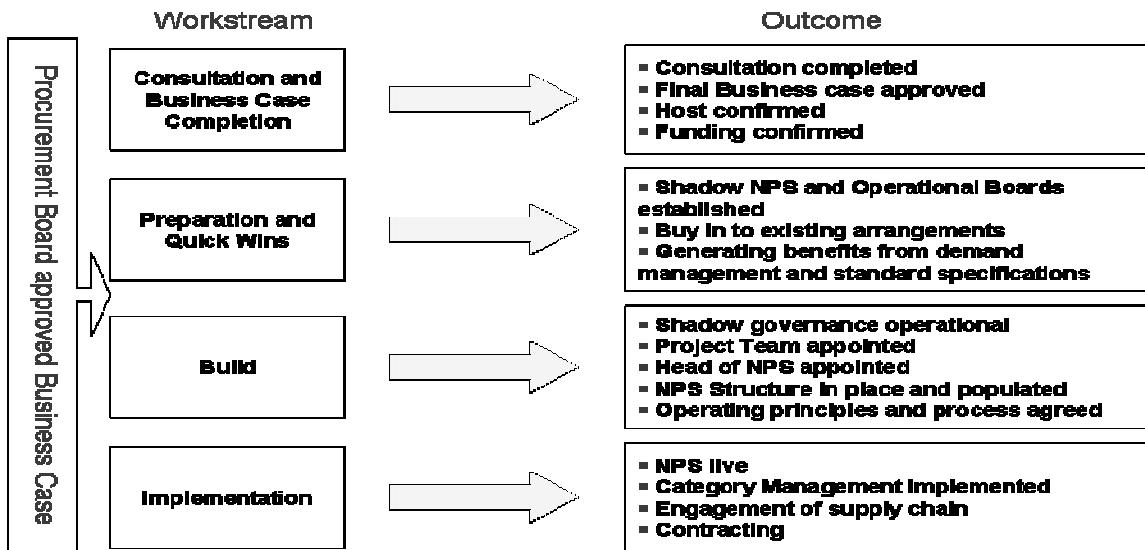
Management Arrangements

The ongoing stages of the project and their related milestones are indicated below:

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Figure 1.4 – Proposed workstreams and outputs

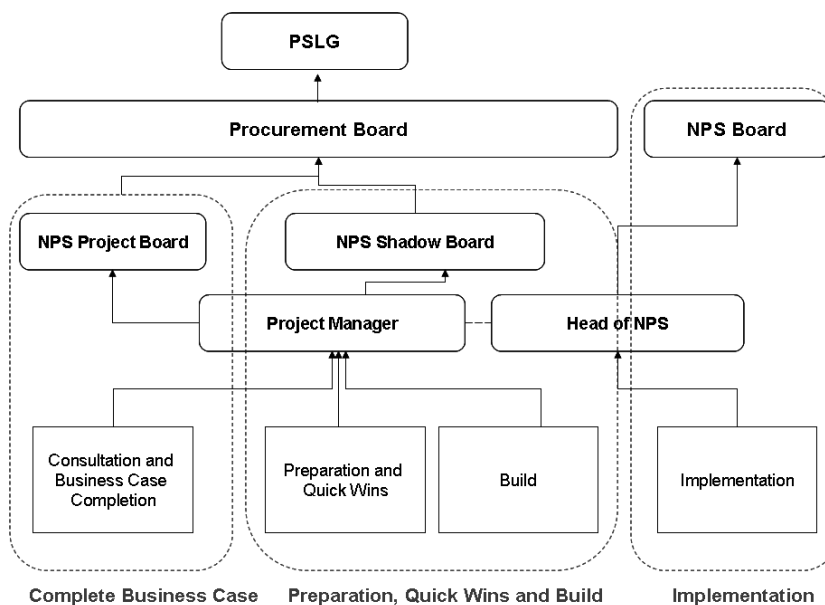


Stage	Timescales
Consultation and Complete Business Case	October 2012 – March 2013
Preparation and Quick Wins	July 2012 – onwards
Build	April 2013 – October 2013
Implementation/Go Live	November 2013

Project Delivery

The ongoing governance model is dynamic in nature as each stage of the project will require a slightly different governance model. In summary, the existing governance arrangements for the Project will continue until the point at which the Service is ready to 'go live' at Implementation stage; whereupon the National Procurement Service Board will be established to exercise governance over the operations of the National Procurement Service (regardless of operational approach).

Figure 1.5 – Project Governance Model



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Procurement Board Recommendation

- a) Organisations sign up to **using the NPS for a period of 5 years**. This is on the assumption that the NPS is centrally funded directly by WG until it reaches a point of maturity; estimated in Year 3 (2016/2017) of operation; at which point it is proposed that the funding switches to a self funding rebate from 2017/2018 onwards;
- b) In signing up to using the NPS; organisations embrace an **agreed management information approach**; where transparency and a robust category management culture drive optimum benefits across the scope of the service;
- c) During this period organisations will **fully commit to using the contracts that are created by the Service**. Any opt out provision would be by exception and justified to the NPS Board in advance of the tender processes commencing as to ensure its success and not dilute the benefits for other members through picking and choosing contracts. The NPS will reserve the right to exclude an organisation who makes excessive use of this exception clause;
- d) Whilst the Business Case will be revised to reflect the outputs of the consultation process; it will not be reissued for approval on the basis that the service is able to generate benefits in excess of its costs.