

FALKIRK COUNCIL

Subject: PROCUREMENT – SCOTLAND EXCEL
Meeting: POLICY & RESOURCES COMMITTEE
Date: 8TH APRIL 2008
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1. INTRODUCTION

- 1.1 Members will recall previous reports in relation to the Review of Public Procurement in Scotland carried out by John McClelland. A key recommendation of that report was the establishment of Commodity Centres of Expertise. The purpose of these Centres is to increase the opportunity to consolidate public procurement spend across Scotland on both a national and sectoral basis, along with better utilising scarce procurement skills.
- 1.2 The report further recommends categorising commodities and services into logical groupings, each led by different “Centres of Expertise”. Three categories are defined in the report:
- Category A – National Contracts, covering all of the Scottish Public Sector. The “Centre of Expertise” for these commodities and services will be positioned within the Scottish Government’s Procurement Directorate. Examples of national contracts include Utilities; Telecommunications; IT Equipment and Office products.
 - Category B – Sector Specific Contracts, covering high value commodities and services considered unique to a specific sector yet common across that sector. Separate “Centres of Expertise” are identified for Health; Local Government; Tertiary Education and other Scottish Government Departments, Agencies and Bodies. Examples of Local Authority sector contracts include elements of Care Services; Construction; Catering Supplies and Vehicles.
 - Category C – Local/Regional Contracts, covering commodities which are not classified as A or B. These contracts will be administered either directly by individual organisations or through regional collaboration/consortia. Examples of such contracts include specific construction projects; school transportation and property maintenance services.
- 1.3 The purpose of this report is to provide Members with an update on progress with the establishment of the Local Authority Centre of Expertise and to enable Members to take a view on participation.

2. DEVELOPMENT OF A LOCAL AUTHORITY PROCUREMENT CENTRE OF EXPERTISE

- 2.1 Renfrewshire Council as lead authority for the existing Authorities Buying Consortium (ABC) was successful in securing Efficient Government Funding to create a Centre of Procurement Excellence for all Scottish Local Authorities. The new Centre of Expertise will be branded as Scotland Excel.

- 2.2 The bid document sets out the following core objectives for Scotland Excel:
- Secure cost reduction in excess of £47.8m pa by the end of 2010, increasing to over £66m pa thereafter
 - Significantly improve best practice procurement capacity and capability across the Local Authority Sector
 - Create a forum and communication medium for engaging with suppliers
- 2.3 To date there has been significant work undertaken in developing a new organisational structure to replace ABC, including the appointment of a new Director. In addition, timelines have been developed for the establishment of a wide range of National Local Government contracts.
- 2.4 There are 5 key work streams being undertaken in the development of Scotland Excel. These are:
- *People, organisation and skills* – key actions underpinning this work stream include the development of a regional office network and the establishment of processes and procedures to be adopted in providing services to Scotland Excel member organisations
 - *Contract Renewals* – key actions include the establishment of an agreed list of Category B contracts and the phasing by which these will be tendered
 - *Communications and Marketing* – key actions include web surveys to all 32 Councils; establishment of a Scotland Excel web site and a programme of awareness workshops and events
 - *Information Technology* – key actions include the development of an organisational IT Strategy and the development of future management information systems
 - *Supplier and Customer Relationship Management* – key actions include a supplier/customer charter; development of a CRM system and a programme of supplier road shows
- 2.5 These work streams are in essence building the organisation and are being funded from the Efficient Government Bid.
- 2.6 Scotland Excel will replace ABC on 1st April 2008 and will become the National Centre of Excellence for Local Government Procurement from that date, on the basis of the following:
- Members of the existing ABC consortium agree to the current Joint Committee's termination and their participation in Scotland Excel and
 - A significant proportion of other Councils agree to participate in Scotland Excel on agreed terms.
- 2.7 Each Local Authority is therefore being asked to indicate their willingness to participate in Scotland Excel by 31st March 2008 or as soon as possible thereafter.

3. GOVERNANCE AND MEMBERSHIP

- 3.1 Scotland Excel will be established on the basis of a Joint Committee. Membership will be open to all Scottish Local Authorities. Other non-local government organisations such as police and fire authorities can also participate as associate members. Membership will continue indefinitely, with 1 year's notice of withdrawal required.
- 3.2 Each Local Authority who joins Scotland Excel will be represented on the Joint Committee. Authorities with a population of less than 200,000 will be represented by 1 elected member, with Authorities with a population greater than 200,000 represented by 2 elected members. It is envisaged that the Joint Committee will meet around 4 times per year to deal with its budget, annual report, governance issues and any major strategic items of business such as its procurement strategy and business plan.
- 3.3 A representative executive sub-committee will also be set up and will meet more frequently between the full Joint Committee meetings. The executive sub-committee will be 25% of the full Joint Committee and its members will be drawn from the full Joint Committee's membership. This group will receive reports on the range of products and services to be provided, the performance of Scotland Excel and act as an Appointments and Appeals Committee for Scotland Excel staff.
- 3.4 In order to ensure a more detailed oversight of Scotland Excel's operations, a management group of six Chief Executives (or nominees) drawn from member authorities will also be set up. This group will meet on a monthly basis and will be chaired by the Chief Executive of the lead authority (Renfrewshire Council). This group will set performance targets for Scotland Excel and review participation in contracts.
- 3.5 Renfrewshire Council will act as lead authority and provide administration and other support to Scotland Excel.
- 3.6 Member authorities of Scotland Excel will be obliged to use the product and services range agreed by the Joint Committee and its management group. However, authorities may access other products and services if they are not available through Scotland Excel; not available from Scotland Excel within a reasonable timescale or do not represent best value. Reasons for not using Scotland Excel contracts must be provided and a member authority cannot breach or replicate an existing contract which it has already entered into with Scotland Excel.

4. BUSINESS CASE – COSTS AND BENEFITS

Costs

- 4.1 Costs have been developed for the first three years of operation, starting in 2008/09. These are comparable with those set out in the original bid document. The majority of costs are related to staff to support the new organisation, some 75% of total expenditure. In summary, net expenditure of the organisation is estimated as £3.4m in 2008/9 rising to £3.8m by 2010/11.

Funding Requirements

- 4.2 It is proposed that the above net expenditure will be funded by requisition from all member authorities. A funding model based on a standard participation fee (equivalent to 20% of the organisation's costs) and the remaining 80% of costs recovered by way of a population driven requisition has been identified. Based on all 32 Authorities participating, Falkirk Council's share of costs would be £94,230 in 2008/09; £96,745 in 2009/10 and £99,201 in 2010/11.
- 4.3 All Scottish Local Authorities are being asked to join Scotland Excel for a period of three years from April 2008.
- 4.4 The costs outlined above are in relation to Category B type contracts, managed and facilitated by Scotland Excel. In terms of participating in the Category A National Public Sector Contracts, organised by the Scottish Government, there will be no costs involved in utilising these contracts in years 1 – 3. It is however not known whether there will be any costs from Year 4 onwards.

Benefits

- 4.5 The main financial benefits from Scotland Excel have been identified as through increased collaboration across the sector. Based on spend data supplied by all Councils (totalling some £4.1 billion pa), the predicted benefits/savings anticipated is estimated at £34.4m over the next 3 years. These savings are anticipated to be realised incrementally over the three years based on contracts being tendered in 3 separate waves. The predicated savings per annum are as follows:
- Wave 1 £10.7m
 - Wave 2 £16.6m
 - Wave 3 £7.1m
- 4.6 These savings do not take account of the benefits to be achieved from increased collaboration within the Category A and Category C commodities. The savings estimates follow from commodity group workshops, where participants were asked to score each commodity group for savings potential, recognising the degree of perceived difficulty there maybe in establishing a national contract. Savings percentages were then identified for each commodity group.
- 4.7 Wave 1 contracts are based on those commodity groups that scored well at the workshops, in terms of savings potential, commonly defined requirements and a competitive national market. Contracts start dates stretch over the next 3 financial years, with some contracts not due to start until April 2010. As a means of classifying contracts, the timeline uses expenditure classifications (Proclass & Thomson) based on definitions within the data analysis tool provided by the Scottish Government. It is proposed that the contracts will be developed through consultation with Local Authorities, via User Intelligence Groups (UIG's), comprising both procurement officers and commodity specialists.
- 4.8 Wave 2 contracts are where information gathering and setting a standard specification maybe more difficult. Included in Wave 2 are significant spending areas such as Building and Civil Engineering works and care provision, along with heavy vehicles and vehicle parts, protective clothing and care and medical equipment. Wave 2 also includes spending areas where a large number of authorities have existing contracts in place and which have some time still to run. Scotland Excel will however try and facilitate opening up existing contracts to local authorities who have earlier needs. Work on establishing Wave 2 contracts is intended to be completed by mid 2009 and contracts operational thereafter. Benefits from these contracts will substantively be realised from financial year 2010/11 onwards.

4.9 The third wave of collaboration will concentrate largely on areas of Financial Services and Consultancy Services. In these areas it is likely that there will need to be substantial preparatory work undertaken before effective collaboration can commence. This work is planned to be completed by mid-2010 and contracts operational thereafter. Benefits from these contracts will substantively be realised from financial year 2011/12 onwards.

4.10 Based on Falkirk Council's expenditure on Wave 1, 2 and 3 commodities, Scotland Excel estimate the total savings potential as c£670,000 pa., profiled across each wave as follows:

	Savings	Est. Spend	% Saving
Wave 1	£230,000	£9,700,000	2.4%
Wave 2	£340,000	£23,500,000	1.4%
Wave 3	£100,000	£5,900,000	1.7%
TOTAL	£670,000	£39,100,000	1.7%

4.11 The main caveat associated with these estimated savings is that the Council already has a significant number of contracts already in place for these spend areas, with some not due to expire until 2010 or later. A timeline has been prepared to reflect both Falkirk Council's contract profile and Scotland Excel's proposed implementation timetable, together with updated and revised spend figures, particularly increased energy costs. These spend revisions increase the potential Wave 1 savings. The indicative savings profile per financial year is as follows:

	2008/9	2009/10	2010/11
Wave 1	£7,000	£101,000	£293,000
Wave 2	£0	£152,000	£305,000
Wave 3	£0	£0	£45,000
TOTAL	£7,000	£253,000	£643,000

4.12 The full value of these savings will not be realised immediately in the early years and it is not until at least 2010/11 until the majority of savings would be realised. In procurement terms, participation in Scotland Excel will therefore deliver efficiency benefits to Falkirk Council going forward in future financial years.

4.13 When this savings profile is compared to the costs of participating in Scotland Excel it will not be until 2009/10 until projected savings exceed the participation fee and a cumulative net financial saving is achieved i.e.: £260,000 savings compared to £191,000 participation cost. This is however dependant upon the Scotland Excel meeting the timescales for the delivery of Wave 2 contracts particularly.

4.14 It should however also be recognised that savings from Category A & C commodities and services may also be realised, in addition to the above sums.

4.15 There are some caveats associated with the estimated savings, including:

- The robustness of the savings %'s used,
- Baseline expenditure includes one-off spend and may not be accurately classified
- Price benchmarking carried out between existing ABC contract prices and a range of individual Local Authorities, including the Joint Buying Arrangement was inconclusive.

5. NON-FINANCIAL FACTORS

5.1 In evaluating participation with Scotland Excel, other non-financial factors require to be considered. These include:

- Requirement to have a robust business case for not participating, particularly given future External Audit scrutiny of procurement
- In the medium to longer term, participation in Scotland Excel will enable our own Corporate Procurement Team to more clearly focus on category C commodities; to review buying patterns to maximise “on” contract spending and to support the delivery of efficiency savings and the aims set out in the Council’s Procurement Strategy.
- Scotland Excel will provide a point of access to training; specialist advice; best practice support, which can be used to improve and develop our own procurement activity.

6. CURRENT POSITION

6.1 To date all Local Authorities have either committed to join Scotland Excel or are in the process of consulting with their respective Members. Scotland Excel is anticipating at least an 80% participation take-up and it is hoped to secure 100% participation.

6.2 Given that it is probable that a critical mass will be formed in respect of participation from Year 1, there is the potential that Authorities who do not participate could to an extent become marginalised in relation to procurement.

6.3 Members will be aware of the well established regional procurement collaboration with Stirling and Clackmannanshire Councils, through the Joint Buying Arrangement (JBA). Work has also been on-going recently to develop and expand the JBA, through the Shared Services work with Perth and Kinross and East Dunbartonshire Councils and the existing JBA partners. These arrangements provide a sound platform for procurement and an opportunity to develop.

6.4 In considering participation with Scotland Excel, the future direction and status of the JBA must also be considered. In participating in Scotland Excel, the majority of current JBA contracts would become Scotland Excel contracts, with the JBA focussing on Category C contracts. Liaison is on-going with the partner JBA authorities to ensure each partner is aware of the others respective stance regarding participation in Scotland Excel and there is a commonality of approach in considering the business case for participation.

7. CONCLUSION

7.1 The establishment of Scotland Excel delivers on one of the fundamental recommendations of the Review of Public Sector Procurement and is considered as the main vehicle to deliver efficiency savings. Efficiency savings for Local Authorities through Scotland Excel are estimated at in excess of £47.8m pa by the end of 2010, increasing to over £66m pa thereafter. Falkirk Council savings are estimated at £670,000 pa. There are however a number of caveats to be borne in mind when considering the savings estimates.

- 7.2 The cost of participating in Scotland Excel is approximately £100,000 pa for the next 3 years. Provision has been made in the revenue budget, on a spend to save basis. However, as a result of the current contractual status of a number of the first wave Scotland Excel contracts, the potential for savings realisation will be restricted until the termination of existing contracts. This means that the full recovery of costs will not be realised until at least the second year of operation i.e.: 2009/10. There are however a number of non-financial benefits accruing from membership.
- 7.3 It is anticipated that the majority of Scottish Local Authorities will join Scotland Excel and for those not participating a robust business case will be required, to satisfy potential audit scrutiny.
- 7.4 The Council is already part of a well established collaborative procurement organisation (JBA). The status and future direction of the JBA must be considered alongside participation with Scotland Excel.
- 7.5 There are three main options available to Falkirk Council in relation to Scotland Excel participation as follows:
- Commit fully from Year 1 (2008/09), acknowledging that the full recovery of participation costs will not be realised until Year 2 (2009/10) at the earliest.
 - Do not commit to joining in Year 1 but review the business case on an annual basis, in order to determine the most appropriate time to participate.
 - Do not commit to participate at all

8. RECOMMENDATIONS

Members are invited to

- 8.1 Consider the proposed cost and benefits of participating in Scotland Excel and reach a view on participation**

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DIRECTOR OF CORPORATE AND COMMERCIAL SERVICES

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