

COMMITTEE	Finance, Policy & Resources
DATE	20 <sup>th</sup> September 2016
DIRECTOR	Richard Ellis
TITLE OF REPORT	Commercial & Procurement Services – Shared Service Proposal with Highland Council
REPORT NUMBER	CG/16/107
CHECKLIST COMPLETED	Yes

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1. PURPOSE OF REPORT

The purpose of this report is to request members to agree the proposal for a shared Commercial and Procurement Service with Highland Council. Aberdeen City Council will act as the Lead Authority further extending the existing shared service with Aberdeenshire Council to take on another partner.

2. RECOMMENDATION(S)

2.1 The Committee is recommended to:

- i) Support the creation of a Shared Commercial & Procurement Service with Highland Council.
- ii) Approve delegation of the Business Case for the restructure of the Commercial & Procurement Service (which will be cost neutral to Aberdeen City Council) to the Director of CG and the Head of Commercial & Procurement Services in consultation with the Convener of FP&R

3. FINANCIAL IMPLICATIONS

Combined, the three councils have a revenue spend of circa £1bn that is commissioned on goods and services. Capital expenditure is above this. The sheer scale of this spend should provide the catalyst to drive efficiencies.

Highland Council has agreed to commit additional resources to the shared service, in addition to the transfer of their existing team. The additional investment is £0.49m and will fund an additional 5 posts, based in Highland, as well as contributing to the wider team based in

Aberdeen. The proposal is totally cost neutral to Aberdeen City Council.

In the case of Aberdeen City Council, with an annual contract expenditure of £313m, a 0.5% reduction in spend equates to a total of £1.56m savings. The cumulative effect over 5 years means that the Council will be spending £7.8m less per year than is currently the case. Expenditure in the other two councils is broadly similar, meaning that annual savings for the three councils is targeted in the region of £4.4m (cumulative over 5 years £21.9m).

The model will have the flexibility for other interested parties to align as a partner without the need for them to undertake a procurement exercise. They will in effect have the ability to have all or any of their procurement activity provided by Aberdeenshire and Aberdeen City Council under agreed terms.

In addition to tracking actual financial savings against those forecast, a series of key performance indicators will be agreed as part of the Shared Service. In brief these include customer, staff and financial measures, including:-

- % spend with local businesses
- Contracts with community benefits
- Cashable efficiency savings
- Non-cashable efficiency savings
- % spend covered by contract
- % off-contract spend

Performance will be reported on a regular basis to this Committee, with the focus being on performance against the above key indicators.

#### 4. OTHER IMPLICATIONS

The proposal represents a tremendous opportunity to deliver a shared service across the North and East of Scotland that provides clear benefits for the Council. As well as financial benefits, there are strong reputational benefits to deliver a shared service, and the Scottish Government is known to be taking a keen interest in this development.

There are no specific equalities issues arising from this proposal. TUPE will apply to staff transferring to Aberdeen City Council as the lead employer (current Highland staff will still be based in Inverness). Whilst this is felt to be the best option, the success of the Shared Service is not conditional on this being achieved.

All three councils wish to have a greater say in shaping procurement frameworks to ensure that the needs of communities across the North and East are considered. This can be better achieved through a single regional voice, able to compete with the scale of the largest Scottish

councils. A ripple effect could see neighbouring authorities associating themselves with this partnership to gain from the scale offered.

A Delegated Partnership Agreement (DPA) is now formally in place between Aberdeen City and Aberdeenshire Councils. This will be supported by a further Memorandum of Understanding (MoU) with Highland Council.

## 5. BACKGROUND/MAIN ISSUES

Since late 2015, following a meeting between Chief Executives of Aberdeenshire, Aberdeen City, and Highland Councils, officers have been working to develop a Business Case to explore opportunities for a shared procurement service across the three councils. This will build on the existing shared service between Aberdeen City and Aberdeenshire Councils.

The Business Case has considered a range of models for a shared service, and proposes a formal partnership and delegation model, whereby Highland Council will delegate responsibility to Aberdeen City Council for the delivery of this preferred model.

Any shared service model that is proposed must show benefits for each of the partners. The proposed model has more capacity and resilience, whilst also providing the ability to drive efficiencies through a significantly higher buying leverage on common commodities.

The existing joint model for procurement between Aberdeen City and Aberdeenshire Councils is already attracting interest from other partners than just Highland. Whilst the current focus is on the initial opportunity for shared working between the three councils, the vision is to create a centre of expertise in the north of Scotland for Procurement.

A key element of the procurement strategy will be to support local businesses across Aberdeen City. This will be a key element of the performance framework to demonstrate that this is being achieved. It is believed that the proposal will actually enhance opportunities for businesses across Aberdeen City to expand across the North.

All three councils wish to have a greater say in shaping procurement frameworks to ensure that the needs of communities across the North and East are considered. This can be better achieved through a single regional voice, able to compete with the scale of the largest Scottish councils. A ripple effect could see neighbouring authorities associating themselves with this partnership to gain from the scale offered.

## 6. IMPACT

### **Improving Customer Experience –**

The recommendations within this report will ensure that the Council is working in partnership with other public services to meet the needs and aspirations of customers and communities.

Small and Medium Sized Enterprises (SMEs), and national providers, will be attracted to the volume of opportunity offered through a combined procurement exercise. SMEs, looking to grow, will be attracted to the volume of opportunity offered through a combined procurement exercise. Whilst aggregation of buying power can be achieved without a partnership agreement, having a single procurement team is far more efficient as it avoids each council having to repeat the same procurement work.

### **Improving Staff Experience –**

Service demand for Business as Usual (BAU) procurement activities currently outstrips the capacity of the individual teams. By pooling resources it becomes easier to address peaks in demand by making better use of a single, larger team of procurement professionals.

### **Improving our use of Resources –**

With short and medium term financial savings targets set both directly for the teams, and indirectly through their support in delivering savings for services, the need to focus on the more strategic items of spend is vital. At present, the teams predominantly deliver BAU services, and as a result have less time to focus on the “big ticket” items. A new combined structure allows a more dynamic, flexible organisation to be implemented, where peaks in demand can be managed more effectively.

### **Corporate -**

A prime aim is to deliver financial and improvements to the quality of service to all 3 councils, as well as to provide a proof of concept for the joint provision of other council services in the future; building confidence and trust in the ability of a combined team to provide affordable, effective services to partners, and if decided in the future, to other public sector bodies.

### **Public –**

There are no specific equalities issues arising from this proposal. All contracts will be designed to promote and progress equality of opportunity so that we meet the needs of our citizens, including those who are most vulnerable and at risk of disadvantage.

## **7. MANAGEMENT OF RISK**

The implementation of the new service delivery model will take the form of a two year programme and will be structured and governed through the Council’s agreed project management governance, with appropriate

leadership and direction provided by a project board with representation as appropriate.

Failure to put the new arrangements in place, in accordance with the timescale, may lead to a failure to achieve the full improvements anticipated, and deliver financial savings.

The savings are estimated to arise from the award and management of existing and future contracts. Until these new arrangements are put in place and negotiated, there is some degree of uncertainty over the absolute value of savings that can be achieved.

These risks can however be mitigated through the direct professional support, both locally and nationally to deliver the outcomes necessary.

## 8. BACKGROUND PAPERS

Procurement Reform (Scotland) Act 2014:

[www.gov.scot/Topics/Government/Procurement/.../ProcurementReform/ProcReformAct](http://www.gov.scot/Topics/Government/Procurement/.../ProcurementReform/ProcReformAct)

## 9. REPORT AUTHOR DETAILS

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