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**CYNGOR SIR POWYS COUNTY COUNCIL.**

**PORFTOLIO HOLDER FOR FINANCE AND PROCUREMENT**

**DELEGATED DECISION  
06 December 2012**

**REPORT AUTHOR:** **Mike Green-Corporate Procurement and Business Manager**

**SUBJECT:** **National Procurement Service**

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**REPORT FOR:** **Decision**

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**Summary**

The Minister for Finance is leading the initiative to create a National Procurement Service for the entire Welsh Public Sector.

There have been various reviews into Public Sector procurement activity across Wales, including the Better Value Wales report in 2001 and, more recently, the 2010 review “Buying Smarter in Tougher Times”, which first suggested the establishment of a National Service for *common and repetitive spend items* on a “Once for Wales” basis. It concluded that while progress had been made in public sector procurement, greater efficiencies and stronger social and economic outcomes could still be achieved. The report recognised the challenges faced and outlined twenty three recommendations. Arguably, the most significant of these was for the development of a business case to establish a National Procurement Service (NPS) to be responsible for procuring common and repetitive spends ‘once for Wales’.

A Project Group was established to produce a business case for the development of a National Procurement Service for the whole of the Welsh Public Sector. The business case has been pursued through the Asset Management and Procurement (AMP) work-stream of the Public Service Leadership Group (PSLG) led by Tracey Lee (MD Newport City Council). Tracey Lee, who has secured a new role as Chief Executive of Plymouth Council, has now been replaced by Jon House, Chief Executive of Cardiff City Council.

At its meeting of 26<sup>th</sup> September the PSLG endorsed the Business Case for consultation.

As part of the consultation, the Business Case was presented to the Partnership Council for Wales on the 24<sup>th</sup> October. Cllr Bob Wellington (WLGA -Leader) and Steve Thomas (WLGA - Chief Executive) have expressed support for the Business Case.

On the 8<sup>th</sup> October 2012 AMP wrote to each Council seeking formal commitment to join the NPS. Such commitment is required by 14<sup>th</sup> December 2012.

This matter was discussed at Cabinet on 23<sup>rd</sup> October 2012 (where an “in principle” decision to join the NPS was made) with further discussions at Cabinet on 4<sup>th</sup> December 2012 at which Cabinet resolved that the Portfolio holder for Finance and Procurement be given authority to confirm whether the Council should become a member of the National Procurement Service.

## **Proposal**

### *Context and scope*

The Welsh Public Sector spends over £4.3billion each year (one third of its budget) on externally sourced goods, services and works. In the current economic climate, high expectations are placed on what public sector procurement can deliver for Wales in terms of wider social, economic and environmental benefits.

The activity of the NPS would be confined to ***common and repetitive spend items*** which include, stationery, office furniture, travel, ICT software and hardware, catering supplies, postal services, cleaning materials, utilities, consultancy, construction materials, and reportedly represent approximately 23% of total public sector procurement expenditure. The NPS categories do not include products or services such as social care, construction, waste management etc.

### *Potential Benefits*

It is proposed that NPS is set up on a ‘category management’ basis – structured so that lead officers have a good understanding of spend, future demand and the market, and develop appropriate and relevant category sourcing strategies. These are not necessarily high value or complex items – and by their very nature are often transactional. Other categories that fall outside of these areas will be managed using local and regional approaches which are outside of the scope of the NPS. Creation of the NPS will also free up resource within local procurement teams to tackle complex or high risk local procurements.

The Business Case identifies an investment of £2.4m per annum be made in the NPS – to secure a savings benefit of £74.8m over 5 years which is £34m over and above current arrangements. For Local Government, projected savings range from £6 million to £16 million per annum. It is fair to say that, in some quarters within the Local Government procurement community, even with full engagement, these projections appear ambitious. Time will tell whether they are realistic.

Cost avoidance through simplified procurement and increased compliance are other stated benefits.

### *Impact upon Local Suppliers*

Cabinet is acutely aware of the need to use the procurement of contracts to secure high quality, value for money services, whilst driving forward the regeneration and community benefits agenda through maintaining and developing, where possible, sustainable local supply chains.

An Economic Impact Assessment (EIA) Group was established by AMP consisting of representatives from the Federation of Small Businesses (FSB) representing the private sector, the Wales Council for Voluntary Action (WCVA) representing the third and voluntary sector, Unitary Authority and Welsh Government officers representing local and national economic regeneration interests. The Group was tasked with identifying opportunities and considering any potential risks that the standardisation of specifications and creation of all-Wales contractual arrangements may have for the economy of Wales.

As part of the economic appraisal contained within the business case, it showed that the economic opportunities (and benefits) of the NPS to Welsh SME's outweigh the risks. It identified that 15% of the spend areas involved currently go to Welsh suppliers.

The business case outlines that the NPS can create an opportunity to improve links with economic development activity and strengthen Welsh supply chains in the commodity areas covered by the NPS.

A recent review commissioned by the Welsh Government and conducted by John McClelland CBE, showed that stronger centralised procurement, with a focus on economic value, results in a greater level of local spend than with uncontrolled maverick buying.

#### *Impact upon Welsh Purchasing Consortium*

The Council is a member of the Welsh Purchasing Consortium (WPC). The WPC represents sixteen Local Authorities across South, Mid and West Wales.

We currently pay an annual fee of £15,000 to the WPC to fund a Central Management team of three staff. This consists of a Consortium Procurement Manager, Procurement Officer and Procurement Support Officer.

Each Member Authority contributes to the workload of the WPC by leading on specific procurement projects. The Council is currently leading on the Maintenance of Fire Safety Equipment.

The WPC currently has established 64 framework agreements for use by its member Authorities. These cover a wide range of areas ranging from highways and building products to managed services for temporary staffing. It is envisaged that 39 (approx £221m worth of WPC spend) of these current WPC arrangements will transfer over to the NPS once established.

However, the WPC have identified a potential spend of £850m across its members that could provide opportunities for contractual arrangements that would not currently be covered by the NPS.

## *Funding*

It is proposed that the NPS is centrally funded “*directly through Welsh Government budget process*” until it reaches a point of maturity; estimated in Year 3 (2016/2017) of operation; at which point it is proposed that the funding model switches to a self funding rebate from 2017/2018 onwards. The rebate model does carry the risk that suppliers will merely inflate prices in order to rebate back to participants. Care needs to be taken that the self-funding model is not an illusion.

## *The Commitment*

The Council has been asked, by 14<sup>th</sup> December 2012 to confirm our intention to:

- a) Sign up to using the NPS for a period of 5 years.
- b) Embrace an agreed management information approach; where transparency and a robust category management culture drive optimum benefits across the scope of the service; and
- c) 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, 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 which makes excessive use of this exception clause.

## *Host Organisation*

Whilst the preferred operating model for the NPS is that of Central Delivery, the “host” organisation has not been confirmed at this point. The NPS will have independence from the chosen host organisation's own operation as the service will have its own governance structure with appropriate representation from all sectors.

At its meeting on the 23<sup>rd</sup> October 2012 Cabinet resolved to make a bid to host NPS to “*seek to capitalise on an opportunity to create employment opportunities in order to support economic development and regeneration within Powys*”

Hosting the NPS does bring with it a number of risks. These risks are clearly identified within the Bid Risk Register and their mitigation and management will be addressed with WG during the bid process.

The Council's bid to host the NPS was made in accordance with the expressions of interest procedure and includes a foreword by the Leader and Chief Executive, and statements of support from WPC and WLGA.

The bid has been shortlisted and will be presented by the Portfolio Holder for Finance and Procurement on 12<sup>th</sup> December 2012 to the independent panel.

### **Powys Change Plan**

The Council has a sound track record in collaborative procurement and continues to seek opportunities to work with others to exploit procurement to secure its wider policy aims. Collaboration with public sector partners is a guiding principle across a number of Council strategic change initiatives. The Council's Commissioning and Procurement strategy recognises the benefits of collaboration.

### **Options Considered/Available**

Clearly, we have the option to decline the invitation to join the NPS. In considering this option Members will be aware that the NPS is a Minister sponsored initiative which has gained a fair degree of traction across the Welsh Public Sector. It is very likely that there will be sufficient commitment to enable the NPS to be launched.

Under these circumstances, non-participation may bring economic and political challenges, in that the Council may be perceived as being "off message" regarding the collaboration agenda, and, may receive negative comment for apparently giving up the opportunity of making significant savings.

## **Preferred Choice and Reasons**

There is a sound business case for the establishment of the NPS, and it is recommended that we should make a commitment to participate. However in giving our commitment to join the service we need to ensure that this Council's best interests are protected and associated risks are addressed. We therefore need to set out conditions alongside any commitment we give, which shall include:-

- a) The final business case once the level of commitment is known still demonstrates achievable savings of a sufficient level to ensure the on-going sustainability of the service.
- b) The Welsh Government confirms their funding commitment to the service on a non-refundable basis for participating organisations and that the funding mechanism includes safeguards against suppliers inflating prices to rebate back to customers.
- c) Mechanisms be utilised to measure and track savings (and "community benefits") and a sensitivity analysis be maintained on the financial model should savings projections not be met.
- d) Strategies are adopted to ensure local suppliers are provided with fair and reasonable opportunities to bid, and where appropriate new local supply chains are developed.
- e) Arrangements are in place to ensure joint and several liability across all participants in the event of any dispute or performance issues with contractors or participating members of the NPS.
- f) The opt-out mechanism would allow us to be excluded from using individual contracts where it was clear that alternative procurement arrangements offered a proven "most economically advantageous deal" for Powys County Council.
- g) The opt-out mechanism would allow us to be excluded from using individual contracts if there was likely to be a significant adverse impact on the local or sub-regional economy.

### **Local Member(s)**

Possible implications related to local supplier impact.

### **Other Front Line Services**

All services may, from time to time, be required to provide NPS with data to support various procurement activities.

### **Support Services (Legal, Finance, HR, ICT, BPU)**

All services may, from time to time, be required to provide NPS with data to support various procurement activities.

Legal; We support the recommendation

### **Statutory Officers**

The Strategic Director, Finance & Infrastructure (Section 151 Officer) has commented as follows;

“I support the recommendation”

The Strategic Director, Law & Governance (Monitoring Officer) has commented as follows;

“I support the recommendation”

### **Members’ Interests**

The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest they should declare it at the start of the meeting and complete the relevant notification form.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
<b>The Council shall commit to join and participate in the NPS in accordance with the arrangements and conditions set out in this report.</b>	<b>To support National Strategies and WLGA policy direction.</b>

<b>Relevant Policy (ies):</b>	
<b>Within Policy:</b>	<b>Y / N</b>

<b>Relevant Local Member(s):</b>	
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<b>Person(s) To Implement Decision:</b>	
<b>Date By When Decision To Be Implemented:</b>	

Contact Officer Name:	Tel:	Fax:	Email:
Mike Green	6378		

### **Background Papers used to prepare Report:**

**Cabinet Report 23<sup>rd</sup> October 2012**

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