

REPORT TO: POLICY & RESOURCES COMMITTEE - 14 APRIL 2008

**REPORT ON: CORPORATE PROCUREMENT STRATEGY
- SCOTLAND EXCEL**

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 229-2008

1 PURPOSE OF REPORT

The purpose of this report is to seek the Committee's agreement to the City Council becoming a member of Scotland Excel, the local government centre of excellence for procurement.

2 RECOMMENDATIONS

It is recommended that the Committee:-

- 2.1 Approves that the Council becomes a member of Scotland Excel for three years from 1 April 2008.
- 2.2 Remit the Depute Chief Executive (Support Services) to finalise and sign the 3 year agreement with Scotland Excel.
- 2.3 Approve that an elected member be appointed to serve on the Scotland Excel Joint Committee to represent the City Council.

3 FINANCIAL IMPLICATIONS

- 3.1 The City Council was successful in bidding for Scottish Government grant funding in order to implement a Corporate Procurement Strategy. At 1 April 2008 there is £214,000 of that funding available to pump prime the implementation of the Corporate Procurement Strategy, including the City Council's membership of Scotland Excel.
- 3.2 The Scotland Excel membership fee for the three years which the City Council would be a member is as follows:-

2008/09	£92,783
2009/10	£95,259
2010/11	£97,677

- 3.3 The Scotland Excel business case identified that its member Councils would begin to achieve financial savings on their contracted expenditure, and that these procurement savings would, in the short term, more than cover the annual Scotland Excel fee. The City Council, when preparing its 2008/09 Revenue Budget, assumed that there would be no procurement savings, therefore any procurement savings achieved will be identified and manifest themselves in a higher than anticipated General Fund balances. In the Revenue Budgets from 2009/10 onwards procurements savings will be reflected both on an actual and projected basis when Revenue and Capital Budgets are being prepared.

4 BACKGROUND

4.1 The McClelland Review of Public Sector Procurement was released in March 2006. It contained 82 recommendations for the public sector as a whole, specifically aimed at managing procurement more effectively to achieve greater financial efficiencies. Many of these recommendations are reflected in the Tayside Procurement Consortium (TPC) procurement strategy 2008-2011 and most are now being put into practice within the new approach to procurement that the Council has as a result of its involvement in the TPC and the ongoing redesign and restructuring of the Council's procurement activity.

4.2 The McClelland Review argued that, based upon its recommendations, there was potential to save in excess of £400m in 2008/09 and £600m in 2009/10 through increased collaborative procurement across the Scottish public sector. The Review report stressed that in order to effectively secure those savings, procurement should be managed within three distinct categories of commodity as follows:-

Category A: National contracts for commodities used in common in the whole of the public sector in Scotland (e.g. IT hardware and office supplies). To manage Category A contracts, a National Centre of Procurement Expertise has been established with the Scottish Government called "Procurement Scotland". Procurement Scotland shall address the collaborative arrangements for national procurement contracts across the whole of the public sector. These contracts are planned to be made available to the public sector over the next three years.

Category B: National contracts for commodities more exclusive to specific public sectors within Scotland, one of which is local government (e.g. Education furniture and supplies, work clothing/uniforms). To manage Category B contracts, **Scotland Excel** is to be formed as a Centre of Procurement Expertise for local government and will provide procurement of collaborative contracts for all Councils across Scotland in waves over the next 4 years.

Scotland Excel is supported by Renfrewshire Council and backed by Scottish Government funding from the National Shared Services Board of Scotland to the value of £4.5m as initial start up funding. Although not formally established yet, Scotland Excel has already commenced working with Councils on a number of collaborative contracts.

Category C: Local and regional contracts for the provision of services and goods specific to local and regional areas. The strategic lead authority for these commodities is the Tayside Procurement Consortium (TPC) for the 3 Tayside Councils.

- 4.3 The Scotland Excel project plans for the creation of a new structure to take forward the business of creating a local government centre of excellence for procurement which has two principal aims:-
- 1 leading and co-ordinating the establishment of national procurement contracts and project support activities in relation to those goods and services purchased primarily by local authorities (i.e. category "B" commodities).
 - 2 the promotion of best practice in procurement through a range of activities including training and development, advice and consultancy support, partnership knowledge management, and encouraging innovation.
- 4.4 All Councils across Scotland are now being asked to:
- join Scotland Excel for at least 3 years being 2008/09 to 2010/11 inclusive;
 - commit to Scotland Excel's business case;
 - appoint elected member representation on the Scotland Excel Joint Committee; and
 - pay an annual requisition fee toward the operating costs of the organisation.
- 4.5 It should be noted that reports in equivalent terms to this one have been approved by Angus Council and Perth & Kinross Council in order for the TPC to move forward with membership of Scotland Excel on a common footing. The current position is that 30 of the 32 Scottish local authorities have committed to joining Scotland Excel.

5 MEMBERSHIP OF SCOTLAND EXCEL

5.1 Operating Model for Scotland Excel

- 5.1.1 In establishing a collaborative consortium for local government, a business case was developed by Renfrewshire Council seeking funding to create a Category B Centre of Excellence for local authorities aligned to the establishment of a number of regional hubs. A Director was appointed in October 2006 to deliver the establishment of Scotland Excel and in doing so, assist in driving the McClelland Review recommendations forward. Start-up funding of £4.5m was awarded by the Scottish Government's National Shared Services Board to establish Scotland Excel in January 2007, in response to an outline business case submitted within an Efficient Government Fund bid.
- 5.1.2 Since that date, a steering group has met monthly to consider and contribute to the developing work of Scotland Excel. The Tayside Procurement Consortium (TPC) of which Dundee City Council is a member has attended the steering group since its inception and has played an active part in trying to establish a robust critique of the business case, the savings analysis, and a regional centre or "hub" approach to procurement practice. These "regional hubs" will form centres of procurement activity and expertise-sharing to feed into the overall activity of the national centres of expertise.

5.1.3 TPC has been recognised by Scotland Excel as a key foundation in the establishment of the regional hub in the North East region which will comprise Perth & Kinross, Dundee City, Angus, Aberdeen City and Aberdeenshire Councils. Aberdeen City will host the Northern regional office for Scotland Excel. It is understood that the regional hub will assist authorities in co-ordinating collaborative procurement between the local authorities in each region, but will not necessarily perform procurement itself. This is an important point in the context of the TPC programme which seeks to deliver a shared service operation around collaborative procurement for the region for all types of commodities.

5.1.4 Support of regional procurement activity through the hubs is one of the main areas in which Scotland Excel offers an enhanced service over that formerly provided by ABC. The regional hub will support up to four FTE employees as follows:-

- 1 Client Manager - to assist in leadership and co-ordination within collaborative arrangements in the region;
- 2 Procurement Data Analysts - assisting in the regional collaborative analysis;
- 1 Communications Manager - assisting with delivery of Scotland Excel messages and training courses for the Northern region.

These posts are to be advertised and filled early in 2008. Renfrewshire shall be the employing authority for Scotland Excel for these posts, and funding will come from Scotland Excel. This operating model is critical to the success of Scotland Excel because it allows for a harmonised approach to procurement within all categories of commodities, both nationally and locally, and provides support to the robustness of Scotland Excel's business case.

6 FUNDING OF SCOTLAND EXCEL

6.1 All Scottish local authorities are being asked to join Scotland Excel for a period of 3 years commencing 1 April 2008. Current indications are that 30 councils have or will have signed up to Scotland Excel membership by the time of the inaugural meeting. To support its case for councils taking up membership, Scotland Excel has produced a number of supporting documents, including a model report, business case and projected saving analysis. Copies of Scotland Excel's model report setting out its business case along with other associated documents listed at the end of this report are available in the members' lounge.

6.2 Based on the information provided in Scotland Excel's business case, the organisation's expenditure (at outturn prices) over the first 3 years of its operation will be as follows:

Year 1 (2008/09)	Year 2 (2009/10)	Year 3 (2010/11)
£3,842,246	£4,077,404	£4,180,100

6.3 The Scotland Excel business case states that the above projected expenditure will be met from a combination of training course income, annual fees from member local authorities and grant funding from the National Shared Services Board.

6.4 In terms of the Scotland Excel annual membership fees, these will be calculated on a basis of a standard participation element which forms 20% of the fee, and a weighted population element which will form 80% of the fee. This method of calculation is to reflect the assumption that there will be greater scope for achieving procurement savings among larger local authorities. The City Council's annual membership fees for Scotland Excel are as follows:-

Year 1 (2008/09)	Year 2 (2009/10)	Year 3 (2010/11)
£92,783	£95,259	£97,677

6.5 The Scotland Excel business case includes a prudent estimate of the likely procurement savings local authorities will achieve on Category B commodities through being a member of Scotland Excel. It is projected that the annual savings for the City Council may be circa £800,000. This is projected procurement savings and does not include any savings from Category A or C commodities.

7 SCOTLAND EXCEL TERMS AND CONDITIONS

7.1 A full set of the terms and conditions have been prepared by Scotland Excel and are included as background information by way of a copy being available in the members' lounge. In summary, elected members are asked to note the following with reference to the model report and the terms and conditions:

- Councils are asked to become a member authority on the basis of the updated business case for an initial 3 year period.
- Based upon population size the Council will appoint one elected member to the Joint Committee once Scotland Excel is established on 1 April 2008.
- Renfrewshire Council shall be the lead authority for the Joint Committee.
- There is to be a management group of 6 Chief Executives from the member authorities.
- Renfrewshire Council shall be the employing authority for Excel staff.

- Buying from Scotland Excel contracts is "mandatory" except under special conditions. In certain cases this may undermine current benefit work within given contracts. There is provision within the terms and conditions to allow authorities to opt out of given contracts on the basis of "best Value" prior to their establishment. It has been agreed with Scotland Excel that the TPC will prepare a statement of intent to opt-in or out of the contracts being let over the first 3 waves of activity indicating which ones it intends to opt in or out of. TPC's intention is to opt in to all categories at present pending detailed review of each category.
- Termination as a member authority requires one year's written notice.
- Scotland Excel's contract standing orders and financial regulations shall apply to all tendering procedures and the award of all contracts by Scotland Excel on behalf of the Member Authorities.

7.2 The City Council officers were not comfortable with paragraph 6.4 of the Scotland Excel terms and conditions which states "Where a member authority chooses not to contract for products or services on the product range the member authority shall provide the Director with their reasons for not so contracting." The City has now received confirmation from Scotland Excel to the effect that when the City Council is content that it can achieve best value from entering a contract outwith Scotland Excel's contract, then there is no contractual penalty or sanction that can be imposed by Scotland Excel even if Scotland Excel disagrees.

8 LOCAL ECONOMY AND ENGAGEMENT WITH LOCAL BUSINESSES

8.1 In the Council's Corporate Procurement Strategy which was approved by the Policy & Resources Committee on 12 March 2007, there is a commitment to ensure that, wherever possible and consistent with the need to secure value for money, suitably qualified Small/Medium Enterprises have the opportunity to compete for Dundee City Council business.

8.2 If the City Council were to become a member of Scotland Excel then it is important that the City Council's commitment to supporting local businesses is not diluted. The Economic Development Department and the Council's Corporate Procurement Manager will meet with the Chamber of Commerce to ensure that local businesses can maximise their opportunities in accessing Scotland Excel managed contracts, both within Dundee City and throughout Scotland.

9 POLICY IMPLICATIONS

9.1 This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

10 CONSULTATIONS

- 10.1 The Chief Executive, Depute Chief Executive (Support Services) and Head of Finance have been consulted on the report and are in agreement with its contents.

11 BACKGROUND PAPERS

- 11.1 Scotland Excel Model Report titled "Scotland Excel: the Centre of Procurement Expertise for Local Government in Scotland"

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DATE: 5 APRIL 2008