

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to	Executive Committee
Date	3 December 2012
Subject	National Procurement Service
Portfolio Holder(s)	Councillor John Chorlton
Lead Officer(s)	Head of Service (Finance)
Contact Officer	Einir Wyn Thomas (Ext. 2605)
<p>Nature and reason for reporting</p> <p>To obtain approval to join the proposed Welsh Public Sector National Procurement Service.</p>	

A – Introduction / Background / Issues
<p>1.1 The 2010 review of procurement in the Welsh Public Sector : “Buying Smarter in Tougher Times” recommended that for common, repetitive spend, contracts should be established on a “Once for Wales” basis.</p> <p>1.2 The Compact emphasised this commitment by confirming the development of a business case to establish a National Procurement Service (NPS).</p> <p>1.3 A full business case for the service has now been developed by the Procurement Board relating to the Efficiency and Innovation Board’s work programme and the Procurement Board have recommended a fully independent central delivery model as the preferred delivery option for the NPS. Subject to business case approval, the proposed service is planned to “go live” in November 2013.</p> <p>1.4 During October, a letter, copy attached as appendix A, was sent to all local authorities inviting participation in the implementation and ongoing operation of the proposed NPS for a period of 5 years. The letter of invitation includes a summary of the proposal, highlighting key features and benefits identified through the development of the business case. Responses to this invitation are requested by 14 December 2012.</p>

B – Considerations

2. Business Case

2.1 The following summary highlights key points from the current version of the business case which has been developed over the last year:

- Based on the identification of a set of specific commodity and service categories and an assessment of total associated expenditure, the current business case has identified an annual savings potential of between £9.2m and £24.6m, with the scope to take a more strategic approach to engagement with Welsh business.
- Creation of the NPS will also free up existing resource to tackle more complex or high risk local procurements.
- The cost of the proposed service is currently estimated at £2.4m p.a., predominately to fund the appointment of an estimated staff of between 23 and 37 officers.
- The proposed service will adopt a category management approach whereby Welsh public sector buying activity of related products and services such as ICT (Information and Communication Technologies), vehicles or stationery are grouped together across participating organisations and mapped onto a supplier market. The approach encompasses the core processes of category planning, strategic sourcing and supplier management.

2.2 The Procurement Board has decided on the establishment of the NPS through a Central Delivery Model – 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 governance structure with appropriate representation from all sectors.

3. Context

3.1 The local context is that:

- The corporate procurement is being transformed within the Authority in order to improve procurement process.
- The SLA was signed with Bangor University (ICPS) on the 10 October 2012.
- Bangor University will be carrying out a Procurement Needs Analysis within the Authority.
- The North Wales Procurement Partnership, which currently manages a range of regional procurement projects and contracts, is currently being reviewed.
- There is also a project for a new regional collaboration.

3.2 Having regard to the proposed categories of procurement for NPS, and the Council's current activity, the expectation is that the Council should be able to access savings of about £200k p.a.

3.3 One condition of joining the National Procurement Service is that the Council must commit to using the contracts that are created by the service. Any opt-out provision would be by exception and justified by the NPS Board in advance of the tender processes commencing. This will require a significant change of culture and a new discipline for the Council which should not be underestimated.

3.4 However, it is not recommended that the Council opts out of any contracts at this point. Any such decision should be made case by case once the specification and procurement strategy have been finalised. The Council can then make an informed decision as to whether an opt-out should be requested.

4. Concerns

4.1 Two areas of concern commonly raised by officers and members in relation to procurement are the effect on the local economy and compliance with the Council's Welsh Language Plan.

4.2 An Economic Impact Assessment Group was established as part of the project to consider the effect on the local economy. It was agreed that some risks existed but that these were outweighed by the benefits. There are, indeed, risks to the local economy but there are also opportunities for local businesses. The NPS has made arrangements to mitigate these risks and, for example, intends to provide early notification of opportunities to the market, which will allow local businesses time to prepare for tenders. Appropriate lotting strategies will also be adopted. It is expected that only a small proportion of the NPS categories of spend is currently procured from local suppliers.

4.3 The business case makes no reference to the Welsh language and there is some doubt on whether the current proposal will enable the Council to comply with its Welsh Language Plan. The Executive may wish to comment on this point.

C – Implications and Impacts		
1	Finance / Section 151	<p>The estimates of financial savings based on the National Procurement Service business case are theoretical. They do, however, appear to be reasonable assuming that the categories selected are appropriate for the Authority.</p> <p>There is an expectation that Welsh Government will fund the National Procurement Service for 3 years, and the business case suggests that the Service will be self-funding by years 4 and 5. This limits the risk to the Council.</p>
2	Legal / Monitoring Officer	
3	Human Resources	
4	Property Services (see notes – separate document)	
5	Information and Communications Technology (ICT)	
6	Equality (see notes – separate document)	As noted in the FAQ at Appendix B - concerns have been raised regarding the ability and intentions of NPS to provide a bilingual service consistent with the requirements of the Council's language scheme.
7	Anti-poverty and Social (see notes – separate document)	
8	Communication (see notes – separate document)	
9	Consultation (see notes – separate document)	
10	Economic	An Economic Impact Assessment Group was established by the Asset Management and Procurement Board of the PSLG to consider any potential impact of the service on local economies. The Group agreed that, while there are some risks in the proposed collaborative procurement actions, these are outweighed by the opportunities. Both the risks and opportunities can be effectively managed if current SME friendly policies and best practice are applied.
11	Environmental (see notes – separate document)	
12	Crime and Disorder (see notes – separate document)	
13	Outcome Agreements	

CH – Summary

Full business case for a public sector National Procurement Service has now been developed by the Procurement Board relating to the Efficiency and Innovation Board's work programme and, subject to business case approval, the proposed service is planned to "go live" in November 2013.

A letter of invitation has been received, and a response is required by 14 December 2012.

D – Recommendation

1. To commit to joining the National Procurement Service for the procurement of common and repetitive goods and services for an initial period of 5 years.
2. To consider whether the Chief Executive should comment on the provision of a bilingual service.

Name of author of report – Einir Wyn Thomas

Job Title – Head of Service (Finance)

Date – 19 November 2012

Appendices:

Appendix A – Invitation to join the National Procurement Service

Appendix B – National Procurement Service - Frequently Asked Questions

Background papers

Business Case for the National Procurement Service

**EINIR WYN THOMAS
HEAD OF SERVICE (FINANCE)**

19 NOVEMBER 2012

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8th October 2012

Dear Colleagues

Invitation to join the National Procurement Service

Through signing up to the Compact, we confirmed our commitment to the development of a Business case for a National Procurement Service. Please find attached to this letter a copy of the Executive Summary and the Full Business Case plus appendices for your consideration.

The public sector spend one third of its budget on external goods and services – some £4.3 billion per year. It is our duty to spend wisely and secure maximum value for money in its widest sense.

At least 20-30% of what we buy is common across organisations and is bought year on year. We have had some success from looser forms of collaboration. Now is the time to go to the next level. The 2010 review 'Buying Smarter in Tougher Times' clearly recommended that contracts for this spend should be set up on a 'Once for Wales' basis. This is a necessary step change and one that was fully endorsed by the recent McClelland Review.

The National Procurement Service model has delivered significant benefits to other devolved governments within the United Kingdom. It is a proven approach to maximising procurement benefits and is a model used in the majority of global private sector businesses.

We know that our existing procurement capability is stretched. The McClelland Review points to major weaknesses in certain areas. The recent cross party Inquiry into 'Influencing the modernisation of European procurement policy' calls for us to address 'creativity, capability and capacity'. Collaboration need not have a negative impact on our economy. The McClelland Review shows that stronger centralised procurement, with a focus on economic value, results in a greater level of local spend than with uncontrolled maverick buying.

We cannot continue to ignore the need to strengthen our collaboration, to standardise demand for our common spend areas and to invest in creating capability that will get the best out of the market. The Business Case for the creation of an NPS shows that it will deliver better contracts, efficiencies in process, smarter use of scarce skills, and also the potential for local social and economic benefits.

The Proposal

1. That a National Procurement Service be established to carry out common and repetitive spend once for Wales
2. That it has independent cross-sector governance – through an NPS Board attended by Chief Executives
3. That it be 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
4. That investment of £2.4million per annum be made in the NPS – to secure a savings benefit of £74.8million over 5 years which is £34million over and above current arrangements. For Local Government, projected savings range from £6million to £16million per annum.
5. That in addition to generating savings the NPS is tasked with developing opportunities to deliver social and economic benefits
6. That organisations commit to using the NPS for a 5 year period – and fully using associated contracts other than on an exception basis agreed in advance of tender and through justification to NPS Board. This is on the assumption that the NPS is centrally funded directly through WG 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
7. That local procurement expertise be retained to deliver local spend categories and to put in place the controls to ensure organisational compliance with agreed national contracts
8. That sector based collaboration continues so as to service spend areas unique to a given sector where collaboration will drive benefit.

Features

- Strategic vehicle for procuring common goods and services for Wales, taking into account the needs of all sectors.
- Central delivery model with own governance structure with appropriate representation from all sectors
- Focus on three key aspects of the procurement process – Developing Common Specifications, Tendering and Contract Management.
- Structured on a category management basis; will seek to leverage the procurement scale; influence demand management and implementing best practice approaches.
- Utilises Welsh Public Sector Procurement policy to support best practice.
- Capability to procure as yet unknown new or innovative solutions in support of public service reform.
- Co-ordinated approach to procurement which seeks to develop the SME community within Wales.
- Provide effective supplier relationship management through a single route.

Benefits

- Cashable savings achieved through reduced total cost of acquisition for the common and repetitive spend goods and services, estimated at £75million over 5 years
- Cost avoidance benefits delivered through the simplified procurement and increased compliance
- Opportunity to be gained by individual stakeholder organisations by redeploying their scarce resources onto higher risk more critical spend areas
- Developing the professionalism and capability of the procurement community in Wales.
- Positive impact on the Welsh economy
- Easier for suppliers to engage and transact with the Welsh public sector.

Attached with this letter is a copy of the Executive Summary of the Business Case and the full version plus appendices.

We now require a formal commitment from each organisation to join the NPS to enable the investment decision to be made. I would be grateful if you could consider the proposal outlined above. While recognising that the delivery plans and staffing structure of the NPS will be subject to development, you are now asked to confirm your commitment to sign up to joining the NPS for a five year period, recognising that this will mean a financial commitment estimated in 2016/2017 in the form of a rebate, and fully committing to using the contracts that are created by the Service (subject to exceptions agreed by the Procurement Board).

You will also find a pro-forma attached, which I would be grateful if you could duly sign on behalf of your organisation following your own internal approval process and forward a copy to the Project Team (Rebecca.rees2@wales.gsi.gov.uk) by 14th December 2012. Once again, you will need to click on the paper clip links to open the attachment.

Should you require any further information, please don't hesitate to contact the Project Team at the email address just above.



TRACEY LEE

Managing Director, Newport City Council

Appended below—NPS: Categories in scope / out of scope

Category	Subcategories considered within the scope of a National Procurement Service	Subcategories considered <u>out</u> of the scope of a National Procurement Service initially	Subcategories included in NPS review (£m)
Information Communication Technology	Hardware, Consumables, Software, Telecoms, Network and Support	Repair, Photographic Equipment and Website Design	£291.80
Utilities	Electricity, Gas and Petroleum	Water, Wind, Solar, Coal and Wood	£153.30
Facilities & Management Services	Maintenance Services, Travel, Advertising and Printers	Design, Photography and Market Research	£99.50
Human Resources	Employment agencies and translators	Advisory Services and Training	£74.40
Consultancy	Business and Technical consulting	Highly specialised - e.g. Planning, Food and Geological	£68.60
Vehicle Management	Vehicle acquisition, Lease and Hire	Heavy construction and Industrial	£75.80
Catering	Catering Supplies, Food and Vending	Fresh food, Equipment Maintenance, Linen Services and Caterers	£53.00
Legal Services	Solicitors	Specialist support, Barristers	£35.20
Healthcare	Medical and Mobility Equipment	Drugs, Specialist Medical Supplies and Hospital Equipment	£30.00
Construction Materials	General Materials, Electrical Supplies and Equipment Hire	Specialist Materials - e.g. fencing, bathroom and kitchen	£20.00
Stationery	Paper and General Stationery Supplies	Sundries including Promotional items	£14.20
Furniture & Soft Furnishings	Office Furniture & Equipment	Commercial Furniture and Social Care Supplies	£14.20
Mail Services	Postal Services, Couriers and Mailing Equipment	Freight and Mailroom services	£16.40
Clothing	Uniforms, Workwear, Protective and Safety Equipment	Specialist protective clothing	£10.80
Cleaning & Janitorial	Cleaning Materials and Equipment	N/A	£5.70
Education	Audio-visual Equipment & Supplies	Services and Books	£4.20
TOTALS			£967

National Procurement Service

Frequently Asked Questions

About this document

Developed to support the consultation process for the NPS Business Case, these Frequently Asked Questions (FAQs) should provide readers with background to the project, an understanding of its objectives and how the service will be run.

Further information from [Rebecca Rees](#).

What is the National Procurement Service?

The National Procurement Service (NPS) will provide the Welsh Public sector with a strategic vehicle for the procurement of common categories of goods and services that are procured across the Welsh public sector.

What is meant by the term 'common and repetitive spend'?

'Common and repetitive' (C&R) 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. They represent 23% of total public sector spend. 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 NPS. C&R spend includes the following high level categories:

Information Communication Technology, Utilities, Facilities Management Services, Human Resources, Consultancy, Vehicle Management, Catering, Legal Services, Healthcare, Construction Materials, Stationery, Furniture & Soft Furnishings, Mail Services, Clothing, Cleaning & Janitorial, Education.

For details of the sub-categories included in the scope—please refer to the NPS business case.

Why should I sign up to using the service?

Ultimately, the NPS will save money through a category management approach and protect front line services. Research tells us that through stronger centralised procurement, with a focus on economic value, will drive greater levels of local spend than with uncontrolled maverick buying. Finally, it will also free up an organisation's procurement staff focus on where they can add most value (i.e. local commissioning).

Will this affect local suppliers?

A rigorous economic appraisal shows that the economic opportunities (and benefits) to Welsh SMEs outweigh the risks. Only 15% of the spend areas involved currently go to Welsh suppliers. In fact, the NPS creates an opportunity to improve links with economic development activity and strengthen Welsh supply chains in these areas. The McClelland Review shows that stronger centralised procurement, with a focus on economic value, results in a greater level of local spend than with uncontrolled maverick buying.

How will the Service be run?

The NPS will be based on a category management approach where goods and services are organised into distinct groupings based on their related supply markets. The category management approach requires a good understanding of spend and future demand, the market and developing appropriate and relevant category sourcing strategies.

What will the operating model be?

The NPS will be developed as a central delivery operation. This 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.

Who will run the service?

It has been agreed that an Expression of Interest (EOI) process will be progressed to identify the host organisation. Potential hosts will be asked to submit their EOI which will then be evaluated by an independent panel who will make a recommendation to both the Project and Procurement Board.

How will the service be funded?

The NPS will be centrally funded directly by Welsh Government until it reaches a point of maturity, estimated in Year 3 (2016 / 2017) of operation. At this point it is proposed that the funding switches to a self funding rebate from 2017 / 2018 onwards

Will the NPS be able to change the C&R spend scope during its operation?

Whilst the scope of the NPS has been defined in the business case, depending on its success, there may be a case to review its scope during operation. Any amendment to scope would be presented to the NPS Board for decision.

What happens to the project if recruitment is delayed?

The Board will be kept updated on progress. Any delay will delay realisation of benefits and current arrangements will need to continue.

Who covers the contingent liabilities if the service is wound up after 5 years?

It is anticipated that the host would firstly mitigate this risk by allowing staff to apply for posts internally. The host would retain rebates while contracts remained in place and use this to cover any redundancy costs.

Consultation

When does consultation start and end?

The consultation process has been developed in conjunction with sector lead representatives on the Procurement Board. The process will commence on 8th October and will take the form of a letter from Tracey Lee to Chief Executives of individual sector organisations. This process will be supported by presentations at sector specific events. The letter includes a pro-forma to capture the response of each individual organisation. These are to be returned to the project team by 14th December.

What will my organisation be signing up to?

Your organisation will be making an up-front 5 year commitment to join the service and will commit to using the contracts developed by the NPS.

Do we have to buy in to everything?

In signing up to the service there is an expectation that each organisation will use contracts set up by the service.

Are there any exceptions to this rule?

There may be a small number of exceptions to this rule e.g. Police mandated to use UK National contracts. These will need to be justified to the National Procurement Service Board. The category manager will develop the strategy for each category in advance of letting the contract. At this point, all spend within the category will be considered in scope and a strategy developed in conjunction with each sector to deliver the optimum value for money within this category. Once the strategy is confirmed, the tender process will commence. It is at this point, that exceptions will need to be justified to the Board i.e. in advance of the tender process commencing.

What if one of the services included within the scope of NPS is delivered in house?

If a service is delivered in house, it is not something that the organisation is procuring and as a result, would not be included within the overall category scope for that organisation.

What happens if some organisations continually pull out of contracts?

Continued membership of the NPS will be considered by the Board, who reserve the right to exclude organisations that are not operating within the spirit of the agreement.

What happens after consultation has ended?

Responses will be collated and presented to the Procurement Board and 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.

Staff

Where will the category managers come from?

To support the delivery of Quick Wins, interim resource will be secured externally using existing frameworks. These roles are different to most existing roles within the public sector and the NPS will need to develop appropriate training provision.

What is the recruitment process for the Head of NPS?

This can be considered once the host is appointed. Once the job description has been developed, the Procurement Board will be asked to endorse it. It is anticipated that the role will be advertised externally and some members of the Procurement Board will be involved in the interview panel. The appointment would also be confirmed by the Procurement Board.

Where will other staff come from?

Hopefully, many of the roles will be fulfilled by staff from across the Public Sector, either with a procurement or category service background. The NPS will also provide opportunities for Homegrown talent placements. Welsh Government HR Services are already providing advice to the project on possible scenarios.

Where will the Service be located?

This will be confirmed, once the host is known. The EOI process examines the extent to which the host can facilitate the NPS, working across all sectors, operating a flexible workforce which matches customer needs and mobility needs of staff.

What about staff already employed to do this work?

This will be looked at on a case by case basis; HR support has already been put in place to address these issues.

Timescales

When will the NPS be operational?

Following consultation, the feedback from organisations will be incorporated into the business case and presented to Procurement Board and PSLG by the end of March 2013. Assuming that approval is then given to enter into the 'Build' phase of the project, this will commence in April and it is hoped concluded by end October to enable 'go live' in November.

When will the Head of NPS be in place?

As soon as the Host is confirmed then the recruitment of the Head of the NPS can commence, though it is anticipated that they will not be in place until the Business Case is approved at the end of March.

Additional Questions raised since Consultation commenced – Date of issue: 19th November 2012

If the host organisation were to run a tender process which was successfully challenged in court and resulted in payment of damages under the Remedies Directive, who would be liable to pay these costs?

The host organisation would be legally responsible for the compliance of any framework agreements and would therefore have to meet any costs of non-compliance. It would not be responsible for the consequences of any non-compliant use of the agreements by user organisations. If such a scenario did occur however, there would clearly be discussions between the host and the NPS board on funding arrangements going forward.

Who will be on the Procurement Board and if nominated, how will they be nominated?

The Governance of the NPS and the future of the Procurement Board will be considered in the period between January and April 2013 as part of the set up decisions. It will be important to ensure regional representation and any suggestions put forward would be welcome for consideration by the existing Board and SRO in due course.

Could you confirm that the NPS will offer a bilingual service to its users in both English and Welsh?

Comments raised regarding Welsh language within the NPS have been forwarded to the decision making panel who will determine the host for the NPS. Final decisions on how the service operates and the extent of Welsh service provision will need to be made by the NPS Board in conjunction with the chosen host."

Could you provide further information as to how the rebate will be applied and what costs organisations may be liable for in the future?

The plan is that Welsh Government will cover the budgeted cost of the NPS until 2017/18. During the last year the Board will review uptake and progress and assuming operations are to plan the NPS will move to a self funding model based on a supplier rebate. While some of the below will be finalised by engagement between the selected host organisation and the Board, I can confirm that the plan is that:

Suppliers on a contract will mark up their prices by an agreed percentage. It is likely that this percentage will be specified in the contract documentation; certainly it will be transparent to all and envisaged to be fixed for a given contract. Annually or more frequently the suppliers will pay back to the host the revenues received equal to this given percentage of spend;

Ideally the host organisation would receive the funding in advance of incurring the salary costs so I would imagine the payment if annual would be on 1st April and be accrued during the preceding year;

The NPS will take some time to set up new contracts so a decision for the Board is whether to get the rebate working from day 1 of each new contract and build up the funds or to apply it mid contract. This will be discussed between Jan and April, once the host organisation is identified;

The current estimate for the rebate is approximately 0.4% of contract spend - which coincidentally is the same amount currently charged by GPS (Uk cabinet office) contracts; Therefore organisations are not being asked to commit to funding other than through the transparent mark up on the prices paid for the goods and services used.

Can you confirm whether organisations can request an opt-out from an individual contract within a category or do we need to opt-out of the whole category, i.e. at the top level? Also, can we make a statement up front that states we would not wish to participate in some contracts, e.g. that we sign up to 80% of them and state which ones we would not wish to participate in?

The Procurement Board cannot compel an organisation to sign up to or use a contract. The only powers it has are to exclude from membership an organisation that continually seeks exemption from signing up to contracts - ie who is not operating in the spirit of agreement. For each category, work will be undertaken to develop a strategy and decide which contracts are needed. At the point of going to market for each contract, organisations will have a final option to opt out - this decision being made on an informed basis, at a time when the specifications are finalised and the strategy for the contract signed off. Reasons would have to be justified to the Procurement Board who could consider if the reasons were or were not in the spirit of the overall agreement. Organisations are however expected to use the agreements that have gone out to the market in their name. Opting out after award is definitely not in the spirit of agreement. Given that the concept is that the contracts will suit everyone - these are common and repetitive spend areas - it would be premature to opt out of specific categories at this stage

Regarding the statement made in Tracey Lee's letter that the NPS will secure "*a savings benefit of £74.8m over 5 years which is £34 million over and above current arrangements*". What does the £34m over and above current arrangements mean? What are the current arrangements? If we are talking about current national contracts which we have already adopted, does that mean we have already claimed some of these savings?

One of the challenges to the business case for the NPS was that we already have mechanisms in place to carry out collaborative procurement and if we do nothing these would still remain. The "benefits" calculated for the business case included benefits from challenging demand management and standardising, from leveraging spend and from adopting best practice. It was felt that those benefits that would accrue from leveraging spend would still be available without an NPS structure but the other areas of benefit would not. Therefore the do nothing option (or current arrangements) was given a benefits value. This does however pre-suppose that the Value Wales collaborative procurement programme would remain if the NPS did not proceed and this assumption is not a given.