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|  | Cabinet 15 January 2018 |
| | Report from the Strategic Director of Resources |
| Procurement Shared Service – Future Options | |

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| Wards Affected: | All |
| Key or Non-Key Decision: | Key Decision |
| Open or Part/Fully Exempt: | Open |
| No. of Appendices: | None |
| Background Papers: | None |
| Contact Officers: | David Woosey Divisional Director Procurement and Contracts (Harrow and Brent) Tel: 020 8937 2127 david.woosey@brent.gov.uk Althea Loderick Strategic Director of Resources Tel: 0208 937 1564 althea.loderick@brent.gov.uk |

1.0 Purpose of the Report

- 1.1. With the recent resignation of the Harrow Divisional Director of Procurement and Contracts it is now an opportune time to review whether or not Brent continues to see benefit in the shared procurement service or whether it believes it will be more beneficial to dissolve the shared service and make alternative arrangements i.e. bring the function back in house.
- 1.2. This report details the advantages and disadvantages of both options and makes a recommendation to bring the function back in house.

2.0 Recommendation(s)

- 2.1. That Cabinet agree the recommendation to end the shared procurement service agreement with the London Borough of Harrow, at the end of the current Financial year, by mutual agreement, and bring the procurement function back in house.
- 2.2. That Cabinet delegate authority to the Strategic Director of Resources in consultation with the Deputy Leader to agree the precise terms of the exit arrangements required to bring the procurement function back in house.

3.0 Background

- 3.1. The London Borough of Brent and the London Borough of Harrow entered into a shared Procurement service (the “Shared Service”) in August 2016 whereby Brent delegated the provision of its procurement service to Harrow, with Harrow providing a Procurement service to Brent.
- 3.2. In September 2016 the Brent procurement staff TUPE transferred to Harrow and in October 2017 the BHP procurement staff transferred into the Shared Service.
- 3.3. We are now just over 1 year into the Shared Service and a number of difficulties have been identified. At present Brent requires a level of service that is beyond the resourcing initially envisaged by the parties and available within the funds contributed to the Shared Service following the restructure.
- 3.4. In addition, it has proved difficult to recruit to many posts in the shared structure and continuity has been difficult to maintain. This has put additional pressure on the Shared Service and levels of service and satisfaction are therefore below what some service areas are expecting.
- 3.5. The reasons to enter into a Procurement Shared Service were stated within the June 2016 Cabinet report that approved the original decision to enter into the Inter Authority Agreement as being:

The Procurement Shared Service will enable the LB Brent to deliver on five key areas:

- contribute to the Council’s savings target, in particular enabling the delivery of savings to the procurement service;
This has been achieved in that both Councils made a saving at the point at which the Shared Service was created. However this should be seen in the context of demand levels.
- enable the Council to take a strategic view of procurement activity
Systems and processes have been improved and so the registers and pipeline of work can be better managed. It is acknowledged that further work is needed in this area.
- provide new approaches to the delivery of Social Value benefits in Brent contracts
New approaches have been introduced regarding Social Value which represent good practice within the sector, although embedding this in practice has been challenging.
- enable the potential generation of additional income by selling procurement services, as opportunities to do this currently have been limited due to the size of the current team;

Additional business has not been secured, given the current service requires further stabilisation.

- ensure that there is resilience built into Procurement activities whilst maximising the opportunities for collaboration.

Greater resilience has been provided into a number of major procurements, with oversight, expertise and resource being shared.

It is believed these reasons are in principle still largely valid for both councils, but experience in practice means it is timely to review the existing arrangements.

- 3.6. We need to consider whether the various challenges to the effectiveness of the procurement service for Brent can best be addressed within a continued relationship with Harrow and through the Shared Service or by dissolving the relationship and bringing the procurement function back in house.

4.0 Potential Benefits of a Shared Service

- 4.1 There are a number of potential advantages in continuing with the Shared Service

4.1.1 A Procurement Shared Service can be the best opportunity to deliver efficiency or procurement savings over and above headcount reduction.

4.1.2 As funding pressures continue to increase, more innovative ways to materialise savings whilst maintaining or increasing the service to residents and businesses, need to be identified and delivered.

4. 1.3 Individually the two councils have high procurement expenditure for the purchase of most goods, works and services and collectively we are a significant customer for a number of areas of major spend. The aggregated spend on specific categories opens up greater opportunity to deliver savings, value for money and social value for the councils by increasing the attractiveness of the councils to third parties.

4. 1.4 The combined strength and market presence of both organisations presenting a unified face to the supply market together with the potential for combined procurement skill and knowledge provides greater synergy than both organisations going it alone. For this advantage to be realised, a fully resourced service needs to be in place which hasn't been the case for the last year.

4. 1.5 As the Shared Service develops and can evidence the benefits of working together it may become attractive to other councils to join the "club". This will potentially result in greater cost reduction / service improvement opportunities that otherwise would not be available. To date, opportunities have been limited, recruitment has been difficult and so few growth opportunities have been explored.

4. 1.6 Both Councils are developing commercialisation agendas and the commercial skillset to exploit these can often be found within the procurement discipline. There is therefore the opportunity to identify and leverage the

synergy between the commercialisation opportunities, joint learning and staff skillsets.

4. 1.7 With a larger team comes greater opportunity to minimise risk by flexing resource across both organisations to cover short term needs and absence. Unfortunately, due to the lack of resource this hasn't fully materialised and therefore gaps have been covered by more expensive agency staff.
4. 1.8 A larger team can bring greater opportunities for staff development and promotion. This will be attractive to many in the procurement field, many of whom are restricted within their own organisation due to the typically small team size in many local authorities. To date however, recruitment and retention have proved difficult in this market and at more junior levels two clients and places of work present a challenge as well as a development opportunity.

5.0 Potential Benefits of Bringing the Service In-House

- 5.1 There are a number of advantages of ending the Shared Service and returning procurement in house. The first and primary one being a greater control of the service and the ability to focus on Brent's priorities. As with any directly controlled function the leadership team would have direct control of the function and be able to shift priorities and resource without having to go through a Shared Service with competing priorities.
- 5.2 As the Shared Service is still in its infancy there are very few interdependencies between the two organisations and separating them would be relatively easy. This would not be the case later on in the arrangement when the service is more joined up.
- 5.3 There is a perception of there being a number of problems with the Shared Service which rightly or wrongly, are attributed to a diluted focus and lack of sovereignty. Bringing the service in house would take this argument away.
- 5.4 Recruitment may be easier focusing solely on Brent where the location and building facilities are more attractive and our IT solution allows more flexible working. Being based at one location is also potentially more attractive to staff at less senior levels.
- 5.5 Much of the potential benefits of a Shared Service are yet to be realised and investment and change will be required to achieve them. It may be advantageous to Brent to make these changes to its own service rather than invest more time in trying to 'fix' the Shared Service.
- 5.6 From a contractual perspective, the inter authority agreement would require both parties to mutually agree to end the relationship and work through an exit strategy. Early engagement with Harrow suggests they would be co-operative and assist Brent in separating and setting up its own in house Procurement function if this was required.

6.0 Issues to be Resolved

- 6.1 Whether the Procurement service remains a shared one or comes back in-house, there are a number of issues to be resolved. For example, the first

year of operation has demonstrated that both the staff and management resource levels in the Shared Service to support Brent need to be increased. This has been a notable issue in regeneration but is also evident in other departments. This is more relevant to Brent because of the much larger regeneration and development programme than at Harrow.

- 6.2 A lack of a dedicated manager based at Brent to manage the team and develop a proactive relationship with stakeholders across the organisation has been part of the problem.
- 6.3 Despite a lengthy recruitment exercise, the ability of the Shared Service to recruit appropriately skilled and experienced staff into a number of vacancies has proved to be challenging. The poor recruitment results are thought to be in the main due to the salaries on offer being circa £5K below the market average together with a very buoyant London jobs market for these individuals.
- 6.4 The regeneration/development area is significantly under resourced. Although the Shared Service has flexed some resource to support this area, this is barely adequate and not sustainable in the longer term. Consideration therefore needs to be given to interim resource to support Capital projects (funded by the Capital Programme) over and above the business as usual resourcing requirement.
- 6.5 There is therefore a requirement for a growth bid to be developed and approved for;
 - 1 x Head of Procurement (or similar) dedicated to Brent
 - A market supplement of approximately £5K to be applied across all non-management grades.

Whilst the full details of the necessary investment need to be developed, should the decision be to continue with the Shared Service it is estimated that Brent would need to contribute an additional £150,000 per year to the Shared Service funding based on its contribution to the cost of a Brent dedicated manager and the need for 15 staff to receive a £5k a year market supplement. Given Brent's salaries were higher than Harrow's, the total cost of the supplement would be less in a stand alone service. Any funding for interim resource to support Capital projects would be agreed on a project by project basis and part of the capital investment bid. In the case of such additional investment being required, Brent would need to consider whether an additional £150,000 combined with the market uplifts and interim resource for capital projects effectively negates the financial business case.

- 6.6 The profile of Procurement is very low and its strategic position needs to be strengthened. This would be helped by having a dedicated procurement manager on site.
- 6.7 If the Shared Service continues, the Shared Service Governance Board needs to take on a stronger role.

It is therefore proposed that the Terms of Reference for the Governance Board are amended to;

- meet on a monthly basis
- resolve issues as they are affecting delivery of the Shared Service
- act as a Champion to procurement across the organisation
- Consider, and if appropriate, approve resource requirements/funding requests
- Consider “Add-on” activities to the scope of the Shared Service and how these are resourced / funded.
- Resolve stakeholder ownership issues.

If however the Shared Service discontinues, some of these functions could be served by the Commissioning and Procurement Board (“CPB”) in Brent whilst others would revert to being within the roles of the Strategic Director and the Operational Director with procurement responsibility

- 6.8 Whether Brent’s Procurement service remains part of a Shared Service or moves in-house, it is proposed that the Strategic Director Resources meets with the Chair of the CPB & board members to agree how to strengthen the governance and oversight of the procurement function and its role in the CPB. It should be remembered that the CPB is about more than procurement - it is equally about the wider commissioning functions - contract monitoring/service design etc. which are not part of Procurement’s business as usual function although it plays a part in it. Issues relating to procurement activity for capital projects will continue to be overseen by the Capital Programme Board.
- 6.9 The expectation from client departments is significantly different within Brent Council and between Brent and Harrow Councils. This varies from a very self supporting approach to one of the procurement team handling significant aspects of the commissioning cycle. Neither of these approaches is wholly effective.
- 6.10 It is therefore proposed that:
- Greater clarity on the scope of the Procurement service is developed.
 - It is made clear that members of the CPB representing the business areas are responsible and accountable for ensuring the Client ownership of the Procurement activity (including the pipeline & Contract register) This has been addressed by the CPB.
 - A defined programme of work with service levels is developed, that is an annual procurement pipeline with timelines agreed at the start of the financial year and any changes being agreed by the CPB.
 - Either the Shared Service or a stand alone service will cease involvement in P2P (supplier set up, PO creation, Oracle Board etc). This is considered transactional activity and outside of the original scope of the Procurement service. This will mean these activities will need to find a home within the wider business.

7.0 Ending the Shared Service

- 7.1 On balance Officers recommend that the Procurement Service is brought back in house. If such recommendation is approved, the main areas that need to be considered are:
- 7.1.1 Principles / Heads of Terms: These will need to be jointly developed. It is however assumed it will be based on the principles;
- Harrow continue to provide the service until the agreed time of separation
 - Brent continues to pay into the Shared Service budget as per current agreement until separation occurs
 - Harrow assist Brent in designing and recruiting a procurement team
 - Both parties work constructively to ensure a smooth handover in the preceding months
- 7.1.2 Cost: Whilst the current Hub structure is affordable within the budget contributions of both authorities there are a number of cost pressures to be considered regarding separation. An increase in Brent's funding into the Shared Service to support more resources is required in any event.
- Brent salaries are approx £5,000 higher than those of Harrow.
 - The addition of Head of Procurement or will add approximately £35,000 to the staff costs depending on the grade of the position etc. (Assumes £65K contribution already being made to the Divisional Director)
 - There will need to be significant Interim support until a full Procurement team can be recruited. This will be approximately £450-£600 (inc fees) per day per Interim post separation.
 - If recruitment agencies are used to recruit into the full time positions there will be a cost pressure in the region of 15-30% of starting salary in 2018/19.
 - Brent would need to purchase its own licence for the Due-North e-tendering system. Current costs are £12,000 per year.
- 7.1.3 Timing: this could be any agreed date so long as sufficient notice is given, but should not be too far in advance. The start of 2018/19 Financial year would seem reasonable.
- 7.1.4 Policy / Process: Brent continues to operate under its pre Shared Service policy and processes and therefore no issues are foreseen in this area regarding separation.
- 7.1.5 Structure and Service Levels: A structure appropriate to a stand alone service will need to be designed and a service level agreed that is deliverable within the limited resource
- 7.1.6 People: It is possible a small number of individuals would TUPE transfer to Brent from the Shared Service. Harrow would assist in the recruitment of the new team. The initial strategy would be to populate the new structure with interims until such time as permanent members of staff can be recruited
- 7.1.7 Systems: Both councils operate on very different systems apart from the "Due-North" e-tendering system. Work is at an advanced stage to merge both

councils' e-tendering activity onto a new single instance of the system. Whilst it is easy to halt this work now and maintain two separate systems it will become more difficult in the future to separate once the new single instance goes live and new tendering activity is conducted via the new system.

- 7.1.8 Reputational damage: To end the Shared Service so early into its life could potentially be seen as a failure by a range of stakeholders and potentially cause some reputational damage although this should be mitigated by getting member level approval for the dissolution.

8.0 Financial Implications

- 8.1 The current cost and budget for the Shared Service is £675k. Should Brent remain in the Shared Service, it is proposed that the budget be increased by £150k in order to deliver the objectives of the Shared Service (see detail in paragraph 6.5). Should Brent leave the Shared Service, the financial implications would need to be developed as the new organisational structure is designed. Initial estimates however envisage that it would be of similar magnitude to remaining in the Shared Service.
- 8.2 Any increase in budget will have to be offset by a saving elsewhere in the department, the Council including greater achievement of procurement savings.

9.0 Legal Implications

- 9.1 Whilst the Inter Authority Agreement does not cover separation this early, both parties may agree to terminate by mutual agreement. It is understood that Harrow would not oppose ending the Shared Service if Brent so desired.
- 9.2 Withdrawing from the Shared Service requires Cabinet approval.
- 9.3 There will be obligations on both councils arising from exit relating to issues such as staffing, handover, the e-tendering system, etc. In the circumstances delegated authority is sought for the Strategic Director of Resources in consultation with the Deputy Leader to agree the precise terms of the exit arrangements required to bring the procurement function back in house.
- 9.4 If agreed, the recommendations within this report would constitute a service provision change and therefore would be subject to the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE") as amended. Where there is a potential transfer pursuant to TUPE, there are positive duties to inform and consult with staff on various matters that have to be observed as a matter of law.

10.0 Equality Implications

None.

11.0 Consultation with Ward Members and Stakeholders

None

12.0 Human Resources/Property Implications (if appropriate)

- 12.1 Should the Shared Service be dissolved and returned in house there would be approximately 2 existing Harrow employees that would TUPE Transfer to the Brent establishment. A new structure would also need to be established and recruited into.

Report Sign Off:

ALTHEA LODERICK
Strategic Director of Resources