

Procurement Shared Service – Revised Structure and Funding Arrangements

Finance & Resources Committee

27 January 2009

1 Purpose of report

- 1.1 This report seeks approval for the restructuring of the procurement unit within the Payments and Procurement Division of the Finance Department to meet the needs of the Procurement Shared Service.

2 Background

- 2.1 At its meeting on 9 September the Committee agreed the approach to enable the implementation and funding of a Shared Service for the South and East Region of Scotland initially based in Edinburgh.
- 2.2 It was noted at that meeting that the new Shared Service was being taken forward with the agreement of Scotland Excel and would work closely with them in developing further public section procurement. There are currently a small number of Scotland Excel staff working in Waverley Court. The service will also be progressed in accordance with protocols for procurement established for Scotland Excel and the Scottish Procurement Directorate.
- 2.3 A key aspect of successful delivery of the shared service is the design of a new Procure to Pay structure and this report sets out proposals for the new structure.

3 Main report

- 3.1 Members will recall that the Shared Services project for Procurement is being implemented to enable strategic buying activity for all procurement needs within the local government section in the South and East of Scotland.
- 3.2 The Shared Service will introduce significant new benefits for all the participating organisations in terms of quality and service improvements and will also deliver significant financial savings. Specifically for Edinburgh the business case estimates savings of £11.6m pa from 2011/12.

- 3.3 Key aspects of the shared service are the creation of an academy for strategic buying, the development of a category management approach to procurement and linked to the academy a continued commitment to increasing the capability of procurement staff.
- 3.4 The development of a category management approach to Procurement introduces a strategic element to the procurement process. Category Managers will be responsible for dealing with Procurement Spend for all members of the Shared Service and will carry out considerable research into opportunities within each spending category.
- 3.5 Project Managers and Procurement Specialists will deliver the operational aspects of the Procurement Process and both will link closely with staff engaged in the actual commissioning of services within individual Departments.
- 3.6 Possible Founder Members of the Shared Service are Scottish Borders Council, Fife Council, East Lothian Council and Lothian & Borders Police.

Proposed Structure

- 3.7 To deliver a successful shared capacity capability for this region requires a structure that builds and directs strategic vision into the procurement process. It also requires a structure that is flexible.
- 3.8 This organisational review is being conducted in accordance with the normal agreed procedures for such reviews. Trade Unions and staff are being consulted throughout the development of the proposed new structure and will be consulted on proposed future changes/reviews. However, as the structure is innovative and will be the first of its kind in Scotland the proposed grades are indicative and are still subject to adjustment. It is also considered that some adjustments will be required as procurement opportunities develop. An indication of the potential opportunities can be seen from the report on the contract for the provision of the Homelessness Services (non accommodation) which appears elsewhere on today's agenda. As such it is recommended that delegated power is given to the Director of Finance to make appropriate adjustments to the structure on an ongoing basis subject to there being funding available.
- 3.9 The recommended structure builds upon previous structures by enhancing capability, increasing the number of procurement professional roles and delivering greater career development opportunities as a whole.
- 3.10 The recommended structure is detailed below and is also shown in chart form in Appendix 1. This new structure creates a hybrid structure that combines both the strategic Shared Service and Operational aspects of the Procurement process.

<u>Recommended Structure</u>	<u>Indicative Grade Subject to Formal Evaluation</u>	<u>Proposed FTE</u>
Chief Procurement Officer/		
Head of Payments & Procurement	JNC42	1
Strategic Business Development Mgr. (Proc)	SO8/9	1
Strategic Business Development Mgr. (Payments)	SO6/7	1
Category Managers	SO6	5
Benefits Realisation Manager	SO3/4	1
Performance Manager	SO3/4	1
Project Manager	SO3/4	5
Procurement Specialist	AP2/SO2	16
Communications Officer	SO1	0.5
Project Support officer	GS3	5
e- Event Officer	GS3/AP3	2
Finance Officer (R & D)	AP2/AP5	2
	TOTAL	40.5

- 3.11 To ensure the strategic direction of the new Shared Service the opportunity has been taken to transfer the Head of Payments & Procurement / Chief Procurement Officer and the current Payments Manager posts into the Shared Services Structure. The net result of this is to create an additional 7.5 FTE posts in the new Strategic element of the Shared Service Structure.
- 3.12 The operational aspect of the Shared Service Structure does not result in any net additional posts being added. Whilst as part of the review there are 7 new posts in the centre, there will be a similar reduction of 7 procurement posts in the Departments over time.
- 3.13 It should also be noted that procurement specialists will continue to be employed directly within Founder Members organisations and any subsequent joiners.

4 Financial Implications

- 4.1 The prudent view of financial savings arising from the business case for this shared service project are extremely significant. Annual savings of £11.6m are estimated to be available from 2011/12.
- 4.2 To enable benefits to be realised as quickly as possible interim arrangements have been put in place in advance of the creation of the new structure to allow progress with the Learning & Care Category of spend. Specifically £95k has been allocated from the current 2008/09 Finance Department budget to allow this category of spend to be progressed.

4.3 Costs and Funding

Payments and Procurement Service – Shared Service

	2009/10	2010/11	2011/12
Cost of New Structure Including Pay Award and Preserved Salaries	1,585,492	1,622,656	1,751,799

Funding Arrangements

	2009/10	2010/11	2011/12
Current Budget (Procurement)	799,732	836,270	877,538
Resource Allocations linked to benefit realisation	380,000	150,000	150,000
Founder Member Contributions	140,000	370,000	370,000
Transfer from Departments 7 FTE's	60,166	94,201	134,251
Re-distribution of Payments posts (incl. Head of Division & Payments Manager)	205,594	212,185	220,010
	1,585,492	1,662,656	1,751,799
<u>Outturn</u>	<u>0</u>	<u>0</u>	<u>0</u>

4.4 Members will note the proposed structure includes 7 procurement posts which are to be transferred to the shared service from service departments.

Discussions are ongoing with City Development to transfer procurement posts to the shared service and work will continue to secure the transfer of similar posts from other departments. Progress with the various spend categories will be influenced by the timing of the transfer of similar posts and confirmation of Founder Member contributions.

4.5 The funding arrangements assume that other local authorities will join the Shared Service contributing £0.14m in 2009/10 and £0.37m p.a. from 2010/11. There is a risk, however, that this level of income will not be achieved. Pending confirmation of external contributions, the revised structure will be implemented on an affordable and flexible basis. The potential benefits for Edinburgh alone are extremely significant and, in the event that the Founder Member contribution estimates are not achieved, it may be necessary to consider top-slicing new benefits in order to provide the balance of funding for the proposed structure.

4.6 The steps outlined in 4.4 and 4.5 above should help contain the risks involved in the project implementation. Progress will continue to be monitored however and appropriate contingency planning arrangements will be put in place to deal with any additional risks identified.

5 Environmental Impact

5.1 Whilst the implementation of Oracle has had a limited direct impact on environmental issues, the new capabilities which it has introduced to the procuring of goods and services should have a positive effect on the environment.

6 Recommendations

6.1 It is recommended that the Finance and Resources Committee

- a) Approve the revised structure and funding arrangements as detailed in the report, and
- b) Delegates authority to the Director of Finance to develop the remainder of the structure within overall approval funding levels for the shared service function in accordance with the principles set out in this report and to negotiate the formal engagement of Founder Members and related financial contributions.


Donald McGougan
Director of Finance
19th January 2009

Appendices	1 Organisational Structure
Contact/tel/Email	Sam Austrin-Miner, 0131 529 4713 (sam.am@edinburgh.gov.uk)
Wards affected	All
Single Outcome Agreement	
Background Papers	Shared Service Source to Pay (Pathfinder Procurement) Project update report to Finance & Resources Committee of 9 September

Appendix 1 – Organisational Chart

Shared Service Procurement – Organisational Structure

