

# The City of Edinburgh Council

10.00am, Thursday 14 March 2013

## Commercial & Procurement Transformation Project

Item number 8.1  
Report number  
Wards

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Single Outcome Agreement

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## Commercial & Procurement Transformation Project

### Summary

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As part of the recent budget setting process, the Council is seeking to achieve savings of £9m in 2013/14 through more efficient commercial and procurement activity. Total savings of £149m by 2017/18 are also being targeted.

As detailed in the report to Finance and Budget Committee on 21 February 2013, the Council is presently working with Ernst & Young LLP (“E&Y”) in an advisory capacity to identify from where and how these savings can be achieved by the Council within this timeframe. This involves looking across all directorates to examine how we spend money, whether we spend it effectively and efficiently and how we can make savings whilst having minimal impact on services.

Operational changes are required to assist in the effective and efficient delivery of the savings identified as part of the initial pipeline verification exercise. The Council now wishes to appoint E&Y to assist with the delivery of these aims.

The overall aims are to:

- save the Council £149m over 5 years;
- transform the existing operational procurement team into a fit-for-purpose and sustainable in-house commercial unit; and
- raise the standards in buying practices and processes across the Council.

It is proposed that the Council enter into an agreement with E&Y on a gainshare basis.

### Recommendations

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It is recommended that the Council approve the appointment of E&Y and that the Director of Corporate Governance be authorised on behalf of the Council to enter into a contract with E&Y substantially on the terms summarised in this report with such amendments as may be considered appropriate.

### Measures of success

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The level of savings achieved will be closely monitored against planned and budgeted savings targets.

### Financial impact

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The currently anticipated cost of the gain-share arrangements under the contract is circa £12.5m if the Council’s net savings target of £149m is achieved over the 5-year

period. This cost could be greater or less as it is entirely performance based and is directly related to the level of procurement savings achieved.

There are likely to be some spend to save costs associated with the award and delivery of the contract that are required to implement business change, including investment in staff, technology and training. These costs are currently being scoped and will be offset against any savings delivered.

### **Equalities impact**

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No anticipated impact on equalities.

### **Sustainability impact**

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It is anticipated that taking forward the Council's Sustainable Action Plan as part of the transformation of the existing operational procurement team will reduce the impact of the Council's activities from a sustainability perspective.

### **Consultation and engagement**

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A programme of engagement has taken place across all Directorates and with elected members.

### **Background reading / external references**

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[Procurement Pipeline Assessment and Delivery Report report to Finance and Budget Committee](#) 21 February 2013

[Corporate Procurement transformation project - update - Finance and Resources Committee](#), 31 July 2012

[Corporate Procurement Transformation project](#) – Finance and Resources Committee 20 March 2012

## Commercial & Procurement Transformation Project

### 1. Main Report

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- 1.1 The Council's Commercial & Procurement Unit (the "Service") provides advice and support to customers to enable them to meet the Council's purchasing requirements. The Service carries out tendering procedures and also monitors and challenges planned purchasing activity to ensure it is both effective and compliant. The Service also has a crucial role to play in helping the Council to achieve its budgeted savings targets.
- 1.2 In March and July 2012, reports were approved by the Council's Finance & Resources Committee in relation to the procurement transformation project. These reports detailed the appointment of Mott MacDonald ("Mott") as the Council's procurement partner.
- 1.3 The intention of the procurement transformation project was to drive the realisation of approximately £10m additional procurement savings in financial year 2012/13 and also transform the Council's in-house procurement service through organisational re-design coupled with building capacity and capability in the team.
- 1.4 The Council has decided to exercise its contractual right not to renew the current strategic partnership with Mott and the present agreement terminates on 31 March 2013. Exit and transitional arrangements are being discussed with Mott.
- 1.5 As detailed in the report to Finance and Budget Committee on 21 February 2013, as part of the recent budget setting process it was identified that it would be prudent to verify the ability of the Council to deliver £9m in financial year 2013/14 and up to £149m by 2017/18. In order to carry out this verification, identify opportunities and develop a proposed pipeline of savings projects, the Council engaged E&Y in an advisory capacity
- 1.6 Substantial potential savings have been verified by E&Y to date, with further opportunities still being examined. This gives confidence that the savings target of £9m in 2013/14 is achievable, subject to appropriate behavioural changes and improved procurement practices within the Council.
- 1.7 E&Y are presently working with Council officers to identify the structural, operational and change requirements which would be necessary to assist in the effective and efficient delivery of the savings identified as part of the initial pipeline verification exercise.

- 1.8 To assist the Council in delivering the identified savings, it is proposed that the Council enter into an agreement with E&Y on a gainshare basis. E&Y have worked on similar projects with other local authorities, including Manchester, and bring a wealth of experience to the role. Feedback on their involvement to date has been very positive across all directorates.
- 1.9 The Council carried out a competitive process in order to secure a procurement delivery partner during February and March 2012. E&Y took part in that process and their partnership bid came a close second to Mott.
- 1.10 Whilst the original procurement exercise has been completed and cannot be re-opened, the competitive tender has given the Council a clear view on what the market could deliver in terms of best value in this regard.
- 1.11 Due to the critical timescales and the fact that the market has been tested by the Council within the last 12 months, the Director of Corporate Governance, following appropriate consultation with the Convener, agreed the terms of Contract Standing Orders be waived in relation to the proposed appointment. The contract award will be fully compliant with EU legislation as a new framework procured in accordance with the EU procurement rules is being used.
- 1.12 It is proposed that the Council enter into an agreement with E&Y through an Eastern Shires Purchasing Organisation (“ESPO”) framework. ESPO is one of the UK's largest public sector professional buying organisations. This framework has been recently tendered and came into force in January 2013 and the Council is entitled to order services from E&Y under it. The Council is satisfied that this appointment is both in the best interests of the Council and represents best value.
- 1.13 The key commercial terms of the proposed new arrangement are as follows:
- The agreement will be for five years, although the Council retains the right to terminate during this period after two years and annually thereafter or substitute a supplier in certain circumstances including failure to deliver.
  - The agreement provides that the only fees payable will be on the basis of savings achieved and then only as and when received by the Council. The £49,500 fee detailed in the Finance and Budget report for advisory work carried out in February and March 2013 by E&Y will be set off against any sums due in terms of gainshare.
  - Advance cashflow payments may be made throughout the year to E&Y which will be subject to clawback if the level of gain share based on savings achieved is less.
  - When compared to the original contract with the Council's current procurement partner, the overall financial benefit which E&Y can achieve has been limited through negotiation to a lower level than the existing contract with Mott. Both parties have agreed that this represents good value for both parties given the potential opportunities.

- The gainshare fee structure which has been agreed aligns the Council's need to achieve the expected savings with E&Y's need to recover costs incurred in assisting with delivering these savings and properly incentivises both E&Y and the Council to maximise savings opportunities.
  - A Council controlled governance structure will be agreed which will include director representation to ensure that the changes required to deliver the savings are sponsored and delivered.
  - The Council retains absolute discretion to accept or reject proposed savings projects. A repayment of costs mechanism will operate where the Council approves a project but later decides to terminate it.
  - The agreement provides that certain members of the E&Y team are key to the successful delivery of the project and must remain working on the project unless otherwise agreed by the Council.
  - Payment of any gainshare will be made quarterly in arrears following realisation of savings by the Council.
  - E&Y will be required to deliver all procurement activity in conjunction with the existing team. Training and skills transfer, as well as assisting with structural and organisational changes and improvement will be required.
  - The Council retains the right to draw down further work at agreed rates should this be required.
- 1.15 If the appointment is approved by the Council, the Commercial & Procurement Manager will engage with E&Y to formulate a plan for delivering the savings and designing and effecting the relevant changes required.

## **2. Recommendations**

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- 2.1 It is recommended that the Council approve the appointment of E&Y and that the Director of Corporate Governance be authorised on behalf of the Council to enter into a contract with E&Y substantially on the terms summarised in this report with such amendments as may be considered appropriate.

**Alastair D Maclean**

**Director of Corporate Governance**

## Links

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<b>Coalition pledges</b>	P30: Continue to maintain a sound financial position including long term financial planning
<b>Council outcomes</b>	CO25: The Council has efficient and effective services that deliver objectives
<b>Single Outcome Agreement</b>	
<b>Appendices</b>	None