

REPORT OF THE OFFICER GROUP
JOINT SUPPLIES SERVICE COMMITTEE

28th SEPTEMBER 2011

COUNTY BOROUGH SUPPLIES

1. Purpose of Report

- 1.1** A report was submitted by the Treasurer to the Catalogue Supplies Service Joint Committee on 14th July outlining the current trading position and recent developments which impact on the long term business strategy of the Joint Supplies Service.
- 1.2** Members requested that the Officer Group produce “a comprehensive report bringing together a modernisation programme, Welsh Government national strategies and a current analysis of joint supplies business activities”.

2. Connection to Corporate Plan / Other Corporate Priority.

- 2.1** The Joint Supplies Service provides a one stop purchasing and warehouse facility for each of the partnering Authorities, for common and repetitive spend commodities mainly associated with Schools and janitorial supplies/services.

3. Background

- 3.1** A number of options were proposed for consideration at the meeting on 14th July 2011, as below, which have subsequently been considered by the Officer Group.

- Standstill
- Modernisation
- Explore partnering within public sector
- Develop an Exit Strategy

3.2. Modernisation to date (Phase 1)

A programme of Modernisation changes and improvements has already been undertaken to improve the ‘front-facing’ customer service provision, this includes the introduction of the Web site, online catalogue for xchangewales, purchasing card payment facilities and integration of the above to the JSS back-office system.

The costs of the phase 1 programme, as reported previously, have already been financed from accumulated balances.

4 Current Situation

4.1 2011/12 Trading Summary

The trading figures for the first 4 months of 2011/12 are given below. These are showing over 20% growth against target and last years turnover and income; performance with direct sales being very strong.

The trading activity during this period included £260k expenditure specific to two major educational projects.

	Actual 1 st Apr 11 to 31 st July11 £000	Target 1 st Apr 11 to 31 st July11 £000	% actual against target	Actual 1 st Apr 10 to 31 st July10 £000	% 2011 period against 2010
Turnover					
Stores	1,732	1,569	+10.39	1,544	+12.16
Direct Sales	758	460	+64.79	483	+57.15
Total	2,490	2,029	+22.72	2,027	+22.87
Income					
Stores	433	362	+19.62	356	+21.68
Direct Sales	67	53	+26.42	60	+11.23
Total	500	415	+20.49	416	+20.18

Potential turnover for 2011/12 is **£6,025,000** which would result in a gross surplus of £57,000 if current levels of turnover/income are maintained for the remainder of the trading year.

4.2 Condition of the building

The poor condition of the current building has been previously highlighted, with a potential need to re-locate to another site. This is likely to be necessary in the short to medium term. The Business Case for modernisation assumes a 2014 commencement and will impose maximum additional costs estimated at £90,000 per annum which includes lease/rental charge, energy, non-domestic rates and cleaning/security. It should be noted there will be an element of service disruption which will affect trading figures, in that quarter, plus a one off physical relocation cost of approximately £60,000.

4.3 Job evaluation

Bridgend County Borough Council is now progressing rapidly with job evaluation, which will impact on the staffing costs of the Joint Supplies Service. The consultation process on the proposed Pay and Grading structure is due to start in mid September. The aim is to implement the new pay and grading structure before next April. Therefore, more detailed information on the financial impact on JSS should be available later this year.

4.4 External developments in Welsh Public Sector Procurement

Welsh Government has tasked the Efficiency and Innovation Board to review procurement across the Welsh Public Sector and one of the key recommendations is that the procurement of common and repetitive spend is organised in a different way. All local authorities are currently working on collecting spend data so that recommendations on future working can be agreed.

The outcome will not be finalised until around December 2011, but initial discussions indicate that the likely outcome will influence the work undertaken by the Joint Supplies Service. Therefore the service must position itself for future applications rather than stand still.

There may be options in the future for a more centralised distribution service within Wales for key products, although the profile of items stocked and customer base may change from that which is currently offered by the JSS.

5 Options

5.1 Option 1 – Standstill Position

5.1.1 The first option is to let the Service continue as it presently is, without any significant modernisation investment, other than replacing equipment /vehicles as necessary (with planned expenditure for 2011/12 and 2012/13 being £70k, to be financed from the Accumulated Reserve).

5.1.2 Whilst turnover and income has currently stabilised, there are a number of factors/risks which may impact on the long term (beyond 2013) viability.

- Uncertainty of on going local government budgets
- Uncertainty of the 21 Century Schools programme
- Rationalisation of procurement process for products and services across Wales.
- The previously mentioned considerations of site condition and job evaluation.

5.1.3 In today's current economic climate no organisation can remain static and competitive without continual modernisation of it's processes and systems.

It is unlikely that future significant efficiency savings would be achieved without investment in modernisation.

Officers are of the opinion that whilst there would be a reduced impact upon Reserves, standstill is not the preferred option.

5.2 Option 2 – Partnering with other Public Bodies

5.2.1 The second option is to consider partnering with other public sector trading organisations in Wales to develop a fit for purpose joint supplies organisation service which could service cross sector organisation.

5.2.2 Discussions have taken place between Welsh Health Supplies(WHS) and JSS Officers (August 2011) , regarding a joint trading facility. It is apparent that there is little commonality between the WHS and the JSS, mainly due to the different markets and customer base both organisations operate within. However, there are areas which will need further exploration such as cleaning and janitorial products. Officers would therefore recommend that discussion continues with WHS and other organisations as other options are explored.

5.2.3 Preliminary discussions between Cardiff Council's Supplies Department and JSS Officers regarding further collaboration and potential for joint service delivery have been undertaken (July 2011). Cardiff are currently reviewing future options internally and will not be able to enter into further discussions until the end of September 2011. A verbal update will be provided at the JSS meeting.

5.2.4 It is clear that there may be a limited number of partnering options available, which the Officer Group will continue to investigate.

5.2.5 Partnering may afford a number of potential benefits and risks to the JSS, as detailed below,

Benefits:

- potential for shared costs and resources

Risks:

- management and control of joint service
- timescale for change
- cooperation of all potential parties

5.3 Option 3 - Modernisation

The Modernisation Programme

The third option considered by Officers is that of continued modernisation, further developing the work already undertaken referred to previously in this report.

The implementation of phase 2 of the modernisation programme would involve a number of clear stages:

The officer group would work with the Joint Supplies Manager to re-prioritise needs arising from the business process reviews, after considering return on investment and synergies with national and local procurement initiatives. A summary of the modernisation programme for Phase 2 is included in Appendix 1, but key outstanding developments include:

- Further rationalisation of core products
- The use of e-purchasing and e-tendering
- The introduction of mobile computerised equipment to improve logistics in the storage/distribution chain and information management
- The replacement of manual processes for purchase and sales ledgers and sales invoicing
- The introduction of charges for non-standard service requirements such as urgent delivery, low value transactions and goods return.

The Business Case to support the modernisation programme is included as Appendix 2. This proposal details the overall investment costs, funding sources, annual revenue budget implications and projected savings.

Members should note the Business Case includes some costs which are not exclusive to the modernisation option but have been included to present an overall summary of the investment expenditure required over the next five years.

Total investment costs (including revenue implications) for period to March 2017.	£597,000
Total projected savings over same period.	£625,000
Total Net Benefit	(£28,000)

Preliminary discussions have also taken place with neighbouring Authorities to determine future business development opportunities. These have proven successful with interest being expressed in certain product ranges. Details of this are included in appendix 3

Officers will continue discussions with local authorities and other public sector organisations during the next six months to develop business opportunities

within Wales and seek to expand its portfolio of customers within the South Wales region.

Implementation of the modernisation strategy will support this objective.

As part of the modernisation process the Officer group will also review the management structure of the Joint Supplies Service to ensure that it is fit for purpose and determine where appropriate efficiencies can be achieved.

Benefits

- Financial, modernisation programme will produce efficiency savings which exceed the costs of investment
- Development of a 'fit for purpose' organisation capable of meeting future challenges
- Negates the need for member authorities to provide additional procurement support to undertake function provided by the JSS
- Continuing collaborative arrangement with potential to expand

Risks

- Projected savings will not be achieved
- Investment not supported by turnover and income continuation
- Property market costs escalation beyond projected budget
- Enforced early premise relocation
- Short-term negative impact upon Reserves

5.4 Option 4 – Decommission Service

5.4.1 The fourth option, is to exit the service in a planned and controlled manner. This option would require each authority to undertake an alternative sourcing supplies facility for all products and services currently provided by the JSS. This would also necessitate authorities to provide customer liaison, ad hoc product sourcing, electronic catalogue maintenance, customer advice and guidance. The annual cost of providing this additional resource is estimated to be £30k (1 FTE) per authority.

5.4.2 The costs of decommissioning the Service are outlined in Appendix 4 and it is to be noted that the associated staff costs of closure will increase during each successive year. These costs will be offset in part by the net Reserve and are estimated to vary between -£29k (2012) to +£143k (2017) based upon the

existing Joint Agreement, noting individual authorities' responsibilities for seconded staff. The issue of TUPE staff transfer has not yet been finalised could impact upon future financial considerations.

5.4.3 The available net Reserve will be used for expenditure in relation to continuing modernisation and planned equipment/vehicles replacement. Any future annual trading surpluses will also be added to the reserve.

5.4.4 This presents a potential risk as whilst modernisation costs are known, future annual trading surpluses cannot be guaranteed.

Benefits

Costs of closure are contained within the existing Reserves, subject to the resolution of TUPE arrangements.

Risks

- Decommissioning would conflict with the Welsh Government strategy of collaborative arrangements.
- Financial and resource implications of maintaining alternative procurement/supplies arrangements.
- Potential increase in purchase cost of goods for some product areas.
- Potential for non-compliant spend for non xchangewales users

5.5. Equalities Impact Assessment

5.5.1 An Equalities Impact Assessment is not required at this time.

6. Financial Implications

6.1 The estimated total investment costs of £597,000 as detailed in the Business Case (appendix 2) is estimated to generate £625,000 savings over the investment period, and ongoing net savings of approx £28,000 over a 5 year period. The initial costs of the modernisation programme will be financed from accumulated reserves balance.

7. Recommendation

7.1 The provisional consideration of the Officer Group Is to pursue the

modernisation of the Service as indicated in the report. However, there are significant factors relevant to the decision-making process on the way forward which are outside of the control of the Joint Committee , these being:

- The outcome of job evaluation
- The outcome of the 21st Century School review
- Site conditions
- The outcome of the Efficiency and Innovation Common and Repetitive Spend Review.

The Officer Group therefore is recommending the decision to invest in the modernisation programme is deferred until April 2012 when the outcomes of these external factors are known.

7.2 In the interim period it is proposed the Officer Group,

- Review the staffing structure of the JSS identify further how efficiencies can be achieved
- Further explores business opportunities with local authorities in South Wales

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Appendix 1

Modernisation Programme – Phase 2

The second phase of the modernisation agenda encapsulates the support on back-office functions of the JSS, not directly impacting upon the frontline customer service aspects of service delivery but reflecting the general administrative functions.

A summary of the designated modules covering five core areas of the JSS is provided below, and in general terms, reflects the application of current technological architecture to replace existing internal practices in areas of procurement, finance and warehouse & distribution which are predominantly manual in content.

A summary of the proposed future programme is as below:

The staff resource to implement the modernisation programme will be provided from within existing structures and revenue budget.

Service Area: Procurement

- e-tendering and support communications.
- e-procurement structure supporting ordering processes (including stock replenishment).
- Contracts management.
- Product rationalisation.

Service Area: Customer Support Services

- Alignment of schools common ordering system, (SIMS) with JSS web site
- Alignment of corporate purchasing facility, (xchangewales) with JSS web site
- Development / increase of e-ordering usage of JSS.
- Minimise manual information storage practice.

Service Area: Financial – Purchase & Sales Ledger

- Integrated financial and warehouse 'production' data structure.
- Replace partly manual creditor payments practice with e-structure.
- Replace partly manual customer sales invoicing practice with e-structure.
- Minimise manual payments received and enhance automated payments and on-line payments.
- Minimise manual document information storage.

Service Area: Warehouse & Distribution

- Optimise product location storage.
- Introduce e-practice for 'production' documentation and associated automated practices.

- Introduce automated delivery recording practice.
- Enhance supplier delivery practices.
- Develop transport utilisation review practices.
- Minimise manual documentation used within service area.

Service Area: Sales & Marketing

- Continuation of the implemented strategy of promoting e-ordering and information access from the JSS web site constructed in Phase One, to incorporate the xchangewales facility.

Appendix 2

Modernisation (Phase 2) – Business Case

1 Cost Profile

The modernisation programme comprises investment across all JSS operational work areas, effectively, Purchasing, Customer Support, Financial, Warehouse & Distribution, Sales & Marketing, introducing further technological enhancements to improve efficiency and service delivery.

The summary also includes provision for renewal of existing operational equipment, vehicles, premise relocation and initial staff costs (to support staff reduction objectives).

Profile of expenditure	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
Cost Items	£'000s						
IT Software	53-88	0	0	0	0	0	53-88
IT Hardware	25	0	0	0	0	0	25
Infrastructure	6	0	0	0	0	0	6
Equipment (Warehouse)	28*	0	0	0	0	0	28*
Vehicles	0	42*	0	0	0	0	42*
Premise Relocation	0	0	0	60*	0	0	60*
Staff (Exit)**	38	0	0	0	0	0	38
Total	150-185	42	0	60	0	0	252-287

* Costs which would be incurred irrespective of whether the modernisation programme proceeds.

** This cost is provisional and is likely to increase once the Officer Group has further reviewed the future staffing structure to achieve the projected savings.

2 Sources of Funding

Sources of Funding	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
	£'000s						
Accumulated Reserves	150-185	42	0	60	0	0	252-287
Totals	150-185	42	0	60	0	0	252-287

3 Revenue Implications

Future Revenue Implications	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
	£'000s						
Software Licences	0	8	8	8	8	8	40
New Site Costs	0	0	0	90*	90*	90*	270*
Total	0	8	8	98	98	98	310

* Costs which would be incurred irrespective of whether the modernisation programme proceeds.

4 Savings/Benefits

Financial Savings	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
	£'000s						
Employee Costs	0	110	110	110	110	110	550
Printing, Stationery, Postage	0	15	15	15	15	15	75
Totals	0	125	125	125	125	125	625

5. Non-Financial Benefits

- A modernised Service ('fit for purpose') to meet future challenges such as supplier competition and anticipated requirements of Welsh Government National Procurement Strategy.
- Enhanced service performance to meet customer expectations
- Potential for future developments such as business development
- Improved customer image of organisation
- Electronic documentation, improving environmental performance

6 Sustainability

Investment will significantly modernise the Service with negligible future investment requirements anticipated with continuing savings continuing beyond the five-year Business Plan period.

7 Assumptions

Staff voluntary early retirement/redundancy supported by Joint Committee

Suitable alternative premises available

Appendix 3

Potential Service Growth in Adjacent Authorities

Discussions with the designated authorities, to date, have been reasonably positive in providing an open and appreciative response to their proposal of introducing the JSS as a supplier.

At the time of preparing the report, definitive expenditure information was not available and therefore, to provide some guide to potential opportunity available, calculations have been undertaken based upon the following criteria:

- a) Pro-rata calculations relative to spend of the four joint authorities, (reduced by 50% to reflect other authorities not being part of the JSS group).
- b) Pro-rata calculations relative to overall Council budgets.
- c) Pro-rata calculations based upon the spend profile of the Neath Port Talbot and Swansea educational sectors with the JSS.
- d) An assumption that growth expenditure will be limited to, broadly, educational supplies and janitorial products with only relatively minor expenditure in other catalogue product areas.

Assessed Growth Turnover

Pro-rata maximum available expenditure of the three authorities: £1.17m

(Maximum – not included in projection calculations)

Pro-rata janitorial product range only: £275k (based on Vale of Glamorgan and NPT CBC's only)

(Included in the above)

Additional schools spend (if no growth in NPT & VoG): £26k

Assessment of the potential growth and costs to support the growth are provided on the attached Appendices reflecting the following:

- a) Supplying catalogue products generally i.e. all consumables.
- b) Supplying schools and corporate janitorial products only.

Growth in Service Use – Support Costs

The use or increased usage of the JSS by other authorities would have implications for the operational costs of the JSS

There are of course considerable variables to be considered in undertaking such calculations, specifically, product range / area purchase (stock or direct), geographical spread of usage, service delivery frequency and actual volume turnover.

For the purpose of this report, calculations have been based upon assumption of the catalogue stores range being predominantly supplied

Risks

The increase in resources to support the potential growth opportunity would be structured on an incremental basis relative to the growth progress and with a deployment of temporary resource units and support capacities e.g. hire delivery vehicles, as prudent practice.

Consequently, it is not considered, therefore, that the financial risk would increase.

Officers and Members would be required to acknowledge the increased costs of exit annually, which has already been included in previous review commentaries.

Appendix 4

Exit Costs for Closure of Joint Supplies Service

The exit costs of closure comprises employee and non-employee costs.

The Reserve balance at the end of the respective financial year, £515k, at 31 March 2011, represents a gross sum. During any final year of trading, reduced income during the period, residual stock balances and associated costs of closure will reduce the final net reserve balance available as below,

- Trading year income deficit 100k
Reduced trading income during final operational period and net impact of non catalogue production (supplier financial support)
- Residual stock balance 79k
Anticipated physical stock balance at date of closure reflecting experience of other authority supplies operation closure.
- Post-closure costs 30k
Final costs of closing accounts, creditor payment and debt recovery.

This would result in an estimated net available Accumulated Reserve of £306k for employee exit costs.

The summary below details the Staff 'costs of closure' (maximum) per year based upon the existing Joint Agreement. The figures exclude the costs of the existing seconded staff (eight).

Exit Costs Summary

The following table shows the total staff costs and authorities contribution as at the end of each financial year (non-accumulative).

The figures do not reflect the outcomes of Job Evaluation or TUPE considerations.

	31 March 2012	31 March 2013	31 March 2014	31 March 2015	31 March 2016	31 March 2017
Estimated** Staff Costs (max)	277k	320k	354k	386k	417k	449k
Net Reserve*	306k	306k	306k	306k	306k	306k
Authorities' Contribution	-29k	+14k	+48k	+80k	+111k	+143k

*Net Reserve after non-pay closedown costs, subject to no further investment expenditure.

** This is an estimate based upon 2011 salaries with a pay inflation of 1% from 2012/13 onwards.

Appendix 4

