

MELTON BOROUGH COUNCIL

PROCUREMENT STRATEGY

(This document describes the contribution that effective procurement will make to the fulfilment of the Council's vision and strategic objectives)

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Introduction

Procurement is about the acquisition of goods, services and works. All Council services involve procurement and this can range from buying in an entire service to buying smaller inputs like office equipment and stationery supplies.

However "procurement is more than just buying goods and services or outsourcing. When used well it is a mechanism to challenge current services and to determine new models for service delivery. In order to achieve these benefits a strong element of competition should run through the whole process. Effective procurement is fundamental to service improvements". (*Source Audit Commission Competitive Procurement - Learning from Audit, Inspection and Research March 2003*).

All best value authorities are required by statutory guidelines to have "a considered and far-reaching approach to the commissioning and procurement of services". This includes having a clear and formally approved procurement strategy.

The Byatt Report which was the principal output of the DETR/LGA Procurement Task Force chaired by Sir Ian Byatt, recommended that every authority should have a formal documented procurement strategy.

In order to ensure the Council adopts a strategic approach to procurement it will:

- position procurement at the centre of its efforts to deliver best value
- arrange procurement responsibilities appropriately, according to the strategic importance of the goods, services or works being procured.
- provide guidelines that are clear, but sufficiently flexible to be applied in a wide variety of circumstances; and
- ensure that it is comprehensive and covers all goods, services and works, not just those under review or where contracts are expiring.

Getting procurement right is crucial for achieving the Council's vision to deliver high quality services, provide value for money and enhance the quality of life for all those who live in, work in, or visit the Borough.

Potential benefits from more effective procurement include quality and cost benefits which recent national reviews have shown can be significant. Best value has brought a new impetus to improving procurement. The growth of opportunities for purchasing services from the private sector rather than acquiring capital assets, the emergence of partnership arrangements and joint working arrangements with other organisations together with new technology will offer fresh scope for carrying out procurement in different ways. As the Council increasingly becomes an enabler of change and a purchaser rather than a provider of services, the importance of good procurement increases.

The Government is urging local authorities through IEG statements to set targets to increase the number of routine purchases carried out electronically. E-procurement provides an opportunity to ensure that routine elements of procurement are dealt with as efficiently as possible. E-procurement is not a separate element of procurement but should be viewed as central to the delivery of this Procurement Strategy.

This document will set out a strategic framework for Melton to benefit from the opportunities that effective procurement offers and a set of policies to ensure it happens. The strategy and policies will be set against the legislation requirements of national and European Union law.

To support the strategy and policies a Code of Practice to govern procurement throughout the Council will be produced and made available to staff to help them carry out their procurement activities. The Procurement Strategy will link into and support other corporate policies and systems including service and financial planning and the performance management system.

Strategic Framework for Effective Procurement

The following 7 point framework will form the basis for the Council's future procurement activities. The Council will:

1. use its procurement activities to support and help the achievement of the Council's vision, corporate values, corporate strategic objectives and service objectives;
2. seek to achieve Best Value in the procurement of all goods, services and works having full regard to quality and risk as well as cost;
3. procure all goods, services and works on a fair, consistent and open basis in accordance with the Council's own policies and in compliance with UK and EU procurement legislation;
4. always when making procurement decisions consider the full range of options available including public/private partnerships, joint provision with other public bodies, outsourcing and in-house procurement and the funding opportunities;
5. ensure through its procurement activities it develops a well-trained and motivated workforce through good employment practices and sufficient resources are allocated to provide effective administration and decision making;
6. where appropriate develop and expand its supply base for goods, services and works in the interest of encouraging a competitive market or developing a market for services where a market does not currently exist; and
7. promote the development and use of performance measures for its procurement activities.

Supporting Policies

Strategy Framework Statement Number 1:

"use its procurement activities to support and help the achievement of the Council's vision, corporate values, corporate strategic objectives and service objectives"

Our approach to procurement will reflect our corporate values and strategic objectives as well as specific service objectives.

The corporate values underpin all of the Council's work and its activities on a day to day basis in order to achieve our shared vision. We conduct our business in ways which:

- are customer focused;
- strive for continuous improvement in service quality;
- provide value for money;
- listen to the view of the local community;
- provide strong community leadership;
- are open, fair and equitable;
- look after those who are most vulnerable in our society;
- work in partnership;
- are sustainable;
- value our staff.

The Council has adopted a Strategic Framework for delivery its services around the following themes:

- strengthening the local economy;
- building communities;
- protecting the environment.

The procurement process provides an opportunity to help achieve these aims.

In particular it will contribute to the achievement of the following specific objectives:

- encourage the growth and diversification of the local economy and assist in the creation of new jobs in small enterprises;
- encourage the diversification of the rural economy and support local produce;
- encourage the use of renewable energy;
- maintain good environmental stewardship.

We will do this by:

- considering a "buy local" policy to boost and sustain the local economy;
- including sustainability as an important criterion in any procurement providing that the cost of availability does not prejudice service delivery;
- communicating our sustainability policy to supplier and contractor to encourage best practice;
- ensuring that sustainability claims made by suppliers and contractors are assessed and validated;
- considering ethical issues such as animal testing and fair trade;
- considering the environmental impact of disposal of any items or decommissioning of the service.

Strategy Framework Statement Number 2

"seek to achieve Best Value in the procurement of all goods, services and works having full regard to quality and risk as well as cost"

The Council will base the procurement of its requirement upon the principles of Best Value and will, as a result, continue to support a mixed provision in its aims to achieve efficiency, effectiveness and value for money in the services it provides. In doing so the Council will only provide services where:

- the Council has a statutory duty to do so;
- there is clear evidence of service needs; or
- other providers cannot provide the service without the direct involvement of the Council.

In order to ensure the Council embraces the principles of Best Value in its procurement activities it will:

- take a medium to long term strategic view of the procurement of its requirements including the potential for improving quality, attracting innovative funding and managing the balance of risk;
- consult with staff and their union representatives and ensure that their views are considered when making procurement decisions that affect them;
- challenge existing approaches to service delivery without any preconceptions as to the eventual outcome;
- choose the option that will give the Council the best possible value over the medium to long term;
- be committed to partnership working with public, private and voluntary sector providers where this delivers best solution;
- where appropriate, seek advice from the market concerning such matters as funding, capacity and method and innovation;
- use its position and purchasing power to influence the development of markets;
- ensure that where a procurement decision impacts on another service area that it takes into account the wider corporate issues and the decision is made accordingly to deliver the best overall solution.

Strategy Framework Statement Number 3

"procure all goods, services and works on a fair, consistent and open basis in accordance with the Council's own policies and in compliance with UK and EU procurement legislation"

Whilst Best Value legislation does not require authorities to subject their functions to competition in the same ways as did the compulsory competitive tendering legislation the statutory guidance for Best Value does stress the Government's view that fair and open competition is an essential element of the process and will usually be the best way of demonstrating that a function is being carried out competitively.

In order to ensure that all procurement is made on the basis of a fair consistent and open basis the Council will:

- establish Contract Procedure Rules governing the procedures to be followed when procurements are sourced externally and review them on an annual basis;
- establish circulation/option appraisal methodologies which can be applied consistently across a range of procurement opportunities;
- develop detailed guidance on the conduct of fundamental service reviews;
- develop detailed guidance on the approach to be taken to procurement design;
- aim to base specification on outcomes and output wherever possible rather than inputs;
- only retain services in-house where they can be demonstrated to be competitive with the best alternative;
- incorporate Best Value clauses into contracts setting demanding performance targets and continuous improvement targets;
- ensure that any evaluation process fully assesses the quality aspects of any procurement. The Council may ask for and consider the following in any evaluation process:
 - financial health and stability
 - customer service standards
 - quality standards
 - health and safety policy
 - environmental policy
 - staff code of conduct
 - equality policies.

Strategy Framework Statement Number 4

"always when making procurement decisions consider the full range of options available including public/private partnerships, joint provision with other public bodies, outsourcing and in-house procurement and the funding opportunities"

The decision whether to provide the service 'in-house; or 'buy-in' is critical to the procurement process and the consequences of doing this well or badly can be far reaching. The decision does not require detailed information about the way in which individual contractors - internal or external - might deliver a specified service. However, it does require the authority to have defined the service, to have gained some understanding of the market and to have formed a view of the risks attached to different procurement approaches.

When deciding which options to choose the Council will give consideration to the following:

- full outsourcing;
- in-house provision;
- a mixed market;
- partnership, that is outsourcing, but retaining a strong influence on how the product is delivered; and
- postponing the decision and undertaking a market test.

Which of these options is chosen will depend on two main factors:

- the need for investment, whether in equipment or in specialist skill in relationship to the size and;
- the degree of uncertainty about the nature of the services the Council might require in the future.

In addition to the above main factors there are other factors to be considered associated with the particular option which will help decide which is the most appropriate option to choose for the procurement.

Outsourcing

There are some circumstances in which it will almost always be appropriate to outsource. Typically, this will be where the product specification is clear and unlikely to change and where in addition, one or more of the following conditions applies:

- where there is a need for significant capital investment and there is little prospect of Council resources becoming available to meet this;
- if economies of scale can be achieved by contractors providing similar services to a range of customers and such economies are not available to the Council by other means;
- if transferring the management of certain services would enable the Council to redirect resources to its chosen priority or core function;
- if there is a need for specialist managerial, technical or professional capacity that the Council could not provide itself, or that it would take too long to develop internally, or;

- if the volume of service to be produced is unpredictable and an outsourced supply would provide more flexibility in delivery and costs.

While outsourcing is normally undertaken directly by the Council there may be opportunities for increasing buying power and minimising transaction costs through a consortium approach. Where such an approach is chosen the Council will still retain its duty to secure best value even though the operational responsibility for procurement is with the consortium.

In-house Provision

Where the Council requires maximum flexibility in the type of service that is delivered and where none of the above conditions is fulfilled, it may be more appropriate to source the service in-house.

In-house provision will be justified where an on-house team is already providing a good service (top quartile), and market analysis has not shown any significant benefits to be gained from outsourcing.

Where in-house performance is only average and there is little or no external competition for the service the Council will examine the way the service is designed to ensure that potential suppliers have not been excluded before deciding how the service will be procured.

Where the in-house service is poor or failing, careful consideration will be given to whether there are sufficient immediate benefits to justify the outsourcing of the service. Poor or failing services will only be outsourced where the contractors' ability to deliver is undoubted and it is cost effective. As an alternative the Council will endeavour to build the service back up to a reasonable level of performance before looking at any extra benefits an external provider could provide.

A Mixed Market

The Council will use more than one supplier where it is advantageous to do so. This will apply where similar services are provided and volumes are sufficient for more than one supplier to obtain a satisfactory return on investments. Use of a mixed market will help to ensure that quality is maintained, costs are controlled and choice for users is enhanced.

In deciding whether or not to use a mixed market the Council will take into account the higher costs of managing a number of contracts and the possible loss of valuable economies of scale which will be weighed against the potential benefits.

Partnerships

Where the procurement demands both a high level of investment and long term flexibility, the answer may be to procure a partnership. The Council and others may share common objectives and may set up a partnership as a vehicle for joint delivery of a service. This may be with other public sector bodies or private firms.

Where the procurement is large scale, long term and covering a variety of services a "strategic partnership" may be more appropriate. A strategic partnership is in effect a hybrid form of procurement where neither in-house nor outsourced provision on its own would provide the services that are required.

Market Testing

If after careful consideration of the market the Council is not persuaded that one of the four approaches outlined above is better than the others it will undertake a market test, involving both in-house and external suppliers. Market testing will only be undertaken where it is not possible to choose between internal and external suppliers by any other means. Typically, these circumstances will arise where the investment required to provide a service is small in relation to the size of the contract, and where the product specification is likely to remain unchanged over the contract life. The Council will not subject either external or internal suppliers to a costly tendering process when the outcome is likely to be decided by factors outside the tenderers' control.

Strategy Framework Statement Number 5

"ensure through its procurement activities it develops a well-trained and motivated workforce through good employment practices and sufficient resources are allocated to provide effective administration and decision making"

A well-motivated and well-trained workforce is vital to the provision of Best Value services. Effective staff communication, consultation and involvement are at the heart of Best Value in general and procurement in particular.

The Council will:

- ensure appropriate staff communication and consultation within procurement projects;
- always consider the application of and the complications of TUPE
- ensure that all staff involved in the procurement process are fully trained and conversant with the principles of good procurement;
- provide specialist training for managers involved in more complex procurements like PFI/PPP projects as well as in large service contracts particularly those based on partnership principles;
- ensure that all senior managers understand the link between Best Value and procurement and the opportunities for using procurement as a tool for improving service performance.

Strategy Framework Statement Number 6

"where appropriate develop and expand its supply base for goods, services and works in the interest of encouraging a competitive market or developing a market for services where a market does not currently exist"

The Council has an interest in encouraging a competitive market for the goods and services it provides and procures.

The Council will:

- encourage businesses to tender for Council business;
- where possible seek to develop a market for services which are currently not provided on a competitive basis in the private sector;
- ensure that the costs of tendering for tenderers are kept to a minimum and that the procurement process is sufficiently transparent in terms of the criteria for the selection process and not too prescriptive and risk-averse in how outcomes should be achieved;
- encourage local businesses to tender for Council business.

In developing a market for services the Council will:

- group or package activities to reflect prospective market competence, while meeting its own requirements;
- demonstrate that long term relationships with potential new contractors, suppliers and service providers are highly desired;
- where appropriate, develop, maintain and renew lists of approved suppliers including the criteria by which they are selected;
- create conditions in which new contractors, suppliers and service suppliers can enter the market, by encouraging diversity and innovation.

Strategy Framework Statement Number 7

"promote the development and use of performance measures for its procurement activities"

The measurement of outcomes is a key requirement of Best Value. Performance and efficiency targets are needed to evaluate outcomes. Procurement activity should be linked clearly to the objectives of the particular services followed by an evaluation of whether these objectives have been met. For ongoing contracts there should be regular monitoring.

As well as measuring our own performance it is essential to compare it with the best practice in the public and private sectors with a view to identifying and closing any gaps in performance. Benchmarking against the improvement of others provides an approach to continual improvement in delivering a service. It is essential to include a contractual right to benchmarking in each outsourced contract.

Measurement and evaluation must not be the end of the story. It is important to take action when gaps are identified and results do not meet expected outcomes.

Typical performance measures could include:

- cost effectiveness of the service;
- competitiveness of prices;
- cost improvements;
- customer satisfaction;
- response times;
- quality of services.