

South Derbyshire District Council

Procurement Strategy 2003

Draft

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INTRODUCTION TO THE STRATEGY

Introduction

- 1.1 This is the Council's first Procurement Strategy. It explains how we currently procure goods, works and services and how we plan to do so in the future.
- 1.2 This year, we expect to spend approximately £30 million on goods, works and services, with about £11 million going to external providers. Given this level of spending, we need to ensure that our procurement processes are efficient and effective and that local people benefit from better services and improved facilities.

National context

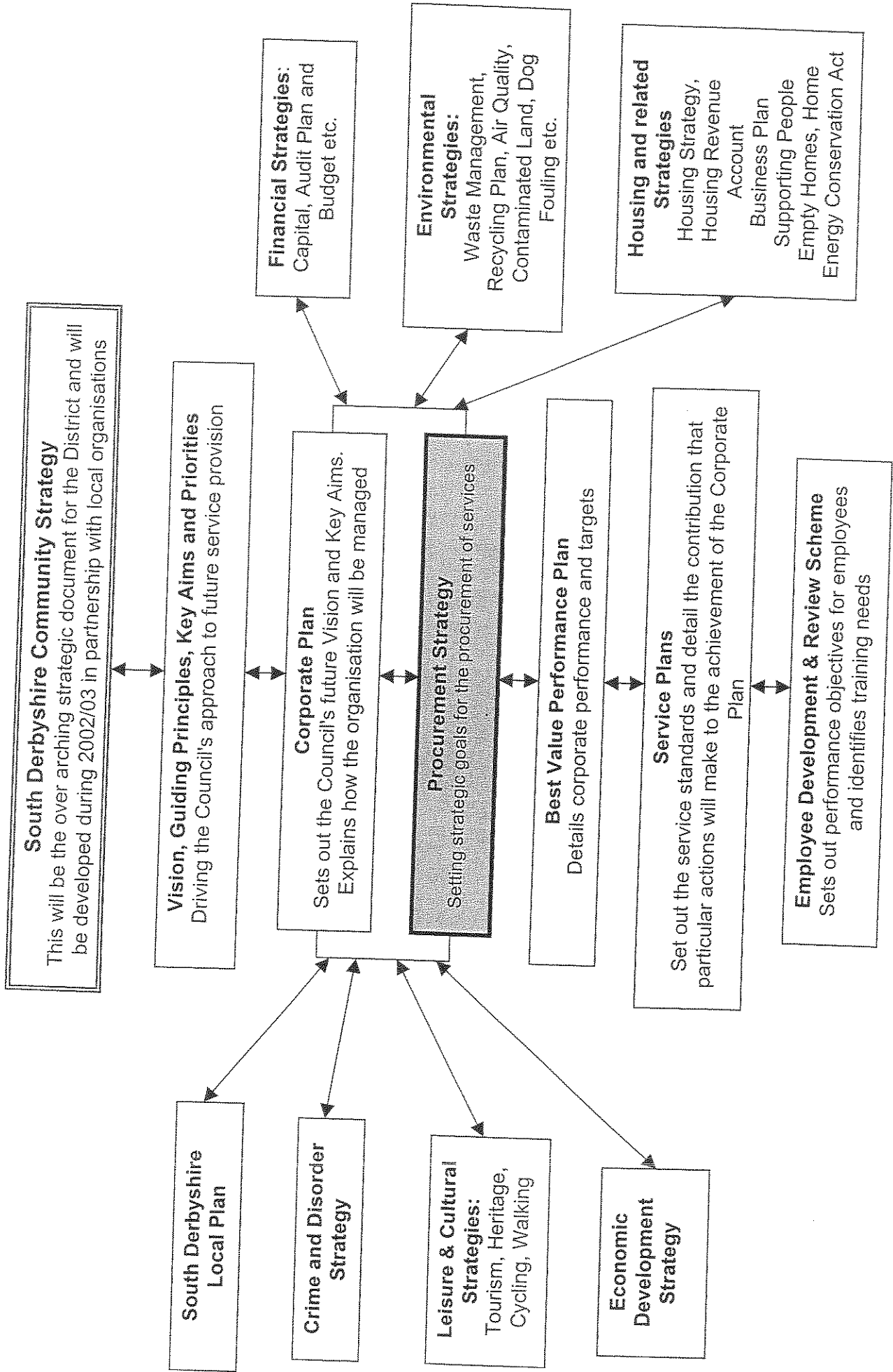
- 1.3 Since the introduction of the Best Value regime in April 2000, the importance of procurement in local government has steadily increased.
- 1.4 Under Best Value, the Council has a duty to make continuous improvements to the services it provides. We have to consider whether procuring a service from a third party, rather than providing it ourselves, would be more likely to result in the quality of service the community expects at the price it can afford to pay. Statutory guidance requires us to have procurement strategy.
- 1.5 In June 2001, the link between good procurement and Best Value was a key theme in the report of the Local Government Procurement Task Force, the 'Byatt Report'. The report also made a number of recommendations to help Councils improve their procurement policies and practices. The Government and the Local Government Association have since endorsed these recommendations.
- 1.6 The recent Local Government White Paper 'Strong Local Leadership, Quality Public Services' also emphasises the contribution that effective procurement policies can make to the delivery of high quality public services. Councils will now have to demonstrate competence in the management of procurement as part of Comprehensive Performance Assessments.

Purpose of the Strategy

- 1.7 The purpose of this Strategy is to:
 - establish a vision of how procurement will help the Council to meet its key aims and contribute to the delivery of the South Derbyshire Community Strategy, the Corporate Plan, the Best Value Performance Plan and service related strategies
 - provide a consistent and co-ordinated approach to procurement across the Council
 - establish arrangements to ensure the Council obtains Best Value in the management of the procurement process and in the purchase of goods, works and services
 - support service and financial planning

Figure 1.1

Council Plans and Strategies



- provide a framework for working with organisations in the public, private and voluntary sectors in the supply of goods, works and services
- inform and involve all councillors and employees in procurement issues

Scope of the Strategy

1.8 Sections in the Strategy discuss:

- the Council's vision and key aims and their relevance to procurement
- key goods, works and services and how they are purchased
- current procurement arrangements
- recent and planned Best Value Reviews
- future procurement exercises
- the performance of key suppliers
- the structure and performance of the procurement function
- skills and training needs
- probity and governance
- consultation
- implementing the Strategy

1.9 Procurement has been defined to cover the whole process of acquiring goods, works and services from the initial identification of a need through to the end of the useful life of an asset or the end of a service contract. It includes acquisition from 'in house' service providers as well as from third parties.

1.10 The Strategy does not include detailed procedural guidance. This forms part of the Council's Financial Regulations and Financial Procedure Rules and other internal control documents.

Relationship to other Council Plans and Strategies

1.11 Figure 1.1 illustrates how our various plans and strategies relate to each other and how the Procurement Strategy fits into this framework.

1.12 Looking ahead, the South Derbyshire Community Strategy (which is in the course of preparation) will form the strategic basis on which services are planned and provided. Service delivery (as now) will be managed through the Corporate Plan supported by various service strategies and plans. Performance will continue to be monitored through the Best Value Performance Plan.

1.13 It is evident that this Strategy will impact on everything we do and play an important role in shaping how the Council achieves its vision for the future.

THE COUNCIL'S VISION AND KEY AIMS AND THE LINKS TO PROCUREMENT

Introduction

- 2.1 The Council's Vision, Guiding Principles and Key Aims are set out in the Corporate Plan. All are relevant to procurement in terms of either the process or the outcome for service users.

The Council's Vision for the future

- 2.2 The Council's Vision is to:

'Promote and enhance the social, economic and environmental well being of the community through the provision of cost, effective and customer focused services'

- 2.3 Effective procurement policies and procedures can help us to improve the quality of life and well being of local people by ensuring that we buy the goods, works and services that better meet their needs. Looking to the future, these needs will be addressed through the Community Strategy and the Local Strategic Partnership.

- 2.4 Good procurement can also help us to save money which can be spent on other community priorities or which can be used to maximise services whilst minimising Council Tax.

Guiding Principles

- 2.5 The Council has defined a number of Guiding Principles that govern the way in which we operate. They are listed at Appendix A:

- 2.6 Our Guiding Principles apply equally to the way in which we operate and manage our procurement processes. In addition, we can identify a number of specific principles that apply to procurement. They are:

- **focusing on benefits and outcomes for service users**
- **achieving an appropriate balance between the quality of goods, works and services that we purchase and their cost**
- **operating in timely and planned manner**
- **expediting simple or routine transactions**
- **minimising the administrative burden**
- **supporting innovation in the development of alternative procurement and partnership arrangements**
- **encouraging the participation of a wide range of suppliers**
- **complying with the Council's Constitution and relevant legislation**

Key Aims

2.7 The Council has also identified a number of Key Aims that are used to guide service delivery. These are also listed at Appendix A. They relate to *economic development; caring for the environment; the provision of decent homes; community and leisure development; providing 'Best Value' services; managing our business, community leadership; and support for the National Forest*. All have implications, to a greater or lesser extent, for our procurement policies and procedures.

2.8 In the light of the Key Aims, our objectives for procurement are to:

1. **establish a corporate approach to the procurement of goods, works and services**
2. **ensure the Council obtains Best Value in the management of the procurement process and in the purchase of goods, works and services**
3. **exploit the opportunities provided by ICT* to improve the efficiency and effectiveness of the procurement process**
4. **secure sufficient resources to enable the organisation to develop capability and capacity in relation to procurement**
5. **apply 'Egan' principles** to construction related projects**
6. **ensure that risks are managed appropriately and that all procurement reflects the principles of good corporate governance*** and sustainable development**
7. **provide training for members and employees with responsibility for procurement**
8. **ensure employees are involved in Best Value Reviews and in the procurement process**
9. **develop and promote co-operative procurement arrangements with organisations in the public, private and voluntary sectors**
10. **make local businesses aware of the opportunities of supplying goods and services to the Council**

**ICT means information and communication technology*

***Egan principles comprise: committed leadership, a customer focus, integrated processes and teams, a quality driven agenda and a commitment to people*

**** Governance is defined by the Audit Commission as 'the system by which local authorities direct and control their functions and relate to their communities'*

2.9 The next sections of the Strategy attempt to assess where we are at the moment in terms of procurement. It begins with an analysis of the key goods, works and service that we procure, followed by a review of current procurement arrangements.

KEY GOODS, WORKS AND SERVICES PROCURED BY THE COUNCIL

Introduction

- 3.1 The Council is one of South Derbyshire's largest businesses. We employ just over 300 people and, as we shall see, spend about £30 million annually.
- 3.2 The services and facilities that we provide (either directly or through third parties) impact upon many aspects of local life - for example, housing, economic development, refuse collection, parks and leisure, environmental health, land use planning and community safety.
- 3.3 The Council's spending falls into two categories:
- **Revenue spending**
This covers the day to day costs associated with the provision of services, such as salaries, premises expenses, materials and transport costs. It also includes annual capital financing costs, such as interest payments and leasing charges on assets financed by borrowing or other credit arrangements.
 - **Capital spending**
This relates to longer term spending of a more lasting nature, such as the purchase, provision or enhancement of land and buildings.
- 3.4 The Council has two main revenue accounts - the General Fund and the Housing Revenue Account (HRA). All of our main services are charged to the General Fund apart from the costs of managing and maintaining Council homes, which are met, from the HRA.
- 3.5 Prior to the introduction of the 'Single Capital Pot' in April 2002, the Council received separate allocations from Government for General Fund and Housing Schemes. The new arrangements give us more flexibility to decide how the allocation is divided between the various schemes. Priorities are determined through the Capital Strategy.
- 3.6 The Council also receives a substantial grant in the form of the Major Repairs Allowance (MRA). This is used to fund major repairs to Council homes to bring them up to the Government's 'decent homes' standards.

Revenue and Capital spending in 2001/2002

3.7 Tables 3.1 and 3.2 summarise our revenue and capital spending for the financial year April 2001 to March 2002.

	General Fund £'000	Housing Revenue Account £'000
Employee Costs	6,119	1,260
Leasing	232	21
NNDR	235	11
Rent Rebates	0	4,639
Council Tax and Housing Benefits	6,344	0
Loan Interest	38	718
Other Operating Costs	4,323	2,216
Total	17,291	8,865

	General Fund Schemes £'000	Housing Schemes £'000	Major Repairs Allowance £'000
Work commissioned by the Council	445	200	1,900
Contributions to projects	527	1,000	0
Covenant Principal (loan interest)	140	210	0
Total	1,112	1,410	1,900

3.8 It can be seen that we spent a total of approximately £30.5 million in 2001/2002. Leaving aside employee and other overhead costs, some £10.8 million was spent on externally procured goods, works and services. This represented 35% of our total expenditure. (Nationally, the figure is in the order of 50%.)

3.9 The budget is set annually by Council. Under the Constitution, spending is devolved to three policy committees. The main areas of responsibility are summarised in Table 3.3.

Finance and Management Committee	Finance and Support Services (e.g. Personnel, IT, Legal, Asset Management, Public Relations)
Housing and Community Services Committee	Community safety, housing, environmental health, leisure and cultural services
Environmental and Development Services Committee	Economic development, planning policy, leisure facilities, and waste management

3.10 Committee spending is shaped by a number of plans and strategies, which combine national and local priorities. The key ones are:

- The Corporate Plan
- Service Plans
- Housing Strategy and HRA Business Plan
- Capital Strategy
- Asset Management Plan
- Crime and Disorder Reduction Strategy
- Implementing Electronic Government Statement

3.11 Over the last 12 months, we have sought to strengthen the links between service and financial planning. In the last budget round, the Corporate Plan and Service Plans were used to help allocate resources and focus on key service improvements.

Significant Areas of Spending

3.12 The following service areas involve significant levels of spending:

- the maintenance and improvement of Council homes
- the renewal of the private sector housing stock
- waste management (i.e. refuse collection, recycling and composting) and district cleansing
- the provision, management and maintenance of leisure facilities
- the collection Council Tax and NNDR payments and the administration of Housing and Council Tax Benefits ('Revenue' Services)

3.13 This year, we plan to spend approximately £5.4 million of capital and revenue expenditure on the district's housing stock. About £0.8 million will be spent on grants to improve the condition of the private sector stock or to enable older people or people with disabilities to remain in comfort and safety in their own homes. The rest will be spent on a mixture of improvements, planned maintenance measures, adaptations and responsive repairs to Council homes. This work is carried out by private sector contractors or the Council's Housing Direct Services Organisation (DSO).

3.14 The budget for waste management and district cleansing amounts to approximately £1.7 million. Services are provided by the Council's Refuse and Cleansing DSO, supported by arrangements with third parties to lease vehicles and other equipment and provide goods and services (especially in respect of composting and recycling).

3.15 Much of the £1.2 million that we expect to spend on leisure this year will be directed to the management of Council owned parks and leisure facilities. Services are delivered through a variety of mechanisms from management contracts to partnerships with local organisations.

- 3.16 Our Revenue Services involve expenditure of £10.9 million. The majority of this spending relates to the payment of Council Tax and Housing Benefits most of which is reimbursed by the Government. Procurement activity relates mainly to the provision of the service and the necessary IT to support it.
- 3.17 The next section looks in more detail at our current procurement arrangements, highlighting some of the emerging issues that we will need to address. Our conclusions are based on a series of interviews and case studies, chosen to illustrate different aspects of the Council's procurement activity. (Further details of the interviews and case studies can be found in Appendix B).

CURRENT PROCUREMENT ARRANGEMENTS

Spending patterns

- 4.1 Every year, we make around 15,000 payments to external recipients. Some 95% of payments are for sums of less than £2,500. A reduction in this number would reduce procurement costs overall and enable employee resources to be directed to where they can add most value (i.e. high risk and/ or high value procurements) or to other service areas.

Action 1: Map existing procurement activities (in terms of risk and value).

- 4.2 The Byatt Report also recommends that local authorities should consider the benefits of aggregating low risk/low cost items and buying them through central contracts or framework agreements.

Action 2: Set up central contracts for commonly used items with consolidated invoices.

Current methods

- 4.3 We currently use a variety of methods to procure goods, works and services. They include:

- formal contracts of varying types (usually to achieve a specific outcome, for an agreed sum over a set period of time)
- leasing arrangements (where goods and services are made available for use over a set period of time for an agreed sum)
- the provision of grants (to assist others to carry out works or to provide services)
- partnerships (formal or informal arrangements with partners in the public, private and voluntary sectors to work together towards the achievement of common objectives and to share resources)

4.4 The case studies that we have examined have highlighted a number of issues associated with some of our current arrangements:

- the need to select the most appropriate form of contractual arrangement. For instance, responsive contracts, where services or goods are drawn down at irregular intervals, can be difficult to manage and expensive to administer. Alternatively, more prescribed forms of contract may be cheaper and simpler to manage but limit flexibility and innovation in service delivery.
- the availability of funding and the requirements of funding bodies funding sources has an important impact on procurement options. In general, short term funding works against long term contracts. This makes it essential for the Council to have in place a robust medium/long term financial plan supported by a clear strategy for managing its capital assets.
- in areas where contracts with third parties have traditionally been used, such as engineering or construction, the specification of the goods, works or services that are to be provided is usually well defined. This makes contract monitoring relatively simple and straightforward. However, in some of the newer areas where we are contracting with others to provide services or manage facilities, performance expectations may sometimes be unclear. This can create tensions between the parties and lead to time being wasted in resolving disputes.
- similar comments apply in relation to the discretionary grants that we make to community groups and voluntary sector organisations. Service levels agreements would clarify expectations and help to ensure that resources are used to support the achievement of the Council's objectives.
- there is generally a need to pay more attention to monitoring outcomes for service users in contracts

4.5 A Best Value Review of procurement structures and processes would help to ensure that existing arrangements are efficient and effective and focus on outcomes for service users.

Action 3: Conduct a Best Value Review of procurement structures and processes.

Emerging Issues

4.6 Such a Review would also help us to address a number of emerging procurement issues. They include:

- the growth of partnership working
- the adoption of 'Egan' principles for construction contracts
- e-procurement
- sustainable development

Partnership working

- 4.7. For over two decades, the Council has worked with partners in the public, private and voluntary sectors to develop policy and deliver services across a range of community services. More recently, we have begun to recognise the benefits of partnership working on corporate services such as IT, personnel and revenues and benefits.
- 4.8. On some occasions, we work with a single partner, usually to deliver a particular service, (e.g. glass recycling). In other instances, we work with several partners from one or more sectors, (e.g. the provision of occupational health services). Sometimes our partnerships focus on a specific geographical area or focus on a specific project, (e.g. management of Rosliston Forestry Centre). This diversity also extends to the range of agreements that we have with our partners, which reflect varying degrees of formality.
- 4.9. This experience will assist help us to face the new challenge of establishing an effective Local Strategic Partnership (LSP) to develop and implement the South Derbyshire Community Strategy. It will also provide a basis for establishing an effective LSP to develop and implement the Community Strategy. It will also provide a sound basis for the continued development of the co-operative procurement arrangements envisaged under the Best Value regime.

Action 4: Continue to develop and promote co-operative procurement arrangements with organisations in the public, private and voluntary sectors

Adoption of 'Egan' principles

- 4.10. The Report of the Construction Task Force published in July 1998 (the 'Egan' Report) made a number of recommendations to improve the efficiency and effectiveness of the UK construction industry.
- 4.11. A key recommendation was that the construction industry must replace competitive tendering with long term relationships based on clear measurement of performance and sustained improvements in quality and efficiency.
- 4.12. The Housing Services Division, which commissions most of the Council's construction related contracts, has already begun to explore how 'Egan' principles can be built into construction contracts. These principles, however, may also be relevant to other forms of procurement.

Action 5: Continue to progress the adoption of 'Egan' principles for construction-related contracts and other forms of procurement as appropriate.

E-Procurement

- 4.13 The Government has challenged all Council's to achieve 100% electronic service delivery capability by 2005. At the present time, about 1 in 5 of our services are delivered in this way. Future plans are set out in the Council's annual Implementing Electronic Government (IEG) Statement.
- 4.14 There are a number of areas where e-procurement methods have a potentially useful role including electronic shopping, electronic tendering, supplier and contract management, customer feedback on contracts, publicity for future contracts, on line ordering and payment facilities.
- 4.15 According to Byatt, e-procurement solutions are particularly suited to controlling spending on low value and routine commodities and are likely to lead to reduced transaction costs.
- 4.16 Looking ahead, recent improvements to the Council's web site and proposals to replace our existing Financial Management System will support several e-procurement options including on line ordering and payments by BACS.

Action 6: Ensure that the opportunities for e-procurement are Identified and exploited through the IEG Statement.

Sustainable Development

- 4.17 Sustainable development is concerned with achieving a better quality of life for everyone now and for generations to come. This links to the effectiveness criteria of Best Value and will form an important aspect of the Community Strategy.
- 4.18 In terms of procurement, the Government's definition of 'Best Value' is *'the optimum combination of whole life cost and quality (fitness for purpose) to meet the user's requirement'*. This approach permits sustainability to be taken into account as well as quality. For instance, the consideration of whole life costs allows factors such as fuel efficiency and replacement costs to be taken into account. Social factor such as benefits to local people, diversity and fairness also contribute to Best Value.
- 4.19 We need to ensure that sustainability is taken into account in contracts in a structured way and that non-financial performance criteria are clearly defined and appropriately evaluated.

Action 7: Develop guidance on the inclusion and evaluation of sustainability issues in contracts.

Financial Regulations and Procedure Rules and other internal control documents

- 4.20 The Council's Financial Regulations and Financial Procedure Rules were reviewed earlier this year as part of the development of a new Constitution for the Council. However, further changes may be required to support the development of new forms of procurement and partnership working.

EXAMPLES OF THE RANGE OF PROCUREMENT ARRANGEMENTS CURRENTLY OPERATING ACROSS THE COUNCIL

Procurement Arrangements	Goods/Services	Approx Value (£'000's)	Contractor/Supplier	Duration	Procurement Method	Performance Monitoring	Contract Driver	Payments
grants	Concurrent expenditure Section 136	198	Parish Councils and inhouse operations	Ongoing				Yearly
grants	CAB & other orgs	78	respective organisations	Ongoing		Minutes of organisation meetings		Yearly
grants	House improvements	752	Various	Various	Tenders for individual grants	Facilities provided/inspection	Hsg strategy & Govt	One off
Lease	Vehicles/refuse bins	300	Various	3-10yrs	Via agent	Effectiveness of equipment	Vehicle/equip life	Yearly
Lease	Computer hardware	110 ave pa	Northgate	To Mar 05		Being replaced	Finance Support	
Lease	Telephones	40	Cable & wireless	18 months to go	Recommended supplier	Monitored against spec	Business need	Yearly
Lease	EHO software	20	Flare	Ongoing	Competitive tender	User feedback	Service needs	One off
Partnership	Paper recycling	30	Cheshire recycling	Ongoing	Negotiated	Tonnage/public complaint	Statutory targets	Monthly
Partnership	Glass recycling	self financed	Berrymans	Ongoing	Negotiated	Tonnage/quality	Statutory targets	Nil
Partnership	Composting	40	Biffa	Ongoing	Negotiated	Tonnage/quality	Statutory targets	Monthly
Partnership	Etwall Leisure	70	Joint committee	Ongoing	do	Committee minutes		Yearly
Partnership	Crematorium	self financed	do	Ongoing	do	Committee minutes		
Partnership	Rosliston farm	79	Executive board	Ongoing				Yearly
Partnership	Walking to health	60	do	Ongoing	Preferred supplier	Aurora data & user comments	Partner objectives	Yearly
Partnership	Occupational health	2	MPCG	3yrs	Competitive tender & schedule of rates	Against contact specification	Service needs	Yearly
Responsive preferred supplier	Paper supplies	16.5	5 regularly used companies	Ongoing	Individual quotes assessed	Price & quality of goods	Service needs	One off
Responsive preferred supplier	Vehicles maintenance	250	Various	Ongoing	Individual quotes	Price & quality of goods	Service needs	One off
Responsive preferred supplier	Computer hardware	33	Dell	N/A	Individual quotes	User feedback	Service needs	One off
Responsive preferred supplier	DSO housing repairs	462	DSO + contractors	3 years	In house & individual quotes	Housing lmps & weekly Statements	Tennants	Weekly
Responsive preferred supplier	Replacement bins/sacks	31	Sulo & Yorkshire purchasing	Ongoing	Individual quotes	Price & quality of goods	Service needs	One off
Single activity contract	Housing repairs	650	DSO & Various contractors	Min 1yr	Competitive tender & schedule of rates	do	do	Monthly
Single activity contract	Housing Planned Improvements	1699	DSO & Various contractors	1 year	Competitive tender & negotiation	Clerk of Works & finance statements	Hsg strategy & Govt	Monthly
Single activity contract	Housing Planned Maintenance	836	Various contractors	1 year	do	do	do	Monthly
Term contract	Banking services	16.5	Co-op	To Mar 03	Competitive tender	Monitored against specification	Business need	1/4ly
Term contract	Insurance services	250	Zurich	4yrs 9mths	do	Claim handling	Risk analysis	Yearly
Term contract	Rosliston farm mgt	15	Aurora	Yearly	Competitive tender	Use of facility & accounts review	Market research	Yearly
Term contract	Recruitment system	2.7		4 yrs	SOCPO recommendation	With other media activities	Recruitment needs	Yearly
Term contract	Market	47	Market Initiatives	10yrs	Competitive tender	Contract meetings	Service needs	Yearly
Term contract	Greenbank	25 to SDDC	SLM		CCT but negotiated since	Site inspection	SLM & SDDC needs	Yearly

- 4.21 There is also a need to ensure that other internal control documents (such as the Delegation Agreement) support efficient and effective procurement.

Action 8: Monitor and review the Financial Regulations and Procedure Rules and other internal controls to ensure that they promote efficient and effective procurement whilst maintaining high standards of probity and governance.

Current contracts and partnerships

- 4.22 Figure 4.1 provides an indication of the range of contracts and other procurement arrangements that are currently in place across the organisation. They include:
- contracts to support specific in house services (e.g. vehicle leasing)
 - contracts to support corporate services (e.g. the operation of the telephone system)
 - contracts for building works
 - contracts to manage facilities
 - partnerships & grants
- 4.23 The duration of each contractual arrangement varies, determined in part by service requirements, resources and what the supplier has to offer.
- 4.24 Although the Council is required to maintain a list of current contracts, our research indicated that it contained insufficient information to be of interest to potential suppliers and could not be used for monitoring and planning procurement activity.

Action 9: Review arrangements for recording and publishing details of current and planned contracts.

BEST VALUE REVIEWS

The Review Programme

- 5.1 Under Best Value, the Council has a duty to conduct fundamental reviews of the services that it provides. As part of the process, we are required to:
- *challenge* why, how and by whom a service is provided
 - *compare* our performance with other providers across a range of relevant indicators
 - *consult* local people, service users, partners and the business community about what we do, how well we do it and our targets for the future
 - use fair and open *competition*, where practicable as a means of securing efficient and effective services

- 5.2 A 5 year programme of Reviews was established in April 2000. This has been updated annually to reflect progress on Reviews and the latest guidance from the Audit Commission. A copy of the current programme can be found at Appendix C. So far, 5 Reviews have been completed, 5 are underway and 3 are due to start in the New Year.
- 5.3 The South Derbyshire Best Value Framework provides guidelines to Review Teams for carrying out Reviews.

The 'make or buy' decision

- 5.4 The consideration of whether to deliver a service using in house resources or to look outside - the so-called 'make or buy' decision is a key component of both the competitiveness and challenge elements of a Review and is critical to the procurement process.
- 5.5 The starting point must always be a decision on what services are needed. Once this decision has been taken, we have to choose from the wide variety of service delivery options and partners that are now available.
- 5.6 These include internal re-organisation, service outsourcing, private finance initiatives, public sector consortia, pooled budgets, joint commissioning, joint ventures, voluntary sector organisations, as well as partnering contracts and legal partnerships. We also have the option of delegating appropriate functions to our Parish Councils or exploiting the opportunities provided by e-government to redesign existing services and develop new ones to respond to local needs.
- 5.7 The Byatt Report recommends that:

'...Local government should decide pragmatically what to buy from the private or voluntary sectors, and in what way, and what to provide directly. This should be done on the merits of individual cases from the point of view of both service users and council taxpayers, taking account of the quality of service. Decisions should be taken strategically, on the basis of costs and benefits.'

Developing our approach

- 5.8 To date our completed Reviews have focused on making improvements to in house service delivery arrangements, whilst working more closely with other Councils and partners in the public, private and voluntary sectors to address specific service issues.
- 5.9 By and large, these decisions have been reached without any formal mechanism for ensuring that service cost and quality issues are aligned to the most appropriate service delivery option.

- 5.10 Figure 5.1, based on a model developed by Leeds City Council, provides a more structured approach to decision making. In future, where our performance is equal to or better than other providers, we will normally continue to rely on existing arrangements. However, where continuing with the service in its present form offers no realistic chance of improvement (or where improvement has failed to materialise), we will usually consider alternative, external methods of service delivery.

Action 10: Provide further guidance in the South Derbyshire Best Value Framework on the identification and selection of service delivery options and partners.

Involving Employees

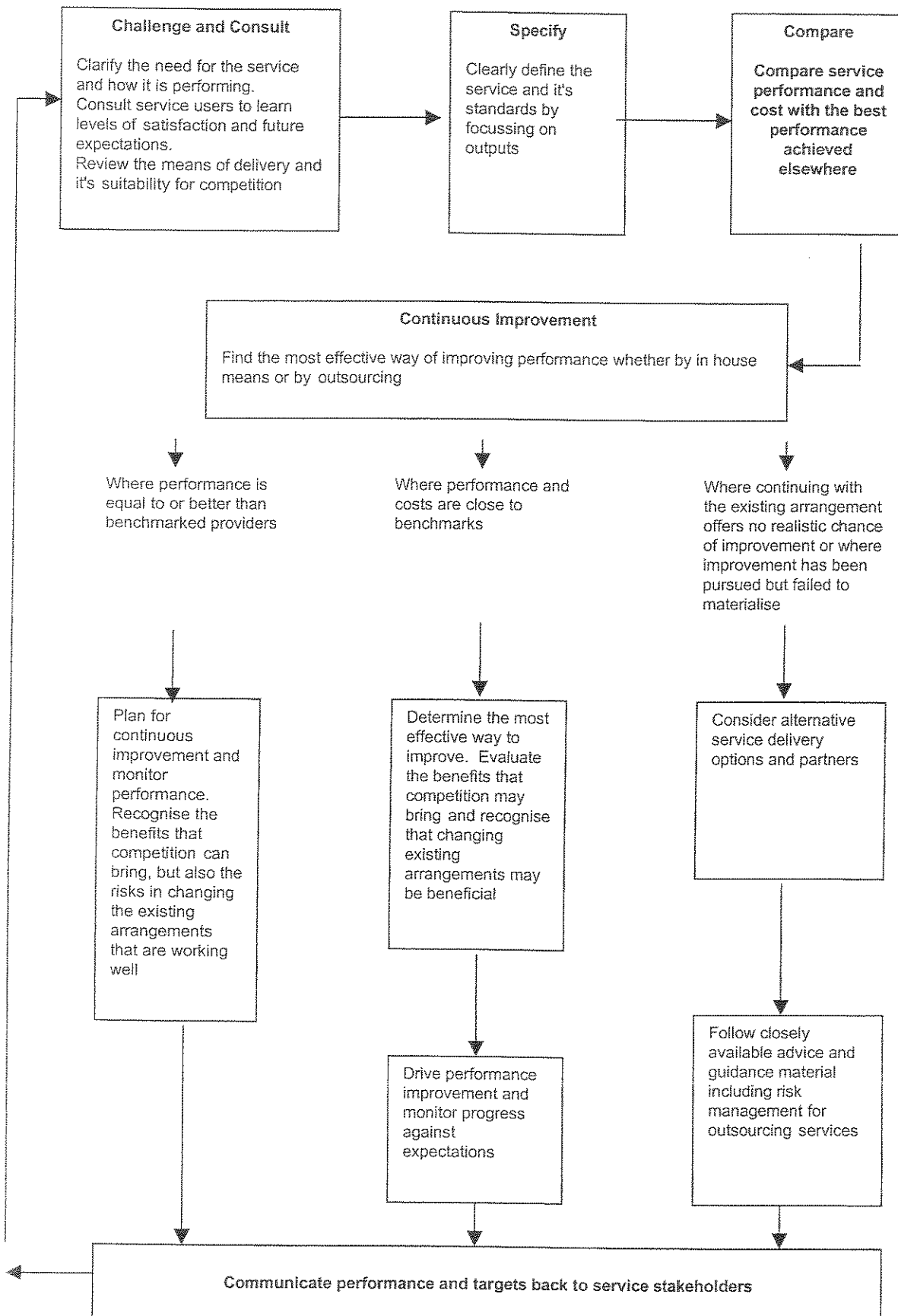
- 5.11 The Council recognises that improvement under Best Value depends on employees being committed to providing high quality, cost effective services. Employees must also have confidence in the fairness of the Review process and share 'ownership' of the outcome.
- 5.12 We have already sought to address this issue by consulting employees on the Review programme, inviting employee representatives to join Review Teams and strengthening guidance in the South Derbyshire Best Value Framework to ensure that front-line staff are actively involved in the Review process.
- 5.13 Recently, the Government has announced proposals to
- make it a legal requirement to consult recognised trade unions and employees when reviewing functions
 - issue statutory guidance detailing the way in which workforce matters should be considered at each stage of the contract process
 - draw up a code of practice on the treatment of local authority staff transferred to other service providers for inclusion in contracts

Action 11: Formally adopt the proposed Code of Practice on workforce matters in local authority service contracts

Action 12: Review guidance on workforce matters in the South Derbyshire Best Value Framework to ensure that it complies with statutory requirements.

Figure 5.1 Evaluation of Options For Service Delivery

In order to pursue and realise Best Value in terms of cost, quality and performance of services, exploring all procurement options, services will be required to:



FUTURE PROCUREMENT EXERCISES

Emphasis

- 6.1 Over the lifetime of the strategy (about 12-18 months), future procurement projects involving significant levels of expenditure (say, over £25,000) are expected to relate to:
- the management, maintenance and repair of Council homes (as set out in the Housing Revenue Account Business Plan)
 - the provision of Housing Grants
 - projects to improve the environmental quality of the former South Derbyshire Coalfield area
 - the implementation of the South Derbyshire Crime and Disorder Reduction Strategy
 - the management, maintenance and improvement of leisure and recreational facilities
 - the delivery of the Government targets for e-government
 - waste management
- 6.2 A number of Best Value Reviews are scheduled for completion during this period and these may also generate some procurement activity once the various service delivery options have been evaluated. These Reviews cover a mixture of community services and central support services (see Appendix C).
- 6.3 It must be recognised, however, that information about future procurement activity is limited at this point in time. We would expect that improvements in procurement planning will follow as this Strategy is 'embedded' in the culture of the organisation.

Contract design and management

- 6.4 An important feature of recent procurement activity has been the scale and complexity of projects. A current example is the Council's partnership with four other Councils to purchase a new computer system (with an estimated value of £2.85 million, supported by government funding) to administer revenues and benefits.
- 6.5 Procurement arrangements with external suppliers arising out of Best Value Reviews may also lead to high value/high risk contracts.
- 6.6 We have to ensure, therefore, that our contract design and management arrangements are able to cope with the increasingly sophisticated demands of the new forms of procurement. The decisions that have to be made include:
- what to contract for, and how best to bundle the work
 - the nature of the contractual relationship
 - how to include incentives for improving services in the contract and deal with changes in requirements over the life of the contract

- tender evaluation (based on quality and lifetime costs)
- how to retain sufficient knowledge to act as an 'intelligent client; when the contract is re-tendered
- how to manage and allocate risk

Action 13: Fundamentally review the Council's current approach to contract design and management.

Action 14: Produce interim guidance for major, complex, or high-risk projects

THE PERFORMANCE OF KEY SUPPLIERS

Introduction

- 7.1 As mentioned previously, the Council has some expertise in monitoring and managing contracts in traditional areas, like construction, but is still finding its feet in relation to new areas, such as the management of facilities and service provision. The proposal to review our present approach to contract design and management should help to address many of these issues.
- 7.2 The Byatt Report takes a wider view, arguing that greater use of competitive markets offers considerable scope for lower costs and better performance.

'It enables suppliers to use private sector business practices to good effect, whilst allowing authorities to concentrate on the political task of deciding what services should be delivered and by whom. But where markets are dominated by few suppliers authorities need to consider how their action can both help market development and protect local choice.'

Making markets work better

- 7.3 We recognise that, in future, we will have to adopt a more proactive approach to the management of our suppliers. Our plans include:
- providing better and more timely information to the supplier community
 - exploring ways of reducing burdens on suppliers
 - continually reviewing the benefits of belonging to purchasing consortia e.g. Yorkshire Purchasing
 - ensuring that local businesses have an opportunity to compete for work alongside contractors from outside of the area
- 7.4 'Source Derbyshire' is an important initiative that has the potential to help markets for local government goods and services to work better. This is a partnership between the County Council and other Derbyshire authorities, providing web based access for suppliers to identify new business opportunities with Councils in Derbyshire.

Action 15: Publish a guide on 'how to do business with the Council' alongside the schedule of current and planned contracts.

Action 16: Produce a 'prospectus' for every large procurement project, setting out the background to the project, the Council's objectives, and an outline of the procurement process and the timetable

Action 17: Review annually the benefits of belonging to specific purchasing consortia

Action 18: Join 'Source Derbyshire' and similar consortia to promote the opportunities of supplying goods and services to the Council

Action 19: Use the Council's Economic Development Service and business support agencies to make local businesses aware of the opportunities of supplying goods and services to the Council

THE STRUCTURE AND PERFORMANCE OF THE PROCUREMENT FUNCTION

Employee structures

- 8.1 The commissioning and procurement of goods, works and services is currently dealt with by individual service units, operating in accordance with the Council's Financial Regulations and Procedure Rules and other internal rules set out in the Constitution.
- 8.2 The Byatt Report suggests that local authorities need a strong procurement function if they are to develop a strategic approach to their choice of service provisions. It goes on to recommend setting up a corporate procurement function to collect management information, oversee devolved buying, co-ordinate training and act as an internal source of expertise.
- 8.3 As a small Council, the challenge is to find ways of developing corporate capacity and capability within the context of our limited resources. The most appropriate option at this point in time is to establish a corporate working group. This group would be lead by the Deputy Chief Executive and include senior representatives from the Finance, Audit, Legal and Personnel functions as well as other service areas.

Action 20: Establish a corporate Working Group, led by the Deputy Chief Executive, to develop and implement the Council's Procurement Strategy.

Action 21: Collaborate with other Councils to share resources and exchange best practice on procurement

Elected Members

- 8.4 At the present time, the role of members in procurement is focussed primarily on setting and monitoring budgets, developing and monitoring service plans and strategies, contributing to Best Value service Reviews and agreeing major items of expenditure.
- 8.5 The Byatt Report recommends that members should have a more strategic role in procurement that would include scrutinising procurement processes and monitoring the outcome of procurement decisions.
- 8.6 The Council's Constitution does not currently provide for a policy committee to have specific responsibility for corporate procurement issues. These may be defined as:
- ensuring that procurement contributes to the achievement of the Council's Vision and Key Aims
 - developing and implementing the corporate Procurement Strategy
 - looking strategically at the development of services and how they are delivered
 - obtaining Best Value for all procurement expenditure
 - maintaining an 'overview' of key procurement projects

Action 22: Review Committee Terms of Reference to make the Finance and Management Committee responsible for corporate procurement issues.

Managing Performance

- 8.7 At the present time, it is very difficult to form a judgement about the efficiency and effectiveness of our procurement structures and processes because of the devolved nature of the function and the lack of appropriate national and local performance indicators.
- 8.8 The proposed Best Value Review (mentioned earlier) will enable us to identify and tackle any weaknesses and help to consolidate and develop a more corporate approach to procurement. It would also establish a basis for securing the long-term sustainability of the corporate function. Such a Review would be conducted jointly by the Corporate Procurement Working Group and elected members (see Action 3).

SKILLS AND TRAINING NEEDS

Employees

- 9.1 Effective and efficient procurement cannot be achieved without motivated and well-trained employees with the necessary skills.
- 9.2 The level and extent of procurement skills within the organisation is difficult to gauge. Clearly, there are a number of individuals within the organisation who regularly deal with procurement within their own service areas and have developed some skills and expertise. However, this is not widespread across the organisation and may not be sufficient for handling the new procurement arrangements or high value/high risk contracts.
- 9.3 This raises two issues:
- the need for greater awareness and understanding of procurement options and processes across the organisation
 - the need to assist employees directly involved in procurement to develop skills in project management, negotiating, understanding markets, finance, contract law, consultation, option appraisal, performance management etc.
- 9.4 For larger or more complicated contracts, it may be more effective for the Council to buy in procurement expertise rather than rely on in house resources. However, this process itself would still need to be properly managed.

Elected Members

- 9.5 Elected members also need to be supported to acquire the necessary skills to contribute at a strategic level to procurement processes and in monitoring the outcome of procurement decisions.
- 9.6

Action 23: Provide training to members and employees on procurement processes and procedures as part of the Member Development Programme and corporate Training Plan.

PROBITY AND GOVERNANCE

Principles of good corporate Governance

- 10.1 The Council is responsible for spending large amounts of public money and for taking decisions that affect the lives of many people. High standards of probity and governance must be central to everything that we do.

- 10.2 The Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives have identified 5 dimensions of corporate governance - *community focus, service delivery arrangements, structures and processes, risk management and internal control and standards of conduct*. Each dimension has implications for the way in which we manage our procurement policies and procedures.
- 10.3 At a corporate level, the main area where substantial progress needs to be made is risk management. This will also benefit our approach to, and management of, procurement.

Risk management

- 10.4 All forms of procurement have associated risks, especially the more innovative, complex or longer term contracts. For effective procurement, these risks have to be identified, allocated between the parties and managed.
- 10.5 Inevitably, there will be a need to make trade-offs between risk and reward. However, as the Byatt Report notes:
'Good risk management techniques will allow councils to take advantage of the opportunities for improvement while at the same time recognising what could go wrong and putting in place strategies to deal with this..'
- 10.6 The Council intends to develop a Risk Management Strategy to deal with risks in all areas of our business. This will specifically address the risks associated with procurement options and procedures at both a corporate and a project level.
- 10.7

Action 24: Develop proposals for managing the risks associated with procurement options and procedures in the proposed Risk Management Strategy.

CONSULTATION

Consultation and Procurement

- 11.1 Under Best Value, the Council has a duty to consult local people, service users, the business community and partners in the public, private and voluntary sectors about what we do, how well we do it and our targets for the future. This applies not only to specific service Reviews but also to the general arrangements for achieving Best Value.
- 11.2 Consultation on procurement related issues needs to be wide and inclusive as different stakeholder groups will have specific contributions at each stage of the process.

- 11.3 The value of involving employees in procurement processes has already been highlighted. Service users can play a part in identifying priorities, setting service standards and providing feedback on service delivery. Suppliers and partners can help to determine the feasibility of a proposal and its resource implications.
- 11.4 A review of the Council's current Consultation Strategy is nearing completion. This will provide guidance to Best Value Review Teams and others engaged in procurement on the Council's consultation objectives, along with advice on suitable tools and techniques.

Consultation on this Strategy

- 11.5 The publication of our first Procurement Strategy provides a valuable opportunity to begin a dialogue with existing and prospective suppliers about working arrangements, markets and future buying intentions.
- 11.6 We hope that it will also encourage members and employees throughout the organisation to begin to discuss procurement issues and to consider how procurement options can be used to achieve Best Value services and facilities for South Derbyshire residents.

<p>Action 25: Publicise and promote the Strategy within the organisation and with existing and prospective suppliers</p>

IMPLEMENTING THE STRATEGY

The Action Plan

- 12.1 Table 12.1 lists the actions resulting from this Strategy, along with target dates and responsible officers. A programme is also set out in appendix D
- 12.2 Many of the tasks will be the responsibility of the proposed Corporate Procurement Working Group and will support work on the proposed Best Value Review of procurement.

TABLE 12.1: ACTION PLAN

Procurement Objective No.	Action	Target Date (completion)	Responsible Officer (s)
2	(1) Map existing procurement activities (in terms of risk and value).	March 2003	DCE/CPWG
2	(2) Set up central contracts for commonly used items with consolidated invoices.	April 2004	DCE/CPWG
2	(3) Conduct a Best Value Review of Procurement	December 2003	DCE/CPWG
9	(4) Continue to develop and promote co-operative procurement arrangements with partners.	On-going	DCE/CPWG
5	(5) Adopt 'Egan' principles for construction related procurement.	March 2003	HSM
3	(6) Exploit opportunities for e-procurement through the IEG Statement	September 2003	CFO
6	(7) Develop procurement guidance on sustainable development	September 2003	DCE/CPWG
2&6	(8) Review financial regulations, procedure and other internal controls to ensure that they promote efficient and effective procurement	September 2003	DCE/CPWG
9&10	(9) Review arrangements for recording and publishing contract details	April 2003	DCE/LDSM
2	(10) Provide further guidance in the South Derbyshire Best Value Framework on the identification and selection of service delivery options and partners	March 2003	PBVM
8	(11) Formally adopt the proposed Code of Practise on workforce matters in local authority service contracts	January 2003	PDM
8	(12) Review guidance on workforce matters in the South Derbyshire Best Value Framework to ensure that it complies with statutory requirements.	March 2003	PBVM
2&5	(13) Review current approach to contract design and management	September 2003	DCE/CPWG
6	(14) Produce interim guidance for major, complex or high risk projects	March 2003	DCE/CPWG
9&10	(15) Publish a guide on how to do business with the Council	June 2003	DCE/CPWG
9&10	(16) Produce a prospectus for suppliers	September	DCE/CPWG
2	(17) Review annually the benefits of belonging to specific purchasing consortia	March 2003	DCE/CPWG
10	(18) Join 'Source Derbyshire' and similar consortia to promote the opportunities for supplying goods and services to the Council	January 2003	EDM
10	(19) Make local businesses aware of the opportunities of supplying goods and services to the Council	March 2003	EDM
1&4	(20) Set up Corporate Procurement Working Group (CPWG)	December 2002	DCE
4	(21) Collaborate with other Councils to share resources and exchange best practice on procurement.	On-going	DCE/CPWG
1	(22) Review Committee Terms of Reference to make the Finance and Management Committee responsible for corporate procurement.	May 2003	DCE/LDSM
7	(23) Provide training to members and employees on procurement processes and procedures	On-going	CPWG/PDM/LDSM
6	(24) Develop proposals for managing the risks associated with procurement options and procedures in the proposed Risk Management Strategy	April 2003	CFO
8,9&10	(25) Publicise and promote the Strategy within the organisation and with existing and prospective suppliers	On-going	DCE/CPWG/EDM
2&4	(26) Monitor and Review the Strategy	Dec 2003	DCE/CPWG

Monitoring the Strategy

- 12.3 The Working Group will also monitor implementation of the Strategy.
- 12.4 The Deputy Chief Executive will provide twice yearly monitoring reports to the Finance and Management Committee and to the Corporate Scrutiny Committee as required.
- 12.5 The annual Best Value Performance will detail progress on the Strategy.

Reviewing the Strategy

- 12.6 The Strategy will be formally reviewed in about a year's time. This is to ensure that we consolidate and build upon the current proposals and that we take account of any new developments, such as national guidance and the proposed South Derbyshire Community Strategy.

Action 26: Monitor and review the Strategy in a year's time

THE COUNCIL'S KEY AIMS

Economic Development

to strengthen and develop the local economy through support for business development and inward investment

Caring for the Environment

to safeguard and enhance the natural and built environment

Providing Decent Homes

to address the needs of South Derbyshire residents for good quality homes, of a variety of tenures, located in well planned and safe environments

Community and Leisure Development

to promote the health and welfare of all sections of the community, including access to leisure and cultural activities

Providing 'Best Value' Services

to secure continuous improvements in the quality and efficiency of services provided by the Council

Managing our Business

to manage resources efficiently and effectively

Leading the Community

to listen to, represent and provide leadership to the people of South Derbyshire in local, regional and national arenas

Supporting the National Forest

to support the development of the National Forest and its enjoyment by residents and visitors

THE COUNCIL'S GUIDING PRINCIPLES

- Making decisions openly and with integrity
- Being accountable to the people of South Derbyshire
- Involving the community in choices about services and local priorities
- Being open and responsive to change
- Treating people fairly and promoting equality of opportunity in employment and service provision
- Providing reliable and responsive services to our customers
- Working with partners in the public, private and voluntary sectors to achieve more than we can on our own
- Ensuring that the actions we take are sustainable in the long term
- Valuing employees and the essential role they play in service provision

INTERVIEWS AND CASE STUDIES

The strategy is based on a series of interviews with service managers and a selection of case studies, chosen to illustrate different aspects of the Council's procurement activity.

Interviews

Interviews were held with the following members of staff:

Mark Alflat	Environmental Health Manager
Stuart Batchelor	Community & Leisure Development Manager
Malcolm Chell	Technical Admin Manger
Karen Cranley	Accountant
Dennis Dorman	Building Maintenance Manager
John Hansed	Technical Services Manager
Chris Mason	Facilities & Development Manager
Terry Neaves	Chief Finance Officer
Ian Reid	Deputy Chief Executive
David Rensler	IT Operation & Network Manager
Kevin Stackhouse	Finance Services Manager
Ken Storey	Print Room Manager
Chris Swain	Revenue Manager
Joy Willoughby	Personnel & Development Manager
Mike Brittain	Derbyshire County Council

Other Officers also contributed with ideas and background material especially Tony Stamper, Audit Manager.

Case Studies

The case studies covered the following areas:

- The purchase of specific goods (e.g. paper)
- The procurement of goods and services within specific departments (e.g. Technical Services, Environmental Health)
- Procurement of housing related construction contracts
- Strategic partnerships for service delivery (e.g. management of the Leisure Centre, Rosliston Forestry Centre and Swadlincote Market)
- The procurement of specialist services (e.g. occupational health)

BEST VALUE REVIEW PROGRAMME

Year 1 (00/01)	Year 2 (01/02)	Year 3 (02/03)	Year 4 (03/04)	Year 5 (04/05)
Development Control <i>Completed</i>	Financial Services <i>Underway</i>	Environmental Planning and Control	Democratic Renewal	Corporate Planning and Communication
Cash Collection Services <i>Completed</i>	Housing Services part 1: strategic housing <i>Underway</i>	Customer Services and Electronic Service Delivery	Technical services	Legal Services
Sheltered Housing and Warden Service <i>Completed</i>	Asset Management <i>Underway</i>	Housing Services part 2: Landlord and Tenant Function	Regeneration	Partnership Working
Cleansing the Environment <i>Completed</i>	Human resource Management <i>Underway</i>	Community Safety (joint review with county council) <i>Underway</i>		
Financial Management and Control <i>Completed</i>				

APPENDIX D PROGRAMME OF ACTIONS

Action	Dec-02	Jan-03	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec-03	Jan-04	Feb	Mar	Apr	
(1) Map existing Procurement activities																		
(2) Set up central contracts for commonly used goods/services																		
(3) Conduct Best Value Review																		
(4) Continue to develop and promote co-operative procurement arrangements with partners																		
(5) Adopt Egan principles for construction related procurement																		
(6) Exploit opportunities for E procurement through the IEG Statement																		
(7) Develop procurement guidance on sustainable development																		
(8) Review financial regulations, procedures and other controls to promote efficient & effective procurement																		
(9) Review arrangements for recording and publishing details of contracts																		
(10) Provide further Best Value guidance on the identification and selection of procurement options and partners																		
(11) Formally adopt the proposed code of practice on workforce matters in local authority service contracts																		
(12) Review guidance in the Best Value Framework on workforce matters so that it complies with statutory requirements																		
(13) Review current approach to contract design and management																		
(14) Produce interim guidance on risk management for major and/or complex projects																		
(15) Produce a guide on how to do business with the Council																		
(16) Produce a prostatesus for suppliers for large procurement projects																		
(17) Review annually the benefits of belonging to purchasing consortia																		
(18) Join 'Source Derbyshire' and other consortia to promote opportunities to supply goods & services to the Council																		
(19) Make local businesses aware of the opportunities of supplying goods and services to the Council																		
(20) Set up corporate procurement working group																		
(21) Collaborate and share resources and best practice with other councils on procurement																		
(22) Review terms of reference of Finance & Management Committee to include responsibility for corporate procurement																		
(23) Provide procurement training to elected members and staff on procurement practices and procedures																		
(24) Develop proposals for managing the risks with procurement options and procedures in the proposed risk management strategy																		
(25) Publicise and promote the strategy within the organisation together with existing and prospective suppliers																		
(26) Monitor and review the strategy																		