

CABINET
9 JULY 2013
PROCUREMENT STRATEGY

Portfolio Holder: Councillor Alan Jarrett, Finance

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Summary

The purpose of this report is to introduce a new procurement strategy for the council.

The strategy sets out how the council will spend public money better through designing services that deliver better outcomes; ensuring that public money contributes to a thriving local economy and creating local employment; reducing the bureaucracy relating to procurement and using our intelligence about spend and the markets to achieve efficiencies.

1. Budget and policy framework

- 1.1 The Council spends £230 million with third parties, which is managed through various forms of procurement.
- 1.2 Medway has a local economy of £2.8 billion and therefore the public money that is spent with third parties represents just over 8% of the local economy.
- 1.3 The procurement strategy accords with the council's values in terms of delivering value for money and putting customers at the heart of everything that we do.

2. Background

- 2.1 In December 2012, a category management team was created to create a capacity within the council to spend public money better through smarter procurement of goods, services and works. The council spends over £230 million with third parties and more intelligent procurement will lead to a more efficient use of resources that will provide cashable and non-cashable savings for the council.
- 2.2 The council's last procurement strategy was presented in 2002. The strategy very much focused on how the council would comply with the EU regulations.

3. Options

3.1 There are three broad options for the council in relation to communication with the business community. It can:

- Continue to rely on the current strategy
- Update the current strategy
- Draft a new strategy that explains how the council wants to be the best council to do business with and receive services from.

3.2 Option A

The current strategy is not inspiring and is more an operational plan. It does not have a vision. It does not explain how the council wants to work with local businesses, deliver value for money, ensure that purchased services provide the best outcomes possible, or use public funds to support local employment. Therefore, it is recommended that this option is not appropriate because the council, as a community leader, and significant contributor to the local economy should have a vision that explains to the business community and the wider community how we will spend money through purchasing and contracting arrangements.

3.3 Option B

For all the reasons set out in Option A, it is considered that option B is equally not appropriate.

3.4 Option C

Drafting a new procurement strategy for Medway Council in 2013, will provide the council with an opportunity to set out a vision to all businesses, but particularly local SMEs, about how we want to work with them to create sustainable businesses and local employment. A new strategy will also explain how the council can improve the way it spends public money with third parties, through the intelligent redesign of services, the reduction in red tape and the use of research to create intelligence that informs the procurement or demand management of services.

3.5 The preferred option is option C.

4. Advice and analysis

4.1 All local authorities have a procurement strategy. There are some excellent examples of procurement strategies in places like Surrey County Council and Camden Council, where their communication about procurement is aimed at the key stakeholders that they work with (commercial partners), and support (customers or service users).

4.2 A draft strategy is attached at Appendix A. The succinct presentation of the strategy reflects the style that many local authorities are adopting such as Surrey County Council, which is short and in plain English. For Medway, the strategy is written with the intention that the main stakeholders – suppliers and customers – should be able to read the strategy and know what it means for them.

- 4.3 The strategy's format includes measures for success and case studies to demonstrate the council's commitment to improving procurement in Medway for the benefit of businesses and the general public.
- 4.4 The strategy sets out how the council spends its money with third parties in relation to the four themes listed below:
- Better services, better outcomes
 - Intelligent spending
 - Reducing red tape
 - Improving the local economy

Better services, better outcomes

This theme relates to ensuring that innovation is a key feature of the procurement process so that service improvement is as important as efficiencies.

Intelligent spending

The council spends £230 million per year, which will benefit from the new category management approach to procurement. The category management approach is about smarter supply chain management, improved supplier relationship management and greater value for money. This is achieved through market research and spend analysis that contributes to evidence-based decision making.

Reducing red tape

The council is changing its contract rules and tender documentation so that the suppliers experience fair competition regardless of size.

Improving the local economy

The council has the leverage through its £230 million spend to improve local employment and the local economy. This theme focuses on how contracts worth over £1 million will be required to support at least one Apprentice.

5. Risk management

- 5.1 The risks associated with the strategy relate to the council not delivering on its commitments set out in the strategy, see the table below.

Risk	Description	Action to avoid or mitigate risk	Risk rating
Reputational	The council does not deliver against the performance indicators in the strategy	The Category Management team could provide a briefing note about the team's performance against targets to the business support overview and scrutiny committee on a six monthly basis	Low

6. Consultation

- 6.1 This strategy is written in such a way that it is accessible to suppliers. Cabinet are asked to agree that the council consult on the strategy and it will be shared with the Federation for Small Business, the local Chambers of Commerce and the Kent Business School.

- 6.2 A Supplier Event will also take place on 26 July at the Corn Exchange where this strategy will be presented, with the intention that the business community will have the opportunity to comment on the contents.
- 6.3 Cabinet will consider the outcome of consultation and be asked to agree the final strategy on 3 September 2013. The report will include a Diversity Impact Assessment that is informed by the consultation.

7. Business Support Overview and Scrutiny Committee

- 7.1 The draft strategy was presented to the Business Support Overview and Scrutiny Committee on 20 June 2013.
- 7.2 The committee agreed to defer consideration of the strategy until after the consultation exercise, as set out above, so that Members would have the benefit of the outcome of that process.
- 7.3 During the discussion on this item the committee made a number of suggested changes to the draft strategy, which the Assistant Director, Legal and Corporate Services undertook to incorporate:
- That the strategy should have a greater recognition of third sector and cooperative models;
 - That the strategy include more commentary regarding the tension between a desire to increase work with small to medium enterprises (SMEs) and also the intention to reduce the number of suppliers the Council holds contracts with;
 - That some of the quotes used in the draft strategy be replaced with more modern quotes, with a focus on the third sector and that more females be used for equality purposes, as currently all quotes provided were from men.
- 7.4 Members are advised that the draft strategy attached to this report reflects these comments within the time available and will be fully addressed as part of the consultation.

8. Financial and legal implications

- 8.1 There are no direct financial implications arising from the report. There are however opportunities for significant savings from a more effective provision regime which underpins the ethos of category management.
- 8.2 There are no direct legal implications relating to this report. However in implementing this strategy the Council needs to ensure that it balances its aspirations for local small to medium enterprises (SMEs) with its duty to comply with EU procurement rules and that where it proposes to give assistance to local SMEs, either by way of grant aid or otherwise, that it gives full consideration to rules relating to State Aid.

9. Recommendation

- 9.1 That Cabinet approve the draft Procurement Strategy, as attached at Appendix A, for consultation.

10. Suggested Reasons for Decisions

- 10.1 The proposed strategy sets out how the council will spend public money better through designing services that deliver better outcomes; ensuring that public money contributes to a thriving local economy and creating local employment; reducing the bureaucracy relating to procurement and using our intelligence about spend and the markets to achieve efficiencies.
- 10.2 Consultation will enable the business community to comment on the contents of the draft strategy.

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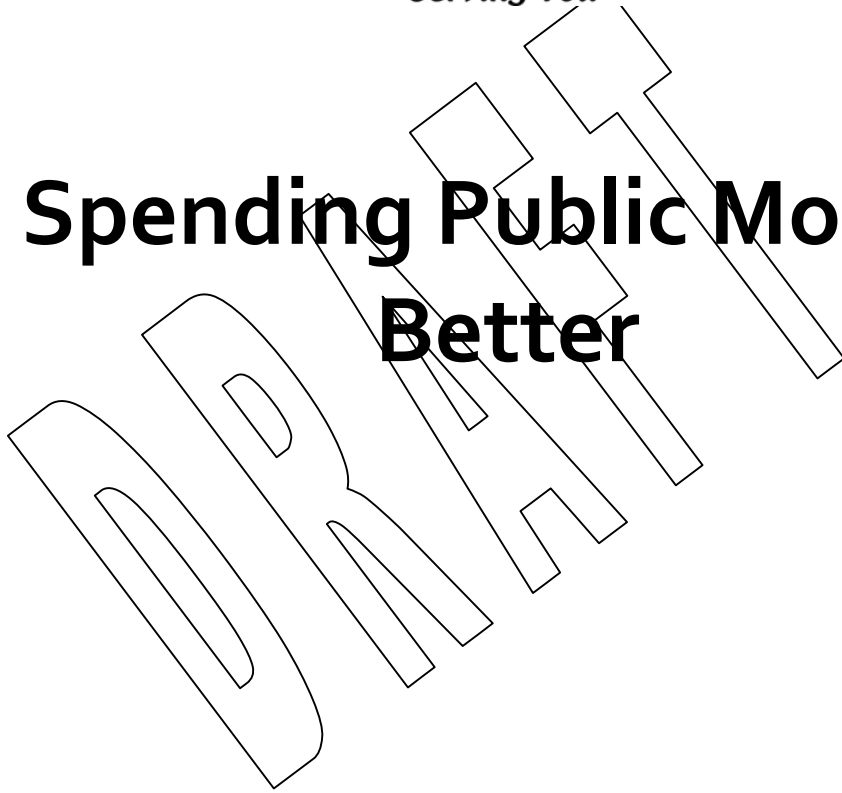
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Background papers

None



Spending Public Money Better



2013 – 2016 procurement strategy



Introduction

I am delighted to introduce our new procurement strategy 2013-16.

In the UK, Councils spend about £60 billion each year procuring goods and services. In Medway, the Council's proportion is about £230 million. There is significant benefit in ensuring this money is spent well with the potential for every £1 spent to generate a further 83p.*

We recognise the need to maximise the opportunities that procuring well provides to ensure value for money, improved services and choice for customers and to support the local economy. This is particularly so as we rise to the challenge of a 41% reduction in our grant funding as well as the wider economic downturn.

It has always been the case that recessions encourage innovation and this means that as a council we must look at new and innovative ways to provide better services to our citizens with less money. We want the way we procure to encourage suppliers to improve the services they provide and give employment prospects to young people, care leavers, disabled and ex-service personnel.

We are committed to building on the excellent examples of contract management within the council and move towards supplier relationship management so that our efficiencies deliver better for less through innovation. We will continue to take opportunities to collaborate with other councils to pool our resources and increase our buying power and to get better deals from suppliers.

We have listened to feedback from current suppliers, local businesses and, in particular, local SMEs and we want to make it easier for you to work with us and win our contracts. We want a vibrant local economy and want our customers to have more choice too.

You will know that we have been successful in our new approach if we meet the success measures in this strategy and the aspirations set out below:

- ✓ we can show you examples of council services that have improved through better procurement
- ✓ suppliers tell us that our processes are straightforward, less bureaucratic and that we have reduced red tape
- ✓ suppliers tell us they find it easier to spot opportunities to bid for work
- ✓ young unemployed people, care leavers, disabled people and ex-service people are getting apprenticeships through our suppliers
- ✓ the people that use council services, citizens, community organisations and partners tell us that the goods and/or services being procured meet their needs and, where appropriate, they are involved in the procurement process
- ✓ our suppliers come to 'meet the buyer' events, engage in pre-procurement dialogue, provide transparent feedback, tell us they are aware of trading opportunities with us and if appropriate we secure their input and expertise to develop our services
- ✓ local Chambers of Commerce, the Federation of Small Businesses, other local business associations, other representative trade & industry bodies and voluntary sector representative groups engage with us in developing our procurement approach

* Federation of Small Businesses.

- ✓ we are working collaboratively using professional buying organisations including the Government Procurement Service and others to make best use of existing expertise, resources, and to share best practice

I want Medway to benefit from a fair deal when we spend public money with third parties on goods, services and infrastructure.

Rest assured that *Medway is making procurement your business.*

Alan Jarrett
Portfolio Holder for Finance



Councillor Jarrett

Supporting the local economy

Focusing public money on local businesses and employment for local people

“When you buy from a local, independent, small business, it creates a ripple effect for the community.”

Jeff Milchen, Co-founder of the American Independent Business Alliance

We are keen to make the public money we spend go further. The Medway economy is worth around £2.8 billion per year and has an estimated 13,000 businesses. We have always supported local businesses and want a vibrant Medway economy.

We know that 80% of Medway businesses are SMEs so we will ensure that it is just as likely an SME wins our business as a large supplier.

Our supplier survey tells us that in 2012/13 approximately 29% of our third party spend was with businesses based in Medway. We want to do better. Our spend with SMEs was 42% and this is on a par with the average for English unitary authorities.

The Council asked the contractor chosen to build the three new Academies in Medway to use a percentage of local labour. This demonstrates our commitment to procurement making a difference in terms of local employment and they delivered apprenticeships too. We want to do more of this.

Our strategic partnership with Kent Business School of the Kent University and Greenwich University means local businesses are getting support to increase their competitiveness for both public and private sector opportunities. We want local businesses to be good at pitching for our work.

The Social Value Act provides the council with a hook to ensure that the organisations we work with demonstrate corporate social responsibility that contributes to the prosperity of Medway.

Measures of success

- 50% of third party controllable spend in the borough of Medway with SMEs
- Ensure that contractors that receive more than £1 million per year from the council support at least one apprentice at any time during the life of the contract

CASE STUDY:

In March 2013, the Cabinet agreed to the creation of a joint venture company that will provide facilities management services to the southeast.

A 10-year contract has been signed with Norse Commercial Services. The outcomes and outputs of the deal are as follows:

- 1) Protecting local employment through income generation
- 2) Sub-contracting with local SMEs to promote growth and wealth in Medway
- 3) Creating apprenticeships for people who are care leavers, ex-service personnel or have disabilities.

Did you know?

The average third party controllable spend with SMEs is 42% for English unitary authorities.

Reducing red tape

Making competition for public contracts fair and possible for all businesses

“Successful people understand that you don’t need to make things complicated.”

Anne McKeivitt, entrepreneur, TV personality, author and philanthropist

Public procurement is highly regulated in order to ensure fair and open competition and over the years the rules have become more complicated.

We want to make it easier for businesses to find tender opportunities. We also want to make the time taken to submit bids shorter. We will advertise opportunities to contract with the council on the Kent Business Portal as well as our website and ensure that successful contractors advertise their sub-contracting opportunities on that portal too.

Red tape often springs from a need to demonstrate control - control of risk. However, sometimes this need to control risk can lead to policies and procedures that are unnecessarily burdensome particularly on SMEs and voluntary sector organisations*.

The creation of a category management team means that the council has invested in an approach that allows greater flexibility and creativity whilst appropriately managing risk.

The Council is committed to ensuring that when developing a commercial strategy for a procurement, we will also ensure that the requirements for managing risk do not stifle competition or innovation.

Measures of success

- The council will introduce an e-procurement system that will enable providers to register once and be alerted about all procurement opportunities by September 2013
- The council will reduce the average timescale of procurements from 140 days to 50 days by September 2014

*The Council has a Voluntary Sector strategy that can be found at:

<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=6775&nobdr=2>

CASE STUDY

Bonds are often required to manage the risk of a provider under-performing. Such a requirement will often cause SMEs to be less competitive with large organisations that can secure the alternative of a parent company guarantee without any cost.

We considered the specific risks relating to the recent Homecare tender. Homecare is a competitive supplier market where we already had 16 providers, so plenty of capacity.

By removing the requirement for a bond or a parent company guarantee we cut red tape and encouraged 4 more local SMEs into the Homecare market.

Did you know?

Small firms spend nearly £16.8 billion a year on complying with red tape, according to research by the Forum of Private Business.

Improved services, better outcomes

Spending public money better for the benefit of all communities in Medway

“Focus on constant iteration of your product or service. Never hold too closely to your idea but be open to change and innovation.”

Jean Chong, CEO and co-founder of Starbates

Procurement is an opportunity for us to improve and develop our services through innovation. Every time the council renews a contract, it will consider the following:

- 1) Does the service provide the outcomes required by our customers?
- 2) If not, should we consult customers, providers and other interested parties and consider re-designing the service?
- 3) Is the service cost-effective?

By asking these questions, the council will find opportunities to improve services and deliver better outcomes.

As part of the procurement process, the council will ensure that current and prospective customers, providers and other interested parties are involved in reviewing the key features of contract specifications for services and goods with a value of over £3 million and capital projects of over £5 million.

Measures of success

- A minimum of 80% of procurements over £3m will include pre-tender dialogue with suppliers

CASE STUDY

The council is proud of the approach taken to renewing the Homecare contract.

In 2011/12, the council spent £12 million per year on caring for vulnerable people in their homes by getting them in and out of bed, helping to feed and wash them or provide medication.

This was the final year of a nine-year contract, which did not reflect how people wanted to be supported.

By consulting with end-users, social care professionals and providers of the service; the council introduced the following changes:

- 1) People can choose who takes care of them
- 2) The providers are incentivised to maintain or strive for excellence because they are reassessed every six months
- 3) The £1.9m consequent reduction in costs to the council also means that those that fully fund their care made savings too.

Did you know?

The council supports 1800 people to stay in their homes. The council has reduced the unit cost to provide this and created more choice about who provides that care.

Intelligent spending

Taking an evidence-based approach to procurement

“All the business of war, and indeed all the business of life, is to endeavour to find out what you don't know from what you do.”

Duke of Wellington

Many councils, like Medway have moved to a category management approach to procurement and this means that the opportunities for re-designing services and buying in a smarter way have increased.

Intelligent spending is achieved by:

- engaging** with the market to inform and test out service redesigns
- identifying** opportunities to improve supply chain management
- improving** supplier relationship management so that innovation is at the heart of contract management discussions
- reducing** the time spent identifying a supplier and increasing the time spent developing the contractual relationship
- addressing** our ‘tail-spend’ because it costs the same to process an invoice of £100 or £1 million

By working through the programme of actions listed above, the council will build a body of evidence that will enable officers to improve its understanding of the sectors that it is engaged with. This improved understanding will enable strategic decisions to be made about how we purchase and who we purchase from.

Measures of success

- Reduce by 25% the number of invoices with a transaction value of less than £500 by September 2014 with the introduction of purchasing cards

CASE STUDY

The council recently worked with post-graduate students from Kent Business School on spend analysis for four areas, to identify opportunities for more intelligent spending.

Recommendations from the students included:

- ❖ Introduction of purchasing cards
- ❖ Increased use of e-catalogues
- ❖ Greater use of Framework contracts

Purchasing cards offer efficient, controlled buying power for the council, which improve cashflow management for businesses by eliminating the need to manually process invoices.

Did you know?

The council has over 6000 suppliers, almost twice as many as Hampshire County Council.

We spend £500 or less with over 1700 providers and it costs £3 to process an invoice.

Our vision for success

Measure of success	Timescale
We can show you examples of council services that have improved through better procurement	September 2013
Suppliers tell us that our processes are straightforward, less bureaucratic and that we have reduced red tape	September 2014
Suppliers tell us they find it easier to spot opportunities to bid for work	March 2014
Young unemployed people, care leavers, disabled people and ex-service people are getting apprenticeships through our suppliers	March 2014
The people that use council services, citizens, community organisations and partners tell us that the goods and/or services being procured meet their needs and, where appropriate, they are involved in the procurement process	December 2013
Our suppliers come to 'meet the buyer' events, engage in pre-procurement dialogue and, if appropriate, we secure their input and expertise to develop our services	December 2013
Local chambers of commerce, the federation of small businesses, other local business associations, other representative trade & industry bodies and voluntary sector representative groups engage with us in developing our procurement approach	September 2013
We are working collaboratively using professional buying organisations including the government procurement service and others to make best use of existing expertise, resources, and to share best practice	September 2013

Our measures of success

Measure of success	Timescale
50% of third party controllable spend in the borough of Medway with SMEs	September 2014
Ensure that suppliers that have contracts with a value of more than £1 million per year from the council support at least one Apprentice at any time during the life of the contract	March 2014
The council will introduce an e-procurement system that will enable providers to register once and be alerted about all procurement opportunities	September 2013
The council will reduce the average timescale of procurements from 140 days to 50 days	September 2014
A minimum of 80% of procurements over £3m will include pre-procurement dialogue with suppliers	March 2014
Reduce by 25% the number of invoices with a transaction value of less than £500 with the introduction of purchasing cards	September 2014