

**BUSINESS SUPPORT**  
**OVERVIEW AND SCRUTINY COMMITTEE**  
**13 AUGUST 2013**  
**PROCUREMENT STRATEGY**

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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 by 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 each year, which is managed through various forms of procurement. These procurements are approved by Cabinet or under officer delegation in accordance with the council's contract rules.

**2. Background**

2.1 Medway has a local economy of £2.8 billion and therefore the public money that is spent with third parties represents about 8% of the local economy.

2.2 In December 2012, a category management team was developed 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 per annum and more intelligent procurement will lead to a more efficient use of resources that will provide cashable and non-cashable savings for the council.

2.3 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. They are:
- A. Continue to rely on the current strategy
  - B. Update the current strategy
  - C. Create a new strategy that explains how the council wants to be the best council to do business with and receive services from
- 3.2 On 9 July 2013, Cabinet agreed that option C was the preferred option and therefore a consultation commenced on the 26<sup>th</sup> July on the draft strategy.

### **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 The succinct presentation of the strategy reflects the style that many local authorities are adopting, 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 a significant amount each year with third parties, 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 third party 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.

<b>Risk</b>	<b>Description</b>	<b>Action to avoid or mitigate risk</b>	<b>Risk rating</b>
Reputational	The council does not deliver against the performance indicators in the strategy	<p>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.</p> <p>In response to the consultation event on the 26<sup>th</sup> July, the Category Management Team will hold six monthly events to meet with suppliers and confirm our progress against the targets in the strategy.</p>	Low

## **6. Consultation**

- 6.1 This strategy is written in such a way that it is accessible to suppliers and has been shared with the Federation for Small Business, Kent Chambers of Commerce and the Kent Business School to provide comments on the contents and the format.
- 6.2 Cabinet agreed on 9 July 2013 that the Council consult on the draft strategy.
- 6.3 A Supplier Event took place on 26 July 2013 at the Corn Exchange where the consultation of the Strategy was presented. Over 100 representatives from the business community attended.
- 6.4 Cabinet will consider the outcome of consultation and be asked to agree the final strategy on 3 September 2013. Business Support Overview and Scrutiny Committee has asked to complete some pre-decision scrutiny on the strategy after the consultation event has taken place. Cabinet members and Business Support Overview and Scrutiny members were invited to the event and were in attendance. Councillor Jarrett, as Portfolio Holder, gave the key note speech at the event.
- 6.5 At the event, attendees were asked to have a discussion on their table about the strategy and provide initial feedback in the context of four questions relating to:

- 6.5.1 'What are your initial thoughts about the strategy that the Council is proposing?'
- 6.5.2 'Is there anything that you would have expected to be included or strongly disagree with?'
- 6.5.3 'What are you most encouraged/pleased to see considered/included within the strategy?'
- 6.5.4 'Please feel free to add further comments in the box overleaf.'

6.6 After the event the strategy was posted on our website along with an electronic questionnaire. See <http://www.medway.gov.uk/business/procurement.aspx>. This has been highlighted to those that could not attend the event and the findings from the questionnaire will be tabled at the meeting because the consultation ends on 9 August 2013.

6.7 The initial feedback is as follows:

<b>Consultation point</b>	<b>What people said</b>	<b>How we will respond</b>
Overall approach to consultation	Positive responses about meeting the team face to face and being asked for their views	No change needed.
Themes	Broadly welcomed. Suppliers are very pleased to see a commitment to reducing red tape with almost all of the feedback forms mentioning it.	No change needed.
Overall targets	Pleased with targets but concerned about monitoring of them.	Six monthly reporting to the Procurement Board will enable officers to be held to account for the delivery of the strategy, along with an implementation plan being incorporated into the final draft of the strategy.
SME targets	Glad to see we are looking at SMEs and local business but have said we must be careful not to lose focus on issues such as price and quality.	No change required.
E-tendering	They are also keen to see the adoption of e-tendering and the Kent Business Portal providing that it actually works and they can easily navigate the system and receive notifications of upcoming contracts.	'Meet The Buyer' events where the council invites suppliers from a particular sector to meet with client departments and the category management team. Such events can be used as opportunities to provide training on the system and in any event pre-tender dialogue meetings could also be held in the first 12 months of introducing this

Consultation point	What people said	How we will respond
		system, although many providers who work with Medway Council also work with Kent County Council and other public bodies who already use the portal.
Simplifying the tender process	Suppliers are looking forward to a clearer and more simplified process of tendering	The changes to the contract rules were approved by Full Council and will be implemented from 1 September 2013. Tender documentation is currently under review.
Apprenticeships	The apprenticeship scheme is seen as a big positive with some suppliers keen to see more of it but some are unsure where they would go to get apprentices.	Should the strategy be approved, the category management team will ensure that there is clear signposting in future tender documentation and on our websites for suppliers to Economic Development who support apprenticeships, Mid Kent College and any other agencies that support apprenticeships.
Purchasing cards	Some attendees were confused about what purchasing cards are, and, those that do know are glad to see they may be implemented	We will clarify this in the Strategy.
Use of consortia	Suppliers recognise the benefits of consortia but feel they pose issues for some SMEs due to a perceived loss of identity and independence and some have suggested that the promotion of sub-contracting may be another way to go.	This comment provides helpful insight for the category management team in terms of developing a booklet called 'Doing Business with Medway council' which intended to promote the option of consortiums.  No overall change.
Spend with SMEs	There was some confusion over differentiating between the spend with SMEs and <u>local</u> SMEs	This will be made clearer within the strategy

## 7. Financial and legal implications

7.1 Financial – There are no direct financial implications arising from the report.

7.2 Legal – 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 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.

## **8. Recommendations**

8.1 That Business Support Overview and Scrutiny Committee provide comments on the contents of the strategy and the feedback from consultation event and recommend this strategy to Cabinet for approval on 3 September 2013.

### **Lead officer contact**

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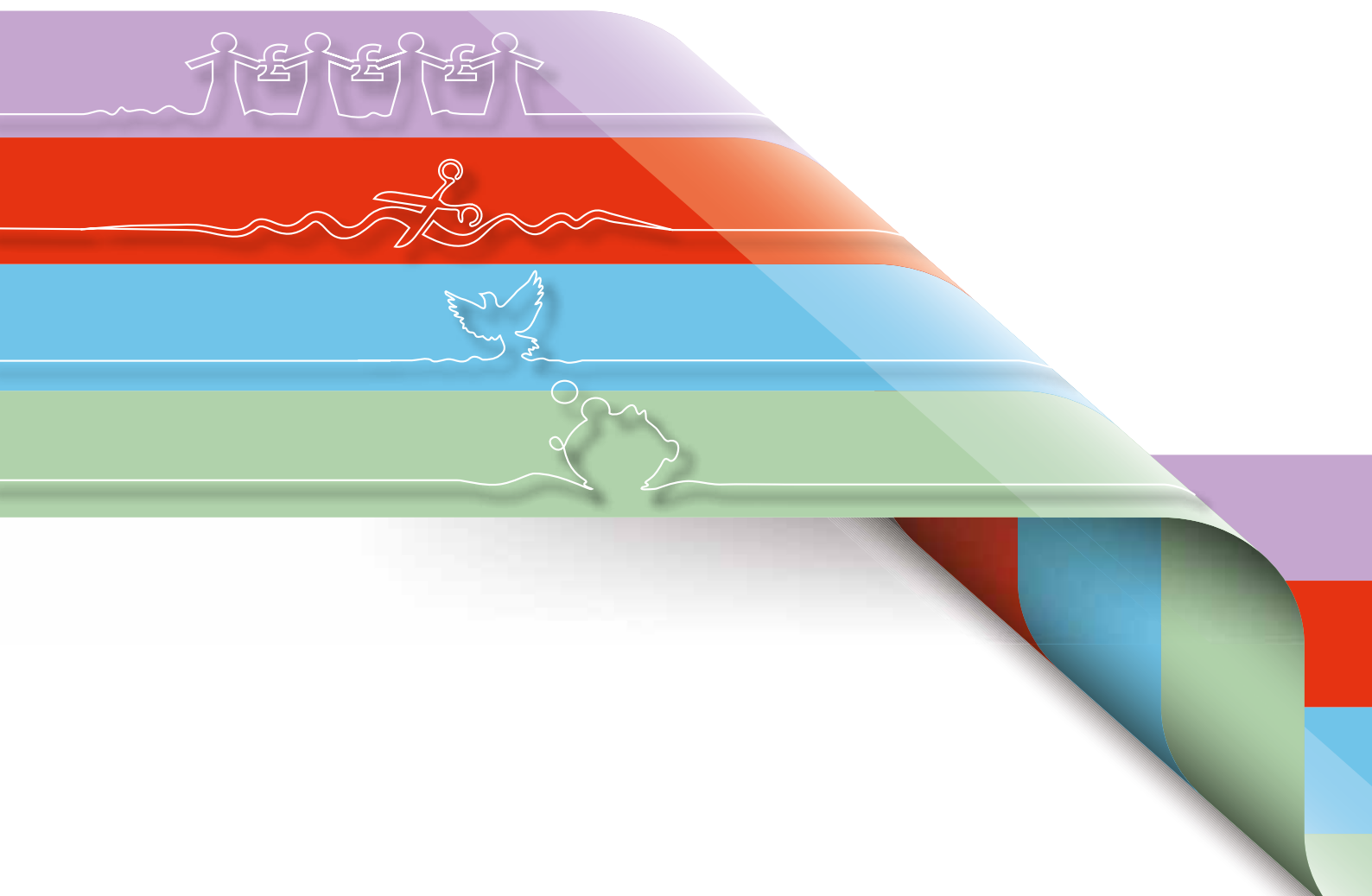
### **Background papers**

Cabinet report: Pages 303-316 at

<http://democracy.medway.gov.uk/mgConvert2PDF.aspx?ID=2758&T=10>

# Draft procurement strategy 2013 – 2016

Spending public money better



**We're consulting on this draft procurement strategy and would appreciate your feedback.**

How to get involved: You can submit feedback using this link  
<http://www.surveymonkey.com/s/Q2W8GP3>

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# Introduction

*I am delighted to introduce our draft 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 63p.\***

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 per cent 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 residents 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 people 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 small and medium enterprises (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 personnel are getting apprenticeships through our suppliers.
- The people that use council services, residents, 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 and industry bodies and voluntary sector representative groups engage with us in developing our procurement approach.
- 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.

Councillor *Alan Jarrett*

Portfolio Holder for Finance

## 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 per cent of Medway businesses are SMEs so we will ensure that it is just as likely that a SME wins our business as a large supplier.

Our supplier survey tells us that in 2012/13 approximately 29 per cent of our third party spend was with businesses based in Medway. We want to do better. Our spend with SMEs was 30 per cent and this is below 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 business 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 per cent of third party controllable spend is 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.
- 40 per cent of third party controllable spend is with local SMEs\*

### 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 PER CENT FOR ENGLISH UNITARY AUTHORITIES.*

\* The council defines local as being in the Medway boundary

## 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 to procurement 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.

### 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 four more local SMEs into the Homecare market.

### DID YOU KNOW?

SMALL FIRMS SPEND NEARLY £16.8BILLION 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 £3million.

### Measures of success



- A minimum of 80 per cent of procurements over £3million 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 £12million 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; and
- 3 the £1.9million 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 1,800 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.

\* The council has a voluntary sector strategy that can be found at: <http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=6775&nobdr=2>

# 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 ”

The 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; and

**addressing** our tail-spend because it costs the same to process an invoice of £100 or £1million

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 per cent 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.

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 6,000 SUPPLIERS, ALMOST TWICE AS MANY AS HAMPSHIRE COUNTY COUNCIL.

WE SPEND £500 OR LESS WITH OVER 1,700 PROVIDERS AND IT COSTS £3 TO PROCESS AN INVOICE.

SWITCHING FROM PAPER TO FULLY AUTOMATED INVOICING CAN CUT THE COSTS OF RECEIVING AN INVOICE FROM £25-£40 DOWN TO 85P

from 'E-invoicing in public procurement: another step towards end-to-end e-procurement and e-government in Europe

## 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 personnel are getting apprenticeships through our suppliers.	March 2014
The people that use council services, residents, 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 and 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 vision for success

### Measure of success

### Timescale

50 per cent of third party controllable spend is with SMEs.	September 2014
Ensure that suppliers that have contracts with a value of more that £1million 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 per cent of procurements over £3million will include pre-procurement dialogue with suppliers.	March 2014
Reduce by 25 per cent the number of invoices with a transaction value of less than £500 with the introduction of purchasing cards.	September 2014

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