

# REPORT TO EXECUTIVE

## PORTFOLIO AREA: FINANCE AND PERFORMANCE MANAGEMENT

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Date of Meeting: 22nd October 2007

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Public

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Key Decision: Yes

Recorded in Forward Plan:

No

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Inside Policy Framework

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Title: CORPORATE PROCUREMENT STRATEGY

Report of: Director of Corporate Services.

Report reference: CORP54/07

### Summary:

The Council's Procurement Strategy has been revised to incorporate the requirements of the government's efficiency, environmental, equality and diversity legislation and recent changes to European procurement legislation. The Executive is asked to give consideration to the content.

### Recommendations:

The Executive is asked to consider the draft procurement strategy and forward any observations to the Corporate Resources Overview and Scrutiny Committee. Following Scrutiny the Executive will consider the strategy again at its meeting on the 10<sup>th</sup> of December prior to making formal recommendation to Council.

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Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

## **1. BACKGROUND INFORMATION**

- 1.1 Following the publication of the National Procurement Strategy (NPS), the subsequent establishment of the Regional centres of excellence and the “Gershon” efficiency agenda there is now a strong expectation from Central Government that Local Government will improve efficiency and effectiveness. One area where the Council recognises these improvements can be achieved is in the function of procurement.
- 1.2 The Council’s Procurement Strategy was first produced in April 2003 and originally formulated to ensure that issues contained in the NPS were incorporated in the Councils procurement activities. These activities are subsequently reported to Corporate Resources Overview and Scrutiny committee.
- 1.3 The attached draft strategy has been produced to enhance and refresh the original version and ensure that the governments efficiency, environmental, equality and diversity programmes and European (EU) legislative changes are included in the Councils procurement activities and these accurately reflect the emerging corporate priorities and shared services strategy.
- 1.4 The aim of this Procurement Strategy is to set a clear framework for procurement throughout the authority, which reflects the Council's Corporate Plan and which complements the Council’s constitution and contracts procedure rules.

In considering the corporate objectives and values and the requirements of Central Government and European legislation, the following procurement objectives have been set:

- to ensure that the procurement process is clear and focussed in the first instance on achieving efficiency, effectiveness and value for money;
  - to ensure that procurement options are chosen on the basis of the degree to which they fulfil the Council's corporate aims and objectives and those of specific services;
  - when appropriate, to seek out and develop new methods of service delivery;
  - To ensure that in choosing the most appropriate procurement method, the process of balancing cost against community benefit is made in a transparent way and supported where appropriate with clear evidence.
- 1.5 Effective procurement will support the key strategies and goals of the Council and help to deliver corporate priorities. Procurement will be used as a lever to support

the efficiency agenda and the wider council objectives such as equal opportunities, sustainability and local economic regeneration.

- 1.6 A key element of the Procurement Strategy reflects the shared service activities of the Cumbrian Council Procurement Partnership (EPiC). This arrangement has achieved a number of efficiencies to date and further contractual opportunities have been identified for future consideration.
- 1.7 Procurement principles have been established that aim to support the Council's core values and corporate objectives. These are identified in the strategy and contain guidelines, which focus on the main areas of activity and relevance. To complement the strategy a code of practice has been developed which will shortly be available on the Council's intranet
- 1.8 In addition it is necessary to review the Council's Contract Procedure Rules to accurately reflect the emerging changes through the implementation of electronic systems and procedures and the utilisation of framework agreements and contracts.

## **2. CONSULTATION**

### **2.1 Consultation to Date.**

The corporate procurement working group contains representatives from directorates of the Council. These officers have collaborated with officers in each unit and the attached documents are a culmination of their activities.

SMT have previously received a report on the revised strategy and code of practice and a presentation given to senior managers and heads of service.

The Council has a representative on the Cumbrian Procurement group and the shared service activities are reflected in the strategy.

### **2.2 Consultation proposed.**

The draft Strategy and Policy will be referred to Overview and Scrutiny for further consultation and development.

## **3. RECOMMENDATIONS**

- 3.1 The Executive is asked to consider the draft procurement strategy and forward any observations to the Corporate Resources Overview and Scrutiny Committee. Following Scrutiny the Executive will consider the strategy again at its meeting on the 10<sup>th</sup> of December prior to making formal recommendation to Council.

#### **4. REASONS FOR RECOMMENDATIONS**

- 4.1 The draft strategy will compliment the National Procurement Strategy and Corporate Plan and incorporate revised electronic and legislative procedures.

#### **5. IMPLICATIONS**

- Staffing/Resources – Electronic systems and procedures may require some initial training.
- Financial – The 2008/09 Revenue Budget incorporates procurement efficiency savings and the strategy is an integral part of this process.
- Legal – It is recognised that the introduction of electronic procedures and framework contracts are being introduced within most local authorities and the Councils Contracts procedure rules need to accurately reflect these changes. (Further comments will be provided by Legal Services on specific requirements)
- Corporate – The outcomes of this strategy will contribute to the Council's Corporate plan.
- Risk Management – Included in the strategy
- Equality and Disability – Included in the strategy
- Environmental – Included in the strategy
- Crime and Disorder – N/A
- Impact on Customers – Included in the strategy

CARLISLE CITY COUNCIL

**PROCUREMENT STRATEGY**

**2007 - 2009**

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## **1. Executive Summary**

1.1 The aim of this Procurement Strategy is to set a clear framework for procurement throughout the authority, which reflects the Council's Corporate Plan and which stands alongside the Council's Constitution and Contract Procedure Rules. An action plan has been developed to support the achievement of the approach to procurement as set out within this strategy.

1.2 In considering the corporate objectives and values and the requirements of the efficiency agenda, the following procurement objectives have been set:

- to ensure that the procurement process is clear and focused in the first instance on achieving efficiency, effectiveness and value for money;
- to ensure that the procurement options are chosen on the basis of the degree to which they fulfil the Council's corporate aims and objectives and those of specific services;
- when appropriate, to seek out and develop new methods of service delivery;
- To ensure that in choosing the most appropriate procurement method, the process of balancing cost against community benefit is made in a transparent way and supported where appropriate with clear evidence.

Supporting the above are a number of guiding principles to ensure that effective procurement is achieved. Details on these are provided in Section 4.

1.3 To ensure these policies are implemented, the following key actions will be undertaken:

- An assessment of current procurement activity within the Council identifying strengths and weaknesses including an analysis of the procurement skills presently available within the organisation;
- A review of the how the Council's social, economic and environmental policies may be promoted by its procurement procedures. For example, by considering how suppliers can be encouraged to establish new markets and the effects of procurement decisions on local/national/ world environments (e.g. reducing waste, using environmentally friendly materials, energy efficiency);
- A mixed economy approach to procurement also relies on developing a collaborative approach with other authorities and organisations to achieve economies of scale where appropriate. A shared procurement service for commodity goods and services for local Government in Cumbria (EPiC) has been created to achieve this objective.

- Recognition of and compliance with legislative requirements and other guidance where appropriate in respect of staff related issues arising from any appraisal of service delivery options.

This document sets out a strategic framework for procurement by Carlisle City Council. It embraces the authority's commitment to strategic procurement and sets out the Council's aspirations. It is not a "user manual"; more detail on procurement processes and issues will be found in the Contract Procedure Rules and the Procurement Code of Practice.

## 2. Introduction

### ***What is procurement?***

- 2.1 Procurement is the process of obtaining supplies, services and construction type works spanning the life cycle of the asset or service contract. 'Life cycle' is defined as being from the initial definition of the business need through to the end of the useful life of the asset or service contract.
- 2.2 The term 'procurement' has a far broader meaning than that of purchasing, buying or commissioning. It is about securing services and products that best meet the needs of users and the local community in its widest sense. This strategy provides a common framework within which all procurements by the Council are to be managed.
- 2.3 Procurement can be split into three main areas
  - Procurement of **goods and services** to enable departments to carry out their day to day functions (purchase of stationery, photocopiers, computers etc)
  - Procurement of **works** for construction contracts and building works (undertaken largely by Community Services)
  - Procurement of **complete functions/services**

There is no presumption that any one model is 'best'. Each procurement decision will be considered on its own merit and underpinned by an options appraisal. The key test will be which of the options is more likely to deliver Corporate Objectives.
- 2.4 The Council will procure the most effective, efficient and economically advantageous supplies, services and construction works by:
  - adopting the life-cycle approach to each asset or contract;
  - applying effective and up-to-date procurement procedures;
  - Ensuring procurement helps deliver the Council's key corporate objectives.
- 2.5 This Strategy acknowledges that the Council, as a public sector body, is bound by statutory and mandatory public procurement regulations and other regulations including general legislation. The Council re-affirms that



all its procurement activity must meet all applicable requirements and that due process and governance standards must be of the highest order in accordance both with the legal requirements and the Council's own Financial and Contract Procedure Rules.

### ***The Importance of Effective Procurement***

- 2.6 Procurement can range from the acquisition of low value day-to-day equipment to the delivery of an entire service. Any decision to provide a service internally rather than outsource it is also a procurement decision. All Council service units are involved in procurement to varying degrees.
- 2.7 Effective procurement is crucial for achieving the Council's objectives and in particular to secure effective and efficient public services. It can also help the Council meet wider objectives, offer opportunities for local businesses, help the regeneration of the local economy, and minimise administrative costs and the Council's impact on the environment.
- 2.8 Recent reviews by central government have highlighted the potential benefits from more effective procurement. Organisations that have focussed on procurement and adopted proactive strategies have seen quality and cost benefit improvements. Following the Gershon report, central government now estimates it can save up to 8% on civil procurement costs. There may be similar opportunities in local authorities such as Carlisle City Council.
- 2.9 It is estimated that the Council spends about £9m per annum from its revenue budget on the procurement of commodity goods and services. This excludes capital expenditure (estimated at £9.1m in 2006-07) on projects such as construction/building works, vehicles and investment in IT equipment. Improvements made through better procurement should help realise savings and have a positive impact on the Council's ability to ensure that the local community receives the services required. New technologies and electronic procurement will help the Council focus on the costs of carrying out procurement and may release resources which can be better used elsewhere.
- 2.10 As a large purchaser of goods and services in the City it is important that Council decisions to procure include consideration of core values such as equal opportunities and health and safety and take account of whether benefits can be sustained over the life of the contract as well as the impact on the economic, social and environmental well-being of the City.

### **3. Current Arrangements**

- 3.1 Procurement of services, goods and assets is regulated by Financial and Contract Procedure Rules, which have been incorporated in the Council's Constitution. Within service units, these requirements may have been embodied in office instructions and other procedural guidance designed to assist staff who are involved in day to day procurement decisions.

- 3.2 In some Councils there is strong central control over the way goods and services including works contracts are managed. The position at Carlisle City Council is less centralised with each service unit having the flexibility to act within the overall control framework established by the procedure rules and budgetary parameters. However, there are examples of central purchasing/management through a lead service unit including the following:
- Building improvement works (Community Services)
  - Utility supplies (Corporate Services)
  - Insurance (Financial Services)
  - Computer Software/Hardware (Information Services)
- 3.3 Primarily both Financial and Legal Services provide advice on policy, strategy and regulation. The Procurement Working Group has members from across the Council and its terms of reference are: -
- To deliver the procurement strategy and develop and manage the associated action plans.
  - To develop, amend and monitor the procurement strategy for approval as appropriate.
  - To report progress on the procurement strategy to SMT for approval, as appropriate.
  - To identify new opportunities in relation to procurement and to develop these where appropriate
  - To report Procurement performance, performance indicators, and measurable outcomes quarterly to CROS.
  - To monitor the Councils contracts in order to plan procurement activity and to introduce a consistent approach across the authority.
  - Respond to Audit and other Agencies best practice recommendations.

#### **4. Procurement Policy**

##### ***The Corporate Context***

- 4.1 Procurement must be seen in the context of the Council's overall objectives. Often the primary focus or driver has been that of economy (e.g. as under the former Compulsory Competitive Tendering (CCT) regime – where the basis of contract award was due to the lowest priced tender). Whilst cost and efficiency remain an essential ingredient, it is also important that decisions are taken in the light of the broader objectives which the Council is trying to achieve. It is inevitable that for a public body, effective procurement must be measured as much by social outcomes and the community benefits that result as well as the financial gains. Balancing these two dimensions is at the heart of effective and efficient procurement.
- 4.2 To understand the community benefits the Council is seeking to achieve it is necessary to consider the Council's corporate vision, core values and overall objectives. These are set out in the Council's Corporate Plan 2007-10 and are as follows:

### ***The Council's Corporate Plan***

The Council priorities for 2007-10 remain Cleaner, Greener, Safer and The Learning City. The Council is also fully committed to the Carlisle Renaissance agenda.

### ***The Council's Corporate Ambition and Values***

Carlisle is a city of regional status in the north of England and Carlisle City Council continuously "punches above its weight" in the scope of services it provides.

The City Council's vision is "to ensure a high quality of life for all in both our urban and rural communities".

We will achieve our ambitions for Carlisle through leading by example in the way we deliver our services. We will:

- Be an open and accountable organisation, providing strong community leadership that sets out its stall on how we are going to achieve our ambitions for Carlisle.
- Put the needs of our residents first
- Develop our own staff so we become an employer of choice delivering quality services that you expect
- Recognise the increasing diversity of the area and will ensure that services are provided to all without discrimination
- Consider all ways in which we can reduce the environmental Impact of our operations to safeguard our City for future generations
- Keep you informed about our achievements so you can judge how effective we are
- Encourage innovation and work in partnership to find new solutions to old problems so that we can continuously improve.

### ***Corporate Procurement Policy***

- 4.3 In support of efficiency, economy and effectiveness and recognising the requirements of the above statements, the following policy has been developed:

#### ***Vision***

"To obtain efficiency, economy and effectiveness through planned procurement, in respect of all goods, works and services sought by the Council".

#### ***Procurement Principles***

Procurement principles have been established that aim to support the Council's core values and corporate objectives. These are summarised below:

**i. Objective**

Effective procurement will support the key strategies and goals of the Council and help to deliver corporate priorities. Procurement will be used as a lever to support the efficiency agenda and the wider Council objectives such as equal opportunities, sustainability and local economic regeneration.

**ii. Efficiency, Economy and Effectiveness**

These elements are the main driver's in the Council's procurement decision making process. All decisions about procurement will consider the full range of options available, including partnerships, joint purchasing, collaboration, internal and external provision. Quality and risk will be judged along with cost.

**iii. Management and Control of Contracts**

Arrangements shall ensure that all contracts are adequately managed and monitored with a view to achieving completion of service delivery on time, within budget, and in accordance with the specification. Where appropriate a suitable project management methodology will be utilised subject to training and guidance in its use being provided (e.g. Prince2). Consideration will also be given to the recommendations of the Egan report on "Re-thinking construction" within construction/works type contracts supervised by Community Services.

**iv. Assessing and Minimising Risk**

The risks associated with all procurement shall be considered, assessed and where necessary appropriate counter-measures shall be implemented utilising the Carlisle Risk Assessment Model where appropriate.

**v. Procurement Shared Services**

The City Council is a founder member of a collaborative arrangement for County wide consumables procurement. The EPiC (Effective Procurement in Cumbria) collaboration is a shared procurement service formed by the Council's of Allerdale, Barrow, Carlisle, Copeland, South Lakes and the County Council. The service is hosted but not operated by the County Council and enables goods and services procured by all authorities to be available to all purchasers within each authority.

**vi. Qualified and Experienced Staff Resources**

Staff engaged in the procurement process and contract management should be suitably experienced with the required level of support (e.g. legal and financial) being made available.

vii. **Social, Economic and Environmental Wellbeing (ESW)**

All major procurement shall recognise the impact on the ESW of the City. Procurement decisions should also be taken with due consideration of the environmental impact of the goods or services being procured.

viii. **Packaging of Major Projects**

All major procurement shall have regard to the issue of sustainability and early decisions shall be taken to ensure that projects are packaged so as to deliver in the most efficient manner and achieve what end users want within the resources available. The Council will consider the use of corporate procurement to obtain economies of scale.

ix. **Professional Standards and Best Practice**

All procurement procedures shall be operated in a proper and competent manner and ensure high standards of transparency, probity and accountability and comply with relevant legislation and the Council's financial and contract procedure rules.

x. **Continuous Improvement**

Where the contract duration spans a number of years it should be sufficiently flexible so as to provide for continuous improvement over the life of the contract.

xi. **Workforce Matters**

Any procurement that potentially involves the transfer of staff employed by the Council shall, within the scope of applicable legislation and guidance, provide for the protection of ongoing terms and conditions of employment of those staff.

xii **Equality**

Any procurement activities shall ensure that contractors, suppliers, volunteers and partners are aware of the Council's position on equality and diversity and are clear about their obligation to provide services that are free from discrimination, harassment or victimisation.

## 5. Guidelines

### Economy and Efficiency

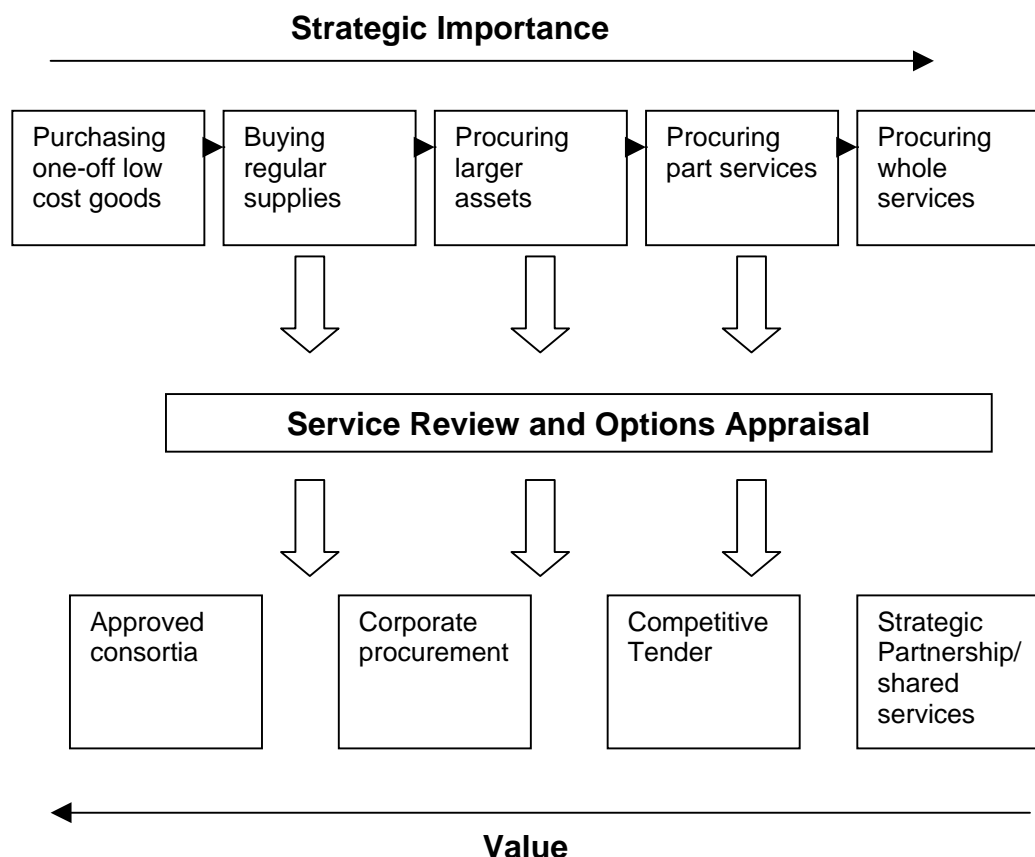
- 5.1 The Council is required to demonstrate economy, efficiency and effectiveness in all its activities and effective procurement will be a key factor in helping to obtain these goals. This objective requires the Council to radically re-think and re-shape the way it undertakes procurement.

It is essential that the Council not only adopts processes to secure economy and efficiency but can evidence the efficiencies obtained to demonstrate delivery of national efficiency targets i.e. Gershon.

### Procurement Choices

- 5.2 The strategic importance and complexity of the outcome, which is required, will mainly govern the choice of which procurement route to follow. In all cases, the efficiency agenda will be the driver in the decision making process. Clearly the procurement of low value office supplies, purchased through existing channels, will be a much more straightforward process than an options appraisal exercise for the procurement of a whole service.

The Council needs to target resources at more strategically important procurement exercises and away from the routine procurement of low value, low risk items. The following diagram gives an overview of some of the procurement choices available although not all scenarios will fit into this model, and the boundaries may overlap.



## **Legal Framework**

- 5.3 Whilst it is recognised that flexibility is needed when considering procurement options, procurement remains subject to a range of national and EU regulations, as well as the Council's own standing orders and financial regulations. In addition to the regulatory framework there are a range of Council policies which will directly impact on the procurement process. In particular Council policies on health and safety, equal opportunities, the environment and data protection must be an integral part of the decision making process.

## **Procurement and Equality**

- 5.4 Promoting equality through procurement matters. All groups in our community have a right to expect that public money is spent on local services, which suit their needs – and that it is spent in a way, which promotes equality of opportunity and delivers high quality goods and services. Account should be taken where applicable of guidelines issued in relation to discrimination whether in race, gender, religion, disability, sexual orientation or otherwise.

## **Stages of Procurement**

- 5.5 There are several key stages in the procurement process:
- Identifying the need and the decision to procure
  - Researching existing or potential markets
  - Identifying legal requirements
  - Specifying the goods, works, or services to be procured (including risk assessment)
  - Identifying the most appropriate procurement route
  - Undertaking the tender process, evaluation and award of contract
  - Managing contracts and performance
  - Reviewing the impact of procurement on service outcomes

## **Continuous Improvement**

- 5.6 In order to achieve continuous improvement
- performance indicators and targets (based on both quality and cost) will be established by the members of EPiC and the NWCE as part of the procurement process
  - procedures to manage contractual arrangements must be established with performance against specified targets reported to the relevant Committee;
  - benchmarking of results should take place against a number of similar arrangements, preferably from a selection of different organisations;

- procurement procedures and processes should be regularly reviewed particularly with regard to the cost of carrying out procurement and the costs for companies who wish to bid for Council contracts;
- the need for investment in training and ICT to support the procurement process will be reviewed;

The duty to review the provision of Council services lies with the Council. This duty applies not just to services provided by the Council but also to services that are provided by external organisations on behalf of the Council.

### **Consortia & Corporate Purchasing**

5.7 The Council will aggregate its procurement power where practical in order to obtain economies of scale and secure value for money. This may take several different formats:

- Use of approved consortia may be considered (e.g. Office of Government Commerce (OGC), NEPO), taking into account all the associated costs and benefits to the Council of doing so, in order that overall Best Value can be judged.
- Use of corporate procurement opportunities where the procurement of similar products and services across the Council, can be aggregated together to obtain economies of scale;
- Aggregation of spend on goods and services with other councils and public sector bodies through partnership arrangements, where this will help to deliver improved value for money (e.g. EPiC).

### **The Environment**

5.8 The Council's procurement activities can have an impact on the environment and it is important that sustainability issues are considered fully in the procurement decision-making process. The main aims of considering sustainability in procurement are:

- to seek alternatives to products and processes which are detrimental to the environment by using more environmentally friendly products and processes;
- to minimise waste, including any packaging, or waste produced as a by product of the goods or service, and waste generated by the eventual disposal of the product;
- to maximise the re-use and recycling of materials;
- to minimise the consumption of non-replaceable natural resources by reviewing current and proposed future usage and evaluating the pros and cons of alternatives;



- To stimulate demand for environmentally friendly products by letting manufacturers and suppliers know the environmental performance we expect of our products and services.

The Councils Environmental Working Group and the Cumbria sustainability Group will lead this work.

### **Local Procurement**

- 5.9 The Council's procurement activities can have a positive impact on local economic regeneration. It is important that the Council has a process for ensuring that local companies are made aware of how to tender for Council contracts, and what the standards are that the Council requires. In this way local companies should be able to compete and be judged on merit along with all other tenderers. There are legislative constraints that prevent the Council from preferring only local suppliers and in particular, the EU Public Procurement Regulations prohibit the Council from taking this approach.

### **Electronic Procurement**

- 5.10 Electronic commerce has the potential to radically change the procurement procedures and processes of many public sector organisations. Electronic procurement technologies should enable the Council to improve the cost effectiveness of procurement of low value goods, where currently the cost of the transaction can often outweigh the value of the product. The Council will seek to evaluate, and where beneficial, introduce electronic procurement technologies. This will be achieved in partnership with other Local Government and public sector bodies.

The above detail is intended to provide an overview of the Council's strategy for Procurement and is enhanced by the Procurement Code of Practice (PCP). The PCP is a key document, which should be understood and followed by all officers who procure goods, works and services for the Council. It is a guide to best practice in procurement, and should be read as a supplement to the Council's Contract Procedure Rules and Financial Regulations.

### **Code of Practice**

- 5.11 The Code of Practice is a key document, which should be understood and followed by all officers who procure goods, works and services for the Council. It is a guide to best practice in procurement, and should be read as a supplement to the Contract Procedures rules and this Strategy. The Code of Practice provides guidance and a resource for all staff involved in procurement activities. It sets out the principles, considerations and elements of procurement and provides links to further information, supporting documentation and sources of support.