



Chester-le-Street
District Council

A New Approach to Procurement

Corporate Procurement Strategy and Action Plan



CPW
“The Chester-le-Street Procurement Way”

March 2006

Forward by the Leader of the Council and the Chief Executive

Strategic procurement has been significantly raised in profile in local government since the establishment of the National Procurement Strategy and it is also recognised as increasingly important activity within the Chester-le-Street District Council.

The Council spends over £10 million a year on goods, works and services and we recognise that having a Corporate Procurement Strategy and Action Plan is essential to ensure that we can use our procurement spend strategically to achieve the overall aims and objectives of the Corporate Plan.

This Corporate Procurement Strategy and Action Plan sets the framework in which the Council will work to ensure that procurement activities across the Council achieves the requirements of Best Value across all services and directly contributes to our vision of “Working together to fulfil the needs of our Communities” as well the implementation of our “Improvement and Recovery Plan”.

This Corporate Procurement Strategy and Action Plan has been developed as a result of consultation with procurement practitioners, Heads of Service and other important stakeholders.

We have adopted an innovative and collaborative approach in that it is being led by a shared Head of Corporate Procurement with our neighbouring authority Derwentside District Council and this approach has been encouraged and supported by the North East Centre of Excellence.

This is an essential corporate strategy and we encourage the whole Council and our partners to support it and work together as “One Team” to enable us to improve our strategic procurement capacity and capabilities and enable the Council to demonstrate value for money and improved services for the benefit of our community.

We hope that you will find this strategy informative and are able to offer your best efforts to support the successful launch and development of *CPW* the “*Chester-le-Street Procurement Way*”.

Linda Ebbatson
Leader

Roy Templeman
Chief Executive

Contents

Foreword by Leader of the Council and Chief Executive	Page 2
1. Introduction	Page 4
2. The Corporate Context	Page 5
3. National Procurement Strategy	Page 6
4. Key Principles, Aims and Objectives of the Strategy	Page 7
5. Corporate Procurement Policies	Page 9
6. Procurement Framework	Page 11
7. Assessment of Current Situation	Page 21
8. Structure for Procurement	Page 23
9. Procurement Action Plan	Page 26
a. Actions to develop leadership and Capacity	
b. Actions to promote partnering and collaboration	
c. Actions to do Business Electronically	
d. Actions to stimulate markets and achieve community benefits	
e. Actions to Improve Performance Management	
10. Action Plan Summary	Page 32

1 - Introduction

The Strategy

This Strategy will operate over the next three years and sets out the Council's aims, objectives, framework, policies and actions relating to its future approach to procurement.

It has been developed in consideration of: -

- The National Procurement Strategy for Local Government published by the Office of the Deputy Prime Minister in 2003
- The Gershon Efficiency agenda
- The renewed approach to CPA with specific regard to Value for Money and Use of Resources
- Guidance provided by the Government, I&DeA and others; and
- Best Practice identified by Government, local authorities and procurement organisations.
- The North East Regional Centre of Excellence for Procurement and Efficiency

Definition of Procurement

Procurement is *the process of acquiring goods, works and services, covering both acquisitions from third parties and from in-house providers.*

The process spans the whole cycle from identification of needs through to the end of a services contract or the end of the useful life of an asset. It involves options appraisal and critical "make or buy" (i.e. whether or not to provide services in-house) decisions.

The Importance of Procurement

The procurement of works and services is a key part of Best Value legislation, which requires local authorities to secure continuous improvement in economy, efficiency and effectiveness in the exercise of its functions.

Such procurement involves challenging the current method of service provision and includes a requirement to consider private competition, partnerships, and other models of delivery alongside traditional direct service methods.

Existing as well as new services need to be reviewed under the procurement process and procurement is therefore about making choices.

In the context of a procurement process, obtaining Best Value means choosing the option that offers ***the optimum combination of whole life costs and benefits to meet the customer's requirement.***

Procurement requirements can include social, economic, environmental and other strategic objectives, which should be defined at the earliest stages of the procurement cycle.

The criterion of Best Value is then used at the award stage to select the bid that best meets the requirement.

2 - The Corporate Context

Community Strategy Vision

By 2014 the District of Chester-le-Street will be a place where people choose to live, to learn, to work and to visit. There will be inclusive, safe and healthy communities in our towns and villages built on a strong, sustainable economic base with excellent communication networks. The District Council will be a place where everyone is working together for a sustainable future.

Key Elements of Community Strategy

- A strong, sustainable and diverse economic base
- Inclusive communities
- Excellent communication networks
- An attractive and protected environment

7 Corporate Plan-Key Priority Areas

In order to achieve the Community Strategy and to meet the needs of the community the council has agreed seven key priorities. These are:

Priority 1: Customer Excellence

Improving customer care while providing new ways to access our services. This includes meeting our e-government targets and national priority service outcomes.

Priority 2: Working in Partnership to deliver the Community Strategy

Continuing to work with our partners in the District Partnership to deliver actions within the Community Strategy and to ensure it continues to address priorities for the District as a whole.

Priority 3: Meeting the Decent Homes Standard

Working with our tenants to consider new ways of providing our housing service and accessing additional funding which will meet the Decent Homes Standard by 2010.

Priority 4: Regenerating the District

Working with businesses, partners and customers to develop a Regeneration Strategy for the District which represents the diversity of our communities, their needs and aspirations for the future.

Priority 5: Neighbourhood Management

Working with our community and partners to deliver action at the neighbourhood level, improving the quality of public services, engaging people in local democracy and as a result helping to create an improved environment and sustainable communities.

Priority 6: New ways of working in Leisure

Considering options for the delivery of our range of Leisure Services, improving the level of service offered, while responding to priorities the community has identified for the service.

Priority 7: Maximising Efficiencies

Finding new ways of working in all services by working in collaboration with others to achieve economies of scale and better service delivery.

The Procurement Strategy underpins the achievement of the council's aims in all these priorities.

3 - The National Procurement Strategy

The Government's **National Procurement Strategy for Local Government** sets the scene for all Councils to be delivering significantly better and more cost effective public services, through sustainable partnerships and a mixed economy of competitive suppliers from many sectors.

To do this all councils need to:

- **Make the necessary cultural changes**
- **Provide leadership and build capacity**
- **Engage in partnerships and collaboration**
- **Do business electronically**
- **Stimulate markets and achieve local community benefits.**

The Government wants all Councils to find new ways to deliver significantly better services at lower costs. This may, for example, be by way of streamlining procurement, working in partnerships, redesigning the delivery of services, sharing 'back office' systems or pooling buying power.

The National Procurement Strategy encourages key decision-makers to think of new and exciting ways to work with partners to deliver quality services and achieve strategic objectives.

The National Strategy seeks the implementation of world-class practices in procurement, resulting in significant impacts in all aspects of public service delivery and performance and illustrates how Local Government should use innovative ways to procure, work in partnership with others, and manage services that will:

- Better achieve community plan objectives
- Deliver consistently high quality services that meet users' needs, with a range of partners from other sectors
- Provide savings and better value for money, thereby improving the cost effectiveness of the council
- Build social cohesion and promote equality of opportunity for service users, businesses and Council staff
- Be sustainable for the communities and areas served and benefit local citizens
- Support delivery of the council's e-Government agenda
- Enable Councils to manage and assess risks in the market place
- Be delivered through different structures and in new forms.

The Government's vision for local authority procurement is that all Councils will be: -

- Delivering significantly better quality public services that meet the needs of citizens through sustainable partnerships with a range of public, private, social enterprise and voluntary sector organisations
- Operating a mixed economy of service provision, with ready access to a diverse, competitive range of suppliers providing quality services, including small firms, social enterprises, minority businesses and voluntary and community sector groups
- Achieving and demonstrating continuous improvement in value for money by collaborating with partners at local, regional, national, and European levels
- Obtaining greater value from all categories of procurement expenditure through a corporate procurement strategy and the necessary resources for implementation
- Realising community benefits
- Stimulating markets and using their buying power creatively to drive innovation in the design, construction and delivery of services.

4 - Key Principles, Aims and Objectives of the Strategy

Procurement is a means by which the Council can help deliver strategic objectives. It also reinforces the achievement of Best Value and compliance with EC directives and UK procurement regulations.

Key Procurement Principles

Taking account of the National Procurement Strategy for Local Government, all of the Council's procurement decisions and actions will be taken in accordance with the Principles of:

1. Focusing on desired outputs and outcomes
2. Being driven by customer and community needs
3. Seeking to generate the most advantageous balance of quality and cost in accordance with pre-agreed criteria
4. Encouraging competition, choice, innovation and value for money
5. Developing collaboration and partnership arrangements wherever appropriate
6. Being open, transparent, fair and accountable
7. Promoting ethical practices, social inclusion and professional service delivery by working within the Council's Equality Policy
8. Ensuring that the people delivering services are well trained, knowledgeable, motivated and committed
9. Achieving the Council's Corporate Plan and Procurement Strategy
10. Incorporating performance review and comparison
11. Developing and utilising e-procurement systems to attract suppliers, improve efficiency and generate sustainable cost benefits

Overall Purpose and Aims

The key aims of the Strategy are to:

To ensure that all procurement decisions made by the Council will help to deliver the Corporate Plan objectives, produce Best Value by demonstrating Value For Money and the effective Use of Resources.

All procurement decisions should be made in order to achieve community benefits and support the continuous improvement of service delivery in Chester-le-Street.

The 3 Key Aims

The key aims of the Strategy are to:

- AIM 1:** Create organisational capacity and capability to deliver successful procurement, contract management and supplier relationships.
- AIM 2:** Building upon existing capacity to establish an initial framework which will be developed to include relevant guides and processes to ensure that all procurement decisions are made on an informed, consistent and transparent basis.
- AIM 3:** Ensure that the procurement process leads to continuous improvement in service delivery, value for money and the efficient use of resources and derived community benefits.

The 11 Key Objectives

1. To provide a corporate focus to procurement, in order to successfully deliver new approaches to procurement and maximise their impact.
2. To secure commitment to effective procurement from Members and employees at all levels within the organisation.
3. To support cultural change for delivery by supporting the development of the skills, knowledge and empowerment of employees.
4. To ensure that all procurement processes are consistent, fair, transparent and operated in the interests of customers and the community.
5. To promote value for money and effective use of resources via partnerships and collaboration arrangements wherever possible.
6. To exploit the use of e-procurement where appropriate to achieve savings to achieve both procurement and process savings to help deliver better services.
7. To ensure that the procurement process supports continuous improvement of procurement activity and local services.
8. To promote diversity, competition and choice in service delivery where this can enhance service performance and community benefits.
9. To ensure that the Equality Policy and it's objectives are incorporated into all procurement activities
10. To improve the performance management of procurement and service provision and the Council's risk appetite.
11. To promote the principles of sustainability through the procurement process.

5 – Corporate Procurement Policies

In consideration of the Principles, Aims, Objectives for Procurement set out above, the following key Corporate Procurement Policies will apply:

Procurement Policy 1

The Procurement Framework set out in the Council's Corporate Procurement Strategy will form the basis of all considerations and decisions relating to the contracting of services, works, goods and construction. The Framework will be incorporated in future Best Value Reviews. This will be further developed to provide up to date guides and processes (tool kit) for Procurement.

Procurement Policy 2

All procurement decisions will be made on the basis of whole life costs. The Council will apply pre-determined multi-criteria seeking the appropriate balance between costs and quality and other relevant criteria in making contract awards.

Procurement Policy 3

A Contracts Register will be maintained by the Council.

Procurement Policy 4

The Council will consult with all employees and other key stakeholders with a direct interest in the outcome of procurement decisions.

The effective involvement of employees and their representatives in service reviews and the subsequent procurement process will be encouraged and facilitated.

Procurement Policy 5

All services will be required to develop business cases relating to service and contract delivery.

These will be incorporated within service plans from 2007 onwards.

Procurement Policy 6

Contract Standing Orders will be reviewed in order to reflect the Council's Procurement Strategy and to promote efficient and effective procurement whilst maintaining safeguards of probity and good governance.

Procurement Policy 7

Implementation of the Corporate Procurement Strategy - and the identification and delivery of associated training needs - will be afforded a high priority within corporate service delivery and management.

Procurement Policy 8

The Council will develop and maintain Procurement Guides (tool kit) to support the Procurement Framework so as to provide a means of communicating and diffusing its procurement processes.

Procurement Policy 9

From 2007 the Council will publish a Procurement Plan setting out anticipated procurement requirements, priorities and criteria for subsequent years.

This Plan will be updated on a rolling basis.

Procurement Policy 10

The Council will publish and promote a “Selling to the Council Guide” setting out how existing and potential suppliers can engage in procurement.

This will include guidance on how smaller businesses and organisations, particularly those capable of producing additional benefits for the District, can better engage in the procurement process.

Supplier relationship and feedback systems will also be established.

Procurement Policy 11

To make the best use of buying power the Council will seek to extend its collaboration work and establish agreements to improve efficiency and value for money.

Procurement Policy 12

The Council will work to rationalise its procurement processes with a view to moving towards improving efficiency and totally electronic transactions where appropriate.

6 – Corporate Procurement Framework

Procurement involves processes and decisions relating to the buying of goods and services. It is also a mechanism to challenge current services and to determine new models for service delivery, and to achieve maximum benefits a strong element of competition should run through the whole process.

Barriers to effective procurement can include legal complexity, risk aversion, supply side weaknesses, lack of client-side capacity, a narrow approach, and organisational culture.

A systematic approach to competitive procurement can overcome these barriers and this approach includes: -

Laying the Foundations – using a strategic approach, having clear procedures, involving the right people and accessing the right skills.

Design – strategic challenge, understanding the market, scoping contracts and making objective “make or buy” decisions.

Tendering and Contracting – implementation stage, including project management and communication.

Continuous Improvement – once the service or project is established it is important to maintain the momentum of improvement.

Business Case Culture

A key theme within the National Procurement Strategy is the need for culture change and a central part of this is the development of a “business case culture” whereby there is a clear justification for the chosen method of procurement based on the authority’s objectives.

A business case will contain the following elements:

Business Need - An explanation of the need for the scheme including how it fits with the authority's corporate plan and quantification of the benefits of the scheme to the different stakeholders.

Objectives - A clear definition of objectives and the outputs sought.

Options Appraisal - Results of an appraisal of available options and the extent of appraisal will vary according to the size and nature of the project.

Achievability – An assessment of the feasibility to achieve the project within the authority’s current available capability and capacity.

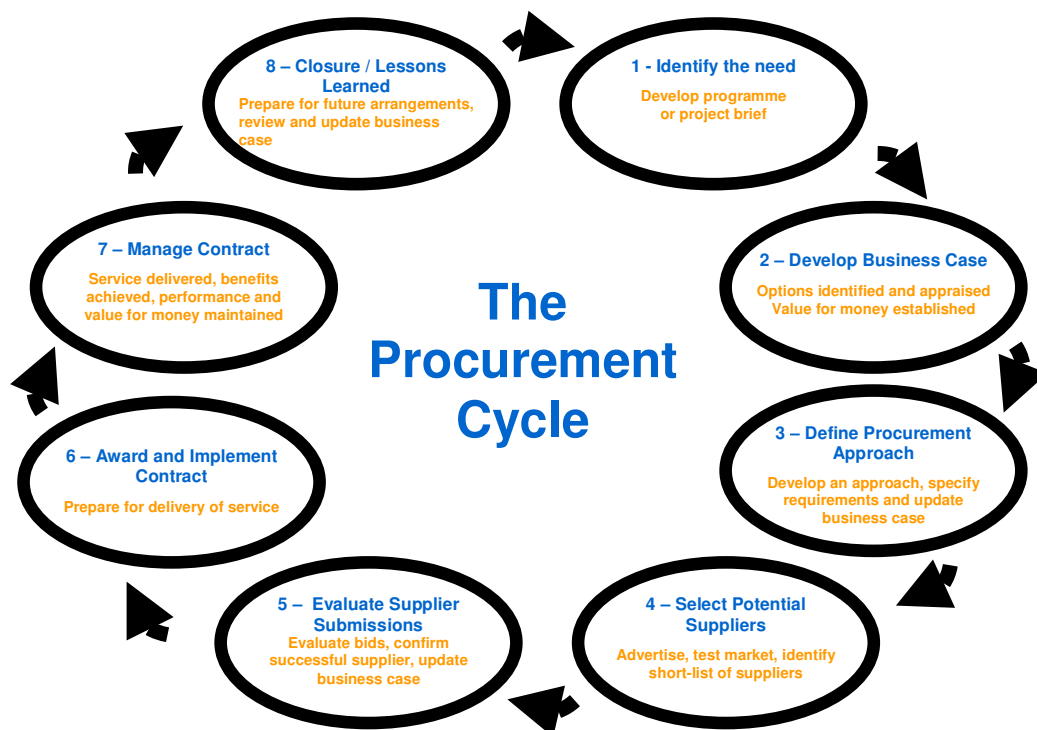
Value - Indicative costs of the proposed options and a preliminary assessment of value for money. This will take into account whether value for money can be obtained from proposed sources of supply and/or whether the project needs to be made attractive to a wider market.

Project Management Plan - An indicative plan including an assessment of the risks associated with the project options.

Affordability – An assessment of whether there is an adequate budget available to deliver what is required and if not, if it is possible for the scope to be reduced or delivery extended over a longer period of time, or if funding should be sought from other sources.

The Procurement Cycle

The Business Case is a critical aspect of the overall procurement process and this process - or "cycle" - involves 8 stages, and the lessons from it will feed into future procurement actions.



Stage 1 – Identifying the Need

Needs may initially be identified in a number of ways for example:

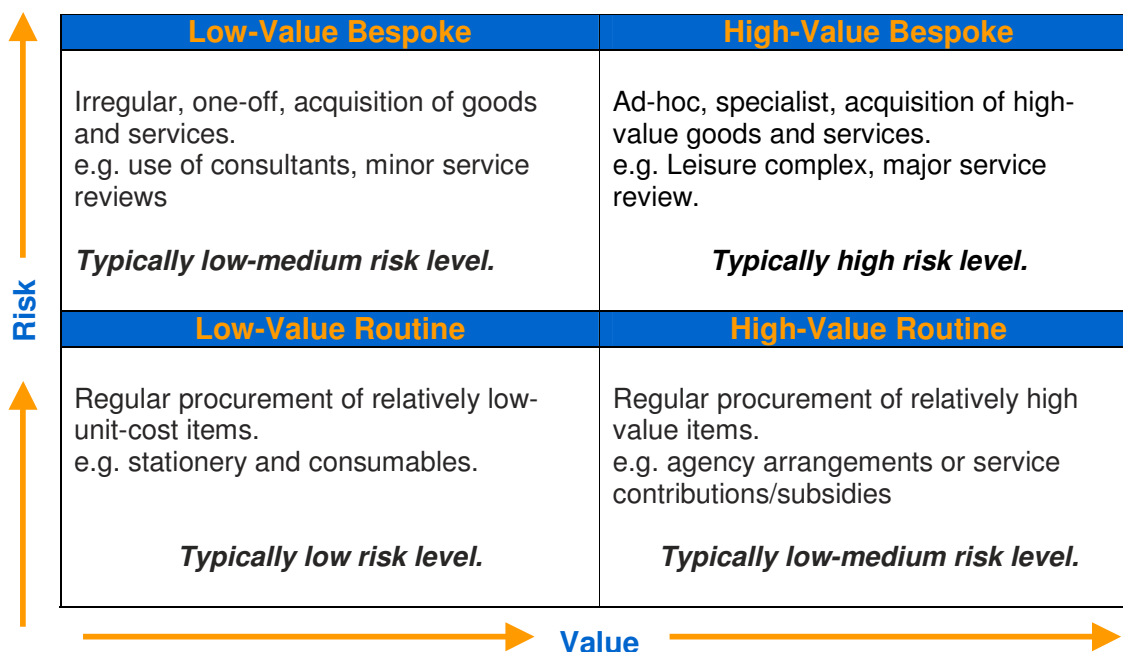
- From Elected Members.
- Through weaknesses identified in Comprehensive Performance Assessment, Best Value Reviews or other inspections.
- Poor performance, customer feedback or Government initiatives.
- The end of an existing contract – through expiry or failure.
- Opportunities arising from the Council's continuous improvement activities.

There is a need to pro-actively plan procurement reviews taking into consideration alternative means of procuring goods, services and contracts.

The Council expends money on a wide variety of activities that vary in value and risk and it is therefore necessary to map and classify the procurement spend in order to decide the optimum way to manage contracts.

In order to allow the need and opportunity to be identified the authority's prevailing procurement activity and contracts will need to be mapped and classified.

The following classifications will be used for this purpose:



In considering optimum procurement methods, general guidance applies as follows:

Low-Value Routine	<ul style="list-style-type: none"> • Need to minimise transaction costs • Need to aggregate demand, both corporately and externally • Seek lowest-cost suppliers meeting pre-agreed quality criteria • Maximum collaboration sought • Framework agreements to be considered
High-Value Routine	<ul style="list-style-type: none"> • Need to clearly set-out expected outcomes • Transaction requirements and costs need to be set-out • Collaboration with other public sector clients to be developed • Development of supplier relationships to be furthered
Low-Value Bespoke	<ul style="list-style-type: none"> • Need to clearly set-out procurement criteria • Transaction requirements and costs need to be set-out • Collaboration with other public sector clients to be developed • Development of supplier relationships to be furthered
High-Value Bespoke	<ul style="list-style-type: none"> • Need to clearly set-out expected outcomes • High transaction costs need to be expected and incorporated • Comprehensive business case, project management and reviews needed • Partnering approach to be considered

Stage 2 – Developing the Business Case

Having classified the procurement issues and outline approach the Council will then need to make the following considerations issues relating to **(a) – (d)** as follows:

(a) Challenging the need, and options, for procurement

- How important is the service to the attainment of corporate objectives?
- Are benefits and commitments likely to be sustained in the long-term?
- What improvements are needed?
- What investment is needed?
- What are the views of customers/beneficiaries?

(b) Specifying the service/product

- What are the alternative cost/quality options?
- What variables can impact on the procurement requirement?
- What is the willingness/ability to pay for service improvements?
- How much direct control is needed?
- How easy/difficult is it to tell whether a contractor delivers in reality?
- What is the cost of tendering, negotiating, contracting and monitoring (“transaction costs”)?
- What is the importance of the service to the authority’s community leadership role?
- What is the expected social, economic or environmental impact of the service locally, e.g. the number of residents employed and the impact of externalisation?

(c) Determining the delivery options which are available

- How mature is the supplier market? (e.g. what alternative suppliers are available? What is their capacity/capability?)
- What evidence is there to support alternative means of delivery including partnership or collaboration with other Local Authorities?
- What risks are involved and how can these be mitigated?
- Are any specialist skills needed and how can these be sourced?
- Are there any barriers which in any way may dis-encourage participation by small firms without discriminating against larger firms

(d) Make or buy

- Should the service be delivered internally or externally?
- What are the comparative risks and potential impact on costs/benefits?
- How practical would it be to replace the contractor and how much will it cost?
- Are there any benefits from freedom to trade and access to new markets?
- Are any major operational or cultural changes are needed and which might be facilitated through external involvement?
- How easy or difficult is it for the service to be specified?

Stage 3 – Defining The Procurement Approach

From the procurement “baseline” of classified contracts/services there will be a need to identify and make a number of **key choices** including:

- Specifically what to contract for and how best to bundle or split the work
- The preferred contract model, including a statement of requirements, the pricing mechanism, the duration and commercial terms and conditions for assets, employees and services
- The optimum allocation of risk between the suppliers, partners and the authority
- The relationship desired on a spectrum from traditional contractor/client to various partnerships
- The commercial form including funding arrangements and corporate structures
- The procurement process to be followed usually involving competition
- The optimum length of contract
- Any transitional governance and operational management structures

In deciding on the provision of goods, services and works, local authorities can take account of wider corporate objectives such as protection of the environment or encouragement of local businesses, support for the local economy and local employment.

Provided that there is compliance with EC procurement law procurement spend can be used strategically to stimulate markets and generate benefits for local communities in line with community plans. This can be done most effectively by good contract design and specification and a multi-criteria decision-making approach based upon whole life costing and allowing bidders the option to specify community benefits in support of the Community Plan.

When deciding on the procurement approach for a particular requirement there is also a need to take into account any potential added value that small firms, voluntary and community sector providers, social enterprises and minority businesses might bring - either as a direct suppliers of goods and services or as members of the “supply chain” in a partnering arrangement.

Risk Management

The risks of different procurement routes need to be identified, quantified, allocated and managed in line with the Risk Management Policy and Strategy and for major procurement projects a risk register should be established.

The risk register will provide a framework to ensure that the risks can be monitored, reviewed regularly and managed in line with the Council’s project management process.

It is likely that for major contracts risk management will involve more than risk allocation and that it will therefore be necessary to decide which risks can better managed directly and which risks would be disproportionately expensive to pass on to a contractor.

Some examples of possible risks within a procurement project are as follows:

- Political change leading to project misalignment with authority objectives
- Loss of key procurement/project management staff
- Insufficient resources and skills in project team
- Low response rate from market leading to poor (or no) competition
- Funding cannot be secured for the full period of the contract
- The projected timescales for implementation are too short
- Evaluation process fails to identify the best value for money supplier
- The authority is unable to agree favourable terms with the preferred supplier
- The supplier fails to perform as required
- Fluctuations in inflation, and interest rates
- Uncertainty of costs due to uncertain specification (e.g. ground conditions)

Appropriate **options for service delivery** will also need to be determined via options such as:

Cessation of the service, in whole or in part

Market Test all or part of the service

Retain/Provide In-House using direct employment, established methods and management arrangements.

Retain/Provide In-House using direct employment but redefining methods and management arrangements.

Retain/Provide Externally by independent provider

Retain/Provide Externally by establishing arms-length operation

Creation of a Public-Private Partnership (or independent Trust or company) - a Controlled Company for delivery of all or part of the service

Creation of a Public-Public Partnership - Joint commissioning for delivery of the service

A full evaluation of every option will not always be appropriate or cost-effective however it is important that evidence should be recorded to justify the option selected and also show why an option was not developed further.

Stage 4 – Selecting Potential Suppliers

In all procurement activities there is a need to establish appropriate communication with stakeholders and suppliers and in particular there is a need to ensure that:

- Contract specifications are developed with the input of service providers and customers
- Evaluation of the preferred procurement route should also include key stakeholder input and consultation
- Contracts which are open to a range of suppliers should be communicated so as to attract the broadest range of interest from appropriate parties
- Effective communications and open dialogue with suppliers that avoids any favouritism or unfair advantage

As an example potential suppliers should be identified and approached by way of:

Open invitations – typically for lower-value routine items/services

Invitations to approved suppliers – potential suppliers who pass pre-determined technical requirements, typically relating to financial capacity, capability and track record

Invitations to preferred suppliers – approved suppliers who have particularly specialist skills or capabilities. Typically used for bespoke, one-off, projects; and

Negotiation – normally used to:

- Enable “continuation” projects where disruption would not be cost-effective;
- Secure unique supplier capabilities; or
- Fulfil other objectives such as stimulating markets or securing specialist benefits.

Stage 5 – Evaluating Supplier Submissions

The supplier selection multi-criteria should be pre-determined and agreed as part of the “defining the procurement approach” stage and should be communicated in advance to potential suppliers. Factors influencing the supplier selection criteria will include the Corporate Plan objectives as well as the nature, size and length of contract.

Tenders should be assessed on the value for money that they offer to the Council such as: the optimum balance of costs and benefits that meet pre-determined requirements in support of the overall Corporate Plan objectives.

Whole life costs – which contain all of the costs of acquiring, owning, maintaining and disposing of goods, services or works - should be used in the assessment.

The procurement evaluation and decision-making process should be recorded in an objective and transparent way in order that the documentation can be used as a learning record to support future activities as well as to be able to support a transparent audit trail as well as any Freedom of Information requests.

<u>Whole Life Costs</u>		
<ul style="list-style-type: none">• Initial price• Delivery and installation• Operative resources• In-house resources• Financing Costs	<ul style="list-style-type: none">• Consumables• Spare parts• Licences• Taxes	<ul style="list-style-type: none">• Maintenance• Energy consumption• Depreciation• Disposal/cessation

Stage 6 – Awarding and Implementing Contract

This may involve the transfer of staff, assets, data and third party contracts and the management of change will be a key task and there will be a need for:

- Tender clarification - obtaining further information if a tender is incomplete or unclear;
- Debriefing (to and from suppliers)
- Post-implementation review - a formal review undertaken once the procurement has had time to demonstrate benefits (i.e. outcomes)

Where a decision is made to select a form of outsourcing solution it will be necessary to appoint a project leader supported by a team of service officers and appropriate advisers. They will need to be given a clear brief as to the scope and constraints applicable to the project to enable them to form a project plan/timetable to complete the overall procurement exercise and to ensure that the project is delivered in a way which ensures accountability, probity and openness.

They will need to have regard to matters such as:

- European and UK Procurement Rules
- Standing Orders and Financial Regulations
- Advice or information from ODPM
- Corporate Procurement Policies, guides, processes and other guidance
- Quality control and performance management
- Sustainability, Equality, Diversity and Health & Safety issues

A motivated and skilled workforce is crucial to the delivery of quality services and good procurement must take into account the ability of a contractor or in-house provider to provide staff with the education, training, and skills necessary to do perform their duties in line with contract expectations.

In turn the provision of better services offers opportunities to individual workers and the approach adopted in the public sector to TUPE has reduced many concerns amongst existing staff that transfer out of the public sector.

The management of these issues will be more straightforward when employees have been fully engaged in the process of working up options for improved service delivery and in their appraisal and guidance should be sought from Human Resources professionals regarding all TUPE issues.

Stage 7 – Managing the Contract

The main focus of contract management is to ensure that the **benefits** identified in the business case are delivered (i.e. outcomes).

Clear objectives should be set, establishing what is expected from the supplier and how progress and performance can be measured and this will be of critical particular importance if the contract contains an option to extend based upon the supplier's performance.

Critical Success Factors For Contract Management

- **Requirements specified in comprehensive specification**
- **Involve the contract manager at the outset of the project**
- **Accurate assessment of the service requirement**
- **Good supplier selection**
- **Planned and active relationship management**
- **Clear roles and responsibilities**
- **Good knowledge of the contract**
- **Reduction and management of risk**
- **Objective and measurable performance criteria**
- **Encouragement of continuous improvement**
- **Management of performance shortfalls**
- **Adequate tools to tackle poor performance (including reporting)**
- **Continuity of knowledge throughout the procurement cycle**
- **Control of change (variations)**
- **Robust financial control**
- **Exit strategy**

The Council will need to review its suppliers and identify those that are critical to the performance of the authority with an objective of establishing a closer corporate relationship with these “key” suppliers.

The criteria to use when establishing such a list is:

- Size of **spend** with the supplier across the authority
- **Extent** of the authority business on a multi-departmental basis
- **Criticality** of goods/service supplier to the delivery of the authority services
- Lack of easily available **substitutes**
- Significant **market share** and strategic **influence**

Both the Council and the supplier need to have an open and robust approach to commercial relationships.

Proper attention should be paid at an early stage to considering how risk should be managed and the respective roles which authorities and suppliers should play.

Decisions on the best management of risks should determine its allocation between authorities and suppliers and all must accept that the incidence of risk will affect tender prices.

To allow for changing circumstances long-term contracts must:

- Contain provisions for changes in the form of agreed processes, both within the authority and between the authority and the supplier
- Satisfy the reasonable expectations of suppliers concerning the consequences of such changes for costs and remuneration

Managing relationships with suppliers is as important as monitoring performance and controlling the contract and this is particularly important in any partnering arrangements.

Stage 8 – Closing & Learning Lessons

Each completed major procurement project (or groups of completed small projects) should include a system to obtain feedback in terms of:

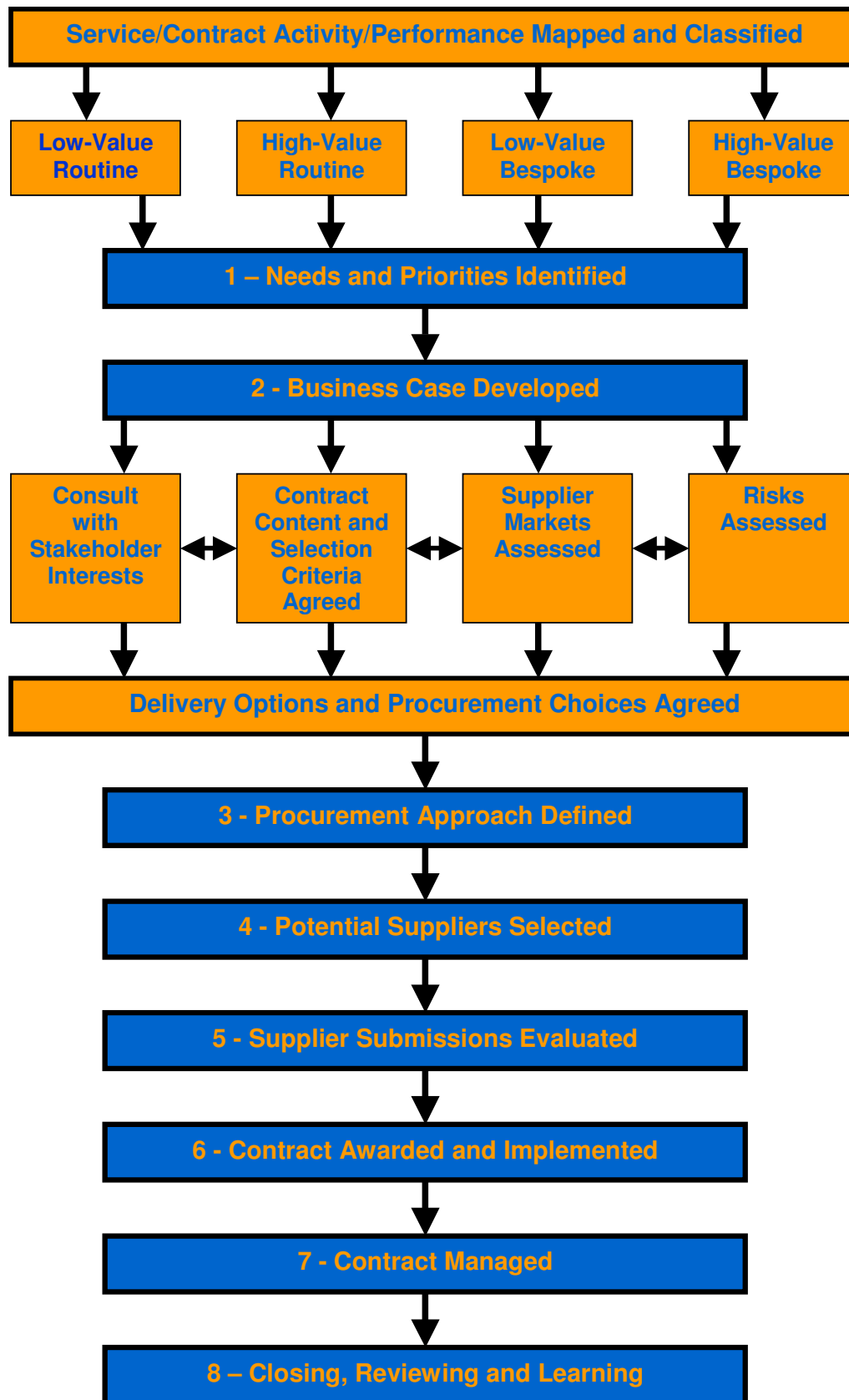
- Compliance (or otherwise) with the Council's Procurement Strategy
- Actual timescales incurred against those planned
- Benefits secured from the contract against those previously earned
- Feedback from suppliers and stakeholders
- Implications/pointers for future procurement
- Updates to contracts and risk registers
- Future performance management and relationship development requirements.

The exit strategy for every contract must be clearly defined (including contingency plans for early termination) and the period running up to the exit managed to ensure that there is no loss of service delivery if this is still appropriate.

Decisions on future arrangements must be made in adequate time to allow for a full procurement process should a further procurement be required.

The overall process is illustrated on the following page. Apart from summarising the procurement process the diagram also shows that, although every stage is important, the majority of work needs to be focused on the early stages – the “laying the foundations” and “design” elements of the process.

SUMMARY OF THE PROCUREMENT PROCESS



7 – Assessment of the current situation

The Council spends approximately £10 million on goods, services and works and currently has relationships 4000 suppliers and manages procurement on a de-centralised basis although the central purchasing team have arranged some corporate contracts in recent years.

The National Procurement Strategy has been one of a large number of issues for the Council and has been largely unaddressed to date, however the Improvement and Recovery Plan requires the development of a strategic procurement strategy in order to improve supply chain management, contract management and to increase corporate capacity to deliver services.

The establishment of a joint working relationship with Derwentside District Council will mean that the resources to improve the strategic approach to procurement can be developed across the Council and with improved leadership, an increased cross-functional approach, a more robust structure for procurement and detailed action plans it is expected that the corporate objectives can be achieved in the coming years.

In addition to a review of all available internal reports (including the I&DeA fitness check) and externally available guidance, and discussions with key stakeholders a SWOT analysis was carried out via the Service Team Managers meeting, and the results were then published on the intranet in order to obtain further input from other staff involved in the procurement process.

The SWOT analysis process was facilitated by the North East Centre of Excellence in order to obtain an initial independent assessment as well as to obtain constructive input and learning from other similar activities that have occurred within the region.

It is clear from the initial assessment that although there is high enthusiasm to make progress in this key business area and that there are examples of innovative and creative procurement approaches occurring in specific categories of procurement, (e.g. joint procurement of Agresso) a lot of work is still required in order to develop and diffuse a corporate strategy and an improved approach to the way that procurement is carried out.

The development and diffusion of **CPW** will require Member and top management commitment and increased participation from all Directorates in order that an effective structure and robust business processes and guides (tool kit) can be developed to meet the needs of the Council.

An important consideration is the current high amount of corporate improvements already ongoing within the Council and therefore a step-by-step approach with key stakeholder input over a 3-year period is judged to be an appropriate way forward in this instance.

The National Procurement Strategy calls for Councils to achieve their procurement objectives by 2006, and although this is not wholly achievable for Chester-le-Street the targets set out are still deemed to be applicable and appropriate and will be built into the action plans over the period of the strategy.

Since the establishment of the National Procurement Strategy there have been several lessons learned and good guidance with key recommendations have been developed (I&DeA-One Year On etc.) so it is intended that our strategy should take advantage of this knowledge for the ultimate benefit of our corporate strategic objectives set out in our Corporate Plan.

A summary of the initial **SWOT analysis** is shown as follows:

This will be used as a checklist to ensure that any of the perceived weaknesses and threats are addressed within the Action Plan and that the Opportunities and Strengths are used to drive the process.

Procurement SWOT analysis

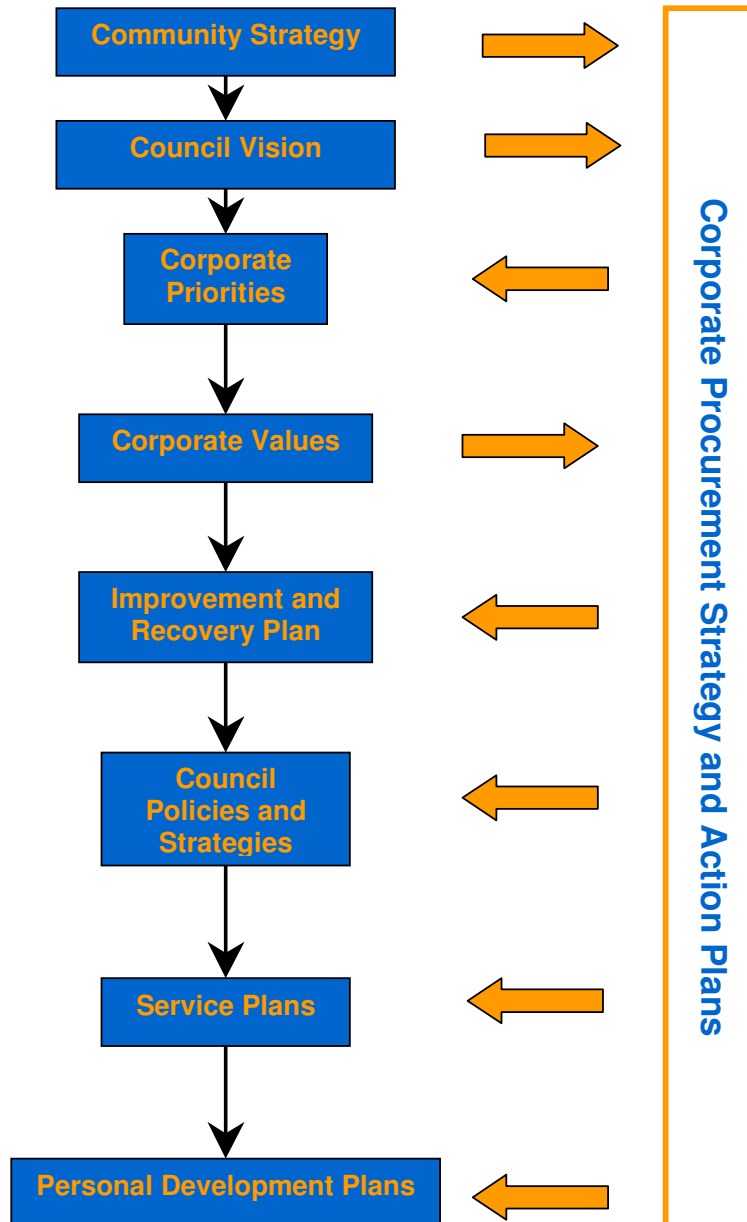
Strengths	Weaknesses
<p>Member awareness levels are high - prepared to take difficult decisions</p> <p>Member development programme</p> <p>Top Management commitment to Procurement</p> <p>Improvement and Recovery Plan encourages continuous improvement</p> <p>Improvement and Recovery Plan 2 highlights Procurement as a key priority</p> <p>Innovative and creative procurement in specific categories (I&DeA finding)</p> <p>Enthusiastic and motivated staff (I&DeA finding)</p> <p>Professionally qualified Procurement Manager in Central Purchasing</p> <p>Good operational purchasing knowledge and skills</p> <p>Openness towards collaboration</p> <p>Experience of joint procurement (Back-office systems)</p> <p>Effective benchmarking in specific categories (I&DeA finding)</p> <p>Some good systems (e.g. Agresso) in place</p> <p>Have an existing strategy to build upon - not implemented though</p>	<p>Existing strategy not developed or embedded</p> <p>NPS issues and timescales will not be fully achieved within required timescale</p> <p>Need for improved commitment to a Procurement Strategy</p> <p>Lack of corporate strategic approach to procurement</p> <p>Strategy for e-procurement adoption is currently unclear</p> <p>Lack of process standardisation</p> <p>Perception that Standing Orders restrict innovation</p> <p>Contracts register unclear / incomplete</p> <p>Lack of a standard approach to specification, evaluation, reporting and recording of procurement decisions.</p> <p>Link between procurement decision-making process and delivery of the Corporate Plan is not clear.</p> <p>Systems may require further development - e.g. Agresso</p> <p>Some inefficient and manual processes</p>
Opportunities	Threats
<p>Formally establish Procurement Member Champion</p> <p>Formally Officer Procurement Champion within CMT</p> <p>Establish a strategy with cross-functional resources and participation</p> <p>DDC relationship demonstrates innovative approach</p> <p>Collaboration with DDC and other Local Authorities</p> <p>Opportunity to develop strategies that comply with key themes of NPS</p> <p>Demonstrate VFM and effective use of resources within services</p> <p>Embed Sustainability, Equality and Diversity into Procurement activities</p> <p>Use of procurement to achieve regeneration objectives</p> <p>Potential for improved supplier relationships and supply chain management</p> <p>Develop Contract Standing Orders to suit Corporate Objectives / Procurement Strategy</p> <p>Potential local government changes</p> <p>E-Procurement technology and solutions can aid efficiency.</p> <p>NECE resources networks, work streams and initiatives</p> <p>Collaborative opportunities available – NEPO/DPP/future regional and sub-regional opportunities</p> <p>Procurement process improvements “Req to Cheque”.</p>	<p>Commitment to embedding strategy</p> <p>Amount of change already planned via IRP may restrict progress</p> <p>NPS timescale is not wholly achievable</p> <p>Unless corporate ownership is obtained –resistance to change may occur</p> <p>Perceived Constitutional constraints (Standing Orders and Financial Regs)</p> <p>Potential local government changes</p> <p>Potential future externalisation of services may reduce effectiveness of corporate approach to procurement</p> <p>Capacity and Skills levels for procurement are unknown – resources may not be being used effectively</p>

8 – Structure for Procurement

Strategic fit

The diagram below shows the strategic fit and the inter-operation between the Council's various Strategic Plans and the Procurement Strategy.

The Procurement Strategy maintains the link between the Corporate Objectives and individual Service Plans, Action Plans and all other Strategy Documents.



Procurement Organisation

The Government expects that unitary/upper tier Councils will establish dedicated corporate procurement functions to stand alongside other strategic functions and that act as a focal point for procurement expertise within the Council and for suppliers wishing to do business with the council.

The Government suggests that smaller Councils will need to consider other options - e.g. shared resources, partnering and linkages to regional centres for excellence - for creating a focal point and co-ordinating procurement across the council.

If the Council is to be able to address the procurement challenges laid down by Government it will - in addition to establishing "strategic drive" - be necessary to establish operational capacity and expertise in order to both fully engage with the procurement agenda, link with other organisations and support the development of new processes.

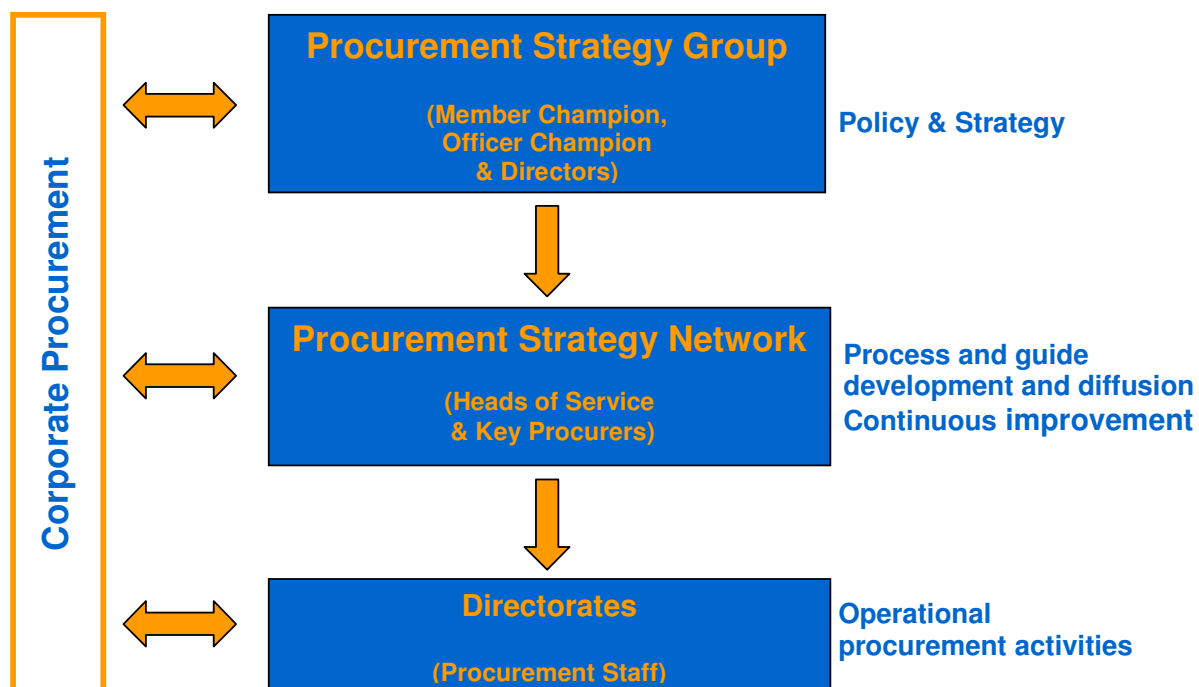
Establishment of a "whole service" procurement function for a relatively small authority such as Chester-le Street is unlikely to be cost-effective or appropriate.

There will, however, be a need for some dedicated capacity and expertise to be available in Corporate Procurement to assist the Council to develop and achieve the Corporate Procurement Strategy and Action Plan and appropriate business processes and guides (tool kit) that can be used by staff with a procurement responsibility.

Chester-le Street have decided to collaborate with a neighbouring local authority and have established a service level agreement for a shared Head of Corporate Procurement to facilitate a strategic capacity and capability and furthermore a centralised Procurement and Purchasing Manager role has been established on a permanent basis within the Council.

In consideration of the Member and top management commitment and resources required to ensure the success of the strategy, as well as the need for cross-functional resource participation, a Procurement Strategy Group and a Procurement Strategy Network are proposed.

The structure for the procurement organisation is shown below and the roles and outline terms of reference are explained:



Corporate Procurement roles and terms of reference

The Service Level Agreement with Derwentside District Council has identified 8 key areas of procurement work to be lead by the Head of Corporate Procurement reporting to the Director of Resources:

SLA key areas:

1. Lead Corporate Procurement Strategy
2. Develop a strategic and co-ordinated approach to Procurement at Service Head Level
3. Develop the purchasing role into a Procurement role
4. Lead Procurement and promote contract establishment for appropriate commodities or services (with either de-centralised or centralised procurement resources)
5. Advise and support the development of common Procurement systems, processes and guides in both LA's
6. Challenge current practices and promote innovative approaches to service delivery
7. Represent the Council at sub-regional, regional and national forums related to procurement
8. Identify and encourage Efficiency study opportunities.

The new Corporate Procurement role is being supported by the Procurement and Purchasing Manager and 2 staff as well as the other staff within the Directorates operating with a de-centralised procurement responsibility, and it is recognised that as the Strategy and Action Plan develops it may be necessary in the future to review the organisation structure and roles and responsibilities.

In order to ensure that the Strategy is appropriately co-ordinated, monitored and implemented a **Procurement Strategy Group (PSG)** will be established and this will be lead by a "Member Champion" for Procurement and an "Officer Champion" from the Corporate Management Team plus other relevant senior management.

The outline terms of reference for the **PSG** will be:

1. To provide Member and senior management commitment and guidance towards the Strategy
2. To monitor and review the implementation of the Corporate Procurement Strategy and Action Plan
3. To propose any revisions to the Strategy as a result of good practice, legislation or other key developments
4. To ensure the Council applies adequate priority and resources towards the successful achievement of the Strategy
5. To continuously promote efficient and effective procurement throughout the Council
6. To report progress of the Strategy to Corporate Management Team and Executive

In order to ensure that a cross-functional approach is adopted with appropriate participation and role sharing of the Action Plan responsibilities a **Procurement Strategy Network (PSN)** will be also be established reporting to the PSG.

The PSN will be lead by Corporate Procurement and will consist of Heads of Service and other key staff with a procurement responsibility or a procurement involvement and will develop a more corporate approach to procurement across the Council as well as to develop and diffuse the processes, guides and systems within the Directorates.

The PSN will also ensure that all Directorates have an opportunity to contribute to and benefit from procurement as well as ensure that appropriate corporate wide resources are applied to achieve the Strategy.

The detailed terms of reference for the PSN will be established and agreed at the PSG.

9 – Procurement Action Plans

(a) Actions to develop leadership and capacity

Action 1

A Portfolio Holder will be formally nominated as “Procurement Champion”

Lead Officer: Chief Executive
Timescale: tbc
Resource: Existing – No additional funding required

Action 2

A member of the Corporate Management Team will be formally nominated as the “Officer Champion” for Procurement and the establishment of CPW.

Lead Officer: Chief Executive
Timescale: tbc
Resource: Existing – No additional funding required

Action 3

A Procurement Strategy Group will be established at an appropriate level in the organisation and a forward schedule of meetings will be agreed to review progress against the Action Plan.

Lead Officer: Director of Resources
Timescale: tbc
Resource: Existing – No additional funding required

Action 4

A Head of Corporate Procurement will be appointed and the role of Procurement & Purchasing Manager will be established.

Lead Officer: Director of Resources
Timescale: January 2006
Resource: Service Level Agreement with Derwentside District Council for Head of Procurement plus use of existing resources for Procurement Manager

Action 5

A Procurement Strategy Network will be established at an appropriate level to develop and diffuse procurement activities across the Council.

Lead Officer: Head of Corporate Procurement
Timescale: tbc
Resource: Existing – No additional funding required

Action 6

Corporate training needs for Members and staff on issues relating to procurement will be identified.

Lead Officer: Head of Organisational Development
Timescale: tbc
Resource: Existing – No additional funding required

Action 7

Procurement training will be prioritised, agreed and built into the appropriate Human Resource/Organisational Development strategies and delivered making use of centrally provided budgets and resources and other regional resources via NECE.

Lead Officer: Head of Organisational Development
Timescale: tbc
Resource: To be determined during Action 6 and built into the corporate training plan

Action 8

The Council's Contract Standing Orders will be reviewed annually and updated as required in order to incorporate the new approaches to Procurement that are developed as a result of this strategy.

Lead Officer: Legal and Democratic Services Manager
Timescale: tbc
Resource: Existing – No additional funding required

Action 9

Codes of Conduct for Members and Staff will be reviewed and updated as necessary in order to incorporate the new approaches to Procurement that are developed as a result of this strategy.

Lead Officer: Legal and Democratic Services Manager
Timescale: tbc
Resource: Existing – No additional funding required

Action 10

A Contracts Register will be established, maintained and updated on a rolling basis.

Lead Officer: Procurement & Purchasing Manager
Timescale: tbc
Resource: Existing – No additional funding required

Action 11

Spend analysis and Directorate spend reviews will occur to establish procurement priorities related to contract establishment

Lead Officer: Procurement & Purchasing Manager
Timescale: tbc
Resource: Powerplay spend analysis tool and training to be obtained from NECE

Action 12

Each Directorate will establish all procurement priorities within Service Plans on an annual basis

Lead Officer: All Heads of Service
Timescale: tbc
Resource: Existing – No additional funding required

Action 13

An annual procurement plan will be prepared setting out anticipated procurement requirements and priorities based upon the Service Plans developed by each Directorate

Lead Officer: Procurement & Purchasing Manager
Timescale: tbc
Resource: Existing – No additional funding required

Action 14

Establish a contract and partnering monitoring process to ensure that equality targets set out in the Council's Equality Policy are achieved by suppliers and partners, and to ensure that agencies deliver services on behalf of the Council fairly and without discrimination

Lead Officer: Procurement & Purchasing Manager
Timescale: tbc
Resource: Existing – No additional funding required

(b) Actions to promote partnering and collaboration

Action 15

Partnering and Collaboration arrangements - both existing and potential - will be mapped with a view to:

- Identifying needs for further research and support; and
 - Feeding in to future review/development of contracts and services.
- This will entail working with the Regional Centre of Excellence, neighbouring Authorities and other organisations.

Lead Officer: Head of Corporate Procurement
Timescale: tbc
Resource: No additional funding anticipated – to be assessed following study

Action 16

Key suppliers, partners and partnerships will be identified and appropriate relationship management procedures put into place.

Lead Officer: Procurement & Purchasing Manager
Timescale: tbc
Resource: No additional funding anticipated – to be assessed following study

Action 17

The Procurement Strategy Network will establish procurement guides, processes and documentation (tool kit) to standardise the approach to procurement activity across the Council including Partnering and Collaboration.

Lead Officer: Head of Corporate Procurement & PSN
Timescale: tbc
Resource: Funding and resources to be provided by PSN members existing resources within their Directorates

Action 18

Participate actively in regional and other appropriate collaborative procurement forums including Durham Procurement Partnership and NECE in order to identify and assess opportunities to collaborate

Lead Officer: Head of Corporate Procurement
Timescale: January 2006
Resource: Resource obtained in Action 4

Action 19

Implement the use of formal strategic partnering arrangements for future construction projects.

Lead Officer: Head of Housing Services & Head of Property Services
Timescale: tbc
Resource: No additional funding anticipated – to be assessed following study

(c) Actions to do Business Electronically**Action 20**

Options and costings for the feasibility of introducing e-procurement solutions will be developed and considered to support IEG requirements

Lead Officer: ICT Manager / e-government Officer
Timescale: tbc
Resource: Existing – No additional funding required

Action 21

An appropriate e-procurement system will be agreed as a result of considering the business case and an implementation plan will be developed for each approved technology / solution.

Lead Officer: ICT Manager / e-government Officer
Timescale: tbc
Resource: Each technology option to be assessed via a business case

(d) Actions to stimulate markets and achieve community benefits**Action 22**

Study, develop and adopt the Small Business Friendly Concordat in order to promote and support the ability of SME's to engage with the Council for potential procurement opportunities.

Lead Officer: Regeneration Manager
Timescale: tbc
Resource: No additional funding requirement anticipated at this stage

Action 23

Study, develop and adopt a Voluntary and Community Sector (VCS) Compact in order to promote and support the ability of the VCS to engage with the Council for potential procurement opportunities.

Lead Officer: Regeneration Manager
Timescale: tbc
Resource: No additional funding requirement anticipated at this stage

Action 24

Establish a well signposted Corporate Procurement page on the Council's website.

Lead Officer: ICT Manager / e-government Officer
Timescale: tbc
Resource: Existing – No additional funding required

Action 25

Develop a user friendly "Selling to the Council Guide" and publish details of future opportunities on the Corporate Procurement section of the website

Lead Officer: ICT Manager / e-government Officer
Timescale: tbc
Resource: Existing – No additional funding required

Action 26

In support of Regeneration - Develop a plan to ensure that SME's are aware, engaged and advised how to obtain support and not excluded from Council procurement opportunities as a result of the NPS and Gershon Efficiency agenda (ref. perceived aggregation / e-procurement risks)

Lead Officer: Regeneration Manager
Timescale: tbc
Resource: No additional funding anticipated – to be assessed following study

(e) Actions to Improve Performance Management

Action 27

Develop a standard tender evaluation and sourcing summary template for all major procurement items to record the evaluation and decision-making process and procurement result versus budget.

Lead Officer: Head of Corporate Procurement
Timescale: tbc
Resource: Resource obtained in Action 4

Action 28

Assess the range of available performance indicators relating to Procurement with a view to adopting appropriate measures that will be applied to future procurement activity.

Lead Officer: Head of Corporate Procurement
Timescale: tbc
Resource: Resource obtained in Action 4

Action 29

Engage with the Improvement and Development Agency (I&DeA) to consider impact of the Corporate Procurement Strategy and take advice on timing for future health check.

Lead Officer: Head of Corporate Procurement
Timescale: tbc
Resource: No additional funding requirement anticipated at this stage

10 – Action Plan Summary

Directorate Input / Support

Schedule

No	Action	Lead Officer	Directorate Input / Support					Schedule												
			Chief Executive	Development Services	Community Services	Resources	Assistant Chief Executive	April 2006	June 2006	September 2006	December 2006	March 2007	June 2007	September 2007	December 2007	March 2008	June 2008	September 2008	December 2008	March 2009
1	Portfolio Holder formally nominated as the "Procurement Champion"	Chief Executive																		
2	CMT member formally nominated as the "Officer Champion"	Chief Executive	✓				✓													
3	Procurement Strategy Group to be established	Director of Resources	✓	✓	✓	✓	✓													
4	Head of Corporate Procurement and support staff to be established	Director of Resources				✓		!	Schedule to be agreed following further stakeholder engagement and CMT review.											
5	Procurement Strategy Network to be established	Head of Corporate Procurement	✓	✓	✓	✓	✓													
6	Procurement training needs identified	Head of Organisational Development	✓	✓	✓	✓	✓													
7	Procurement training built into HR strategy and delivered	Head of Organisational Development				✓														
8	Contract Standing Orders reviewed and updated	Legal and Democratic Services Manager					✓													

No	Action	Lead Officer	Chief Executive	Development Services	Community Services	Resources	Assistant Chief Executive	April 2006	June 2006	September 2006	December 2006	March 2007	June 2007	September 2007	December 2007	March 2008	June 2008	September 2008	December 2008	March 2009	
9	Codes of Conduct for Members and staff reviewed and updated	Legal and Democratic Services Manager					✓														
10	Contracts Register to be established, maintained and updated	Procurement & Purchasing Manager	✓	✓	✓	✓	✓														
11	Spend analysis and spend reviews completed with Directorates	Procurement & Purchasing Manager	✓	✓	✓	✓	✓														
12	Service Plans contain procurement priority activities	Heads of Service	✓	✓	✓	✓	✓	Schedule to be agreed following further stakeholder engagement and CMT review.													
13	Annual Procurement Plan prepared	Procurement & Purchasing Manager	✓	✓	✓	✓	✓														
14	Equality Policy contracting and partnering monitoring process	Procurement & Purchasing Manager	✓	✓	✓	✓	✓														
15	Partnering and Collaboration arrangements mapped	Head of Corporate Procurement	✓	✓	✓	✓	✓														
16	Relationship Management procedures in place for key suppliers	Procurement & Purchasing Manager	✓	✓	✓	✓	✓														

No	Action	Lead Officer	Chief Executive	Development Services	Community Services	Resources	Assistant Chief Executive	April 2006	June 2006	September 2006	December 2006	March 2007	June 2007	September 2007	December 2007	March 2008	June 2008	September 2008	December 2008	March 2009	
17	PSN to establish procurement tool kit	Head of Corporate Procurement				✓		!													
18	Active participation in collaborative procurement forums	Head of Corporate Procurement	✓	✓	✓	✓	✓														
19	Investigate strategic partnering or collaboration arrangements for construction projects	Heads of Housing & Property Services		✓																	
20	e-procurement feasibility study developed and completed	ICT Manager				✓		Schedule to be agreed following further stakeholder engagement and CMT review.													
21	e-procurement implementation plan with target introduction date for each technology type	ICT Manager	✓	✓	✓	✓	✓														
22	SME Friendly Concordat adopted	Regeneration Manager	✓	✓	✓	✓	✓														
23	VCS Compact adopted	Regeneration Manager	✓	✓	✓	✓	✓														
24	Establish well signposted Corporate Procurement page on Website	ICT Manager				✓															

No	Action	Lead Officer	Chief Executive	Development Services	Community Services	Resources	Assistant Chief Executive	April 2006	June 2006	September 2006	December 2006	March 2007	June 2007	September 2007	December 2007	March 2008	June 2008	September 2008	December 2008	March 2009	
25	"Selling to the Council guide" published on the Council's website	Procurement & Purchasing Manager				✓															
26	SME e-procurement awareness	Regeneration Manager																			
27	Develop a tender evaluation / sourcing summary template to record procurement decision-making	Head of Corporate Procurement	✓	✓	✓	✓	✓														
28	Assess potential application of procurement performance indicators	Head of Corporate Procurement	✓	✓	✓	✓	✓														
29	Investigate and plan date for procurement Health check activity with I&DeA	Head of Corporate Procurement				✓															

Schedule to be agreed following further stakeholder engagement and CMT review.