

Isle of Wight Council

PROCUREMENT STRATEGY



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October 2002

(JES version 4b)



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Preface

This Procurement Strategy is **NOT** a procurement manual or a set of purchasing procedures. Its principal purpose is to set the overall context for procurement and, by building on some current elements of good practice, to map the future developments and likely improvements in the way the Isle of Wight Council approaches its procurement activities as a whole.

It should be read in conjunction with:-

- The Council's Standing Orders as to Contracts (dated 20 March 2002)
- The Best Value toolkit, in particular the Procurement Policy – 1B (dated 13 August 1999)
- Other procurement guidance to be published in due course.

Isle of Wight Council

PROCUREMENT STRATEGY

1. Introduction

Whether it is in the public or private sector, the formulation of a procurement strategy is an essential feature of effective procurement. All local authorities are being actively encouraged to develop their own procurement strategy to promote best practice, and to help provide the vision and focus for the attainment of genuine improvements in this key area.

There is strong evidence to support the widely held view that, properly managed, effective procurement can make a real difference to service delivery and that it is frequently “mission critical” to the overall well-being of the organisation itself. Understandably then, in nearly all successful companies and organisations, procurement activity increasingly and rightly demands the attention of top-level management. This point is amply demonstrated by the following recent quote from the Chief Executive of a medium sized office products company: “The procurement process is one of the most critical components of a successful business operation. It is also at the forefront of the eBusiness revolution that is changing fundamentally the way businesses work.....”

Procurement is a very wide and comparatively diverse subject. Essentially it is concerned with obtaining the best out of the marketplace and managing the relationships/interfaces with one’s external suppliers. By its very nature, procurement can be deemed to embrace all non-payroll related expenditure (invariably a very significant proportion of any organisation’s total costs) whilst in its broadest and most fundamental sense it should also address the basic so-called “make or buy” decisions (i.e. in-house provision versus outsourcing). Thus the traditional perspective (in some circles) of a purchasing function operating in a fairly narrow and predominantly transactional environment, being concerned mainly with buying a range of lower value goods, is somewhat far removed from the demands of a more modern, strategically focused procurement function.

In terms of developing an effective procurement strategy, it is definitely not a case of “one size fits all”. The strategy needs to reflect the particular needs, circumstances and aspirations of the individual organisation. It cannot operate in an organisational vacuum; thus it must be responsive to, and in full harmony with, the organisation’s corporate objectives. The scale of any particular requirement will be an important factor in determining the complexity of the purchasing process to be deployed. There will therefore be some differences when buying say, the humble paper clip as opposed to a piece of computer software, or perhaps between letting a new office cleaning contract as opposed to commissioning a major civil engineering project.

2. Background

2.1 Historical perspective

The previous decade or so saw several significant examples of services or activities that had traditionally been delivered in-house by the Isle of Wight Council being transferred or outsourced to a variety of external organisations in both the public and private sectors.

For example, virtually all of the Council's mainstream "blue collar" service work (e.g. grounds maintenance, waste collection, highways maintenance, office cleaning, etc.) was externalised, as were the majority of its residential care homes and its entire social housing stock. Conversely, the Revenues and Benefits function was retained in-house following due competitive process under the old compulsory competitive tendering regime.

The nett result is that these days the Isle of Wight Council operates a substantially mixed economy, with the provision of both frontline and support services being delivered variously through a balance of in-house and external (third party) resources. This process has continued to evolve and more recently the advent of Best Value has provided a further formal framework to foster an ongoing review of the fundamental "make or buy" decision in regard of a number of key services.

Currently around 50% of the Isle of Wight Council's total annual budget is spent on bought-in goods, services and works – a total of £85million, which is a significant sum. The effective procurement of these and other future requirements is inextricably linked to the delivery of genuine Best Value, and ultimately makes a very significant contribution to the Council's success in providing quality services to the public. What happens after contract signature is perhaps even more important than what happens before - but this means getting the contract right in the first place.

2.2 Economic context

The very fact that the Isle of Wight is an island can impose (potentially at least) certain constraints and special logistic considerations regarding the Council's procurement activities. Whilst this is not the arena for a lengthy debate on the wider severance by sea issues, limited competition and/or additional contractor costs (e.g. covering cross-Solent expenses and other out-of-area contractor premiums) are the most obvious examples likely to affect some areas of our procurement.

A second important factor to be borne in mind is that in relative terms the Isle of Wight Council is not a particularly large authority. Whilst big is certainly not always best, it does mean that as a fairly small unitary authority we do not always have the resources - either financial or human - nor indeed the basic buying power, to necessarily become a "leading edge" procurement player. This is certainly not complacency, but perhaps recognition that on occasions a slightly more cautious approach to higher risk procurement initiatives may be appropriate, or maybe that greater collaboration with other authorities to share development costs and/or obtain better leverage in the marketplace should be encouraged.

2.3 Organisational culture

No two organisations are identical and inevitably there are certain aspects of both corporate governance and "organisational culture" that have tended to help shape the way procurement in general has developed to date. That old maxim "what works best is what works" is perhaps not entirely inappropriate in this context.

However, it is considered that the recent organisational restructuring that has taken place within the Council has provided fresh impetus and opportunity for developing a stronger and more co-ordinated, strategically focused approach to procurement. The real challenge is now to respond positively and with purpose to this enhanced remit for the benefit of the Council as a whole (and, of course, the community it serves).

2.4 Government policy

There is a wealth of policy, initiatives and guidance emanating from central government on a full range of procurement issues, backed up by a robust array of inspection processes within local authorities. Examples include Best Value legislation, the Byatt Report ("*Delivering Better Services for Citizens*"), the Egan Report ("*Rethinking Construction*"), the e-Government/e-procurement drive, to name just some. In essence, they are all related threads with a common theme – i.e. that procurement, in all its facets, is seen as vitally important to the ability of each and every Council to sustain and improve the delivery of services to its community.

2.5 It is against this backcloth that the Isle of Wight Council's Procurement Strategy has been developed, together with an Action Plan. The strategy itself is intended to develop a powerful driver and robust tool to achieve step change in improving procurement practice, and in so doing help establish a wider understanding of many procurement issues throughout the Isle of Wight Council.

3. Key Objectives

Delivering quality public services is an overriding objective of Government – both at central and local level. The Isle of Wight Council will actively strive to obtain best value in the way it spends money, so that it may in turn offer best value services to the public it serves. In doing so, the Council will seek:-

- 3.1 To ensure all procurement activity undertaken by and on behalf of the Council is carried out with integrity and is compliant with all relevant legislation, and that it is conducted in a fair, objective and transparent manner.
- 3.2 To ensure that the appropriate procurement skills are developed and embedded throughout the organisation (recognising the highly devolved nature of the organisation and the fact that the great majority of spending is carried out by front-line staff in individual Service Units).
- 3.3 To identify and pursue a range of options and tactics most suitable to the particular procurement being undertaken, having regard to the "procurement positioning matrix" set out in this strategy. (See Fig.1 in section 4)
- 3.4 To systematically review all current contracts (and non-contract expenditure) to identify potential opportunities for improvements through, *inter alia*:-
 - More effective demand aggregation
 - More suitable "repackaging" of the service work content
 - Alternative methods of service delivery (including partnership/ collaborative/ outsourcing/ internalising options, etc.).

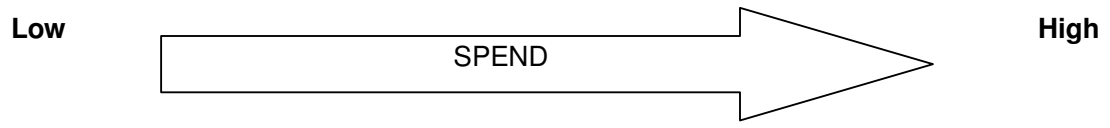
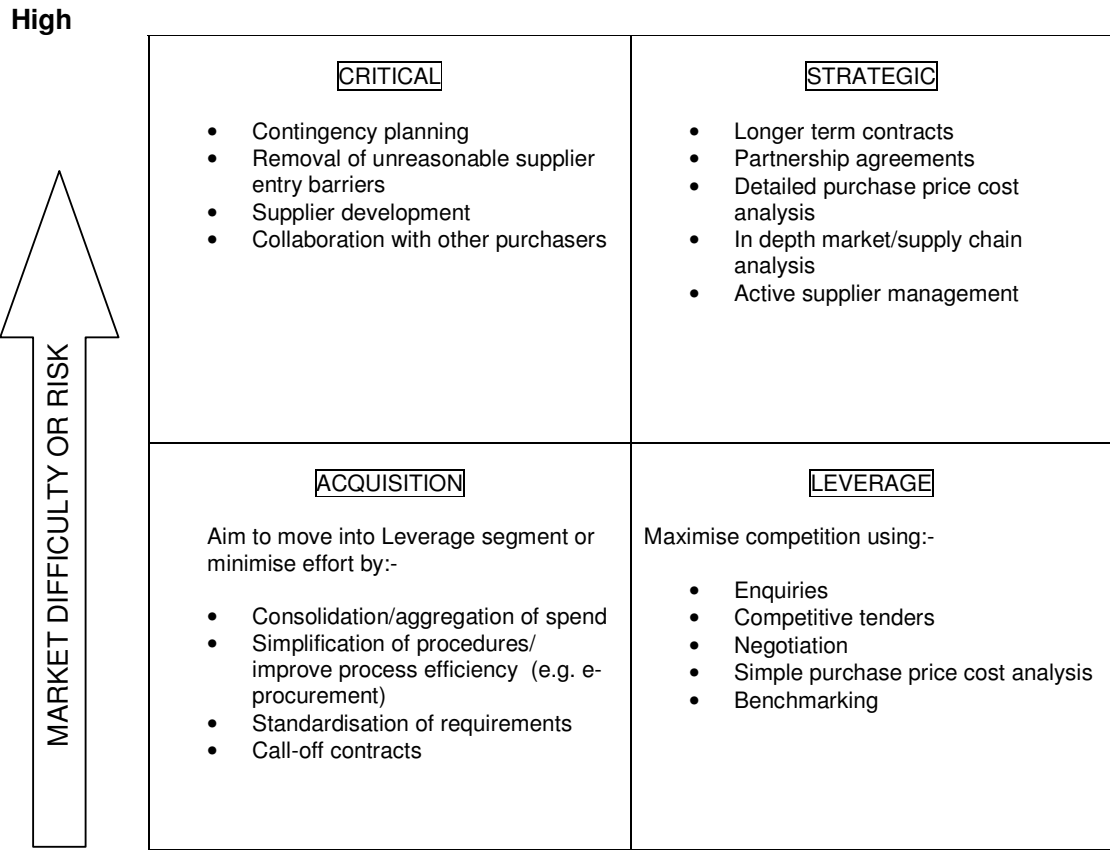
Furthermore, to ensure that such efforts are not diluted or undermined by the existence of artificial barriers such as departmental boundaries (and ensuring the mandatory use of any established corporate contracts throughout the Council).

- 3.5 To recognise the Council's position in the local community as both a significant customer and a key strategic player in the well-being of the local economy, and thus to seek to develop a range of procurement initiatives (where practical and legally allowable) to encourage the development of the local supplier base.

- 3.6 To actively encourage the identification and utilisation of a range of “environmentally friendly” products and services by the Council as a whole, thereby contributing positively to the Council’s Agenda 21 strategy and its commitment to sustainability issues in general.
- 3.7 To present to the marketplace as a whole a positive image of the Isle of Wight Council as being an “intelligent client” with whom suppliers and contractors would wish to do business. This to be reinforced through:-
- Good standards of procurement documentation and communications generally
 - A balanced approach to risk
 - Open and fair conduct throughout
- 3.8 To review and develop effective and efficient information systems relevant to the needs of a modern day procurement activity, including the development of e-procurement capability.
- 3.9 To invest in the Compliance Section of the Council’s Finance & Business Services Department the necessary resources and authority to effectively focus on, co-ordinate and help deliver the key elements of this procurement strategy, and the dissemination of procurement best practice throughout the Council.

4. A touch of theory

Clearly not all purchases are the same. Indeed the nature of purchasing decisions will vary, depending on the relative importance/cost of the product or service itself and the prevailing supply or market conditions. Hence some procurement approaches are usually more appropriate than others in any given situation. Whilst not put forward as some kind of panacea, the following commonly-used matrix (Fig. 1) does illustrate a range of broadly applicable procurement options and approaches which underpin much of what this Purchasing Strategy strives to deliver:-



(Note: Market difficulty can be a reflection of various factors e.g. monopoly or limited number of suppliers, complexity of products and services, rate of technological change, degree of risk, the consequences of supply failure, including the inherent importance of the goods or service to the organisation, etc.)

Fig. 1

5. Targets and Action Plan

The following pages set out some specific targets and actions that the Isle of Wight Council will pursue as part of its medium term (i.e. next 3 years or so) Procurement Strategy.

5.1 FOCUS AND CO-ORDINATION

Ref.	Targets & Action	Timescales	Lead Responsibility	Links to Byatt Report recommendations
5.1.1	A Strategic Director to be nominated as "Champion" for procurement issues.	July 2002	J Pulsford	2
5.1.2	Establish a Procurement Forum comprising one (or two where considered more appropriate) nominated senior officer(s) from each Strategic Directorate, with the aim of providing greater focus on procurement issues throughout the Authority.	September 2002	Strategic Directors to nominate	3,8,9
5.1.3	Procurement Forum to meet quarterly. To review, <i>inter alia</i> :- <ul style="list-style-type: none"> • Current contract programme including renewal dates, opportunities to repackage work, allocation of lead buyers, partnership collaboration potential, etc. • Forecast expenditure plans for forthcoming (rolling) 12-18 months • General procurement issues, as necessary. 	December 2002	R Streets/ J Spencer	3,4,8,9
5.1.4	Quarterly reports to be produced for Strategic Directors, Executive Portfolio Holder (Resources) and Chairman of Resources Select Committee on key issues arising from Procurement Forum.	January 2003	J Spencer	10
5.1.5	Review appropriateness of Standing Orders as to Contracts at least every two years.	March 2004	R Streets	11
5.1.6	Encourage the effective integration of good procurement practice into Service Plans, as appropriate.	July 2003	Heads of Service	3
5.1.7	Formally review the overall success of this Procurement Strategy and, in particular, its contribution to improved corporate governance and performance management issues within the Council. Following on from this, to sanction the development of a successive Procurement Strategy (cognisant of relevant developments evolving from the recent ODPM/LGA publication " <i>Towards a National Strategy for Local Government Procurement</i> ").	March 2005	Strategic Directors	14
Links to Corporate Objectives: <ul style="list-style-type: none"> • Providing high quality Council services 		Underlying values of the Council <ul style="list-style-type: none"> • Giving excellent service • Being open and fair 		
Expected outcomes: <ul style="list-style-type: none"> • Improved communications • Better planning and co-ordination • Potential improvements in overall value-for-money 				

5.2 TRAINING AND DEVELOPMENT

Ref.	Targets & Action	Timescales	Lead Responsibility	Links to Byatt Report recommendations			
5.2.1	<p>Compile active list of all staff empowered to:-</p> <ul style="list-style-type: none"> • Raise purchase orders • Authorise expenditure (individual transactions < £5000) • Authorise expenditure (individual transactions > £5000) • Manage contracts (< £50000 per year) • Manage contracts (> £50000 per year) 	November 2002	J Spencer	11,14			
5.2.2	<p>Identify the range of core procurement skills and competencies appropriate to the Council's needs. Provisional list to include:-</p> <table border="0"> <tr> <td style="vertical-align: top;"> <p><u>Basic</u></p> <ul style="list-style-type: none"> • Basic contract law • Standing orders as to contracts • Procurement ethics • Risk management </td> <td style="vertical-align: top;"> <p><u>Intermediate</u></p> <ul style="list-style-type: none"> • Specification writing • Contracting strategies • Preparing contracts • Appraising suppliers • Managing contracts • Environmental Purchasing • EU procurement regulations </td> <td style="vertical-align: top;"> <p><u>Advanced</u></p> <ul style="list-style-type: none"> • Project management • Negotiation • Partnering/Alliances </td> </tr> </table>	<p><u>Basic</u></p> <ul style="list-style-type: none"> • Basic contract law • Standing orders as to contracts • Procurement ethics • Risk management 	<p><u>Intermediate</u></p> <ul style="list-style-type: none"> • Specification writing • Contracting strategies • Preparing contracts • Appraising suppliers • Managing contracts • Environmental Purchasing • EU procurement regulations 	<p><u>Advanced</u></p> <ul style="list-style-type: none"> • Project management • Negotiation • Partnering/Alliances 	Consult with all Directorates to establish likely skills gap. Initial analysis by December 2002	J Spencer	5,14,31
<p><u>Basic</u></p> <ul style="list-style-type: none"> • Basic contract law • Standing orders as to contracts • Procurement ethics • Risk management 	<p><u>Intermediate</u></p> <ul style="list-style-type: none"> • Specification writing • Contracting strategies • Preparing contracts • Appraising suppliers • Managing contracts • Environmental Purchasing • EU procurement regulations 	<p><u>Advanced</u></p> <ul style="list-style-type: none"> • Project management • Negotiation • Partnering/Alliances 					
5.2.3	Consider options for providing/developing a series of suitable training modules to meet requirements of the above.	Identify initial programme by May 2003	J Spencer/ C Shand	5,14,15,16			
5.2.4	<p>Evaluate the possibility of introducing a formalised accreditation scheme (or procurement "driving licence") for all staff with appropriate devolved responsibility for procurement matters. Possibly to comprise 3 levels - basic, intermediate and advanced.</p> <p>[Provisional target of 50% of all relevant staff to have undertaken the scheme within one year of it being introduced; 80% within two years and 100% (i.e. compulsory) within 3 years]</p>	Dependent on 5.2.2 & 5.2.3, and emergence of possible national LA scheme. Review by September 2003	J Spencer/ C Shand	14,15			

5.2 (continued) TRAINING AND DEVELOPMENT

Ref.	Targets & Action	Timescales	Lead Responsibility	Links to Byatt Report recommendations
5.2.5	Develop a general procurement awareness training module as part of the Corporate Induction Programme for all new start employees.	June 2003	J Spencer/ R Streets	14
5.2.6	Publish procurement guidance notes and disseminate best practice information as appropriate.	Compile contents summary by December 2002. Develop guidance notes on modular/ ongoing basis	J Spencer	2,3,14
<p><u>Links to Corporate Objectives:</u></p> <ul style="list-style-type: none"> • Providing high quality Council services • Raising educational standards & promoting lifelong learning 		<p><u>Underlying values of the Council</u></p> <ul style="list-style-type: none"> • Giving excellent service 		
<p><u>Expected outcomes:</u></p> <p>Wider development of appropriate procurement skills throughout the Authority</p>				

5.3 MARKETS

Ref.	Targets & Action	Timescales	Lead Responsibility	Links to Byatt Report recommendations
5.3.1	Maintain an up-to-date database comprising the contract programme to facilitate the planning and timely re-tendering of all necessary contracts. Publish on intranet.	December 2002	A Bean/ J Spencer	20
5.3.2	Publish an effective "Purchaser Profile" on the Council's website to provide relevant information to prospective suppliers as to what we buy and how we generally buy it.	September 2003	J Spencer	4,21
5.3.3	Proactively publish all relevant Prior Indicative Notices to assist forward planning and help reduce some of the longer timescales ordinarily associated with the EU procurement regulations.	April 2003	Responsible contract officers	21
5.3.4	Hold annual Isle of Wight Council "Meet the Buyer" event to help identify and encourage potential new suppliers.	May 2004	J Spencer	21
5.3.5	Establish and monitor the proportion of the Council's total spend on goods and services (but necessarily excluding all contracts above EU procurement thresholds) that is spent with local (i.e. Isle of Wight based) suppliers and contractors. Consider possible initiatives, where justifiable and consistent with other aims, to stimulate an increase in this ratio of up to 5% by the year 2005.	April 2003	J Spencer	5

<u>Links to Corporate Objectives:</u> <ul style="list-style-type: none"> • Encouraging job creation and economic prosperity • Providing high quality Council services 	<u>Underlying values of the Council</u> <ul style="list-style-type: none"> • Being open and fair • Working in partnership • Giving excellent service
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<u>Expected outcomes:</u> <ul style="list-style-type: none"> • Encourage more effective competition • Improve the way the Isle of Wight Council presents itself to the marketplace

5.4 STYLE AND IMAGE

Ref.	Targets & Action	Timescales	Lead Responsibility	Links to Byatt Report recommendations
5.4.1	Develop a new set of standard Conditions of Purchase for:- <ul style="list-style-type: none"> • Goods • Services <p>These to be fair, straightforward and overall present a balanced exposure to risk.</p>	August 2003	J Lawson/ J Spencer	27,28
5.4.2	Establish an agreed portfolio of Model Forms of Conditions of Purchase for use in various specialised applications including construction, ICT software, consultancy, etc.	December 2003	J Lawson/ J Spencer	27,28
5.4.3	Overhaul standard tender documentation and produce new “user friendly” tendering template for which Crystal Mark accreditation to be sought.	November 2003	J Spencer	27
5.4.4	Identify at least two large-scale building or civil engineering projects to pilot a partnership-style contract approach.	June 2004	T Flower/ S Matthews	25,28,31,33
Links to Corporate Objectives: <ul style="list-style-type: none"> • Providing high quality Council services 		Underlying values of the Council <ul style="list-style-type: none"> • Giving excellent service • Being open and fair • Working in partnership 		
Expected outcomes: <ul style="list-style-type: none"> • Improved standards of documentation • Project improved image of Isle of Wight Council • Help manage contractual risks 				

5.5 SYSTEMS AND PROCEDURES

Ref.	Targets & Action	Timescales	Lead Responsibility	Links to Byatt Report recommendations
5.5.1	<p>Establish a project team to review the ICT systems requirements to more effectively support the future procurement activities of the Council.</p> <p>A key requirement is to identify and adopt an effective e-procurement solution in line with the Government's current e-government target date of 2005. In selecting the preferred technical solution, to ensure that the engagement of suppliers is adequately considered, and that cost- or technology-based exclusion of local suppliers and other SME's (small to medium enterprises) is avoided as far as reasonably practicable. Other critical success factors include the effective integration with back-office systems and improved purchasing management information.</p>	Full business case to be completed by September 2003 (subject to resources). Implementation programme to be determined subsequently, with rollout completed by December 2005.	D Price/ E Brown	17,19,20
5.5.2	Phase out all manual (i.e. non-computer) purchase orders.	December 2003 (possibly subject to 5.5.1)	All Directorates	17
5.5.3	Commission a review of the viability of introducing purchasing cards as a more efficient administrative method of handling many low value purchase orders.	Complete review by October 2003. Pilot and rollout dates still to be determined.	To be confirmed	17
<p>Links to Corporate Objectives:</p> <ul style="list-style-type: none"> Providing high quality Council services 		<p>Underlying values of the Council</p> <ul style="list-style-type: none"> Giving excellent service 		
<p>Expected outcomes:</p> <ul style="list-style-type: none"> Improved efficiency 				

5.6 FINANCIAL BENEFITS AND EFFICIENCY

Ref.	Targets & Action	Timescales	Lead Responsibility	Links to Byatt Report recommendations
5.6.1	Aspire to achieve total year-on-year savings (including efficiency benefits and service improvements) equivalent to 2% of total purchases of goods and services	March 2004 (Review of year 1)	All Directorates. J Spencer/ R Streets to monitor	-
5.6.2	Develop a plan to rationalise the existing supplier base, seeking to reduce any uneconomic transaction costs normally associated with very small creditor accounts, etc.	March 2004	Creditor Payments/ J Spencer	9
5.6.3	Actively seek greater use of collaborative purchasing arrangements where considered viable. To investigate opportunities for increasing the uptake against established framework agreements as follows:- <ul style="list-style-type: none"> OGC "national" agreements (<i>OGCbuying.solutions</i>) - up to 5% of Council's total spend Various Local Authority consortia (or similar partnerships) - up to 10% of Council's total spend 	Continuous improvement	Procurement Forum to consider	6,23,24
Links to Corporate Objectives: <ul style="list-style-type: none"> Providing high quality Council services 		Underlying values of the Council <ul style="list-style-type: none"> Giving excellent service Being open and fair Working in partnership 		
Expected outcomes: <ul style="list-style-type: none"> Improved value-for-money Increased collaboration 				

5.7 ENVIRONMENT

Ref.	Targets & Action	Timescales	Lead Responsibility	Links to Byatt Report recommendations
5.7.1	As far as is reasonably possible to encourage the development of “environmentally friendly” considerations and options when formulating specifications for products and services, to reinforce the aims of the Agenda 21 strategy.	Continuous improvement	A Mawle/ J Spencer	2
<p><u>Links to Corporate Objectives:</u></p> <ul style="list-style-type: none"> • Protecting the Island’s natural, built and historic environment • Providing high quality Council services 		<p><u>Underlying values of the Council</u></p> <ul style="list-style-type: none"> • Caring for our unique environment • Listening to people 		
<p><u>Expected outcomes:</u></p> <ul style="list-style-type: none"> • Contribute positively to the Council's Agenda 21 strategy and sustainability policies generally 				