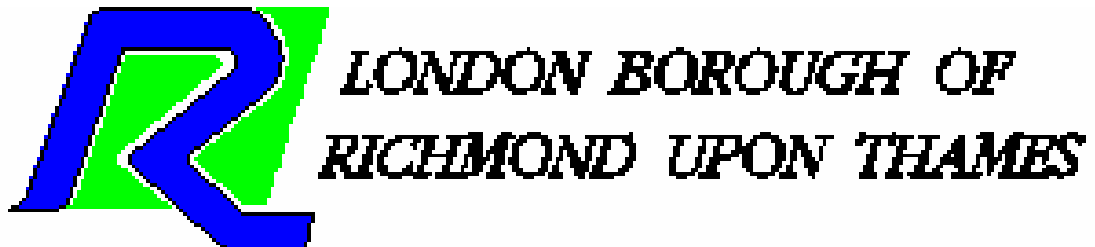


Appendix A



PROCUREMENT STRATEGY

MAY 2004

PROCUREMENT STRATEGY

BACKGROUND

Introduction

Procurement is the process by which the Council acquires goods, works and services to meet its requirements. This can cover everything from day to day buying of stationery to major multi million pound contracts for delivery of services and construction works.

The Council is committed to a mixed economy of procurement options for service delivery and for undertaking works. The key objective is to deliver the highest quality goods, works and services at an affordable price however the service is delivered. The Council has embraced competition as a means of identifying the preferred provider.

As more goods, works and services are bought in so effective management of their procurement is critical to delivering high quality services that give value for money. Information about methods of service delivery, the structure of supply markets for different services and the opportunities for competition are researched during major procurement projects, and Best Value and other efficiency reviews. Major procurement projects and service reviews identify potential improvements in services and discuss the potential for their adoption with current and potential suppliers. The outcome of this research may suggest new methods of service delivery and give possible alternative ways of service procurement that are likely to generate the highest level of interest.

Sound procurement practices will form a significant element in demonstrating corporate effectiveness as part of the Comprehensive Performance Assessment framework.

The government has indicated that a key element in achieving its modernising agenda is for local government to have in place a good procurement strategy.

The Council has an overall estimated expenditure of approximately £ 86 million per annum on goods, works and services, excluding salaries, grants and the like. The number of invoices associated with this expenditure is approximately 102,000. There are approximately 290 creditors that generate over 50 invoices each per year.

A modern procurement strategy will provide a focus for meeting the Best Value objectives of Economy, Efficiency, Effectiveness, Equality and Environment.

Definition and Role

Procurement is 'the whole process of acquisition of goods, works and services. This process spans the whole life cycle from initial concept through to the end of the useful life of an asset (including disposal) or the end of a service contract'.

The role of procurement is to give best effect to the Council's corporate strategies and objectives by linking them with every aspect of service delivery to provide best value for the Council and its residents.

The government's National Procurement Strategy published in 2003 places the role of procurement and its modernisation in the forefront of delivering continuous improvement in local government services.

Aims of the Strategy

The overall objective of the procurement strategy is to ensure that the Council obtains value for money and the quality it requires in the procurement of its goods, works and services.

The strategy provides a framework for the development of the procurement function and improvements in the procurement culture of the organisation so that it is better able to meet the needs of the people of Richmond upon Thames.

It aims to:

- 1) Obtain best value from the Council's procurement expenditure
- 2) Minimize the cost of procurement transactions
- 3) Reduce the supplier base
- 4) Increase the Council's purchasing power by acting in partnership with other similar organisations
- 5) Encourage the active participation of Small and Medium Sized Enterprises (SME's), including local businesses through support and collaboration
- 6) Encourage internal and external stakeholders to adopt appropriate environmental and ethical standards
- 7) Embrace electronic procurement within the context of the government's e-government targets
- 8) Improve internal and external communications and promote innovation by sharing information and best practice
- 9) Enhance transparency and probity
- 10) Encourage the development of collaboration and partnership working with all stakeholders in the supply chain
- 11) Enhance the provision of performance information
- 12) Provide a framework that provides for consistent decision-making in major procurement projects.

External Context

The procurement function needs to satisfy and respond to a number of inspection regimes and government bodies including those of the Audit Commission, the District Auditor and the ODPM. In addition, the Council is committed to meeting the principal recommendations of the best practice reviews identified below.

In 2000 the DETR and LGA commissioned a review of local government procurement from the independent Local Government Procurement Taskforce, chaired by Sir Ian Byatt. Its terms of reference were to review the state of procurement and commissioning skills and practice in local government. The review

was published in June 2001 and made 39 recommendations in line with best practice.

A National Strategy For Local Government Procurement In England was published in 2003 by the ODPM. This encapsulated many of the aspirations of the Byatt report and set targets for local authorities in respect of procurement best practice.

The 1998 report 'Re-thinking Construction' commissioned by the deputy prime minister and produced by Sir John Egan's Construction Task Force made a number of recommendations associated with the modernisation of the construction industry. Many of its best practice recommendations are directly associated with the construction procurement process.

The Council is committed to working with the London Centre of Excellence, established by the ODPM and coordinated by the Association of London Government (ALG), as one of a national network of centres of procurement excellence.

FIT WITH THE COUNCIL'S STRATEGIES, PLANS AND OBJECTIVES

The objectives of an enhanced procurement regime will work within the context of delivering the Council's corporate objectives as expressed in the Community Plan. Its vision defines Richmond upon Thames as a borough where people:

- take pride in the borough
- feel safe
- live in a clean and pleasant environment
- enjoy good quality well managed services that are value for money.

The key aims that will help in achieving this vision are expressed as:

- investing in education, arts and leisure
- investing in the environment and encouraging civic pride
- improving social care, housing and the health of the most vulnerable
- combating crime
- managing our resources to provide good quality services.

Delivering each of these aims will involve the procurement of goods, works or services to varying degrees, from the provision of stationery at the simplest level to the procurement of entire services at the other. The effectiveness of the procurement process will determine the proportion of the allocated budgets and quality of resources that are available for front-line deployment to meet these aims.

Other corporate plans and strategies that will inform the development of the procurement function include:

- E government strategy
- Best Value Performance Plan
- Capital Strategy

- The Community Safety plan (crime and disorder)
- Consultation strategy
- Equalities and Diversity Strategy
- Health and Safety policy
- Customer First initiative

The Procurement Strategy forms part of the Council's Capital Plan 2003.

ORGANISATION AND STRUCTURE

Overview

The Council has operated a devolved system of procurement for many years, with departments responsible for managing their own procurement projects. Departments are supported by a central Corporate Procurement Unit (CPU) comprising three FTE's, which is located in the Property and Procurement department of the Environment directorate. The principle functions of the CPU are to:

- 1) set up and manage corporate contracts
- 2) advise and support departments' procurement projects, including tendering
- 3) provide a corporate focus for the provision of guidelines and best practice
- 4) manage the Council's approved list of contractors
- 5) define and guide the Council's procurement strategy
- 6) oversee the Council's contract risk assessment process
- 7) oversee the Council's financial vetting process for contractors
- 8) prepare OJEU submissions, advertising contracts, for the European Union as required under EU law

This model can continue to serve the needs of the Council into the future with the improvements to corporate collaboration, processes and project scrutiny outlined in this strategy.

Members

Member involvement is an important part of the procurement process, whether through Council, Cabinet, Scrutiny or direct portfolio responsibility. Responsibilities of Members within each group will vary but will include:

- 1) Adopting the procurement strategy, ensuring it is aligned with strategic objectives and monitoring its implementation
- 2) Overseeing the effective operation of the agreed processes
- 3) Making key decisions in the procurement process for major projects
- 4) Monitoring the performance of major projects and contracts
- 5) Conducting enquiries into models of service delivery, project management and contract operation.

Procurement Forum

The establishment of a Corporate Procurement Forum for departments will provide a focus for procurement activities across the Council, whilst generally leaving decision-making close to the provision of service. The forum will provide an opportunity to share information, organise training provision, standardise documentation, review legislative changes, share resources and identify further opportunities to consolidate its procurement spending. It will provide a permanent network that will help the Council to act corporately as well as departmentally.

The forum will provide reports to the Executive Board every six months summarising forward-planning for major contracts and on an ad-hoc basis should unplanned opportunities arise for consolidation or rationalisation of goods, works or services.

The forum will be managed by the CPU. Nominated representatives from grouped services or departments (depending on function and size) will form the membership, approximately 12 in total.

PFI projects

The Council has used the PFI on a number of major projects and may undertake similar projects in the future. Given the full-time nature of the commitment to such projects it is considered that future management of similar projects should generally use the existing model i.e. that expertise should be focussed by setting up independent project groups with their own reporting arrangements.

PROCUREMENT POLICIES AND GUIDELINES

Approach to Competition / Option Appraisal

The rules governing procurement practice are set out in the Council's Standing Orders and Financial Regulations.

Procurement decisions should always be made on the basis of best value for money. This can be defined as 'the optimum combination of whole life costs, benefits and risks to meet the Council's and its residents' requirements'.

Contracts should always be awarded on the basis of both price and quality. The criteria should always be published in advance of asking for bids or quotes from prospective suppliers.

The approach taken to individual procurement projects will vary with circumstance but for significant or complex projects a business case approach should always be taken. The business case should provide evidence of:

- 1) Strategic fit
- 2) An option appraisal
- 3) An assessment of likely success / risk
- 4) Budget allocation
- 5) Value for money assessment.

Each project may require several levels of business case complexity to be signed-off at key stages by the appropriate senior management / Member bodies responsible for independent review and approval. These may include the preparation of Strategic, Outline and Full business case models.

The issue of when to go to external competition for significant projects and whether to include or exclude an existing internal service provider should be made at an early stage of every project using an options appraisal. This appraisal is sometimes known as the 'make or buy' decision and will simultaneously consider the model for taking the procurement forward. Such models include:

- 1) In-house
- 2) Public sector consortium
- 3) Non-profit organisation
- 4) Local authority company
- 5) Joint venture company
- 6) Partnering contract
- 7) Framework agreement
- 8) PFI
- 9) Concession or franchise
- 10) Closure or disposal.

As above, all such decisions should be made or ratified by appropriate senior managers and Members, including those independent of the department directly affected, in light of information provided in business case reports.

This approach will ensure that some of the key pre-contract decisions in respect of all major projects will be the subject of independent and objective review and should also be adopted for all Best Value and other strategic reviews in respect of the review of procurement options.

The Council should move towards the adoption of a 'Gateway Review Process' for major or high-risk projects. This process will allow for the consistent scrutiny of key decisions over the whole procurement cycle of a project. Originally developed by the Office of Government Commerce, it comprises reviews at key decision-making points in the cycle. Reviews are undertaken by independent project teams to ensure that projects can proceed successfully to the next project stage. One option is for the teams undertaking the scrutiny role to be substantially drawn from Corporate Procurement Forum representatives and from Members of an appropriate Overview and Scrutiny Committee. Adoption of the gateway process will have implications for both the organisation and procedures sections of this strategy.

Typical key decision points that could be considered for inclusion in the gateway process include:

- | | | |
|----|------------------------|---|
| 1) | Strategic assessment | - outline business case |
| 2) | Business justification | - options appraisal undertaken and model agreed |
| 3) | Procurement approach | - approach identified |
| 4) | Investment decision | - preferred supplier identified |
| 5) | Readiness for service | - asset or service is ready for delivery |
| 6) | Benefits evaluation | - may occur at several stages over the life of the asset or service |

Open competition should normally be considered as the optimum approach to the procurement of significant projects that are not constrained by regulation. However, there will be circumstances for strategic or other reasons, such as risk or demonstrable best value with existing providers, where this approach is not appropriate. Under such circumstances it should be incumbent upon the person responsible for the contract to demonstrate to the independent senior management / Member group scrutinising the project that open competition would not be in the Council's best interests and that such an approach nevertheless meets UK and EU procurement regulatory requirements.

A healthy mixed economy of service provision is likely to result from this approach.

Supply Market Development

A wide range of suppliers should be encouraged to compete for Council work. The focus for new work need not always be with the larger more familiar businesses. Other types of organisation, offering business diversity, include:

- 1) Local businesses
- 2) Small to medium sized enterprises (SME's)
- 3) Social enterprises
- 4) Ethnic and minority business
- 5) Voluntary and community organisations

These types of organisation can be innovative, offer value for money, be more responsive than larger organisations and deliver social benefits.

Encouragement for these businesses can be provided by the Council through the simplification of standard documentation, providing them with information on how to deal with the Council, meeting them directly at 'meet the buyer' and training events, and developing relationships with their representative groups.

This market development will be carried out within the context of value for money, contract standing orders and EU regulation. Market development of this kind should not confer an unfair advantage on any particular sector of the market.

Relationship Management / Partnership Working

The Council is committed to developing constructive long-term relationships with suppliers. It is important that the Council identifies its key suppliers so that its efforts are focussed to best effect. The criteria it will use to identify those suppliers most important to the Council's performance include:

- 1) Size of spend across the authority
- 2) Criticality of goods / services supplier, to the delivery of the authorities services
- 3) Availability of substitutes
- 4) Market share and strategic share of suppliers

The Council is committed to the philosophy of 'partnering', for high-value / high-risk projects, an important technique for removing the adversarial approach to contract relationships. Partnering can be described as:

'a relationship between purchasers and providers of goods and services that is based on mutual objectives, an agreed method of problem resolution and an active search for continuous measurable improvement'.

It is based on a collaborative approach that seeks to achieve improved service provision within the context of a much closer working relationship than traditionally has been the case. The 'cultural' dimension alluded to within such a relationship should nevertheless be founded upon robust contract documentation and a written understanding of what 'partnering' will represent within each project. The essential elements of partnering may cover some or all of the following:

- 1) The agreement of mutual objectives
- 2) The use of long term agreements
- 3) Protocols for supply chain management
- 4) Team working between parties
- 5) Open book accounting
- 6) Common dispute resolution ladder
- 7) Profit (and loss) sharing
- 8) Continuous measurable performance improvement.

Diversity and Sustainability

Promoting equality through procurement can improve competition, value for money, the quality of public services, satisfaction among users, and community relations. It should be a consideration in every procurement project and reflect our corporate commitment to diversity and equal opportunities wherever possible.

The Race Relations Act 1976 (as amended) (RRA) affects procurement activity. The duty to take account of the Act is not optional. Procurement projects will need to apply the tests of 'relevance' and 'proportionality', to see where, when, and how promoting race equality is relevant to the particular purchase. In other words, whether race equality will be a core requirement in any future contract and how that will be reflected in the specification, taking into account other key contract objectives. Generally, it will be services, rather than goods or works that will be the most relevant area to consider and in particular those that interface directly with the public.

The Equalities and Diversity Manager should be consulted where the RRA tests of proportionality and relevance indicate that equalities issues will be of particular importance.

The Council is committed to supporting the principles of sustainable procurement within the context of providing value for money. This means that procurement projects should automatically consider the provision of sustainable options as part of the project planning process, including the consideration of whole-life costs. A Green Purchasing Code providing further guidance is available on the procurement intranet site.

Ethics and Probity

It is imperative that employees and Members of the Council act both honestly and professionally in all respects towards suppliers, treating them equally. The behaviour of Staff and Members in respect of ethics and fraud is covered in mandatory Codes of Conduct for each and by an Anti-fraud and Corruption Strategy. These documents are cross-referenced with Contract Standing Orders.

Technical Guidance

The provision of detailed and accessible guidelines for staff with procurement responsibilities underpins the delivery of consistent best practice. A best practice handbook is available on the procurement pages of the intranet, which will evolve over time to take account of changes to best practice and regulatory requirements.

A simpler 'pocket' version of the guidelines, covering key areas, will be published in due course.

Communication

Good communication with all supply chain stakeholders is important to ensuring an efficient and effective model of procurement.

The CPU will be instrumental in leading improved communication with the aim of ensuring that the enhancements indicated in this strategy are carried through and that external organisations see Richmond Council as a good partner to do business with.

A quarterly newsletter circulated to all staff will facilitate internal communication. In addition, the CPU procurement web site will be further developed with news, guides to best practice, standard documentation and links to other relevant sites. The procurement forum will also provide a formal opportunity to ensure consistency of approach and the sharing of best practice.

External communication is very important in ensuring a healthy interest from potential suppliers and partners to the borough. An external web site will be developed that will provide:

- 1) A buyers profile (EU approved information about the borough and its contracting protocols) This will allow the Council's standard tender process for contracts covered by EU regulations to be shortened.
- 2) A list of existing and forthcoming contract opportunities, projected over a number of years.
- 3) Guidelines for doing business with the Council.
- 4) Standard documentation used in the procurement process
- 5) Links to other relevant sites.

The Council supports a collaborative approach to working with potential suppliers. Wherever possible the technique of market consultation should be employed, prior to the tender process, for large or complex projects. This will provide information about

how relevant contracts may be best structured and specified to ensure maximum interest from potential external suppliers.

Corporate Contracts / Joint Working

Joint working with other organisations in the procurement arena should be sought to maximise the advantages that flow from economies of scale and shared resources. These include working with other local authorities and public sector organisations to deliver services that would benefit from a joint approach.

The Council should further develop its approach to maximising the use of corporate contracts, which ensure value for money through pooled purchasing whilst simultaneously rationalising the number of suppliers to be managed. Current corporate contracts save the Council approximately £2 million annually on published gross prices.

The CPU collaborates in a virtual consortia arrangement with most other London boroughs and a range of other public sector organisations through the London Contracts and Supplies Group (LCSG). It also participates in other collaborative framework contracts both regionally and nationally when opportunities to make savings by pooling buying power arise. Framework contracts allow the Council to purchase goods, works and services from a range of pre-tendered value for money contracts quickly and efficiently. Such contracts comply with the Council's Standing Orders and EU regulations. They are constantly monitored and benchmarked by the CPU to ensure that they provide best value for the Council. A current example of a framework agreement is the Council's LCSG contract with Guilbert that provides most of its stationery requirements. By aggregating the spend of London borough's in this category, £9 million annually, Richmond Council benefits from average savings on standard prices of over 50% and significantly more on a wide range of its products.

Departments should also explore joint purchasing opportunities across the Council to maximise opportunities for savings and reducing management costs.

PROCEDURES AND PROCESSES

Electronic Procurement

Electronic procurement is one facet of the e-government agenda. It includes the electronic enabling of procurement across the Council for sourcing, ordering, commissioning, receipting and making payments.

The CPU is examining how the Council might tender most of its contracts electronically in the future including sending out documentation and receiving bids over the web, all of which will need to be carried out in a secure environment. However, an e-tendering solution, once adopted, will need to run in parallel with the traditional paper-based system for some time if some suppliers are not to be excluded from the bidding process.

We can already order electronically from a number of our corporate contracts, such as the stationery contract with Guilbert, and this is likely to grow over time.

Procurement Cards

The National Procurement Strategy makes the introduction of procurement cards an explicit target for Councils. In principle they operate in much the same way as a personal credit card, being used to make purchases and subsequently making a single monthly payment against a consolidated monthly statement. Once authorised, the payment is automatically uploaded into the Council's general ledger.

The system is particularly suitable for low value, high volume transactions. It will be much simpler and efficient than having to process each transaction individually. The Council processes approximately 41,000 invoices under £500 annually (over 100,000 in total) and consequently the potential efficiency savings are very significant. Subject to a successful pilot scheme, currently taking place, the use of procurement cards will be rolled-out in a controlled manner over several years to all those staff who might benefit.

Contracts Register

The Council does not currently possess a single repository for contract information as a consequence of its devolved model for managing larger procurement projects. The establishment of a corporate contracts register will address the need to be able to examine contract information on an on-going basis. It will allow a corporate perspective on all significant procurement projects including costs, timescales, renewals and regulatory compliance.

In addition, elements of the register will be used to provide advance notice to potential suppliers, via the Council's web site, of contracts that are likely to be advertised in the future. The register will also be useful for the compilation of accurate statistical returns required periodically for the government.

E-Marketplaces

The CPU will continue to monitor the development of e-marketplaces, web-enabled gateways that allow purchases from organised electronic catalogues. However, the introduction of procurement cards, the Council's use of regional consortia and its ability to transact directly over the web with a number of suppliers means that currently there is no good business case for Richmond Council's participation in an e-marketplace, which would cost the Council up to £40,000 per annum.

Project Management

All significant procurement exercises are essentially projects and should be managed with due regard to the essential principles set out in the corporate model for project management. Following the methodology will ensure that project roles and responsibilities are properly assigned to those staff with the appropriate skills and experience, resources are properly allocated and milestones are set and reviewed.

Larger or more complex projects should always involve collaboration with appropriate staff in the Procurement, Legal Services, Personnel, and Finance departments, using other staff with specialist skills as appropriate.

Risk and Procurement Route Analysis

There are inherent risks in all procurement projects. At the highest level there is the risk of identifying the most appropriate procurement route for the product or service in question and for each project there will be a range of risk factors that may impact upon the success of the project.

The choice of procurement route, including options such as frameworks, partnering, the use of procurement cards, collaborative buying, etc should be informed by an analysis of risk and total value in each case. A simple matrix tool to aid decision-making will be available in the procurement handbook.

Risk assessments for individual projects are a requirement of standing orders. They are to be signed-off by specified senior officers and copied to the CPU for inclusion on the Council's contracts register. Larger projects will be subject to post project evaluation so that learning may be captured and applied to future projects. Guidelines to risk assessment are available on the procurement web site.

Contract Standing Orders and Financial Regulations

Contract Standing Orders and Financial Regulations, which form part of the Constitution, are prepared by the Council's Audit department in consultation with the CPU. The regulatory framework in relation to the letting of contracts is reviewed regularly in light of best practice and legal requirements.

CONTINUOUS IMPROVEMENT

Training and Development

Access to appropriate skills within the Council will substantially influence its ability to improve its procurement performance. Both officers and Members will require training if the improvements identified in this strategy are to be delivered.

A training needs analysis will be undertaken to identify the gaps in expertise needed to deliver best practice. Part of the budget identified for corporate training in 2003 – 2004 has been allocated specifically for use in updating procurement skills.

The Procurement Forum will provide an opportunity for shared learning amongst officers with procurement responsibilities and for the dissemination of that learning within departments.

The CPU will provide some training for staff and Members directly, for example awareness training about Contract Standing Orders or the deployment of the strategy. It will commission other specialist training as required, for example in the use of procurement cards or to close gaps identified in the needs analysis. It is incumbent upon staff within the CPU to ensure that they have the necessary skills and knowledge to provide the best possible advice to departments at all times.

Local Performance Indicators

A number of performance indicators will be developed to measure corporate procurement performance including that of the CPU. These will largely be drawn from a suite of indicators currently being developed by the Improvement and Development Agency (IDeA). They will include criteria such as:

- 1) The proportion of spend against corporate contracts
- 2) User and supplier satisfaction levels
- 3) The extent to which the CPU is involved in supporting larger projects
- 4) Measuring the success of the procurement card programme

In addition, progress against the deployment of the corporate procurement strategy will be regularly reviewed.

Procurement Improvement Plan

This strategy represents an ambitious plan for improving procurement across the Council. It can deliver considerable benefits in terms of both the cost and quality of the Council's services.

The principal activities required to deliver the improvements necessary are set out in the Procurement Improvement Plan at Appendix A to this document. The CPU will lead and monitor the application of the plan but its successful deployment will also depend upon contributions from all staff with procurement expertise and responsibilities.

The changes required are significant, representing both technical and cultural aspects, and the improvement plan is constructed as a medium-term commitment to change spanning several years. The strategy has been formulated on the basis of current resources and commitments and will be monitored regularly and updated in light of technical and priority led changes.

APPENDIX A

PROCUREMENT IMPROVEMENT PLAN

No.	ACTIVITY	TARGET DATE	LEAD
1	Undertake Corporate Procurement Unit user satisfaction survey	May 2004	CPU
2	Conclude pilot phase of procurement card programme	June 2004	CPU
3	First meeting of Corporate Procurement Forum	June 2004	CPU
4	Commence corporate training needs analysis	June 2004	CPU
5	Commence roll-out phase of procurement card programme	July 2004	CPU
6	Establish electronic contracts register	August 2004	CPU
7	Construct and develop public web-site for procurement	September 2004	CPU
8	Undertake awareness training for senior officers and Members	October 2004	CPU
9	Commission specialist training for officers with procurement responsibilities	November 2004	CPU / Organisation Development Manager
10	Produce new 'Green Procurement Code'	November 2004	CPU / Recycling and Environment Manager
11	Produce a 'How To Do Business With The Council' guide	December 2004	CPU
12	Produce list of forthcoming contracts for public web-site	December 2004	CPU
13	Complete procurement handbook	On-going development but all sections detailed by January 2005	CPU

14	Complete profile of principal suppliers	February 2005	CPU
15	Produce 'pocket' version of procurement handbook	March 2005	CPU
16	Produce EU approved 'buyers profile' for public web-site	April 2005	CPU
17	Undertake supplier survey	May 2005	CPU
18	Commence training for small businesses	August 2005	CPU
19	Introduce E-tendering process	September 2005	CPU
20	Establish 'Gateway Review Process'	October 2005	CPU
21	Simplify standard documentation	On-going	CPU / Legal Services
22	Develop improved relationships with Chamber of Commerce and other representative groups	On-going	CPU
23	Develop intranet site content	On-going	CPU