

PROCUREMENT STRATEGY



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1. Introduction

WHAT IS PROCUREMENT?

Procurement is the process of obtaining providers for supplies, services or works; beginning with the initial identification of a business need and continuing through until the need has been satisfied. More than purchasing, procurement focuses on required outcomes and the identification of effective and innovative ways to meet these. To get the best value and ensure that goods and services satisfy the needs of end users, a well-planned and strategic approach is necessary.

BACKGROUND

The London Borough of Bexley spends approximately £200m with a variety of providers for goods and services. This ranges from transactional spends below formal procurement thresholds for one off purchases and everyday items, through to high value term contracts for works, goods and services. Bexley Council maintains approximately 200 term contracts with an approximate annual value of £120m. Term contracts are where a formal contract exists between the supplier and the Council for an agreed period of time, for an agreed requirement or outputs and at agreed rates.

AIMS

The aim of this strategy is to set out a clear framework for undertaking procurement exercises throughout the authority, one which ensures best value through our external spend, and reflects and promotes the wider aims of the Council's Corporate Plan.

PROCUREMENT LANDSCAPE

Procurement at Bexley is driven by 4 key factors

1. European and National agendas.
2. The wider economic climate.
3. Bexley's own aims and values.
4. The need to achieve budget savings.

1. European and National agendas

All public sector contracts, no matter what their value, within the European Union (EU), are covered by a treaty which stipulates free movement of goods and services and prohibits discrimination against organisations on the grounds of nationality. In turn the principles of this treaty are backed by a series of EU Procurement Directives, the latest being Directive 2014/24/EU. These Directives are covered in UK law by 'The Public Contract Regulations' and require the Council to follow detailed procedures for all procurements above financial thresholds. The thresholds are reviewed every two years and currently are as follows:

Thresholds - Public Sector from 1 January 2016.

	Supplies	Services	Social and other specified services	Works
GBP	£164k	£164k	£589k	£4.1m
EUR	(€209k)	(€209k)	(€750k)	(€5.2m)

The latest Directive, 2014/24/EU was passed by the EU in 2014. The UK government enacted the legislation in 2015. The main highlights are:

- Reduction in minimum timescales
- Light touch regime for health and social services
- Reduced financial thresholds
- Mandatory exclusions at PQQ evaluation
- Simplification of many other processes

Local government procurement will also be affected by central and regional policy. A number of reports and reviews have been conducted in recent years that help set out this policy, key among these is The National Procurement Strategy for Local Government (2014)

The Local Government Association announced details of the National Procurement Strategy for Local Government in England 2014. The strategy sets out a vision for local government procurement and encourages all Councils in England to engage with the delivery of outcomes in four key areas;

- Making Savings
- Supporting Local Economies
- Leadership
- Modernising Procurement.

2. The Wider Economic Climate

Unprecedented cuts to the central government grant have given Bexley Council one of its greatest challenges yet; the need to maintain the quality and delivery of key services whilst adjusting and adapting to a significantly reduced budget. These changes call for a new, more streamlined Council, involving the identification of considerable cashable savings and a shift to a more creative, innovative approach across the board.

Whilst this drive for savings will put huge pressure on Bexley to produce better value contracts, it is important to remember that the repercussions of the current economic crisis are being felt as much in the private as it is in the public sector. With this in mind, a strong commitment to a fair and open procurement process will be more important than ever in what has become an increasingly competitive marketplace.

3. Bexley's aims and values

Although Bexley Council's procurement function is subject to the economic and legislative context in which it operates, it also has the potential to deliver significant benefits and value. The Corporate Plan reflects Bexley's vision and aims as a community. The role of procurement will be key in delivering this vision and ensuring the Council's considerable spending power achieves its potential.

The following table demonstrates how the procurement process fits in with the Council's Corporate Plan.

Corporate Plan Priority	Procurement Policy
a. Growing a thriving economy	Commitment to local business and environmental responsibility through procurement decisions.
b. Living fulfilled and independent lives	Ensuring service outcomes are not sacrificed in the drive for savings. Remaining accountable, even where services are outsourced.
c. Investing every pound wisely	Constant drive for best value, taking a whole life approach to procurement decisions, and encouraging added value.

4. The need to achieve budget savings

In response to the government's latest expenditure reductions the Council has been targeted to identify additional savings through to 2018/19. The Strategy 2018 programme consists of a number of business cases which are being developed to deliver savings and support the Council in achieving a balanced budget through to 2018/19.

The Procurement function will be key in supporting the achievement of this challenging programme: For all new procurements, there will be an expectation that the cost of service will reduce over the life of the contract. The following mechanisms will help drive this cost reduction:

- The contract price for the service will be fixed for as long a period as possible without the supply base building in additional cost for a risk of high levels of inflation in the long term. The contract price is expected to reduce over the life of the contract as a result of efficiency improvements driven by the service provider
- The contract price is expected to be reduced further through innovation and collaboration between Bexley Council and the service provider or other areas of the supply chain. This efficiency improvement could also be as a result of changes in technology or process improvement. To drive appropriate behaviours in development and improvement, a gainshare mechanism to share the cost savings between all involved parties could be incorporated into the contractual terms
- The contract length is another mechanism to determine the optimum period between providing the supply base stability and confidence, when the service solution requires high levels of capital commitment, whilst ensuring that Bexley has the flexibility to reconfigure services in its search for further savings during the current financially challenging times. Appendix B provides more information on factors that influence contract length and their impact on Bexley.



To explore further savings opportunities, Bexley Council may also explore alternative service delivery models for in-house services. A soft market testing exercise will be undertaken to determine the opportunities for Bexley in the marketplace from the adoption of such a model. If the soft market testing shows the savings and service improvement prospects to be high, then proposals will be made to leading members to decide on adopting a Strategic Commissioning model for the service.

THEMES AND PRINCIPLES

The London Borough of Bexley, like all Councils, is dealing with significant financial pressures resulting from reductions in government funding. Savings need to be made by using spending power wisely and strategically including the setting of targets for procurement and contract management. Key measures that will be adopted in Bexley to help achieve these savings are:

- Applying a category management approach in key areas of spend such as energy, ICT, construction and transport
- Partnering and collaboration with other Boroughs to achieve economies of scale
- Applying a corporate approach to contract management and implementing effective, transparent performance monitoring processes
- Applying an appropriate approach to risk management that is integral to the Council's corporate processes
- Finding alternative ways to meet user needs through demand management
- Reducing costs and oversupply within the procurement and commissioning cycle

Bexley Council strives to support its local economy through its procurement exercises by maximising economic, social and environmental benefits from every pound that is spent. Supporting Small and Medium sized Enterprises (SMEs) and Voluntary, Community and Social Enterprises (VCSEs) can make a significant contribution to local economic growth. Bexley Council will do more to remove barriers faced by SME's and VCSE's bidding for contracts, such as:

- Including economic, environmental and social value criteria in tender evaluations
- Improving access to procurement opportunities for SME's and VCSE's by hosting regular 'Meet the Buyer' events and ensuring that opportunities are advertised on suitable portals and in appropriate journals



The Council supports Central Government in demonstrating procurement leadership by:

- Speaking clearly with a single cohesive voice helping to ensure Central Government policy takes into account the needs and differences of local government
- Signaling commitment from the top in Bexley thus recognising the strategic importance of procurement
- Treating procurement as part of a strategic commissioning cycle
- Developing a more commercially-focused procurement culture



To help rise to the challenge, Bexley also supports progress in the use of modern technology and practices in its procurement processes. Examples include:

- Helping Bexley respond to financial pressures through commercialisation and income generation
- Using outcome specifications and other methods to encourage supplier innovation to meet new challenges
- Adopting e-procurement to increase efficiency and productivity and realise full benefits through the use of appropriate electronic solutions in procurement processes.



HOW PROCUREMENT IS ORGANISED IN BEXLEY

Procurement at Bexley is delivered by a centralised team working in conjunction with service departments. The team is led by the Head of Procurement and Supplier Management supported by three Procurement Managers, a Supplier Relationship Manager and a team of 8 support staff. The portfolios of contracts associated with each Procurement Manager are categorised to ensure greater economies of scale from combined requirements can be realised.

Bexley Council will continue with the training and development of the procurement team to ensure it is more commercial and has the appropriate skills and knowledge to meet its challenges now and in the future.

Whilst there have been improvements in the standardisation of procurement processes in recent years, it is recognised that procurement knowledge and capability continues to vary across service areas. The procurement team aims to increase awareness of procurement best practice across the organization through continued workshops and use of the staff intranet.

For Bexley's procurement exercises to be successful and achieve their goals, active and positive participation of key stakeholders is essential. To assist this, a clear definition of the Procurement Teams' and Service Areas' roles is in place.

The role of the Procurement Team is to:

- Provide the Council with a coherent direction of travel in terms of an agreed corporate approach to procurement
- Participate in major commissioning exercises, using the Bexley Commissioning Cycle, but in particular facilitating the pre-selection of suppliers, tendering, the evaluation of returned bids and awarding contracts
- Identify potential savings that can be gained by following good procurement techniques such as consolidation of requirements or focussed negotiation
- Advise Service Areas in the best procurement method and documentation to satisfy a requirement
- Ensure all procurement activities comply with public sector, UK and European regulations and the Council's Contract Procedure Rules
- Provide a fit for purpose Contract and Supplier Management system, helping the Council to achieve consistency in its relationships with contractors and service providers.
- Operate, control and monitor the Council's electronic purchasing system and procurement card scheme
- Provide training and support to Council staff on contract procurement, contract management, the Oracle Financial Information System, procurement card system and the London Tenders Portal (Procontract), as well as advising staff on 'self-service' options
- Monitor procurement performance and activity, including savings and benefits tracking
- Liaise with external partners around collaboration and any other initiatives.

The role of individual service areas is to:

- Manage contracts and ensure that every contract has a dedicated contract manager
- Prepare (with the assistance of the Procurement Team) specifications, drawings and other documentation required to form the tender package
- Obtain quotations when/where sufficient 'self-service' advice and documentation is available

- Engage in the Procurement Team's work to develop strategic sourcing and procurement initiatives.

2. Our Strategy

If Bexley is to guarantee best value through its procurement processes, it needs to ensure it consistently maximises its spending power. This can only be done with a thorough understanding of how and where money is spent. This understanding will help determine priorities going forward and identify where efficiencies can be made.

This is an ongoing process as the Council proactively looks at ways to drive efficiencies from existing contracts and explore opportunities for in-house services to be provided by external organisations where this represents better value for money.

STRATEGY

1. Prior to any new procurement or re-procurement exercise the following will be considered in determining best value for the Council:
 - Whether aggregating spends with other contracts generates sufficient expenditure to provide further leverage in extracting value for Bexley. As well as financial leverage the combining of services can also provide opportunities for innovation and efficiency improvements that can benefit both suppliers and Bexley as a customer
 - Whether disaggregating contracts into smaller elements can generate better clarity of service delivery and understanding of the cost base to enable Bexley achieve its objective of delivering better value
 - To evaluate whether in-house services can be delivered through alternative means such as outsourcing, mutuals, joint ventures or the not for profit sector.
 - To determine if the contract can be set at a fixed price for its duration, in accordance with Council policy, or whether an exception is necessary to allow inflationary increases for all or part of the contract period. See appendix A
 - The option to include efficiency clauses that achieve the Council's annual efficiency target of 3% including gain share agreements to drive year on year contract price reductions
 - The most cost effective contract length that represents value for money to both the Council and supplier. See appendix B

- The flexibility to allow additional services to be included/excluded from contract packages following changes in legislation or as new methods of service delivery become available
 - Whether all statutory reporting indicators are identified as supplier monitored key performance indicators in the contract
 - The option to include incentives to exceed performance targets
 - The option to include service credits and/or defaults where performance drops below specified levels
 - Collaboration with other organisations to gain further negotiating leverage and improve value for money
 - The use of existing frameworks where this provides the best value for money procurement option
2. The procure-to-pay-process will be speeded up and administrative tasks associated with the payment of invoices cut down by:
 - Strengthening the new internal policy requiring all procurement to be backed by a purchase order
 - Developing and implementing initiatives to reduce tail spend
 3. The “Think Local First” campaign will continue to be promoted, including the new obligation for officers to seek a quote from at least one Bexley business where quotes are required
 4. Opportunities for aggregating contracts will continue to be explored where appropriate, with a view to reducing our total number of suppliers.

APPROACH

It is clear that no single approach to procurement is capable of securing risk free supply and ensuring best value across the board. Instead, a series of approaches are needed depending on the nature of the goods or service in question.

The supply positioning model, appendix C, a matrix which plots the financial value of a requirement against its market risk should be used to help determine the best way forward for each procurement exercise. The model separates spend into four categories, each of which requires its own individual plan.

Bexley’s contracts are currently classified as follows:

Low risk low expenditure (Routine)

This category covers approximately 80 contracts. There are many suppliers in this category where there is abundant supply and where profit margins are low. Consumables and stationery products typically fall within this classification.

Low risk high value (Leverage)

This category currently covers approximately 20 contracts. Suppliers in this category compete in a highly competitive market with high margins. These contracts represent savings opportunities for the Council. For example ICT and vehicles sourcing.

Low expenditure high risk (Developing)

This category presently covers approximately 50 contracts. There are limited suppliers in this category typically specialising in scarce niche markets or where the market is in its infancy. Examples of contracts in this area are specialist care, ICT software and consultancy.

High risk high value (Strategic)

This category covers approximately 50 contracts. The suppliers in this category operate in markets where there is a scarcity of supply for high value goods and services. Where price can be leveraged there is potential for savings. Services in this category include waste management, adult social care and rock salt provision.

The Council's strategy is, where possible, to realign contracts enabling expenditure to be leveraged and savings achieved.

In addition to assessing the risk and value of a procurement exercise it is also important to understand that different requirements are suited to different levels of geographic engagement. Capital Ambition (now London Councils) has published guidelines on this, dividing requirements into national, regional, sub-regional, and local procurement groups, depending on their suitability.

This model will be used to determine the optimum starting point for all Bexley procurement exercises going forward.

Bexley's contracted service requirements are currently classified as follows:

National	42 service requirements	Utilities, Catering etc
Regional	31 service requirements	Street Lighting, Substance Misuse etc
Sub-regional etc	61 service requirements	Graffiti Removal, Parking Enforcement etc
Local	59 service requirements	Mental Health Day Services, CCTV etc

Appendix D details the characteristics of each of the classifications.

This classification of contracts will be regularly reviewed to ensure that Bexley's spend is appropriately leveraged to extract maximum value.

3. Contacting the Procurement Team

Please contact the Bexley Procurement Team if you have any questions, comments or feedback about this Procurement Strategy:

E-mail: procurement@bexley.gov.uk

Phone: 020 3045 5123

Other useful websites

European and UK Procurement Regulations <http://www.ojec.com/directives.aspx>

Appendix A Inflation Policy

Measuring inflation is a difficult problem for statisticians. To do this, a number of goods that are representative of the economy are put together into what is referred to as a "market basket." The cost of this basket is then compared over time. This results in a price index, which is the cost of the market basket today as a percentage of the cost of that identical basket in the starting year.

There are now many price indexes covering different areas of the economy, the most widely used being the Retail Price Index, (RPI) and Consumer Price Index (CPI).

The following checklist should be considered when applying the charging provisions within a contract:

- Should the charging mechanism within any given contract be subject to an inflationary index?
- Should the index apply to all of the charges or just elements of them (for example, staff costs only)?
- What index is appropriate - CPI, RPI or a specific index linked to the service being tendered. What period is the inflation measured over - the prior 12 months, the prior calendar year, or some other period?
- Should the impact of deflation be considered
- What is the term of the contract - the longer the term then the higher the risk and more care should be taken in determining how inflation will be applied.

It is Bexley's policy where possible to remove indexation from contracts for terms of up to 5 years where this represents best value. For contract terms beyond five years, two options exist:

- To allow indexation but include contractual efficiency savings
- Only allow inflation where it can be evidenced by the supplier and capped at the relevant indexation level.

Exceptions may apply for contracts where there is a large non-labour spend i.e. oil based products for road maintenance where the supplier has no influence over market prices and where there is no alternative product of a similar value available.

Appendix B Contract Length

Advantages of long-term contracts:

- Minimises the cost and upheaval of re-competition and changeover providing the Council with economies of scale from the procurement process. Provides the Council with the opportunity to form long term relationships with suppliers encouraging innovation and efficiency improvements. Provide opportunities for contractors to propose more efficient ways of delivering services through gain share arrangements.

Disadvantages of long-term contracts:

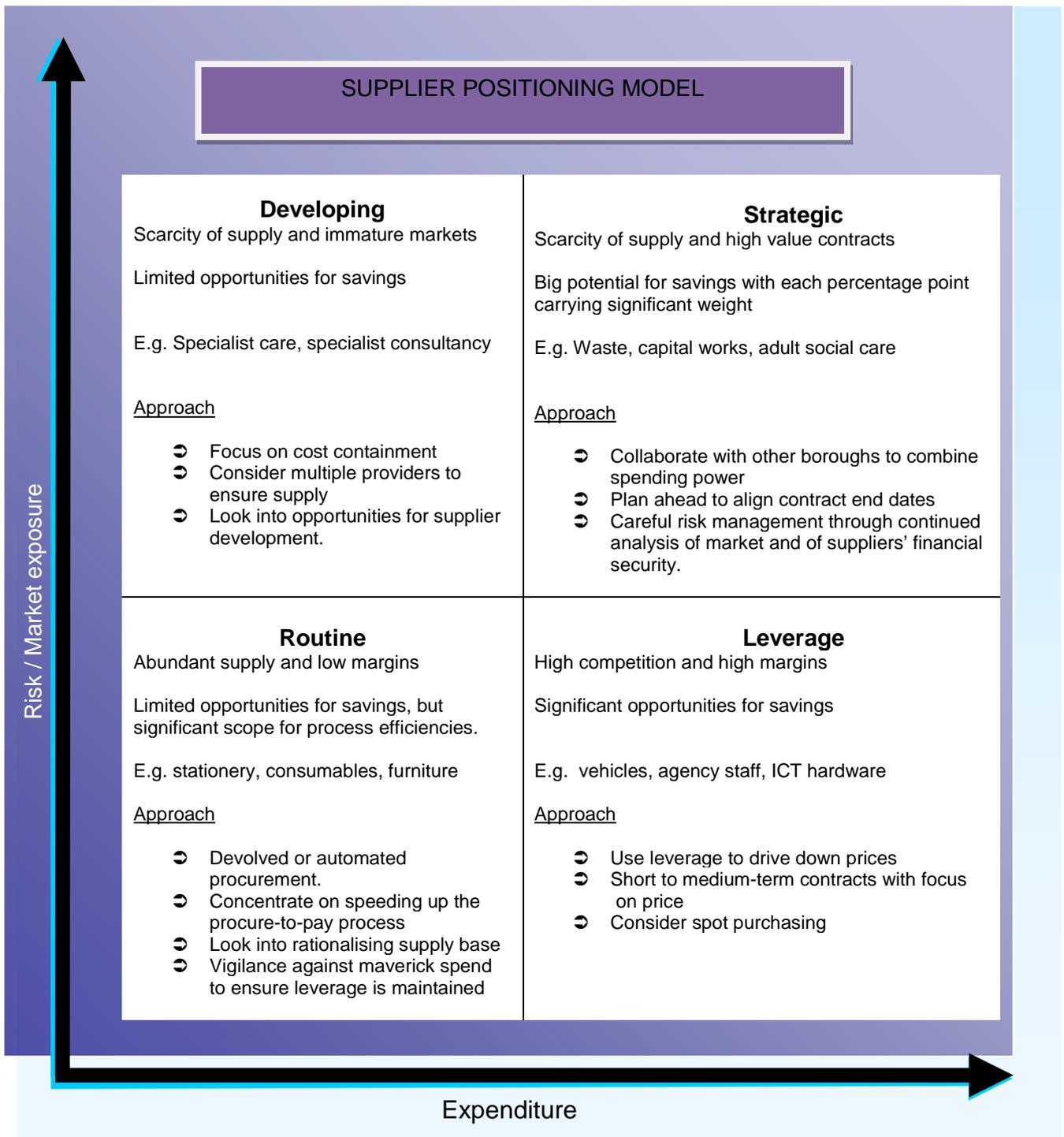
- The shelf lives of contracts, contract conditions and payment mechanisms are getting shorter. The shelf life of contracts and their contents is subject to changes in technology and market conditions. Stakeholders' expectations and service priorities can change significantly over time as a result of demographic, economic and environmental factors. The Council can miss the opportunity embrace new service delivery techniques as they come to market. Contractors may secure more attractive and profitable contracts and are not fully committed to the Council's service delivery.
- Without regular market testing the opportunity to explore and engage new providers is missed. Council departments can become 'comfortable' with their long term provider and neglect to see the bigger picture.
- The Council may find it difficult to influence long-term trends in price.

The negative aspects of long and short contract periods can be avoided by:

- Establishing contracts for the medium term (4 – 6 years) that can be extended through the use of contract extensions if both parties agree. Contracts may provide for any specified number of renewals, for any specified periods
- Entering into contracts for long periods but with break clauses at intervals of two or three years, to enable either party to terminate them without penalty.
- For services below EU threshold, the Council can enter into indefinite contracts with scope for termination by agreement at any time. Both parties also have an incentive to ensure that the other will prefer to continue with the contract than to terminate or exercise a break clause. This greatly increases the likelihood of contracts fostering co-operative and constructive relationships.
- Allowing contractors to tender bids against various contract lengths to determine best value for the Council.

It is Bexley's policy to balance all of the above and to apply 'fit for purpose' contract periods to each service requirement, with extension provisions or break clauses used regularly. Bexley presently has contracts with periods ranging from 1 to 37 years (including extensions). It is expected that the majority of term contracts will have agreements lasting between 3 and 7 years (including extensions)

Appendix C Supply Positioning Model.



Appendix D Contract Classification by Region

