



PROCUREMENT STRATEGY

July 2004

CONTENTS

		Page
1	Introduction	3
2	Context of Procurement in Solihull	4
3	Solihull Procurement Vision	7
4	Principles Guiding Procurement	8
5	Scope and functions of the corporate procurement service	12
6	Key Performance Indicators and targets	14
7	Key policies	16
8	Resources	19
9	Bibliography	20
10	Appendices	
	Appendix 1 Corporate Procurement Team Functions	21
	Appendix 2 National Procurement Strategy targets	26
	Appendix 3 Perceived benefits of E-Procurement	31
	Appendix 4 Draft list of Key Performance Indicators	32

Introduction

Procurement is an essential element of cost effective and efficient services. It impacts on Members, the Chief Executive, the Corporate Management Team, staff, the public, suppliers and partners.

A clear, comprehensive and effective procurement strategy is crucial to ensuring that good value services are provided throughout the Council whilst maintaining a philosophy of continuous improvement.

For the purpose of this strategy the procurement process has been defined as:

“The whole process of acquisition from third parties and in-house providers and covers goods services and works. The process spans the whole life cycle from initial concept and definition of business need to the effective management of markets, through to the end of the useful life of an asset or end of services contract. It involves options appraisals and the critical “make or buy” decision which may result in the provision of services in-house in appropriate circumstances”

From the definition it is clear that procurement embraces the whole of the supply chain from identifying a need to making a payment i.e. the ‘procure to pay’ cycle is one process. Key to the success of this strategy is raising the Council approach to procurement to a strategic level and optimising the advantages of a corporate approach to supply chain management. This means that in the future the Council will engage in supplier and market development and “packaging” or bundling” of contracts to ensure the most effective purchase is made. Spares management is included to reduce cost and increase efficiency. The only exclusion from the scope of this strategy is the recruitment of permanent staff.

Procurement is a critical process for ensuring that the Council meets the needs of the community. The public do not distinguish between in-house services and those provided by contractors. Poor procurement can lead to a loss of confidence by the public in our ability to deliver excellent public services.

As the Community Strategy develops there may be opportunities for the joint commissioning of the services leading to economies of scale and seamless service delivery for customers therefore helping to deliver the Authority’s major project of One Front Line for Customers.

This strategy seeks to provide clear direction and a co-ordinated strategic approach that avoids duplication or increased bureaucracy, to deliver improvements to our procurement process over the next five years (2004 – 2009).

The drafting of this strategy is in keeping with the National Procurement Strategy for Local Government and England (October 2003), and statutory guidance on Best Value, both of which specifically suggests that each Authority should have a “clear procurement strategy” at a corporate level.

1. Context of Procurement in Solihull

A Best Value Review of Procurement was completed in January 2002. The findings from this review were developed with Severn Trent into the Options for Service Delivery document which was adopted by Council on 8th April 2003. The National Procurement Strategy for Local Government was published in October 2003 and both supports and complements the findings in the Options for Service Delivery report. This strategy is a summation of the way forward for Solihull in the light of the above research and guidance.

Solihull is in the middle of a transformational change programme i.e. the One Council One Vision process. From that programme, Council Objective 5 states:

“achieve and maintain a high performing status at all times by being clear about our priorities, responsive to changing priorities, harnessing new technologies, continually improving all our services and providing value for money in all that we do”

This objective cannot be delivered without a robust procurement strategy which provides good value services that are tailored to meet the needs of our communities and residents with effective contract management. Achieving this objective is at the heart of this procurement strategy.

Procurement is a critical process for Solihull, however, management information on the performance of our spending activity is difficult to obtain as there is limited information available. One indicator of performance is the number of suppliers or third parties recorded as creditors on our systems and the value of spend with each creditor. This data will include schools spend and whilst it is accepted that schools will need to place small value orders due to the size of their budgets it is still believed to be a valid indicator of procurement efficiency. The data below in Table 1 illustrates the breakdown of spend by value and number of creditors. We spent £125m with third parties in 2002/2003.

Of this £125m, £63m was with the top 100 suppliers. The remaining 49% was spent with over 8,000 suppliers. This suggests the procurement process is not being controlled effectively. Large numbers of suppliers reduce purchasing power and increase transaction costs.

Table 1 – Analysis of Solihull’s 2002/2003 Procurement

Value £	Total value £	% of total value	No. of Creditors	% of total no. of Creditors
+222,228	63,765,527	51	100	1
50000 to 222,227	34,219,174	27	337	4
5000 to 49,999	22,040,675	18	1,352	16
0 to 4,999	5,684,336	5	6,684	79
Total(s)	125,709,712	100	8,473	100

From Table 1 we can see that 5% of our creditor base accounts for 78% of the total spend and that 79% of the creditor base accounts for 5% of the total value of

expenditure. Both of these scenarios need to be addressed. Firstly there is a need to concentrate on the top 5% of creditors to improve the three “e”s of economy, efficiency and effectiveness by approaching this area more strategically. Secondly is to find ways of improving the cost of dealing with the large number of creditors and transactions in 5% of the value area.

Currently the Council suffers through procurement not being viewed strategically i.e. uncoordinated decisions being made at different points of the supply chain which reduces the effectiveness of the function through duplication, increased effort, reduced purchasing power and increased costs.

There is a small central purchasing unit consisting of 3 ftes who provide a range of central contracts and strategic procurement advice. It has been identified that there are 109 individuals spending more than 5% of their time working in procurement across the Authority. The range of technical expertise of the staff identified is wide including architects, surveyors, engineers, clerical staff, managers and staff who have learnt how to procure through on the job training. However, the Council employs only four professionally qualified procurement staff, not all of whom work in procurement related activities

There are approximately 250 cost centre managers who are able to place orders against their own cash limited budgets that probably have no formal procurement training and are likely to delegate the task of placing orders to clerical assistants.

There has been limited training and support for procurement as a profession with individuals relying on their own qualifications or specialist one day seminars on relevant topics.

Members have had some involvement with procurement associated with major projects but the function needs to raise its profile through clarifying its strategic importance for both Members and Officers.

Solihull uses Oracle Financials (11i), with Oracle Purchase Order Processing (POP). Although efforts have been made to continue the rollout of POP to the organisation over the last twelve months, paper based ordering is still used in several locations. The Authority will not be able to regain control of its spending unless POP is rolled out across the whole Authority. The stores use Symology and Sage Sovereign Accounting for stock control and ordering and Academy is used by Solihull Community Housing and Property Services as a contract management system.

Performance information is patchy as there is no single information system. Accounts Payable monitor the only BVPI related to Procurement which is “the number of undisputed invoices paid within 30 days”. Our performance for 2002/2003 was 81.7% against the upper quartile for metropolitan boroughs of 91%.

In summary:

- we have a small number of very high value contracts
- we have a fragmented procurement function with minimal coordination
- performance monitoring needs improvement
- members need to be more involved

- the profile of the function needs to be considerably increased
- there are far too many low value, processing cost inefficient, transactions
- we need more procurement professionals

2. Solihull Procurement Vision

To obtain the right means to meet the needs of the community

Specifically the challenges ahead are to:

- engage with the community
- develop partners and partnership working to work with them to meet the needs of the community
- place social regeneration, economic and environmental issues at the heart of procurement
- involve members in the procurement strategy so that they provide leadership in embedding procurement excellence into the culture of the Council
- identify appropriate service delivery options
- make procurement happen at the right level with the right people
- make procurement a key management activity
- use technology and in particular e procurement to support organisational and behavioural change
- make the corporate procure to pay processes systematic and flexible to achieve best value
- drive down procurement costs whilst obtaining value for money
- stimulate markets to be able to procure from a diverse and competitive range of suppliers including minority businesses, voluntary and community sector groups , small firms and social enterprises
- be customer focussed using internal consultation and involvement to support service objectives and improve performance
- meet the targets of the National Procurement Strategy as appropriate for SMBC
- Comply with the requirements of the Freedom of Information Act in all activities and in particular commercial activities
- Become a key player in the Regional Centre of Procurement Excellence to benefit from good practice in other authorities with a view to increasing collaboration throughout the region.

3. Principles Guiding Procurement

The key principles underpinning this strategy and all Solihull's procurement policies and guidance are encapsulated in the vision stated in section 3. The specifics include:

Best Value

Achieving Council Objective 5: Good Value Services

“Achieve and maintain high performing status at all times by being clear about our priorities, responsive to changing priorities, harnessing new technologies, continually improving all our services and providing value for money in all that we do.”

This must be a key principle for Solihull's procurement service. Procurement is not about the cheapest or the best, but what is right for Solihull's citizens. Best Value is about taking account of local need through consultation and determining the right mix of cost/quality. Efficient contracting means that each tendering opportunity attracts sufficient market interest to establish a competitive number of bids. A wide analysis of the options available will lead to an innovative approach to market. This will help SMBC achieve its aim to continually improve the economy efficiency and effectiveness of its services.

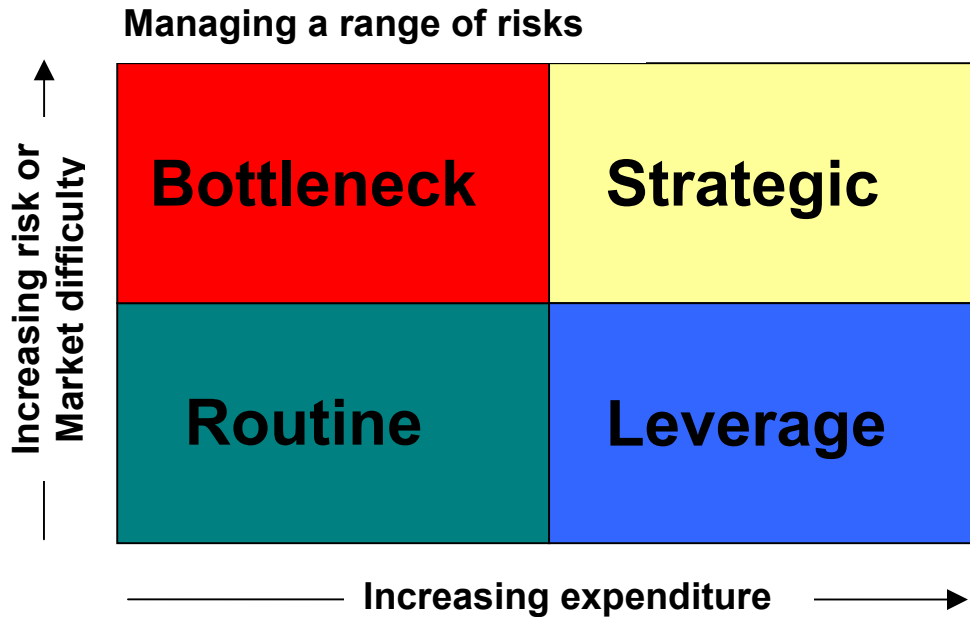
Strategic Procurement

The Authority will consider its spending strategically. This means looking across service boundaries to identify synergies and opportunities for improving economy, efficiency and effectiveness. Contracts will be packaged or bundled in the most appropriate way which meets users requirements whilst realising benefits on existing expenditure.

Figure 1 below shows how procurement categories should be mapped against a risk/expenditure matrix and the differentiation of procurement activity that should take place dependant on where the market category lies on the spend/risk matrix and its criticality to the Council.

Strategic procurement takes place where there is high risk and a high value of spend for the authority. In this area it is important to be concentrating on building excellent working relationships with contractors with a view to driving down costs for both organisations without attempting to reduce profit margins. The relationships are based on trust, openness and honesty with both organisations owning the desired outcomes. Typically this is the area where PFI or PPP arrangements will be negotiated but partnerships can take many forms. Essentially a partnership is where two or more organisations work together to achieve shared objectives. Procurement needs to take a strategic view to overcome all opposing opportunities to realise the potential rewards and benefits.

Figure 1: Managing the procurement spend



Bottleneck is where there is relatively low spend but high risk or high market difficulty i.e. there are only one or two key players in the market or it is very difficult to change supplier. The emphasis in this box should be to secure supply for the Authority with price being relatively unimportant e.g. fuel in a national shortage.

Leverage is where there is a reasonable spend in a particular category but low risk and low market difficulty. This is the buyers' paradise where there should be regular switching between suppliers to obtain leverage in the market.

Routine purchases are those where there is low risk and relatively low expenditure. The strategy for this box should be to minimise effort. Contracts should be 3 or 4 years long, negotiated effectively and then left to run themselves until renewal. This box is ideal for using consortia contracts, framework agreements, purchasing cards and e-procurement

Major Projects

The Corporate Procurement service will oversee and direct the procurement support, advice and consultancy provided for major service procurements and partnership arrangements including Private Finance Initiatives (PFI) and Private Public Partnership (PPP) to ensure appropriate project support.

Partnerships

A partnership approach to service delivery is the Council's preferred procurement strategy for major projects as has already been demonstrated through Strategic Partnering, the Regeneration Solution and the Leisure PPP. The approach focuses on joint problem solving and the sharing and management of risk. A Partnership approach will be taken in all major construction related projects in line with the recommendations of the government guidance "Rethinking Construction"

Care Procurement

Care procurement in Solihull is covered by a separate "Social care and support – operational commissioning statement". This has been written in line with the principles detailed in this strategy. When the Department of Health issue the

procurement strategy for social care, the operational commissioning statement and this document will be revised where necessary to meet new targets given. All operational procurement takes place within the framework provided by strategic statements and local implementation of national service frameworks and joint strategies with the PCT.

Supplier rationalisation

Supplier rationalisation will allow procurement power to be refocused with the resultant benefits of increased leverage, potential for reduction in numbers of transactions and better value for money being achieved. It will help develop better relationships with our suppliers and give a more professional image to the markets in which we operate.

E-procurement

E-procurement is the use of electronic systems to procure goods, works and services improving the efficiency of the process and increasing opportunities for price reductions. Solutions include:

- complete “end to end” procurement systems that are integrated with financial back office systems (including e-tendering and e-auctions)
- web based systems that enable ordering from approved catalogues over the internet
- procurement cards for ordering and payment
- payment through BACS and CHAPS

As stated in the vision, technology will be used to support organisational and behavioural change. The pilots that have been run and the participation in the National e-procurement project research with Deloitte has helped Solihull have a clear understanding of the benefits and drawbacks of e-procurement (see Appendix 3). Solihull will use e-procurement as a tool to reduce transaction costs and to increase market leverage in the “leverage and routine” boxes of the risk management model described in Figure 1 above. Suppliers should be encouraged to embrace e-procurement in order for the both parties to achieve continuous improvement in service and costs.

Members

Members must take a strategic role in securing Best Value through procurement. This should include involvement in and the monitoring of outcomes from strategic procurement exercises and holding the whole procurement function to account through the Cabinet portfolio holder for Resources. Ultimately there should be a clear political responsibility for procurement supported by appropriate training.

Collaboration

The Corporate Procurement Service will examine opportunities for collaborative procurement. Current examples are joint commissioning possibilities through a Care Trust with the local Primary Care Trust and joint contracting with Coventry City Council on stationery.

Solihull will participate fully in the national and regional procurement agenda, sharing good practice with other local authorities and public sector bodies where appropriate. Solihull are members of a consortium formed to deliver the Regional Centre of Procurement Excellence for the West Midlands hosted by Worcester County Council.

The Corporate Procurement service will continue to make intelligent use of framework agreements and contracts put in place by local authority purchasing consortia and other public bodies such as the Office of Government Commerce (OGC), where they best offer value for money.

Engagement with the Community

The Community Strategy provides the framework for the Corporate Procurement service to engage with the community. The service will encourage diversity and competition through engagement with all potential suppliers but in particular SMEs and voluntary and community sector as active partners in the community. These principles will be built into procurement processes and contract documentation

Engagement with schools

The Corporate Procurement Manager is a member of the Business Partnership Work group of the Schools Forum. This group will be used to discuss contracts that impact on schools and an opportunity to share good practice and opportunities that are available for schools. The work group will be used as one method of communication between schools and the Corporate Procurement Service. The Corporate Procurement Service will design a schools offering or package which schools can choose to buy.

Probity

The Council must have the highest standards of probity in dealing with public money. Officers involved in tendering contracts will act as guardians of these standards in line with the Authority's Code of Ethics. External suppliers and service providers will be required to operate to the same level of ethics as the officers they are dealing with. Adopting improvement procurement processes and techniques will improve the council's ability to ensure probity.

Good practice

There is no intention through this strategy to reinvent the wheel. It is crucial that we build on current strengths through improving communication and sharing good practice across the organisation.

Adopting best practice as it develops and participation in national and regional forums and appropriate professional bodies will help us benchmark our processes against the latest innovations and thinking, leading to improved efficiency. The objective here is not simply comparison but improvement.

4. Scope of the corporate procurement service

Solihull's organisational structure for procurement should:-

- recognise the strategic leadership role of Members by giving the responsibility for procurement to the Cabinet Member for Resources
- raise the profile of the function to a strategic level
- ensure that procurement is represented at Director level on the Corporate Management Team initially through the Strategic Director of Customer Services
- facilitate the formation of appropriate multifunction teams to work on each large procurement so that the right people with the right qualifications or experience participate in each procurement exercise;
- ensure good communication and the sharing of good practice;
- be cost effective and able to demonstrate how it adds value to the organisation
- have appropriate specialist skills to meet the business needs of the organisation
- where appropriate move from adversarial contracts to partnership working
- allow customers to use the minimum amount of effort to get the goods and services they want
- provide professional procurement help when required
- provide a corporate procure to pay process
- not manage supplies and services budgets directly but negotiate effective procurement agreements as part of a multifunctional team to ensure good value services are delivered
- include a business development facility to ensure the structure and framework in which procurement operates remains leading edge
- manage stocks and spares effectively

To ensure that there is effective management of the corporate "procure to pay" process in the authority, the corporate procurement service will take an overview of the Buying, Accounts Payable and Stores functions in the Authority. The initial structure will contain Contracts and Buying and Business Development sections and will be responsible for carrying out the following functions:

- supplier sourcing – identification and assessment of approved suppliers. For major contracts this will be as part of a multifunctional team supported by technical experts
- supplier development – reducing exposure to risk in key markets through supporting new entrants to the market place and increasing the capability of the current supply base through continuous improvement.
- contract negotiation – leading negotiations on new agreements and on changes to current agreements
- contract drafting – formulating contracts including terms and conditions and managing contract information
- contract award – ensuring that contracts are let in line with empowerment levels and legal processes
- strategic supplier relationship management – managing key performance issues, continuous improvement initiatives and close management of high risk suppliers

- Market management & development – monitoring market trends and identifying strategies to deliver benefit in markets and develop difficult markets.

The elements of activity related to procurement that will be delivered through service or technical experts will be:

- definition and communication of service needs
- day to day operational contract management
- drafting of technical contract specifications
- definition of service and quality levels
- feedback on supplier performance
- raising orders against contracts
- providing client approval for sign off of procurement plans
- supporting corporate procurement in contract negotiations to ensure that agreements accurately reflect service needs.

A detailed list of functions performed by the corporate procurement service is included at Appendix 1

5. Key Performance Indicators and targets

5.1 Key Performance Indicators

The Options for Service Delivery report used a balanced score card approach to key performance indicators and it is proposed that the corporate procurement unit adopts a similar approach. The I&DeA, the 4 P's and The Society of Procurement Officers in Local Government (SOPO) are currently working on a proposed list of Key Performance Indicators as part of their work on implementing the National Procurement Strategy. A suitable basket of indicators will be developed in line with the work already completed by the Policy and Performance Unit under Strategic Partnering and from the I&DeA examples, when the new service is operational. A draft list of KPI's is included as Appendix 4

5.2 National Procurement strategy targets

The National procurement strategy contains targets for procurement in all Local Authorities. These targets are in line with Solihull's procurement vision and will form the backbone of any performance targets for the Corporate Procurement Service as they strive to achieve SMBC's objectives. The National Procurement targets are listed in Appendix 2 along with an assessment of Solihull's current position.

5.3 Monitoring performance on major projects

The National Procurement Strategy recommends that a Gateway Review process is implemented in each authority for major procurements. This is a process where an assessment is made of progress on major projects at key stages throughout the process. The review process does not allow a proposal to move to the next stage of the project until the assessment of progress is favourable. This process has been widely used by central government and the 4P's have developed a local government version. It is proposed that the corporate procurement service's business development team should consider the merits of this process and recommend a way forward for Solihull by early 2005.

5.4 Annual procurement plans

The Corporate Procurement Service will negotiate procurement plans annually with Service areas which will detail the procurement service to be offered to that area of service provision in the authority. As priorities change it will be possible to renegotiate these plans in line with business need and as such the planning process will be a two way mechanism used for managing demand on the procurement service and for testing performance against agreed targets.

5.5 The next 2 years

The table below describes at a high level, the activities that will be undertaken in the early years of operation for the corporate procurement service.

Table 2 – Year 1 and 2 activities for the corporate procurement service

Year	Activity	Benefit
1	Set up the new team. It is envisaged that once the funding for the unit has been agreed that temporary staff can be appointed to begin buying activity, until permanent employees can be appointed	Release of £100,000 savings. Consolidation of procurement effort with resultant increase in procurement professionalism leading to added value and savings
1	Agree benefits realisation plan based on One front Line business plan assumptions	Provides an essential element of the OFL business plan and wider savings plan for Council.
1	The re-writing of existing policies and procedures, together with the introduction of new policies and procedures.	A leading edge framework for procurement activity that will reduce cost whilst adding value through increased commercial opportunity
1	Support for managers on how to interact with the new service and clarity on what activity will remain with their service.	Removal of duplication; “service and technical” experts able to concentrate on their day job.
1	The current register of contracts to be updated and a programme of work developed for the Buying section of the corporate procurement service	Ability for the authority to plan its procurement activity strategically, with the resultant benefits of better packaging, market engagement and market leverage.
1	Procurement plans agreed with each service	Ability to plan to meet customer’s needs and allocate resources effectively
1	Provide strategic procurement advice to major projects	Protect the Authority’s interests and reduce risk, building on lessons learnt in the past.
1	Map the authority’s spend against the expenditure/risk matrix, identify the market categories in which the authority operates and start to re-let contracts which are due for renewal as appropriate	Start to release savings for the one front line programme
1	Actively engage with the emerging Regional Centre of Procurement Excellence	Take advantage of emerging opportunities through collaboration.
1	Promote the Strategy to local partners through the LSP	Encourage wider understanding of the potential for social and community benefits through procurement.
1	Agree a suitable basket of performance indicators for the service, identify the baseline and introduce processes for measurement against these targets	Understand the current procurement performance and identify improvements as they occur.
2	Conduct a review of stocks and spares management, to identify the best strategy for the authority	Potential for savings with no degradation of current service delivery
2	Work with the restructured Facilities and Asset management section to develop effective contract management between the	Reduce current cost of contract management with improved service delivery

Year	Activity	Benefit
	two services	
2	Complete implementation of e-procurement pilots including roll out of POP, Oracle iProcurement, e tendering and e auctions in line with procurement strategy	Reduced transaction costs, control of maverick spend and potential for savings on goods and services

6. Key policies

Procurement policies and guidance

All procurement policies will be driven by SMBC's Community Plan, this strategy and the National Procurement Strategy. Procurement policies and guidance are essential in order to provide an agreed framework procurement activity in the Council. They need to ensure probity, the use of good practice and ultimately ensure excellent procurement.

The policies and guidance must be up to date, understood, accessible, relevant, consistent, agreed and owned. Policy development will be the responsibility of the Business Development Manager, reporting to the Corporate Procurement Manager, together they will own all procurement processes and be responsible for keeping them up to date in line with changes to law and guidance from government

Solihull's current procurement policies and guidance are:-

- Rules for Contracts and Financial Matters
- How to do Best Value Reviews Policy and Guidance
- Purchasing Manual
- Purchasing process strategy
- Draft Procurement Policy (about 7 options and will only support in-house provision where it can be clearly demonstrated it can deliver Best Value or there is no market)
- A Short Guide to European Community Procurement Legislation
- Draft TUPE / Workforce Matters policy and guidance
- Management of Change Policy

The majority of these policies are now in need of either updating or deletion. The list will need to be expanded to provide a comprehensive list of policies on current topical issues to move the service forward in line with this procurement strategy.

The policies and procedures that need updating fall into three categories:

1. those specific *procedures* that are integral to the proper and effective functioning of the procurement activity;
2. those wider *procedures* that have impact on procurement operations;

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3. those (Council) *policies* that require procurement input.

These separate categories are detailed below - not necessarily exhaustive as developments across the Authority will need to be reflected in further policies and procedures in a dynamic manner.

1. Specific Procurement Procedures:

The following emanate from the adoption of the *Procurement Strategy* and the revised *Rules for Contract* and will need to be in place before the new service comes into operation.

- i. A Procurement Code (if the Procurement Strategy is the “roadmap” to the new service, the Code is the statement of practice)
- ii. Invitation to Tender Procedure
- iii. Quotation Procedure
- iv. Electronic Tenders, Quotations and Auctions
- v. Post Tender Negotiation Procedure
- vi. Contract Administration and Management Procedure
- vii. Approved List System Procedure
- viii. European Directives Procedure(s)

2. Wider Council Procedures

There are procedures that have relevance across the Council and many have impact on the procurement function (as they do now) and revision of these particular processes will be key. A joint approach to these procedures will be necessary, however, and will need to be debated within the other teams under the proposed governance arrangements i.e. “systems” and “accounts payable”. The target date for these will need to be directed to the new service inception date where possible, although not necessarily essential for effective procurement practice.

- i. roll out of e-procurement and ORACLE iProcurement
- ii. purchase card usage
- iii. requisitions, orders and pay processes
- iv. interfaces with ORACLE Financials and POP
- v. appointment of consultants
- vi. ICT procurement

3. Council Policies with Procurement input

There is/will be a range of Council policies that have procurement input in order to influence and assist the aims and objectives of such policies. A non exhaustive list is given below, and the responsibility for the promulgation of such policies will be a joint undertaking between those in the Council’s policy areas and procurement. Again, the adoption of these policies and their associated procurement input will not be essential to effective procurement, but a prioritisation can be proposed as indicated below (“A”, “B” and “C”).

- i. Selling to the Council (A – procurement with policy input)
- ii. Market stimulation – small and medium sized firms (SMEs), black and minority ethnic firms (BMEs), social enterprises, and voluntary and community organisations (A – joint policy and procurement)
- iii. Race Equalities and procurement (A – joint policy and procurement)
- iv. Sustainability (B – joint policy and procurement)
- v. Strategic Partnerships (B – joint policy and procurement)

- vi. Collaborative working (B – procurement with policy input)
- vii. Local Government Act 2003 and new trading powers (C – joint policy and procurement)
- viii. Fair Trade provisions (C – joint policy and procurement)
- ix. Freedom of information Act (A - joint policy and procurement)

Proposed time scales:

- ❖ A – by 1.12.04
- ❖ B – by 1.4.05
- ❖ C – by 1.7.05

Summary table:

Category	Who	By
1 procurement procedures	Procurement	1.9.04
2 wider procedures	Joint (teams/procurement)	To be determined
3 Council policies	Joint (policy makers/procurement)	Proposed above as 1.12.04/1.4.05/1.7.05

7. Resources

The means of funding the service has been agreed by CMT. The funding is based on the model developed under strategic partnering. When writing the Options for Service delivery report, work was undertaken to map and identify officers involved in procurement across the Council. The most significant feature arising from the review was that a large number of people are involved with procurement but, individually, for a very small percentage of their time. Disentangling and re-engineering to create the new team out of all these fragments was recognised as being unrealistic. As a result it was agreed that the percentages should be totalled up in each Directorate and vired to Strategic Services to establish the new procurement team. Directorates will be able to decide from where, within their total Directorate budget, they will find the funding. This is the basis for funding that was agreed through Council in July 2003. This funding mechanism will provide a shortfall on establishment in the second year of operation of the new service and further work will need to be carried out with the Trading Units that have currently been excluded from the funding mechanism to identify savings that can be made.

Providing a full year's funding for the service even though it will only be operational for part of 2004 will allow the strategic partnering "spend to save" scheme debt to be paid back for 2004.

The operating budget for the corporate procurement function estimated at £35,000 for 2005/6 has been included in the financial model for the One Front Line programme. In addition, funding for service specific technological developments, i.e. Oracle iProcurement and e-procurement have been included in the One Front Line Financial model and will be delivered as the programme progresses.

The savings targets set for the Corporate Procurement Service under the One Front Line Financial Model are as follows:

Year	Saving £
2004/2005	170,000
2005/2006	500,000
2006/2007	1,100,000
Total	1,770,000

8. **Bibliography**

Best Value Review of Procurement – January 2002

Draft Procurement Strategy – January 2002

Options for Service Delivery Report (Procurement) – March 2003

National Procurement Strategy for Local Government in England – October 2003

Corporate Procurement Service Functions

1.1 Day 1 Procurement Services provided by the Corporate Procurement Service to the Authority will include the following:

- (a) Central Contracting Unit and Strategic Advice;
This service includes providing strategic procurement advice for major authority projects e.g. Northern Regeneration Solution and Leisure; advising on compliance with the Authority's Rules for Contracts and Financial Matters; letting corporate contracts for traditional supplies and services; providing sourcing advice; providing advice on compliance with and statistical returns for EU public procurement directives; letting contracts, providing advice and procurement support for schools; placing orders on Oracle for Strategic Services Directorate and some ad hoc procurement advice as requested.
- (b) Contracting service;
It is envisaged from Day 1 that the corporate procurement service will provide a contract letting service for all Authority contracts except where specifically excluded from the scope of the One Front Line project. This means that the corporate procurement service will ensure that the Authority can deliver its services supported by appropriate contractual relationships.

Periods of operation for the "Day 1" Procurement Service

The operating hours of the corporate procurement service at the Effective Date, are set out below, the corporate procurement services will be provided 52 weeks of the year, excluding Bank Holidays and Public Holidays.

Procurement: Monday through Friday 8.30am until 5.20pm

- Emergency Support:**
- a) The corporate procurement service will provide named contacts available twenty four hours a day, seven days a week, to co-ordinate and respond appropriately as part of a major emergency. The team will be contacted when the Chief Executive (or designated officer) has activated the Authority's Corporate Emergency Plan.
 - b) On a day to day basis, contractual commitments will be negotiated to ensure that minor or localised emergency responses are available from third parties as appropriate. Invoking contractual emergency responses will be the responsibility of the Authority rather than the procurement service. Failure by the third party to provide the emergency service will be treated as a performance issue by the corporate procurement service.
 - c) Where an emergency is caused by total contract failure, the corporate procurement service will provide support to the Authority to enable continued

service delivery with the minimum amount of disruption possible.

If necessary, the operating hours for the service will be amended in line with the requirements of the new transformed service as new capabilities and organisational changes are implemented.

1.2 “Procurement Developmental Services” provided by the corporate procurement unit to the Authority will, from day 1, include the following consultancy service elements:

- (a) assessing the Authority’s current procurement activities to identify service/ cost efficiencies possible for the Transformed Procurement Service;
- (b) identifying the procurement needs of the Authority;
- (c) identifying ways in which the procurement process can be rationalised;
- (d) enabling use of the electronic ordering and payments system by all parts of the Authority within scope
- (e) developing appropriate policies and procedures to support the New Transformed Service
- (f) identifying new tools and techniques that support the New Transformed Service e.g. e procurement and catalogue purchasing
- (g) other consultancy services which will benefit the New Transformed Service

1.3 “New Transformed Service” - the newly Transformed Procurement Service will include the provision by the Corporate Procurement Service of the services noted below at a high level. N.B. the New Transformed Service will include all services provided at Day 1 by the Corporate Procurement Service unless these services have varied through the developmental stage.

The Corporate Procurement Service will:

- (a) provide professional procurement advice on the best way to manage the Authority’s spend covered by the scope of this agreement
- (b) manage the performance of the service to determine whether the goods and services are being supplied according to the Authority’s requirements detailed in annual procurement plans agreed with the designated Officer (procurement plans will be negotiated with schools through the Schools Forum). In addition to service area specific procurement plans there will be an annual general procurement plan agreed with the Authority which will focus on policy objectives and priorities. This will help the Corporate Procurement Service manage delivery expectations. The procurement plans will be drafted by the Corporate Procurement Service. Demand variations will be subject to negotiation on resource availability.
- (c) negotiate and develop contracts for the Authority to minimise total cost of ownership. Contract negotiations to be led by the Corporate Procurement Service but supported by a team of technical experts

from the Authority. Total cost of ownership will be established through contract award criteria that establish the optimum combination of whole life costs and benefits to meet the customer's and the community's requirements.

- (d) process requisitions/orders for non contract orders over the value of £5,000, at all times seeking to minimise the effort required by the Authority in the process;
- (e) develop a corporate supply chain process, including procurement strategies, policies and procedures that cover all aspects of the procurement process; including governance and audit processes. These processes will be automated or inbuilt into IT systems to aid compliance with e government requirements;
- (f) research and understand the Authority's profiles - timing, phasing, number of suppliers, type of goods and services, any expected changes from historic patterns, future markets or service offerings that may be provided, etc.;
- (g) keep abreast and comply with any relevant legislation that affects the specification, costs or ability to obtain products required by the Authority. To develop this information the Corporate Procurement Service will identify the data required, how that data will be obtained, quantified and how future data quality will be ensured.
- (h) identify training needs for the Authority on how to interact with the Corporate Procurement Service and the degree of procurement knowledge required. The Corporate Procurement Service will facilitate the training through the delivery of the annual procurement plans agreed with the Designated Officer;
- (i) design policies to deliver required outcomes which includes ensuring that the Rules for Contracts deliver compliance on legislative and probity issues whilst achieving delivery of the New Transformed Service;
- (j) seek to increase the percentage of the Authority's spend covered by the Corporate Procurement Service through promotion of the benefits of the service;
- (k) ensure that staff delivering the New Transformed Procurement Service for the Corporate Procurement Service will be trained to an appropriate level to perform those duties.
- (l) Provide management information on the New Transformed Service to the Authority on an annual basis.
- (m) Achieve the Authority's policy objectives e.g. race relations, sustainability, equal opportunities, and development of the local economy whilst delivering best value. The will proactively manage markets and will maintain the approved list of contractors for the Authority.

- (n) the service will consider the most appropriate method of contracting and current packaging of all Authority contracts in scope. This may lead to different bundling to maximize market opportunity. The Authority's core vision and values will be placed at the heart of procurement activity to help the Authority achieve its strategic objectives. At all stages of the contracting process work will be done to consider how the contract can be made more attractive to the supplier to minimize total cost of acquisition. Contracts will be let according to an agreed renewal programme developed through the customer procurement plans;
- (o) Expenditure will be mapped against the risk/expenditure matrix and procurement effort targeted appropriately i.e. for Strategic Contracts the emphasis will be on building relationships, for Bottleneck contracts the emphasis will be on securing supply, for Leverage contracts the emphasis will be on obtaining the best deal and for Routine contracts the emphasis will be on minimising effort
- (o) Manage the performance of the service to determine whether the goods and services are being supplied according to the Authority's requirements detailed in annual procurement plans agreed with the designated Officer (procurement plans will be negotiated with schools through the Schools Forum). In addition to service area specific procurement plans there will be an annual general procurement plan agreed with the Authority which will focus on policy objectives and priorities. This will help the Corporate Procurement Service manage delivery expectations. The procurement plans will be drafted by the Corporate Procurement Service. Demand variations will be subject to negotiation on resource availability.
- (p) rationalize and manage the number of suppliers held on the payments system. The will consult with the Authority accountants on how to maximize cash flow and make payments in line with business requirements. The payments and buying functions will work closely together to allow greater co-ordination between the processes which will ensure that payments are made and contracts are let using the most cost effective method.
- (q) Negotiate and develop contracts for the Authority to minimise total cost of ownership. Contract negotiations to be led by the Corporate Procurement Service but supported by a team of technical experts from the Authority. Total cost of ownership will be established through contract award criteria that establish the optimum combination of whole life costs and benefits to meet the customer's requirements.
- (r) As a year 2 activity, review stocks and spares management with a view to optimising total cost of ownership. This review will include managing stocks and spares appropriately at Moat Lane Depot and Lyndon Distribution centre for efficient service delivery and the maintenance or enhancement of existing service levels.
- (s) process requisitions/orders for non contract orders over the value of £5,000 at all times seeking to minimise the effort required by the Authority in the process;

- (t) manage suppliers and contractors performance through user feedback mechanisms and relationship building with Strategic suppliers. If there are significant performance issues then these will be addressed by the Corporate Procurement Service, day to day performance issues will be dealt with by the Authority. The Corporate Procurement Service will generate additional cost benefits through management of price review requests from suppliers. The Corporate Procurement Service will not provide operational contract management, for example, the issuing of work instructions and management of work programmes as this is a service area function, to be carried out elsewhere in the Authority.
- (u) manage the information requirements of the service e.g. customer satisfaction, customer/community needs, contract database, performance against KPIs, savings/benefits realised etc., to allow the service to operate efficiently and effectively.
- (v) continue to develop the New Transformed service to meet changing requirements, demand, market fluctuations and professional innovations.

National Procurement Strategy targets

SMBC No.	Target	Solihull's current position
	By 2003	
1	Where relevant, all councils shall consult staff during procurement projects and build employment considerations into procurement processes and contracts, including compliance with the Local Government Act 2003, Circular 03/2003 and the associated code of practice.	Under Strategic Partnering, staff consultation and employment considerations were a major feature of the negotiations. Likewise with the Leisure PPP staff are being fully consulted and a TUPE protocol has been agreed through Corporate Management Team
	By 2004	
2	Every Council should adopt a corporate procurement strategy, based on a best value or other review. The strategy should be owned by Members and senior managers and its implementation monitored regularly	This strategy, based on the Best Value Review and the options for Service Delivery report will satisfy this requirement
3	Every Council's corporate procurement strategy should set out the council's approach to partnering in service delivery and in construction projects	See section 4 "Principles guiding procurement" of this strategy"
4	Every Council's corporate procurement strategy should set out the council's approach to collaboration (including purchasing consortia, joint procurement and commissioning and shared services), and how it intends to use the new trading powers	See section 4 "Principles guiding procurement" and section 5 "Key Policies" of this strategy
5	Every Best Value or strategic review of a service should include a robust and challenging appraisal of the different service delivery models available	The Council's "How to do Best Value Reviews" guidance details how the "challenge" element of Best Value should be handled through the 7 strategic choices. In addition the Corporate Procurement Manager is a member of the Performance Management Panel (chaired by the Chief Executive) which undertakes the role of "critical friend" for all best value and management reviews.
6	Every Council should publish a "Selling to the Council" guide on its corporate website together with	"selling to the Council Guide to e published by the end of December 2004. Solihull are looking to

SMBC No.	Target	Solihull's current position
	details of bidding opportunities and contact details for each contract	participate in the Birmingham Supplier Portal which is a process whereby SME's are made aware electronically of all bidding opportunities
7	All corporate procurement strategies should address: <ul style="list-style-type: none"> • the relationship of procurement to the community plan, workforce issues, diversity and equality and sustainability • how the Council will encourage a diverse and competitive supply market, including small firms, social enterprises, ethnic minority business and voluntary and community sector suppliers 	The relationship with the community plan will be developed more clearly as the relevant policies described in section 7 "Key Policies" of this strategy are written
8	Every Council should build sustainability into its procurement strategy processes and contracts	See "Key Policies" section of this strategy
9	Every Council should conclude a compact with the local voluntary and community sector	Work has commenced on developing a service level agreement for advice on grant funding for the voluntary sector as a result of the Best Value Review
10	Procurement processes for partnerships should include: <ul style="list-style-type: none"> • issuing an information memorandum to prospective bidders setting out the background to the project, the council's objectives and an outline of the procurement process and timetable, with roles and responsibilities made clear • inviting bidders to demonstrate their track record in achieving value for money through effective use of their supply chain, including the use of small firms; this should continue to be examined as part of contract management 	<p>Strategic Partnering, the Regenerations Solution and the Leisure PPP documentation all included this information at Request to Participate stage.</p> <p>This information has not previously been asked for but can be added as a standard question for all pre qualification questionnaires.</p>
	By 2005	
11	Every single tier and county council should carry out a health	Progress against this strategy will be monitored by the Corporate

SMBC No.	Target	Solihull's current position
	check on progress against this National Strategy and the associated guidance as part of their corporate procurement strategy	Procurement service as part of the monitoring of service performance This Appendix is the first "health check" on performance against the National Strategy
12	Every Council should be involved with a regional centre of excellence in procurement and project management	Solihull are already members of a consortium who will be setting up the Regional Centre of Excellence hosted by Worcester County Council
13	The average time taken from OJEU notice to contract award in a project of more than one year's duration should be reduced by 10 per cent on the 2003 basis	2003 baseline will be established for the Key performance indicators of the Corporate Procurement service. The involvement of the Corporate Procurement Manager in major procurement projects should help facilitate this improvement
14	Councils should identify opportunities for collaboration with neighbouring councils for shared commissioning and/or delivery of service	Solihull currently lets the Joint Data team contract on behalf of the 7 metropolitan boroughs in the area.
15	Every Council should have implemented an appropriate e-Procurement solution as part of its e-Government programme	This will be addressed through the implementation of this strategy
16	For low value purchases, every council should be making appropriate use of a procurement card, the Government Procurement card(GPC) or a suitable electronic alternative	Solihull already uses procurement cards for low value purchases
17	Every Council should include in invitations to tender/negotiate for partnerships a requirement on bidders to submit optimal option, priced proposals for the delivery of specified community benefits which are relevant to the contract and add value to the community plan	The Streetcare contract described the authority's vision of providing a clean and tidy borough and tenderers were asked to price their bids on this basis. Under strategic partnering the bidders were asked how they could help the authority improve its service delivery to customers through one front line. The regeneration solution bidders were asked to conduct a pilot on community consultation to demonstrate how they would involve the community in the master planning process for the north of the borough. The results of this pilot were included in the evaluation of the preferred

SMBC No.	Target	Solihull's current position
		partner.
18	Every Council should have signed up to the national concordat for SME's	The Local Government Procurement Forum are currently working on producing a national concordat and have it as a target for 2004
	By 2006 all Councils will be:	
19	Delivering significantly better quality public services that meet the needs of all local citizens through sustainable partnerships they have forged with a range of public, private, social enterprise and voluntary sectors	Putting the customer at the heart of everything we do is the basis of One Council One Vision. Partnership working can already be demonstrated in Solihull e.g. Regeneration solution, Leisure PPP and the work that has been completed on the Community Strategy with the Local Strategic Partnership
20	Confidently operating a mixed economy of service provision, with ready access to a diverse, competitive range of suppliers providing high quality services, including small firms, social enterprises, minority businesses and voluntary and community sector groups	This improvement can only happen over time as the new policy frame work for procurement is implemented in line with this strategy and the Community Strategy
21	Achieving continuous improvement from all categories of procurement expenditure, by putting in place an appropriate procurement strategy and the necessary resources for implementation	This strategy, the setting up of the corporate procurement service and the funding from the top slice agreement and the One Front Line financial model will address this issue
22	Obtaining greater value for money by collaborating with partners at local, regional, national and European levels	Solihull is a member of a consortium that was formed to set up a regional centre of excellence for Procurement hosted by Worcester County Council. The Corporate Procurement Manager and the Chief Executive will be active in this forum.
23	Realising economic, social and environmental benefits for their communities through their procurement activities	Devising and implementing the policy framework for procurement described in this strategy will enable this target to be met.
24	Demonstrating improvement in equality and opportunity for businesses, service users and Council staff	Working with Economic Development, Business Link the Birmingham and Solihull Chamber of commerce should facilitate this improvement.
25	Stimulating markets and using their buying power creatively to	This will be the whole ethos of the value the Corporate Procurement

SMBC No.	Target	Solihull's current position
	drive innovation in the design, construction and delivery of services	service can add to the organisation. The cultural change will be facilitated through training and development of existing staff and the appointment of new professionals into the organisation
26	The average time taken from OJEU notice to contract award in a project of more than one year's duration should be reduced by 25% on the 2003 basis	KPI for Corporate Procurement Service
27	Every Council should be using an appropriate e-marketplace	Delivery of this strategy will achieve this. Progress will be monitored through BV 157 which includes e-Procurement as one of the transaction types that should be carried out electronically by 2005

Perceived benefits of E-Procurement

Purchasing cards – perceived benefits:

- Will assist with the performance against BVPI 8 which has a government target of 97.5 % of undisputed invoices paid in 30 days.
- Reduced administration costs. Current cost of raising an order and processing is £60 (Audit Commission estimate).
- Delegation, responsibility for all routine transactions delegated to operational officers/line managers.

Roll out of Oracle Purchase Order processing and introduction of Oracle i-Procurement – perceived benefits

- Regain control of maverick spend
- Have improved management information
- Will improve the speed of paying invoices through automatic matching of orders and invoices
- Will be able to access electronic catalogues over the internet
- Potential for self billing by suppliers over the internet, again improving payment processes

E-tendering/reverse auction system – perceived benefits:

- Can deliver lower prices than traditional tenders
- Encourages sharper supplier competition
- Speeds up tender to contract cycle
- Generates useful management information
- Clear audit trails

E-marketplaces – perceived benefits:

- Streamlined processes, reducing process costs by freeing up time and people.
- Flexibility to let staff buy what they need whilst controlling maverick spend
- Added control over spending and limits and trading partners.
- Improved trading relationships.
- Generates useful management information

Draft list of Key Performance Indicators

The indicators below comprise a full shopping basket of performance indicators which would cover all procurement functions excluding stores, and are taken from some work SOPO, the 4P's and the I&DeA are doing in line with the national procurement strategy. It would be the responsibility of the Business Development Section of the Corporate Procurement service, in conjunction with the Performance and Policy Review Division, to identify baselines and refine the list to those indicators that could be measured from Day 1 and those measures that would need to be introduced at key stages of the new service's development. The Business Development Section would conduct a review of current authority stores operations as part of the year 2 review, and subsequently develop relevant KPIs for the transformed stores service as appropriate.

1.1 Strategy

- **Strategy implementation.** Number of actions completed by milestones in the *National Procurement Strategy*
- **Training investment.** Spend per officer on structured training in procurement-related skills
- **Influence of procurement function.** Percentage spend over which professionally qualified procurement staff have control or influence (direct or indirect) (should increase)
- **Aggregation of demand.** Percentage of spend through framework arrangements and corporate contracts (should increase)
- **Collaboration.** Percentage of spend in collaboration with other organisations (should increase)
- **Project management.** Percentage of medium and high risk projects managed under a structured project management method (should increase)
- **Gateway reviews.** Percentage of medium and high risk projects to which the 4ps Gateway Review Process is applied (should increase)
- **Electronic procurement.** Percentage of spend through electronic procurement (should increase)

- **Sustainable procurement.** Percentage of spend on sustainable products and services (should increase)
- **Local government market 1.** Percentage of spend with SME's (should increase)
- **Local government market 2.** Percentage of spend with the third sector i.e. suppliers in the voluntary, community and social enterprise sectors (should increase)
- **Local government market 3.** Percentage of spend with black and ethnic minority businesses (should increase)
- **Customer satisfaction with the Corporate Procurement Service.** Measured through satisfaction survey using a score of 1 to 10 (should increase)
- **Supplier satisfaction with the authority as a customer.** Measured through satisfaction survey using a score of 1 to 10 (should increase)

1.2 Major Projects including PPP, SSP and Construction Projects (**incorporating Construction Best Practice KPIs**)

- **Predictability - time to procure.** Time from publication of OJEU notice (Gate 2) to contract signature (Gate 3) as percentage of time allotted in approved business case
- **Predictability - time to service delivery.** Time from contract signature (Gate 3) to operational start (Gate 4) compared to target time
- **Predictability - fees.** Outturn external costs (fees) as percentage of approved business case target
- **Cost of procurement.** Cost of procurement as a percentage of total project value (in NPV terms). Divided between internal and external costs
- **Capital cost.** Capital cost overrun as a percentage of capital cost.

- **User/Client satisfaction.** End user/client satisfaction on a scale of 1 to 10 after a period of 24 months of operations/finished product.
- **Client satisfaction – service.** How satisfied the client was with the service of the consultants and main contractor, using a 1 to 10 scale.
- **Defects.** The condition of the product/facility with respect to defects at the time of handover, using a 1 to 10 scale.
- **Predictability – cost.**

Design cost. Actual cost at Available for Use (C) less the estimated cost at Commit to Invest (A) expressed as a percentage of the estimated cost at Commit to Invest (A)

Construction cost. Actual cost at Available for Use (C) less the estimated cost at Commit to Construct (B) expressed as a percentage of the estimated cost at Commit to Construct (B).

- **Predictability – time.**

Design time. Actual duration at Commit to Construct (B) less the estimated duration at Commit to Invest (A) expressed as a percentage of the estimated duration at Commit to Invest (A)

Construction time. Actual duration at Available for Use (C) less the estimated duration at Commit to Construct (B) expressed as a percentage of the estimated duration at Commit to Construct (B).

- **Construction cost.** The normalised construction cost of a project in the current year, less the construction cost of a similar project one year earlier, expressed as a percentage of the construction cost of similar project one year earlier.
- **Construction time.** The normalised time to construct a project in the current year. Less the time to construct a similar project one year earlier, expressed as a percentage of the time to construct a similar project one year earlier.

1.2.1 Purchasing

- **Price performance.** “Shopping basket” of top 100 items. Measure by reference to RPI (should not increase but may decrease or remain the same)
- **Average order value.** Measured by the total spend divided by the number of orders (should increase)
- **Average cost of raising an order.** Total resource cost of the procurement process (requisition to payment) divided by the total number of orders placed (should reduce)
- **Average invoice value.** Measured by total spend divided by total number of invoices (should increase)
- **Prompt payment. (BVPI 8).** The percentage of invoices for commercial goods and services that were paid by the authority within 30 days of such invoices being received by the authority (should increase).
- **Accuracy of deliveries.** Percentage of goods/services delivered that are not as the user requested (should decrease)
- **Average spend per supplier.** Measured by the total spend divided by the total number of suppliers (should increase)
- **Average time taken from OJEU notice to contract award** in a project of more than one year’s duration should be reduced by 10% on 2003 baseline
- **Savings made through Corporate Procurement Service** to be in line within One Front Line Financial Model projections for procurement:

Year	Saving £
2004/2005	170,000
2005/2006	500,000
2006/2007	1,100,000
Total	1,770,000

N.B. before measures are finalised, an assessment should be made on impact on service specific KPI’s e.g. Public Library Standards

Supplementary PIs to establish performance on electronic procurement KPI

- *Percentage of spend through electronic orders (i.e. over the internet; excluding fax and telephone) (should increase)*
- *Percentage of invoices received electronically (should increase)*
- *Percentage of spend through electronic sourcing should increase.*
- *Percentage of orders raised electronically (should increase)*
- *Percentage of invoices paid electronically e.g. through BACS/CHAPS (should increase)*
- *Percentage of spend through procurement cards (should increase)*