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Ward(s) affected	The annual report covers the whole District
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Subject	Progress Report on Procurement
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RECOMMENDATIONS

The Audit Committee is asked

- (i) To note and approve this Progress Report on the Council's Procurement Function
- (ii) To approve the proposed Performance Indicators in paragraph 18
- (iii) To consider the draft Corporate Procurement Policy at Annex A

EXECUTIVE SUMMARY

1. There are a number of areas of Council activity that are subject to annual updates to the Audit Committee, including risk management, counter fraud and governance. Procurement has been added to this list because of the high profile attached to it by Government and the recommendation of the Internal Auditor that progress against the Procurement action plan be reported annually to Committee.
2. This report presents the Council's draft Procurement Policy (in Annex A), sets out the high level Procurement action plan for the next two years and proposes a range of performance indicators to demonstrate the effectiveness of the function. The Audit Committee's comments on the draft Policy will be incorporated in a revised version to be presented back to the Committee next year before going to Council.

BACKGROUND

3. Over the course of the last 18 months, Procurement has been the focus of a number of new initiatives instigated by the European Union and UK Government. The underlying theme has been a push towards opening up public sector Procurement activity to potential tenderers, particularly small and medium enterprises (SMEs) by streamlining and simplifying processes and publishing more frequent and clearer details on existing and proposed contract spending.
4. New directives from the EU have been implemented through the Public Contract Regulations 2015. These regulations prescribe that all public sector contracts in excess of £25,000, which are advertised, must also be advertised in the UK on the Contracts Finder portal, or on an e-tendering system that interfaces with it. There are some limited exceptions, which are provided for in the council's Contract Standing Orders (CSOs).
5. The Local Government Transparency Code 2014 introduced a mandatory requirement on local authorities to maintain and publish a Contracts Register (for all contracts with a value in excess of £5,000) and a register of all procurement exercises (also with a value in excess of £5,000).
6. As well as these external factors, the Council has accelerated its involvement with major capital expenditure, and therefore substantial contracts, through the addition to the capital programme of a number of multi-million pound projects: the refurbishment of Pippbrook, the development of Meadowbank, the "Hope Springs Eternal" project at Deepdene and "Transform Leatherhead". This level of activity has led to a significant increase in Procurement commitments.

PROGRESS UPDATE

7. Recent activity in the Council's Procurement function has been geared towards complying with the new legislative requirements, contributing to the advancement of major spending projects, reducing expenditure on contracts and responding to the detailed Audit recommendations.
8. Specific progress has been made in the areas listed below.

Resourcing

9. Procurement spend is undertaken and authorised by budget managers, but there is a need for a Procurement Officer to advise, support, co-ordinate and monitor the activity. The Procurement Officer will also identify and assist with opportunities for reducing expenditure and increasing value, develop the contract management functions and implement the e-tendering system. It

also falls to the Procurement Officer, in partnership with Legal, to ensure compliance by officers with the new regulations.

10. Capacity has been increased within the Council by appointing a full time Procurement Officer. The post was formerly shared between Mole Valley and Reigate & Banstead Councils. Options for joint working with Surrey Districts and Boroughs continue to be developed through the Surrey Procurement Group. An e-tendering system has been introduced to support achieving compliance with the new legislative requirements, and to help make procurements more efficient and effective. Funding is been provided to help deliver training in procurement and contract management to those officers who have significant responsibility for third party spend through contracts.

Revised Contract Standing Orders

11. The Council's Contract Standing Orders were revised in February 2015 to bring them in line with the latest legislative requirements and the Council's revised management structure as well as to streamline and simplify processes. The revised Standing Orders were approved at full Council.

Transparency Code

12. The Local Government Transparency Code 2014 introduced obligations on Procurement to publish details of all new procurements and all new contractual arrangements with a value in excess of £5,000. MVDC has complied, in all respects with the 2014 Code and with its successor, the Local Government Transparency Code 2015.

E-Tendering

13. The Public Contract Regulations 2015 introduced a requirement that all procurements with a value in excess of £25,000, which are advertised, are advertised electronically through a relevant procurement portal. There is a further requirement that all public sector procurement must be administered, in full, through an e-tendering system by 2018. In partnership with Surrey County Council and the majority of Surrey and Sussex districts and boroughs, MVDC has adopted and implemented an E-Tendering system (called SE Shared Services). The system has been purchased, tested and introduced on 01 April 2015. The relevant staff have received training.

Contract Register

14. Using expenditure records as a basis, an exercise has been undertaken to identify all contractual arrangements with a value in excess of £5,000. These contracts, together with the new information collected on the e-tendering system, form the contracts register. This is now populated with up-to-date

information, is published on the website and provides useful management information on dates and values of the re-tendering of current arrangements. It also provides information required to be published in line with the Transparency Code.

Procurement Principles

15. A statement of MVDC's Procurement Principles is attached at Annex A. If approved by the Audit Committee, these Principles will be published on the Council's website, replacing the current, outdated statement. The Principles set out MVDC's commitment to strategic procurement and aspirations of securing the very best value for the benefit of MVDC. The introduction of new principles is a requirement of the 2014 audit of the council's procurement function

Action plan

16. The Principles paper contains a set of milestones through which achievement will be measured. A detailed plan of action required will be recommended to the Corporate Board for implementation within each department. The broader intentions are set out at the back of the Principles paper.

Training

17. In addition to systems training on the e-tendering solution, training in contract management has been commissioned for those staff directly involved in managing and monitoring the Council's major contracts. The first event was held on for 8 October and was highly commended by those who participated. Further skills training on specification drafting and evaluation is being developed.

PERFORMANCE INDICATORS

18. It was recommended by Internal Audit that a number of performance indicators be developed for Procurement to enable the Committee to gauge evidence of the effectiveness and improvement of Procurement. At some point, this may provide an opportunity for future benchmarking against other Surrey Districts and Boroughs. None has introduced such measures yet, but a number are intending to do so.

19. The proposed indicators are . . .

- (i) Volume of challenges to award of contracts, divided into successful and unsuccessful
- (ii) Total cost of procurement function as a percentage of running costs

(iii) Number of Contract Standing Order waivers for the reporting period and number of occurrences of non compliance with Contract Standing Orders.

(iv) Year on year savings achieved on contracts which have been reviewed and/or re-procured

CORPORATE IMPLICATIONS

Monitoring Officer commentary – legal implications have been taken into account

S151 Officer commentary - The S151 Officer confirms that all financial implications have been taken into account.

Risk Implications – None within the report

Equalities Implications - None within the report.

Employment Issues - None within the report.

Sustainability Issues - None within the report.

DRAFT

**MOLE VALLEY DISTRICT COUNCIL
CORPORATE PROCUREMENT POLICY 2015-2019**

Procurement is defined in the National Procurement Strategy first published in 2003, and re-stated in the 2014 version, as:

“The process of acquiring goods, works and services, covering both acquisitions from third parties and from in-house providers. The process spans the whole cycle from identification of need, through to the end of a service contract or the end of the useful lifecycle of an asset.”

This definition, whilst accurate, does not identify the full potential of procurement as a tool for delivering the Council’s long terms goals as set out in the Corporate Strategy. This policy sets out how Procurement will support the achievement of those wider objectives over the next four years through:

- (i) the introduction of new governance arrangements;
- (ii) the development of a more commercially focused procurement culture, engaging with Small and Medium Enterprises (SMEs) where possible;
- (iii) the promotion of social value, sustainability and environmental benefits where appropriate;
- (iv) investing in new technology;
- (v) the development of expertise through staff training.

It is important that the ability to act and react flexibly is retained. There have been many changes to procurement in the last few years, brought about by legislation

and there are more to come. The Council will take every opportunity to develop procedures and support officers through guidance and training to develop and retain professional competence in all aspects of procurement to deliver outstanding value for money to the district.

The policies in this document set out the Council's commitment to strategic procurement and aspirations in pursuing the objective of securing best services at the best value for the benefit of Mole Valley.

OVERVIEW OF PROCUREMENT

In 2014-15, the Council externally procured goods, works and services worth approximately £17 million. 80% of the expenditure is concentrated with 8% of the Council's suppliers. In the next few years further national and local budget reductions will mean that it will be increasingly important to manage expenditure on procured goods, works and services to minimise risks to the Council's financial strategy, and to ensure that the best possible value is achieved for the residents and businesses of Mole Valley.

Effective procurement plays an important role in achieving continuous improvement and securing value for money in public services. The Council has legal responsibilities when making procurement decisions. It is important to ensure that procurement decisions are legal, embed the Nolan principles of Public Life and accord with the priorities of the Council in terms of the economic, social and environmental well-being of the district.

The Council is structured to deliver as effectively as possible, procuring activities which are devolved to each individual service and managed by officers in those services. To support officers and to provide cohesion and consistency across the Council, a Corporate Procurement Advisory Board (CPAB) will form an important part

of the governance structure. The CPAB will have oversight of the procurement function and will report directly to the Senior Management Team. The terms of reference for the CPAB are set out in this document. This is not to take away responsibility from the Business Managers for managing their requirements but it will provide an extra level of resource to maximise value from the procurement spend.

The CPAB will also act as a gateway for certain procurement activities; promulgating best practice, helping to mitigate procurement and contract management risk, providing a Council-wide overview of procurement activity, identifying potential savings opportunities and areas of collaboration, and ensuring that the Council may respond quickly and flexibly to new opportunities and ways of working.

As well as complying with Contract Standing Orders and Financial Regulations, all officers engaged in procurement must be familiar with the policies and the Procurement Practice Guide, which identifies the actions that the Council should take to provide effective governance and how to maximise value from its procurement spend.

The developments in best practice and legislation and government guidance, combined with the need to be responsive, make it important when reviewing a set of policies to agree that the underlying documents are living documents and will require review and amendment. For example, recent changes in UK legislation include The Public Contract Regulations 2015 and the Public Services (Social Value) Act 2012 requires that the Council considers how what is to be procured may improve the economic, social and environmental well-being of the District. Further legislation regarding concessions contracts will be implemented no later than April 2016.

THE COUNCIL'S VISION

The priorities for the Council are:

- Environment
- Prosperity
- Community Well Being

The Council's procurement activity is an essential contributor to the achievement of its vision through coordinated, efficient and focused procurement activity guided by the following policies.

KEY POLICIES

1. Sustainable Procurement – The Environment and Community Well Being

Sustainable procurement is a process whereby the Council meets the needs for goods, services, utilities and works in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation but also to society and the economy. Procurement seeks to minimise damage to the environment, promote the conservation of natural resources and help support supply chains to develop their own sustainability.

2. Value For Money - Prosperity

The Council aims to achieve value for money from all procurement activities. Value for money in this context is the optimum combination of whole life costs and benefits, which meets the requirements. In general, this is not necessarily the lowest price option.

3. Supporting Local Businesses - Prosperity

Procurement legislation prohibits the Council from favouring local businesses. However, the Council is encouraged through the

provisions of the Public Contract Regulations 2015 to support access by Small and Medium Enterprises (SMEs) to public contracts. Best practices on Small and Medium Enterprises (SMEs) and recent legislation identifies the main issues encountered by SMEs as:

- the size of contracts
- access to relevant information
- the quality and understanding of the information provided
- selection criteria - setting of proportionate qualification levels and financial requirements
- excessive administrative burdens
- more emphasis on price rather than value for money
- insufficient time to prepare and submit bids
- slow payment of invoices

The provisions of the Public Contract Regulations mandates proportionate selection criteria and prompt payment terms. The other issues will be addressed, and we will seek to grow a strong local economy through:

- making it simpler to do business with the Council through a refinement of the bidding process to ensure that bidding procedures are proportionate and appropriate to the requirement. For example, this could be through splitting requirements into lots and removing unnecessary paperwork and administration;
- keeping the procedure rules under review and, in so far as is possible within the legal framework, simplifying processes;
- providing clear information about selling to the Council on our website;
- working pro-actively to support local businesses through supplier engagement events to explain how to do business with the Council;
- the introduction of an electronic tendering system to reduce paperwork,

- comply with procurement legislation and save costs for both the Council and prospective tenderers;
- providing information about future procurement activity and advertising tenders on the Council's website and also through procurement portals and local media well in advance of the requirement when possible;
 - ensuring our evaluation processes continue to place emphasis on value for money.

Social Value

The Council has a role to play in addressing social cohesion across the district. The Public Services (Social Value) Act 2012 places a duty on the Council to consider in procuring services above the EU threshold:

- (a) how what is procured might improve the economic, social and environmental well-being of the relevant area; and
- (b) how, in conducting the process of procurement, the Council may act with a view to securing that improvement.

The Council's processes seek not only to maximise value for money in terms of taxpayer spending and outcomes for customers but also seek, where appropriate, to:

- benefit local people and organisations, including developing the third sector and SMEs in the district,
- encourage new approaches to social, environmental and economic issues,
- deliver sustainable solutions benefiting our communities beyond the length of a contract, and
- improve local job opportunities and skills.

Conduct

- Procurement activity will be transparent, fair and, consistent and be undertaken to the highest standards of probity and accountability.
- All employees must adhere to the Council's Code of Conduct and the requirements of the Employees on Gifts and Hospitality Register.
- The Council will ensure that procurement activity is undertaken in the most effective and appropriate manner, considering all options including:
 - use of framework agreements when appropriate
 - use of approved e-tendering portals
 - collaborative procurement with other councils and organisations
 - recording all Contract Standing Order waivers
- The Council will regularly assess the training and development needs of all officers procuring goods, works and services and the CPAB will maintain a list of all officers that conduct our procurement activity to ensure that they are informed of new corporate contracts and ongoing procurement developments. The CPAB will provide support to staff undertaking a contract management role as well as providing a corporate point of focus for information concerning procurement activity and embed efficiency and consistency of approach across the Council.

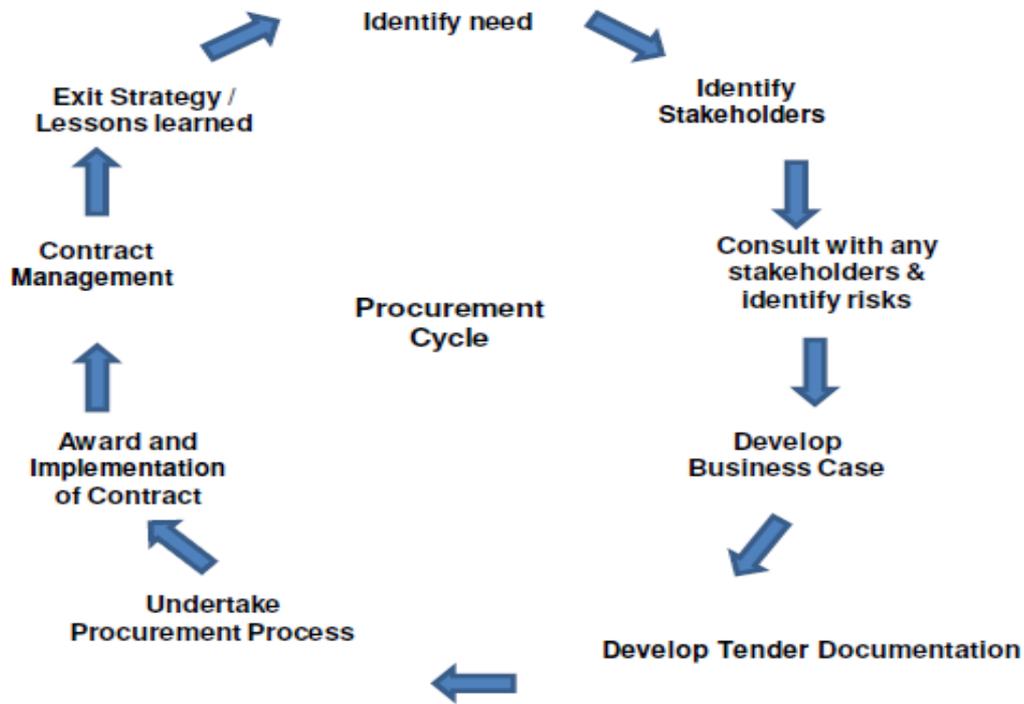
Management of the Strategic Framework and Corporate Objectives

Procurement activity takes place within a strategic framework consisting of the Constitution, Corporate Procurement Policy, the Contract Standing Orders, the Procurement Practice Guide and the Financial Regulations. The Council's policies on sustainability and equality will be fundamental to this approach.

An audit trail of the decision making process is required for all stages of procurement,

as illustrated:

Diagram: Procurement Cycle



Priorities and Plan

Procurement activity will be planned over two year cycles. Where practicable, procurements in excess of £100,000 will have a business appraisal, including options and all the key aspects of the procurement which must be agreed by the relevant Corporate Head of Service and the CPAB prior to commencing procurement. This will facilitate enhanced planning and scheduling of all significant procurement activity.

Options Appraisal

The proposal for each procurement project over £100,000 should include an options appraisal. An audit trail will be required for each such procurement; starting with the case that there is a need and how that need might best be met. Consideration will also need to be made as to the most appropriate route to

procure goods, services and works to ensure that the Council achieves value for money. Option appraisals may include alternative models of service delivery including shared services with other public sector organisations and collaborative opportunities.

Monitor and Review

The monitoring and management of contracts is a critical factor, and may account for the difference between a successful contract and a failed one. Contractual arrangements must be effectively managed and monitored throughout the contract duration. Contracts should include quality and performance standards and be monitored and reviewed by the contract manager. Major contracts should be subject to continual review and appraisal. Plans should be made well in advance of the expiry of a contract to consider the procurement strategy. This will inform future procurement so as to ensure that the Council may:

- improve outputs and outcomes,
- reduce where possible the cost of goods and services procured by the Council,
- improve the way in which we procure works, goods and services,
- encourage local suppliers and improve their understanding of how to bid
- balance quality and cost,
- respond promptly and effectively to changes in requirements,
- value innovation and creativity,
- work with councils and other partners to achieve value for money and maximise economies of scale.

Partnership and Partnering

In specific instances (subject to the evidence of a robust business case), a properly procured and managed strategic service delivery partnership can deliver step-changes in service quality. Strategic partnering can provide access to new skills, resources and ways of doing things and allow for innovation and the pursuit of difficult or long-term goals as well as the opportunity for a small Council to achieve economies of scale.

Partnerships can provide access to investment, skills and new opportunities that the Council is unable to acquire alone. The Council may explore such options to provide quality services required for the future.

E-tendering

E-tendering involves the end to end process of conducting business electronically. The new legislation required all public authorities which are advertising a procurement with an aggregate value in excess of £25,000, to advertise the procurement on Contracts Finder with effect from 1 April 2015, subject to a few exceptions, and to introduce full e-procurement by 2018. The Council started undertaking procurement electronically for contracts from 1st April 2015. The system also provide benefits as a source of data for management assisting the Council to meet its obligations under the Local Government Transparency Code in a cost efficient manner.

MEASURING ACHIEVEMENT - Action Plan

The success of this procurement plan will be assessed against a range of measures, including the key targets identified in the table below.

By 30 September 2015:	<ol style="list-style-type: none"> 1. Embed e-tendering for all procurement with a value in excess of £5,000 2. Create a detailed register of all contracts 3. Produce a two year work plan for procuring key contracts
By 31 December 2015:	<ol style="list-style-type: none"> 1. Record and report on all Contract Standing Order waivers
By 31 March 2016:	<ol style="list-style-type: none"> 1. Provide performance reporting on a selection of key performance indicators 2. Develop the skills of key officers in procurement and contract management through the deliver of training courses, 1 to 1 tuition and the publication of a new Procurement Practice Guide on the intranet.

	3. Improve information about procurement opportunities and how to do business with the Council; through the website and with engaging with local suppliers at events
By 30 June 2016:	1. Established a Corporate Procurement Advisory Board (CPAB)
By 30 September 2016:	1. Analyse the Council's third party spend and identify areas where action is required to improve control and/or value for money
By 31 March 2017:	<p>1. Continue to maximise efficiencies through procurement.</p> <p>2. Develop further targets based on prevailing priorities and opportunities.</p> <p>3. Undertake a fundamental review to inform procurement activity for 2017/2018.</p>

PROCUREMENT BOARD

TERMS OF REFERENCE

Purpose and Objectives

Develop and sponsor a procurement strategy, procurement workplan and category management strategy for Mole Valley District Council with the objective of delivering significant cashable efficiency savings and with improving the quality of the services, works and goods which the Council procures

Develop and manage a communication plan for delivery of the agreed procurement action plan.

Work with key stakeholders to build wider support and ownership of these principles and ensure effective implementation across all departments.

Act as a champion for effective procurement within the Council.

Take collective responsibility for driving forward best practice for procurement.

Act as the governance board for all high value procurement

Review tendering activity, including the use of existing frameworks, to support the development of a consistent and coherent approach with the objective of simplifying procurement activity.

Provide a forum for sharing expertise, learning and good practice between departments.