

STRATTON ST MARGARET PARISH COUNCIL



PROCUREMENT STRATEGY POLICY

Financial Policy Number Seven		
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PROCUREMENT STRATEGY

1. GUIDANCE ON VALUE FOR MONEY FOR THE PROCUREMENT OF SERVICES

- 1.1 Stratton St Margaret Parish Council is committed to providing quality services irrespective of whether it uses its own staff or operates in partnership with private, voluntary or other public service providers. It will use fair and open competition, and will use external as well as internal providers wherever practicable as a means of securing efficient and effective service.
- 1.2 Procurement deals with more than purchasing goods from appropriate suppliers: it examines how the Council will provide all of its services. To achieve Value for Money, the Council will decide pragmatically what to buy from the private or voluntary sectors, and in what way, and what to provide directly. This will be done on the merits of individual cases, from the point of view of both service users and council taxpayers, taking account of the quality of the service. Decisions will be taken strategically on the basis of costs and benefits.
- 1.3 This strategy takes account a number of recommendations made for the sector, and sets out how the Council will compare and judge alternative options for buying and providing.
- 1.4 The Council will seek to:
 - Integrate the principles of Value for Money and Value for Money into all procurement decisions;
 - Promote a balanced approach to appraising options for future service delivery;
 - Include an approach to developing market knowledge and stimulating competition; and
 - Ensure that competitiveness is tested and evidenced through market testing or other means.
- 1.5 The strategy should be seen as a widening of the Council's Financial Regulations on Contracts, Section 10.1 (a) – (i). It should be noted that the provision of any service should be linked to the Council's Mission Statement and Key Objectives as set out in the Corporate Plan.
- 1.6 Some services will never prove viable for provision on a profit-driven basis, but could well be considered essential as part of the Council's wider community objectives.
- 1.7 As part of its commitment to local businesses, Stratton St Margaret Parish Council will seek to use local firms where they offer Value for Money.

2. Principles of Good Practice Procurement

2.1 The Principles of Good Practice Procurement are provided to enable those involved in the Value for Money Review process to understand and decide on the different options that might be used to deliver the service.

2.2 Value for Money may not always mean the cheapest. Quality products or services that may cost more initially may sustain themselves in the longer term and may prove to provide a better option. When considering good procurement practice it is necessary to take the following principles into consideration:

- The need to take a strategic longer-term approach; look at the objectives of the service as well as the costs over the whole life of the project.
- Establish how the service will be delivered in the future to achieve best practice.
- Ensure that all realistic alternative options have been explored and that evidence can be provided to support decisions made. It should be noted that these decisions are likely to be audited as part of the Value for Money inspection process.
- Be clear about the overall specification and what outputs and outcomes are sought.
- Review related services and activities together so that the scope for improvement can be maximised and the cost of achieving improvement is kept to a minimum.
- Explore the scope for inter-agency working.
- Research the market – speak to the private and voluntary sectors, to customers and to staff about the required outputs and outcomes.
- Decide whether to continue providing the service ‘in-house’, in partnership or to use external providers, by effectively appraising the options. Whatever decision is made, it must be a rational one which can be defended as being in the interests of service users.
- Seek and encourage innovation to find step changes in quality, performance and costs. Do not limit this by specifying inputs and working methods.
- Ensure that appropriate legal, financial and other specialist advice is sought early in the procurement process and that specialist involvement continues as appropriate throughout the process.
- Ensure that risk is recognised and managed. In order to do this, it is important to plan effectively, account for market trends, assess and recognise the present worth of assets, and that the commercial aspects of contracting are recognised.

3. Procurement Options

3.1 There are a number of options which need to be considered which reflect the principles of good practise. Any decision about what is, or is not, going to be a Value for Money service must be made in the context of:

- The Parish Council's long term objectives
- Relationships between the Parish Council and other organisations
- Relationships across services within the Parish Council
- Knowledge of the views and requirements of local residents and other stakeholders
- Knowledge of the achievements of other service providers and the market
- The long-term impact of decisions (e.g. financial and environmental)

3.2 The Parish Council has a duty to secure Value for Money. There are seven broad choices of service provision options.

- Pull out of providing the service (Item 4)
- Improve in-house service delivery (Item 5)
- Joint Ventures – joint commissioning/partnerships (Item 6)
- Market development (Item 7)
- Externalise (Item 8)
- Substitute (Item 9)
- Hybrid (Item 10)

4. Pull-Out Option

4.1 When considering future investment in services, goods or materials, it may be more appropriate for the Council to pull out altogether. Pulling out of a service or activity may be appropriate when:

- Services or activities are no longer needed at all
- The service or activity makes no contribution to strategic objectives of the Council
- There is no demand for the service/activity
- Stakeholders agree that the costs of the service outweigh the benefits

- It is hard to justify spending taxpayers money on the service
- The benefits of pulling out are greater than the costs
- Useful assets could be diverted to other purposes, or sold
- An alternative service (internal or external) would meet the objectives better than the service under review.

4.2 In some cases the objection to pulling out is that the Council might be subject to statutory duties to provide the service. Where this objection is used, the review should go back to the first principle and ask “*What is the Council required to do?*” If most of the other signs still show pull out as the best option the Council should consider:

- Substitution, which may achieve the same as pull out
- Apply to the Secretary of State for relaxation of the statutory requirements. In this instance a strong case will need to be advanced.

5. Improving ‘In-House’ Efficiency

5.1 Even if the most appropriate option is to continue to provide the service ‘in-house’ it is likely that some improvements will be required particularly where performance management and associated arrangements are concerned. The ‘in-house’ approach is likely to be a viable option when the review collects evidence where most of the following items are true:

- The ‘in-house’ option is already delivering economic, efficient and effective service at a level that matches both local needs and external comparators
- The ‘in-house’ team can make necessary improvements to meet the Council’s future targets and sustain the required level of performance and improvement
- There is no appropriate market for the service and one cannot be developed
- The risks and impact of failure are so high that the Authority wishes to maintain a high level of control over the service or activity
- The function cannot legally be delegated to another provider
- The potential economies of scale or investment offered by other options are outweighed by transaction and process costs
- The existing external providers have not been able to meet the Council’s requirements or are unwilling to participate in future service developments and redesign.

5.2 Improving ‘in-house’ arrangements is most suitable if:

- The existing internal service is or close to meeting local targets and national standards as evidenced by Performance Indicators

- There is no supply market
- The cost of externalisation is likely to prove to be extremely high
- There will be a high impact on the public/users if the service fails

5.3 Improving in-house service arrangements is less suitable if:

- There is a need for external investment
- There is an active, competitive, market with established suppliers
- Services are easy to specify and monitor
- The market can be clearly and easily defined and developed

5.4 Even if the likely Value for Money option is to improve 'in-house' service provision arrangements, it may still be necessary to implement major changes. Some of the issues that will need to be considered:

- How can accountability for Value for Money service delivery be effectively delegated to operational managers?
- How can service standards and improvement targets be defined, effectively implemented and maintained?
- How can the performance of other providers be matched or improved upon?
- How will the service delivery be monitored and controlled and when will the service next be subject to full review?
- How can it be ensured that service managers and staff operate in an effective way and that they are focussed on achieving continuous improvement?

5.5 In order to reinforce and maintain a continued and demonstrable commitment to Value for Money 'in-house' services, the Council should:

- Wherever practicable maintain distinction between client and contractor functions
- Ensure that the four C's approach (Challenge, Compare, Consult and Compete) becomes an important element in the operational culture of the service
- Develop a quality and performance culture within the Council and in a particular service
- Consistently use established and appropriate management techniques such as business planning, performance management, activity based costing, quality systems etc, to keep the service on target at all times

- Develop a quality and performance culture within the Council and in particular within the service, using service quality techniques aimed at staff involvement and attention to management information systems.
- 5.6 All these approaches have their costs and benefits, and it is important to balance these and be able to demonstrate the added value achieved.
- 6. Joint Ventures**
- 6.1 Whether this is through joint commissioning or partnership, the Council has to determine whether this is the most appropriate vehicle to achieve Value for Money.
- 6.2 Where joint commissioning is concerned, the association ceases once the contract is completed and the desired result has been achieved.
- 6.3 Where partnerships are concerned, a longer-term relationship is sought in order to sustain on-going commitment and achieve longer-term aims.
- 6.4 These apart, there are many similarities between the two forms of joint venture. In either case the acid test for a suitable joint venture is:
- Services are provided from a single point e.g. a 'one-stop' or 'first stop' shop or telephone help-lines providing council information
 - Participating organisations are willing to bury their separate identities in the interest of the joint service
 - Financial and other risks can be shared on an equitable basis
 - Sharing resources, staff etc will produce significant economies and improved quality
 - All participating organisations require the same or similar service
 - Clear lines of responsibility and accountability are identified.
- 6.5 By the same token the joint venture is vulnerable and less suitable if:
- Organisational identities and imperatives are more important than a seamless service
 - There are no obvious and willing partners
 - Legal or other constraints cannot be overcome
- 6.6 Clearly the key issue in the success of any joint venture is a challenging environment to develop services. In taking this route it is necessary to consider the following:
- Is a partnership approach the best way of dealing with the issue to be addressed?

- Do the prospective partners have a clear and shared vision of the benefits to be achieved?
- Are the goals of the prospective partners compatible?
- Is there a genuine commitment from the participating organisations?
- Do all parties have a clear understanding of what is required, both in general terms and specific details?
- Is there a commitment to open communication between all parties?
- Will the anticipated benefits outweigh the likely costs?
- Are all the partners in the joint venture clear on the role that they are expected to take, the resources they will contribute and how they will account for the success of the service?

7. Market Development

7.1 Where a market currently exists, some key questions should be asked including:

- Is the market really capable of providing the service? This will require focussed research to establish if external organisations can provide the services required.
- What is the nature of the market? To obtain most from the competition process, it is necessary to work in a market where there is active competition between a number of competent and capable organisations.
- What risks can be transferred and, who really carries the risk? Many risks can be reduced by careful specification, selecting the right organisations to work with and by ensuring that the relationship between the Council and contractor is flexible enough to deal effectively with problems.

7.2 In the first instance it will be necessary to establish whether a market exists and whether there are external organisations which can provide the service required. Thus there will be a need for market testing. It will be necessary to understand the competition process and identify in the market place where there is active competition between a number of competent and capable organisations who can deliver the service. It will be necessary to determine the risks which may necessarily be transferred and whether any organisation vying for the service is capable of picking up that risk or reducing it.

7.3 Where no markets currently exist there will be a need to find ways of stimulating the market in relation to the particular service being reviewed. Some ways of doing this are indicated below:

- Hold discussions with selected public, private and voluntary sector providers. This is known as soft market testing. Issues to consider will include – the best means of packaging the service; whether there is likely to be a service provider who is able to carry out all the required service or will there be a need

to break it down into more manageable packages; and if so, what the size and scope of these packages might be.

- Send questionnaires to existing and potential providers to ask how they could add value
- Ascertain which other Councils have contracted services from particular providers and seek guidance from them
- Consider breaking down service elements and re-packaging them. If it becomes apparent that a market does not exist in relation to a particular service, can the service be broken down into smaller elements that will appeal to different sections in the market. Such an approach is likely to be more time consuming and will involve greater supervision and monitoring needs. Nonetheless it is an option.
- Hold discussions with providers who offer services in closely related areas to establish if they could expand into the service area under review.
- Approach organisations and associations such as the Chamber of Commerce, and professional and trade associations to establish if they know of any new companies looking to break into the service area under review, but may not feel ready to take on a major contract.
- Explore supply markets to establish what service developments are anticipated in response to best practise, legislation or the views of service users and consider new combinations of service elements that the market suggests could deliver Value for Money.

7.4 In taking this route it is necessary to be aware that it can have an effect on staff attitudes and morale during the market testing exercise.

8. Externalisation

8.1 Service provision in this instance is via external organisations which compete to do the work. Management and co-ordination is through the works specification, which describes the work to be done and the contract conditions that form the basis of the relationship between the client and service provider.

8.2 It is likely to suggest externalisation of the service or activity when there is evidence that:

- 'In-house' provision is demonstrably poor and improvements are impossible, unlikely or too expensive
- The market place offers products which wholly or substantially meet the Council's requirements at lower cost than the alternatives
- There will be effective competition because there is a sufficient number of potential bidders able to offer the relationship and the services the Council requires

- Alternative providers can offer economies of scale, scope and investment as well as effective management of risks
- The process and transaction costs do not exceed the benefits to be gained by externalisation, for example the cost of tendering.

8.3 In summary, externalisation is more suitable if there is:

- Poor existing internal services, or new services where internal supply is thought inappropriate
- A clear client/provider relationship
- An active, competitive market with established suppliers
- Evidence that the benefits of using the market outweigh the costs
- Services can be readily specified and performance monitored

8.4 Externalisation is less suitable if:

- Internal service management is demonstrably better value
- Monopolies dominate the market
- Service is difficult to specify and monitor
- Other methods of provision offer better value

8.5 The market place, consisting of other public sector, private sector and non-profit organisations, can offer six areas of benefit when competing for contracts. These benefits can occur singularly or in combination and can include:

- Economies of scope as commercial and not for profit organisations concentrate on their specialism or areas of expertise
- Economies of scale as commercial and not for profit organisations use their size and resources to cover variations in the level of work and/or reduced unit costs
- Innovation and investment where commercial and not for profit organisations develop and invest in more efficient technologies and techniques, free from constraints that can surround a local Council.
- Effective management of risk, where the risks associated with the service can be transferred to an organisation better able to carry them
- Access to investment and other funds that may not be available to a local Council

- Opportunity to stimulate or influence market developments, where external organisations may be more skilled and have more opportunity to do this.

9. Substitution

9.1 This arrangement is not dissimilar to “pulling out”. The Council ceases to be involved in the provision of the service. However, whilst “pulling out” the Council may work out a minimal succession strategy with alternative suppliers the substitution option may leave the Council with a residual role, such as a seat on the management board or by subsidising services. Substitution could involve service provision by a residents’ association, a community group, a charity, a co-operative or trust and could be an option when a review finds one or more of the following:

- The market already provides the services or activities under consideration in competition with the local Council and the Council can use regulatory instruments, residual rights or non-contract mechanism to ensure that appropriate standards are achieved
- There are non-profit organisations with special skills or expertise able and willing to take over the management and delivery of services on behalf of the local communities or service users, and the Council is willing to enter into an agreement with them that is not a service contract.
- The Council can identify other responsible bodies capable of providing the service and can thus delegate responsibility accordingly.

9.2 Substitution is a suitable option if:

- The activities or services provided by another linked organisation fit with the Council’s overall objectives
- There is agreement on the level of accountability required between the Council and the linked organisation
- Local community groups already exist or are already being formed
- Community groups have or can be trained in necessary management skills
- Organisational independence is necessary to ensure users ‘trust’ or ‘ownership’ of the service or activity.

9.3 Substitution is less suitable if:

- The Council already has clear objectives it wants to achieve
- The service is significant (in financial or operational terms) and needs close management, specification and monitoring
- It would be more appropriate to make contracts or partnering arrangements with local or community businesses
- There is little or no community interest in service management and delivery

- There is an active supply market and no policy gain can be made by substitution.

9.4 As with the “pull out” option, when considering substitution the Council ceases to be involved in providing the service. With substitution, the service continues as a going concern and there may be a need to consider the implications. Important questions that need to be answered include:

- Is the substitution of this service a legal option?
- Is another organisation providing the same service or something similar?
- What method of substitution is most appropriate? (e.g. not for profit Trust, Cooperative, etc)
- Will the new arrangement be able to meet all the needs?
- Does substitution support other policy objectives?
- Can the substitute service exist without dependence on the Council for grant or subsidy?
- Can statutory requirements and the Council’s service objectives be met with only a residual relationship, such as a single board member? If the answer is ‘no’ the Council should consider other options.

10. Hybrid

10.1 The hybrid option is where the Council decides that no single other option is appropriate. The service includes a variety of different types of activity or the Value for Money tests applied to different parts of the service come up with different answers. Hybrid approaches should be considered if:

- A Value for Money review identifies clear areas of ‘in-house’ strength in the service that is otherwise weak, for example, a skilled, motivated staff working with inadequate resources
- The questions used to identify if another approach is appropriate, reveal mixed answers, for example, some risks can be transferred to the private sector but others cannot
- A service is made up of component parts that involve clearly different activities, for example, bulk data processing and face-to-face interaction
- A service has to meet a range of different and potentially conflicting policy objectives, for example, maximising income versus anti-poverty
- Some aspects of the service require specialist expertise which is difficult or uneconomic to recruit or retain.

10.2 The particular advance of the hybrid approach is that it demonstrates a rigorous approach to both service review and the action plan that derives from it. The hybrid is most suitable if:

- A service contains discreet aspects that have different Value for Money tests applied to them, e.g. front desk staff and data processing
- Areas of excellence exist side by side with services that need considerable improvement
- Different elements make clearly different contributions to overall service delivery and Value for Money
- There are wide ranges of other user needs which are best met in different ways
- External resources can most effectively be used to support in-house services rather than compete with them

10.3 The hybrid option is less suitable if:

- The service is easy to specify and monitor
- The service is clearly defined as a single function service
- The service is made up of many elements that a hybrid approach could lead to an unimaginable complexity of contracts, arrangements and inter-dependencies
- Economy and effectiveness are served best by a single delivery organisation.