

**DERBYSHIRE COUNTY COUNCIL**

**REPORT OF THE STRATEGY & BUDGET / REGENERATION  
/ EXTERNAL AFFAIRS IMPROVEMENT AND SCRUTINY  
COMMITTEE**

**Review of Procurement (Small Businesses)**

**MEMBERS**

**Councillor Gillott – Chair**

**Councillor Buckley – Vice Chair**

**Councillor Baldry**

**Councillor Booth**

**Councillor Camm**

**Councillor Clark**

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<b>Contents</b>	<b>Page</b>
Executive Summary	3
Introduction	8
Background	9
Benefits and Barriers – Procuring Services from SME's and VCO's	11
Procurement at Derbyshire County Council	13
Overcoming Barriers to Procurement by SME's / VCO's – Strengths and Weaknesses	18
Conclusion and Recommendations	24
The Next Stage	28
Action Plan	29
Appendices	30

## **Review of Procurement (Small Businesses)**

### **1. Executive Summary**

#### **1.1 Introduction**

Procurement has become a cornerstone of the Governments' drive to increase efficiency in public services and features prominently in both the Gershon Review<sup>1</sup> and the Kelly Review.<sup>2</sup>

Derbyshire County Council is a large procurer of goods, services and works and spends approximately £300m per annum with 15,000 suppliers. A number of those suppliers are small firms and voluntary and community sector organisations based within Derbyshire who contribute to the prosperity of the local community.

#### **1.2 Review Terms of Reference and Council Objectives**

At its meeting on 28<sup>th</sup> June 2005 the Strategy, Regeneration and External Affairs Improvement and Scrutiny Committee agreed that it would undertake a review of procurement. Members determined that the review should focus on identifying how local small firms and the voluntary and community sector can become more successful in obtaining Derbyshire County Council contracts.

Members however, recognised that this should not be achieved at the detriment to the quality of services provided or the value for money received, and that this could only be achieved through legitimate means.

To develop the review a Member Working Group was established. The working group comprised Councillor Gillott, Councillor Buckley, Councillor Booth, Councillor Camm, Councillor Flitter, and Councillor Clark. To aid understanding and to identify best practice the working group has consulted widely with trade associations, local authorities, private sector companies, external experts, and officers employed by Derbyshire County Council.

#### **1.3 Summary of Findings**

Local authorities are under pressure to increase the efficiency of services through utilising effective procurement processes. The pressure applied by the Government to increase contract sizes to gain efficiency savings (this process potentially favours a small number of large suppliers often based outside the region), is at variance with the policy of using local small businesses to deliver services and regenerate communities.

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<sup>1</sup> Releasing Resources to the Front Line, Sir Peter Gershon, July 2004

<sup>2</sup> Increasing Competition and Improving Long Term Capacity Planning in the Government Market Place, OGC, December 2003, led by Sir Christopher Kelly

Derbyshire County Council can best meet these conflicting requirements by procuring goods and services from a balance of large organisations and local small and medium sized enterprises (SME's) and voluntary and community sector organisations (VCO's).

Derbyshire County Council was one of the first councils to embrace the new procurement agenda and is held up as an example of good practice nationally. Evidence gathered suggests that Derbyshire County Council's current procurement practices are generally well thought of but barriers exist that are preventing SME's and VCO's from competing on a level playing field with larger organisations when it comes to tendering for contracts.

The barriers that exist are surmountable. If Derbyshire County Council implements a number of recommendations then the Authority can increase its ability to harness the benefits that working with SME's and VCO's can offer the County Council and the sustainability of local communities.

A number of partner organisations are working to support and enhance the capacity of local SME's and VCO's to deliver quality services to local authorities. Derbyshire County Council should utilise the available resources to assist local organisations become more successful in obtaining Derbyshire County Council contracts and continue to build relationships with partners to further improve the procurement process for Derbyshire County Council and SME's.

## **1.4 Recommendations**

A number of the recommendations follow advice outlined in Government publications and are designed to make contracts more accessible for SME's and VCO's.

Implementing these recommendations should create a procurement environment that does not impact on Derbyshire County Council's ability to deliver best value but creates opportunities for improving value for money and efficiency.

### **1.4.1 Increase awareness of contracting opportunities**

Support proposals to:

- Publicise the award of contracts on Source Derbyshire
- Increase the number of contracts advertised on Source Derbyshire through partnerships with councils across the East Midlands

Recommend that:

- To help promote and raise awareness of Source Derbyshire information is distributed to key organisations that access SME's and VCO's. This must include banks, accountants, solicitors, CVS offices, and offices of the Federation of Small Businesses. This is in

- addition to the existing recipients of information about Source Derbyshire such as the Chamber of Commerce / Business Link
- Derbyshire County Council publishes ‘Selling to the Council’ on the Derbyshire County Council website
- Derbyshire County Council explores all channels to access and communicate with local SME’s and VCO’s
- Consideration be given to advertising procurement opportunities on the new National Procurement Portal.

#### **1.4.2 Reduce the bureaucratic burden**

Support proposals to:

- Roll out e-procurement and e-tendering across all Derbyshire County Council departments
- Encourage suppliers and potential suppliers to undertake transactions using e-procurement and e-tendering

Recommend that:

- Examples of standard environmental, equality, and health and safety policies are published on the Source Derbyshire website
- The Council implements a contract management solution which keeps information from suppliers on file to reduce the requirement for organisations to repeatedly send in the same information
- The criteria by which potential suppliers are assessed against are proportionate to the **risks** of the individual contract process. It should be the level of risk that letting a contract to the company would represent to Derbyshire County Council that should be considered when assessing the suitability of a tenderer and the information we request from them
- The use of framework agreements is widened where Derbyshire County Council regularly requires products or services but the frequency and quantity is unknown. This will help to speed up certain procurement processes where time is critical and will reduce administration for officers and increase the confidence of businesses to invest in supporting the service delivery needs of the council
- Derbyshire County Council look to simplify its’ procurement process by continuing to rationalise the information requested from suppliers and ensuring that forms are written in plain English. The “First Contact Mandatory Application” form could be re-titled “Doing Business with Us – information we need”.

#### **1.4.3 Improve the management of the procurement process**

Support proposals to:

- Ensure that officers are provided with adequate training to improve the purchasing skills and capabilities of departmental staff

Recommend that:

- To ensure the County Council meets its' own deadlines a stakeholder officer of appropriate seniority dependent upon the size of the contact is given responsibility for each procurement project.
- Meaningful feedback is provided to all unsuccessful tenderers informing them why they have not been awarded the contract.

#### 1.4.4 Engage effectively with suppliers

Support proposals by:

- The Chesterfield and North East Derbyshire Council for Voluntary Service and Action to establish a Contracts Advice Network. This initiative is designed to raise the consciousness of service providers in the voluntary and community sector about public sector procurement. Proposals include advising, training and supporting VCO's throughout the procurement process.

It is recommended that Derbyshire County Council monitors the success of the initiative and gives consideration to the potential of supporting the roll out of the initiative across the county.

Support proposals to:

- Organise workshops, meet the buyer events, and offer training, support and advice to help develop the skills, knowledge and capacity within local businesses. **Such events should promote the County Council's genuine desire to do business with local firms.** This forms part of the funding application to the Derby and Derbyshire Economic Partnership (DDEP)

Recommend that:

- Derbyshire County Council explores means by which the Council's long term spending intentions can be communicated with potential suppliers. Informing the market about the Authorities longer term spending plans will help local SME's and VCO's plan and work in partnership to deliver services to the Council. This forms part of the funding application to the DDEP
- Derbyshire County Council works with agencies / private practice to offer advice to organisations about forming consortiums to tender for larger contracts.

#### **1.4.5 Use procurement as a tool to meet community and council objectives**

Recommend, having regard to the requirements of EC Procurement Directives and UK Law, that:

- Where applicable, Derbyshire County Council builds community benefit clauses into contracts. For example, in construction contracts a community benefit clause which requires the employment of young trainees or unemployed people could be inserted
- Derbyshire County Council asks prime contractors during the procurement process to establish the contribution that small firms and voluntary and community sector suppliers can play in the supply chain. The responses should form part of the evaluation criteria
- Derbyshire County Council liaises with the East Midlands Development Agency and the Regional Centre of Excellence to clarify the extent to which a local authority can insert contract clauses that implicitly favour the use of local suppliers. The law does not enable geographical location to be taken into consideration during the procurement process but the Office of Government Commerce is investigating the potential to include social and environmental clauses into contracts.

#### **1.4.6 General improvements**

Support proposals to:

- Research and analyse Derbyshire County Council spend submitted in the application to the DDEP. If this bid is not successful it is recommended that alternative external sources of funding should be identified to undertake this task

Recommend that:

- Before deciding to aggregate demand into a single county, regional or national contract officers evaluate if it is going to offer value for money and promote objectives in the Council Plan
- Thought be given to the County Council dividing a contract into smaller units and evaluating the impact on the service and value for money. This forms part of the funding application to the DDEP
- Derbyshire County Council signs the Small Business Friendly Concordat. Local authorities signing the Concordat pledge a range of voluntary commitments to make contracts more accessible to SME's. These commitments, identified as good practice, should be adopted and implemented across the County Council.

## **1.5 The Next Stage**

The report will be presented to Cabinet for consideration. It is recommended that: -

- (1) the Chair of the Improvement and Scrutiny Committee presents the report to Cabinet.
- (2) following consideration of this report it is suggested that, should Cabinet agree to implement the recommendations, the Improvement and Scrutiny Committee receives a report at a date to be determined, to outline progress.



## **2. Introduction**

Procurement is 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 needs, through to the end of a services contract or the end of the useful life of an asset.<sup>3</sup>

Procurement has become a cornerstone of the Governments' drive to increase efficiency in public services and features prominently in both the Gershon Review<sup>4</sup> and the Kelly Review.<sup>5</sup>

Derbyshire County Council is a large procurer of goods, services and works and spends approximately £300m per annum with 15,000 suppliers. A number of those suppliers are small firms and voluntary and community sector organisations based within Derbyshire who contribute to the prosperity of the local community.

### **2.1 Review Terms of Reference and Council Objectives**

At its meeting on 28<sup>th</sup> June 2005 the Strategy, Regeneration and External Affairs Improvement and Scrutiny Committee agreed that it would undertake a review of procurement. Members determined that the review should focus on identifying how local small firms and the voluntary and community sector can become more successful in obtaining Derbyshire County Council contracts. Ultimately this aim works towards the following Council objectives and goals:

- To achieve Best Value in service delivery
- To strengthen the local economy and tackle deprivation throughout the county

A copy of the scoping report is shown in Appendix 1.

To develop the review a Member Working Group was established. The working group comprised Councillor Gillott, Councillor Buckley, Councillor Booth, Councillor Camm, Councillor Flitter, and Councillor Clark. To aid understanding and to identify best practice the working group has consulted widely with trade associations, local authorities, private sector companies, external experts, and officers employed by Derbyshire County Council. A full list of consultees is shown in Appendix 2.

### **2.2 Acknowledgements**

Members of the Strategy, Regeneration and External Affairs Improvement and Scrutiny Committee would like to thank all those who have assisted with the development of this review.

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<sup>3</sup> National Procurement Strategy for Local Government, ODPM, 2003, p17

<sup>4</sup> Releasing Resources to the Front Line, Sir Peter Gershon, July 2004

<sup>5</sup> Increasing Competition and Improving Long Term Capacity Planning in the Government Market Place, OGC, December 2003, led by Sir Christopher Kelly

### **3. Background**

#### **3.1 The Gershon Review**

The public sector is one of the biggest purchasers of goods and services in the economy. 'In 2003-04, the public sector spent over £100 billion purchasing, for example, utilities, ICT systems and services, as well as professional services, temporary labour, construction, social housing, social care, and environmental services.

The Gershon Review identified efficiency gains of over £20 billion in 2007/08 across the public sector. Procurement was one of the six main areas where potential for savings were identified and the Gershon Review concluded that in general significant scope exists for delivering procurement savings in particular through:

- better supply side management: seeking to communicate and manage likely aggregate public sector demand in a strategic way with the supply sector, thereby enabling the supply side better to anticipate and plan for shifts in public sector demand; and
- further professionalisation of the procurement function within the public sector through either use of shared procurement models, or the enhancement of procurement skills.’<sup>6</sup>

The process of ‘strategically aggregating public sector demand’ is directing the public sector towards larger contracts with regional and national partners and consolidating suppliers to maximise economies of scale. These practices can limit the opportunities that small and medium sized enterprises and the voluntary and community sector have of obtaining public sector contracts.

#### **3.2 Supporting Small Suppliers / Regeneration**

There are however, differing pressures being applied to local authorities by the Government. Reports such as the “Small Business Concordat: Good Practice Guide”<sup>7</sup> and “Smaller supplier...better value?”<sup>8</sup> emphasise the value that using small firms and the voluntary and community sector can bring to the quality of services provided by local authorities, and recognises that small firms represent a powerful engine for economic growth.

In addition, public sector expenditure can have a significant impact on the business viability and profitability of successful contractors. If local authorities use their purchasing power within local communities it can be a potent

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<sup>6</sup> Releasing Resources to the Front Line, Sir Peter Gershon, July 2004,p13

<sup>7</sup> Small Business Concordat: Good Practice Guide, ODPM, March 2005

<sup>8</sup> Smaller supplier..better value?, OGC & Small Business Service, 2002

regeneration tool that can contribute to the sustainability of communities and to the economy at large.

A year-long collaboration between the New Economics Foundation and Northumberland County Council showed that each £1 spent with a local supplier was worth £1.76 to the local economy, and only 36p where it was spent out of the area.

On the basis of these results from Northumberland, if councils from across the UK spent 10% more of their existing budget with local suppliers it could mean an additional £5.6 billion re-circulating in local economies.<sup>9</sup>

There is therefore a dichotomy between increasing contract sizes to gain efficiency savings (this process potentially favours a small number of large suppliers often based outside the region), and using local small businesses to deliver services and regenerate communities.

### 3.3 Improvement and Scrutiny Committee Objectives

Derbyshire County Council spends approximately £300m per annum with about 15,000 suppliers. Members of the Strategy, Regeneration and External Affairs Improvement and Scrutiny Committee indicated that they would like more Derbyshire County Council contracts to be awarded to local small and medium sized enterprises and voluntary and community sector organisations.

**Members however, recognised that this should not be achieved at the detriment to the quality of services provided or the value for money received, and that this could only be achieved through legitimate means.**

This review has therefore attempted to identify:

- How much Derbyshire County Council procures from ‘local’ providers
- The barriers that exist that discourage small and medium sized enterprises (SME’s) and voluntary and community sector organisations (VCO’s) from tendering for local authority contracts
- The procurement processes employed by Derbyshire County Council and the proposed developments
- Potential improvements that will benefit Derbyshire County Council, recipients of Council services, and the local business community and voluntary sector.

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<sup>9</sup> Let’s go local, Justin Sacks, Municipal Journal, 5<sup>th</sup> May 2005, p15

#### **4. Benefits and Barriers – Procuring Services from SME's and VCO's**

According to Government statistics there were 263,560 businesses in the East Midlands in 2003. Of those 99.1% are officially classed as 'Small' with less than 50 employees, 89.1% have less than 5 employees, and 0.74% are 'Medium' with 50-249 employees.

In 2003 'Small' and 'Medium, sized businesses provided 900,000 jobs and generated turnover of £75,566 million across a variety of sectors within the East Midlands.<sup>10</sup>

##### **4.1 What benefits can SME's and VCO's offer the public sector?**

Various pieces of research undertaken by the Government have identified that small firms can offer real benefits to Local Authority clients, some of which are outlined below:

- They can often respond quickly and flexibly to customer needs
- They can be a source of innovation, ideas and products
- They can offer cash savings, improved quality, service and effectiveness
- They are frequently close at hand
- Some, like social enterprises and those operating in the voluntary and community sector, may have better access to hard to reach customer groups
- They may attach more importance to doing business with a Local Authority.<sup>11</sup>

The benefits are outlined in greater detail in 'Smaller supplier..better value?', by the Office of Government Commerce (OGC) & Small Business Service attached as Appendix 4.

Consultation undertaken by the review working group supported this research and it has been further re-inforced by a report published by the Small Business Service in August 2005 that examined case studies of public sector procurement from small businesses. The report states:

*"The small firms in our case studies provided all the types of benefit set out in the OGC/SBS publication 'Smaller supplier ... better value?' ....However the most striking feature of the studies is the commonality of nearly all the firms in respect of quality of service (for the same or lower cost), in specialism and in adding to competition for public contracts. Some also provided social or environmental benefits."*<sup>12</sup>

<sup>10</sup> Business in the East Midlands – The official facts and figures, Federation of Small Businesses (East Midlands Area Policy Unit), January 2005

<sup>11</sup> Small Business Concordat: Good Practice Guide, ODPM, March 2005, p9

<sup>12</sup> A Study of the Benefits of Public Sector Procurement from Small Businesses, Small Business Service, August 2005, piv

## 4.2 Barriers to Procurement

A study of 185,000 members of the Federation of Small Businesses (FSB) revealed that only 3% of the members' main customers were public sector bodies.<sup>13</sup> With the advantages that small firms can offer Local Authority clients outlined above what is preventing SME's and VCO's from tendering and winning more public sector contracts?

The Small Business Service and the OGC have researched the challenges faced by SME's when bidding for public sector contracts. The most significant challenges highlighted were:

- The procurement process (long, complex, expensive)
- Unable to find out about opportunities
- Contracts are too big
- Frameworks (if too complex and too large)
- Pre-qualification
- Understanding the requirements (anachronisms used, poorly worded specifications)
- Lack of feedback
- Cashflow<sup>14</sup>

Appendix 4 provides greater detail of the highlighted challenges and identifies ways in which a local authority can address the issues.

Consultation with representatives of the FSB, the Council for Voluntary Service and the Chamber of Commerce/Business Link endorsed in principle the barriers outlined above and identified additional barriers, or perceived barriers, facing SME's and VCO's in Derbyshire:

- Perception that decisions have been made already favouring existing contractors and that best value equates to lowest price
- Perception that Derbyshire County Council would rather work with big companies. Further enhanced by apparent requirements to have an Environmental Policy, Health & Safety Policy, Race Relations Policy
- Derbyshire County Council believe that some VCO's and SME's do not have the capabilities to be considered serious contenders
- Examples quoted to the working group where the procurement process has been managed badly by Derbyshire County Council has put off a number of potential suppliers.

In essence small businesses face greater obstacles in supplying the public sector than larger companies, and have fewer resources to be able to overcome these obstacles.

<sup>13</sup> FSB Lifting the Barriers to Growth in UK Small Businesses, the FSB Biennial Membership Survey, 2004

<sup>14</sup> Smaller supplier..better value?, OGC & Small Business Service, 2002

## **5. Procurement at Derbyshire County Council**

### **5.1 Role of the Corporate Procurement Unit**

The Corporate Procurement Unit was established with a target of saving Derbyshire County Council £12m over 5 years. This was achieved in the first 3 years. Now the target is to save £500,000 annually through procurement.

The Corporate Procurement Unit generally deals with contracts for products and services that are used across departments such as office equipment and IT. A member of the Corporate Procurement Unit will also be on the contract team for key contracts such as the waste PFI bid and Building Schools for the Future Programme.

Below this are about 250,000 orders placed annually by the Council (125,000 in schools). Most departments have specialist procurement teams to manage aspects of their specific procurement needs.

All contracts above £50,000 should be referred to the Corporate Procurement Unit. The Corporate Procurement Unit should influence all levels, develop and revise the Procurement Strategy and offer a support service to departments and schools.

### **5.2 Spend Analysis**

An analysis of where Derbyshire County Council procures goods and services from is not available. The ability to identify how much of the £300m annual spend is procured 'locally' would be a valuable tool in determining future Council policy.

The implementation of an e-procurement system in the council is addressing this and will provide a key source of management data in the future.

### **5.3 Derbyshire County Council's Procurement Process**

Appendix 5 identifies the procurement routes employed by the Authority and the tender timetables that apply. The specified procurement route depends on a number of factors including the value of the contract.

In general, if the Council does not have an approved supplier(s) financial regulations require departments to go through a quotation process for contracts under £10,000 in value. At least 3 quotes must be obtained and potential suppliers are identified by a department. The requirement would also be advertised on Source Derbyshire.

If the item is for a supply or service that does not have an approved supplier list and the estimated amount of the purchase is likely to exceed £10,000 a tender process must be used to select the supplier.

Derbyshire County Council has a number of 'framework' agreements for goods, services and works. These contracts commit the Council to purchasing specific products for an agreed amount from a supplier(s) but they do not stipulate quantity. These contracts generally apply to products and services that are purchased on a regular basis and can help the Council to reduce officer time undertaking tender preparation, and can help reduce unit costs.

#### **5.4 Information requested from potential suppliers**

Derbyshire County Council's Corporate Procurement Unit recommends that all suppliers complete a First Contact Mandatory Application Form for all contracts over £10,000 and where risk is appropriate.

The First Contact Mandatory Application Form has 55 questions seeking information relating to:

- Company Information
- Financial Information
- Health & Safety
- Equal Opportunities
- Environmental Issues

Information requested includes audited accounts and annual reports for the last 3 years, company health and safety policy, accident statistics, documentation relating to race relations and the organisations environmental policies.

Appendix 3 gives greater details of the general supplier information requirements.

In addition to the completion of the First Contact Mandatory Application Form the County Council may ask for specific information relating to the special conditions of a contract and relevant supporting information.

#### **5.5 Training**

Consultation identified that Derbyshire County Council has had problems with the quality of tender documents and contracts produced in the past. The biggest difficulty is the amount of information and time available for officers to prepare documentation.

Derbyshire County Council has provided both formal (CIPS,NVQ) and informal (mentoring, specialist training days) training to a number of officers on procurement.

In recognition of the importance of the procurement skills and capabilities of departmental staff Derbyshire County Council's Procurement Strategy commits the Authority to continue to provide training for officers to improve the quality of tender documents and contracts produced.

## **5.6 Source Derbyshire**

Source Derbyshire was created to improve access to contract opportunities by local businesses. Its role is to ensure that local businesses can easily identify the following:

- What the County Council buys
- When the County Council will be buying
- What process the County Council will be using to manage these purchases

To facilitate this process a web site was created [www.sourcederbyshire.co.uk](http://www.sourcederbyshire.co.uk) to publish this information. The website provides information on the County Council's procurement procedures and contact information.

The site also advertises new contract opportunities when quote or tender processes are initiated by the Council, and enables the companies to respond directly through the website. In addition to these features, a business directory has been developed on the website which allows buyers to source suppliers when they are looking to get quotes or tenders.

Since its initial conception Source Derbyshire has developed to encompass a wider partnership of organisations from the public and private sectors within the County. The organisations are supporting the initiative with details of their procurement processes and contact details.

The Source Derbyshire initiative was innovative pre-empting national initiatives and is now being held up at the regional level as a model for other authorities to follow. During 2004/05 approximately 4,000 businesses a month used the website and direct contact was maintained with over 600 businesses.

## **5.7 E-Tendering / E-Procurement**

Derbyshire County Council is now using tools such as e-tendering and e-procurement to help organisations get involved in the procurement process.



### **5.7.1 E-Tendering**

This allows organisations to submit tenders electronically 24/7 enabling them to develop tenders at night whilst doing the day job as well. This has largely replaced the use of supplier lists where suppliers were asked to bid for tenders on a rotational basis. Now all organisations can apply and express an interest.

Electronic tendering permits a reduction in the tender timescales required by EU directives resulting in a faster procurement process. The electronic process removes much of the time lost in traditional paper processes both in constructing tenders and making them available to the market.

E-tendering has resulted in more companies viewing tenders but fewer submitting higher quality bids for contracts.

### **5.7.2 E-Procurement**

This system enables ordering and purchasing to be undertaken electronically. Information can be obtained about each purchase such as who placed the order, when it was placed, the cost of the order, the budget code and how much has been spent with a particular supplier.

The benefits that e-procurement can bring include a reduction in transaction costs from £8 using traditional methods to £4 when using e-procurement. When you take into consideration that Derbyshire County Council places 250,000 (125,000 schools) orders annually there are potentially big Gershon savings to be made utilising this technology. Similarly suppliers benefit from e-tendering.

In addition Derbyshire County Council can obtain more comprehensive management information on its purchasing, reduce administrative costs, save time for County Council officers, and speed up payments to suppliers.

E-procurement and e-tendering are being rolled out across service departments.

## **5.8 Future Developments**

To improve procurement at Derbyshire County Council the following developments are being implemented:

### **5.8.1 Learning Web for Procurement**

In partnership with the University of Derby, Derbyshire County Council is developing a net based learning web site for schools and departments to provide:

- An explanation of the procurement cycle
- Procurement templates and tool kits
- Details of e-procurement initiatives and processes
- Questions and answers to typical queries
- Best practice documents
- Links to other key websites
- A bulletin board of information and updates.

### **5.8.2 Getting Closer to Suppliers / DDEP Application for Funding**

Seminars run by the County Council and in partnership with the East Midlands Development Agency and the Chamber of Commerce have been held to improve local SME's understanding of the County Council's procurement processes. These seminars have been attended by about 800 businesses.

To further develop local businesses' understanding of Derbyshire County Council's processes and future requirements an application for funding has been submitted to the Derby and Derbyshire Economic Partnership (DDEP). The proposals aim to improve relationships with, and awareness of, potential suppliers and trade associations, and to identify where the County Council currently procures goods and services from.

The application has been developed by the Council's Regeneration Team in partnership with the Corporate Procurement Unit. If the application is successful Derbyshire County Council will work with a number of partner organisations to deliver the proposals.

### **5.8.3 Expansion of Source Derbyshire**

Source Derbyshire is recognised as being a valuable tool to improve access to contract opportunities by the local supply chain. To enhance the value of Source Derbyshire to Derbyshire County Council and potential suppliers the following improvements are planned:

- Publicising the award of contracts on Source Derbyshire. This will potentially provide further contract opportunities for local subcontractors who will be able to identify the first tier suppliers of the Council
- Increasing the number of contracts advertised on Source Derbyshire through partnerships with councils across the East Midlands.

### **5.8.4 Partnership Working**

In recognition of SME's and VCO's desire to work as seamlessly as possible across the public sector, Derbyshire County Council is working jointly with the Derbyshire Partnership on key procurement activities. This activity is acting as a catalyst for closer collaboration with district councils and others on procuring, both operationally and in the development of best practice.

## **6. Overcoming Barriers to Procurement by SME's / VCO's**

Consultation with stakeholders has identified strengths and weaknesses in Derbyshire County Council's approach to overcoming the barriers to public sector procurement highlighted in section 3.

### **6.1 Strengths of the County Council's procurement process with regards to SME's and VCO's**

#### **6.1.1 Source Derbyshire**

This initiative provides a simple platform from which SME's and VCO's can find out about Derbyshire County Council procurement opportunities. Information about procurement processes displayed on the site can also help to improve understanding and change perceptions of the County Council held by SME's and VCO's.

#### **6.1.2 E-procurement / E-tendering**

These proactive developments will reduce the time and expense of tendering for SME's, VCO's, and the County Council.

#### **6.1.3 Flexibility with financial requirements**

In broad terms the County Council's current practice consists of analysing a company's audited accounts that cover the last 3 years of trading.

In recognition that some small and growing companies cannot provide audited financial information for 3 years Derbyshire County Council's policy is flexible and allows small and growing companies to submit other appropriate information that will demonstrate their economic and financial standing.

This approach reduces barriers and supports the guidance that information requested and appraised should be relevant to the level of risk that letting a contract to the company would represent to the County Council.

Risk is also the paramount factor when required insurance cover is identified. Flexibility is shown when risk to the County Council is low.

A potential barrier to SME's and VCO's is that this flexibility is not explicit in the First Contact Questionnaire and this requirement may therefore put off potential tenderers.

#### **6.1.4 The procurement process has been simplified**

Efforts have been made by the County Council to simplify the procurement process. Standard General Conditions of Contract and various other standardised documents have been developed, and the 55 question First Contact Questionnaire is a revised version of a document that contained 90 questions.

#### **6.1.5 Good feedback**

To develop this review a questionnaire was sent to a number of SME's and VCO's who have undertaken work for, or are still delivering a service to the County Council. Feedback from the questionnaire was largely supportive of the Authority's procurement processes.

Amalgamating the feedback from the questionnaire and the consultation undertaken with stakeholders the following positive comments can be identified:

- Derbyshire County Council pays on time
- Derbyshire County Council is a good customer who organisations want to do business with
- Council officers are helpful and supportive (support given in developing environmental policy and other elements if required)
- Other public sector bodies have far more complex procurement processes than Derbyshire

### **6.2 Weaknesses of the County Council's procurement process with regards to SME's and VCO's**

#### **6.2.1 Awareness of opportunities**

Source Derbyshire is the County Council's main vehicle for communicating with potential tenderers about contract opportunities. Usage of Source Derbyshire is growing and feedback from users has been positive but awareness and usage amongst local SME's and VCO's is low.

Feedback from SME's and the Federation of Small Businesses has identified that the limited number of contract opportunities on the website and lack of publicity has contributed to the low levels of awareness amongst SME's and VCO's.

#### **6.2.2 Reducing the bureaucratic burden**

The review working group recognises that undertaking business with local government will be a more protracted process than with the private

sector because the law requires public bodies to go that extra mile for probity purposes. The working group also supports the requirement of suppliers to demonstrate their commitment to the environment, equal opportunities and health and safety.

Derbyshire County Council can do more however, to minimise bureaucracy whilst not increasing the risk to the Authority. Weaknesses identified that increase the burden on SME's and VCO's include:

- Asking for information that a company has already recently sent into the Authority for a previous tender
- Giving the impression (unintentionally) to some tenderers that they need to provide detailed information on issues such as health & safety when detailed information is not required for the specific procurement. This increases the expense and time for tenderers and Derbyshire County Council officers
- Not consistently considering the potential risk to the Authority when assessing the suitability of a tenderer. For example, the County Council has declared some organisations to be unsuitable for undertaking work with the County Council on financial grounds despite the risk for delivering the service lying entirely with the company. If the service was unable to be delivered the company would not be paid and the contract would be awarded to another company without disrupting services.

These processes increase the expense of tendering for County Council contracts and favour larger organisations with the resources to meet the Authorities demands.

### **6.2.3 Management of the procurement process**

Examples where Derbyshire County Council did not manage the procurement process effectively have been uncovered by the review working group. Areas of concern related to:

- Inadequate planning prior to commencing the tender process. This resulted in significant delays to the process
- Derbyshire County Council not complying with their own deadlines due to a lack of ownership of the process. This specifically related to procurement projects where a number of departments were involved.

### **6.2.4 Engaging with suppliers**

Derbyshire County Council has attended events designed to improve relationships with potential suppliers. More can be done to improve SME's and VCO's understanding of the Authorities procurement

processes and requirements. This will help to alter the perception that the County Council would rather work with large companies and that decisions are made prior to the process commencing. It would also improve their capacity to benefit from public sector contracts.

Examples where improvements can be made include:

- Building relationships with the Federation of Small Businesses and other bodies who have regular contact with SME's and VCO's to harness their expertise in accessing SME's
- Informing the market about Derbyshire County Council's longer term spending plans will help local SME's plan and work in partnership to deliver services to the Council
- Improving support for local SME's and VCO's to enable them to compete fairly and equally for the Council's business. It is recognised that, if successful, the proposals submitted to the DDEP will help to improve this position.

#### **6.2.5 Using procurement as a tool to meet Community and Council objectives**

Procurement can legitimately be used to help deliver corporate objectives including the economic, social and environmental objectives set out in the Community and Council plans.

Derbyshire County Council's procurement strategy recognises that the Council's choices about procurement can in themselves contribute to the achievement of economic, social and environmental objectives and must therefore be consistent with these objectives.

The County Council should be more proactive and explicit by ensuring that where practicable the money the Authority spends on procuring goods, works and services benefits the people, communities and economy of the county.

This may be achieved by:

- Building community benefit clauses into procurement contracts
- Developing the supply chain

#### **6.2.6 Lack of information about Derbyshire County Council spend**

Information on where Derbyshire County Council procures goods and services from is essential in determining procurement and regeneration policy.

At present information is not readily available that identifies where the Council procures goods and services from and how much is spent within the local economy.

It is recognised that, if successful, the proposals submitted to the DDEP will help to address this position.

## **7. Conclusion and Recommendations**

### **7.1 Conclusion**

Local authorities are under pressure to increase the efficiency of services through utilising effective procurement processes. Derbyshire County Council can meet these requirements by procuring goods and services from a balance of large organisations and local SME's and VCO's.

Derbyshire County Council was one of the first councils to embrace the new procurement agenda and is held up as an example of good practice nationally. Evidence gathered suggests that Derbyshire County Council's current procurement practices are generally well thought of but barriers exist that are preventing SME's and VCO's from competing on a level playing field with larger organisations when it comes to tendering for contracts.

The barriers that exist are surmountable. If Derbyshire County Council implements a number of recommendations then the Authority can increase its ability to harness the benefits that working with SME's and VCO's can offer the County Council and the sustainability of local communities.

A number of partner organisations are working to support and enhance the capacity of local SME's and VCO's to deliver quality services to local authorities. Derbyshire County Council should utilise the available resources to assist local organisations become more successful in obtaining Derbyshire County Council contracts and continue to build relationships with partners to further improve the procurement process for Derbyshire County Council and SME's.

### **7.2 Recommendations**

A number of the recommendations follow advice outlined in Government publications and are designed to make contracts more accessible for SME's and VCO's.

Implementing these recommendations should create a procurement environment that does not impact on Derbyshire County Council's ability to deliver best value but creates opportunities for improving value for money and efficiency.

#### **7.2.1 Increase awareness of contracting opportunities**

Support proposals to:

- Publicise the award of contracts on Source Derbyshire
- Increase the number of contracts advertised on Source Derbyshire through partnerships with councils across the East Midlands



Recommend that:

- To help promote and raise awareness of Source Derbyshire information is distributed to key organisations that access SME's and VCO's. This must include banks, accountants, solicitors, CVS offices, and offices of the Federation of Small Businesses. This is in addition to the existing recipients of information about Source Derbyshire such as the Chamber of Commerce / Business Link
- Derbyshire County Council publishes 'Selling to the Council' on the Derbyshire County Council website
- Derbyshire County Council explores all channels to access and communicate with local SME's and VCO's
- Consideration be given to advertising procurement opportunities on the new National Procurement Portal.

### **7.2.2 Reduce the bureaucratic burden**

Support proposals to:

- Roll out e-procurement and e-tendering across all Derbyshire County Council departments
- Encourage suppliers and potential suppliers to undertake transactions using e-procurement and e-tendering

Recommend that:

- Examples of standard environmental, equality, and health and safety policies are published on the Source Derbyshire website
- Derbyshire County Council implements a contract management solution which keeps information from suppliers on file to reduce the requirement for organisations to repeatedly send in the same information
- The criteria by which potential suppliers are assessed against are proportionate to the **risks** of the individual contract process. It should be the level of risk that letting a contract to the company would represent to Derbyshire County Council that should be considered when assessing the suitability of a tenderer and the information we request from them
- The use of framework agreements is widened where Derbyshire County Council regularly requires products or services but the frequency and quantity is unknown. This will help to speed up certain procurement processes where time is critical and will reduce administration for officers and increase the confidence of businesses to invest in supporting the service delivery needs of the council.
- Derbyshire County Council look to simplify its' procurement process by continuing to rationalise the information requested from suppliers and ensuring that forms are written in plain English. The "First Contact Mandatory Application" form could be re-titled "Doing Business with Us – information we need".

### 7.2.3 Improve the management of the procurement process

Support proposals to:

- Ensure that officers are provided with adequate training to improve the purchasing skills and capabilities of departmental staff

Recommend that:

- To ensure the County Council meets its' own deadlines a stakeholder officer of appropriate seniority dependent upon the size of the contact is given responsibility for each procurement project.
- Meaningful feedback is provided to all unsuccessful tenderers informing them why they have not been awarded the contract.

### 7.2.4 Engage effectively with suppliers

Support proposals by:

- The Chesterfield and North East Derbyshire Council for Voluntary Service and Action to establish a Contracts Advice Network. This initiative is designed to raise the consciousness of service providers in the voluntary and community sector about public sector procurement. Proposals include advising, training and supporting VCO's throughout the procurement process.

It is recommended that Derbyshire County Council monitors the success of the initiative and gives consideration to the potential of supporting the roll out of the initiative across the county.

Support proposals to:

- Organise workshops, meet the buyer events, and offer training, support and advice to help develop the skills, knowledge and capacity within local businesses. **Such events should promote the County Council's genuine desire to do business with local firms.** This forms part of the funding application to the Derby and Derbyshire Economic Partnership (DDEP).

Recommend that:

- Derbyshire County Council explores means by which the Council's long term spending intentions can be communicated with potential suppliers. Informing the market about the Authorities longer term spending plans will help local SME's and VCO's plan and work in partnership to deliver services to the Council. This forms part of the funding application to the DDEP
- Derbyshire County Council works with agencies / private practice to offer advice to organisations about forming consortiums to tender for larger contracts.

### **7.2.5 Use procurement as a tool to meet community and council objectives**

Recommend, having regard to the requirements of EU Procurement Directives and UK Law, that:

- Where applicable, Derbyshire County Council builds community benefit clauses into contracts. For example in construction contracts a community benefit clause which requires the employment of young trainees or unemployed people could be inserted
- With contracts of appropriate size Derbyshire County Council asks prime contractors during the procurement process to establish the contribution that small firms and voluntary and community sector suppliers can play in the supply chain. The responses should form part of the evaluation criteria
- Derbyshire County Council liaises with the East Midlands Development Agency and the Regional Centre of Excellence to clarify the extent to which a local authority can insert contract clauses that implicitly favour the use of local suppliers. The law does not enable geographical location to be taken into consideration during the procurement process but the Office of Government Commerce is investigating the potential to include social and environmental clauses into contracts.

### **7.2.6 General improvements**

Support proposals to:

- Research and analyse Derbyshire County Council spend submitted in the application to the DDEP. If this bid is not successful it is recommended that alternative external sources of funding should be identified to undertake this task

Recommend that:

- Before deciding to aggregate demand into a single county, regional or national contract officers evaluate if it is going to offer value for money and promote objectives in the Council Plan
- Thought be given to the County Council dividing a contract into smaller units and evaluating the impact on the service and value for money. This forms part of the funding application to the DDEP
- Derbyshire County Council signs the Small Business Friendly Concordat. Local authorities signing the Concordat pledge a range of voluntary commitments to make contracts more accessible to SME's. These commitments, identified as good practice, should be adopted and implemented across the County Council.

## **8. The Next Stage**

The report will be presented to Cabinet for consideration. It is recommended that:

-

(1) the Chair of the Improvement and Scrutiny Committee presents the report to the Cabinet.

(2) following consideration of this report it is suggested that, should the Cabinet agree to implement the recommendations, the Improvement and Scrutiny Committee receives a report at a date to be determined, to outline progress made.

## 9. **Action Plan**

## **10. Appendices**

- Appendix 1 – Scoping Report
- Appendix 2 – Consultation Undertaken
- Appendix 3 - General Supplier Information Requirements
- Appendix 4 – ‘Smaller Supplier.....Better Value?’
- Appendix 5 – Establishing the Correct Procurement Route

## **Appendix 1            Scoping Report**

(In preparing this report the relevance of the following factors has been considered: prevention of crime and disorder, equality of opportunity, environmental, financial, health, legal and human rights, personnel and property considerations.)

### **DERBYSHIRE COUNTY COUNCIL**

### **STRATEGY & BUDGET / REGENERATION / EXTERNAL AFFAIRS** **IMPROVEMENT AND SCRUTINY COMMITTEE**

**28 JUNE 2005**

### **Report of the Chief Executive**

### **REVIEW EXAMINING PROCUREMENT ARRANGEMENTS FOR SMALL BUSINESSES**

#### **1.     Purpose of the Report**

To consider the project brief for this Improvement and Scrutiny review.

#### **2.     Information and Analysis**

- 2.1 A review of Procurement Arrangements for Small Businesses forms part of the 2005/06 Service Improvement Programme. This programme was approved by Cabinet on 26<sup>th</sup> April 2005.
- 2.2 A copy of the draft project brief for the review may be found in the Appendix. Consultation on the scope of the project brief has already commenced with the Chief Executive's Office and the Corporate Resources Department.
- 2.3 To ensure consistency with other reviews, members of the Committee are also asked to nominate representatives to form a working group who will work with the Improvement and Scrutiny Officer in supporting this review.

#### **OFFICER RECOMMENDATION: That:**

The Committee:

- (a) Agrees the project brief for the review
- (b) Nominates members to form a working group to oversee progress with this review.

**NICK HODGSON**  
**CHIEF EXECUTIVE**

## **STRATEGY & BUDGET / REGENERATION / EXTERNAL AFFAIRS IMPROVEMENT AND SCRUTINY COMMITTEE**

### **REVIEW EXAMINING PROCUREMENT ARRANGEMENTS FOR SMALL BUSINESSES**

#### **PROJECT BRIEF**

#### **1. Purpose of the Review**

To identify how procurement arrangements can be simplified for local small firms and the voluntary and community sector in undertaking contracts for the Council.

#### **2. Objectives of the Review**

- To identify the processes small and medium sized enterprises (SME's) are required to undertake as part of Derbyshire County Council's procurement process
- To evaluate the impact of the Council's procurement process on local SME's (including the voluntary sector) and the County Council
- To establish the legal requirements surrounding local government procurement
- To identify potential improvements in simplifying and speeding up the procurement process
- To highlight examples of good practice

#### **3. Review Methodology**

Extensive consultation will be undertaken with a variety of key stakeholders. Consultees will include:

- Derbyshire Chamber of Commerce
- Federation of Small Businesses
- Council for Voluntary Service
- Derbyshire County Council Officers
- Elected Members
- Other local authorities
- Contractors & Suppliers
- External experts

#### **4. Outline Consultation Plan**

- Prepare a plan including a balance of written and oral views of those groups and individuals outlined above.
- Develop further understanding by Members of the Working Group through a series of interviews with expert witnesses



## **5. Outline Project Plan**

- June 2005 I & S Committee approves the Project Brief and appoints a Working Group
- July to Nov 2005 I & S Working Group prepares consultation plan, gathers comparative information and undertakes consultation
- Sept2005 I & S Committee receives a progress report
- Nov 2005 I & S Committee receives the final report

## **Appendix 2            Consultation Undertaken**

The review working group met with the following people:

- Zoë Cunningham, Chair of the Derby Branch of the Federation of Small Businesses
- Mollie Kirkland and David Regan, Chief Executive and Chairman of Five Lamps PLC
- Carol Lawton, Director of Links, The Chesterfield and North East Derbyshire Council for Voluntary Service and Action
- Zan Hurst, Health & Social Care Liaison Worker, North Derbyshire Voluntary Action
- David Parkin, Team Leader - Business Development Advisers, Derbyshire Chamber & Business Link
- Andrew Ayling, County Procurement Officer, Derbyshire County Council
- Sandra Pomerantz, Purchasing Manager, Derbyshire Social Services
- James Matthews, Head of Policy, Derbyshire Social Services

The Improvement and Scrutiny Officer met with the following people:

- Chris Allison, Director, Centre of Excellence, East Midlands
- Andrew Foster, Assistant Director, Centre of Excellence, East Midlands
- Andy Brown, Economic Policy Manager (Manufacturing & Procurement), East Midlands Development Agency
- Alan Srbljanin, Economic Policy Advisor (ICT), East Midlands Development Agency
- Norman Taylor, Director, Business Advice Team
- Colin Mogford, Ashford Management
- Rod Cook, Assistant Chief Executive, Derbyshire County Council

Additional information has been gathered from the following sources:

- Derbyshire County Council suppliers
- Local Authorities
- Government publications
- Derbyshire County Council officers

## **Appendix 3            General Supplier Information Requirements**

Depending upon the nature of the contract that you are bidding for, various information maybe requested of your company to enable the assessment of your organisation against the Council's requirements. There are certain areas of information that will be required by all suppliers:

### **Company**

Ranges from basic information including your company trading status, registered address and contact names to more detailed information on your company's organisational structure and activities.

### **Competence**

Used to assess whether your company has the necessary skills, knowledge, technical and practical experience for carrying out the contract applied for. The specific format for this information will be contract specific and for certain categories of work accreditation to trade bodies will be required.

### **Financial**

You will be asked to submit audited accounts for at least the last two years. If you are submitting a bid as a group of companies, the accounts must be for the company who will be the primary contracting company. For works and services contracts you will be asked to provide information on your insurance cover. Your company must carry Employers' Liability and Public Liability insurance, the level of insurance required will be specified in the contract documents. For some specialist contracts you may be required to carry Professional Indemnity insurance, Product Liability insurance or Fire/ Contract works insurance.

### **Equal Opportunities & Race Relations**

Under the Race Relations Act, local authorities are required to ensure that whilst carrying out their functions they take account of the need to eliminate racial discrimination and promote equality. Derbyshire County Council is committed to ensuring that its employees and the people it serves are not discriminated against on the basis of disability, age, sexuality or gender as well as, race, colour, ethnic origin and religion. We require that all our suppliers support these policies and ensure that in the delivery of the goods and services they provide on behalf of the Council they do not discriminate on any of the aforementioned areas.

All suppliers will be asked a series of questions to assess their commitment and compliance with the appropriate legislation.

## **Health and Safety**

Section 2(3) of the Health and Safety at work 1974 requires that all companies employing 5 or more persons shall have a written statement of health & safety. Potential suppliers will be asked a series of questions relating to their Health and Safety policy and procedures. The level of detail required in the Health & Safety questions and requirements will be reflective of the nature of the products and services being supplied and the potential for Health and safety issues to arise in the delivery of the contract.

## **Environmental Issues**

Derbyshire County Council has recognised the impact that its activities have upon the environment and recognises the importance of encouraging the protection, conservation and enhancement of the environment through policy objectives. The Authority also recognises that suppliers have an important contribution to make in promoting its Environmental policy by identifying and minimising the environmental impact of the goods and service that they provide on behalf of the authority.

All potential suppliers will be asked to identify their own environmental policy and how they promote the adoption of this within their own organisation. In addition companies who will be providing goods and services which have an identified environmental impact will be asked more in depth questions as to how they are managing these risks and whether they have gained accreditation against recognised environmental standards.

