

Report To:	Policy & Resources Committee	Date:	18 September 2012
Report By:	Chief Financial Officer	Report No:	FIN/69/12/AP/BH
Contact Officer:	Brendan Hurrell	Contact No:	01475 712654
Subject:	Procurement and Local Business		

1.0 PURPOSE

- 1.1 The purpose of this report is to update Committee on the current and planned activity, from a procurement perspective, that will assist local businesses.

2.0 SUMMARY

- 2.1 A request was made at the May Policy and Resources Committee to receive a paper that sets out how the Council can support businesses via its approach to Procurement.
- 2.2 In the financial year 2011/12 the Council spent £77m with suppliers. Of that, £19.5 million was spent with suppliers with Inverclyde postcodes. This spend with local suppliers represents 25% of the total Inverclyde Council Procurement spend. A breakdown of the spend with local suppliers is given in the table below:-

Sector	Local Supplier Spend
Social Care	£15.6M
Construction and Trades	£2M
Transport (buses, taxis)	£1M
Education	£650K
Professional Services	£250K
Goods (stationery, print etc)	£50K
Total	£19.5 million

- 2.3 A common issue with Local Authority Procurement is achieving the balance between legislative obligations the need to deliver Best Value and the impact these can have on local suppliers. The Public Contracts (Scotland) Regulations 2012 govern public procurement in Scotland. The Sustainable Procurement bill has been drafted and is entering a public consultation phase.
- 2.4 It is hoped that the Bill will establish a national legislative framework for sustainable public procurement that supports Scotland's economic growth by delivering economic, social and environmental benefits, supporting innovation and promoting processes and systems which are transparent, streamlined, standardised, proportionate, fair and business-friendly
- 2.5 Corporate Procurement are already working on the themes detailed in the Scottish Government's draft Sustainable Procurement Bill via the Strategic Procurement Framework.
- 2.6 In light of the very challenging financial climate, changes are proposed by Officers to the criteria by in which the Council makes financial checks. These are listed in Appendix 1 and are in line with suggested policy changes recently published by the Scottish Government and have been endorsed by the CMT.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Policy & Resources Committee note the current activity being undertaken to assist local suppliers access Inverclyde Council contracts from a Procurement perspective;
- 3.2 That the Committee approve the changes to the criteria by which the Council makes financial checks in respect of property/roads capital projects and supplies and services as set out in appendix 1; and
- 3.3 That an annual report on procurement and local business be submitted to the Committee.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 A common challenge for Local Authority Procurement is how to achieve the balance between legislative obligations the need to deliver Best Value and the impact these can have on local suppliers. The Public Contracts (Scotland) Regulations 2012 govern public procurement in Scotland. The Sustainable Procurement bill has been drafted and is entering a public consultation phase. The consultation covers a range of proposals which are listed in Appendix 2.
- 4.2 The proposals will benefit all suppliers but those particularly aimed at local suppliers are an overarching duty on public bodies to act in a way that promotes economic, social and environmental well-being through procurement activity and the use of community benefits clauses, including using major public contracts to promote jobs and training opportunities.
- 4.3 In the financial year 2011/12 the Council spent £77m with suppliers. Of that, £19.5m was spent with suppliers with Inverclyde postcodes. The spend with local suppliers represents 25% of the total Inverclyde Council Procurement spend. A breakdown of the spend with local suppliers is given in the table below:-

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- 4.4 The ability to increase spend with local suppliers is influenced by the Public Contracts (Scotland) Regulations and constrained by the availability of suppliers to fulfil the demands of the contracts that are let. The legislative obligations dictate that contracts are advertised openly and that procurement processes are operated transparently. Supplier demographics are different from authority to authority. For example there is a lack of professional services suppliers in the Inverclyde area but this type of supplier is more prevalent in East Renfrewshire. These services then need to be developed with existing suppliers within the area or continue to be purchased from those out with the Council area.
- 4.5 Local Authorities are under increasing pressure to gain efficiencies from Procurement. The requirement to seek Best Value means that price is given a high weighting whilst the intangible benefits of appointing a local supplier are more difficult to measure. The current activity being undertaken by Procurement is planned to increase the ability of local suppliers to compete effectively.

5.0 CURRENT ACTIVITY

- 5.1 Help and assistance for local suppliers and supplier development falls within the remit of Economic Development. To that end, closer working links have been established between Corporate Procurement and Economic Development. Moreover, a Corporate Social Responsibility working group has been established. The work of this group will focus on the environmental, social and economic activity associated with Procurement.

- 5.2 Inverclyde Council are a member of Supplier Development Scotland (www.sdpScotland.gov.uk) which hosts regular training and networking events and is free for businesses to join. 38 local suppliers have registered with Supplier Development Scotland and have advised that they are happy with the service. One particular supplier from Inverclyde has benefited from an intense training course on completing tenders and has won more business with Inverclyde Council and other Local Authorities as a result of the time invested.
- 5.3 Community Benefits clauses have been embedded within the schools estates tenders and have delivered a number of recruitment and training benefits. There is now a mandatory requirement for officers to consider community benefit clauses in all tenders. These clauses can cover work experience; working with schools; direct and targeted employment.
- 5.4 Work is ongoing with Ready for Business to expand this activity into other areas which will have a community benefit. Ready For Business have been set up by the Scottish Government and consist of a consortium composed of Ready for Business LLP, KPMG, Social Value Lab and MacRoberts LLP. The programme offers a unique opportunity to develop and embed a number of leading market development solutions, including Community Benefit Clauses and the use of Social Value throughout public sector commissioning and procurement in Scotland.
- 5.5 Officers from Corporate Procurement, Economic Development and Legal and Democratic Services are working closely with MacRoberts solicitors, as part of Ready for Business, to determine what more can be done to expand the importance given to Community Benefit Clauses in relation to local suppliers. Moreover, MacRoberts are sharing their knowledge on other mechanisms which may make it possible to award more business to local suppliers without breaching procurement law.
- 5.6 Ready for Business are also offering free support in engaging with local 3rd sector suppliers. A series of workshops are planned with a number of local 3rd sector suppliers through the course of September that will be aimed at improving these organisations understanding of the Council's commissioning strategy, provide the opportunity to learn about competing for Council work and establish closer working links.
- 5.7 The Corporate Procurement Manager and officers from Economic Development and Property Services regularly attend Inverclyde Construction Forum meetings to detail the tender opportunities that are coming up and discuss changes to Procurement.
- 5.8 Some areas of Procurement are perceived to have an impact on the ability for local suppliers to compete for Council work. The following actions and considerations address some of these issues:-
- Where relevant, response times, fix times etc are taken into account in the award criteria.
 - Procurement and the Services often host pre-tender meetings (for all businesses which have expressed an interest).
 - Where relevant, the PQQ asks about ability to deliver if suppliers do not already have a base in Inverclyde.
 - The Public Procurement Directives allow contracts to be awarded in the form of lots. Breaking larger contracts into smaller "lots" broadens the scope for Best Value and facilitates access for SMEs.
 - Regular meet the buyer events and meetings are held with any supplier interested in doing business with the Council.

6.0 FINANCIAL APPRAISALS

- 6.1 To support this changes are proposed to the criteria used by the Council to assess financial strength of tenderers. These are listed in Appendix 2 and are in line with suggested policy changes recently published by the Scottish Government.
- 6.2 In the past suppliers financial appraisals were conducted using a combination of the suppliers Dun and Bradstreet risk rating and a requirement to have a contract value to turnover ratio which was less than 33%. The proposed changes mean that this ratio has been relaxed to 50% for all contracts and up to 75% where the risk of failure has been assessed as being low via the Dun and Bradstreet scoring.
- 6.3 These changes will make it easier for smaller suppliers, including those local to Inverclyde, to pass the financial assessment criteria within tender evaluations. The risk of entering into a contract with a supplier who could go out of business during the lifetime of a contract is mitigated by ongoing monitoring of the financial performance of the suppliers to the Council of high value and high risk contracts. This is performed using Dun and Bradstreet monitoring software.

7.0 LEGAL IMPLICATIONS

- 7.1 When considering the current and planned activity in relation to procurement with a view to assisting local businesses, due regard must be paid to the legislation which governs this area of law and which dictates that all contract opportunities must be administered in accordance with the Public Contracts Regulations and the E.U. Directives. Moreover, in terms of the Standing Orders all contract opportunities above £25,000 for Goods and Services and £50,000 for works are subject to a tender advertisement.

Financial Checks – Proposals

1. <u>Property/Roads – Capital Projects</u>	<u>Risk</u>	<u>Turnover*</u>	<u>Accounts</u>
Up to £300k	3 or better	50%	Within 24 months
Over £300k	2 or better	50%	Within 21 months
2. <u>Supplies & Services</u>	<u>Risk</u>	<u>Turnover*</u>	<u>Accounts</u>
a.	3 or better	50%	Within 24 months
	OR		
b.	2 or better	75%	Within 21 months

*Turnover – Based on average of last 2 Years Accounts.

Note: - All 3 conditions must be achieved to pass the financial checks criteria.

- It is the tenderers responsibility to ensure that their D&B rating is accurate and up to date.

- Council will carry out checks after tender submission and before contract award.

Appendix 2

Draft Sustainable Procurement bill Consultation general points.

1. A new general duty on public bodies to conduct procurement in an “effective and proportionate” manner;
2. A prohibition on charges being levied for the issue of tender documents;
3. Standardisation of the pre-qualification process for public contracts;
4. Ensuring that suppliers receive de-brief information in situations not covered by 2012 regulations;
5. Before starting a procurement process, a public body should consider and act to facilitate newer businesses;
6. SME and Third Sector access as part of their procurement strategy for every requirement;
7. A requirement that public bodies use a single online portal to advertise and award all public contracts above a given threshold;
8. Increased transparency within supply chains for major contracts and capital structure programmes;
9. A possible requirement for public bodies to publish contract information proactively;
10. How procurement can be used to encourage innovation and growth. This might include a statutory requirement that purchasers must permit the submission of variant bids;
11. An overarching duty on public bodies to act in a way that promotes economic, social and environmental well-being through procurement activity;
12. The use of community benefits clauses, including using major public contracts to promote jobs and training opportunities;
13. The use of provisions to promote greater use of supported businesses by the public sector;
14. Provisions to allow public bodies in Scotland to address poor performing suppliers and inappropriate conduct, both in relation to the delivery of contracts and business standards and behaviour;
15. Measures to promote compliance with the Bill’s provisions that are effective, while at the same time avoiding unnecessary costs and risks;
16. Reduced tender cycle time;
17. Reduction of paper trail on tendering exercises, reducing cost to both buyers and suppliers
Reduction in the labour-intensive tasks of receipt, recording and distribution of tender submissions;
18. Reduction in journeys made to deliver tenders and therefore a reduction in carbon footprint;
19. Faster response to questions and points of clarification during the tender process; and
20. Reduction in margin for error at tender evaluation stage, robust electronic audit trails and no cost to suppliers.