

Procurement Strategy 2018 - 2023

Report by Gary Fairley, Head of Finance & Integrated Service Support

1 Purpose of Report

This report seeks approval of the new Procurement Strategy 2018 - 2023

2 Background

2.1 Our current Procurement Strategy was launched in 2015 to support our aim of continuing to improve how we deliver effective and sustainable procurement. The principle objectives of the strategy were to support the local economy, use the strategy as a lever to support delivery of our Corporate Social Responsibility and contribute towards saving targets of the Council.

2.2 Procurement has continued to work closely with local businesses, hosting several meet the buyer events, drop-in surgeries to discuss opportunities, future contracts, innovative solutions and supplier training requirements in conjunction with the Supplier Development Programme.

2.3 Community Benefits and Sustainability have been embedded into the tendering process, resulting in new apprenticeships, sub-contracting opportunities for local businesses and helping to reduce our carbon footprint. During the last strategy we achieved Living Wage employer accreditation and were nominated for a national award on how it was delivered and the difference it made to employees.

2.4 There is a different legislative context now than in 2015 with the Procurement Reform (Scotland) Act 2014 coming into effect, and updates to legislation in 2016, specifically the Public Contracts (Scotland) Regulations 2015 and the Procurement (Scotland) Regulations 2016. Due to these legislative changes and duties imposed on the Council a new Procurement Strategy is required to support the continued delivery of effective and sustainable procurement.

3 Procurement Strategy 2018 - 2023

3.1 The 2018-2023 Procurement Strategy is set out in appendix 1.

3.2 As a Council one of our main aims is to provide quality services to our citizens, yet we have the toughest financial challenge local government has ever faced. How we obtain and pay for goods, service and works therefore has a central role in the Council's drive for efficiency and value for money.

- 3.3** This new procurement strategy reflects local, national, and international expectations and challenges of what public bodies can achieve through efficient, effective and sustainable procurement.
- 3.4** Locally it addresses the key issues of how we can increase our spend and contracts awarded to local businesses, further maximising community benefits to increase opportunities of new apprenticeships, local job creation, work experience and targeted training.
- 3.5** Nationally it covers the duties placed on the Council through the Procurement Reform (Scotland) Act 2014, and the ability to continue to deliver cashable and non-cashable savings/efficiencies. The strategy also covers how we intend to deliver social and environmental benefits.
- 3.6** Internationally it reflects the changes to the EU Directives 2014 which passed into the Public Contracts (Scotland) Regulations 2015 in April 2016.
- 3.7** To meet these challenges the strategic themes/ key objectives of the Strategy are:
- **Economic;** Supporting the local economy to grow, early engagement with local businesses in the procurement process and targeted training where appropriate to enable local businesses to be prepared to bid for upcoming contract opportunities. Aim is to increase % spend with local businesses
 - **Social Value;** through Equality and Diversity, community benefits such as training, development, creation of apprenticeships and work experience. Deliver safe, quality and innovative services that meet citizens' needs. Aim to contract locally to reduce carbon footprint and helping grow the local economy.
 - **Commercial Efficiency and Contract & Supplier Management;** whilst best value is one of the main drivers of the strategy, a focus of procurement activity will be on cashable and non-cashable savings; this will be achieved through challenging existing service requirements, extensive market research and seeking innovative solutions to service needs. Contract & Supplier Management is weak area of the Council and the public sector in general, the aim of the strategy is to baseline existing contract management arrangements within services, review and provide proposals for improvement.
- 3.8** During the lifespan of the procurement strategy 2018-2023 the duties imposed through procurement regulation and guidance developed by the Scottish Government will continue to change, specifically it is still unknown on how Brexit will impact national legislation. There is therefore an acknowledgement that the strategy needs to be responsive to changing needs and is not fixed at the point that it is written.

4 Report Implications

4.1 Resource

There are no direct resource implications as a result of this report

4.2 Risk

Having an effective Procurement Strategy will act to address risks associated with procurement across the Council.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

4.4 Impact on Performance and Outcomes

This report does not impact Midlothian Councils and wider partners performance and outcomes

4.5 Adopting a Preventative Approach

This report does not impact actions and plans in place to adopt a preventative approach

3.6 Involving Communities and Other Stakeholders

Relevant staff has been consulted during the development of the new procurement strategy

3.7 Ensuring Equalities

The new strategy will strengthen the assessment of equality issues when considering all aspects of the procurement cycle

3.8 Supporting Sustainable Development

There is no sustainability issues associated with this report. The adoption of the new strategy will strengthen our commitment to sourcing in a sustainable way

3.9 IT Issues

There are no IT issues arising from this report

3 Recommendations

It is recommended that Council:

- a) Approve the Procurement Strategy 2018–2023

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Background Papers:



MIDLOTHIAN COUNCIL

PROCUREMENT STRATEGY: 2018 - 2023

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Foreword

As a Council our main aim is to provide quality services to our citizens, yet we have the toughest financial challenge local government has ever faced. How we obtain and pay for services therefore has a central role in the Council's drive for efficiency and value for money.

We will use our commercial arrangements to drive forward innovations, support local businesses and reduce our costs – all while improving the services and opportunities we offer businesses and citizens of Midlothian.

We have a duty to provide ethical standards and this document sets out the standards that Midlothian Council requires as a procuring/contracting authority as well as identifying five strategic themes:

- Economic Benefits
- Social Benefits
- Environmental Benefits
- Commercial Efficiency
- Contract and Supplier Management

Our category management approach to procurement arrangements has helped establish effective collaborative and commercial relationships with our key stakeholders, partners and suppliers; providing a centre of expertise and first point of call for all services.

Finally we have a duty to promote the economic growth of Midlothian and our strategy aims to maximise local spend ensuring local growth and job creation.

Procurement in Local Government therefore has never been more important than it is today.

Introduction

Our Definition of Procurement

‘Procurement is the process of acquiring the goods, services and works an organisation needs. It spans the whole cycle, comprising three phases’

- i. Identifying needs and deciding what is to be bought and when (procurement planning/commodity strategy development).
- ii. The process of awarding a contract, including defining the terms on which the goods, services or works are to be provided and selecting the contracting partner that offers the best value.
- iii. Managing the contract to ensure effective performance.

This procurement strategy sets out for the supplier market and other key stakeholders the strategic aims of the Council to be taken forward through our procurement activity over the next five years.

It outlines the central role of the procurement function in supporting the Council to achieve its strategic priorities within a constrained financial envelope.

Commercial and Social Value

Procurement will use the Council’s spending power to drive our key strategic priorities and to secure the best possible value and outcomes for Midlothian. We will seek to maximise the value of every pound we spend in terms of jobs, skills and supply chain opportunities in the local community.

We will aim to address economic, social and environmental considerations at all stages of the procurement cycle. We will maximise value for money by considering beyond simply what is the most economically advantageous – within the rules of open, fair and transparent competition.

In a time of reducing funding, and increasing expectations of our residents, business and tax payers, it is more important than ever that Midlothian Council’s procurement strategy supports the Single Midlothian Plan. Every member of the community expects the Council to provide an efficient and cost effective public service, the focus on our commercial arrangements, procurement, supplier and contract management therefore continues to increase.

We will further develop our collaborative and commercial relationships with key partners as part of our strategic category management approach, to deliver the best possible outcomes for the citizens of Midlothian.

We will continue to drive competition and innovation amongst a range of suppliers, in particular supporting access to contract opportunities for small and medium sized enterprises, voluntary and community organisations and social enterprises.

Within a changing local, national and international context, our procurement needs to be forward thinking, flexible and able to respond to the opportunities and potential challenges ahead. This strategy sets out our ambitions for the medium and long term and it will be supported by an annual plan of key actions for each year.

Strategy Review 2015-18

Over the last 3 years, the Council has made further progress with its improvement programme. Highlights Include:

- Supporting the local economy and helping to increase the proportion of local spend from 13% in 2016/17 to 18% in 2017/18
- Contributing cashable savings of £445,000 during the period and non-cashable savings of £465,000
- Embedded Community Benefits and Sustainability into the tendering process, resulting in new apprenticeships and sub-contract opportunities for local businesses and helping to reduce our carbon footprint.
- The team were delighted to achieve a F3 status on the new Procurement Improvement assessment, scoring can range from F1 (Highest) to F12 (Lowest).
- Further roll out of the Purchase to Pay system across the Council
- Achieving Living Wage employer accreditation through the Living Wage foundation and being nominated for a national award.
- Upheld the Councils commitment to the Supplier Charter and worked closely with Police Scotland in stopping Serious and Organised Crime Groups from winning public sector contracts.
- Delivering over 50 employment and skills opportunities through community benefits in major contracts

We will build on these achievements, ensuring that category management progresses further with the complex analysis required in challenging and supporting appropriate buying decisions.

Procurement Landscape

Structured collaborative working and sharing best practice is at the heart of procurement in Scotland, this is managed at three levels.

- **Category A** – Contracts developed and managed for the whole public sector by Scottish Procurement
- **Category B** – Contracts developed and managed for local government (service specific) by Scotland Excel
- **Category C1** – Contracts developed and managed on a regional basis by a lead authority
- **Category C** – Contracts developed and managed on a local basis

We believe that the key success is joint planning across Council departments and other partners, including early engagement to inform a joint procurement approach.

Collaborating with partners offers opportunities to secure better value from our resources and should be actively encouraged.

We will achieve this proactively developing strategic collaborative and commercial relationships with a range of partners, working on joint procurements in appropriate areas of spend, early engagement with communities and businesses.

Procurement Legislation

The Scottish Government is responsible for the development of national procurement policy and supporting guidance in Scotland. There are now several key pieces of procurement legislation which have changed the regulatory framework for public procurement across Scotland.

- The Procurement Reform (Scotland) Act 2014
- The Public Contracts (Scotland) Regulations 2015
- The Procurement (Scotland) Regulations 2016
- EU Procurement Directive 2014/24/EU – Public Contracts
- EU Procurement Directive 2014/23/EU – The award of Concession Contracts
- EU Procurement Directive 2014/55/EU – Electronic Invoicing in Public Procurement (delivery due 2019 for local government)

Statutory guidance accompanies the Scottish Government legislation and Scottish Procurement Policy Note (SPPN) are published on an ad-hoc basis to provide advice on current policy issues. These SPPN's are adopted in line with requirements and local policy.

Procurement Leadership and Governance

Strong leadership and governance arrangements are at the centre of delivering effective procurement. There are a range of mechanisms in place to ensure this is the case within the Council.

The centralised procurement structure will ensure procurement activity is well directed and best practice is more easily disseminated. We will ensure that all our procurement activity is conducted in a fair, open and transparent way, in compliance with the legal and procedural requirements of EU and Scottish Procurement Regulations and the Council's procurement procedures.

We will achieve this through:

- Ensuring robust governance procedures for accountability and compliance are in place and being adhered to.
- Reviewing and refreshing our current procedures to reflect legislation.
- Implementing consistent, open, transparent, proportionate and accessible processes and systems to ensure a level playing field for suppliers.
- Using a toolkit of standard procedures, templates and processes to ensure best practice and consistency, making it easier for suppliers to bid for Council contracts.
- Strengthening controls to combat fraud and corruption; keeping a clear audit trail of procurement procedures and contracts
- Working to improve the visibility of procurement responsibilities across the Council; providing support and guidance to colleagues to strengthen compliance in all purchasing activity and monitoring purchasing behaviours.
- Complying with legal requirements for transparency, including publishing the contracts register, information on contract awards and an annual procurement report

Health & Social Care Commissioned Services

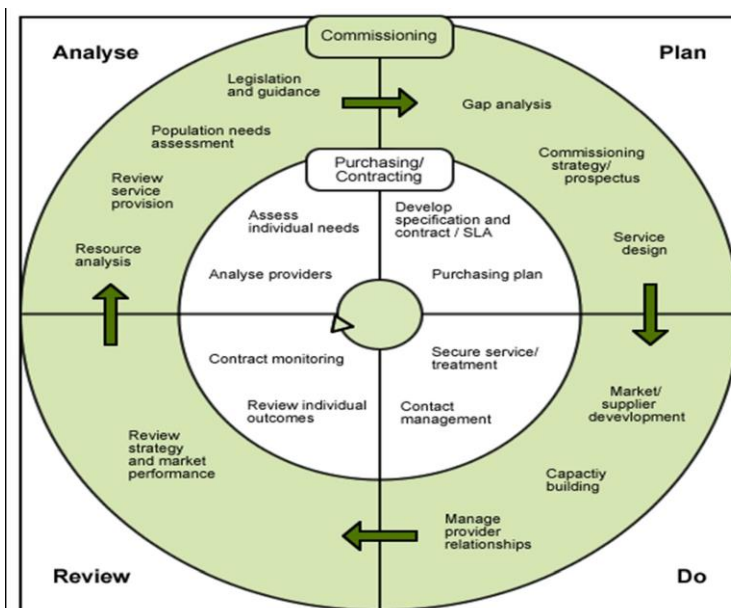
Strategic Commissioning is the term used for all the activities involved in assessing and forecasting needs, agreeing desired outcomes, considering options, planning the nature, range and quality of future services and working in partnership to put these in place. Procurement is an element of a wider commissioning process.

The procurement team will look to engage with commissioners and stakeholders right at the beginning of the commissioning cycle. Implementation of demand management techniques within the procurement and commissioning cycle will enable us to understand the aim and objectives of the procurement and can help us establish the key deliverables at the outset. All considerations can then be made in a timely manner that enables options to be appraised. This will include market engagement with potential bidders to assess their views and understanding of what the solution might look like. This will also alert potential bidders to our plans and aspirations whilst giving them an opportunity to plan for the forthcoming activity.

Procurement support is provided to services such as adults, children and families, mental health, learning disabilities, criminal justice and homelessness services.

The national commissioning model shown below (Diagram 1) will be the key tool used to deliver effective commissioned services through working with users, carers and providers. This approach will be complimented, as required, with the best practice guidance on the Procurement of Care and Support Services and line with the Light Touch Regime (LTR).

Diagram 1



Strategic Themes/Key Objectives

Strategic Theme	Key Procurement Objectives
<p>Economic: Supporting the local economy</p>	<p>Grow the local economy – Increase spend within the local economy</p> <p>Creating employment and training opportunities</p> <p>A strong and diverse local market – support SMEs, Social Enterprise and local businesses</p>
<p>Social: Citizens at the heart of what we do</p>	<p>Deliver safe, quality and innovative services that meet citizens’ needs</p> <p>Secure community benefits</p>
<p>Commercial Efficiency and Contract & Supplier Management</p>	<p>Securing Best Value for Money</p> <ul style="list-style-type: none"> ❖ Cashable Savings/Benefits ❖ Non-Cashable Benefits <p>Key Performance Indicators</p> <p>Contract Compliance and Monitoring</p>

Our social value themes will enable us to maximise the opportunities for economic, social and environmental considerations to be addressed at all stages of the commissioning and procurement cycle. In all our procurements, we will seek to maximise social value, tailored as appropriate and proportionate for each contract to ensure compliance with our legal obligations.

Theme 1: Economic

Grow the local economy – Increase spend within the local economy
Create employment and training opportunities
A strong and diverse local market – Support for SME's, Voluntary Organisations, Social Enterprises and Local Business

We will use our purchasing power to drive the strategic aim of growing the local economy, increasing spend locally and working with Economic Development colleagues to ensure a wide range of suppliers are able to do business with the Council and in turn the wider Local Government community.

We recognise the innovation and value offered by SME's, Voluntary Sector, Social Enterprises and their importance to the local market and wider economy and we will endeavour to remove barriers to these organisations.

Our Actions:

- ❖ Securing employment and training opportunities through contracts where possible
- ❖ Encourage suppliers to engage with local job centres and other local employment and training initiatives
- ❖ Continue to develop our understanding of what the market can offer; considering local supplier capacity
- ❖ Engage with local suppliers, SME's, Voluntary Organisations and Social Enterprises, publishing our procurement plan to enable suppliers to prepare
- ❖ Break down large value contracts into smaller lots where possible to provide opportunities for smaller suppliers
- ❖ Ensure our procurement process is accessible and does not present barriers to participation
- ❖ Encourage main contractor to hold local supplier engagement events prior to undertaking any major project work

Measure of Success:

- ✓ Percentage of spend within the local economy (of total contracts awarded)

- ✓ Employment and training opportunities secured through contracts awarded
- ✓ Contracts awarded to SME's
- ✓ Increase in local businesses bidding for contracts

Theme 2: Social

**Deliver safe, quality and innovative services that meet citizens' needs
Secure community benefits**

We aim to secure quality goods, works and services that best meet the needs of residents and local community in its widest sense. We will support innovation, early intervention and prevention whilst ensuring services are safe and cost effective.

We aim to combat social exclusion by encouraging employment opportunities in contracts through community benefits, where possible targeting the most deprived local communities and socially excluded groups.

Maximising the added value to communities through the use of community benefits in procurement can extend the value from Midlothian Council spend. There are many potential areas of opportunities, such as; targeted training and recruitment, supply chain opportunities, community engagement, work/school placements, environmental improvements.

Our Actions:

- ❖ Where appropriate involve residents in our commissioning and procurement processes – in the development of services and evaluation of tenders
- ❖ Encourage innovative and flexible ways of working to deliver social benefits for local communities
- ❖ Maximise community benefits wherever possible through relevant requirements and specifications
- ❖ Encourage employment and training opportunities
- ❖ Implement robust contract management processes to drive up standards and ensure quality, safe services

Measure of Success

- ✓ Contracts awarded to organisations with social objectives (Social Enterprises, Charities and Voluntary organisations)
- ✓ Community benefits secured and delivered

Theme 3: Commercial Efficiency and Contract and Supplier Management

Cashable and Non-Cashable Benefits
Contract Compliance
Key Performance Indicators

Commercial Efficiency

Procurement is central to meeting the significant challenges faced by the Council in the short and longer term. The delivery of our strategic themes depends on the efficient and strategic use of our spending power – enabling limited budgets to go further.

We aim to do this by securing the best value for money; procuring the best terms, driving efficiencies to deliver cashable and non-cashable benefits. We will support the Council's commercial effectiveness, embedding a commercial focus and driving commercial benefits from all contracts. Payment terms to be included in all contracts are 30 days from day invoice is received, these payment terms will be encouraged throughout the supply chain.

Our Actions:

- ❖ Maximise the opportunities for collaboration, to benefit from economies of scale, use resources efficiently and realise savings
- ❖ Developing commercial skills of procurement to provide the expertise needed to maximise commercial benefits
- ❖ Applying our category management approach to identify savings, maximise value and pursue new commercial opportunities
- ❖ Include financial modelling and options appraisal in appropriate procurements
- ❖ Promote a commercial approach to major projects
- ❖ Support a commercial approach to 'Make or Buy' considerations; assessing relevant costs and benefits of external delivery or insourcing

Overall the real keys to commercial success are pre-procurement planning, good contract design and specification, effective market engagement and robust contract and supplier management.

Contract and Supplier Management

Contract and Supplier Management is the ongoing monitoring and management of contracts entered into with suppliers or partners for the supply of goods, services or works. It includes the pursuit of increased benefits and value from those contracts by maximising leverage, driving improvements and accessing innovation.

Poor contract management can result in financial or reputational loss arising from theft, misappropriation of funds, collusion and corruption and is considered a significant risk to the Council and aspect of procurement that needs to be strengthened.

Midlothian Council delivers contracts in excess of £100m every year, therefore it is important that robust processes and procedures are in place to protect the Council and public against criminal activity, this is an identified weak area across the public sector in Scotland (including Midlothian).

The Council recognises the benefits of good contract management and the need to strengthen accordingly to ensure compliance. Contract and supplier management processes will be reviewed in financial year 2018/19 with the aim to put in place a stronger corporate framework to support contract management across the organisation.

It is further recognised that key commercial opportunities potentially lie within the contract life and continual review should be part of a robust contract management process.

Our Actions:

- ❖ To fully understand and baseline all contract management activity within the Council
- ❖ Incorporate improvements on contract and supplier management identified by Internal Audit
- ❖ To make robust recommendations based on the above activity
- ❖ To ensure that contracts have KPI's that enable us to measure contract and supplier performance including savings
- ❖ To ensure that contract and supplier performance reviews are scheduled at regular intervals throughout the life of the contract
- ❖ To introduce performance management strategies with key suppliers
- ❖ To review all contracts extension options within agreed governance processes that will include assessment of the performance of the suppliers and contract

- ❖ To review existing systems that enable us to map contracts, measure spend, collect feedback and accurately measure benefits
- ❖ Full review of existing contract register.

Sustainable Procurement Duty

Before the Council buys anything it should consider how it can improve the social, economic and environmental wellbeing of Midlothian. Social and Economic have been covered earlier in the strategy as two of the main objectives of this strategy.

Of equal importance is the consideration of any environmental opportunities by considering the impact of the purchase on, for instance, climate change, waste production or scarce materials.

We aim to minimise negative environment impacts throughout our supply chain, we will seek to improve air quality by reducing carbon, nitrogen and particle emissions, increasing energy efficiency and using sustainable energy sources. We will encourage sustainable waste management and maximising recycling throughout the supply chain.

Our Actions:

- ❖ Collaborate with partners to share good practice and maximise opportunities when procuring from the same suppliers
- ❖ Undertake soft market testing to understand the potential for innovation and what the market can offer in terms of sustainable solutions
- ❖ Consider environmental sustainability in the early stages of each project, identifying goods, works and service with significant impact
- ❖ Include appropriate standards, requirements and targets in contracts
- ❖ Consider environmental factors where appropriate in supplier selection and tender evaluation
- ❖ Take a whole lifecycle approach to costs

Stakeholder Consultation/Engagement

At the beginning of and during the procurement activity we will identify, engage and consult with stakeholder groups, this may include:

- The community
- User of the service to be procured/commissioned
- Soft market engagement
- Other Council services/colleagues

This engagement will be appropriate to the project size and may take a number of formats such as online, face to face or the creation of working group.

Fair Working Practices

The Council will promote fair work practices when these are considered relevant to the industry or market from which the services are being procured. Payment of the Living Wage is seen to be a significant indicator of any employer's commitment to fair work practices.

Midlothian has been paying the Living Wage for 3 years and is an accredited Living Wage Employer.

In addition to the above the Council promotes and encourages the payment of the Living Wage in all contracts.

During the duration of this strategy suppliers will be further encouraged to support their employees in lifelong learning and development and give a clear commitment to nurture young talent to help individuals fulfil their potential.

The Council will additionally require that its contractors support progressive workforce engagement, for example trade union recognition and representation where possible, or to make otherwise alternative arrangements to give staff an effective voice.

Ethical Standards

Procurement has an important role to play in sourcing in a manner that ensures ethical standards are met, minimise the risk of social exploitation and good employment practices. Our ethical procurement objectives are to ensure the well-being and protection of work forces throughout the supply chain, that people are treated with respect and their rights are protected.

We aim to minimise the risk of modern slavery and human trafficking in the supply chain by reviewing the market to identify area of vulnerability and taking mitigating actions. This will include excluding suppliers with convictions for modern slavery, using robust contract clauses and monitoring supplier performance.

We expect organisations we work with to:

- Work to the highest standards of business integrity and ethical conduct
- Support staff development and welfare and provide a safe and hygienic working environment
- Comply with national laws or industry standards on working hours and not use zero hour contracts that prevent the worker from carrying out other work
- Pay wages and benefits at rates that meet national standards