

**LONDON BOROUGH OF MERTON**  
**REPORT AND RECOMMENDATIONS ARISING FROM**  
**A SCRUTINY REVIEW OF PROCUREMENT**

**2004/5**

## **WAY WE WORK OVERVIEW AND SCRUTINY PANEL**

### **Membership:**

**Councillor Leighton Veale (Chair)**  
**Councillor Peter Southgate (Vice-Chair)**  
**Councillor Sam George**  
**Councillor John Cole**  
**Councillor David Simpson**  
**Councillor Angela Caldara**  
**Councillor John Dehaney**  
**Councillor Martin Whelton**

### **Officers:**

**Grant Miles, Head of Corporate Strategy and Finance Manager ( Project Manager, Effective Merton Project on Procurement)**  
**Mike Parsons, Director of Corporate Resources**  
**Solomon Agutu, Principal Lawyer,**  
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**Richard Storey, SBV Consultants**  
**Tom McNeil, Interim Procurement Manager**

### **Acknowledgements:**

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## **1 INTRODUCTION**

- 1.1 The review of procurement was agreed as part of the programme of scrutiny reviews for 2004/5 decided by the Overview and Scrutiny Commission in July 2004. It has been undertaken by the Way We Work Overview and Scrutiny Panel, whose membership was:

Councillor Leighton Veale (Chair)  
Councillor Peter Southgate (Vice-Chair)  
Councillor Angela Caldara  
Councillor John Cole  
Councillor John Dehaney  
Councillor Samantha George  
Councillor David Simpson  
Councillor Martin Whelton

- 1.2 Procurement was chosen for attention because:

- Of lingering scrutiny concern about the volume and apparent lack of co-ordination in the use of consultants and agency staff
- Of the audit commission review of Merton's corporate management of procurement, November 2003
- Of the need for a Local Procurement Strategy which addressed the requirements of the National Procurement Strategy

- 1.3 The over-riding objective of procurement must be to ensure that the Council procures cost-effective, high quality services that are responsive to the needs of the local community. Procurement has been taken to embrace:

“The process of acquiring goods, works and services, covering both acquisition from third parties and from in-house providers. The process spans the whole cycle from identification of need, through to the end of a service contract or the end of the useful life cycle of an asset. It involves options appraisal and the critical “make or buy” decision which may result in the provision of services in house in appropriate circumstances.”  
(National Procurement Strategy)

- 1.4 This report has informed the draft procurement strategy.

## **2 PROCEDURE FOR UNDERTAKING THE REVIEW**

- 2.1 The Panel has been meeting over the period November 2004 to June 2005, and has

- reviewed Merton's arrangements at the start of the review,
- understood and scrutinised the Effective Merton officer project on procurement,
- drawn upon written guidance from the Improvement and Development Agency (IDeA) and met with their procurement expert, Dr Gordon Murray,
- looked at best practice in excellent London boroughs, particularly Hammersmith & Fulham, one of two London Boroughs appointed to lead the establishment of a Centre of Procurement Excellence in London,
- learned from the pilot procurement project on SMEs done by Haringey Council
- carried out a questionnaire in Merton
- had the support of Grant Miles, project leader for the Effective Merton procurement project, and of SBV Consultants through their principals Peter Howarth and Richard Storey, the latter acting as project manager for the project.

### **3 NATIONAL PROCUREMENT STRATEGY**

3.1 In October 2003, the Office of the Deputy Prime Minister and the Local Government Association jointly published the National Procurement Strategy for Local Government. The aim of the Strategy is for all Councils by 2006 to be:

- Delivering better public services through partnerships with a range of organisations, operating a mixed economy of service provisions
- Achieving continuous improvement from all categories of procurement expenditure through an appropriate procurement strategy and the necessary resources
- Obtaining greater value for money by collaborating with partners
- Stimulating markets and using buying power creatively

3.2 The strategy recommended that all local authorities demonstrate both a political and managerial leadership of procurement.

### **4 PROCUREMENT – LOCAL POSITION AT REVIEW START**

4.1 When Members began to do their detailed work in Autumn 2004, they established:

4.2 Corporate Procurement Strategy

4.3 A significant amount of work had been done and a draft corporate procurement strategy had been in place since 2001. There were

procedures for letting contracts and ensuring compliance with legislative requirements, set out in the Council's Contract Code. There was no senior manager who had corporate responsibility for procurement and who could lead procurement and ensure that an overview is taken and opportunities taken for better working across the Council and with others externally. Arrangements were devolved to departments but there was a Corporate Procurement Group, chaired by the Head of Legal Services, which met regularly to discuss procurement issues and share experience. But it did not have the authority to enforce procurement policy and best practice throughout the Council. SBV Consultants were engaged and in the knowledge of this work update the draft strategy and bring it into line with the national procurement strategy.

#### 4.4 Audit Commission Report

4.5 The Audit Commission, when it reported at the end of 2003, had found that many improvements had been made. Much of the procurement activity of the service departments was working well with officers demonstrating a good knowledge of their individual services. But the corporate co-ordination of procurement was not seen to be having an impact on behaviour within the service departments or offering the Council economies of scale, synergies from services and a strategic activity which will contribute to the delivery of the Council's key objectives. The key issues still needed to be addressed:

- The engagement of senior officers and Members in the development of procurement strategy and leadership
- Empowering the corporate centre to pull initiatives and groups together and to encourage innovation
- Developing the skills and knowledge among officers so that procurement initiatives are effectively delivered
- Developing corporate strategies and procedures to support controlled innovations in procurement

#### 4.6 Effective Merton Project

4.7 The Council had received a rating of 2 for its corporate assessment at the end of 2003 and had been implementing an Effective Merton Programme of Projects designed to improve that rating to 3 by 2006. The Programme aimed to improve the infrastructure and corporate governance of the Council. One of the key areas of work was around the use of resources. For 2004/5, it was agreed that this area of work would include work on procurement including proposing procurement policies and strategy and delivering short term procurement efficiency savings.

## **5 KEY ISSUES**

5.1 Shortly after the review had been agreed in July 2004, the Effective Merton Programme incorporated a focus upon the corporate improvements needed in procurement strategy and practice. The Panel has therefore worked with Grant Miles, Richard Storey, SBV consultants, and the Interim Procurement Manager, Tom McNeil, and has maintained an overview of the development of the procurement strategy and of the changes already introduced which can start to deliver gain next year. The Panel agreed that their four most important issues were to ensure that Merton had:

- a procurement strategy that would address the requirements of the National Procurement Strategy;
- a structure that would enable effective control and management of the procurement process in the authority;
- a strategy that would encourage and generate local business and the economy;
- a strategy that would provide clarity of the roles within the organisation for officers, the executive and scrutiny.

The following paragraphs explain what the Panel did in relation to each of these and their conclusions.

## **6 DOES MERTON'S DRAFT PROCUREMENT STRATEGY ADDRESS THE REQUIREMENTS OF THE NATIONAL PROCUREMENT STRATEGY?**

6.1 Members learned from the joint publication "National Procurement Strategy One Year On" (IDeA, ODPM, LGA) about progress across the public sector in meeting key milestones. In relation to the 2004 milestones it was reported that Councils had met or were actively engaged in meeting all the milestones except for:

- Publishing a "Selling to the Council" guide on their websites
- Procurement processes for partnerships to include invitation to bidders to demonstrate effective use of their supply chain.

6.2 Members also learned about the potential connection between the Annual Efficiency Statement (AES) and effective procurement and Comprehensive Performance Assessment (CPA) scores. The new CPA methodology will not be confirmed until the middle of June, but it is proposed that the efficiency gains reported through the AES will be reviewed in conjunction with the effectiveness of the council's procurement practices, through the new value for money (VFM) element

of the use of resources judgement. The use of resources judgement feeds directly into the CPA score in such a way that the council cannot be 'excellent' unless it is performing efficiently. Procurement practice also may well be considered in relation to financial management, internal controls and the new corporate assessment criteria. It is therefore very important that the Council has an effective procurement strategy which is in place and can be seen to be performing well, delivering significant and identifiable savings, the council's objectives, working with partners and knows where the greatest benefits can be gained.

- 6.3 The Panel has been regularly briefed and updated on the development of Merton's draft procurement strategy within the Effective Merton project by Grant Miles and Richard Storey. They also met with Tom McNeil, the Interim Procurement Manager and learned of the immediate actions being taken which would deliver efficiency gains starting in 2004/5. These included the use of purchasing cards and agency staff preferred suppliers. At the Panel's final meeting in May, Members scrutinised the draft procurement strategy, prior to a draft strategy being recommended to the Cabinet and the Council. It was clear to the Panel that the draft procurement strategy was reflective of the national requirements but they had genuine concerns about how far behind meeting the key milestones the Council presently was. The 2004 milestones would only begin to be implemented once the procurement strategy was agreed, hopefully at the July Council meeting. The Panel appreciated that officers could progress only as fast as their resources and other priorities allowed them so to do. But the procurement strategy could be such a driver of improvement both directly by means of improved service delivery and indirectly through the release of savings for re-investment in other services, that Cabinet should be urged seriously to consider making available the necessary resources to implement the strategy as a priority. The Panel was also keen that suppliers, local business, local voluntary sector and partners should be involved in the details for implementing the strategy to maximise its sustainability.
- 6.4 There were two sources of excellence which the Council could learn and benefit from on an ongoing basis, the IDeA and the London Centre of Excellence. The IDeA offer authorities a fitness check for procurement and this could be a useful independent check on our progress, perhaps in early 2006. The Government has established regional Centres of Excellence for procurement and these should be offering advice and working with authorities on their priority procurement activities. The activity of the centres has varied between regions. In London, there has been some contact in the sphere of vfm but Merton has yet to establish solid contact or develop a sound relationship with them around procurement, in order to understand their programme of work (e.g. best practice guidance, collaborative initiatives, etc). The Council should



develop this relationship in order to benefit from their expertise and the ideas for collaboration with others.

- 6.5 The Panel concluded that not only was an effective procurement strategy essential for providing best value and continuous improvements for residents, but also because it appeared the Council could not be judged 'excellent' if it was not performing efficiently in this area by delivering significant savings, knowing where were the areas for greatest gain and working with partners. It was therefore important for the Council to approve the draft procurement strategy being recommended to them, to ensure its implementation brings the Council in line with deadlines for key national milestones, and that progress is monitored regularly.

## **7 IS THERE A STRUCTURE THAT ENABLES EFFECTIVE CONTROL AND MANAGEMENT OF THE PROCUREMENT PROCESS IN THE AUTHORITY?**

- 7.1 The Panel realised that any chosen organisational model would need to reflect the culture of an organisation and that it was not possible to identify a single best structure to control and manage Merton's procurement practice. They were advised that the agreed management structure for procurement was to be a small corporate professional procurement core with departmental procurement teams. The centre would provide the corporate overview for procurement via the production and updating of annual procurement plans; it would advise on the procurement activities which could be brought together into corporate cross cutting contracts, and it would provide briefings and training and could provide some hands on procurement expertise to assist departments in certain circumstances. In addition, it would organise, promote and monitor procurement from a corporate perspective, but departments would be responsible for operational procurement activity. The Panel had heard that the previous corporate procurement group had been designed to promote collaborative working, sharing best practice and bringing together sensible options for procurement practice, but that this had not been as effective as it might, as senior management drive and support were not consistently and actively applied.
- 7.2 The Panel had some concerns that the strategy was less than definite about the availability of appropriate and sufficient capacity building amongst officers and Members. Officers had advised that the Council would be able to make resources available having regard to all priorities.
- 7.3 The Panel learned that the IDeA had volunteered 34 performance indicators which could be used to measure the effectiveness and value gained from procurement strategies. The Panel was convinced that strategically Members should identify and focus upon the delivery of a

small number of key performance indicators only and made several recommendations.

- 7.4 The Panel's perception was that this new proposed model was an incremental development rather than a step change and there was some scepticism about it being able to deliver the strategy from its outset. They considered there was too much opportunity for 'departmentalism', with discretion for opting out of the corporate strategy and so the Panel would wish all departments to be informed that adherence to the strategy was mandatory.

## **8 DOES THE PROCUREMENT STRATEGY ENCOURAGE AND GENERATE LOCAL BUSINESS AND THE ECONOMY?**

- 8.1 The Panel considered it very important that the procurement strategy should seek to encourage and generate local business. Most of Merton's businesses are small and medium sized enterprises. It was realised that this could mean judgements having to be made sometimes between financial savings and promoting the local economy through a contract which involved local suppliers. The Panel did not accept that this would necessarily always mean foregoing savings. They also felt that small businesses could manage large contracts and there was nothing to prevent businesses forming their own consortia to bid for large contracts. Equally, failure to engage local employers (including the voluntary & social enterprise sectors) in applying for council business and winning contracts could signify lost opportunities for sustainability and/or expansion, and possibly lead even to unemployment and increased demand upon public services. Departments would need to carefully consider packaging decisions bearing in mind the Council's economic regeneration policy.
- 8.2 The Panel learned that there was a guide which set out the procedure which businesses should follow in order to win Council contracts and this was available on the web. However, it was not pro-actively publicised because the number, nature and value of contracts held by the Council was not centrally available to inform businesses and work with them around building their capacity to bid or be involved in Council contracted activity.
- 8.3 Councillor Stephen Alambritis, had been contacted as a spokesperson for the Federation of Small Businesses and had commented:
- Buying from large companies is not the only way to achieve best value and small businesses do offer value for money and authorities can save costs by opting for small suppliers.
  - a recent study of 18,500 Federation of Small Businesses members had revealed that on average only 3% of members main customers were public authorities. Yet it is an extremely valuable market to them – for

the period 1998-1999 English local authority expenditure was audited at £42.2billion.

- the Federation had produced a ten point action plan for local authorities and public services to consider (see Appendix 2) and Councillor Alambritis had advocated two of them in particular:
- businesses do not necessarily know of opportunities and the Council's website would be the most effective way of publicising that information, and making transparent the contracts which were coming up
- local authorities should not 'aggregate' contracts to minimise transaction costs because they may not and breaking them into manageable sizes attractive for small businesses could help the local economy and may bring their own financial benefits.

8.4 Haringey Council have carried out a Small and Medium Size Enterprises (SMEs) procurement pilot and is fully involved in a local partnership, called Trade Local, to develop their SME supply base, and to ensure they act in a way which gives local businesses opportunity. Haringey had various similarities with Merton, being an area of great cultural diversity, with areas of prosperity in the west but areas of deprivation in the east, and most of their businesses are small and medium enterprises. The Panel heard that Haringey has an ethos that procurement can be viewed as a tool to help deliver the community strategy by making opportunities available to SMEs, and they have:

A demand based procurement initiative, which has:

- \* devised community benefit clauses for use in tendering and contractual documentation which are being piloted
- \* developed 'Think SME' elements for incorporation into procurement guidelines and documentation so that SMEs are part of the procurement process instead of being an 'add on'
- \* devised a SME Issue Log that records barriers that are identified in the procurement process when encouraging SMEs to bid for Council business
- \* are drafting associated key performance indicators

and

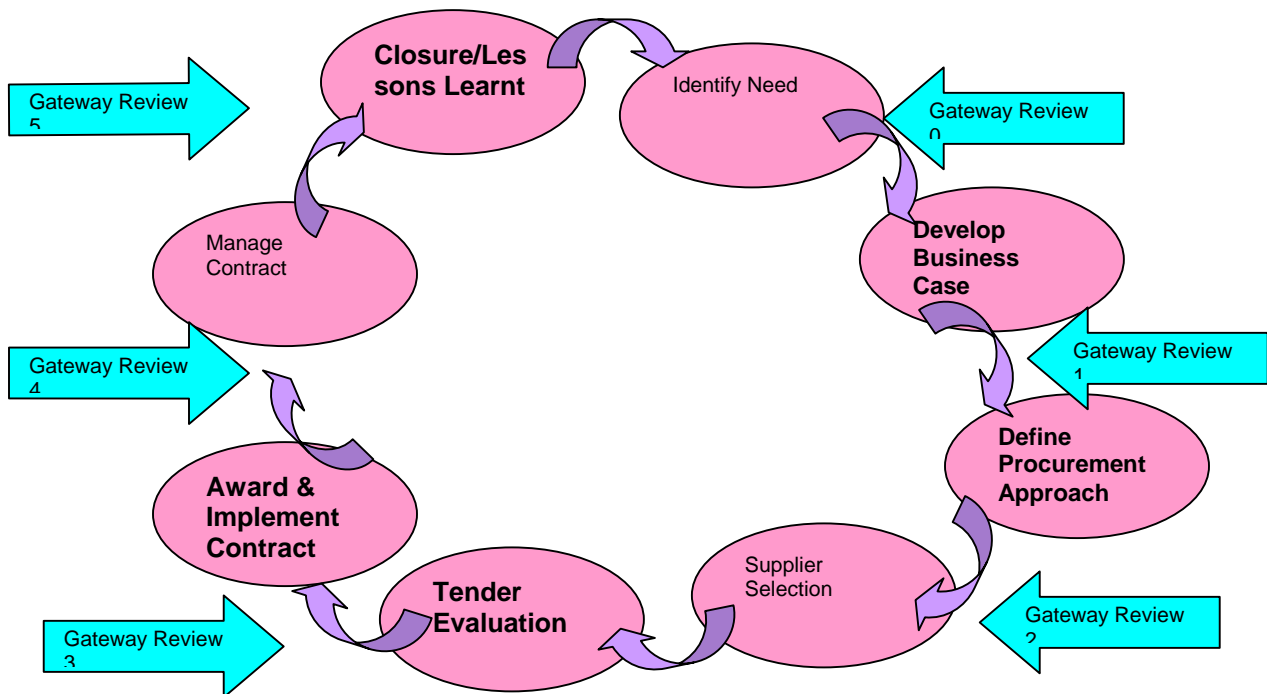
A supply based partnership procurement initiative, Trade Local, from which 1000 SMEs from across Haringey and Enfield are benefiting with:

- \* Trade Local Development Programme for businesses
- \* Trade Local Website ([www.trade-local.co.uk](http://www.trade-local.co.uk)) shares information on how public sector procures and current opportunities
- \* Trade Local Database – allows information on local suppliers and potential suppliers around the Council.

8.5 The Panel believed that supporting the local economy and small and medium sized businesses was a very key objective to be supported through procurement. Evidence they had heard suggested that it had not to date been pro-actively addressed, partly due to some extent by barriers such as lack of available data on contracts. The Panel was pleased that the contract database and planned procurements was now available and was on the intranet and that these would be on the Council's website around September/October. Members were clear that the Council needed to work towards a web based system for inviting tenders to achieve full transparency providing the opportunity to bid. They had however been very impressed with the work which Haringey had done and which was already spreading amongst other authorities.

**9 DOES THE PROCUREMENT STRATEGY PROVIDE CLARITY OF THE ROLES FOR THE EXECUTIVE, SCRUTINY AND OFFICERS?**

9.1 Dr Gordon Murray had outlined the procurement cycle as below and the Panel had discussed how far they would seek for Scrutiny to be involved in the potential Gateway reviews. They concluded they would focus upon the business case for major projects, the procurement approach and the lessons learnt at the end of a process/contract – they would have the usual option for calling in a tender acceptance report if they felt it was not in line with policy.



- 9.2 The Panel learned of the proposed roles for officers, the Executive and Scrutiny described in the draft procurement strategy. They considered those reasonable but examined them against the Member roles in the Idea Member Guide to Procurement, within the London Borough of Hammersmith & Fulham, and the London Borough of Haringey. Other excellent London boroughs of Kingston and Wandsworth were also currently reviewing their procurement strategies.
- 9.3 The Panel concluded that the proposed roles defined in the procurement strategy were acceptable, subject to the following recommended additions:
- The Executive to require Gateway reviews of high value/high risk projects, and,
  - Scrutiny Members also to conduct inquiries into new models of service delivery, and to ensure that lessons are learnt from major project and partnerships.

## **10 REVIEW CONCLUSIONS AND RECOMMENDATIONS**

### Proposed Procurement Strategy

The Panel has concluded that an effective procurement strategy is essential for providing best value and continuous improvement for residents, and because it appears that Councils cannot be judged 'excellent' if they are not performing efficiently in procurement by delivering significant savings, knowing the areas for greatest gain and working with partners. Measures to deliver procurement efficiencies and savings from this year have been put in place. But Council has not met all the dates for key national procurement milestones which needs to be remedied. The Panel therefore RECOMMENDS that:

- 1 The draft procurement strategy (being recommended to Council shortly), being in line with the National Procurement Strategy and Council objectives, and having the potential for delivering significant benefits in the way of service and community as well as financial gain, be agreed;
- 2 The Action Plan to implement the strategy must show the linkage with the key national procurement milestones, meet the milestones missed as soon as possible and meet the future targets, and Cabinet should ensure that any resource implications of so doing are met (which had not been agreed at the time of this review);
- 3 Suppliers, local business, local voluntary sector and partners should be involved in the details for implementing the strategy to enhance its sustainability;

### Organisational Structure

The Panel is concerned that the proposed structure of a small corporate professional team with departmental procurement teams may not be strong enough to maintain the pace or drive through the gains to be achieved from the procurement strategy, and therefore RECOMMENDS that

- 4 Annual procurement plans should be included in departmental service plans from 2005 onwards and Cabinet should satisfy itself that there are sufficient controls in place to ensure that departments comply with and apply the procurement strategy;
- 5 In order to maximise the benefits which can come from efficient and effective procurement, a priority action must be to complete a skills audit of the corporate and departmental procurement teams and any essential skills gaps arising must be addressed;
- 6 Members must drive the implementation of the procurement strategy and agree to a senior Cabinet Member, such as the Cabinet Member for Finance and Support Services, becoming the Procurement Member Champion;

### Supporting Local Business and Small and Medium Enterprises (SMEs)

The Panel are keen to ensure that local businesses and small and medium enterprises are able to benefit from Merton's procurement activity, and have concluded that there was much more which the Council could do to encourage and generate such business. The Panel RECOMMEND that

- 7 The Council draw upon the work done both by Haringey Council in their SME procurement pilot ( paragraph 8.4 of the review report) and by the Federation of Small Businesses Action Plan – Small Businesses and Public Procurement in supporting local business and SMEs through the procurement strategy;
- 8 The contracts register be placed on the Council's website as soon as possible and be kept up to date thereafter

### Member Roles

Having compared and contrasted the proposed Member roles with those recommended by the IDeA and in use by excellent London authorities, the Panel was generally satisfied with the appropriateness of the roles proposed in the draft procurement strategy being recommended to Council, but RECOMMENDED that

- 9 An additional role for the Executive should be “To require Gateway reviews of high value/high risk projects” and additional roles for Scrutiny should be “To conduct inquiries into new models of service delivery, and to ensure that lessons are learnt from major projects and partnerships”

#### Monitoring and Evaluation of Strategy

The Panel is keen that the procurement strategy Action Plan is implemented as quickly as possible in order that its benefits can start accruing and that we are in line with the National Procurement Strategy and RECOMMENDS that

- 10 Cabinet should identify a small basket of key performance indicators to measure the strategic effectiveness of procurement, possibly between 12 and 15, and the Panel would recommend inclusion of:
  - \* percentage of milestone activities completed in the National Procurement Strategy
  - \* annual financial savings and/or quality gains from procurement activity,
  - \* work given to SMEs and within that to black and minority businesses and local businesses
  - \* percentage of corporate spend done electronically
  - \* percentage of corporate spend aggregated through collaboration with other public sector organisations
  - \* improved speed and reduction in costs of major projects
  - \* commodity goods price comparison – a shopping basket of 10 goods
- 11 There should be quarterly monitoring reports during the next twelve months on progress in implementing the strategy and realising any benefits from improved procurement, reducing to six monthly reports thereafter if progress has been maintained as planned – possibly as part of the regular performance monitoring reports.
- 12 In order to continue to benefit from good practice and procurement expertise, the Council should develop their relationship with the London Centre for Excellence and consider having a procurement fitness check from the IDeA , possibly in early 2006;

- 13 The Way We Work Overview & Scrutiny Panel should in 6 months time review progress in the implementation of the agreed recommendations from the Panel.

DB/HOPP/10 June 2005

## **APPENDIX A**

### **TERMS OF REFERENCE FOR PROCUREMENT POLICY REVIEW UNDERTAKEN BY THE WAY WE WORK PANEL**

- 1 To consider the Council's current policy framework, structures and arrangements for procurement**
- 2 To ensure that the new Procurement Strategy for Merton is developed and endorsed by the authority and submitted in line with the National Procurement Strategy deadline**
- 3 To ensure that the Procurement Strategy complies with the National Procurement Strategy requirements in particular in relation to member involvement**
- 4 To ensure that there is a comprehensive action plan to deliver the objectives within the Procurement Strategy**
- 5 To ensure that the procurement process is embedded into the corporate budgetary process within Merton to enable adequate resource allocation for completion.**

**To review the progress of the new procurement process to the relevant Overview and Scrutiny Panel one year after implementation.**



