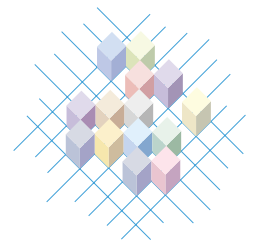
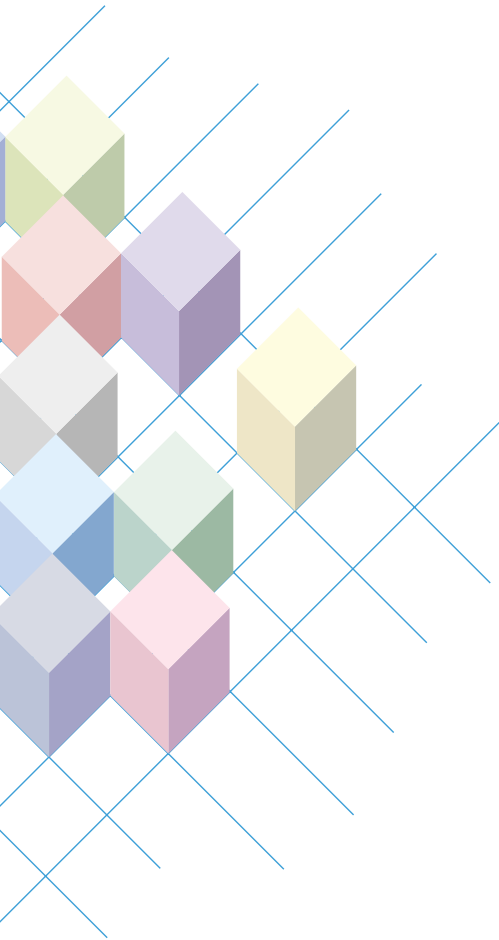




Chief Economic Development Officers Society

# Local Government Procurement

## Economic Development – An Action Guide



February 2004

**“Procurement has a significant impact upon all aspects of service delivery and council performance. As a result, key decision makers need to be engaged in driving improvements in procurement”.**

*National Strategy for Local Government Procurement*

**L**ocal government procurement is big business. In England, each year Councils spend almost £40 billion buying goods, works and services from external suppliers. Even if only part of this is spent locally, there is considerable potential for procurement by your authority to boost local economic development and regeneration.

The Government in partnership with the Local Government Association has launched a National Strategy for Local Government Procurement that puts new requirements on local authorities designed to achieve a step change in performance. Although emphasising the scope to achieve efficiency savings – an important part of the National Strategy concerns achieving sustainable economic and community benefit.

To ensure your local authority’s own procurement strategy achieves these benefits, it is vital that Economic Development Officers are fully engaged in its design and implementation.

This Action Guide has been produced by CEDOS to help you become involved and to help enable your Council meet its community benefit obligations under the National Strategy.

Daniel Dobson-Mouawad  
Chairman, CEDOS



# Local Government Procurement

## What is procurement?

“Procurement” is the process of acquiring goods, works and services, both from external suppliers and in-house providers. The procurement process spans the whole cycle from the identification of needs, through to the end of a services contract or the end of the useful life of an asset.

## The value of local government procurement

Every year councils in England collectively buy almost £40 billion of goods and services externally. This amounts to around half of all local government expenditure covering a huge range from office supplies to major construction projects. The purchasing power of local government presents opportunities for achieving efficiency savings. At the same time there is significant potential for using procurement to impact positively on local economic development and regeneration.

## Potential for positive impact on local economies

The maintenance of high and stable levels of economic growth and employment is a key objective of the Government’s strategy for sustainable development in the UK. Supporting local and regional economies is a priority in the Government’s strategy for sustainable farming and food. The Local Government Act 2000 placed a duty on local authorities to prepare a community strategy for promoting or improving the economic, social and environmental well being of their area and contributing to the achievement of sustainable development in the UK. It gave authorities the power to do anything they consider is likely to achieve the promotion of the area’s well being.

The procurement process provides a major opportunity to promote local economic well being and sustainable development. There is evidence that local sourcing can contribute to the regeneration of local economies. Local authorities should therefore look to identify and develop the potential of local sourcing to achieve local economic development and sustainability objectives whilst at the same time helping to achieve value for money.

## Legal considerations

It is important to be aware of the requirements of UK and European law. Local government procurement must comply with EU procurement Directives, the UK Regulations that implement them and EU and UK case law that interprets them. These apply to the majority of procurements of works, services and supplies above specified threshold values that are reviewed regularly. Even below these thresholds, the general principles of EU law apply: non-discrimination, equal treatment and transparency. Failure to comply with the obligations under the procurement Directives and Regulations could lead to legal challenge by suppliers and/or the European Commission. The EU rules are complex and authorities must take their own legal advice on their interpretation.

# The National Strategy

The National Procurement Strategy for Local Government 2003 – 2006 produced by Government in partnership with the Local Government Association, was launched in October 2003. It is designed to realise the full potential of local government procurement with the aim of achieving a step change in performance. The Strategy is seen as providing “a route map of how to improve service delivery and value for money through better procurement”. The emphasis is on Best Value and in this context, the Audit Commission see procurement as a key part of Comprehensive Performance Assessment.

## Achieving local economic and community benefits

Although the core theme of the national strategy is acquiring better goods, works and services at lower cost, the Strategy acknowledges that “Councils will also have other drivers which will influence procurement, such as ... approaches to support local business” . The Strategy’s objectives include:

- ◆ operating a mixed economy of service provision, with ready access to a diverse, competitive range of suppliers providing quality services, including small firms, social enterprises, minority businesses and voluntary and community sector groups; and
- ◆ realising economic, social and environmental benefits for their communities through their procurement activities.

## Strategy milestones

The strategy sets out a series of major milestones that local authorities are expected to meet:

**By 2004** - Every council should adopt a corporate procurement strategy, based on a Best Value or other review. The strategy should be owned by members and senior managers and its implementation monitored regularly.

**By 2005** - Every single tier and county council should carry out a health check on progress against this National Strategy and the associated guidance as part of their corporate procurement strategy.

**By 2006** - Every district council should have carried out a health check on progress against this National Strategy and the guidance endorsed as part of their corporate strategy.

### Some specific milestones that are of direct relevance to economic development are:

#### By 2004

- ◆ Every council should publish a 'Selling to the Council' guide on its corporate website together with details of bidding opportunities and contact details for each contract.
- ◆ Every council should build sustainability into its procurement strategy, processes and contracts.
- ◆ Every council should conclude a compact with the local voluntary and community sector.
- ◆ Procurement processes for partnerships should include inviting bidders to demonstrate their track record in achieving value for money through effective use of their supply chain, including the use of small firms; this should continue to be examined as part of contract management.

#### By 2005

- ◆ Every council should have implemented an appropriate e-Procurement solution as part of its e-Government programme.
- ◆ Every council should include in invitations to tender a requirement on bidders to submit optional, priced proposals for the delivery of specified community benefits that are relevant to the contract and add value to the community plan.
- ◆ Every council should have signed up to the national concordat for SMEs.

### Involvement of Economic Development Officers

There is an important economic development focus within the national strategy. At the same time there is potential tension between the objectives of making efficiency savings, and realising economic, social and community benefits through procurement. The challenge of achieving these benefits is put into an even sharper focus by the development of purchasing consortia and regional procurement arrangements.

It is essential for local authority Heads of Economic Development to ensure their services are involved in the procurement process. To assist in this, we set out a series of key steps that should be taken.

# Key Steps

## **Get involved**

The authority's procurement strategy has the potential to influence local economies positively. The National Strategy calls for all single tier and county councils to establish a corporate procurement team, led by the professional head of the procurement function, to stand alongside finance, performance management, legal, human resources and other strategic functions. The first essential is for Economic Development Officers to get involved in the process and with the team charged with producing and implementing the Strategy.

## **Objectives & targets**

Economic Development Officers should aim to ensure that the procurement strategy reflects the council's economic development objectives, and supports and enables the achievement of relevant actions and targets in the community strategy.

## **Performance indicators**

Economic Development Officers need to ensure that indicators relevant to economic development and regeneration are included in the set used to monitor the performance of the procurement strategy, including the proportion of spend going to local businesses. CEDOS will examine the inclusion of procurement-related performance indicators in the national voluntary set being developed for economic development.

## **Pro-active support**

Economic Development Officers have an in-depth knowledge and understanding of their local economies and business community. Their pro-active involvement in the development and implementation of local authority procurement strategies is essential not only to ensure it benefits the local economy but also to ensure it is successful overall. Examples of specific actions for which Economic Development Officers are well placed to make a major contribution are set out below.

## Promote procurement opportunities locally

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Local businesses need to be aware of local authority procurement opportunities. Local authorities need to take a pro-active approach and develop and carry out multi-faceted awareness campaigns.

### Actions:

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- Publish a selling to the council guide.
- Publish details of bidding opportunities and contact details on specific business focused pages on the council's web site.
- Publicise opportunities through advertising in local publications, issuing procurement newsletters etc.
- Ensure organisations such as Business Link, Chambers of Commerce, local business clubs etc are aware of procurement opportunities.
- Organise 'Meet the Council Buyers' and other appropriate events and workshops.

## Understand the local supplier base

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A pre-requisite for promoting local sourcing for local authority procurement is a sound knowledge and understanding of the local supply market.

### Action:

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- Identify and map existing and potential local suppliers, their products, services and capabilities.

## Market the council to local suppliers

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To attract the best local suppliers, the authority needs to have a good reputation in the market. It needs to understand how it is viewed by existing and potential suppliers.

### Actions:

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- Take market soundings and carry out surveys to discover the views of local firms.
- Address any negative images.
- Market the council to local suppliers.
- not being able to find out about opportunities.
- believing that the processes involved in bidding are unnecessarily complex and costly.
- current trends towards larger and longer contracts, and rationalising the number of suppliers.

## Understand and address barriers to small businesses

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Many potential suppliers, in particular small firms, may be discouraged from tendering for local government contracts because of a number of perceived or real barriers. These include:

- ◆ not being able to find out about opportunities.
- ◆ believing that the processes involved in bidding are unnecessarily complex and costly.
- ◆ current trends towards larger and longer contracts, and rationalising the number of suppliers.

In their procurement process, local authorities need to overcome these barriers, real or perceived. Although small firms feel these challenges more keenly, research shows they are also issues of concern to medium-sized firms.

### Actions:

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- Work with local small and medium sized firms to understand the barriers to engagement with council procurement and devise a plan to remove or lower such barriers as part of the procurement strategy.
- Organise advisory seminars and workshops for local businesses.
- Sign up to an SME-friendly concordat being developed by the Local Government Procurement Forum.

## Facilitate the involvement of social enterprises

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Social enterprises can have an important role in the delivery of good quality, cost-effective public services. They can demonstrate innovative new practices, increasing the participation of staff and users in service delivery. The Government believes there is significant potential for more public services to be delivered by social enterprises, and that local authorities in particular have an important role in opening up their procurement processes to them.

### Actions:

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- Build know-how in procurement issues amongst social enterprises and their advisors.
- Develop a local compact with the voluntary and community sector including protocols for grant funding and contracts.

## Gearing up for e-procurement

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Local authorities are required to be 100% capable of trading electronically by 2005 but, to be effective, this will require suppliers to be geared up to take advantage of e-purchasing. This will be an important factor in achieving local economic benefits from council procurement and local authorities will need to develop a supplier adoption plan as part of their procurement strategies.

### Actions:

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- Assess capability of local businesses to trade electronically.
- Work with partner agencies to support the local business community and improve their capability.
- Run supplier adoption seminars and training for current and potential local suppliers.
- Promote investment to achieve full availability of broadband in their areas.



## Local supplier development

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The local supply market may not be able to respond to the local authority's procurement requirements, especially where large contracts are involved. Developmental work may be required to overcome this and in particular to encourage 'partnering' – the creation of sustainable, collaborative relationships with suppliers in the public, private, social enterprise and voluntary sectors.

### Actions:

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- Encourage local small businesses to develop the capacity to supply competitively by developing collaborative arrangements to organise collective responses to procurement opportunities.
- Encourage existing suppliers to enter new markets.
- Develop new suppliers [e.g. by working with the voluntary or community sector]

## Influencing major contractors

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Inevitably some tenders will be won by suppliers from outside the local authority's area – especially where large contracts are involved. However, there can still be opportunities to achieve local economic and community benefits.

### Actions:

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- When inviting tenders for major projects, invite optional, priced proposals for the delivery of economic and social benefits defined in the community strategy that are relevant to contracts and add value to the council's community plan.
- Invite bidders to demonstrate their track record in achieving value for money through effective use of their supply chain, including the use of small firms.
- Encourage contractors from outside the local authority area to use local businesses when sub-contracting out elements of their work.
- Encourage successful tenderers to recruit local unemployed persons, and in particular long-term unemployed persons, or to set up training programmes for the unemployed/young people in the area during the performance of the contract.

## Feedback

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Encouraging local sourcing needs to be an ongoing process requiring continuous communication and feedback between local authorities and their suppliers.

### Actions:

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- Maintain an ongoing dialogue with existing and potential suppliers
- Provide feedback to businesses e.g. on reasons why they failed to win a contract

## A Programme of Action

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Taken together these key steps provide the basis for a sustained programme of action to use local authority procurement to achieve local economic and business benefits at the same time as providing value for money and being non-discriminatory - an approach that focuses on **Positive Action**, not positive discrimination

## Checklist For Action

Are you involved in the council's procurement strategy?

Does the procurement strategy reflect and support economic development and sustainability objectives?

Are performance indicators linked to economic development used to monitor the strategy?

Are you providing pro-active support for the development and implementation of the strategy?

Is your authority being effective in:

- ◆ promoting procurement opportunities locally?
- ◆ understanding the local supplier base?
- ◆ marketing the council to local suppliers?
- ◆ understanding and addressing barriers to small businesses?
- ◆ facilitating the involvement of social enterprises?
- ◆ gearing up for e-procurement?
- ◆ local supplier development?
- ◆ influencing major contractors to achieve economic and community benefits?

# Sources & Links

For further information and detail on a number of issues, the following will be useful:

*Department for Environment, Food and Rural Affairs [DEFRA]* [www.defra.gov.uk](http://www.defra.gov.uk) – provides guidance and an action sheet to encourage the public sector to procure food in a manner that promotes sustainable development and does not discriminate against local and UK suppliers.

*DTI Social Enterprise Unit* [www.dti.gov.uk/socialenterprise](http://www.dti.gov.uk/socialenterprise) – provides information and help for social enterprises on public procurement.

*Improvement and Development Agency [IDeA]* [www.idea.gov.uk](http://www.idea.gov.uk) - provides a range of resources on local government procurement including procurement essentials, managers guide to procurement and sustainability and local government procurement.

*National e-procurement project* [www.nepp.org.uk](http://www.nepp.org.uk) – working in conjunction with IDeA Knowledge to publish guidance on the Knowledge web site. Draft guidelines and other material on e-procurement supplier adoption and economic development, although not yet officially released for publication, are available on [www.imaginist.co.uk](http://www.imaginist.co.uk)

*SIMAP* [www.simap.eu.int](http://www.simap.eu.int) - EU site that provides downloads for EU procurement Directives and EU communications on environmental and social considerations in public procurement

*Office of the Deputy Prime Minister* [www.odpm.gov.uk](http://www.odpm.gov.uk) – the National Procurement Strategy for Local Government can be downloaded from this site.

*Office of Government Commerce (OGC)* [www.ogc.gov.uk](http://www.ogc.gov.uk) - the UK Government's procurement website. Guidance on EU public procurement rules and best practices in procurement can be downloaded.

*Public-Private Partnerships Programme (4ps)* [www.4ps.gov.uk](http://www.4ps.gov.uk) - local government procurement agency focused on supporting public-private partnerships (PPPs) and major projects including design and sustainability issues.

*Small Business Service* [www.sbs.gov.uk](http://www.sbs.gov.uk) - provides guidance on the role of small firms in public procurement. *Smaller Supplier...Better Value?* describes the added value and innovation that small firms can bring and offers advice on how procurement processes can be shaped in a way that is consistent with obtaining value for money and compliance with EU procurement law.

*SUSTAIN* – The alliance for better food & farming [www.sustainweb.org](http://www.sustainweb.org) – site includes information and guidance on sustainability in public sector food and catering.

*UK Online for Business* [www.ukonlineforbusiness.gov.uk](http://www.ukonlineforbusiness.gov.uk) - DTI-led partnership between industry and government that provides small businesses with impartial advice about e-business and ICT. In support of the National Procurement Strategy for Local Government, it offers advice and support on e-Procurement for councils looking to run supplier adoption seminars and training for their current and potential suppliers based in the local economy.



[www.cedos.org](http://www.cedos.org)

CEDOS is the Chief Economic Development Officers Society providing a national forum for Heads of Economic Development of strategic county and unitary authorities in England to meet, network and exchange best practice. It influences national and European policy, working closely with organisations such as the Institute of Economic Development, Local Government Association, Improvement and Development Agency and the Audit Commission. It carries out and publishes research and provides guidance and advice on key economic development issues.

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