

## EFFECTIVE PROCUREMENT FOR BEST VALUE GUIDANCE 10

### INTRODUCTION

Intelligent strategic procurement is at the heart of Best Value and so it is important that local authorities address the effectiveness of their procurement.

Best Value is set to challenge all local government services and will radically change the way in which local authorities perform their duties. It embraces all aspects of local government, from support services to front line services that directly interact with the public. It demands that the way in which services are provided is accountable, measurable and above all justifiable. Performance indicators can provide an accurate and comparable measurement of the service.

It is recognised that the purchasing function is carried out using a variety of different methods by individual authorities. The type of different methods used range from a strategic procurement role with the purchasing function being delegated to many staff within an authority, to a totally centralised system being located within a specialist organisation either within the authority or as a consortium, and there are many different variations in between these two extremes.

This guidance therefore attempts to provide simple advice which may be used by authorities of all sizes as a general health indicator for procurement. It is considered that by developing effective procurement using the advice and indicators in this guidance local authorities will be able to identify appropriate measures for the community, members and chief executives as well as heads of the purchasing profession.

In summary, local authorities that have addressed the issues in this paper will be able to demonstrate a commitment to continuous improvement of procurement activity in support of Best Value.

*Dave Wheller Andrea Tickner John Scowen*

Chairman Assistant Secretary Membership Secretary

## **POLICY/STRATEGY**

To demonstrate effective procurement a policy/strategy reflecting a local authority's objectives should identify:-

a. Allocated responsibility for all areas of non-pay spend supported by professional procurement advice. (Generally 30% or more of a local authority's budget is spent on non-payroll costs). <sup>(1)</sup>

b. How this responsibility is coordinated.

c. A procurement strategy which includes corporate objectives such as:

- Best Value;
- Continuous Improvement;
- Economic Development;
- Environmental Issues and Local Agenda 21;
- Health and Safety;
- Quality Assurance;
- Investors in People;
- High Ethical Standards;
- Customer Consultation and Review.

d. Consideration of whether any corporate procurement resource should recover its costs and demonstrate its contribution to the co-ordination of procurement activity.

<sup>(1)</sup> *Best Value and Competition - Procurement Survey Results 1999 - SOPO*

## **TARGETS**

Targets should be set according to the time-span in which you hope to achieve them. They should always follow the SMART principles, i.e:-  
S Specific - must be clearly defined.

M Measurable - in order to gauge achievement. Appropriate 'measures' might be quality, quantity, cost, time etc.

A Agreed - those responsible for achieving them must agree with them.

R Realistic - must be achievable within the time allocated.

T Timed - a deadline must be imposed for achievement.

Each Local Authority should be able to achieve:-

- a. Effective financial monitoring systems to capture relevant departmental expenditure on goods and services. <sup>(1)</sup>
- b. An officer with specific responsibility for procurement on each departmental management team. <sup>(7)</sup>
- c. An Annual Report/Business Plan to the Chief Executive/Members on progress in continuous improvement of procurement activity. <sup>(8)</sup>
- d. Benchmarking with other Local Authorities and private sector procurement organisations. <sup>(35)</sup>
- e. A plan to recruit, motivate, retain and develop professional procurement staff. <sup>(36)</sup>
- f. Compliance with EU Directives and relevant recording and collating of information on purchasing intentions and activity.

Where procurement is delegated to departments the following issues should be addressed to demonstrate best practice procurement:-

- i. Review the effectiveness of systems for ensuring procurement procedures are being applied comprehensively and consistently to all departmental procurement. <sup>(2)</sup>
- ii. Departments to adopt a policy of favouring collaboration with others wherever this offers equal or better value for money. <sup>(21)</sup>
- iii. Procurement Officer's job descriptions to incorporate a requirement to contribute, as fully as possible, to collaborative procurement issues. <sup>(22)</sup>
- iv. Hold a single register for use by all departments of all contracts in place (and proposed). <sup>(23)</sup>
- v. Create a network of department purchasing staff building on arrangements which may already exist. <sup>(26)</sup>
- vi. Ensure those involved in procurement receive appropriate level of procurement training. <sup>(38)</sup>
- vii. Include procurement as a core skill in non-procurement managers' training. <sup>(39)</sup>

viii. Departments using non-procurement staff to manage contracts to ensure they receive specific procurement training beforehand. <sup>(42)</sup>

*(Figures in brackets refer to actions detailed in the HM Treasury report 'Efficiency in Civil Government Procurement' obtainable from Public Enquiry Unit, Room 8912, HM Treasury, Parliament Street, London SW1P 3AG, telephone (0171) 270 4558 at a cost of £10)*

## **PERFORMANCE INDICATORS**

### **Selecting Performance Indicators**

There are a few simple guidelines to take into account when selecting performance indicators:-

- a. Performance indicators should be measurable without greatly increasing administrative costs.
- b. Select indicators which the authority will find useful in assessing performance. The results will be of greater benefit if the indicator is crucial to success.
- c. Ensure that the performance indicators are unambiguous so that when data submission takes place there is no doubt that the interpretation of data required is the same between all participating organisations. It is also better at this stage to determine what constitutes good or poor performance.

### **What should Performance Indicators Cover?**

In general, performance indicators should cover all aspects of a service including:-

- Access to the service;
- Quality of the service including customer satisfaction;
- Total cost of the service;
- The efficiency with which the service is provided;
- The effectiveness of service management;
- The strategic objectives authorities have for ensuring that the service meets the needs of the customer.

## **PERFORMANCE MEASUREMENT**

Accurate performance measurement is of paramount importance in order to demonstrate best value. It can be compared in a variety of different ways:-

- a. Procurement activity can be measured in terms of the proportion purchased by competition through:

- Consortia;
- Local authority professional contracts;
- Departmental professional purchasers;
- The rest.

b. The Warwick Business School suggests the following indicators of competitiveness: <sup>(1)</sup>

- Percent of net spend in Best Value services allocated via a competitive process in the last two years;
- Percent of net spend in Best Value services delivered in the last two years through partnerships, voluntary sector agencies, public sector agencies, private sector agencies.

c. It is vital to develop baseline measures from which improvement can be quantified. Self-comparison over time is probably the easiest method of performance measurement to achieve. It is a useful mechanism to measure trends and identify continuous performance; however it offers no insight into alternative methods of service provision.

d. External comparisons can be made with many different types of organisations:

- Local authority purchasing functions;
- Other public sector purchasing functions;
- Private organisations which perform the purchasing function, including consultants;
- Comparisons can also be made against a prescribed standard or procedure.

Performance results should be analysed to identify differences and possible reasons for them. A benefit of using external comparisons is that any alternative methods of service provision will be highlighted and perhaps investigated in more detail.

*(1) Warwick Business School Local Government Centre Best Value Paper 6 Competition, Benchmarking and Performance Networks.*

## **SUGGESTED PURCHASING SERVICE PERFORMANCE INDICATORS**

[<Top>](#)

A list of performance indicators which have been identified by a number of local authorities are detailed below. This is by no means a comprehensive list, nor are all appropriate for all authorities:-

*a. Volume and Value of Business, including:*

- Total number of customer orders;
- Total number of contracts managed;
- Total value of business including orders and contracts.

*b. Cost Effectiveness of Service*

- The total cost of service as a percentage of value of contracts/purchases;
- Cost per £ spent;
- True cost of placing an order from quotation to payment of invoice.

*c. Competitiveness of Prices*

Using a basket of goods comparison with other public and private sector supplies organisations. This must include sufficient detail to enable exact and accurate comparisons.

Measure price movements against RPI or price trends published in trade and procurement journals.

*d. Customer Satisfaction with Service covering:*

- Range of goods and services;
- Quality of products;
- Cost;
- Delivery;
- Helpfulness of staff;
- Speed of response for advice and assistance;
- Clarity of advice and assistance.

*e. Response Times, including:*

- The average time taken to satisfy a customer order (from receipt to delivery);
- The percentage of customer orders satisfied within target response time;
- The percentage of fixed term contracts renewed by the due date;
- The percentage of other contracts and purchases where work is completed in accordance with timescales agreed with customer.

*f. Quality of Service*

- Number of orders processed completely and accurately;
- Number of orders subject to error (non-delivery/short-delivery /over-delivery/incorrect item delivered/customer returns, etc.);
- Percentage of orders completely satisfied at first attempt.

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**AIMS OF SOPO**

The Society of Purchasing Officers in Local Government aims to:-

- Promote the strategic purchasing, contracting and supplies function within Local Government by:

(i) providing a forum and network; and

(ii) providing guidance and promoting best practice.

- Promote co-operation among member authorities;
- Represent the interests and views of member authorities.

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