

## Supplier Adoption and Economic Development (Strand 5)

# KEY QUESTION 4:

## How can I take into account Best Value in its wider sense?

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## KEY QUESTION 4: How can I take into account Best Value in its wider sense?

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### Summary

- The Local Government Procurement Strategy requires that every council should build sustainability into its procurement strategy, processes and contracts
- Use e-procurement tools to enable a procurement strategy that suits your Best Value needs, defined in the widest terms
- Carry out an Impact Assessment to establish the degree of dependency of local companies on your authority and decide what priority you need to give to supporting the local economy
- If local suppliers are a priority, develop a coherent approach to procurement, linking it to published economic development and regeneration policies and plans
- Ensure that your supplier adoption strategy encourages rather than hinders local suppliers
- Detailed guidance is now available on this site on how to include local SME suppliers within the constraints of the legal and regulatory framework.
- It is easier to help local companies before entering into the first stages of contract sourcing than favouring them by including formal clauses in invitations to tender and during selection. However there are opportunities to do this within the regulatory framework if you follow our guideline.

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### Local Government Procurement Strategy

The Local Government Procurement Strategy (October 2003) requires that by 2004:

- All corporate procurement strategies should address:
  - The relationship of procurement to the community plan, workforce issues, diversity and equality and sustainability
  - How the council will encourage a diverse and competitive supply market, including small firms, social enterprises, ethnic minority businesses and voluntary and community sector suppliers
- 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:
  - Issuing an information memorandum to prospective bidders setting out the background to the project, the council's objectives and an outline of the procurement process and timetable, with roles and responsibilities made clear
  - 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.

### What does 'Best Value' include?

'Best Value' when applied to procurement means taking into account "the optimum combination of whole life costs and benefits to meet the customer's requirement". But how widely should this be interpreted and what difference does this make to how e-procurement supplier adoption is approached?

'Best Value' certainly includes prices and costs. In this context, e-procurement can contribute by reducing transaction costs, and increasing price competition. When it comes to low-value large-volume purchases this means your supplier adoption strategy will be focused on identifying and engaging a few large suppliers. In other areas of spend (e.g. construction, maintenance and social services) the key issue is finding a sufficient choice of suppliers who can deliver a quality local service. In this situation e-procurement can open up competition by opening doors to new suppliers - partly by making the opportunities more visible to potential suppliers, and partly by making the suppliers more visible to the buyers. (It is important that your e-procurement solution enables this – **see our detailed guideline on 'Building a Supplier Friendly Marketplace'**.)

But 'Best Value' includes more than price and delivery. Local authorities are responsible for the well-being of the communities they serve. Sometimes suppliers may be part of these communities, and so the choice of supplier could have an impact on the community. For example, does your authority serve areas of economic disadvantage? If it does, should your supplier selection process ensure that suppliers in such areas are given every opportunity to bid for contracts? Should it go beyond this and use procurement policy to give positive advantage to local suppliers?

The answers to these questions will depend partly on the policies and strategies of your own council, and partly on the legal and regulatory framework. However the key here is to understand that Best Value means supporting the longer-term sustainability of the business community, and not just the social community. After all it is the local businesses, mostly SMEs, that provide employment and sustenance for the community.

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For example, a decision to externalise a large amount of work in one contract may be justified by the savings from economies of scale but might undermine efforts to support local businesses and communities. The result could be a net loss to the council in business rates, council tax and increased housing benefit due to increased unemployment. It may also undermine any work the Council may be doing to support that community and attract more jobs.

It is, of course impossible to calculate this for each procurement decision but an Impact Assessment would establish the degree of dependency of local companies on your authority for their revenues (**See our Guideline 'Practical Steps to Successful Supplier Adoption'**). This insight can then be used to inform the way in which e-procurement and supplier rationalisation is implemented.

The degree to which this is an issue in an individual authority will depend on how important the authority and the other local public sector organisations are as purchasers in the local economy and the sensitivity of that economy to changes in buying behaviour over the coming 2 years.

Thurrock District Council have been running a Business Initiative for over three years to increase the amount of work, goods and services awarded to local business. Underlying this initiative is the firm belief that the local business community is likely to be one of the most important stakeholders within the local community and that local companies are most likely to have competitive advantage. If local businesses are failing to win Council work, then either they or the Council are doing something wrong. (Source [www.thurrock.gov.uk/business/initiative](http://www.thurrock.gov.uk/business/initiative) and see the case study on this site)

## Sustainability

“Sustainable development is fundamental to best value.”  
*ODPM circular 03/2003 – Best Value and Performance Improvement*

Sustainable development is about meeting people’s needs today without compromising the ability of future generations to meet their own needs. This includes social, economic, and environmental needs – a very wide remit indeed. As these issues are seen as a priority nationally, all local authorities will need to consider how they will be impacted by their supplier adoption policy. What does this mean?

- This could mean making new e-procurement systems for catering suppliers attractive to local food producers.
- It could mean identifying suppliers whose working methods minimise the environmental impact of a major development.
- In ethnically-diverse areas it could mean encouraging a representative proportion of ethnic minority suppliers to bid for work.
- In areas of deprivation it would mean trading with quality local suppliers whose survival and growth will contribute to the strength of the local economy.

These are very different cases, but there is a common theme – in each case there is a need to ensure that your supplier adoption strategy helps rather than hinders local suppliers.

**The message is: use e-procurement tools to enable a procurement strategy that suits an authority’s best value needs, defined in the widest terms.** How you do this is briefly described in the following pages.

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### Develop a coherent approach to procurement

There are far more smaller companies than larger ones. Invite them to compete and you can help them to grow. If your local economy is dependent to any significant extent on public sector trade, your strategy can mean the difference between a thriving and a shrinking local economy. This does not mean that Best Value should in any way be sacrificed – far from it. Economies of scale can work in both directions – experience has shown that smaller local suppliers are often able to offer a better service, lower price, quicker delivery and added value to a contract.

However, encouraging local suppliers can only be done within the strict constraints of the legal and regulatory framework within which local authorities and other public sector organisations operate:

- UK regulations have been requiring wider and wider issues to be taken into account in buying decisions since the Local Government Act of 1999
- The EC Treaty and EU Regulations start from the principle of ‘non-discrimination’ and require that contracts are awarded according to transparent procedures taking into account only criteria relevant to the subject of the contract

The benefit that these treaty and regulations bring to public sector purchasers is to provide a larger market for sourcing of goods, works and services, which increases competition and thereby improves the quality and price of goods or services secured. This means better value from public expenditure.

The disadvantage of the EU Regulations for those local authorities who are concerned with the strength and/or health of their local economy is that they make it illegal to discriminate in favour of local firms, and more care needs to be taken by the public authority in defining its local corporate objectives within the procurements process.

How far one can go is not completely tested -the case law is actually very confusing and to some extent contradictory. However, in response to requests from authorities concerned with the sustainability of their local economy, detailed guidance has been developed on how to include local SME suppliers when developing procurement and e-procurement strategies: The detailed guideline: **Public Sector Procurement – Best Value, EC Treaty and EU Regulations: Guidance for Local Authorities** explains the legal and regulatory framework that surrounds tendering and contracting. The document includes some best practice examples as to how to encourage local SMEs to trade with the council, while remaining within the legal framework.

**The single most important piece of advice it contains** is that development of the local economy and other employment, regeneration or economic issues must be included as corporate objectives in your Corporate Plan, community plan, Best Value Performance Plan or other published policy statement.

A statement is then needed in your procurement strategy pointing to that plan and stating that the authority’s procurement activity will be managed to help to develop the local economy and assist in achieving wider corporate objectives.

These corporate objectives can then be used in determining the design of tender specifications and in the selection of successful bidders. A summary of the main points in plain English should be visible on your ‘How to Trade with Us’ web site and attached to any written tenders.

This ensures that an authority’s supplier adoption strategy is directed by a clear procurement strategy which in turn refers to these policy documents.

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These objectives then flow down into the authority's tender specification and contract conditions. That way both buyer and supplier work within the background of a 'joined-up' policy framework.

For an example of a comprehensive procurement strategy see the Nottingham County Council Procurement Strategy 2002-2005 which can be found on [www.nottinghamshire.gov.uk](http://www.nottinghamshire.gov.uk) (search for 'procurement').

### Your e-procurement strategy should encourage local suppliers

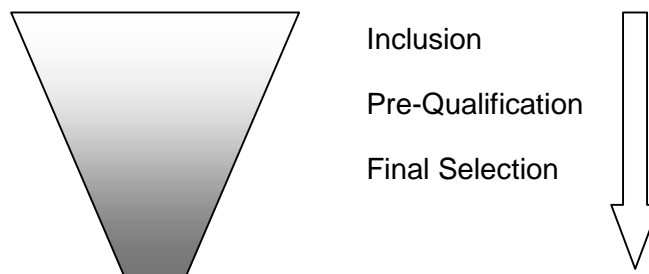
You can do this by:

- Including and informing your suppliers
- Identifying where local suppliers can add real value
- Revising your pre-qualification processes to lower barriers
- Collaborating to provide training and support

These are discussed in the following section.

### Include and inform

Picture the process by which the buyer selects a supplier as a funnel - a large number of potential suppliers are reduced down to a smaller number that are actually visible to the buyer; a smaller number still are qualified to be considered, and finally the buyer makes the selection. At each of these steps different types of suppliers may be at an advantage or disadvantage.



It is at the first step of the process – inclusion – that it is easiest to intervene. The first step to a 'level playing field' is to ensure that all local suppliers are informed about trading with the authority and encouraged to offer their products and services. That way any self-imposed discriminatory barriers are removed.

By addressing this first step local companies can be included that are not currently supplying the local authority but which represent the kind of enterprise that the authority is trying to encourage in its community leadership and social inclusion, equality, sustainability, and regeneration policies. There are many examples of authorities already doing this.

One example is Haringey. Around half the population in Haringey have a minority ethnic background and 10% are refugees or asylum seekers. At the same time economic regeneration is a priority because some of Haringey's wards are among the most deprived in Britain – recognised by their Objective 2 status within the EU. Haringey took the simple step of writing to all businesses in the area (based on business rates information) inviting them to register their business on an internal database where they would be visible to council buyers. (To read about how these companies were followed up,

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see **KEY QUESTION 6**). The council made a deliberate effort to include everyone because they were aware that many of the local ethnic businesses simply were not aware of the opportunities, or excluded themselves by assuming that to do the business you had to know the right people.

It is in the first level of the selection process – encouragement and inclusion, that it is possible to offer local suppliers specific help in terms of education and support. Although the local authority itself will not have the resources and expertise, there are many agencies working in this area which do. The priority therefore is to collaborate with local SME business support programmes and to ensure that helping local suppliers to sell to local authorities is part of their agenda.

An example of best practice in this area is described in the case study “SME supplier engagement – Bristol” which is available on this site. Refer also to **KEY QUESTION 6** for how to approach tapping into external resources.

By ensuring small local suppliers are informed, included and supported it is possible to make your supplier adoption policy meet the needs of the local community without crossing the line into the area of positive discrimination and quotas, which may not only be unfair, but could be illegal.

### Identify where local suppliers can add real value

In addition, it is of enormous benefit to the Authority in the development of its purchasing requirements to know what ‘added value’ its local SMEs and other suppliers bring. Through its Best Value consultation processes, an authority is able to seek the input of local companies on the provision of services to find the value that can be added by those companies to the services required. This dialogue will help an authority to find the link between the services needed by the community and the services that can be supplied by local suppliers.

Authorities can develop their market intelligence and appraisal skills to identify the capabilities of potential local SME suppliers and to design a business case for local SMEs.

Wycombe Council is carrying out a supplier analysis and impact assessment to profile its current purchasing activity and identify local suppliers are dependent on the Council for a significant proportion of their business. Those that may suffer from the rationalisation of the supply base following the introduction of e-procurement will be targeted for Business Link support. Using the spend profile, Wycombe is then looking at which other potential suppliers they have in their local business community that might provide best value, including those from minority groups.

It is worth benchmarking any impact your strategy is making and including the statistics in your management reporting in order to ensure that this issue remains in focus in years to come.

Thurrock District Council has an established policy to encourage local spend and has set up methods of measuring the changes in spend patterns following specific targetting policies. They started the Thurrock Local Business Initiative in 1997 – see case study on this site - and since that date have watched a gradual increase in the percentage of the councils contract spend with local suppliers from 9% to 24%.

### Pre-qualification – are you putting up unnecessary barriers?

The second stage of filtering is about checking that suppliers have the qualifications to give you a good service. It is helpful to suppliers if you apply a standardised approach to pre-qualification (and preferably one that is in alignment with neighbouring councils). However ‘standardised’ does not mean

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imposing a 'one size fits all' set of criteria to all suppliers. That will mean turning away smaller suppliers by insisting on complex accreditation rules for relatively small contracts and may miss dealing with the risks involved in higher value or specialised contracts. Design a flexible accreditation process to accommodate different types and sizes of contract and which will help to ensure a 'level playing field' for different sizes of supplier.

The Better Regulation Task Force has recommended, and government has accepted that: "The public sector should develop a common core pre-qualification information document for lower value contracts so that businesses do not have to put together different information in different formats to get past the expression of interest stage. The Office of Government Commerce and the Office of the Deputy Prime Minister, working with the Local Government Association, should develop and pilot this by Spring 2004."

**(Recommendation 5, BTRF and Small Business Council Report: *Government: Supporter and Customer? 2003 - now government policy*)**

A standard pre-qualification questionnaire usually seeks information on financial viability, technical capability and health and safety. It can also include other enquiries related to the corporate plan objectives such as environmental policies, local labour initiatives or racial equalities policies & practices. As long as the topic of the enquiry is related to the specifics of the contract for goods or services the authority is seeking to purchase, selection meets the legal criteria. This is particularly so as the information is sought from and the assessment made across all prospective providers. Guidance on these issues is given in **KEY QUESTION 5** and the Detailed Guideline: **Towards a unified approach to pre-qualification and accreditation.**

#### Training and support for SMEs

If you want to engage local SMEs it is important to make sure they are geared up to trade with the public sector and know the processes they are required to follow. Many authorities hold events and workshops to provide support and advice for new and/or growing SMEs to fulfil pre-qualification criteria and offer a programme of training from appropriate business support services. You won't want to do this on your own – see **KEY QUESTION 7** on this site to find out how other councils are collaborating with other partners to develop support and training programmes for their local companies.