

Sedgefield Borough Council

Procurement

May 2002

Improving public services

The Government has placed a duty of local councils to deliver services to clear standards – of cost and quality – by the most economic, efficient and effective means available. Best value is a challenging framework designed to improve local services. Councils are required to assess their own performance and put in place measures to ensure continuous improvement in all of their services.

Councils must show that they have applied the four Cs of best value:

- ◆ **challenging** why and how a service is being provided;
- ◆ **comparing** their performance with others' (including organisations in the private and voluntary sectors);
- ◆ embracing fair **competition** as a means of securing efficient and effective services; and
- ◆ **consulting** with local taxpayers, customers and the wider business community.

The Government has decided that each council should be scrutinised by an independent inspectorate. The Audit Commission's Inspection Service performs this role.

The purpose of the inspection and of this report is to:

- ◆ enable the public to see whether best value is being delivered;
- ◆ enable the Council to see how well it is doing;
- ◆ enable the Government to see how well its policies are working on the ground;
- ◆ identify failing services where remedial action may be necessary; and
- ◆ identify and disseminate best practice.

¹ This report has been prepared by the Audit Commission ('the Commission') following an inspection under Section 10 of the Local Government Act 1999, and issued in accordance with its duty under Section 13 of the 1999 Act.

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Summary and recommendations

Summary

- 1 Sedgefield Borough is situated within the heart of the north east of England in County Durham and has a population of 90,000 people. The Borough, covering an area of 52,000 acres, is a mixture of urban and rural areas. It includes historic villages, small towns and a new town. Sedgefield had a strong tradition of employment in heavy industry, particularly coal mining and railways. Both sectors have declined and the Borough now has a large workforce with an engineering background adapting to the new challenges of industry and manufacturing.
- 2 The Council is a Borough Council with 49 elected councillors. It has a Labour administration and is politically stable having had the same Leader for the past 15 years. It has operated a Cabinet with Leader model since May 2000, with seven portfolio holders. The management structure of the Council was reorganised in August 2000. The Council, managed by the Chief Executive and a team of five department Directors and Heads, employs 1,007 staff who are delivering services to an annual gross expenditure of £47.25 million for 2001/2002.
- 3 The Council's best value performance plan for 2001/2002 describes the Council's Statement of Purpose to be:

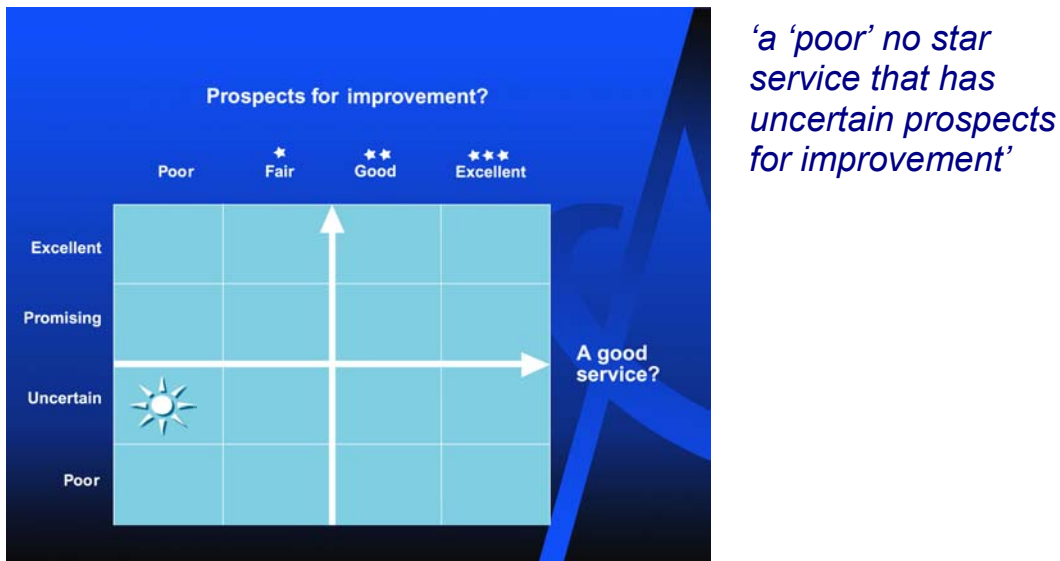
'to secure quality services to improve life for the people of Sedgefield Borough'.

- 4 The procurement review focused on examining the current practices and procedures of the Council in the procurement of goods, works and services. The final output of the review was a new procurement strategy. Overall it is estimated that the Council will spend £22.1 million procuring goods, works and services during 2001/2002.
- 5 The best value review started in October 2000 and was completed in September 2001. It was formally approved by the Council in November 2001.

Scoring the service

- 6 We have assessed the Council as providing a **'poor' no star** service that has **uncertain prospects** for improvement. Our judgements are based on the evidence obtained during the inspection and are outlined below.

Scoring chart²: Sedgefield Borough Council – Procurement



- 7 We believe that the service provided is **'poor' no star** because:
- ◆ there are no clear and challenging aims defining how the Council manages current procurement activity or how it will develop in line with the Council's long term objectives;
 - ◆ whilst the Council has adopted a new procurement strategy, it fails to address a number of key issues identified in national reports on procurement. As currently drafted the strategy does not define the future direction or the Council's vision for what it wants procurement activity to achieve. It does not identify outcomes or targets for achievement or the potential for efficiency savings. The strategy also lacks a forward plan for procurement;
 - ◆ many departments have not integrated the procurement strategy into their everyday procurement activity as it failed to meet their operational needs. Officers said that they needed a more detailed document that set clear guidelines for how goods and services should be purchased. Instead the strategy largely focuses on meeting the requirements of best value legislation;

² The scoring chart displays performance in two dimensions. The horizontal axis shows how good the service or function is now, on a scale ranging from no stars for a service that is poor (at the left-hand end) to three stars for an excellent service (right-hand end). The vertical axis shows the improvement prospects of the service, also on a four-point scale.

- ◆ the Council does not know the scale and scope of current procurement activity, making it difficult to judge how it meets customer needs or provides an efficient and effective service across the organisation. In depth information of the cost of the service across the Council is not known and management information is limited;
 - ◆ whilst there are some pockets of good practice in partnership working and contract monitoring, we found no evidence of a corporate approach driving such developments. The Council maintains a traditional approach to contract design with limited focus on outcomes or meeting corporate objectives; and
 - ◆ the Council does not make the best use of technology and systems do not always support front-line services. The Council recognises the need to develop technology in areas such as e-procurement, however there is nothing in place at the moment.
- 8 We found that the service has **uncertain prospects** for improvement because not all of the elements required for improvement were in place.
- ◆ The development of a procurement strategy shows the Council's willingness to improve its approach to procurement. In addition, there is recognition that the strategy is an important first step on the road to developing a wider understanding of procurement issues.
 - ◆ The Council is involved in a number of partnership activities such as a concordat with Easington and Durham City. Whilst the benefits of the concordat are yet to realised, there are potential opportunities in relation to procurement activity.
 - ◆ The Council has established a performance management framework and toolkit to ensure a corporate approach to Service business plans. There are also plans to integrate procurement related performance measures into business plans from 2002/2003.
 - ◆ The scope of the best value review was limited and focused on developing a strategy instead of considering the wider role of procurement across the Council. The review did not rigorously apply the four C's. Consultation with departments and suppliers was limited. As a result the review did not identify the nature or cost of current procurement activity and did not develop a clear understanding of the levels of savings and efficiencies that could be achieved.
 - ◆ The improvement plan concentrates on short term policy and procedural changes. It does not set stretching targets to deliver tangible improvements in procurement activity across the Council. Accountability for delivery of the actions is not clear and no clear view of what the Council wants to achieve from its procurement activity is set out. As a result it is not clear that the Council will deliver significant improvements or ensure that future procurement activity will realise savings for the benefit of the citizens of the Borough.

- ◆ There is a lack of clarity about who should lead on procurement activities in the Council and the role of Councillors has not been clearly defined. There is also confusion about the future role and direction of the procurement working group. This lack of clear focus and ownership means that we are unsure how improvement will be achieved.

Recommendations

- 9 To rise to the challenge of continuous improvement councils need inspection reports that offer practical pointers for improvement. In this context, the inspection team feels that the Council should now take action to resolve a number of general, political, managerial and partnership issues.
- 10 We recommend that:
 - ◆ to ensure that procurement activity delivers real savings, is low cost and efficient, the Council should:
 - ◆ assess the nature and scope of current procurement activities across the Council and develop an understanding of current working practices and the levels of savings and efficiencies that could be achieved;
 - ◆ consult broadly both internally and externally to identify customer's needs and expectations and ensure that future procurement activities meet these needs; and
 - ◆ monitor and evaluate procurement performance setting challenging targets in areas such as:
 - efficiency of working practices;
 - the savings and contribution procurement can make to the authority;
 - customer satisfaction; and
 - benchmarking with best performing authorities/private bodies.
 - ◆ in order to strengthen the Council's strategic approach to procurement it must immediately:
 - ◆ ensure that there is high level strategic leadership for procurement activity across the Council, with overall responsibility for reviewing and revising practices, rules and regulations;
 - ◆ develop clear and challenging aims for procurement linked to the Council's long term objectives using these to drive future procurement decisions;
 - ◆ enhance the procurement strategy to reflect the new aims ensuring that it links with other strategies and corporate objectives;

- ◆ develop closer working relationships and collaboration with both suppliers, members of the concordat and other local authorities to ensure that the Council gets full benefit from potential cost and efficiency savings;
 - ◆ determine an agreed approach to partnership activities that is used by all departments to deliver real savings and efficiencies to procurement activities; and
 - ◆ develop an approach to e-procurement, in the context of the joint review with the County Council and other districts, that enhances efficiency by reducing transaction costs and simplifying and speeding up all stages of procurement.
- ◆ The Council should immediately direct the procurement working group to:
- ◆ agree terms of reference that include acting as a forum to promote common values and standards;
 - ◆ establish short and long term objectives for the group including the delivery of the improvement plan actions and a position statement against the recommendations of national reports that identify best practice; and
 - ◆ identify pockets of good procurement practice within the Council using this to develop and share innovative contract specifications and monitoring methods.

- 11 We would like to thank the Councillors and Officers of Sedgefield Borough Council who made us welcome, demonstrated an open approach and met our requests efficiently and courteously.

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Report

Context

The locality

- 12 Sedgefield Borough is situated within the heart of the north east of England in County Durham and has a population of 90,000 people. The Borough, covering an area of 52,000 acres, is a mixture of urban and rural areas. It includes historic villages, small towns and a new town.
- 13 The east is generally rural in character including Sedgefield village, with the villages of the old Durham coalfields further north. To the west, the area is more densely populated with the major towns of Shildon, Spennymoor, Newton Aycliffe and Ferryhill within a few miles of each other. The main north-south road, the A1, runs through the centre of the Borough.
- 14 Sedgefield had a strong tradition of employment in heavy industry, particularly coal mining and railways. Both sectors have declined and the Borough now has a large workforce with an engineering background adapting to the new challenges of industry and manufacturing.

The Council

- 15 The Council is a Borough council with 49 elected councillors. It has a Labour administration and is politically stable having had the same leader for the past 15 years.
- 16 It has operated a Cabinet with Leader model since May 2000, with seven portfolio holders. The management structure of the Council was reorganised in October 2001. The Council is managed by the Chief Executive and a team of six Department Directors and Heads.
- 17 The Council employs 1,007 staff, delivering a range of services including leisure, housing and grounds maintenance. The Council has annual gross expenditure of £47.25 million for 2001/2002.
- 18 The Council's best value performance plan for 2001/2002 describes the Council's Statement of Purpose to be:

'to secure quality services to improve life for the people of Sedgefield Borough'.

- 19 The Council says this will be achieved by:
 - ◆ developing recreation facilities and cultural activities;
 - ◆ creating a sustainable local environment;
 - ◆ promoting social and economic regeneration;
 - ◆ ensuring a provision of quality affordable housing;

- ◆ helping to create safer communities; and
- ◆ supporting people in their communities.

The Council's best value review

20 The aim of the best value review as defined in the review document was:

'to examine the current practices and procedures of the Council in the procurement of goods, works and services. It aimed to review those practices and procedures in the context of:

- *the statutory framework for Best Value;*
- *the Council's corporate objectives, including the achievement of its best value performance plan; and*
- *recognised best practice in the procurement of goods, works and services, including the differing methods by which procurement can be achieved.'*

21 The main focus of the BVR was to develop a procurement strategy for the Council.

22 It is estimated that the Council will spend £22.1 million on the procurement of goods, works and services during 2001/2002 through a mixture of capital, term and revenue contracts.

The local and national context

23 Procurement is an essential requirement that underpins virtually all local authority activities. As an important source of key services, the Council's procurement activity can play a major role in meeting its aims, especially of 'Building a Strong Economy'. Efficient and effective procurement can also generate efficiency savings that the Council can direct to front line service delivery.

24 The DTLR Task Force that reported its findings in June 2001 (Byatt report³) defined procurement as:

'the whole process of acquisition from third parties and covers goods, services and construction projects. This process spans the whole life cycle from the initial concept and definition of business needs through to the end of the useful life of an asset or end of service contract.'

³ Department of Transport, Local Government and the Regions (DTLR) Task Force 'Delivering Better Services for Citizens – a review of local government procurement in England' that reported in June 2001

- ◆ Some of the key recommendations of the Byatt report included:
 - ◆ procurement expertise on every best value review;
 - ◆ procurement strategy to be regularly reviewed and updated with the corporate procurement function providing a source of expertise;
 - ◆ Councillors to take a strategic role with clear political responsibility;
 - ◆ Councils to review standing orders to encourage good practice;
 - ◆ a modern approach to e-procurement; and
 - ◆ sharing market intelligence and producing a prospectus of future purchases for suppliers.

- 25 In addition, successful procurement is critical to the achievement of best value. Better procurement of goods and services can result in substantial benefits for Councils, such as:
 - ◆ an increase in investment;
 - ◆ cost reduction;
 - ◆ a change in organisational culture; and
 - ◆ a clearer focus on service objectives.

- 26 Furthermore, Councils are looking for products and services that are sustainable and have recently started to build the concept of 'whole life costs' (this includes reuse and recycling costs) into specifications. Eighty-one per cent of Councils now make reference to environmental considerations in specifications and 53 per cent in contract terms and conditions.⁴

- 27 Finally, e-procurement using effective information and communication technology is being used to reduce the costs of the procurement process for both the Council and its suppliers and contractors. The aspirations for e-procurement include:
 - ◆ the wish from ministerial level for the UK to be the best place to do e-business;
 - ◆ 100 per cent of interactions with business and citizens will be available electronically by 2005; and
 - ◆ £1 billion of value for money efficiency savings over three years.

⁴ Source: Audit Commission

How good is the service?

- 28 Inspectors look to see how a council has agreed the key aims for the service being inspected, how clear these aims are to the people that receive the service and whether these reflect the corporate aims of the organisation as a whole.

Are the aims clear and challenging?

- 29 Challenge is the key to achieving significant improvements in performance and targets set by the Council and Government. Without challenge best value will be ineffective. It requires the Council to consider and demonstrate how a service contributes to its wider corporate aims and community plans.
- 30 Both the Gershon⁵ and Byatt reports identified that the strategic management of procurement is a major issue for authorities. Strategic procurement should aim to:
- ◆ support corporate aims;
 - ◆ support and improve delivery of services; and
 - ◆ address wider issues such as ‘joined up government’ and provide easier access to services.
- 31 The Council approved its first procurement strategy in November 2001 following the BVR. However, the new strategy did not set out the specific aims and future direction for the service and instead focused on developing policy building blocks. The strategy defines procurement as:

‘the process of specifying, securing and monitoring services and the purchase and supply of goods to meet the needs of the people of Sedgefield Borough. It includes not only major contracts but also types of purchasing of goods and supplies of whatever value’.

- 32 The strategy aims to support the Council’s other procurement policies and regulations including an interim green purchasing policy, the implementing electronic government (IEG) statement and the Council’s standing orders.
- 33 The Council sees the strategy as a first step in developing its approach to procurement and hopes to use it as a springboard for the development of future procurement activity. However, some key elements are missing from the strategy.
- ◆ The strategy lacks a vision or forward plan for procurement activity. It does not set out the future demand for the supply of goods, works and services in line with the Council’s strategic objectives.

⁵ Review of Civil Procurement in Central Government chaired by Peter Gershon, April 1999

- ◆ The strategy does not set clear and challenging aims for procurement. It does not identify the outcomes that the Council is seeking to achieve or set measurable targets. As a result, we are unclear about the Council's overall objectives for procurement activity and how the Council will know that it is effective and efficient.
 - ◆ The strategy does not develop clear procedures for appraising and implementing both simple and large and complex procurement. For example, the purchase of office equipment or major capital works.
 - ◆ The content of the strategy is not consistent with current good practice such as that identified in the Byatt report including:
 - ◆ the current structure of procurement;
 - ◆ an assessment of their costs;
 - ◆ details of current contracts renewal/replacement dates; and
 - ◆ monitoring the performance of key suppliers.
 - ◆ The emphasis of the strategy was primarily to provide guidance for best value reviews. The strategy makes little reference to the procurement of goods.
 - ◆ The strategy does not define how it will be regularly reviewed and updated. In addition it does not make reference to the role of Councillors in this process.
 - ◆ Modern procurement practices such as e-procurement are not fully explored in the procurement strategy. The strategy makes reference to embracing the IT strategy, however it does not set out a vision as to how technology will be used to improve procurement processes and decisions. Effective use of technology is important for:
 - ◆ customers – to make it quick and easy to order; and
 - ◆ high quality management information – to be able to negotiate better deals and achieve the full benefits of effective procurement.
- 34 In conclusion, our view is that the Council's aims for procurement are not clear and challenging.

Does the service meet these aims?

- 35 Having considered the aims the Council has set for the service, inspectors make an assessment of how well the Council is performing in meeting these aims. This includes an assessment of performance against specific service standards and targets and the Council's approach to measuring whether it is actually delivering what it sets out to do.

- 36 In the absence of clear and challenging aims, we have considered what a typical strategically focused procurement service should be aiming to achieve. The Council needs to ensure that the procurement processes respond to the statutory framework, best practice, customers and to national requirements in relation to procurement.
- 37 The main service outcomes are:
- ◆ procurement throughout the Council meets the corporate aims and objectives;
 - ◆ procurement helps shape strategic service planning decisions;
 - ◆ procurement is organised to manage risk to the Council; and
 - ◆ procurement is economic, efficient and effective.

Procurement throughout the Council meets corporate aims and objectives

- 38 It is important to have established aims and objectives that relate to procurement, with a strategy based on anticipated service needs that is both forward and outward looking and links to the corporate aims and strategy.
- 39 Whilst the procurement strategy has only recently been agreed by Cabinet we found that there was a lack of awareness of the strategy outside the core BVR team. In addition, many officers felt that they could not use the strategy in their everyday procurement decisions, as it did not cover procurement issues in sufficient depth. They said that they needed a more detailed document that clearly sets out how goods and services should be procured and how options were to be appraised.
- 40 Evidence from the BVR shows that procurement activity in departments does not routinely meet corporate aims and objectives. Business plan holders were surveyed to ask whether the Council's corporate objectives were taken into account when developing their procurement plans, 12 out of 18 said that they did but 11 of these said that this could be improved. A further three sections said they did consider the Council's objectives but not consistently and two said that they did not consider Council objectives.
- 41 We saw some examples of the Council working in different ways, which have a strategic impact, but this was not part of a broader strategic approach to procurement. Examples of working with others included:
- ◆ The joint development of new fitness suites in the leisure centres with a private sector partner, in response to declining use of existing facilities and results of public consultation. All income generated through the fitness centre is shared on a 50-50 basis. Under the agreement the Council provided the staff and the venue whilst the partner paid for:
 - ◆ all necessary building works;
 - ◆ replacement of equipment;

- ◆ staff training; and
 - ◆ some advertising and special promotions.
- ◆ The Council is considering entering a green waste trial with Durham City. This scheme includes collection of green waste from approximately 9,000 households - a mix of private and Council owned properties. The objective of the scheme is to examine different ways of collecting and composting green waste. The results of the trial will be used to help indicate the most appropriate and effective scheme across the whole County.
- ◆ Movement for innovation (M4I) project with other authorities in relation to all construction and engineering projects and works (both in-house and private sector provision). This project allows for the monitoring of performance for all capital projects over the value of £25,000 and minor/maintenance works over £100,000.
- ◆ Sedgefield Business Forum was established to encourage a two-way dialogue with contractors and business representatives in order to develop innovative procurement options. There has been one forum held to date, and a second is planned for April 2002. There is clear enthusiasm to work with businesses in the Borough, however due to the early stages of the initiative we found little evidence of these delivering tangible benefits for the Council or suppliers.
- ◆ The Pioneering Care Centre initiative to develop additional local health care in partnership with Durham Health Authority, Social Services and the voluntary sector. The Pioneering Care Partnership (a charitable trust) runs the building and the Council is the landlord, generating an income to repay its £1.75 million outlay.
- 42 Whilst interviews with departmental managers revealed that developing partnerships with suppliers, other authorities or businesses has become embedded in the Council's culture, we found that the Council does not have a formal definition or understanding as to what constitutes a partnership.
- 43 Currently, the Council does not take part in any collaborative procurement with other authorities. However this may change in the future through the joint BVR of Environmental Services, which recognises that joint procurement and commissioning of options must be explored. The review is currently considering procurement options for over £12 million worth goods and services (per year) across three councils. This review is one of the outcomes of the concordat signed in February 2000 with neighbouring authorities, Easington and Durham City. The aim of the concordat is:

'to allow a more co-operative approach to service delivery and improvement.'

Procurement helps shape strategic service planning decisions

- 44 The procurement system should be based on current and future customer requirements and provide goods and services that meet user demands and are reliable.

- 45 To date, the Council has not developed a clear understanding of the nature and scale of procurement activities across its business areas. There is limited information available to judge the cost effectiveness, reliability or user satisfaction with the service being delivered. As a result it was difficult to form a detailed picture of how procurement meets the needs and expectations of the service. We would like to have seen information as to how:
- ◆ goods and services meet user demands and are reliable;
 - ◆ the procurement system balances achieving value for money whilst maintaining quality and also manages to relate supply to budget availability;
 - ◆ the system maximises customer choice and minimises customer administration;
 - ◆ customers are made aware of goods and services available to them. For example, catalogues; and
 - ◆ customers are aware of where to get help and assistance.
- 46 The collection of user satisfaction information across the Council in relation to procurement decisions varies widely. The Planning and Technical Services section use customer questionnaires to monitor the opinions of Council house tenants following improvement work to their houses. Analysis of satisfaction levels takes place and issues are discussed to improve the quality of service at regular meetings with the project officers and the Contract Services Department. Performance trends are monitored using a Contract Benchmarking System software product. At present satisfaction levels are monitored against a 100 per cent satisfaction target, however there are plans to set more realistic and challenging targets once sufficient baseline data is available.
- 47 There is a lack of timely, accurate and impartial advice to the Executive and Scrutiny functions, service managers and external stakeholders on both procurement performance, and on how well procurement activities respond to service needs.

Procurement is organised to manage risk to the Council

- 48 The Council defines how contracts are drawn up, tendered and accepted through its Standing Orders. All contracts must comply with these regulations, with breaches being reported to Councillors. The Standing Orders were last updated in April 2000 and comply with the legislative requirements of the Local Government Act 1999 and of the European Union (EU Directives).
- 49 The Standing Orders make reference to getting value for money in tendering contracts, but make no reference to ensuring that contracts support corporate objectives. Indeed, the Standing Orders oblige the Council to accept the lowest tender unless there is a strong argument to the contrary. We found little evidence that the Council balances short-term financial savings against quality of service factors or regularly considers the 'whole life cost' (including reuse and recycling) of a product. Notable exceptions included the use of a Local Agenda 21 (LA21) checklist by Planning and Technical Services for all capital programme bids to cover environmental sustainability issues.

- 50 Legislation is in place, which specifically allows local authorities greater freedom to include some non-product related factors in contracting, for example, those that could help promote the Council's corporate aims in creating a sustainable local environment. The Standing Orders do not refer to this, yet it should be an important consideration in selecting a contractor.
- 51 We found pockets of good practice in the tendering and post tendering of contracts with some monitoring of outcome and customer focused measures, including the following.
- ◆ Property Services draw up detailed project plans for all capital works, containing specific milestones for the completion of work. In addition, they intend to introduce Service Level Briefs from April 2002 to plan and monitor contracted work through the phases of Pre-contract; Tender; Contract; Defects period and De-briefing. The service briefs have been developed in consultation with all Property Services staff and provide a mix of qualitative and quantitative measures.
 - ◆ The Planning and Technical section use a facility called the Construction Line. This is a system of vetting contractors and consultants according to strict technical and financial criteria, to allow them to pre-qualify for tender lists.
 - ◆ The Leisure Services section monitor the performance of contracts using targets and service standards. Weekly targets are set for visitor numbers and standards such as the percentage of space available for children's activities are monitored by quality checks. In addition, monthly meetings are held between the client and the contractor to monitor trends in performance.
- 52 However, monitoring is fragmented and has been developed individually by departments. We found no evidence that the Council routinely monitors the quality of all goods and services supplied.
- 53 Other inspection reports published nationally indicate that the 'best' contracts will include outcome targets relating to the Council's corporate objectives. They will be of a duration designed to ensure continuity of supply at a fixed or decreasing price (against volume), have performance monitoring built in and have an element of partnership which encourages the supplier to introduce new goods or services which improve the service.
- 54 In Sedgefield we found that contracts were traditional with limited focus on measurable outcomes and quality assurance. Specifications for term and capital contracts set out required levels of quality. However, invariably delivery of the contract at the cheapest cost appeared to be the sole consideration with little or no reference to meeting corporate objectives or delivering a better quality service.

- 55 Purchases of office goods such as stationary, and telecommunications equipment varies across departments. The Council has a single contract to provide stationary, however items falling outside this contract are purchased on an individual departmental basis, often through high street retailers. We found no evidence that prices paid were compared or monitored across the Council to ensure their competitiveness. Examples found included:
- ◆ some IT equipment, for example digital cameras, were purchased with no consultation with the IT department even though they required technical support; and
 - ◆ the purchase of mobile phones used to be centralised but has since been devolved to departments who now negotiate with service providers.

Procurement is economic, efficient and effective

- 56 Information gathered in other inspections suggests that an effective and efficient procurement system should demonstrate a range of strengths, for example:
- ◆ active sponsorship of Councillors and leadership from the management team;
 - ◆ clear and unambiguous service targets;
 - ◆ customer needs are known and are being met with regular surveys of users' views showing satisfied end users;
 - ◆ good use of technology such as purchase cards and e-procurement to minimise costs and duplication of effort; and
 - ◆ established channels of communication with suppliers and procurement consortia.
- 57 The Gershon report refers to the importance of procurement activities having 'the 'clout' necessary to lead Government procurement into the 21st Century.' Furthermore, Gershon highlighted the potential for savings recommending a target of 10 per cent savings in the financial year following publication of the report. Leeds City Council has set a procurement challenge to save £35 million over the next five years, representing 10.7 per cent of the Council's current procurement expenditure.
- 58 In Sedgefield we found that the Management Team has not established clear leadership in relation to procurement activities at officer level. Whilst the Council Solicitor led the BVR and currently chairs the procurement working group (PWG) there were varying opinions as to who should lead on procurement.
- 59 The procurement strategy was developed with limited Councillor consultation or involvement. This has not traditionally been a Councillor role, and the Council acknowledges that Councillors need to develop a better understanding of strategic procurement.

- 60 The Gershon report says that measurement systems are an important aspect of any procurement system which aspires to be best in class:

‘There [should be] common systems across Government for:

‘recording what is purchased, the associated prices and sources of supply’;

‘analysing the true costs of procurement transactions’;

‘rating the capability and performance of suppliers’; and

‘targeting and measuring year on year value for money improvements from the procurement function’.

[Gershon report]

- 61 In Sedgefield there are no common systems in place for measurement. Procurement activity across departments is varied in terms of contract monitoring, adherence to policies and procedures and levels of innovation. Performance management of procurement is in its infancy, with few service targets set.
- 62 At present the Council does not make the best use of technology, with systems not always supporting front-line services. For example, in the Central Stores Depot at Shildon the computer system does not hold information about what stock is fitted in its 10,400 Council houses. As a result, the stores have problems in:
- ◆ ensuring the right stock is held; and
 - ◆ managing levels of obsolete stock.
- 63 Furthermore, we found evidence of inconsistent procurement arrangements within the Contract Services section. The Central Stores Depot facility is used by the housing section for all repairs and maintenance and incurs a 30 per cent on-cost for all items that pass through it. However, we found evidence that some departments negotiate independently in order to save the 30 per cent on-cost. An example of this is that the Highways Department purchase the same cement, although from a different supplier, as is held in the central stores and although central stores staff generally take delivery of the product it is stored elsewhere. This could lead to additional costs for the Council and possible loss economies of scale however this has not been identified or quantified. We were given no clear explanation of why the system varied across the Contract Services Section.
- 64 The lack of a baseline assessment of what the Council does now means that there is no clear picture of current working practices and potential inefficiencies. We are therefore unable to determine how efficient and effective procurement activity is.

How does the performance compare?

- 65 In order to judge the quality of a service, it is important to compare the performance of that service against other suppliers across a range of sectors. The aim is not exact comparison, but an exploration of how similar services (or elements of services) perform in order to identify significant differences, the reasons for them, and the extent to which improvements are required.
- 66 There is only one national performance indicator directly related to procurement and that is the proportion of invoices paid within 30 days (BVPI 8). Prompt payment of invoices is an important part of developing strong relationships with suppliers. The Council's performance is 84 per cent, which is slightly below the average (89 per cent) and top quartile level of 93 per cent. The Government's target for this indicator was 95 per cent in 2000/2001 rising to 97.5 per cent in 2001/2002 and 100 per cent in 2002/2003.
- 67 We were unable to compare performance internally across departments due to inconsistent monitoring methods and a lack of procurement related performance measures. In addition, the Council does not compare the prices it pays for products with other councils or organisations.
- 68 We were unable to judge how well the Council is using its procurement power to achieve improved quality, create new markets, achieve its objectives or just reduce costs.
- 69 In conclusion, we can say that we were unable to effectively compare the Council's performance because:
- ◆ there are limited national performance indicators for procurement;
 - ◆ there is no history of measuring performance across the Council as a whole; and
 - ◆ the real cost of procurement activity is not known.

Summary

- 70 In summary, we find that the service provided by the Council is a **'poor' no star** service for the following reasons.
- 71 The Council has adopted the new procurement strategy, however it does not set out clear and challenging aims for the service. The strategy failed to define the future direction of the service and it does not determine what the Council wants to achieve in terms of procurement. In addition, the strategy fails to address some of the key issues identified as important in both the Gershon and Byatt reports.
- 72 There is limited use or awareness of the procurement strategy outside the core BVR team. The relevance of the strategy in shaping everyday procurement decisions is limited, as it did not cover procurement issues in sufficient depth instead focusing on meeting the requirements of best value legislation.

- 73 The Council is yet to agree clear leadership in relation to procurement activity at Management Team level.
- 74 The scale and scope of current procurement activity has not been established, making it difficult to judge how it meets customer needs or provides an efficient and effective service across the organisation. The cost of the service across the Council is not known and management information is limited.
- 75 We found some pockets of good practice in the use of partnerships and monitoring of contracts, however it is not an integrated approach. The Council maintains a traditional approach to contract design with limited focus on outcomes, quality assurance and meeting corporate objectives.
- 76 The Council does not make the best use of technology. The Council recognises the need to develop technology in areas such as e-procurement, however this is not supported by a detailed action plan for delivery.

How likely is the service to improve?

Does the best value review drive improvements?

- 77 The best value review is the mechanism for ensuring authorities deliver continuous improvement in the services they provide.
- 78 The procurement BVR was conducted during the first year of the Council's best value review programme. We recognise that the Council was willing to tackle a cross-cutting issue such as procurement and that the Council's approach to BVRs has undergone significant change with the establishment of a corporate framework for all reviews.
- 79 The Council's approach has been revised over time to improve the focus on outcomes. In addition, the Council has developed a best value toolkit and has assigned Best Value Officers (BVO) to support all reviews. The procurement review did not have the benefit of support from a BVO during its early stages.
- 80 The scope of the review was narrow and restricted opportunities to drive major improvement. It did not explore the nature and extent of current procurement activity across the Council. The procurement BVR was scoped as a strategy review with the overall output being the production of the new procurement strategy. As previously highlighted, one of the key components of the strategy was to give:

'guidance to best value review teams as to how they should approach the consideration of procurement operations'.

- 81 This focus on guiding BVR teams restricted the impact of the strategy across the Council with some departments feeling that they would not use it in its current form. Indeed we were told that a more detailed strategy was required that guided procurement decisions:

'wanted a template that applied a methodology regarding the choices under best value'.

- 82 The review used the European Foundation of Quality Management (EFQM) Excellence Model as the cornerstone of its analysis. The use of this model helped to highlight strengths and areas for improvement from questionnaires completed during the review, however, the team did not develop a deeper understanding of the issues. In addition, the review team raised concerns about the validity of the findings, as there were variations in the way the questionnaires were completed between departments. The BVR report stated:

‘the approach taken to completing the questionnaires varied widely, with little distinction evident in the returns about the scale and form of procurement being reported by individual sections’.

- 83 In inspecting the service, we look for evidence of how the Council has applied the four Cs of challenge, compare, consult and compete throughout the review. It is not a linear process, they are all inter-related and we look for evidence of how the principles guide the review team’s actions and conclusions.

Challenge

- 84 The review failed to identify the current nature and scale of procurement activities across the Council. As a result it was not able to assess or challenge:
- ◆ the future demand within the Council and the likely capacity to deliver this;
 - ◆ the sustainability of the service being offered; and
 - ◆ the levels of savings or efficiencies capable of being achieved.
- 85 We would have expected the review to effectively challenge areas such as:
- ◆ what does the Council want procurement to deliver;
 - ◆ what are the resourcing issues; and
 - ◆ how is the activity organised, for example is there duplication of effort between departments?

Consultation

- 86 The BVR team used two questionnaires to provide the bulk of the consultation information, one dealt with leadership issues which was sent to and completed by members of Management Team, whilst another questionnaire was sent to and completed by Section Business Plan Owners. As previously highlighted in paragraph 82, there were concerns as to the validity of the findings from these questionnaires. Due to this, the review team placed little significance on the questionnaire results in developing the improvement plan.
- 87 Our discussions with staff engaged in procurement activity across the Council revealed that internal consultation had been limited during the review. This was a lost opportunity, as these people were unable to influence the scope and outcomes of the BVR.

- 88 No external consultation was undertaken during the BVR to shape the scope and scale of the review. However, once the draft procurement strategy had been produced, comments were requested from a number of professional bodies and institutes. We found no evidence of consultation with suppliers of services, goods or works that the Council uses.

Competition

- 89 Competition was not addressed in the BVR. The emphasis on producing a strategy document means that there was no assessment of different methods of delivering procurement activities. The Council does not know how competitive its current procurement practices are.
- 90 The Council did not examine how the concordat with Easington and Durham City would shape future procurement decisions. For example, joint purchasing arrangements. The role of the concordat is examined in more detail in paragraphs 108 and 109.

Comparison

- 91 The Council compared procurement strategy documents with six other authorities. However, this work did not examine how procurement activities were organised in the authorities, and focused solely on developing an appropriate policy/strategy framework. The review missed the opportunity to explore beyond the strategies and identify what makes procurement different and how the principles of different practices could benefit Sedgefield.
- 92 Due to the lack of information regarding current procurement activity and scale, the review was not able to compare performance across departments or externally. We would like to have seen more information regarding:
- ◆ cost of placing orders or making payments;
 - ◆ average invoice value;
 - ◆ cost of organisation per contract let;
 - ◆ use of local suppliers;
 - ◆ staffing levels and the skills capability and training of staff;
 - ◆ cost of goods and services as a percentage of total expenditure; and
 - ◆ percentage of items supplied on time according to the customer.

Summary

- 93 In conclusion, we recognise that the BVR delivered the new procurement strategy. However, the BVR was narrow in scope and did not consider the wider role of procurement across the Council. The four Cs were not rigorously applied and did not drive improvement.

How good is the improvement plan?

- 94 A best value review should produce an improvement plan that sets out what need to improve, why, and how that improvement will be delivered. It should contain targets which are not only challenging but also designed to demonstrate and ensure the continuous improvement necessary to put the service amongst the top 25 per cent of Councils within five years.
- 95 The improvement plan is structured around key headings of the EFQM Excellence Model, namely leadership, policy and strategy, people and processes, partnerships and resources, and finally other key issues. In total there are fifteen actions across these headings. The actions are focused on delivering a policy framework for the Council's procurement activities.
- 96 In our opinion, accountability for actions is unclear. Thirteen of the actions are allocated to the Management Team, however, their role is generally to *consider* the issue as opposed to agreeing or deciding on an approach. Our interviews revealed that the procurement working group (PWG) has the devolved responsibility for the delivery of these actions, however at the time of the inspection the PWG did not have a formal plan to address these issues.
- 97 The timescales and actions in the improvement plan are focused on short-term objectives. Indeed none of the actions take the Council beyond 2002. Subsequently, the improvement plan does not set out a clear vision of how it will deliver tangible improvements in the procurement activities across the Council. The actions are not focused on how to fundamentally improve the way procurement decisions are made at all levels across the Council.
- 98 Some of the actions in the improvement plan have been delivered on time notably the acceptance by Cabinet of the strategy document. However, the Council recognises that other actions will not be delivered to the original timescales. For example, the development of a corporate guidance manual and the allocation of corporate responsibility for procurement was due to be completed by March 2002 but work on this has not yet started.
- 99 We see no evidence that the Council has a clear understanding of the outcomes it is seeking to achieve from implementation of the improvement plan actions. For example, it has not identified what the benefits of developing a code of practice will be and how this might contribute to more efficient and effective procurement capable of delivering significant savings.
- 100 Officers were interviewed were unclear about how some of the actions in the improvement plan would be delivered. For example, from our interviews we were unable to establish how the corporate consultation process will link into procurement activity, even though this is a key action.
- 101 Whilst consultation and comparison was limited in the review, some of the key issues identified are not specifically addressed in the improvement plan. For example, the development of performance indicators, or addressing departmental variations in procurement practices.

- 102 The improvement plan does not develop the Council's position in relation to the key recommendations of the Byatt report published in June 2001. Whilst we appreciate that the majority of BVR was completed by this date, we were disappointed that consideration of Byatt was not built into the improvement plan. We would have expected to see for instance:
- ◆ the PWG having clear responsibility to ensure that Byatt is integrated across the Council where relevant;
 - ◆ the development of a position statement of the Council against the key Byatt recommendations; and
 - ◆ an action plan with timescales where appropriate to address any required developments, including the expected benefits.
- 103 We conclude that the improvement plan is unambitious and focused on delivering short-term policy decisions in relation to the new procurement strategy. The Council is not clear about the outcomes it is seeking to achieve from implementation of the improvement plan.

Will the Council deliver the improvements?

- 104 Inspectors look for evidence that a council will deliver what it has set out in the improvement plan. We look for a track record of managing change within the Council and, ideally, within the service itself. The plan should also have sufficient support from councillors, management, staff, service users and other stakeholders, particularly those responsible for delivering it.
- 105 Cabinet accepted the procurement strategy in November 2001 following publication of the final BVR report in September 2001. The Council views the strategy as an important first step in developing a wider understanding of the role of procurement in delivering its strategic objectives. Councillors and officers appreciate they are 'just in the infancy of procurement across the Council'. This is particularly evident in the involvement and understanding of Councillors. Their role in determining procurement policy, scrutinising the procurement processes and monitoring the outcomes of procurements is undeveloped at this time. The Council recognises this and is looking to develop appropriate training material.
- 106 We see the PWG as a positive step to develop the role of procurement across the Council. As referenced in paragraph 102 the working group has a significant role to play in developing procurement issues such as the Byatt report. The Council feels that the current system of working groups works well and has delivered results in other business areas. For example, the achievement of Investors in People (IIP) accreditation.

- 107 The group was established in November 2001 and attendance to date has been variable. The group does not have a formal plan detailing its key activities/milestones, and it is evident from our interviews that the role and direction of the group needs clarification. Officers expressed a range of opinions regarding the terms of reference for the group which included:
- ◆ developing new policy documents and rules. For example, standing orders and e-procurement;
 - ◆ ensuring that the Council demonstrates it is spending its money wisely;
 - ◆ ensuring procurement activities are linked into wider corporate objectives. For example, sustainability;
 - ◆ integrating procurement activities into business planning frameworks, including the development of performance indicators;
 - ◆ focusing training requirements on the required users to ensure staff have the appropriate skills and competencies in procurement activities; and
 - ◆ delivering the procurement BVR recommendations.
- 108 At a corporate level the Council has a commitment to improving services and has set up a number of partnerships such as the concordat with Easington and Durham City. There is clear commitment, drive and enthusiasm at senior officer and Councillor level to work in partnership and to deliver the best services to local people.
- 109 Through the concordat the Council is considering joint appointment of a Procurement Officer. Negotiations about the feasibility and scope of this role are in the early stages. However, our interviews revealed substantial variations about the scope and terms of reference for this role. Some officers expressed doubts as to whether the role would be able to drive procurement issues forward across the Council, and whether the role should include developing the local strategic partnerships.
- 110 The Council does not have a clear lead for procurement activities at Management Team level. Whilst a member of the Management Team led the BVR and currently chairs the PWG, there is confusion as to whether this individual will act as the long-term lead across the Council. If the Council decides not to assign responsibility at senior officer level, steps must be taken to secure staff commitment and to encourage staff participation in the design of services with the PWG as a possible mechanism for this.
- 111 In relation to IT, the Council recognises the importance of electronic service delivery for small value purchases and the potential savings in terms of cost per transaction. Furthermore, the IT strategy states that this is not solely an IT issue and should be driven by the business requirements through the procurement working group (PWG). Interviews with Purchasing Officers revealed that they do sometimes purchase products using the Internet/e-mail, however, this is piecemeal and a formal policy is yet to be approved.

- 112 The IT strategy highlights a number of likely areas for development in relation to e-procurement including:
- ◆ how accounts are set up with suppliers;
 - ◆ who is authorised to purchase from accounts;
 - ◆ the procedure for obtaining quotes;
 - ◆ the procedure for purchasing (including the validity of e-mails as contracts); and
 - ◆ on-line payment.
- 113 The Council has developed a comprehensive performance management framework and has supplemented this with the publication of a performance management toolkit.
- 114 There are however few internal performance measures to monitor whether procurement decisions are efficient and effective apart from some pockets of good practice. For example, contract monitoring in the Property Services section. The BVR highlighted the need to introduce performance indicators to measure the effectiveness of current procurement activities. These measures were derived from existing Improvement and Development Agency (IdeA) indicators, and range from measures such as average cost per order to customer satisfaction ratings. The Council indicates that these measures will be integrated into service business plans for 2002/2003 through a number of planned workshops in May 2002.
- 115 Looking at the Council's track record in delivering change we recognise that there is a willingness to work in different ways to deliver services to the people of Sedgefield Borough against a backdrop of changing customer needs and financial constraints. For example, developing the concept of partnerships to deliver Leisure Services. In addition, the Council has shown a commitment to tackle cross-cutting issues in the early stages of its BVR process, including procurement, and equity and equality.
- 116 The Council has responded to the modernising agenda and established Cabinet and Leader model with Scrutiny committees. Whilst there is an appreciation that the Council is on a learning curve there is general agreement that this is the appropriate way forward.
- 117 There is evidence that the Council has not stood still over recent years and Standing Orders have previously been reviewed to meet the changing constitution and change in procurement practices. The new procurement strategy is seen across the Council as a starting point to develop a more robust approach to the acquisition of goods, works and services. It is seen as a developing approach that is 'not in tablets of stone'. Whilst we see this as an important first step, the Council's current strategy needs considerable development if it is to drive significant improvement.

Summary

- 118 We found that the service has **uncertain prospects** for improvement because although there were some positive signs, namely:
- ◆ the development of a procurement strategy showing the Council's willingness to improve its approach to procurement, and the recognition that the strategy is an important first step on the road to developing a wider understanding of procurement issues;
 - ◆ the Council's involvement in a number of partnerships such as the concordat with Easington and Durham City, and the potential opportunities that this offers in relation to procurement; and
 - ◆ the establishment of a performance management framework and toolkit to ensure a corporate approach to Service business plans. Plus the proposal to integrate procurement related performance measures into business plans from 2002/2003.
 - ◆ We also found that:
 - ◆ the scope of the best value review was limited and focused on developing a strategy instead of considering the wider role of procurement across the Council. The review did not rigorously apply the four Cs. Consultation with departments and suppliers was limited. As a result the review did not identify the nature or cost of current procurement activity and did not develop a clear understanding of the levels of savings and efficiencies that could be achieved.
 - ◆ the improvement plan concentrates on short term policy and procedural changes. It does not set stretching targets to deliver tangible improvements in procurement activity across the Council. There is no clear accountability for delivery of the actions and no clear view of what the Council wants from procurement. As a result it is not clear that the Council will deliver significant improvements or ensure that future procurement activity will realise savings for the benefit of the citizens of the Borough; and
 - ◆ there is a lack of clarity about who should lead on procurement activities in the Council and the role of Councillors has not been clearly defined. There is also confusion about the future role and direction of the procurement working group. This lack of clear focus and ownership means that we are unsure how improvement will be achieved.

Appendices

What the inspectors did

The purpose of best value inspection is to make two judgements. The first is, how good is the service being inspected? The second is, how likely is it to improve? We carried out a range of different activities to enable us to reach our judgements.

Documents reviewed

Before going on site, we reviewed a range of documents, which had been provided in advance by the Council for us. This included the following:

- ◆ Best value review report
- ◆ The improvement plan
- ◆ Best value performance plan 2001/2002
- ◆ The Procurement strategy
- ◆ Revenue and capital Budget for 2001/2002
- ◆ Standing Orders and financial regulations
- ◆ Interim green purchasing policy
- ◆ Information technology strategy
- ◆ Draft IT procurement and purchasing policy
- ◆ Local agenda 21 document
- ◆ Implementing electronic government statement (IEG)
- ◆ A sample of case studies for awarded contracts
- ◆ A sample of contract documents
- ◆ Results of consultation questionnaire exercises
- ◆ Minutes of various meetings of the Management Team, Cabinet, Executive Committee, procurement working group, and comparison group
- ◆ A sample of the Council's leaflets
- ◆ Performance monitoring information used by Planning and Technical Services
- ◆ Local publication 'Update'

- ◆ Examples of departmental business plans
- ◆ Performance management toolkit
- ◆ Best value toolkit
- ◆ Six lever arch files containing a further 84 documents as supporting evidence

Reality checks undertaken

When we went on site, we carried out a number of different checks building on the work described above in order to get a full picture of how good the service is. These on site ‘reality checks’ were designed to gather evidence about what it is like to use the service and see how well it works on the ground. We also followed up on issues relating to the management of the review and the improvements flowing from it. Our reality checks included:

- ◆ Focus group with Purchasing Officers;
- ◆ Visit to the Central Stores Depot at Shildon; and
- ◆ Case studies of current contracts.

List of those interviewed

We also met with a range of different people involved with the service.

Dennis Hall	Council Solicitor – BVR Lead
Phil Humble	Estimating Services Manager
Dennis McKinnell	Audit Services Manager
Richard Prisk	Regeneration Manager
Bob Scougall	Property Services Manager
Michael Kelleher	Best Value Support Officer
Peter Fail	Best Value Officer – Easington District
Cllr Alan Gray	Chair, Scrutiny Committee 1
Tony Guest	Leisure Services Best Value Officer
John Litherland	Director of Planning and Technical Services
Paul Darby	Principal Accountant (Best Value)

Councillor Brian Stephens	Leader of the Council
Malcolm Robinson	Purchasing Officer – Shildon
Jane Russell	Durham City Council
John Ord	Head of Contract Services
Alan Boddy	Best Value Co-ordinator
Norman Vaulks	Chief Executive Officer
Martin Smith	Support Services Manager
Mike Leighton	
Anita Maxwell	IT Services Manager
Brian Allen	Director of Finance
Steven Brown	Purchasing Officer
Katy Austin	Purchasing Officer
John Thirbeck	Section Head Leisure Services
Members of the procurement working group	
