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# Procurement Policy Imperatives

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2012-2015

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London Borough of Tower  
Hamlets

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## **A message from the Mayor of Tower Hamlets**

This plan outlines the Council's priorities and approach for all future procurement activity. The Council currently spends around £445m annually with around 13,250 suppliers, which represent tremendous opportunities to realise benefits for this borough.

In view of the reduction in our central government funding and the difficult economic climate, it is vital that we seize on this opportunity to establish this Council as a leader in the field of ethical, sustainable and fair procurement; whilst securing value for money, and using our processes to stimulate the local economy and workforce.

To achieve this, the Procurement Plan will promote the following principles to be mainstreamed throughout the Council's procurement work:

**To provide value for money:** helping the Council meet the future financial pressures resulting from a reduction in our central government grant.

**To support local businesses, especially SME and alternative providers including the third sector:** making our processes more transparent and accessible. We will provide training on accessing our procurement processes for local SMEs and third sector organisations, and analyse contracts to ensure that, where practical, they are of a small enough size to allow these organisations to bid.

**To support third sector organisations:** We will work with the Tower Hamlets Council Voluntary Services to provide third sector organisations with training and support to access Council contracts.

**To create local employment and training opportunities:** incorporating provisions in our contracts for local workforce, training and apprenticeship opportunities and helping our contractors to use council services, such as Skillsmatch and East End Life, to advertise and recruit job opportunities.

**To promote diversity and equality of opportunity:** incorporating provisions around our 'Workforce to reflect the Community' policy in contracts, and providing support for BME businesses.

**To promote Fair Employment Practices:** incorporating in our contracts the payment of Living Wage and promoting the unionisation of the workforce.

**To promote ethical sourcing, including fair-trade products:** ensuring procured products are produced in accordance with child labour, health and safety and working hour laws and promoting fair-trade products throughout the supply chain and in all Council services and buildings.

**To promote environmental sustainability:** We will seek to reduce waste and emissions, remain a signatory of the Mayor of London's Green procurement Code and consider 'Whole Life Costs' of products when evaluating tenders.

Whilst we are setting a high bar with these principles, I have high expectations of the Council and our partners' ability to deliver them.

Lutfur Rahman

## 1.0 Introduction

This document is the Council's plan for the procurement of works, goods and services for the financial years 2012-2015. The public sector and most importantly Tower Hamlets Council is operating in an economic climate that has, and will, continue to affect the provision of Council services.

Tower Hamlets is currently the third most deprived authority in England and the second most deprived in London. However our economy is estimated to be worth in excess of £6 billion annually and provides some 200,000 jobs, or 5% of London's total employment. In the last decade employment has grown by 60% in Tower Hamlets – four times more than the rate of London as a whole. There are now around 60,000 more jobs than there are residents of working age in the borough.

Over the next twenty years the employment level is expected to grow by at least 50,000. Despite this growth, less than 20% of jobs in the borough are taken by residents; the others are filled by people commuting in for work.

Unemployment in the borough is currently at 12.9%, almost 50% more than the London average of 8.9%. Less than 70% of our male residents are in work or are looking for work, and for female residents the figure is 55.8%. A quarter of borough residents – twice the London average – have no qualifications and over 40% of these are not in work.

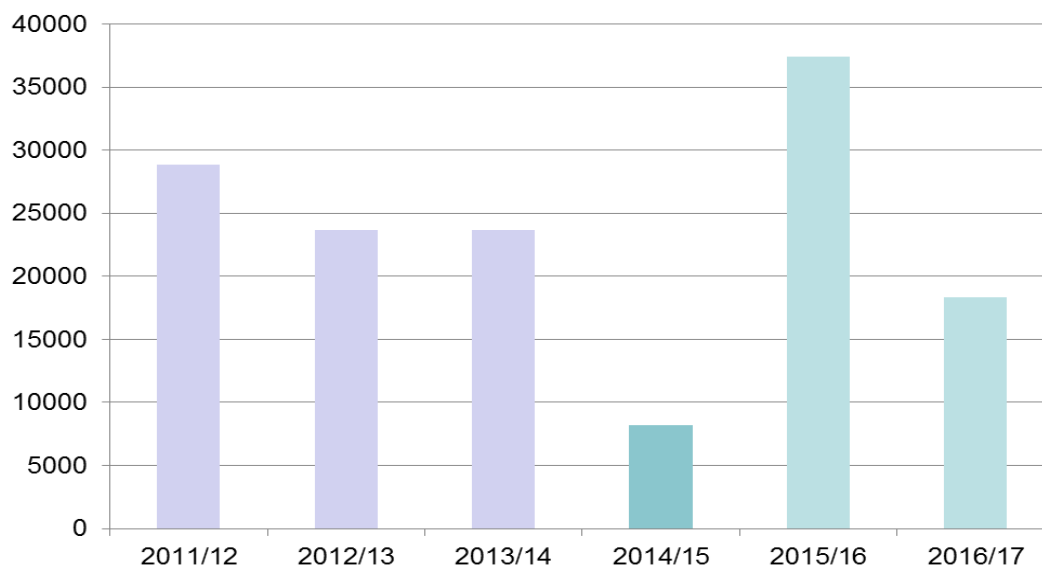
## 2.0 Policy Imperatives

This document sets out the policy priorities and operating framework to be taken into account by the organisation in procuring works, goods and services. It supports the Medium Term Financial Plan and will achieve better social, economic and environmental outcomes to the benefit of the Tower Hamlets Community.

### ***Imperative number 1: delivering budget efficiencies and providing value for money***

By the end of 2013/14, the Council will have delivered £88m in planned savings since the start of Government cuts in 2010 and we anticipate at least a further £57m will be required by the end of 2016-17. By the end of 2016-17 the Council's budget will have reduced in total by 45% in real terms.

**LBTH- Annual Savings**



Tower Hamlets spends approximately £445m annually with around 13,250 suppliers on a diverse range of goods, works and services. It is inevitable that much of the savings target will be driven through better procurement, and supporting the Council's main priority of maintaining a balanced budget and ensure sustainable services are provided by the organisation.

Most of the Council's procurement activities will be targeted towards savings, with additional activities to drive out additional value that will help release resources elsewhere. This will involve ensuring that existing contracts continue to offer value for money and are actively managed as well as ensuring that new procurements optimise value and, where appropriate, include commercial targets for cost savings and service improvement.

The approaches that will be taken will depend upon individual contracts that the Council is to procure and the outcomes to be achieved.

It is an imperative of this procurement approach to ensure that cost reductions are achieved through the procurement process and the Council achieves cashable savings. These will be achieved by enhancing the Category and Contracts Management role, to provide an enhanced combination of support and challenge to the Council's procurement practitioners.

***Imperative number 2: Create local employment and training opportunities***

Where legally appropriate, we will include Community Benefit clauses to encourage a more innovative approach to procurement across the organisation. Specifically, their inclusion will aim to lead to the permanent employment of formerly non-working people, as well as provide training and work placements for young people, especially graduates. This will lead to a positive cycle of experiences for these people, and in so doing helping to support the regeneration of deprived areas in the borough. In particular:

We will strive to incorporate provisions in contracts aimed at creating net new jobs and provide new training opportunities. By 2015 we aim to have created at least 300 net new jobs for borough residents.

We will help our contractors to use Council services, such as Skillsmatch and East End Life, to advertise job opportunities.

**Case Study: ICT**

During 2012 Tower Hamlets entered into ground-breaking, seven-year strategic partnership with ICT Firm Agilisys that will create 250 permanent jobs and more than 1,000 vocational training opportunities for Tower Hamlets residents. The deal will also help the council secure over £29 million in back office ICT cost savings over the next seven years in a partnership designed to protect frontline services and local public sector jobs. In addition the council and Agilisys will create a pioneering new Apprenticeships Institute to drive economic opportunities for young people. Based in the borough, the Institute will become a centre of excellence for the training, development and

work-placement of apprentices with public, private and third sector employers in Tower Hamlets and across London.

Agilisys, one of the UK's most innovative IT and business services providers, today announced it has been selected by Tower Hamlets for a ground-breaking, seven-year strategic partnership that will create 250 permanent jobs and more than 1,000 vocational training opportunities for Tower Hamlets residents.



The £70m partnership will also help to implement the council's new back office Finance and HR systems, as well as support their broader transformation programme.

***Imperative number 3: Support local businesses, especially SME businesses and alternative providers***

Our commitment to a more prosperous community means that it is essential to build on the important work we have already delivered in supporting local businesses and local employment through procurement. Opportunities for, and opportunities in, contracts must be found to develop trade with local firms, both as first-tier suppliers, and through the supply chains of our major contractors.

Spend with local suppliers was approximately £98,500,000 or 22 % of total contract spend in 2011-12. Our policy aims increase the amount of local spend to 40%, directly and indirectly through the supply chains of major contractors of the Council, by financial year 2014-2015. We will increase local spend by specifying the inclusion of local business content in our direct contracts and as part of the supply chain of major contractors.

This is a significant and difficult challenge. The majority of contracts in the council are with national organisations and they are focused on doing business with both national and local government. We must know more about the capacity of businesses in the borough and their suitability to deliver sustainable outcomes within the legal framework for public sector procurement. We will address this by creating a database of the industrial capacity in the borough, identifying local businesses and their ability to do work for the council and its major contractors. This database will become a key asset in supporting local businesses.

The database of our industrial capacity will assist greatly in stimulating our local economy, reducing the size and complexity of our contracts and assist in creating business opportunities for smaller local contractors to win.

### **Case Study: Decent Homes Contracts**

Over the last two years the Council has embarked upon the procurement of its £133.9m. Decent Homes programme. This began in June 2011 with a mini-tendering exercise to deliver the first two years' programme.

In early 2012/13, the Council and Tower Hamlets Homes initiated an OJEU and leaseholder compliant framework for the third, fourth and fifth years of the programme. The framework was designed to maximise the community benefits from this large value contract. Firstly contract packages were split into smaller lots, allowing smaller local suppliers the opportunity to deliver some elements of the work. Secondly suppliers were asked to offer community benefits from the work, against set minimum standards.

Benefits include 240 apprenticeships, adult work experience places, meet the buyer events for smaller businesses, 20% of all contracted work to go to businesses in Tower Hamlets, and local labour commitments.

### ***Imperative number 4: Promote workforce diversity and equality of opportunity***

Where commercially possible, we will incorporate into our contracts provisions to ensure operational compliance with the Council's Workforce to Reflect the Community aspirations. During 2012/13 we will encourage existing suppliers to provide the Council with workforce equalities data to ensure our aspirations can be tracked and tested.

### ***Imperative number 5: Promote fair employment practice including implementation of the London Living Wage.***

Having been a signatory to the London Living Wage (LLW) campaign since 2008, the Council has paid all directly-employed staff and agency temps at a rate at or above the LLW since then and is recognised as one of the top five Local Authorities in adopting the London Living Wage.

In December 2011 the Council formally implemented its LLW policy. In 2011, 28 contracts, valued at approx. £77,000,000 included the LLW. Since this time we have added a further nine contracts bringing a total 37 contracts, valued at approx. £123,000,000 in calendar year 2012. The implementation of the LLW is a feature of all strategic contracts and will be considered on a case by case basis for inclusion in contracts. So far this case by case approach has reaped a 100% success rate in ensuring contractual compliance with the Living Wage.

### **Case Study: London Living Wage in Domestic Care Contracts**

Our contractual arrangements for domiciliary care include 8 block contracts each with an annual volume of 60,000 and let for a three year period (2012 – 2015) combined with a Framework to which 16 suppliers were appointed and from which packages of care can be spot purchased. It is difficult to completely accurately predict demand for domiciliary care, but we expect to commission around 1million hours of care per annum in total, so around 520,000 hours via the Framework. The Framework has been set up for one year (2012 – 2013) so a further tender exercise will be undertaken in 2013.

The block contracts were let on a fixed-price basis for the three year duration (but see LLW arrangements below) and the average unit price achieved was £13.75 per hour. The average unit price achieved across the Framework was £13 per hour (the shorter duration to which the price will apply explains this differential), and the combined average is £13.35. Assuming 1million hours of care commissioned per annum that gives an annual value of c£13.35million.

The payment of LLW to all staff wholly or substantially engaged in the delivery of service under these contracts is a contractual requirement. Compliance with this requirement will be monitored in a variety of ways, with monitoring officers engaging directly with care staff, having access to payroll information, checking advertised pay rates and other similar methods. Any identified failure to pay LLW will be treated as a breach of contract and addressed accordingly. The successful suppliers across both the block and Framework contracts have, however, been largely positive about the requirement to pay LLW, and believe, as we do, that it will aid in the recruitment and retention of high quality local employees. Domiciliary care suppliers generally have starting salaries which reflect the National Minimum Wage, so in the case of these contracts it is clear that LLW has a positive impact for employees.

LLW is subject to annual review by the Mayor of London, and was recently (October 2012) increased from £8.30 per hour to £8.55 per hour. Contractual rates are therefore being adjusted to reflect this increase, and this creates a full-year pressure of c£250k.

***Imperative number 6: Promote ethical sourcing, including fair-trade products***

The Council is committed to the use of ethically sourced products and this plan will support their inclusion by including their use in contract requirements. Ethically sourced products will be considered as part of the evaluation criteria in the award of new contracts.

***Imperative number 7: Promote environmentally sustainable products and businesses***

A new EU Timber Regulation entered into force on 2 December 2010. On 3 March 2013, it will be illegal to market illegally harvested timber and timber products throughout the EU. The legislation requires that the supply chain keeps track of who timber, or timber products were bought from and where applicable, who they were sold to. To comply with the legislation all timber and wood-derived products must be from only :

- Independently verifiable legal and sustainable sources; or
- Forest Law Enforcement Governance and Trade [ FLEGT ] licensed timber or equivalent sources.

We will specify requirements for the supply and use of timber and wood-derived products in performing the contract to the effect that all timber and wood-derived products originate from either legal and sustainable sources, or FLEGT-licensed or equivalent sources. We may reject proposals that do not offer independent verification that timber and wood-derived products to be used in a contract meets this requirement.



The Council has achieved World Wildlife Foundation Bronze status for responsible timber procurement and in this plan will strive to achieve Silver status by 2015.

The Council is committed to achieving a zero waste borough. This means sustainable design, avoiding the unnecessary use of raw materials, waste prevention, high levels of recycling and composting and reducing the use of landfill to a minimum. This plan considers the impact of procurement on the environment and will support the reduction of greenhouse gas emissions in the borough.

In our new build programmes we will specify clear metrics and performance levels in their funding criteria and procurement requirements that commit to continual improvement towards zero waste in the borough.

We shall require the use and procurement of recycled commodities in our contracts and by our major contractor's supply chain in respect of paper and building products.

The cost of energy continues to rise and it has become an annual concern that our tenants cannot afford to pay for energy to heat their homes. In new Council buildings and homes we will include a mandatory requirement to introduce an energy efficiency action plan for these buildings and thereby reduce their cost of energy and their carbon footprint.

### 3.0 Delivering these imperatives

#### 3.1 The Team

So that the Council can continue to influence, shape and achieve the Council’s objectives it is recognised that an effective and efficient procurement service will remain a key component of the Council’s ability to achieve its objectives.

The delivery of this plan requires three key constituents :

- Strong and visible Councillor support;
- Skilled, motivated and capable officers; and
- Access to simple, easy to use tools, processes and systems.

Our policies are member led and delivered by officers across the Council, supported by the Corporate Procurement Service.

Procurement in Tower Hamlets is performed through a devolved approach and a strategic approach. The ability to purchase has been devolved so that many officers of the Council buy low value and low risk commodities. Where commodities are strategic with higher value and higher risks then the Corporate Procurement Service provides resource to support these procurement activities.

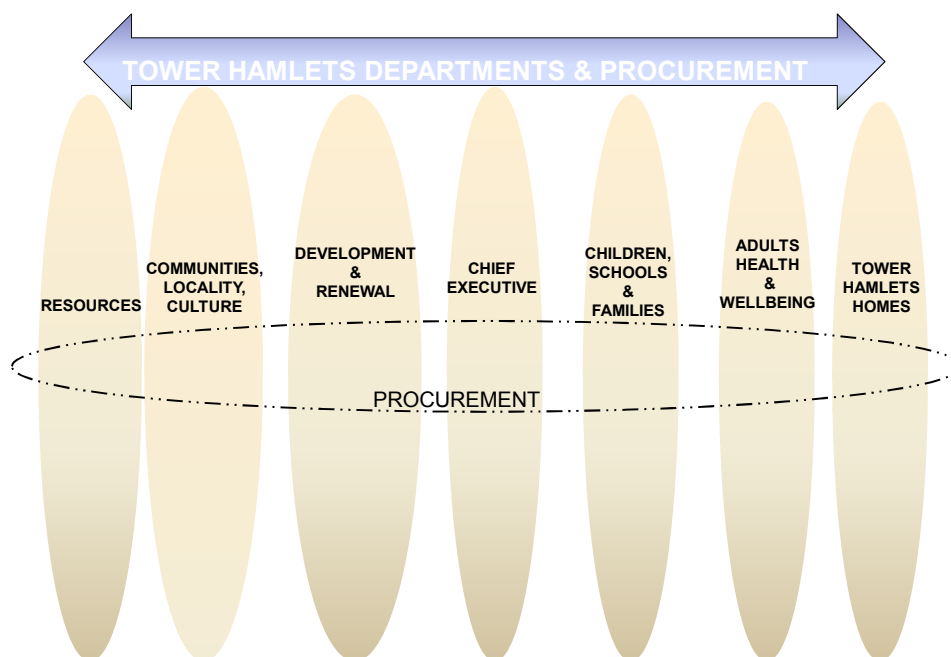


Figure 1

The Corporate Procurement Service provides the strategic and corporate leadership, policy, advice and support to the Council in its commissioning and procurement activities, overseeing the Council’s engagement with its external supply base.

### 3.2 Legislation : the Framework for Public Sector Procurement

The Treaty on the functioning of the European Union applies to all procurement activity regardless of value, including contracts below the thresholds at which advertising in the Official Journal of the European Union is required and including contracts which are exempt from application of the EU Procurement Directives.

The fundamental principles flowing from the Treaty include:

- transparency - contract procedures must be transparent and contract opportunities should generally be publicised;
- equal treatment and non-discrimination - potential suppliers must be treated equally;
- proportionality - procurement procedures and decisions must be proportionate; and
- mutual recognition - giving equal validity to qualifications and standards from other Member States, where appropriate.

All of the Council's procurement activity takes place within this framework.

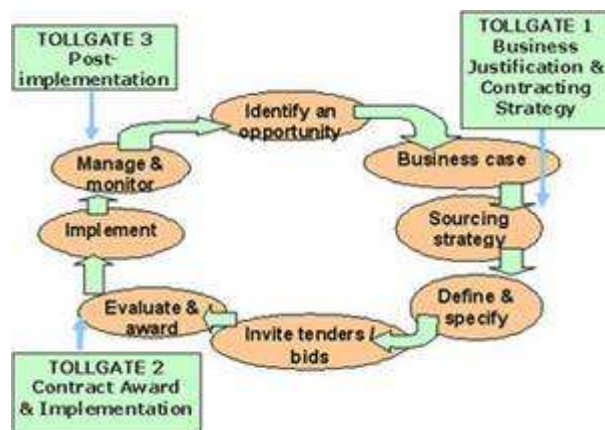
### 3.3 Governance

Effective and efficient procurement in Tower Hamlets relies on a coordinated approach involving commissioners, particularly in their knowledge in specifying outcomes required, the support of our legal services in the provision of contractual and legal advice and the provision of appropriate terms and conditions of contract and also the financial support from colleagues in financial services.

Cabinet Members advice is sought at the initial stage of designing the tender brief and document.

We use a Tollgate approach. See figure 1 below. The approach requires commissioning managers to consider all of the policy imperatives set out in this document. Governance is provided by the Council's competition board and competition working group to ensure all imperatives have been properly considered.

Figure 1: Tower Hamlets Tollgate Approach



In order to structure and record the decisions of the board and so that Commissioning managers can evidence their considerations, managers are required to complete checklists that can be reviewed at Toll Gate 1 and Tollgate 2. Copies of these can be found at Appendix A.

### **3.4 Member participation**

Our policy imperatives will be delivered within the legislative framework for public sector procurement and our contracts are controlled through our Procurement Procedures, Tollgate process and the active participation of the Council's Elected Members.

This plan demonstrates how procurement will contribute to delivering these policy priorities, as stated by the Mayor.

Cabinet Members will also have a role in working with their directorates on designing the service specification for procured services, during the Toll Gate 1 process.

The procurement forward plan is presented to Cabinet quarterly and contains all supplies and services contracts over £0.25m and capital contracts over £5m.

### **3.5 Community Benefit Clauses**

This plan has a range of imperatives that must be addressed in all procurement activities and by their inclusion the Council will make a difference to its community. There is potential for our procurement projects to impact on the quality of life, training, employment and investment in our local community and its longer-term regeneration.

It has become clear over recent years that there is scope within the legal framework which applies to public contracts, to use contracts to deliver wider social benefits. These opportunities are developed in this strategy to deliver a wide range of social benefits.

We shall use contractual requirements which deliver wider social benefits in addition to the prime purpose of the contract. In particular, these will be requirements in relation to targeted training and employment outcomes, that will provide apprenticeships and upskilling of workers . We will use these provisions, where legally appropriate, to insist upon payment of the London Living Wage

The application of community benefit clauses will be done on a case by cases basis. We shall ensure that community benefit clauses are mentioned in OJEU notice and throughout the procurement process. In order that they can be included in the technical assessment of tenders and in award of the contract, community benefit clauses must have a direct link to the core purpose of the contract.

To avoid any form of discrimination, including indirect discrimination, the wording of community benefit clauses must emphasise social inclusion characteristics and will not be aimed specifically at employing people from a certain locality, of a certain age or sex, etc . Indirect discrimination, to the disadvantage of non-local contractors, will not be permitted.

This plan will also provide opportunities for an enterprising third sector, by recognising the important role the third sector plays in both service delivery and in representing service users. When commissioning services we will ensure that service users and their representative groups from the

third sector are consulted in order that people-centred services will be designed for best outcomes and value for money.

***We will also work with the third sector team, through the third sector strategy and with the CVS, to ensure that our third sector is helped to develop into organisations able to bid for and deliver Council contracts.*** We will also ensure that contracts are advertised in such a way that third sector organisations are aware of the opportunities, as we have set out for local businesses above.

We will maximise social benefit by including Community Benefit clauses in our contracts with the third sector for targeted recruitment and training as well as taking on board wider social issues such as equality and diversity.

We will improve our knowledge of and evaluations of the Social Return on Investment so that service commissioners understand better how social benefit will be maximised in a service delivery.

### **3.6 Working with Suppliers**

#### **3.6.1 Supplier Development**

We will support supplier development of local enterprises to be ready for business. Where a new contract is to be awarded, we will provide targeted training on how to do business with the Council and how to do business with its major contractors.

For contracts with the Council, the training will be delivered directly by the Corporate Procurement service together with the contract commissioner. For contracts with a major contractor, the training will be delivered by its staff. The training to our local suppliers will be a contract requirement, to provide community benefits and thereby demonstrate fulfilling Corporate Social Responsibilities of major contractors in the borough.

Each development route will train a potential supplier on how to register for opportunities with the Council or a major contractor and be alerted for these, how to respond to selection and evaluation methods, and be aware of the approach needed to make a successful proposal.

Our supplier development will take account of the diversity of the borough taking account of its demographic profile and ensuring that BME suppliers are treated equally in being ready for business.

#### **3.6.2 Advertising**

We will advertise contract opportunities through a range of media that reaches out to all communities in the borough including local press, industry magazines, procurement portals, and our website. Our advertising will ensure that local businesses are treated fairly and that the BME organisations in the borough have an equal opportunity to be aware of potential business with, or for the council. These will be advertised as early as possible so that local businesses can contact the Council for information and to prepare for the contract opportunity.

### **3.7 Procurement Systems, supporting operations and capabilities**

#### **3.7.1 Payment Systems**

A review of our purchase-to-pay processes in 2008 led to implementation of an e-procurement system, and this has made our payments system more efficient, consistent and improved our

payment performance. The introduction of the e-purchasing system, R2P allowed the Council to increase its efficiency in processing invoices for payment from 82% in 2008 to 95% in 2011-12. Our payment performance target is for 97% of invoices to be paid within the standard payment terms.

The organisation is transforming and in 2013-14 it will implement a new finance system. In 2014-15, as part of the new finance system, a new and easier to use Purchase – to – Pay system will replace the current R2P system and improve the efficiency of processing supplier invoices (approx. 85,000 in 2012-13).

Further improvements to how we procure our contracts will be delivered in 2013 when we implement new e-procurement systems for good management information to improve procurement functions. These will address our contract register, project management of strategic contracts, dynamic spend analysis, dynamic purchasing, e-tendering and catalogues for contract management and call off.

### 3.7.2 Category and Contract Management

We implemented category management processes in 2008 to deliver significantly increased savings, working with other services to contribute to a steadily increasing proportion of the Council's overall budget savings. Our categories are for Corporate Services & Soft Facilities Management, Construction and Hard Facilities Management and Care & Commissioning.

Further savings in the economic climate that the Council faces have been described above. These will be difficult to achieve without good management information and suitable management systems. Category management and spend analysis have made a substantive difference, and the introduction of contract management in December 2012 will bring further improvements in ensuring both the Council's policies are being implemented and value for money is demonstrated by Council providers.

### 3.7.3 Skilled, Motivated and Capable Officers

This plan relies on competent procurement practitioners, not just within the Corporate team but across the wider organisation. The Corporate Procurement service will provide training on procurement practice and legal framework for public sector procurement to Council staff and elected Members as requested. The training will include support from legal and finance services and address the key factors for success in completing the procurement journey.

The training course development will be complete by March 2013 and training sessions will begin in April 2013.

## **4.0 Summary**

This Procurement Plan establishes a clear path for the organisation to use its procurement practices, to both contribute the overall savings targets and to bring social and economic benefits, over and above the services provided, to the residents of Tower Hamlets.

The Council is in the process of implementing many of the policy imperatives, with best practice being shared across the organisation. This plan will help to bring all elements of procurement up to the same high standards.

The impact of these policy imperatives and actions will be measured and monitored by the Corporate Procurement Team, with improvements made to enhance the delivery of the plans' imperatives.

