IMPROVING SUPPLY MANAGEMENT IN LOCAL AUTHORITIES
Improving Supply Management in Local Authorities

A Report by the Audit Commission

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Supply management has been a neglected area in local authorities, largely because it has little political impact. Until the Commission's Progress Review in 1984, it had received scant attention from members and, in many authorities, could only be described as in a muddled state. Expenditure on goods and materials is, at around £3 billion per year, big business. The 1984 review concluded that annual savings of between £100 million and £200 million should be attainable. That conclusion has been borne out by the work of auditors; following only the very limited investigation reported in the review, they have already identified potential savings totalling £50 million. The incursion by the Commission and local authority auditors has already raised the profile of supply work, but more needs to be done.

Savings can be achieved not only on the purchase price of goods but also on the supply operations themselves; the process of supplying authorities' £3 billion of purchases each year adds around £500 million per annum to the cost. This report focuses on the action which the Commission commends to authorities so as to realise savings both in prices and in costs of supply:

(i) Every authority should determine centrally the arrangements for purchasing, storing and distributing all goods and materials used for its services. Delegation of supplies responsibilities should result from explicit choices by the authority, not by chance or as a result of preferences of individual departmental officers. A Procurement Manager is needed in every authority whose responsibility is to advise members, and ensure that laid-down arrangements are followed and continue to meet all the needs of the variety of supplies users.

(ii) Supply arrangements for an authority can only be determined by reference to its specific circumstances but it should be exceptional for any item to be bought independently in more than one part of the authority. In addition authorities should:

- Wherever possible, negotiate contracts jointly with other authorities
- Consider purchasing through a local authority supply consortium where this facility is available or could be made available
- Consider whether improvements to the supplies function could be achieved by setting up or extending a single-authority central supplies department. Designating particular departments to act as the supply agents to the whole authority for particular commodities is unlikely to be successful
- Consider making use of the supply services of other authorities, particularly ifthe authority in question is a relatively small purchaserof goods
- Consider what offers are available under central government contracts. Each authority should choose a blend of approaches to enable it to secure large numbers of small savings. The key to successful supplies operations is managing small numbers well although, of course, there is a need to pursue the bulk savings which may be available on individual high-spend items.
(iii) Monitoring of laid-down supply arrangements is required to ensure both that users do not deviate from the arrangements and that users’ needs are being met. In addition the effectiveness of the supply arrangements should be assessed against well defined targets.

(iv) Within a local authority’s chosen supply arrangements, purchasing itself should be improved. The key to this is the use of properly constructed contracts with suppliers:
- As far as possible, contracts should aggregate purchases of similar items to increase the volume of the purchase
- They should contain terms which meet the authority’s needs, particularly on price variation
- The tendering process should ensure adequate competition through inviting tenders from an appropriate number of suppliers, seeking out new suppliers and careful timing of entry into the marketplace
- Contract making should be preceded by appropriate formal and informal negotiation with potential suppliers. Pre-tender negotiation is a valuable method of assessing the market before invitations to tender are finalised. Post-tender negotiation can be used to seek improvements to tenders which have been received. In both types of negotiation, authorities need to take care that all would-be suppliers are treated fairly and that this is seen to be so
- Standing orders and financial regulations should be designed to achieve value for money in the supply process whilst at the same time safeguarding the integrity of the authority.

(v) The choice of specifications should involve both supplies users (to ensure that items bought perform as required) and supplies specialists (to see that economical choices are made). Choices should take account of the whole-life costs of goods, for which a simple assessment can often be adequate. Specifications should include reference to standards wherever possible but should not generally incorporate brand names.

(vi) Particularly where suppliers are delivering to a large number of users within an authority, there need to be checks on the specification and quantity of goods delivered.

(vii) The main scope for reducing supply costs is in stores management. Two measures alone could lead to a halving of the £400 million of stock held by local authorities:
- Items to be stocked in stores should be carefully selected – many stores have alarming holdings of completely redundant stock which take up costly space and which should periodically be cleared
- Stock levels of items which do need to be stored can be substantially reduced – there is a high incidence of excessive stock levels. This reduction of stock would save about £20 million per year in interest charges (depending upon the resale value of redundant stock), as well as substantially reducing the other costs of holding stock.

(viii) Stores should be closed where alternative arrangements can more economically meet the supplies need. Where stores are retained their management must be tightened – current standards of safety and cleanliness may impair efficiency as well as the well-being of staff.

(ix) Accounting procedures and management information for stores should be improved. Sound decisions on ranges of items to hold in stock and on stores operation can only be taken if full, accurate and timely information is available. At present many authorities lack such information.

(x) Recent advances in information technology provide significant opportunities for authorities to streamline their administrative procedures. For example, advances in on-line processing of supplies information can simplify ordering and payment of invoices.
Appropriate staffing is the cornerstone of improvement in supply management. At all levels of supply operations, appointments should be based on aptitude and skill in supplies. All but the very smallest authorities can justify the employment of professional supplies staff; a rough guide is that any authority purchasing £500,000 worth of goods per year ought to be able to justify the appointment of a full-time professional officer.
Introduction

1. Purchasing, storage and distribution of goods by local authorities constitute a huge operation. Throughout England and Wales, a total of around £3 billion per annum is spent on goods and materials. This makes local government one of the largest customers for goods and materials in the country. On top of the purchase cost of the goods, storage, distribution, contracting and ordering cost perhaps half a billion pounds in total per annum.

2. At the same time as being big, supply is an extremely diffuse activity: the end users and many of the other people who take executive decisions are widely dispersed within authorities. Moreover, the impact of supply is inconspicuous — members of the public are unlikely to question councillors about it or complain about it. Consequently supply receives little attention from senior local authority managers or from members. But as Exhibit 1 shows, spending on goods and materials is as much as on many key local authority services.

3. Supply was therefore one of the first topics to which the Audit Commission directed its attention. In July 1984 a progress review was published* concentrating mainly on purchasing. It featured a comparison of prices paid by

Exhibit 1

**Purchasing is as big an expenditure item as many services**

<table>
<thead>
<tr>
<th>Service</th>
<th>Expenditure (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing</td>
<td>£3.0Bn</td>
</tr>
<tr>
<td>Police</td>
<td>£3.0Bn</td>
</tr>
<tr>
<td>Personal Social Services</td>
<td>£2.7Bn</td>
</tr>
<tr>
<td>Highways</td>
<td>£1.3Bn</td>
</tr>
<tr>
<td>Fire</td>
<td>£0.6Bn</td>
</tr>
<tr>
<td>Refuse Collection and Disposal</td>
<td>£0.6Bn</td>
</tr>
<tr>
<td>Libraries, Museums, Galleries</td>
<td>£0.4Bn</td>
</tr>
</tbody>
</table>

Source: CIPFA and Audit Commission data

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*Reducing the Cost of Local Government Purchases - A Progress Review. ISBN 0 11 701265 3. Published by HMSO
all local authorities for a sample of 47 supplies items. Opportunities for improvement of between £100 and £200 million per annum on a national scale were identified. Following this review and the associated work of auditors, many local authorities have taken steps to improve their supply operations. Auditors' reports from around the country show that some £50 million a year of achievable savings have been identified so far. But there is much still to be done.

4. Because of its importance and the potential for further improvement the Commission has followed up the purchasing progress review with a special study of all aspects of supply in a sample of local authorities. The Commission's study team consisted of Bert Benham (Project Manager), Roger Williams and James Kennedy all of the Special Studies Directorate. It was assisted by the management consultants Arthur Young. Auditors too have examined supply arrangements, during the 1985-6 round of audits. In the course of the study, various bodies were consulted: private sector firms, government departments and the British Standards Institution. The study team was advised by purchasing professionals nominated by the Institute of Purchasing and Supply (IPS), the Local Authorities Management Services and Computer Committee (LAMSAC) purchasing panel and the Association of County Supplies Officers, and the Audit Commission is grateful for the help given by all these organisations.

5. The Commission finds worrying examples of waste in almost every step of the local authority 'supply chain' which begins with a user need for goods and ends with their use. Different prices being paid by different departments for the same item, poor specification, inappropriate contract arrangements, over-stocking, bad store management and inappropriate delivery arrangements all appear in one authority or another and with alarming frequency. For example:

- In one county council two educational establishments were renting identical photocopiers. Yet one was paying four times as much as the other – an excess of over £5,500 per annum
- One authority, which arranged its purchases by telephone bids, was paying on average 25% more than a neighbour, which used written contracts, for a range of building materials. The estimated additional cost to the first authority is nearly £100,000
- Auditors frequently reported alarming cases of redundant stock. In one store it was 50% by value whilst in another, of 7,700 items in stock over 3,000 had not moved for at least nine months.

6. The root of this waste is a muddled approach to the processes of supply combined in many cases with lack of professional officer support. That itself results from lack of high-level interest in avoiding waste in this area. Corrective action is in principle very simple: each authority needs to set out a clear supply policy and ensure that it is co-ordinated by a professional Procurement Manager. Once the policy is in place, the Procurement Manager needs to pursue improvements in all stages of the supply chain.

7. Chapter 1 of this report deals with the need for appropriate management arrangements which include the use of a Procurement Manager to help to produce a supply strategy. It outlines these arrangements and describes how to minimise purchasing effort, how best to use expertise and how to monitor compliance with policy.

8. Chapter 2 examines the need to obtain better value from purchasing by improving buying procedures, getting the specification right and by adequate quality control.

9. Chapter 3 discusses how the costs of supply can be minimised by streamlining the administration, reducing stockholding, closing unnecessary stores and improving the management of the remaining stores.

10. Finally, Chapter 4 outlines the actions necessary by elected members and officers to secure improvements in supply within the organisation, systems and procedures referred to in the earlier chapters.
1. Setting up appropriate supply management arrangements

11. The £3 billion a year spent by local authorities on the purchase of goods and materials is big business. In addition the cost of carrying out the purchasing, storage and distribution amounts to perhaps a further one sixth of this total and involves the efforts of numerous local authority staff. However, few authorities make a co-ordinated attempt to direct this effort to good effect or to monitor whether the level of effort is appropriate. As a result, about one quarter of all local authorities surveyed in 1984 did not know within 90% accuracy how much money they spend on supplies. Furthermore some 85% were unable to say how much supply operations costs. Certainly some of the effort expended on supply operations is misdirected. One London borough arranged its own contract for the supply of photocopy paper. The price was the same as that already available to the authority under a contract negotiated by the Greater London Council Supplies Department (now part of the Inner London Education Authority). Not only was there no price advantage in the borough's own contract; educational establishments had to collect the paper from the supplier whereas the GLC contract included delivery.

12. A local authority's supply management needs to cover a host of activities – some of them on a very small scale. One county has 633 points to which deliveries are made in the education service alone. Kent County Council Supplies Department has estimated that it buys around 100,000 different products on which it spends about £68 million per annum: an average of less than £700 per product line per annum (this figure would be much lower if bulk items – such as fuel oil on which annual expenditure runs into millions of pounds – were excluded). Improvements in supply are frequently a matter of savings on particular items. On the figures just quoted, a 10% saving on an item could amount to less than £70. One of the secrets of improvements in supply is therefore the aggregation over many items of relatively minor savings. Consequently this report draws extensively on specific examples of good and bad practice relating to individual items.

13. The nature of the supply service required varies considerably. For instance housing maintenance staff may not know what their supplies needs are for a particular day until they receive job sheets, whereupon they draw their requisites from a depot store. In contrast, primary school head teachers have a good idea of the number of exercise books they need well in advance but require delivery of them. Authorities differ simply in terms of the ranges of goods bought, as Exhibit 2 shows. Furthermore, local circumstances affect the supply service needed by an authority, including its geography, the extent to which it contracts out its services and the range of commercial distribution facilities available in the area. Management arrangements must be attuned to all the particular needs of the authority.

14. Whatever the circumstances, the choice of supply arrangements must not be left to individual user sections and departments. In a large number of cases the Commission and its auditors have encountered instances, like those set out in Table 1, of different departments of the same authority paying different prices for the same item bought on comparable terms.
ANALYSIS OF EXPENDITURE ON GOODS AND MATERIALS FOR THREE PARTICULAR AUTHORITIES IN 1985 – 86

ILLUSTRATIVE:
These 3 authorities are not necessarily typical

Source: Audit Commission survey
### Table 1: Prices Paid by Different Departments of One Authority £

<table>
<thead>
<tr>
<th>Item</th>
<th>Housing</th>
<th>Social Services</th>
<th>Education</th>
<th>Recreation</th>
<th>Libraries</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 refuse sacks</td>
<td>£4.40</td>
<td>-</td>
<td>3.85</td>
<td>5.00</td>
<td>-</td>
</tr>
<tr>
<td>Washing powder E3 size</td>
<td>0.80</td>
<td>0.94</td>
<td>0.61</td>
<td>-</td>
<td>0.53</td>
</tr>
<tr>
<td>5L bleach</td>
<td>0.63</td>
<td>0.81</td>
<td>0.72</td>
<td>0.82</td>
<td>0.63</td>
</tr>
<tr>
<td>6ft fluorescent tube</td>
<td>-</td>
<td>-</td>
<td>1.65</td>
<td>2.20</td>
<td>1.61</td>
</tr>
</tbody>
</table>

In one London borough, auditors reviewed prices paid for 50 items bought by both Housing and the Engineering Departments. The prices paid by the authority differed for 28 of the 50 items. In such cases there is scope for savings simply by securing the lowest prices for those users now paying above the lowest. It is also likely that there is scope for securing a price which is even lower than the present lowest by integrating all users' demands into a single purchase contract.

15. In the light of the variety of items bought by local authorities and the variety of circumstances in which they are bought and used it is clear that obtaining good value for money from the supply process requires painstaking attention to detail and depends upon managing small numbers well (as well as pursuing large savings which may be available on individual items with high annual spend). The Commission's concern is that local authorities should have appropriate systems and procedures for doing this. The remainder of this Chapter examines the procedural needs of authorities. It covers in turn:

(a) The role of members
(b) Strategic choices facing members
(c) The role of officers
(d) Monitoring the supply operation.

### THE ROLE OF ELECTED MEMBERS

16. Given the enormous expenditure on supply the Commission is clear that attention from elected members is both appropriate and necessary. The concern must be to establish appropriate rules and conventions which determine how the supply needs of the many and varied users are to be met. In some authorities these rules may be based on considerations other than efficiency e.g. a 'Buy Local' policy. Such policies can be costly and authorities must be fully aware of the costs of their decision. In the Commission's view the only way to ensure that users receive the supplies they need economically and efficiently is to determine policy concerning supply arrangements centrally. Mechanisms are also needed to ensure that these rules and conventions are followed, and, when appropriate, revised. Once appropriate rules and conventions have been established continuing member involvement is necessary to oversee them. One county council has a sub-committee made up of the chairmen of the major committees to control its purchasing and supply function. These members are able to ensure that their services make appropriate use of the supply arrangements as well as ensuring that the supply needs of services are being met. Needless to say this authority has a successful purchasing and supply function.

17. Other authorities operate successful supply functions with less member involvement than this. The important ingredient is that elected members should appreciate the need to introduce and maintain effective supply arrangements and require regular reporting of the performance of these arrangements. An illustration of the appropriate concerns of elected members is provided by Exhibit 3, which is a typical agenda for a meeting of members in a shire county.

18. Appropriate staff must be appointed to proffer advice and to carry the members' strategic decisions into effect, including at least a professional **Procurement Manager** who should report to the Chief Executive in most cases. The function of the Procurement Manager should not be confused with that of the manager of a central supplies department, even though in many cases both functions will be discharged by the same individual. A Procurement Manager is needed in any authority, whether or not there is a central supplies department.
19. The requirements for central determination of supply arrangements are frequently not met. In a survey of 23 authorities of all types, only 7 had a clear supply strategy, and not all of these had adequate procedures to monitor its implementation. The central determination of supply arrangements is consistent with the Commission's belief in greater delegation of responsibility. The following extract from the Commission's report 'Obtaining Better Value in Education: Aspects of Non-Teaching Costs in Secondary Schools' published in December 1984 illustrates this:

"ILLUSTRATIVE GROUND RULES FOR DELEGATION

10. (ii) Goods materials and services would be obtained through a central contractor or approved supplier, unless the Chief Education Officer and the authority's Supplies Officer agree otherwise."

20. No one set of detailed model supply arrangements can meet the needs of all supplies users in all authorities. Every authority needs to determine a mix of arrangements depending on local circumstances but there are general principles
which should be observed when determining a particular authority's choice:

- It should be quite exceptional for any item to be purchased independently in more than one part of the authority
- Authorities should consider if there are benefits from carrying out some of their contract negotiation jointly with others
- If the services of a local authority supplies consortium are available, serious consideration should be given to their use
- The role of a central supplies department should be considered.

These points are now discussed in turn.

21. If an item is bought independently in more than one part of a local authority, waste is liable to result. So some single buyer must be designated for all purchases of any item with more than one user. This does not mean that all users of any particular item in the authority should always receive their supplies from a single source. For example, where small local suppliers provide good value for money, a competent buyer will be aware of this and allocate business to them.

22. One superficially attractive way of co-ordinating purchases is to set up what is known as lead department purchasing. Under such an arrangement, certain commodity groups are assigned to particular departments. The departments then provide a supplies service for those commodities to all other departments in the authority. In practice this arrangement has almost invariably been found to fail; sometimes because departments are unaware of the supply arrangements which have been made but just as often because they choose not to adhere to them – except for those items on which they are the designated lead department. The reasons given are often very flimsy and based on personal preferences of individual officers. Non-adherence to the arrangements immediately leads back to fragmented purchasing and consequent unnecessarily high prices and increased administrative effort.

23. Purchasing by a single department under delegated authority of the Procurement Manager may be justified for items used by that department and by no other, particularly where that department has skilled purchasing staff. Even in those cases, some centralised or shared arrangement can bring benefits, for instance if several departments are buying their distinctive requisites from the same or similar sources.

24. Thus, in the Commission’s view, fragmented purchasing should be avoided – except for particular cases such as geographical isolation where the Procurement Manager decides that there is some advantage. The strategic choices facing the authority are therefore quite limited. The Procurement Manager can arrange for contracting for a given class of goods to be undertaken by some external agency, that is a consortium or another authority, or he can manage the contracting himself through a central supplies organisation. Similarly he can arrange for storage and distribution to be carried out by an outside agency (a consortium, another authority or a commercial supplier) or he can manage the storage himself through local authority stores under his control. It is of course most unlikely that every one of an authority’s needs can be satisfied to best advantage by one of these approaches alone. For example no consortium offers a full range of supplies.

25. Sharing out contract negotiation between a group of authorities reduces the administrative workload borne by each. It also makes better use of what can be a scarce resource, namely Purchasing Officers skilled in specific commodity ranges. In the process the volume of business involved in the contracts is increased, thereby making lower prices and more advantageous terms more likely. For example:

(a) Dry and fresh provisions for four shire counties are bought under a contract negotiated by one of them. The value of the contract is £4.7
millions a year and the central administration of the contract costs £21,600 – less than a half per cent of the contract value.

(b) Fuel for three shire counties and several of the districts within them is bought under joint contracts arranged by one of the three counties. The value of the contracts totals £4.25 million a year and the cost of the specialist purchasing skill, including commercial information bought from a marketing intelligence agency, is approximately £10,000 a year – less than a quarter of one per cent of the contract value. There are a few marketing intelligence agencies in the country, and some are beginning to widen the scope of products covered. It requires very little effort by authorities to obtain the sales literature of these services so as to be aware of possible local application.

26. Another way of reducing administrative costs and increasing the volume of purchases under particular contracts is for an authority to make use of the contracts and other supply services of another authority. East Sussex County Council use the contracts and stores distribution service of Kent County Supplies Department and many London boroughs use ILEA's supplies department (formerly part of the GLC). Authorities also make use of central government agencies, particularly Her Majesty's Stationery Office (HMSO) and The Crown Suppliers. The Commission commends this where it produces better value. A logical extension would be for local authority supply organisations to supply goods to those central government establishments for which such an arrangement would be convenient. Such a change would require amendments to the Local Authorities' Goods and Services Acts.

27. Using another authority's supplies service in this way could be expected to be of particular value to shire district councils. Many of them judge that they are too small to employ economically a full range of skilled purchasing staff. There are indications that in fact shire districts make scant use of county supplies departments or of consortia. A questionnaire sent to some 90 shire districts which are potential clients of external supply organisations produced 70 replies and revealed that:

- Whilst 95% made some use of the supplies service available to them, the use was in all instances very limited
- Most of the districts treated the consortium or county in question as just one amongst a number of possible vendors
- Out of those districts which used the supply organisation little or not at all, only 35% cited 'uncompetitive price' as a reason
- For many types of purchase, 'inadequate range' was given as a reason for not using the large supply organisation.

A recurring finding both during the study and by auditors was of shire districts ignoring contracts arranged by the county council and paying more for the privilege. This was often the case when the shire district carried out highways work as an agent. Table 2 gives an example found in one shire district.

<table>
<thead>
<tr>
<th>Item</th>
<th>Saving available under county council contract</th>
<th>Estimated annual saving £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sodium discharge lamp</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 35W</td>
<td>13%</td>
<td>£2,700</td>
</tr>
<tr>
<td>- 55W</td>
<td>13%</td>
<td>1,000</td>
</tr>
<tr>
<td>- 90W</td>
<td>13%</td>
<td>1,300</td>
</tr>
<tr>
<td>-135W</td>
<td>13%</td>
<td>800</td>
</tr>
<tr>
<td>10mm dense bitumen wearing course</td>
<td>5%</td>
<td>2,500</td>
</tr>
<tr>
<td>20mm dense bitumen</td>
<td>7%</td>
<td>6,400</td>
</tr>
<tr>
<td>Uncoated stone granular* sub-base Type 1 L</td>
<td>25%</td>
<td>not available</td>
</tr>
</tbody>
</table>

* This item was purchased from the supplier named in the county council's contract – albeit at higher prices.
28. The Commission believes that shire districts ought to make more use of the services offered by county supplies organisations and consortia, although it will not be possible to meet all their supply needs in this way. Shire districts should benefit from the increased purchasing power of the larger organisations for such product ranges as vehicles, highway materials and stationery. In turn, these larger organisations should recognise the special needs of shire districts and encourage them to use their services. A group of shire districts successfully operate a joint contracting arrangement for building materials. The negotiation of the contracts is carried out for them by an officer of the county council acting as their agent. County councils should also recognise that for some items the arrangement may be reversed. One large county council uses a contract arranged by a shire district for the purchase of refuse sacks. The district is a much larger user than the county and is able to obtain more favourable terms. Building materials is another commodity group where shire districts may be able to help counties.

29. A supply consortium is a local authority organisation shared between several separate authorities to provide up to three supply services to its constituent authorities: delivery from stores, direct purchasing of non-stock items for users in the constituent authorities and the negotiation of call-off contracts (also called standing offer contracts). It is self-financing, usually through a mark-up on goods supplied from store and through volume rebates from suppliers on call-off contracts which the consortium negotiates. There are joint arrangements between authorities which fall between the definitions of joint contracting arrangements and consortia, which means that the precise dividing line between the two is not clear – nor is it important. Certainly three organisations in England and Wales offer a sufficiently comprehensive service to be called consortia:

- Yorkshire Purchasing Organisation, with members in Yorkshire, Greater Manchester and Merseyside
- Consortium for Purchasing and Distribution, with members in the West Country and Central and North Wales
- Eastern Shires Purchasing Organisation, with members in East Anglia and the East Midlands.

These three organisations are responsible for over £250 million of local authority expenditure on goods and materials and have 25 full members in total.

30. The use of a consortium allows an authority to benefit from the economies of larger-scale purchasing than it can mount by itself. It is also a means of tapping relevant professional purchasing skill which the authority might not be in a position to employ directly.

31. To secure the full benefit of consortium membership an authority needs to:

- Define the scope of the use which it is to make of the consortium, making clear which classes of item are to be obtained through consortium arrangements and which of the authority’s departments are to be served by the consortium
- Participate fully in the management of the consortium. The authority’s representatives on the consortium’s committees should play a full part in decision taking, notably on ranges of goods and types of service provided and effectiveness of the service, unlike one member authority of a consortium which failed for a number of years to appoint a councillor to the consortium’s governing body
- Monitor the authority’s use of the consortium
- Ensure that effort is not wasted in trying to beat the consortium. In many cases, supplies users acting autonomously within authorities treat the consortium as only one of a number of possible vendors. This may well secure nominal price savings but is unlikely to offset the cost of administrative effort in appraising the consortium against
### STRENGTHS AND WEAKNESSES OF SINGLE AUTHORITY, CONSORTIUM AND JOINT CONTRACTING

<table>
<thead>
<tr>
<th><strong>CONSORTIUM</strong></th>
<th><strong>JOINT CONTRACTING</strong></th>
<th><strong>SINGLE AUTHORITY</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Bulk purchasing gives strong negotiating position over wide range of goods</td>
<td>(i) Covers contract negotiating and maintenance only</td>
<td>(i) Authority is in direct control of its supplies service</td>
</tr>
<tr>
<td>(ii) Can economically develop wide ranging product expertise</td>
<td>(ii) Depends upon agreement between authorities</td>
<td>(ii) Administrative procedures can be streamlined</td>
</tr>
<tr>
<td>(iii) Costs are clearly identified</td>
<td>(iii) Applies to a limited range of commodities only</td>
<td>(iii) LA can insist on compliance by users</td>
</tr>
<tr>
<td>(iv) Cannot insist upon compliance by individual LAs</td>
<td>(iv) Strong negotiating position restricted to high use items</td>
<td>(iv) Easier to monitor compliance</td>
</tr>
<tr>
<td>(v) Strong negotiating position restricted to high use items</td>
<td>(v) May not be able to afford suitably qualified staff</td>
<td>(v) Costs may be hidden if accounting is weak</td>
</tr>
<tr>
<td>(vi) May not be able to afford suitably qualified staff</td>
<td></td>
<td>(vi) Lines of communication between user, buyer and supplier are longer</td>
</tr>
<tr>
<td>(vii) Significant areas of spend are not covered</td>
<td></td>
<td>(viii) Lines of communication between user, buyer and supplier are longer</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(ix) Bulk purchasing gives strong negotiating position over wide range of goods</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(x) Can economically develop wide ranging product expertise</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(xi) Costs are clearly identified</td>
</tr>
</tbody>
</table>

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Exhibit 4

STRENGTHS AND WEAKNESSES OF SINGLE AUTHORITY, CONSORTIUM AND JOINT CONTRACTING
alternative sources. It also weakens the negotiating strength of the consortium. One metropolitan district is a member of a supplies consortium, which negotiates contracts for building materials on behalf of the district. Within the district the purchase of building materials, approximately £2.5m a year, is carried out by a small unit costing about £50,000 a year to run. The unit takes pride in obtaining lower prices than the consortium's contract prices. However, for many items the unit does not obtain lower prices while those reductions which it does achieve are only in pence. In one instance, four phonecalls to different suppliers were made to beat a consortium contract price by 1p on an item costing £25. The total saving before any allowance for the cost of telephone calls or staff time was 10p! Review from time to time the service provided by the consortium. This includes occasional checking of prices, examination of alternative delivery arrangements and seeking users’ opinions. A sensible approach taken by one authority is to write to each of its school heads and ask for comments on the service provided by the consortium and what, if any, improvements are desirable. When a member authority of a consortium becomes aware of an apparent failure of the consortium or a possible new and better supplier it should first of all inform the consortium. Alternative supply arrangements should only be used after the consortium has had an opportunity to put its own house in order.

32. Consortium and joint contracting arrangements cannot meet all an authority's supplies needs and even where these arrangements are available they may not be the most appropriate for an authority to use. In the Commission’s view, members must therefore consider the authority's need to operate a central supplies organisation to handle part or all of its supply needs. The establishment of a central supplies organisation fully controlled by the authority can represent a most effective and satisfactory means of providing supply services. The authority is in direct control of the supplies services and can adapt very quickly to changes in specific needs of users. It does not preclude the use of a consortium nor of joint contracting. Indeed, joint contracting is often one of the practices used by successful central supplies organisations.

33. Where there is a central supplies organisation, everything should be done to make it successful and beneficial to the authority:

- Departments should not attempt to beat the prices negotiated by the supplies organisation. As with consortium members second guessing a consortium, this wastes administrative effort and weakens the central supplies organisation.
- All departments and sections of departments should use any available contracts. Further Education colleges are especially given to ignoring central contracts for no good reason and to wasting considerable sums of money as a consequence; a limited review of provisions and equipment in one college showed that £16,000 per annum could have been saved if county supplies contracts had been used.

Exhibit 4 sets out the relative strengths and weaknesses of consortium membership, joint contracting and central supplies organisations.
The Procurement Manager should as a rule report to the Chief Executive of the authority. This section discusses in turn the role of the Procurement Manager, the level of support staff and the position in small authorities.

35. There are at least three roles for the Procurement Manager (additional responsibilities will be for local determination):

(i) Formulating recommendations to members on supply strategy.
(ii) Seeing through the implementation of member’s decisions.
(iii) Maintaining general oversight of the operation of laid-down arrangements.

A Procurement Manager is needed to fulfil these roles because the balance between the concerns of different departments and the overall authority-wide concern for economy can only be struck by an officer whose responsibility is to the authority as a whole. The standing and powers of judgement of a supplies professional are needed to formulate feasible recommendations. A suitable qualified officer should be appointed, most appropriately a corporate member of the Institute of Purchasing and Supply (IPS).

36. As well as allocating supplies responsibilities and defining the role of the Procurement Manager, an authority's managerial arrangements must minimise the fragmentation of staff effort. The evidence gathered during the special study backed up the findings of the progress review that in many authorities too many officers are involved in purchasing. Frequently officers whose skills lie in other fields are spending part of their time in purchasing and supply. These fractions, which often amount to less than a day per week, can in total represent a significant amount. For example, in one small shire district council where purchasing is decentralised there are 11 individuals engaged in purchasing but this amounts to 2.5 FTE staff. By reallocating duties 2.5 staff could be fully employed on purchasing and would undoubtedly provide an improved service to users.

37. Where overall supply arrangements are haphazard, one of the harmful consequences is that responsibility for major supply decisions is allocated to staff with no specific aptitude or background in supplies. When authorities set up firm and positive supply arrangements, they need at the same time to make sure that staff with responsibility for supply management have the necessary skill and understanding. Steps to improve the quality of staffing must form part of any drive to improve supply management. Membership of the IPS is the only recognised token of professional achievement in supply management. The total IPS membership in local government is very low viz:

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fellows, members and associate members</td>
<td>388</td>
</tr>
<tr>
<td>Students</td>
<td>138</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>526</strong></td>
</tr>
</tbody>
</table>

Although it is by no means necessary for everybody associated with supply to hold this qualification, it is important to ensure that the highest professional standards are followed. Because of the nature of the job, this will include a requirement for overt probity. To this end the IPS have an Ethical Code for Members an extract from which is included as Appendix A. Authorities should require all staff involved in supply to adhere to such a code.

38. Staff at all levels of local authority supply organisations should be appointed for their aptitude for the jobs they are to do, rather than by chance. Once appointed, gaps in relevant knowledge should be made good by appropriate training, either provided or facilitated by the authority, drawing on any suitable facilities of IPS.
39. Staff who manage supply operations certainly require appropriate skills and knowledge but the calibre of staff is also important for other supply functions, most notably in the day-to-day running of stores. The stores of many authorities have been the resting place of staff transferred in because they do not fit elsewhere in the organisation. Weaknesses in elementary stores housekeeping observed by auditors and outlined in Chapter 3 are a direct result of this approach to staffing.

40. As a very rough rule of thumb, one skilled purchaser could with benefit be employed by each authority spending £500,000 on the purchase of goods. However, fewer than one third of the shire districts have appointed a purchasing officer. Authorities of all types who do employ professional Purchasing Officers exclude them from involvement in major areas of spend. For example, highway materials and other technical items are generally purchased by Senior Technical Officers in the department without reference to Purchasing Officers.

41. There are thus vital functions for a professional Procurement Manager to carry out in formulating and implementing supply strategy and in overseeing supply operations. But many authorities employ no professionally qualified supplies staff at all. Even in cases where such staff are employed their responsibilities frequently do not extend across the whole authority as envisaged here. Exhibit 5 illustrates the point.

Exhibit 5

SAMPLE OF 5 COUNTY COUNCILS WITH CENTRAL SUPPLIES ORGANISATIONS SHOWING PROPORTION OF TOTAL SPEND ARRANGED BY CENTRAL SUPPLIES

<table>
<thead>
<tr>
<th>County Council</th>
<th>Spend arranged by central supplies organisation</th>
<th>Proportion arranged within spending departments</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>B</td>
<td></td>
<td>27%</td>
</tr>
<tr>
<td>C</td>
<td></td>
<td>43%</td>
</tr>
<tr>
<td>D</td>
<td></td>
<td>40%</td>
</tr>
<tr>
<td>E</td>
<td></td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: Audit Commission and auditors' reports
The position in small authorities

42. The smallest shire districts, particularly those which carry out few housing repairs directly themselves, may not be able to justify the full-time appointment of a Procurement Manager. These will have to assign the duties of the post to an officer with other responsibilities, for example managing contracts for works and services. The number of such authorities should not be large because, as Table 3 shows, more than half of all shire districts were reported as spending over £1 million a year on supplies in the Commission’s 1984 price survey. A number of these expenditure figures from district councils have been checked since the survey. In every case the actual expenditure was found to be higher than the 1984 return showed. As well as underlining the poor quality of authorities’ data, this suggests that even more authorities would find it worthwhile to appoint a full-time Procurement Manager.

### Table 3: Annual Spend on Goods and Materials

<table>
<thead>
<tr>
<th>Range of expenditure on goods and materials</th>
<th>Shire Districts</th>
<th>LAs other than shire districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than £500,000</td>
<td>49</td>
<td>-</td>
</tr>
<tr>
<td>£500,000 – £750,000</td>
<td>58</td>
<td>13</td>
</tr>
<tr>
<td>£750,000 – £1m</td>
<td>54</td>
<td>19</td>
</tr>
<tr>
<td>£1m – £2m</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>£2m – £5m</td>
<td>3</td>
<td>346</td>
</tr>
<tr>
<td>£5m – £10m</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>£10m – £20m</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>£20m – £30m</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>£30m – £50m</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Over £50m</td>
<td>1</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Audit Commission Price Survey 1984

43. The cost of employing a purchasing professional should be easily covered even in the smallest authority. There will be a reduction in the purchasing effort across departments as well as the expected reduction in purchase prices. Some local authorities may face difficulty in finding skilled purchasing staff to appoint. Where this problem exists, the private sector may well provide a source of suitable recruits. Indeed, many local government purchasing officers have been recruited from industry, some fairly recently as the private sector has contracted.

**MONITORING THE SUPPLY OPERATION**

44. Once appropriate supply arrangements have been introduced and suitably qualified staff appointed to operate them it is important that effective monitoring procedures are adopted. These monitoring procedures serve two distinct purposes:

(a) Assessing how well the supply arrangements perform

(b) Policing the extent to which supplies users are following the laid down procedures.

**Assessing performance**

45. Performance targets provide a vital discipline for the supplies function. As with many areas in which attempts are made to measure performance, the precise nature of the measures is not crucial. The most important requirement is that well-defined measures of some kind should be used, coupled with a systematic process for applying them. In any case, no one measure can give a true assessment of supply effectiveness, even if that single measure is savings. But an accurate picture can emerge if a series of performance measures is used together. Among the possible measures for authorities to use are:

(a) Savings in prices paid and supply operating costs. Identified savings demonstrate how improved supply arrangements benefit the authority and make possible improved services to the public. The link between savings and improvements to services is made explicit in some authorities by the use of a central purchasing account to which supply savings are credited. There are obviously serious difficulties in defining
and quantifying savings because they must be considered as part of the broader issue of value for money involving specification and the overall costs of providing services

(b) Price comparison. This may be by formal comparison of prices paid with other neighbouring or similar authorities. This method, which is used by some of the larger supply set-ups, requires agreement between the participating organisations. Alternatively it may be by informal comparison with, for example, consortium or county supplies catalogues and with central government agencies such as HMSO and Crown Suppliers

(c) Price trends. Comparison of price trends may be with data from a commercial organisation or with data generally available to the public such as the Producer Price Indices of the Business Statistics Office of the Department of Trade and Industry (published in the journal Business Weekly). Comparison of the current price of an item with what was paid previously for a similar item may also be useful but must be treated with caution. Allowances must be made for market changes and care taken to ensure that similar specifications are used

(d) User reaction. Although user reaction is not a foolproof indicator, if a supply operation is perceived to be bureaucratic, unhelpful and expensive, something is wrong. Where use is voluntary, the volume of business being transacted by a supplies organisation is a useful measure of its effectiveness. There are also such formal measures as the number of wrong or overdue deliveries

(e) Operational efficiency. A number of measures include cost of purchasing per £ of spend and number of orders placed per buyer

(f) Stores operation. There is a whole series of measures surrounding stores operations including stock level, response time, percentage of ‘to follows’, stock turnover etc.

It is the experience of the Commission that where a number of indicators are used they frequently tend to point in similar directions when applied to a particular organisation.

Monitoring usage

46. The general oversight role of the Procurement Manager is particularly important to guard against two dangers: of users deviating from laid-down arrangements and of mandatory procedures failing to meet adequately users' varying needs. The Procurement Manager should:

– Monitor the use being made of the supply services by users
– Investigate instances where a single item is being bought on different terms by different purchasers within the authority (auditors found cases of this in 20 out of a sample of 30 authorities)
– Question purchases made under emergency purchase procedures; frequent use of these procedures is a symptom of weaknesses in the normal supply procedures
– Discuss with supplies users their experience of the supplies service.

47. In an authority which uses the services of an external local government agency such as a purchasing consortium or another authority, any failing of the agency's supply service should be brought to the agency's attention by the Procurement Manager. The authority should not take its custom elsewhere without first examining the scope for improving what the agency does for it.

48. Once appropriate supply management arrangements are in place authorities can proceed to make savings on two fronts. The first of these is to obtain better value for money from the purchases themselves and the second is to reduce the associated costs of supply. How the first of these can be done is the subject of the next chapter.
2. Obtaining better value purchases

49. The most obvious opportunity open to local authorities to save money in the supply field is by obtaining keener prices. This possibility was pursued by the Commission in the 1984 Price Survey which identified significant opportunities for improvement – between £100 million and £200 million per annum nationwide. Some authorities have subsequently identified opportunities, for example:

- A shire district spending £750,000 per annum identified savings of £57,000 by centralising purchasing and making use of a consortium
- A London borough identified annual savings of £500,000 on expenditure of £8 million by centralising purchasing.

In other cases although significant scope for improvement was identified it was not thought possible to quantify the savings.

50. Auditors have already identified potential savings of the order of £50 million within individual authorities. The Commission believes that this represents only the beginning and further work should at least double this. In the Commission’s view there are three areas where attention to detail should yield these further improvements:

(a) Better buying arrangements should result in lower prices being paid through increased competition between suppliers and better control over contracts

(b) Better specification procedures should produce lower costs overall by increased rationalisation and standardisation, more use of whole-life costing and appropriate blending of the skills of Purchasing and Technical Officers

(c) Introducing adequate quality control should ensure that what is bought actually arrives.

51. The key to effective buying is the appropriate use of properly constructed written contracts between the authority and its suppliers. The advantages to be gained are demonstrated in Table 4 which is based on data from some 400 authorities gathered in the 1984 Price Survey.

Table 4: ONE-OFF PURCHASING FROM COMMERCIAL SUPPLIERS IS THE MOST EXPENSIVE METHOD
Base: 47 items

<table>
<thead>
<tr>
<th>PURCHASE METHOD</th>
<th>Least expensive</th>
<th>Most expensive</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) From another LA or consortium</td>
<td>23*</td>
<td>8</td>
</tr>
<tr>
<td>(2) On a commercial contract</td>
<td>25*</td>
<td>0</td>
</tr>
<tr>
<td>(3) One-off from a commercial source</td>
<td>1</td>
<td>39</td>
</tr>
</tbody>
</table>

* includes two items where the methods were equal lowest.

For each item a calculation was made of the average price paid by each method. The table shows for how many items each method was the least or most expensive. Thus buying one-off from commercial sources was on average the most expensive method for 39 out of the 47 items.
52. Two examples drawn from the audit of a London borough illustrate what can happen when contracts are not used:

- Purchase of electrical equipment from one supplier totalled £90,000 in a year, all on small one-off orders. If GLC contracts had been used for these purchases, it was estimated that £17,000 would have been saved.
- Grocery provisions totalling £60,000 were purchased from one supplier at a cost estimated to be 20% above that available on GLC contracts.

Auditors have identified numerous cases where large amounts were spent with a supplier on a series of one-off orders. Apart from having a considerable administrative cost this has frequently been shown to produce higher than necessary prices.

53. Contract purchasing leads to lower prices because it is able to take full but fair advantage of the authority’s (or consortium’s) purchasing power. It also allows other terms to be stipulated, such as delivery requirements, period of contract and specifications which take account of production methods. To make best use of contracts authorities need to:

(i) Aggregate items together to increase the value of the contract and thus encourage low tender prices.

(ii) Deal with manufacturers wherever possible and economical to do so.

(iii) Use tendering procedures constructed so as to obtain appropriate competition between suppliers.

(iv) Exercise control over price changes during the currency of contracts.

(v) Ensure that the terms of contracts meet the authority’s needs.

(vi) Discuss requirements with potential suppliers.

(vii) Make sure that standing orders and financial regulations are appropriate to all the needs of effective purchasing.

54. Grouping different items together is particularly appropriate for large ranges of similar items most of which are used in small volumes but which, taken together entail significant spends. The increased value of the contract encourages low tender prices and makes it worthwhile to apply more specialist expertise to the contract. The findings of the Commission study on vehicles published in October 1984 in the report Improving Vehicle Fleet Management in Local Government illustrate this point.

'Typically, local authorities replace between 15% and 20% of their fleet each year, representing a total outlay of over £200 million. As major purchasers of vehicles, they should be able to use their buying power to negotiate large discounts. As a target the average discount on a sample of vehicle types should be at least 18%. However, this is often not achieved for three main reasons. First, the specification and procurement of vehicles in an authority may be unco-ordinated in that each department looks after its own needs. As a result most purchase orders are for a single vehicle despite the evidence that vehicles purchased in batches attract greater discounts...'

55. Negotiations with a supplier on initial contract price, price variation and specifications are more likely to be worthwhile with a manufacturer than with a distributor. A manufacturer can influence more of the elements of the product price than can a distributor. The only bar to negotiation with manufacturers ought to apply on items where an authority’s spend is too small for a manufacturer to handle directly. This is not always the case and some manufacturers force authorities to buy from dealers (e.g. vehicles) or from wholesalers (e.g. some building materials). Where an authority is purchasing from a distributor it may still be possible to obtain a retrospective rebate from the manufacturer based on the volume bought.
56. It is essential that suppliers compete aggressively for a council’s custom. Authorities need to ensure that their procedures help to achieve such competition. Sadly this is not always the case. Many examples have been found of the same few firms invited to tender year after year often with the same supplier being chosen in the end. Obviously to benefit from competition the authority must have a sufficient range of tenders to consider but inviting too many firms to tender can be nearly as unsatisfactory as inviting too few. Appraising a large number of tenders constitutes a major administrative burden, as one shire district council found when it placed an open invitation to tender for word processing equipment (approximate value £35,000) and received 39 replies.

57. Generally what authorities need to ensure is that their procedures get the best from the existing market conditions. This involves:

(a) **Inviting sufficient firms to tender** so as to ensure competition but without incurring an undue administrative burden. How many to invite will depend to a large extent upon the particular market place but the following table gives a general guideline.

<table>
<thead>
<tr>
<th>Value of contract</th>
<th>Number of tenderers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £5,000</td>
<td>1–3</td>
</tr>
<tr>
<td>£5,000 to £25,000</td>
<td>4–6</td>
</tr>
<tr>
<td>£25,000 to £100,000</td>
<td>6–8</td>
</tr>
<tr>
<td>Over £100,000</td>
<td>8+</td>
</tr>
</tbody>
</table>

(b) **Encouraging new suppliers.** Maintaining an approved list of suppliers is generally preferable to open tender because so long as the list is kept up to date the competence of all tenderers is known and the cost of tender evaluation can be contained. Means of keeping the list up to date include periodic use of open advertisements, being open to referrals and recommendations from the firms’ existing customers, and writing to those who have not tendered for some time to show reason why their names should be retained on the list. One valuable way of increasing the list of suppliers was used by a metropolitan district council. It organised a ‘Meet the Buyer’ stall at a trade fair in the area of the authority. As a result it obtained a number of new suppliers – one of whom saved the authority the total cost of the stall (£2,000) in the first two orders. The major purchasing organisations all keep a database of information on their suppliers and would-be suppliers. This includes details of their performance on previous or existing contracts, financial data and published information obtained from newspapers and journals. They also have simple procedures for obtaining references and deleting unwanted suppliers from the list.

(c) **Ensuring that contracts are for periods which will result in the maximum competition.** It is common for authorities to make all their contracts annually but this can be counter-productive. Two possible outcomes are:

- Triggering an automatic price increase whether or not justified. This is a particular problem where there is a limited number of suppliers. In one county the renewal of a contract resulted in a price increase but one department continued to quote the previous year’s contract reference number on orders and was charged the corresponding lower price. When the discrepancy was queried with the supplier, the response was that if the authority had wanted to avoid an increase, it should not have sought a new tender.

- Reducing competition. With annual contracts, a new contractor has to write off the set-up overheads in one year and the existing supplier may be in a much more favourable position because of this. This is most noticeable when contracts involve delivery.
Varying the starting date of contracts to meet the needs of the particular market. Traditionally many authorities use 1st April as the starting date for contracts. This practice should not be followed indiscriminately because it concentrates the administration of tendering into a short time. That inflicts administrative difficulties and costs on authorities – as well as on those suppliers who deal largely with local authorities. Varying the start date also allows the authority to invite tenders when it judges that market conditions are to its advantage.

Letting possible suppliers know the probable volume of the contract. Volume data should be available from the authority’s information system but frequently is not. Some authorities have a condition in existing contracts that suppliers give them details of actual take-up. This is then used when new tenders are sought, to give an indication of the value of the contract to prospective suppliers.

Evaluating tenders properly. It is important that proper tender evaluation be undertaken, particularly when the tender is for a large number of different items. This can avoid the situation which occurred in one shire district which went out to tender for about 50 plumbing items. The contract was awarded to the supplier whose prices were lowest for the most items. However, a weighted evaluation by the auditor based on unit prices and estimated use showed that another supplier was the lowest overall. The use of spreadsheet packages on microcomputers can be helpful in this area.

58. Although these procedures are likely to result in proper competition in most cases there will be occasions when circumstances act against the local authority. Two particular examples are:

(a) Where the marketplace is dominated by one supplier. The public utilities are a particular case. There are other examples of a single supplier dominating e.g. in the supply of road salt and cement. In addition, some suppliers have created what amount to local monopolies in specific areas of the country. For instance for some authorities the supply of highway materials is controlled by one firm who has bought up virtually all the quarries in their area. Some larger authorities have been able to mitigate the effects of monopoly supply by purchasing from abroad.

(b) Where a number of suppliers conspire together to form a cartel and eliminate proper competition. Post-tender negotiation which is discussed in more detail later (paragraphs 67 to 69) may be of some assistance in this case.

In either case the effective action available to individual authorities may be limited. The best long term solution may be continually to draw to public attention those cases where unfair practices affect the authority and place an additional burden on ratepayers. Concerted referrals to the Office of Fair Trading by the Local Authority Associations may also be a possible way forward.

59. One area where the ability of an authority to obtain competitive bids is limited, is in the purchase of books. These are covered by the Net Book Agreement. This is an agreement between publishers that if they publish books at net prices (i.e. books which may not be sold below the price fixed by the publisher), they will make every effort to ensure that the net prices are properly maintained by the retailers. This means that the retailer will not, without special licence, sell a net book to his customer at a price that has been marked down or reduced by a discount. Publishers’ invoices state that net books are supplied ‘subject to the standard conditions of sale of net books registered under the Restrictive Trade Practices Act 1956’, and the agreement ensures that those conditions are enforced, if necessary by recourse to law. A non-net book is one which may be sold at any price which the retailer chooses.
60. The publishers determine whether a book is published net or non-net and can change the classification by denetting a net book or vice-versa. There is no rationale to the decision as to whether a book is net or non-net; it is independent of price and the type of book. (The idiocy of this situation can be demonstrated by looking at publications of Hamlet by William Shakespeare. Of seven versions three are net and four non-net).

61. The Commission believes that the Net Book Agreement is outdated and should not be applicable to local authorities. Local authorities in total spend about £100m per year on books (excluding libraries for which a 10% reduction is given on the purchase of net books) and much of this expenditure is at a fixed price. Currently authorities negotiate a discount off the price of non-net books, generally of the order of 12-13%, which is often based upon the balance of purchase of net to non-net books. This is an administrative nightmare for both buyers and sellers and indeed a number of booksellers have indicated their willingness to give an across-the-board discount if they were permitted to do so.

62. The initial prices stated in purchase contracts are seldom fixed for the full life of the contracts. To ensure that the price advantage of using contracts is maintained, it is essential to monitor price changes during the currency of contracts. The Borough Engineer of a district council included a consortium in his annual fuel tendering exercise, and did not award it the business on the grounds of initial price. He later compared the year’s fuel expenditure from his chosen supplier with the expenditure which the borough would have incurred if the consortium tender had been accepted. He found that, because of price variation, the actual spend was probably 5% higher than it need have been, an extra cost of some £10,000. This is not an isolated example.

63. It is essential that contract clauses on price variation work both ways. Some authority contracts include terms which allow increases but not decreases. Prices can and should go down in response to market conditions as well as up. Bitumen provides a recent example. From around November 1984 the price of bitumen fell dramatically and thus should have produced a corresponding fall in the price of various highways products which contain bitumen. In many cases this did not happen whilst in others it occurred only after strenuous effort by Purchasing Officers.

Exhibit 6

ILLUSTRATIVE
BASED ON A SHIRE COUNTY EXAMPLE

PRICE VARIATIONS IN A PURCHASE CONTRACT FOR MARGARINE

<table>
<thead>
<tr>
<th>Price variations governed by separate price provisions for each price element</th>
<th>Example Price Rise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fish Oil: Prices monitored from weekly market report</td>
<td>New Price 4.9% above Old Price</td>
</tr>
<tr>
<td>Vegetable Oil: Prices monitored from weekly market report</td>
<td></td>
</tr>
<tr>
<td>Packaging: Price monitored from published index</td>
<td></td>
</tr>
<tr>
<td>Wages and Salaries: Reviewed on the basis of national wage awards</td>
<td></td>
</tr>
<tr>
<td>Energy: Price monitored from published index</td>
<td></td>
</tr>
<tr>
<td>Other Costs: Pro rata to all the above</td>
<td></td>
</tr>
</tbody>
</table>
64. For monitoring of contract price changes to be useful, there need to be terms in the contract to allow for negotiation with the supplier on price variation and to permit the authority, as a last resort, to break off the contract. For certain items there is no reason for the contract not to include specific price-variation provisions related to movements in the prices of the item's constituents. Exhibit 6 illustrates the price-variation provisions of a purchase contract. At tender stage the organisation asks for percentages of the tender price attributable to the different components. The costs of these elements are monitored and if the supplier asks for an increase, the reasonableness of this request is judged against the monitored costs. When costs fall the organisation seeks reductions in the purchase price. Where this type of arrangement is being used it is important to enter into competitive tendering regularly – external market forces or more efficient operating by the supplier can make the formula out of date. As part of the monitoring of price changes, the buyer must maintain awareness of the market, including developments up the supply chain such as the markets for suppliers' raw materials. Such awareness will inform the choice between fixed price or variable price contracts, facilitate checking of the justification of suppliers' price rises, and strengthen the buyer's position in seeking price reductions when changes in market conditions justify them.

65. Authorities should be more active in seeking favourable contract terms. Price variation clauses, discussed above, are a particular example but there are other areas in which terms can be improved. These include:
   - Warranty conditions
   - Delivery arrangements. One shire county includes within its fuel contracts a requirement that deliveries be notified in advance. This facilitates checking procedures
   - Payment terms. One large county supplies organisation obtains an additional price discount by guaranteeing to pay suppliers quickly. However, authorities should check that any discount for prompt payment is worth taking
   - Feedback information: for planning future contracts it is useful to require the supplier to provide details of how much is spent on the contract.

66. One private sector group of companies visited by the Commission team routinely inserts a clause into purchase contracts requiring suppliers to make available to all companies the best price offered to any one of them, irrespective of other terms of the group contract. This practice could be of value for contracts made for a large number of users, in a single authority or in a group of authorities. It would prevent the practice of some suppliers who try to weaken consortia and joint contracting arrangements by offering one or two member authorities prices below the contract price. Often these suppliers have been unsuccessful when competing for contracts.

67. Discussions with suppliers take place in the normal course of events during the currency of a contract but such discussions can be of particular importance before a contract is let, either before tenders have been invited or after tenders have been received:
   (a) Pre-tender negotiation or discussion is a method of assessing the market. Whether formal or informal, the purpose of pre-tender negotiation is to establish what is available in the market place and in particular to appraise the consequences for initial price and long term costs of different possible specifications. Pre-tender negotiation, if used sensibly, can also enable the buyer to establish a benchmark price
   (b) Post-tender negotiation is used to seek improvements to tenders which have been received. If one of the tenders received for a contract contains
the lowest quoted prices for most, but not all, of a range of goods, it is often possible to negotiate with that tenderer to supply the remaining parts of the range at or near the lowest tendered price. Post-tender negotiation is also frequently used when the lowest tenderer exceeds the bench-mark price set by the authority. Post-tender negotiation may also be helpful in adjusting contract terms to incorporate improvements in trading terms, specification, performance guarantees and delivery service. They may also be of value when the authority suspects that suppliers have formed a price ring.

68. In the Commission's view there can be no harm in pre-tender discussions and they can frequently benefit the authority if undertaken intelligently. Care must be taken however that no supplier is favoured with information that has not been made available to others. Post-tender negotiation is a quite different matter. It has become a fashionable subject of debate, and there is a dichotomy between the 'hawks' and the 'doves'. In the Commission's opinion post-tender negotiations can be well worth while provided there are adequate safeguards on the regularity of the negotiating process. Controls should be introduced, and enforced, to limit the possibility of corrupt practices and to ensure that the organisation is seen to be even-handed in its treatment of all possible suppliers.

69. The appropriate controls are a matter for individual authorities with the guidance of their auditors. One large metropolitan authority using post-tender negotiation includes the following safeguards:

(a) Would-be suppliers must be made aware of the rules of negotiation before submitting tenders
(b) At least two officers must be present at the negotiations
(c) A written record with a clear 'audit trail' must be kept. (Indeed internal audit should regularly monitor the operation of post-tender negotiations)
(d) All cases of amendments to tender prices are reported to the purchasing committee. (Of course members should not be involved in the actual negotiations).

The Commission believes these safeguards provide a sensible minimum requirement. That is not to say that unintelligent use of post-tender negotiation cannot be damaging. This is one of the many reasons for the Commission's view that an expert Procurement Manager is required in each authority. Improper post-tender negotiation can manifest itself through:

– Bullying of suppliers
– Wasting time on small sums of money
– Using it as an excuse for not doing the homework implicit in asking for tenders – particularly that achievable through pre-tender discussions.

The Institute of Purchasing and Supply has issued a statement on the use of post-tender negotiations and authorities should, in the Commission's view, follow the guidance therein.

70. Incorporation into the authority's procedures of adequate controls on post-tender negotiation represents part of a wider picture of controls within the authority. This is a question of standing orders and financial regulations.

71. In many authorities standing orders and financial regulations hamper the achievement of good value unnecessarily. Clearly there must be rules and regulations to prevent waste of ratepayers' money through fraud and other abuses. In addition this must be seen to be the case. However ratepayers' money can also be wasted by poor purchasing management. What is needed is a proper balance between probity and the need to buy well.

72. Standing orders and financial regulations need to be reviewed in relation to:

(a) The need for some distinction in standing orders between the require-
ments relating to the purchase of goods and materials and those relating to work

(b) The maintenance of an up-to-date list of approved suppliers. Standing orders must encourage the addition of new suppliers and the deletion of unsatisfactory ones

(c) The need for harmony between the standing orders of an authority and those of any other public body with which it co-operates for supplies

(d) The setting of sensible financial limits and delegated powers to officers

(e) Post-tender negotiation as outlined above.

Once a first review has been completed the position must be regularly monitored to ensure that standing orders and financial regulations continue to meet the authority's needs. Appendix B provides an illustrative code of practice for the purchase of goods and materials. It is based on an actual code included in the standing orders of a metropolitan district council.

73. The Commission believes that major improvements in value for money are achievable in most local authorities through better procedures for determining specifications. This finding emerged forcefully both from the special study work and from auditors' reports. Auditors found scope for improved specification in 15 of a sample of 25 authorities. In 4 of the authorities, specification improvements had recently been made. It is important to stress here that the cheapest does not necessarily produce the best value for money.

74. Providing a global quantification of the improvements possible by better specification is difficult. There will be different considerations for different products and often savings will arise in a multitude of ways. However, in individual cases quantification is possible:

- A shire district purchasing garden gates for council houses changed from separate supports and gate to a one piece unit. The extra cost of 20% was more than offset by the operative fitting the gate needing to make only one visit rather than two

- A metropolitan district fits imperial sized sink tops into its properties at a cost about £2 each more than the cost of the metric equivalent. Only inertia is holding up a change to metric sized sinks and preventing a potential annual saving of about £1,000 or about 12%

- One metropolitan district issued a very precise specification of a certain thickness of heavy duty cable which was not of standard manufacture; a higher specification standard grade cable would have been much cheaper

- In a shire county an average of three 'donkey jackets' a year used to be issued to each workman. After the Trading Standards Officer had found weak seams in the jackets, a contract was drawn up requiring stronger thread and stitching. Now only two jackets a year are required for each workman.

- A sample of comparable building materials in two shire districts revealed that one authority was paying on average 50% more than the other. One of the principal reasons for this was the tendency of the district paying the higher prices to use specifications based on brand names

- The supplies department of a large county changed the pencil eraser it issued to schools, without altering the wording in the stores catalogue. It was only after the new erasers had been issued to schools throughout the county that it was discovered that they were brittle and lasted at most a week in use.

75. Seldom are savings on individual items large but in total significant amounts are involved. Unsatisfactory practices on a small number of items are
usually an indication of much wider weaknesses covering large ranges of commodities. In examples of poor procedures either:

- Specification was decided by a user without reference to a supply specialist,
- The supply specialist decided on the specification without taking adequate cognizance of the user's need.

76. Successful specification requires both parties to be involved. The role of the end user (or a representative of the end user) is to ensure that the items bought will perform adequately the function required. The role of the supply specialist is to make sure that the widest possible choice of specifications is considered initially and that an economical specification is ultimately chosen. The drafting and agreement of standard specifications can be a lengthy process, especially when a wide range of alternatives is in use. In these circumstances rationalisation, or the reduction of variety can be a rewarding step towards the ultimate agreement of a standard specification. The rest of this section discusses in turn:

- The relationship between users and purchasers
- Whole life costing
- The use of brand names, and
- British Standards.

77. Many staff in local authorities acknowledge the need for this joint approach but by no means all do. In particular, users of specialist technical supplies such as road materials, fire tenders, and computers often resist the involvement of purchasing specialists in specification decisions. The need for the exercise of technical or professional judgement is cited as a reason for leaving specification decisions entirely to technical specialists. The benefits of involving both purchasing and technical specialists are readily acknowledged in the commercial world. In a major airline visited by the study team, a supply specialist is a member of the group which determines the specification of the engine for a jumbo jet.

78. One result of the exclusion of purchasing specialists is that in some authorities different technical officers specify different brands of the same or very similar items, thereby reducing the volumes purchased and possibly causing higher prices. In one small shire district four different types of wood preservative were specified by four different officers. In another instance, the somewhat belated involvement of the Supplies Officer in the process of specifying and buying police motorcycles enabled significant cost savings. Technical expertise is unquestionably essential when technical specifications are being decided on, but it is complementary to, and not a substitute for purchasing skill.

79. Successful supply operations need open dialogue between users and purchasing staff and not just for specification matters – timing can be equally important. For example in one shire district, where the supply function is generally well run, housing maintenance staff planned the replacement of baths in 70 council houses. The Supplies Officer was only given two days' notice of the need for the baths and the company contracted to supply them was not able to provide enough in time. The Supplies Officer was obliged to buy baths at a higher price than the contract price. It eventually turned out that the two-day purchase deadline was unnecessary; the job was beginning on the stated day but the baths were not all needed from the outset.

80. The way in which users and supply specialists collaborate to define specifications should reflect circumstances such as the value of the expenditure on an item and the user's awareness of the market. One important consideration should be the whole-life cost of the particular items. It is equally appropriate to the simple items such as protective clothing and to major pieces of equipment such as computers. Two examples demonstrate this:
Limit the use of brand names

82. The use of brand names in specifications is undesirable. It eliminates competition when purchases are made direct from manufacturers, and inhibits the introduction of new products. There may be a limited number of cases where specification will need to include brand names but these should be kept to a minimum. 'Hidden' brand name specifications should be avoided too, i.e. specifications which refer to commodities peculiar to one manufacturer. A typical example found in the study was the specification of an external door of standard dimensions with an oblong glass panel set in it. Stating the size of the glass panel can restrict the range of doors to those made by a particular manufacturer. The harmful effect of specifying by brand is best illustrated by an example in a shire district. Housing department officers went out to tender for replacement windows for 80 properties, quoting the name of a manufacturer on the invitation to tender. The lowest tender received was £100,000. The belated involvement of the purchasing section resulted in retendering based on a revised specification agreed with Housing Officers. The successful tender was for £65,000 – a saving of £35,000.

83. A means of overcoming the use of brand names is to use performance specifications. These describe the function goods are expected to perform, thereby placing the onus on the supplier to ensure that the goods are fit for their intended purpose. Furthermore their use can broaden the range of solutions available. Suppliers and prospective suppliers should be encouraged to offer alternative solutions where better value for money may result. This gives suppliers the chance to use their experience and can in some circumstances aid innovation.

Use British Standards wherever possible

84. Written standards can contribute to the formulation of unbranded specifications. Most valuable of these are British Standards but where these do not exist, or are inappropriate, international standards may also be useful, e.g. the West German DIN. For a wide range of items, these standards provide a reliable description which is recognised in the relevant industries and professions. The use of published standards in the formulation of procurement specifications can save substantial staff resources and manufacturing costs. Users must, however, be careful to ensure that the quoted standard meets the requirements both in manufacture and performance of the proposed item. Further advice on the use of standards is available from the BSI, of which 95% of local authorities are members.

85. Wherever possible, authorities should base their procurement practices on centrally agreed procedures and a recognised catalogue of product specifications, calling upon published standards whenever possible. One large housing authority, for example, has produced a comprehensive specification manual for all generally used building maintenance materials within the authority. This overcomes the propensity of different technical officers to use unnecessarily varied specifications.

86. Specification is a topic which will repay attention in all authorities, just as
much if they are using an outside purchasing organisation (e.g. a consortium) as if they make all their purchases of goods themselves. Consortia are constituted as bodies separate from their member and customer authorities. This makes them unable to enforce compliance with their specification decisions and leads them in many cases to offer extensive choices of items for the same purpose. Even where member and customer authorities are able to agree on consortium-wide specifications, effort is required to arrive at those agreements.

87. It is clear from the investigations on specification that strong procedures, involving users and supply specialists, are of immense value to all authorities. If they are achieved the question of quality control and assurance then arises.

88. All the good work done by purchasing officers in obtaining appropriately specified items at low prices can come to nothing if the goods as delivered do not match those paid for. The need to check deliveries both for the correct specification and quantity is particularly important when items are delivered to a large number of users e.g. schools and social services homes. Officers involved in receiving and checking goods may lack relevant expertise and consequently often fail to notice things that are wrong. Independent certification schemes are tailor-made for such circumstances. Purchasing from firms whose management system and, if appropriate, products have been assessed by independent certification bodies (who have themselves been accredited by the National Accreditation Council for Certification Bodies), should give purchasers confidence that the firm is capable of providing the customer with what he wants, when he wants it and at a price which meets market demand. Trading Standards Officers (TSOs) have a role to play in helping to develop such independent certification schemes. They should also draw to the attention of companies who might benefit, the consultancy service available through the National Quality Campaign to encourage enterprises to adopt quality management systems in line with BS 5750, the national standard in this field.

89. TSOs may also undertake actual exercises themselves:

− An examination of the meat content of beefburgers highlighted a deficiency. The county council sought £16,000 compensation on a £70,000 contract
− Cursory checks by a TSO led to the identification of systematic short deliveries of LPG (Liquefied Petroleum Gas) in one southern county resulting in £4,000 savings
− Identification of the mis-use of lorry tare weights on tarmac deliveries resulted in £10,000 compensation to one Midland county council
− A two-day investigation by a TSO led to a saving of £100,000 on ballast deliveries through proper checking arrangements.

Internal audit are often involved in such cases which are basically examples of fraud.

90. Trading standards officers can also help in formulating specifications and contract terms. These are particularly helpful in checking deliveries. For instance one Midland county council require dates and times of fuel deliveries to be notified in advance to facilitate checking. Other Trading Standards departments draw up specific guidelines for caretakers to enable them to supervise fuel deliveries adequately.

91. Some departments such as highways are well used to checking the quality of deliveries. Central purchasing departments and consortia also arrange frequent tests of materials delivered into store. However, the majority of goods and materials are delivered direct to the user and it is vital that some checking of these deliveries is undertaken.

* * *
92. Both this chapter and the Commission's 1984 Progress Review have dealt with the obtaining of better value purchases and some authorities are already taking action. A relatively neglected area is that of reducing the associated costs of supply. The next chapter examines this.
3. Reducing Supply Costs

93. The Commission study has found that the costs which authorities incur in supplying goods often add significantly to the purchase price of goods. Table 6 shows the findings in different authorities and demonstrates the wide variations that exist.

Table 6: RANGE OF COSTS FOUND FOR DIFFERENT SUPPLY ACTIVITIES

<table>
<thead>
<tr>
<th>Supply Activity</th>
<th>Range Found %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oncost on issues required to recover fully operating costs</td>
<td></td>
</tr>
<tr>
<td>(i) Shire district building material stores</td>
<td>17–83%</td>
</tr>
<tr>
<td>(ii) Metropolitan districts and London boroughs building material stores</td>
<td>23–65</td>
</tr>
<tr>
<td>(iii) Large central stores operated by consortium or county supplies</td>
<td>16–30</td>
</tr>
<tr>
<td>Cost of purchasing as a percentage of amount bought</td>
<td></td>
</tr>
<tr>
<td>(iv) Decentralised</td>
<td>1–5</td>
</tr>
<tr>
<td>(v) Centralised</td>
<td>0.5–2</td>
</tr>
</tbody>
</table>

94. In many authorities there is a lack of information about the cost of supply; costs of buying and administration are often 'lost' in central establishment expenses whilst stores accounts frequently exclude many of the costs of operating the stores. Based on an interpretation of what information is available, the Commission has estimated the cost of supply in all authorities to be at least £500m per annum.

95. These costs are substantial and local authorities should seek to reduce them as well as ensuring that the quality of service is as good as it needs to be. The Commission believes that savings of at least 10% or £50m per year are readily available and that improvements in the supply service can be effected. Reductions and service improvements will come from:

(a) Making sound decisions on what to store and what not to store
(b) Reducing stockholding
(c) Reducing the number of council operated stores
(d) Improving stores management
(e) Regularly reviewing the arrangements for the distribution of supplies.

In the Commission’s view a number of steps are necessary to achieve each of these improvements. These are discussed in turn in the remainder of this chapter.

96. The Commission estimates that local authorities have about £400m worth of goods and materials in stock at any one time. This figure excludes 'unofficial' stocks held by users in cupboards, spare rooms etc. The costs of storage and distribution are large. Typically, 60 to 70% of the operating costs of a county council central supplies organisation are incurred in storage and distribution, yet the proportion of goods delivered in this way is only about 15%. Nevertheless stock issues, covering as they should do the bulk of repetitive demand items which are suitable for storage, constitute a critical area of supply for many users.

97. The operation of an efficiently managed store, stocking the right items at the right level; can be of considerable benefit to an authority. By and large the central stores operated by county supplies departments and consortia supply items to users at a lower cost, with a shorter delivery time and with better security.
of supply than alternative arrangements would provide. In contrast, and with some notable exceptions, departmental and sub-departmental stores are often controlled by people who are ill-versed in stock control and stores management. Items are often automatically delivered through stores with little or no consideration of alternative supply arrangements.

98. Costs of storage and delivery can easily add 30% to the purchase price of goods (see Exhibit 7) and in the Commission’s view all authorities should consider carefully whether particular items are best delivered through stores. There are two alternatives to storage:

(i) A **direct delivery service.** The user requisitions as for a stores item and the supply organisation places an order with a supplier, who then deliver direct to the user; this costs around 5 to 6% of the price of the goods supplied (less for vehicles and for liquid fuel).

(ii) **Call-off contracts.** For particular items or groups of items such contracts lay down terms under which any part of the authority may place its own purchase orders with external suppliers. This costs the supplies organisation less than 1% of the cost of the goods supplied but requires additional effort from the supplies user in placing orders, receiving delivery and certification of invoices.

The supplier includes in the price the cost of storage and distribution when goods are supplied by direct delivery or on a call-off contract. Exhibit 8 shows the advantages and disadvantages of the three delivery methods.

99. It is important in deciding what are the most appropriate delivery arrangements to look at the total cost to the user, i.e. purchase price plus the associated supply costs. Storage is justified on economic grounds when the cost of storage and distribution is more than offset by the reduction in price gained by
### ADVANTAGES AND DISADVANTAGES OF THE THREE SUPPLY METHODS

#### ADVANTAGES

<table>
<thead>
<tr>
<th>Stores</th>
<th>Direct Supply</th>
<th>Contractual Arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Low prices for bulk deliveries</td>
<td>(i) Enables supplies organisation to offer advice and expertise</td>
<td>(i) Obviates need to pass paperwork through supplies organisation</td>
</tr>
<tr>
<td>(ii) Effective quality control</td>
<td>(ii) Allows customers to order bulk of requirements on supplies organisation</td>
<td>(ii) Enables users to retain direct relationship with suppliers</td>
</tr>
<tr>
<td>(iii) Direct control of issues</td>
<td>(iii) Enables supplies organisation to monitor type of product being supplied with a view to introducing the line through stores</td>
<td>(iii) Avoids stores costs</td>
</tr>
<tr>
<td>(iv) Convenient for users because orders are placed on one point with a limited number of deliveries to receive</td>
<td>(iv) Avoids stores costs</td>
<td>(i) Some lack of control by supplies organisation</td>
</tr>
</tbody>
</table>

#### DISADVANTAGES

<table>
<thead>
<tr>
<th>Stores</th>
<th>Direct Supply</th>
<th>Contractual Arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) High storage costs</td>
<td>(i) Quality control left to user</td>
<td>(i) Quality control left to user</td>
</tr>
<tr>
<td>(ii) High costs of stores procedures which are labour intensive</td>
<td>(ii) Restricted control on deliveries</td>
<td>(ii) Quality control left to user</td>
</tr>
<tr>
<td>(iii) Interest on working capital tied up in stocks</td>
<td>(iii) Uneconomical for supplies organisation on small deliveries of non-standard items, but valued by some authorities as a service</td>
<td>(iii) Lack of knowledge of demand could adversely affect contract terms</td>
</tr>
<tr>
<td>(iv) Relatively rigid delivery programmes</td>
<td>(iv) High cost of processing especially on small value orders</td>
<td>(iv) Difficulty, in some instances, to check validity of retrospective rebates</td>
</tr>
<tr>
<td>(v) Difficulty in matching stock holdings economically with demand; risk of over and under stocking</td>
<td></td>
<td>(v) Exposes supplier to user</td>
</tr>
</tbody>
</table>
delivery to a central point. There may, in addition or alternatively, be an operational reason: that the user's service needs can only be met by the use of storage and outweigh any additional costs. This operational need may have an economic basis, for example if high standards of stock availability are needed to prevent DLO trade persons and supervisors from having to waste time.

100. Judgements about the method of issue best suited to commodities are assisted by the use of systematic review procedures, which may involve users as well as stores and purchasing staff. Such procedures may be applied to whole classes of items at a time. One frequently stocked group of items which may be suitable for alternative delivery arrangements is motor vehicle spare parts where the trade makes frequent deliveries to private garages – as many as six a day in some cases. It is essential that supplies managers should be responsible for deciding whether or not items are to be held in stock although a frequent finding by auditors was that supplies users were taking these decisions. For example, in one London borough the street sweeping section head instructed the stores to purchase a stock of one-piece work suits; once the uniforms were in the store, the decision was taken to use two-piece work suits instead, and the one-piece suits have remained in stock since.

101. The Commission considers that a halving of the total local authority holding of £400m worth of stock is quite feasible. The saving in interest costs could be £20m a year. In addition, storage space would be reduced and in many cases the stores themselves could be operated more efficiently following big reductions in stock.

102. It is reasonable for stock levels to vary according to the range of commodities (to take two extreme instances: stocks of road salt would expect to turn over about once a year but for petrol the rate should be about once a fortnight). Nevertheless most local authority stores hold a mixture of items and on average a stockturn of 4 should be readily achievable. This is certainly not the case in many local authority stores as illustrated by Exhibit 9 which shows the number of months' stock held in 32 building material stores. Certainly there can be no justification for average stock levels as high as six months' supply.

Exhibit 9

NUMBER OF MONTHS' STOCK HELD IN A SAMPLE OF BUILDING MATERIALS STORES
103. In order to implement stock reductions, authorities will need to dispose of redundant stock, reduce stock levels generally and reduce the ranges of stock items held. All these measures will require action from staff outside the stores function as well as from within.

104. Holdings of redundant stock can easily become alarming: the problem of redundant stock was highlighted in 23 out of 43 of a sample of audit reports. In one store visited by an auditor, 50% by value of the stock was redundant. Where redundant stock is found the cause should be investigated. The means for deciding which items to hold in stock should then be reviewed – so as to prevent the problem recurring – and the items in question should be disposed of.

105. Whilst much redundant stock may have to be sold as scrap, it may on occasion be possible to do better than that. A shire district with a large supply of old grate parts was able to sell many of them back to the manufacturer at a higher price than the value recorded in the stock accounts. The prevention of stock redundancy depends on users as well as on stores staff: users must not be allowed to determine in isolation the mode of supply to be adopted.

106. When deciding how much to reduce stock levels for particular items, suppliers’ terms and delivery performance should be considered (purchasing staff will have to be involved as well as stores staff). Only if discounts for bulk ordering are substantial can there be an economic justification for high stock levels. Only if availability from suppliers is slow or unreliable can high stock levels be justified on the grounds of quality of service. But even if suppliers’ delivery is unsatisfactory, it may be possible to persuade suppliers to improve their performance and thus prevent the need for high stock levels. For instance, purchase contracts can include stipulations of maximum delivery times. One metropolitan district had on average four months’ supply of the major-use items. A review of the purchasing contract terms showed that for many items, delivery lead times were less than ten days.

107. In part, reduced stock ranges will flow from improvements in specification procedures – these improvements should limit the number of items supplied and thereby reduce the number of items which need to be held in stock. Reductions can also be affected by transferring items from stores supply to direct delivery from the supplier.

108. The decision on what to stock and the level of stockholding should, as has already been said, be based on two factors, financial and service:

(a) Financial. The reduced cost of bulk delivery into store should more than offset the full costs of holding and distributing stock items
(b) Service. An assessment should be made of the penalty for being out of stock in a particular item or range of items.

The second factor, i.e. service, is much overplayed in local government when often no proper evaluation has been made of the true penalty of being out of stock. There should always be a clear and identified link between service and cost to the user.

109. Money tied up in goods in store is a cost which should be reflected in the charge for storage and hence in the oncost on issues. The present widespread practice of not charging interest on the value of stock results in there being no incentive to reduce stock. Consortium stores and those operated by the better central supplies organisations all include a charge for money tied up in stock – and this is reflected by much better stockturns in these organisations than in the majority of operational stores like those for building and highway materials. Even where the interest charge is taken into account individual users should not be able to impose unnecessary stockholding on the stores manager.

110. Complete closure of a store is likely to be the most significant saving associated with the costs of supply. Previous sections have dealt with the decision on whether or not to stock particular items and if so at what stockholding levels. If
these decisions lead to a substantial reduction in stock then perhaps the store may be closed. Conversely the possibility of closure may enhance the benefits of using alternative supply methods for particular items.

111. Once the full costs of storage (including the likely capital receipts which could be expected from disposing of stores sites) had been assessed it was apparent in many authorities that the number of stores could be reduced by amalgamating existing stores and that this need not affect adversely the quality of the supply service:

- A metropolitan district had four building maintenance stores in a compact area each with its own staff and administrative back-up. The true cost of operating these stores was lost in central administration but a conservative estimate of the oncost required was over 33%
- A large shire district had two stores, one building maintenance and one engineering on opposite sides of an estate road. Over 50% of the commodities stocked were common to both stores.

Although in both these cases, and in others, there is strong evidence to support closure, local authorities are often reluctant to take action. This is often due to weakly defined lines of responsibility across departments and re-emphasises the need for a central initiative, by either members or the Chief Executive, to override inter-departmental squabbles.

112. Stores management calls for considerable skill – or at least significantly more skill than was being used in some departmental stores observed by auditors in the 1985–86 audit round. Some authorities may judge that they need a stores service but that it would not be worthwhile to employ staff with the appropriate skills. In such cases it may be possible to use somebody else's store. By joining a supplies consortium or by associating with another authority's central supplies department, an authority can avail itself of the relevant stores operation.

113. An authority may also be able to avoid the need for operating its own stores by arranging with manufacturers and other suppliers that they all should deliver to a single point such as a retail outlet. The retailer then delivers to users against requisitions. The storage and delivery charge becomes an oncost on the price from the supplier. There are advantages to the retailer in this type of arrangement since he is often able to obtain stock for resale to the public at a lower price because of the increase in volume. Part of the extra profit generated can then be passed to the authority by a reduced delivery oncost. One shire county without a central store operated this system and asked suppliers to tender for direct delivery to establishments and for delivery to a central point. It also obtained tenders for a delivery service and where the delivery service was used, the average oncost was about 11%.

114. One metropolitan district invites frozen food suppliers to tender for a frozen food distribution contract separately from the frozen food supply contracts. For items on which the distribution contractor is not awarded the supply contract, he stores and distributes his competitors' goods on behalf of the authority.

115. The control of stock levels and stock ranges is not the only weakness in stores operations. Visits to stores by auditors and the study team showed disturbing standards of general housekeeping, loose control of staff costs and poor use of space. The Commission also identified a general need for improved store information systems and accountability. These weaknesses were less serious in larger, central stores than in operational stores used by single departments such as building maintenance DLOs.

Housekeeping

116. A typical example of poor housekeeping is shown in Exhibit 10. The photographs are of a building materials store in a metropolitan authority and
Exhibit 10: Two photographs of a Building Materials Store in a metropolitan authority. (Note: the authority has taken action to improve the situation since the photographs were taken).
highlight some of the untidy and haphazard arrangements observed. Management weaknesses in local authority stores include:

(a) **Poor shelf marking.** More than half of the stores visited did not have adequately marked bins or shelves. In many cases there were no location codes to identify the correct position of items. Extra staff time was hence spent searching for less common materials. Also new staff members took longer than necessary to become familiar with the stores

(b) **Lack of Security.** Examples were noted of employees wandering in and out of stores unchallenged. In other stores it was difficult to restrict access because commodities were issued from a number of different points, whilst in others goods were both received and issued at a single point. This means unnecessary loss through pilfering and additional time spent investigating shortages

(c) **Bad organisation of stores.** In one case the most frequently requisitioned item was on a shelf ten feet above the ground and not readily accessible. Other regularly issued items were also located in awkward places

(d) **Inadequate equipment.** In a number of stores efficiency was impaired by operatives having to use unsuitable items of plant or even poorly designed shelves

(e) **Poor hygiene.** Generally hygiene in stores was not good with examples found of:
- Rubbish deposited in aisles next to stocked items
- Thick layers of dust on fixtures and fittings
- Rubbish tips in the corners of the stores
- Issue items stacked in aisles.

This hampers speedy work, wastes space and can lead to accidents.

117. General management weaknesses in stores lead to unpleasant working conditions and poor staff morale. In the process staff costs of operating the stores are increased. Staff time is wasted in searching for items requisitioned, in picking items off badly organised shelves and in manoeuvering around unnecessary obstacles. A valuable aid to ensuring staff productivity and to preventing these weaknesses is the monitoring of certain measures of stores performance. Table 7 lists some measures which have been found to be useful, together with the values for these measures observed in two authorities with well managed stores operations.

<table>
<thead>
<tr>
<th>Table 7: MEASURES OF STORES STAFF PERFORMANCE IN TWO STORES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Store</strong></td>
</tr>
<tr>
<td>(i) Cost of operational Stores staff (inc. clerical) per purchase price of issues</td>
</tr>
<tr>
<td>(ii) Value of issues per fte storekeeper</td>
</tr>
<tr>
<td>(iii) No. of picks per storekeeper hour</td>
</tr>
<tr>
<td>(iv) No. of picks per picker hour</td>
</tr>
</tbody>
</table>

118. The most telling use of such measures is likely to be in the tracking of a particular supplies organisation’s performance through time. If performance measures are used in inter-authority comparisons, due regard should be paid to the differences in the nature of different authorities’ operations. The number of staff required in a store will depend upon the throughput, the range of items stocked and the equipment available for use within the store. Another factor will be the tasks performed by stores operatives – for instance, in some stores received stock has to be split before issue; in others it does not. The availability of sound up-to-date management information and systems can also have a bearing on the staff required.
119. Containing staff costs also entails striking an appropriate balance between permanent and temporary stores staff. This is particularly important for stores supplying education establishments, where demand for deliveries is seasonal – more than 60% of business is undertaken in four months of the year. Exhibit 11 illustrates the pattern of issues from a large county supplies store for a typical year. Considerable savings were achieved by increasing the amount of temporary assistance so that the permanent staff were sufficient to cover the lowest volume of issues rather than the peak volume. An alternative approach in some such cases, which can generate comparable savings, is to spread the load throughout the year; scrutiny of supplies needs may reveal that certain items can just as well be delivered during the course of the academic year.

Exhibit 11

**PATTERN OF ISSUES THROUGH THE YEAR FROM A CENTRAL SUPPLIES STORE IN A LARGE COUNTY COUNCIL**

Average Number of Lines Issued Per Day

![Graph showing pattern of issues through the year](image)

120. The most common example of poor utilisation of floorspace is a failure to use the available height of the store. In one London store, for example, although the building was over fifteen feet high, the maximum height used was only seven feet. This situation was aggravated by the uniform spacing of the shelves in the store. In other stores examples of poor space utilisation include very wide aisles, large unused areas in the body of the store and the failure to remove rubbish.

121. In some cases, making better use of storage space will not reduce costs directly, it may only create a large empty space. Nevertheless there may be opportunities to use this space beneficially, for instance as a store for old records and files or as a vehicle repair workshop. More generally, unless an authority is aware of how much storage space the supply function requires, it cannot take sound decisions on the use of buildings.

122. To put into effect the improvements necessary in stores management, authorities will need to strengthen management information and overall accountability of the stores function.
123. The administration costs and indeed often the direct operating costs of a store are related to the quality of the store's information system. In many local authority stores all that exists is a mechanism for charging stores issues against the relevant expenditure codes. The rudiments of a stores system may exist but some valuable features are usually not available or not used. Staff time is wasted in batching up issue and delivery notes for sending to the computer section for processing. Information, when it returns from the computer section, is generally weeks out of date so that duplicate, manual, records of stock held have to be kept at the stores.

124. Improved stores accountability must begin with a re-definition of the responsibilities of stores management. Stores management at present is often under the control of an officer with many other responsibilities. The stores staff are left largely to their own devices with limiting complaints against the operation of the store as their main target. This in itself encourages overstocking because most complaints are about non-availability of the required materials.

125. Stores should be controlled by an officer for whom the function is a major responsibility and who has a direct link with the purchasing function. In the larger organisations it may be the sole responsibility of one officer but more generally it will be linked to purchasing: the Stores Controller will also be the Purchasing Officer. This arrangement works well in a number of authorities.

126. As well as defining officer responsibility appropriately, authorities should promote improved stores accountability by making each of their major stores operate as a cost centre.

127. The study highlighted many instances where not even the most rudimentary elements of costing of the operation of stores were practised:

   In one large metropolitan district the costs of operating the building materials stores were 'lost' in central administration. The true oncost necessary to recover the operating costs of the stores is estimated to be over 25%

---

**Exhibit 12**

**SAMPLE OF 32 BUILDING MATERIALSSTORES IN METROPOLITAN DISTRICTS AND LONDON BOROUGHS SHOWING ONCOST CHARGED ON ISSUES AND "TRUE" ONCOST CALCULATED BY THE AUDITOR**
The engineering stores in a London borough charges the costs of operating the stores within the depot overheads account. The depot overhead account is absorbed as part of the wages oncost. There is no oncost charged on stores issues but a calculation by the Commission's auditors suggested a rate of 32% is necessary to recover costs.

128. These are not isolated examples; for a sample of authorities the Commission's auditors were asked to examine stores oncosts and to provide details of:

- The oncost charged on issues
- The oncost needing to be charged if all costs are to be recovered.

129. In 15 authorities drawn from a sample of 41, auditors found that no oncost at all was being charged for at least a part of the stores operations. Exhibit 12 shows detailed results for a sample of building materials stores in metropolitan districts and London boroughs. This demonstrates that in many cases oncosts are kept artificially low and hence sound decisions on the management of stores are more difficult to make.

130. Generally the position of stores other than building materials stores is similar, with the possible exception of central supplies. Here the supplies organisation is treated on a quasi-commercial basis and has to recover all its operating costs. This is particularly true of the major consortia where all costs are recovered including interest on capital and rent for the premises.

131. A common reason for not identifying costs is the belief that charging a realistic oncost would make the DLO uncompetitive. In fact, it is the lack of a realistic oncost (and the resulting lack of incentive to manage stores more tightly) which threatens DLO competitiveness. The stores oncost and hence the cost of materials are kept artificially low, but the additional costs are often borne through an increased DLO wages oncost. By pinpointing stores costs accurately the need to reduce them will be immediately apparent.

132. All stores' costs should be charged to a stores operating account including:

- Wages and salaries of all staff involved in the running of stores e.g. storekeepers, pickers, administrative staff, delivery and buying officers (where appropriate)
- Premises (including an allowance for rent to reflect the full market value of the premises; this allowance was reported by auditors to be missing in 21 out of a sample of 41 authorities)
- Transport and plant
- Computer and equipment
- Central administration recharge
- Interest on working capital (this was found to have been omitted in 20 out of a sample of 41 authorities).

133. Each year the costs of operating the store should then be recovered by means of an oncost charged on the goods issued. As well as assisting management generally, this costing provides a basis for assessing whether individual items should be supplied through stores or by some other arrangement.

134. It is usually realistic for a storage operation to incur supply costs which can be met by an oncost of 20% of the value of the goods supplied. The breakdown of this oncost for a central store as operated by a county supplies organisation or a consortium could be expected to be:

- Storage 11%
- Distribution 3–4%
- Administration 5–6%

Similar breakdowns are not possible for departmental stores which do not normally involve distribution.

135. As well as providing an incentive to reduce operating costs, accurate oncosting is essential to evaluations of whether particular stores are needed at all.
136. In many large authorities, particularly those with education and social services departments, the distribution of goods is a major element in the cost to the end user. The quality of the delivery arrangements can decisively affect the acceptability to users of the local authority’s supply arrangements. In one authority with a competitively priced greengrocery contract for educational institutions, one college was not using this contract and paid prices about 18% above the contract prices. The reason given by the college for not using the contract was that the supplier did not deliver early enough in the day.

137. Any supplies organisation which determines its own distribution arrangements needs to keep them under constant review. Users’ requirements change continually, new users are introduced and existing ones disappear. In addition external factors like changes in the road network and availability of external distributors can alter the optimum arrangements.
4. The Way Ahead

138. Although the management of supply operations is, rightly, different in different authorities, the steps necessary to make sure that supplies are well run are broadly the same in all authorities:

(i) Every authority should prepare a statement of how all its supplies are currently procured. An extract from such a statement, produced by a shire district council, is shown in Exhibit 13. This statement will readily identify where duplication occurs e.g. building materials are bought by four different sections in the example. The statement should be the starting point of a review of supply arrangements and an investigation of the available alternatives to them – changed internal operations, changes in the use of other local authority facilities and changes in use of commercial agencies.

(ii) Create the post of Procurement Manager with responsibilities and powers covering supplies operations throughout the authority.

(iii) In co-operation with the Procurement Manager, and after full consultation with affected user departments, make any necessary changes to supplies management arrangements.

(iv) Make sure that the authority is adequately equipped to
   – Assess the effectiveness of the supplies procedures
   – Monitor compliance with laid-down supply arrangements
   – Monitor the success of supply arrangements at meeting users' requirements
   – Revise the supply arrangements as such revision becomes necessary.

In addition, there is the clear need for an adequate system of internal control to maintain probity.

139. When an authority has introduced appropriate supply arrangements it needs to have suitably qualified staff to realise the full benefits. Although some such officers are already working in local government and there may be some scope to recruit from the private sector the supply is unlikely to be sufficient to meet the needs of all authorities. The way forward is therefore to train existing staff. Full-time appointments to the supply function coupled with suitable training in the necessary skills should help to alleviate any shortages within a fairly limited timescale.

140. Even if the authority has suitably qualified staff it will not be possible to bring all supplies instantly within their responsibility. The first stage should be to concentrate on the high spend areas and particularly those where problems are known to exist. Once successful supply arrangements have been introduced for some users it becomes easier to overcome objections from others.

141. The appointment of qualified and/or experienced purchasing staff will undoubtedly help to bring about improvements in the purchase of goods. Increased professionalism should bring keener prices and better specification and quality control procedures. The concentration of purchasing effort should also reduce the cost of arranging purchases. However, the need to examine the delivery arrangements closely should not be ignored and particularly the management of stores operated by the authority.
Exhibit 13

CLASSES OF GOODS PURCHASED BY DIFFERENT DEPARTMENTS IN ONE PARTICULAR SHIRE DISTRICT

<table>
<thead>
<tr>
<th>DEPARTMENT</th>
<th>SECTION</th>
<th>CLASSES OF GOODS BOUGHT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive's Personnel</td>
<td>Publications</td>
<td></td>
</tr>
<tr>
<td>Legal and Administrative</td>
<td>Publications</td>
<td></td>
</tr>
<tr>
<td>Treasurer's Stores</td>
<td>Building materials, fuel, transport, street lighting, highways, and cleaning materials</td>
<td></td>
</tr>
<tr>
<td>Audit</td>
<td>Tickets</td>
<td></td>
</tr>
<tr>
<td>Housing Administration</td>
<td>Building materials, furniture, heating oil</td>
<td></td>
</tr>
<tr>
<td>Building maintenance</td>
<td>Tools, keys, building materials, first aid</td>
<td></td>
</tr>
<tr>
<td>Environmental health</td>
<td>Chemicals, equipment, notices</td>
<td></td>
</tr>
<tr>
<td>Management Services Estates</td>
<td>Cleaning materials, first aid, forms</td>
<td></td>
</tr>
<tr>
<td>Management Services Printing</td>
<td>Stationery, furniture</td>
<td></td>
</tr>
<tr>
<td>Management Services O &amp; M</td>
<td>Computer hardware and software</td>
<td></td>
</tr>
<tr>
<td>Management Services Computer</td>
<td>Computer consumables</td>
<td></td>
</tr>
<tr>
<td>Management Services Canteen</td>
<td>Food, equipment</td>
<td></td>
</tr>
<tr>
<td>Recreation Bars</td>
<td>Bar equipment and supplies, overalls, drink</td>
<td></td>
</tr>
<tr>
<td>Recreation Arts</td>
<td>Tickets, booklets</td>
<td></td>
</tr>
<tr>
<td>Recreation Leisure Centre A</td>
<td>Trophies, building materials, sports equipment, uniforms, tickets</td>
<td></td>
</tr>
<tr>
<td>Recreation Leisure Centre B</td>
<td>Trophies, building materials, cleaning materials, uniforms, tickets</td>
<td></td>
</tr>
<tr>
<td>Technical Highways</td>
<td>Highways materials</td>
<td></td>
</tr>
<tr>
<td>Technical Transport</td>
<td>Vehicles, tools, equipment</td>
<td></td>
</tr>
<tr>
<td>Technical Street lighting</td>
<td>Street lighting materials</td>
<td></td>
</tr>
</tbody>
</table>
142. There is considerable scope for improvement in most authorities in the provision of accurate and up-to-date management information. In all areas of supply operations there is scope for authorities to facilitate management improvements by the application of appropriate information technology. The introduction of this technology should be an integral part of the process of improvement. Among current successful applications are:

- Stores: on-line records of stock and operating expenses to tighten control of stock ordering and receipt, monitoring of demand and costing of stores operations
- Invoice processing: on-line checking of invoices against order details and authorisation of payments through a link to the authority's payment system
- User links: access for supplies users to information on supplies items (including up-to-date price and availability data both for stock and for non-stock items)
- Supplier links: used for paperless ordering and invoice payment.

143. These steps can bring benefits to all authorities, without any action from government or other outside agencies. Two measures taken by central government would add to the improvements made by authorities themselves:

(i) Allow local authority supply organisations to compete for the custom of central government departments, just as central government's supply agencies compete for local government's custom at present.
(ii) Prevent the restrictive Net Book Agreement from applying to local authorities. The agreement currently allows publishers and booksellers to charge higher prices than would be sustainable in an open market.
Appendices

The following appendices are included in this report:
A – An extract from the Ethical Code of the Institute of Purchasing and Supply
B – Code of Practice for purchase of goods and materials included in standing orders
A – AN EXTRACT FROM THE ETHICAL CODE OF THE INSTITUTE OF PURCHASING AND SUPPLY

**PRECEPTS**

3. Members shall never use their authority or office for personal gain and shall seek to uphold and enhance the standing of the purchasing and supply profession and the Institute by:

   (a) Maintaining an unimpeachable standard of integrity in all their business relationships both inside and outside the organisations in which they are employed
   
   (b) Fostering the highest possible standards of professional competence amongst those for whom they are responsible
   
   (c) Optimising the use of resources for which they are responsible to provide the maximum benefit to their employing organisation
   
   (d) Complying both with the letter and the spirit of:
      
      (i) The law of the country in which they practise.
      
      (ii) Such guidance on professional practice as may be issued by the Institute from time to time.
      
      (iii) Contractual obligations.
   
   (e) Rejecting any business practice which might reasonably be deemed improper.

4. In applying these precepts, members should follow guidance set out below:

   (a) **Declaration of interest.** Any personal interest which may impinge or might reasonably be deemed by others to impinge on a member's impartiality in any matter relevant to his or her duties should be declared

   (b) **Confidentiality and accuracy of information.** The confidentiality of information received in the course of duty should be respected and should never be used for personal gain; information given in the course of duty should be true and fair and never designed to mislead

   (c) **Competition.** While bearing in mind the advantages to the member's employing organisation of maintaining a continuing relationship with a supplier, any arrangement which might, in the long term, prevent the effective operation of fair competition, should be avoided

   (d) **Business Gifts.** Business gifts other than items of very small intrinsic value such as business diaries or calendars should not be accepted

   (e) **Hospitality.** Modest hospitality is an accepted courtesy of a business relationship. However, the recipient should not allow him or herself to reach a position whereby he or she might be or might be deemed by others to have been influenced in making a business decision as a consequence of accepting such hospitality. The frequency and scale of hospitality accepted should not be significantly greater than the recipient's employer would be likely to provide in return

   (f) When it is not easy to decide between what is and is not acceptable in terms of gifts or hospitality, the offer should be declined or advice sought from the member's superior.

5. Advice on any aspect of the precepts and guidance set out above may be obtained on written request to the Institute.
DELEGATED POWERS

1. The council has authorised the Supplies Officer to enter into all contracts made under this code on behalf of the council; except in certain cases to be reported to the purchasing sub-committee, of the finance and management committee for decision.

2. The sub-committee will monitor the exercise of delegated powers to ensure their conformity to the requirements of public accountability.

TYPES OF CONTRACT

3. The contracts let under this code may be for the supply of individual items, or for ranges of items, whether they shall be for specific quantities or for specific periods, or in the case of repetitive items of a minor nature, whether they shall be on an 'until further notice basis' with periodical reviews.

DEFINITIONS

4. A 'tender' means any offer in writing, and embraces the term 'quotation'.

TENDERS

5. Tenders for all contracts shall be invited from at least three sources, unless special circumstances make this not possible, in which case a report shall be made to the sub-committee. The council have delegated power to the Supplies Officer to dispense with tenders from more than one source in the circumstances set out in Clause 6.

6. The Supplies Officer may dispense with:

   (a) Tenders in the following cases:

      (1) Urgent supplies necessary for the protection of life or property, or to maintain the functioning of a public service for which the council is responsible.

      (2) Supplies which must be, or which the council or a committee or Officer acting under delegated powers decide shall be, entrusted to a public utility undertaking, statutory undertaker, local authority or similar body.

      (3) Purchases of small value where the invitation of tenders would not be economically justified or is impracticable as may be defined by the purchasing sub-committee from time to time.

      (4) The purchase of supplies from approved organisations concerned with the care of persons suffering from any physical or mental disability.

      (5) The spot purchase in the market or elsewhere of food stuffs, or other products subject to quickly changing market conditions.

   (b) Two or more tenders in the following cases:

      (1) When in the light of market conditions or where special considerations arise, he decides to extend the scope of an existing contract to include further quantities or periods.

      (2) When special circumstances make it appropriate and desirable in his opinion that a contract shall be negotiated with a single firm or that a single tender be invited.

      (3) For the supply of goods or equipment available from only one supplier.

   In all circumstances (a) 1–5 and (b) 1–3 above, the purchasing sub-committee shall receive reports and monitor action taken.

INSTRUCTIONS FOR TENDER

7. All tenders issued under this code shall contain instructions relating to the form in which tenders shall be submitted; the latest date and time for receipt of tenders and the place to which they should be delivered; and whether alterations to the specified requirements will be considered.
8. The normal practice for obtaining tenders shall be by invitation:
(a) From firms on approved lists (see Clause 9); or
(b) For purposes for which there is no approved list, from selected firms
known to be suitable by the Supplies Officer and the user department, or
at the discretion of the Supplies Officer by public advertisement. Where
public advertisement is used, at least 10 days' public notice shall be given
in one or more newspapers circulating among such firms, or persons, as
undertake such contracts, expressing the nature and purposes of the
requirements, inviting tenders for the execution of the contract and
stating when tenders will be opened; and
(c) By advertisement in the appropriate EEC journal where the annual value
of the contract requires.

For major items, preliminary enquiries shall be made before the invitation to
tender is issued to ensure that an adequate number of tenders will be available for
consideration.

9. (a) The Supplies Officer shall maintain under the control of the purchasing
sub-committee approved lists of firms from whom tenders may be
invited for the supply of goods. The purchasing sub-committee shall
review the operation of the approved list system periodically, to ensure
the widest possible access to council business. These lists shall include
firms that have applied for permission to tender and have been approved
as reliable and financially sound and other firms known to be satisfactory.
If necessary, a new firm on the list shall be given a trial period, or portion,
of a contract
(b) Firms shall be required as a condition of the inclusion of their names in
the approved list to sign a declaration that they will comply with the
council’s conditions of employment of contractors, as approved from
time to time by the purchasing sub-committee
(c) The purchasing sub-committee shall approve the firms on the approved
list and any subsequent additions. The Supplies Officer is authorised to
remove from approved lists the names of firms which are bankrupt, being
wound up, acting under a receiver, or with the consent of the firm
concerned
(d) Approved lists shall be completely reviewed once every five years
(e) The compilation and review of approved lists shall be preceded by
notices inviting applications for inclusions in the list published in one or
more newspapers circulating in the authority’s area, and in one or more
journals circulating among such persons or bodies undertaking such
contracts, at least four weeks before a list is compiled or reviewed.

10. Where a firm is considered unfit to remain on the council's approved lists
(for reasons other than those set out in 9(c) above), that firm, and the
circumstances applying to such action, shall be recommended for removal from
the appropriate list, to the purchasing sub-committee. A central list of excluded
firms will be maintained by the Chief Executive.

11. Tenders shall be opened in accordance with approved tender procedures
for the opening of tenders or otherwise by the Supplies Officer who shall ensure
that the procedures adopted provide for adequate internal check, the separation
of functions, and impartial treatment. The sub-committee shall take steps to
satisfy itself, from time to time, that such procedures are satisfactory.

12. Any tender submitted in competition received after the specified time shall
be returned promptly to the tenderer, after opening to ascertain only the name
and address.
13. Tender prices may be amended in the following circumstances:

(a) If a tenderer seeks to reduce his prices downwards between the submission of a tender and the award of a contract, then the contract shall be considered on the basis of the original prices, and if subsequently awarded, shall be amended downwards accordingly. No upward revision shall be allowed in such circumstances.

(b) Where there are obvious errors in totalling, extensions or calculations, or where the tender price is so low that the Supplies Officer feels that an error has been made and that acceptance might involve the council or the tenderer in difficulties of performance.

(c) Where the lowest tenderer agrees to reduce his tender price (without varying the specification) after negotiation because:
   (i) The original tender was unacceptably high.
   or
   (ii) The schedule covers a range of requirements, and, although lowest overall, negotiation might allow further savings to the authority.

(d) Where for a particular requirement, the lowest tender exceeds the user department’s budgeted allowance, or offers an alternative specification, and negotiation permits an assessment of the scope for savings. If the original specification is amended significantly, or the acceptable alternative differs significantly from the original specification, then similar opportunities must be allowed for other competitive tenderers.

All cases of amendments to tender prices, and the reasons for them, shall be reported to the purchasing sub-committee.

14. 

(a) The most advantageous tender shall be the one accepted, and will normally be the lowest, or lowest satisfactory tender after taking into account the relative merits of specification, sample, quality, delivery and any other relevant aspects of performance. Where the Supplies Officer considers it advisable or essential for particular supplies, he may place contracts with more than one contractor. The Supplies Officer shall ensure that proper arrangements are made for the authorisation of acceptance of tenders other than the lowest, with reports to the purchasing sub-committee as appropriate.

(b) The acceptance of a tender, and the establishment of a contract between the authority and a supplier, shall be made by the Supplies Officer with advice and guidance from the solicitor where appropriate. This authority shall apply to contracts of any value made under this code of practice.

15. Except for minor purchases, unsuccessful tenderers shall be informed as soon as possible that they have not been awarded the contract. Requests from firms to be informed of the prices tendered by other firms shall be denied.

16. In addition to the circumstances allowed for in Clause 13(a)–(d) above, negotiations with suppliers shall also be permitted:

(a) In those circumstances where tenders need not be obtained (Clause 6(a) (1) to 6(a) (5) or where competitive tenders need not be obtained (Clause 6(b)(1) to 6(b)(3)

(b) When price increases are sought during the currency of the contract.

(c) Where market conditions change, and, in the opinion of the Supplies Officer, prices should be reviewed downwards.

17.

(a) Where supplied, specifications or descriptions shall require, as a minimum, compliance with British Standards current at the date of
tender. Where appropriate, specifications shall provide for the submission of alternatives which satisfy the functional requirements.

(b) The specification shall not be restricted to a proprietary type or a single supplier, except where the Supplies Officer is satisfied that there is no acceptable alternative, or where it is desirable to set a standard, in which case a choice shall be given – and wherever practicable a statement to the effect that other approved substitutes shall be included.

18. Wherever possible, contracts shall be made in accordance with the council’s Standard General Conditions of Contract. As a very minimum, each contract shall include clauses relating to:

(a) The prevention of corruption
(b) Recovery of costs and expenses arising from the supplier’s inability to deliver goods of appropriate quality in the specified time.

19. Contracts shall not normally exceed two years’ duration, and any contract in excess of this period shall be reported to the sub-committee.

20. Prices shall be requested on a fixed basis where practicable, otherwise prices shall be subject to fluctuation, and increases shall be authorised only in accordance with known increases in costs.

21. The Supplies Officer is authorised to approve the assignment or sub-letting of a contract, or a part of a contract, by a contractor, provided that the assignee or sub-contractor is a firm that the council would otherwise have dealt with directly.

22. In dealing with matters referred to in this code, officers shall have regard to the provisions of the staff handbook, particularly the acceptance of an improper reward, and in addition, no Purchasing Officer shall benefit personally in any way as a consequence of his office.
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