



## Report to Overview and Scrutiny Committee 08/10/18

**Report of:** Executive Director Resources

**Subject:** How Sheffield City Council would like to do Business (Ethical Procurement)

**Author of Report:** Filip Leonard, Head of Procurement & Supply Chain

### Summary:

Members requested a review of our commissioning cycle specifically with regard to the Council's ability to address the following topics:

- Tax Compliance
- Ethical Procurement
- Grave Misconduct
- Living Wage
- Blacklisting
- Local Economic Impact; and
- Social Value

The purpose is to enable the Council to '*conduct business ethically, effectively and efficiently for the benefit of Sheffield*'

This paper confirms that the Ethical Procurement Policy, a series of revisions to protocols, process and tools associated with those topics and running across Sheffield City Council (SCC) and its supply chain has been signed. In particular, the policy focusses on adopting three key tools, Social Value tests, Ethical Code of Conduct for suppliers and revised Tender processes.

**Type of item:** The report author should tick the appropriate box

Reviewing of existing policy	<b>X</b>
Informing the development of new policy	
Statutory consultation	
Performance / budget monitoring report	
Cabinet request for scrutiny	
Full Council request for scrutiny	
Community Assembly request for scrutiny	
Call-in of Cabinet decision	
Briefing paper for the Scrutiny Committee	<b>X</b>
Other	

**The Scrutiny Committee is being asked to:**

Provide steer and contribute to the development of the Ethical Procurement approach. Consider the summary of proposals, key assumptions and key risks and seeks Scrutiny's feedback on appropriate reporting and performance arrangements.

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**Background Papers:**

**Ethical Procurement Implementation Update**

**Category of Report:** OPEN

# **Report of the Head of Procurement and Supply Chain**

## **Ethical Procurement Implementation Update**

### **1. Background**

The Ethical Procurement Policy marks a radical ambition to use our spending power to drive ethical standards and social outcomes in our procurement. The cuts that Government have forced upon the City Council in the last seven years have reduced our budget by over £390m putting pressure on services, communities and giving us increasingly difficult choices about how we use the money we do have available. Despite, or indeed because of this, the City Council needs to use its remaining spending power to deliver maximum impact to achieve its social and policy priorities. We do provide many services directly, but a significant proportion of our services are delivered by suppliers, so this puts procurement at the forefront in enabling these objectives.

Our Ethical Procurement Framework is a clear commitment to:

- maximising the Council's ability to use its discretion to apply ethical standards to behaviour throughout its supply chain
- use the money we spend to increase the social value and benefits for local people and businesses. This means that companies the Council contracts with must share our desire to create a city economy that works for all by paying their taxes, respecting workers' rights and equal opportunities, and invest in the talents of their employees through good training and healthy, safe working conditions. We want to encourage companies to think about the wider social impact on Sheffield communities of their activity.

By embedding these principles in our procurement practice, we will support and encourage investment in the city's economy, creating fairer opportunities for local businesses and suppliers to deliver local contracts which in turn, can create good local jobs.

Sheffield City Council have set our stall out by being a leading Real Living Wage employer but we are only responsible for a proportion of the money invested in services, contracts and products in Sheffield. We believe that the Ethical Procurement Framework represents an opportunity for all of Sheffield's key institutions and partners – hospitals, businesses, universities – to use our collective financial power to get the best value and best opportunities for Sheffielders and local businesses.

### **2. Policy Summary**

Sheffield City Council is committed to ensuring a high standard of ethical practice across our trading landscape and is raising the expectations of ourselves and our supply chain.

The Council expects all internal staff, partners and suppliers to work to these augmented standards which assure we will:

- Trade with those who comply with an Ethical Code of Conduct
- Exclude suppliers committing acts of Grave Misconduct
- Improve Social Outcomes for the citizens of Sheffield
- Increase the power of procurement and its Local economic impact.

The policy document articulates a series of revisions to protocols, process and tools across Sheffield City Council (SCC) and its supply chain, to enable the Council to 'conduct business ethically, effectively and efficiently for the benefit of Sheffield' (the vision). In particular focusses on adopting three key tools, Social Value tests, Ethical Code of Conduct for suppliers and revised Tender processes.

Following a review of our commissioning cycle specifically with regard to the Council's ability to address:

1. Tax compliance;
2. [Ethical Procurement];
3. Grave Misconduct;
4. Living Wage; and
5. Blacklisting;

within the supply chain, and the further topics of:

6. Local Economic Impact; and
7. Social Value

### **3. Policy Outcomes**

The proposals should enable the following outcomes:

#### **Ethical**

- Drive (SCC's view of) ethical behaviour as a standard throughout the supply chain
- Enable greater return in Social Value in Sheffield

#### **Effective**

- Increase SCC spend in the local economy / market
- Increase our understanding of the supplier markets
- Stimulate business growth
- Bring in innovative ideas and thinking from the market
- Accommodate short to mid term change / flexibility into contractual arrangements
- Drive an increase in cashable savings

#### **Efficient**

- Streamline processes
- Be (increasingly) cohesive in our messaging / engagement with suppliers / market
- Have processes that drive the right outcome (rather than focus solely on compliance)

#### 4. Operational changes and progress

The Ethical Procurement Policy has meant a number of changes within the Procurement and Supply Chain team to structures, process and procedures to enable to creation of a number of products.

Outcome	Operational Delivery Strategies
<p><b>Drive (SCC's view of) ethical behaviour as a standard throughout the supply chain</b></p>	<ul style="list-style-type: none"> <li>• Develop Ethical Charter</li> <li>• Inclusion of charter all new procurement as Condition of Contract</li> <li>• Enable existing supply base to sign up to contract variation</li> <li>• Develop toolkit for Suppliers</li> <li>• Amends to standard supplier questionnaire</li> <li>• Training &amp; development for teams</li> <li>• Hold Ethical Supplier day event</li> </ul>
<p><b>Enable greater return in Social Value in Sheffield</b></p>	<ul style="list-style-type: none"> <li>• Changes to commissioning process</li> <li>• Inclusion of minimum weightings in tenders</li> <li>• Changes to documentation</li> <li>• Training and Development for teams</li> </ul>
<p><b>Increase SCC spend in the local economy / market</b></p>	<ul style="list-style-type: none"> <li>• Training and Development for suppliers</li> <li>• Implementation of a sourcing team to ensure at least one quote &lt;£150k is sourced locally</li> <li>• Changes to Constitution</li> <li>• Use of Social Media to market to local suppliers</li> </ul>
<p><b>Increase our understanding of the supplier markets</b></p>	<ul style="list-style-type: none"> <li>• Use of third party reporting tools</li> <li>• Encouraging officers to network with suppliers more effectively through objectives setting</li> </ul>
<p><b>Stimulate business growth</b></p>	<ul style="list-style-type: none"> <li>• Use Local Economic Impact evaluation criteria within tender</li> <li>• Training and Development for suppliers</li> <li>• Identify gaps in the local market for the provision of goods and services and market the opportunity</li> <li>• Development of payment incentive schemes for supplier</li> </ul>

<p><b>Bring in innovative ideas and thinking from the market</b></p>	<ul style="list-style-type: none"> <li>• Encouraging officers to network with suppliers more effectively through objectives setting</li> <li>• Use of third party reporting tools</li> <li>• Early engagement with suppliers in the commissioning process</li> <li>• Increase in pre-market engagement</li> </ul>
<p><b>Accommodate short to mid-term change / flexibility into contractual arrangements</b></p>	<ul style="list-style-type: none"> <li>• Letting contracts designed to capture development and innovations, increased use of framework arrangements</li> </ul>
<p><b>Drive an increase in cashable savings</b>  <b>Be (increasingly) cohesive in our messaging / engagement with suppliers / market</b></p>	<ul style="list-style-type: none"> <li>• Development of payment incentive schemes for supplier</li> <li>• Minimum price evaluation</li> <li>• Supplier Event</li> </ul>
<p><b>Have processes that drive the right outcome (rather than focus solely on compliance)</b></p>	<ul style="list-style-type: none"> <li>• Changes to Constitution</li> <li>• Implementation of a new acquisition model</li> </ul>

These changes have now synthesised into some key products which include;

- A dedicated team of Procurement and Supply Chain “Ethical Champions” who are responsible for leading the implementation of changes to the Council and who will review progress against the policy outcomes.
- An amended supplier questionnaire for all procurement above £150k to allow suppliers to be deselected based on their ethical performance such as Grave Misconduct which renders a bidders integrity questionable
- Implementation of the new how to buy model and a sourcing team at Sheffield City Council
- An innovative approach to delivering Real Living Wage in the Councils’ Contracts.
- The Supply2Sheffield training and events for suppliers
- The Supply2Sheffield Pay Plus scheme
- A partnership with the University of Sheffield to produce an Ethical Diagnostic Toolkit aimed at achieving sustainable ethical supply chains.
- Training and information updates for managers across the Council.
- Changes to Councils standing orders
- Amended terms and conditions to include compliance against the ethical charter and commitments to Living Wage
- Amended tender documentation to include new Social Value evaluation model, Pay Plus scheme and Living Wage requirements

To ensure the success of the project it is important to ensure that we approach our supply chain in a very positive and collaborative manner. To that end the

Council is hosting an Ethical Procurement event on the 29<sup>th</sup> October 2018 for current suppliers. The day will enable the Council to set out its Ethical performance standards and approaches.

## 5. Reporting and measuring

As set out earlier in this report the impact of the policy has initially been within the Council, as it responds by developing strategies, process and procedures.

To measure the success of the project it is important we develop a set of measures that can practically be recorded, but are also a meaningful and direct consequence of the policy, rather than being influenced by other factors, beyond the control of the Council.

Below are a set of proposed measures that would be reported on an annual basis, to either this Scrutiny Committee, part of the Annual Governance Statement or perhaps some other reporting route.

### ***Proposed Measure 1: New Ethical Code of Conduct***

<b>What's new/changing?</b>	<b>How can this be measured?</b>
<p><b>New Ethical Code of Conduct for Suppliers (ECCS) – Consolidation of existing statements alongside refreshed ethical position statements.</b></p> <p><b>Makes a clear statement of intent when engaging the market.</b></p> <p><b>To be embedded as part of the contract and hold suppliers to account against the code.</b></p>	<p>Number of Suppliers that sign up to the Ethical Code of Conduct in contracts</p>

### ***Proposed Measure 2: Tax Compliance***

<b>What's new/changing?</b>	<b>How can this be measured?</b>
<p><b>Reinforced in ECCS – Consolidation. Enables termination where breach without rectification occurs.</b></p>	<p>100% of supplier excluded for failing tax compliance.</p>

**Proposed Measure 3: Grave Misconduct**

What's new/changing?	How can this be measured?
<p><b>Expanded PQQ disqualification tests against suppliers, parent company, group and subsidiaries.</b></p>	<p>SSQ* documents amended and utilised for 100% tenders 100% of SSQ documents completed self-declaration.</p>
<p><b>New SSQ disqualification test introduced for breach of International Human Rights.</b></p>	

\*SSQ Supplier Standard Questionnaire is a standard document the Council is required to use by law in competitive procurement above Public Contract Regulations thresholds.

**Proposed Measure 5: Real Living Wage**

What's new/changing?	How can this be measured?
<p><b>Reinforced in (ECCS) – Consolidation.</b></p>	<p>Achievement of the Real Living Wage Foundation Accreditation.</p> <p>Number of Employees working on Council Contracts paid the Real Living Wage</p> <p>% of suppliers since June 2017* declaring Real Living wage payer % of spend since June 2017 to declared living wage providers</p>

\*June 2017 reflect the point at which our new finance system was implemented and suppliers were able to self-certify their status.

**Proposed Measure 6: Blacklisting**

What's new/changing?	How can this be measured?
<p><b>Reinforced in (ECCS) – Consolidation.</b></p>	<p>SSQ documents amended and utilised for 100% tenders 100% of SSQ documents completed self-declaration.</p>

**Proposed Measure 7: Local Economic Impact**



What's new/changing?	How can this be measured?
<b>Introduces two mandatory new tests to evaluate local economic impact of a contract being awarded.</b>	Number of Contracts / quotes awarded to local businesses increasing
<b>Increase the threshold of Works contracts for Goods, Services and Works to £150k. (Means quote for works below this threshold)</b>	Changes to standing orders in Full cabinet in October
<b>Mandate one of three Quotes is requested from a Sheffield Supplier.</b>	

### ***Proposed Measure 8: Social Value***

What's new/changing?	How can this be measured?
<b>Reinforced in (ECCS) – Consolidation.</b>	
<b>Mandatory social value evaluation criteria for all tenders.</b>	% of tenders including Social Value and  The monetary value of social return that has been bid at tender stage*

\*Using a version of the National TOMs, we can utilise a set of published 'Proxy Values' that will allow the Council to assess the financial impact that any measure will make. It is recognised that social value is not all about 'money' but nonetheless this is an important metric to help understand the scale and breadth of impact that a measure can make. Importantly, it allows the Council when procuring to compare tenders in a way that is proportional and relevant to the bid, and to better justify a procurement decision.

### ***Proposed Measure 9: Supplier Ethical Performance***

Sheffield City Council and University of Sheffield have been working together to produce a free diagnostic toolkit to help suppliers to achieve financially sustainable supply chains and excellent employment practices.

Benefits to the Council include:

- Visibility of suppliers practices across the supply chain
- Ability to highlight areas of risk
- Ability to develop and implement improvement strategies
- Measure improvement and performance

Benefits to suppliers of using the toolkit include:

- Impact on the bottom line
- Increased competitiveness
- Socially responsible, ethical business practices
- Easy-to-use design
- Reputational benefits

The toolkit can be used by managers in accounting, HR and supply chain management as a strategy planner, for team building within a company, or for bringing suppliers and customers 'on board' with our goals. The Council can utilise the self-diagnosis toolkit to assess progress against a range of statements, make plans for improvements, and then print 'dashboard' style reports and action plans. The toolkit was co-produced by academics and practitioners as part of an international research project funded by the UK Government's Economic and Social Research Council. It is supported by professional bodies including CIMA, CIPD, FIEP, FIEPE and SABPP.

The Council will start to roll out the online toolkit to its supplier base starting on the 29<sup>th</sup> October 2018, with a view to recovering data from supplier by end of March 2019.

The Council will utilise this tool to monitor and measure ethical performance across the breadth of its supply chain, the reporting mechanism (on a red amber green basis) will enable strategic interventions to be made and implemented for specific sectors, where concerns are identified.

The aim of these interventions will be to influence provider and market to move reds categories to amber and amber to green through maturing practice, supplier and market development.

This list of measures represents a comprehensive suite that will provide assurance that the Ethical Policy is not only being implemented and enforced, but that it is making real world impact.

END