

*January 2016*

## PROCUREMENT

### Introduction

1. This LTN applies to local councils in England and Wales except for paragraphs 10 to 15 below which apply only to local councils in England.
2. In the context of local councils, “procurement” is the process by which they award contracts to third parties (frequently individuals or companies) to provide goods, services or to undertake works. A procurement process is designed to source the most suitable contractors based on cost and their knowledge, experience, capability, and financial standing.
3. In a procurement exercise by a local council in England, three sets of legal requirements are relevant. In a procurement exercise by a local council in Wales, two sets of legal requirements are relevant. These legal requirements are summarised in the table below.

| Value of the Contract (net of VAT) | Legal Requirements  |
|------------------------------------|---|
| Up to £25,000 (England only*)      | Requirements in the council's standing orders (and financial regulations).  |
| Over £25,000 (England only*)       | Use of the Contract Finder website and other light touch rules in the Public Contracts Regulations 2015 (“the 2015 Regulations”). |
| Over £164,176 or £4,104,394        | Other detailed and complex requirements in the 2015 Regulations.  |

\* In Wales, the light touch provisions in the 2015 Regulations in respect of the procurement of contracts valued at £25,000 or more do not apply. However, provision for the procurement of certain types of contract (explained in paragraph 9 below) should be made in the standing orders and financial regulations of councils in Wales.

As illustrated below, the estimated value of the proposed contract is necessary to determine which legal requirements regulate the procurement process. A further explanation of the differences in England and Wales is explained in paragraph 9 below.

| Value (net of VAT)            | Need to comply with                                     |   |   |
|-------------------------------|---|---|---|
|                               | A council's standing Orders (and financial regulations) | The Contract Finder website and other light touch rules in the 2015 Regulations | Detailed and complex requirements in the 2015 Regulations |
| Up to £25,000 (England only*) | ✓   | ✗   | ✗   |
| Over £25,000 (England only*)* | ✓   | ✓   | ✗   |
| Over £164,176 or £4,104,394   | ✓   | ✓ Use of the Contract Finder website (see paragraph 20 below).                  | ✓   |

\* In Wales, the light touch provisions in the 2015 Regulations in respect of the procurement of contracts valued at £25,000 or more do not apply. However, provision for the procurement of certain types of contract (explained in paragraph 9 below) should be made in the standing orders and financial regulations of councils in Wales.

- The requirements for councils in England and Wales to have standing orders with respect to procuring and entering into contracts is set out in s.135 of the Local Government Act 1972 ("the 1972 Act"). This Note provides (A) an explanation of councils' responsibilities under the 1972 Act (England and Wales) ,(B) an explanation of the Contract Finder provisions and other light touch requirements for procuring and awarding contracts covered by the 2015 Regulations which are valued over £25,000 (England only) and (C) an overview of the detailed and complex requirements for procuring contracts covered by the 2015 Regulations which are valued over £164,176 for a public supply or public service contract or £4,104,394 for a public works contract (England and Wales).

**Which contracts are covered by the 2015 Regulations?**

5. The 2015 Regulations apply to “public contracts” which are defined as “contracts.... having as their object the execution of works, the supply of products or the provision of services.” Regulation 2 of the 2015 Regulations defines each of those 3 contracts as follows:

“public service contracts” meaning public contracts which have as their object the provision of services other than those referred to in the definition of “public works contracts”;

“public supply contracts” meaning public contracts which have as their object the purchase, lease, rental or hire-purchase, with or without an option to buy, of products, whether or not the contract also includes, as an incidental matter, siting and installation operations;

“public works contracts” meaning public contracts which have as their object any of the following:—

- (a) the execution, or both the design and execution, of works related to one of the activities listed in Schedule 2 (see paragraph 6 below);
  - (b) the execution, or both the design and execution, of a work;
  - (c) the realisation, by whatever means, of a work corresponding to the requirements specified by the contracting authority exercising a decisive influence on the type or design of the work;
6. The activities in Schedule 2 to the 2015 Regulations which are included in the definition of a “public works contract” include site preparation, demolition of buildings, construction of new buildings, erection of roofs, bricklaying, scaffolding, insulation work, plumbing, plastering, joinery installation, floor and wall covering and painting and glazing, civil engineering works and construction of highways, roads, airfields and sport facilities.

**Public contracts which are exempted from the 2015 Regulations**

7. Regulations 7 to 12 provide that certain public contracts are exempted from the requirements of the 2015 Regulations. In the context of local authorities, Regulation 12, for example, excludes:

- a contract with an incorporated body, controlled by a local authority, where more than 80 % of the body's activities are controlled by the local authority and there is no private sector ownership of the body, with certain exceptions;
- a contract between two or more local authorities who come together to provide a public service to achieve objectives they have in common and that the joint venture is governed solely by considerations relating to the public interest (e.g. where a parish council enters into arrangements with a principal council) and
- an incorporated body which is a contracting authority awards the contract to its controlling local authority or to an incorporated body controlled by the same local authority;

**A. Standing Orders (s. 135 of the 1972 Act)**

8. S.135 of the Local Government Act 1972 provides:

- (1) A local authority (which includes local councils in England and Wales) may make standing orders with respect to the making of contracts by them or on their behalf.
- (2) A local authority shall make standing orders with respect to the making by them or on their behalf of contracts for the supply of goods or materials or for the execution of works.
- (3) Standing orders made by a local authority with respect to contracts for the supply of goods or materials or for the execution of works shall include provision for securing competition for such contracts and for regulating the manner in which tenders are invited, but may exempt from any such provision contracts for a price below that specified in standing orders and may authorise the authority to exempt any contract from any such provision when the authority are satisfied that the exemption is justified by special circumstances.
- (4) A person entering into a contract with a local authority shall not be bound to inquire whether the standing orders of the authority which apply to the contract have been complied with, and non-compliance with such orders shall not invalidate any contract entered into by or on behalf of the authority.

9. S.135(3) confirms that, in England or Wales, a local council's standing orders may exempt contracts from a tendering exercise if they are below a certain value or if

specific circumstances apply. The Contract Finder and other light touch provisions of the 2015 Regulations apply in England to contracts valued above £25,000, and NALC takes the view that councils in England may reasonably decide to exempt contracts falling below that level from their standing orders entirely. The Contract Finder provisions of the 2015 Regulations do not apply in Wales but, nevertheless, councils in Wales would, in NALC's view, be acting reasonably if they, too, exempted contracts with a value of less than £25,000 from their standing orders. It would also be open to councils in England and Wales to consider exempting contracts of lesser level value - depending on circumstances. NALC's publication "Local Councils Explained" (© 2013 NALC) includes model standing orders in respect of a council's tendering processes for the supply of goods, materials, services and the execution of works which predate the introduction of the 2015 Regulations. Additional information about the impact of the 2015 Regulations on NALC's model standing orders and the standing orders and financial regulations adopted by a council is available in Legal Briefing L05 -15.

**B. The Contracts Finder website and other light touch rules in 2015 Regulations (England only)**

10. Where the estimated value of a public contract exceeds £25,000 (net of VAT) a local council in England must comply with Articles 109 to 114 of the 2015 Regulations Regulation 110, which provides that a council must advertise a contract opportunity, is summarised below.

- It must advertise the contract opportunity on the "Contract Finder" website – whether or not it advertises the contract opportunity elsewhere;
- It must advertise the contract opportunity on Contract Finder within 24 hours of advertising it elsewhere;
- A council is deemed to advertise a contract opportunity if it does anything to put the opportunity in the public domain or bring the opportunity to the attention of economic operators generally or to any class or description of economic operators which is potentially open-ended, with a view to receiving responses from economic operators who wish to be considered for the award of the contract. A council is not deemed to advertise an opportunity where it makes the opportunity available only to a number of particular economic operators who have been selected for that purpose (whether ad hoc or by virtue of their membership of some closed category such as a framework agreement), regardless of how it draws the opportunity to the attention of those economic operators.
- The information to be published on Contracts Finder shall include at least the following:— (a) the time by which any interested economic operator must respond

if it wishes to be considered; (b) how and to whom such an economic operator is to respond; and (c) any other requirements for participating in the procurement;

- Where a council publishes information on Contracts Finder it must — (a) by means of the internet, offer unrestricted and full direct access free of charge to any relevant contract documents; and (b) specify in the information published on Contracts Finder the internet address at which those documents are accessible;
- It must have regard to guidance issued by the Minister for the Cabinet Office.

11. Regulation 111 provides that councils cannot include a pre-qualification stage. A “pre-qualification stage” is defined as “a stage in the procurement process during which the contracting authority assesses the suitability of candidates to perform a public contract for the purpose of reducing the number of candidates to a smaller number who are to proceed to a later stage of the process.” A council may ask tenderers to answer “suitability assessment question” which is defined as relating “to information or evidence which the contracting authority requires for the purpose of assessing whether candidates meet requirements or minimum standards of suitability, capability, legal status or financial standing” if the questions are relevant to the subject-matter of the procurement; and proportionate. Councils must have regard to guidance issued by the Minister for the Cabinet Office.

12. Regulation 113 provides that councils must ensure that contracts contain suitable provisions stating that valid undisputed invoices will be paid by within 30 days. Public contracts must also contain a condition requiring contractors to include similar provisions in their contracts, and so on down the supply chain. Councils shall have regard to any guidance issued by the Minister for the Cabinet Office.

13. When a contract is awarded, a council, having regard to guidance issued by the Minister for the Cabinet Office, must publish on the Contracts Finder the information set out in Regulation 112. This includes:

- the name of the contractor;
- the date on which the contract was entered into;
- the value of the contract;
- whether the contractor is a SME (defined as an enterprise falling within the category of micro, small and medium-sized enterprises defined by the Commission) or VCSE (defined as a non-governmental organisation that is value-driven and which principally reinvests its surpluses to further social, environmental or cultural objectives).

14. A council may withhold information in paragraph 13 above from publication where its release —
  - (a) would impede law enforcement or would otherwise be contrary to the public interest,
  - (b) would prejudice the legitimate commercial interests of a particular economic operator, whether public or private, or
  - (c) might prejudice fair competition between economic operators
15. The above is a summary of the main requirements in relation to use of the contracts website. Council are recommended to read the 2015 Regulations which can be accessed via <http://www.legislation.gov.uk/>

### **C. Detailed and complex requirements in the 2015 Regulations**

16. The 2015 Regulations incorporate the Public Contracts Directive 2014/24/EU (“the Public Contracts Directive”). In its simplest terms, the Public Contracts Directive facilitates the award of certain contracts to any business entity in the EU. The 2015 Regulations imposes procurement requirements on “contracting authorities” which include local authorities (and therefore includes local councils), associations formed by one or more such authorities (e.g. County Associations) and bodies governed by public law (e.g. government departments, NHS trusts, maintained schools and Academy schools) (Regulation 2 of the 2015 Regulations).

### ***Financial thresholds (net of VAT)***

17. Even if the procurement and award of a contract is covered by the 2015 Regulations (see paragraphs 5 and 6 above) and is not an exempted contract (see paragraph 7 above) it will not be subject to the full requirements of the 2015 Regulations unless its estimated value exceeds the thresholds, expressed in euros, in Article 4 of the Public Contracts Directive (Regulation 5 (1) of the 2015 Regulations). The thresholds in the Directive are adjusted by the European Commission every two years and are published in the Official Journal of the European Union (OJEU) (Regulation 5(4) of the 2015 Regulations). As already mentioned in paragraphs 3 and 4 above, the current thresholds, in pounds sterling, are below.

| <b>Type of contract</b>  | <b>Threshold (net of VAT)</b> |
|--------------------------|-------------------------------|
| Public works contracts   | £4,104,394                    |
| Public service contracts | £164,176                      |
| Public supply contracts  | £164,176                      |

18. Few contracts to be awarded by local councils will exceed the thresholds in paragraph 17 above but, if they do, they will be subject the requirements summarised in paragraph 20 below.
19. As noted above, contracts procured by councils in England which are worth over £25,000 but less than the thresholds in paragraph 17 above will still be subject to the Contracts Finder website and other light touch provisions in the 2015 Regulations summarised in paragraphs 10 – 15 above.

### ***Procedural requirements***

20. Contracts awards exceeding the thresholds in paragraph 17 above are detailed and complex. It is likely that councils considering such high value contracts will require technical and or legal advice from those who specialise in public procurement. Set out below is a very brief overview of the full requirements of the 2015 Regulations – where they apply.
- Procurement must take one of five forms; the open procedure, the restricted procedure, competitive dialogue, the innovations partnership procedure; and competitive procedure with negotiation;
  - Accelerated forms of the open procedure and competitive procedure with negotiation and the restricted procedure in situations of urgency that a local council can duly substantiate;
  - Relevant contractual notices have to be published in the Official Journal of the European Union (OJEU);
  - There is a pre-qualification stage;
  - Councils will need to comply with the requirements in respect of tenders;



- Contracts should be awarded on the “most economically advantageous tender (Regulation 67);
- Contracts can be varied without going through a new procurement exercise. (Regulation 72); and
- Contracts should be advertised on the Contracts Finder website (Regulation 106)

**Other Legal Topic Notes (LTNs) relevant to this subject:**

| <b>LTN</b> | <b>Title</b>      | <b>Relevance</b>   |
|------------|-------------------|--|
| 15         | Legal Proceedings | Useful for threatened or actual legal proceedings relating to contract disputes. |
| 35         | Contracts         | Guide to basic contract law  |

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