

CENTRAL PROCUREMENT DIRECTORATE

PROCUREMENT GUIDANCE NOTE 07/04

SUBJECT: STRATEGIC PROCUREMENT

1. Purpose

- 1.1 The purpose of this Guidance Note is to assist contracting authorities to implement the recommendations in the procurement review concerning strategic procurement.
- 1.2 The procurement review, which reported in 2002, recommended that in planning and managing their procurement activities, public sector organisations, should clearly distinguish strategic and routine requirements, adopt contract management strategies appropriate to the nature of the requirement, and ensure that highly skilled and appropriately qualified staff are allocated to strategic contracts.
- 1.3 It also recommended that the six principles of good practice identified in Modernising Procurement (NAO 1999 (paragraphs 2.8 – 2.34) ISBN 0-10-2 82099-6) should be adopted where appropriate in relation to strategic requirements.
- 1.4 Contracting authorities are reminded that all strategic procurements should be routed through the Central Procurement Directorate or a Procurement Board approved Centre of Expertise.

2. Strategic Procurement

2.1 The Northern Ireland Executive has adopted the following definition of public procurement:

“Public procurement is the process of the acquisition, usually by means of a contractual arrangement after public competition, of goods, services, works and other supplies by the public service”.

2.2 For the purpose of this Guidance Note strategic procurement is described as the purchase of high value, high risk, strategically important and complex goods, services or works.

2.3 Strategic procurements are important because failure to deliver these requirements when needed and to the required quality standards may put the achievement of the contracting authority’s key objectives at risk or may result in significant additional costs being incurred. Such procurements can be critical to the effective operation of a contracting authority and its ability to achieve its key outputs/objectives e.g. major IT systems and works contracts etc.

2.4 The main characteristics of these procurements are that they are high profile, (strategically important) high value and in many cases it is difficult to clearly specify the requirement up front as there is often the need for further developmental work involving the contracting authority and the contractor. Choosing the right contractor and adopting a strategic partnership approach is likely to be key to the success or failure of a strategic project.

2.5 The competitive process for strategic requirements, therefore, should allow for dialogue between the contracting authority and bidders at key stages in respect of what is to be supplied and how any risks are to be shared. There should be a focus throughout the contract period on whole life cycle costs and where appropriate an incentivised

relationship between the contracting authority and the contractor for delivering the project ahead of time or below budget should be encouraged to enable all parties to the contract to secure mutual benefits as the project develops.

3. How to identify a strategic procurement / project;

3.1 Strategic procurements / projects can be identified by some or all of the following:

- **High profile;**

Procurement decisions are likely to be of significant interest to the public or politicians.

- **High value;**

The cost is high compared to the cost of other requirements.

- **High risk;**

As identified in the project's risk assessment.

- **Complex;**

The outputs required cannot be simply specified.

- **Developmental / leading edge;**

The procurement is pioneering a new innovative approach or technique.

- **Impacts on a core activity;**

The procurement is critical to the achievement of the contracting authority's core business objectives.

3.2 Some strategic requirements are often described as bottleneck items. The individual items may be relatively inexpensive but they are critical to the effective operation of a contracting authority and its ability to achieve its key outputs/objectives e.g. ground rock salt for gritting the roads or medical supplies for hospitals.

4. Non strategic requirements

4.1 Contracting authorities should distinguish between strategic and non strategic requirements.

4.2 Non strategic requirements are normally high volume, low value requirements that are easy to specify and are not critical to the delivery of a contracting authority's key outputs/objectives. Many of these requirements can be specified clearly which enables the contract to be awarded to the lowest bidder that meets the specified quality standards e.g. travel, stationery, IT consumables, food etc.

4.3 Contracting authorities spend millions of pounds each year buying non strategic (routine) items. When purchased individually these items usually have a low monetary value but the purchasing costs associated with them i.e. tender process, ordering, taking delivery, authorising and processing payment and holding the goods in store can be disproportionately high. Contracting authorities should try to reduce and streamline the transaction costs associated with the purchase of these low value items through greater use of electronic commerce, government procurement cards and framework agreements.

5. The role of procurement staff in strategic procurement

- 5.1 Too often procurement staff are not consulted from the outset in respect of strategic procurements and are brought into the procurement process after key decisions have been made and implemented. Procurement best practice dictates that skilled and appropriately trained procurement staff should be involved from the outset to: ensure they have the opportunity to become familiar with the market conditions, in particular the latest technological solutions; identify the risks and develop risk management strategies; assist in defining specifications that at least detail the outputs required from the contractor; and define the evaluation criteria and those to be used to monitor the contractor's performance throughout the contract period.
- 5.2 Procurement staff should be given the authority to influence all purchasing requirements especially those that are critical to the operation of the contracting authority. They should be encouraged to adopt a proactive and strategic approach to focus their expertise on higher value and more strategically important procurements. It is therefore essential that contracting authorities plan adequately for such procurements and invite their procurement staff into their strategic planning at the earliest opportunity.

6. Procurement strategy.

6.1 All contracting authorities should have a comprehensive procurement strategy which includes;

6.2 **an analysis of the key goods and services, and their costs, which the organisation needs to deliver its outputs.** The contracting authority must be able to provide sufficiently detailed management information to facilitate the analysis of the key goods, services and works purchased in order to deliver its outputs/objectives. Contracting authorities should classify their expenditure consistently to facilitate information sharing both within and across departments in respect of the key goods and services bought and their cost. Such management information could be used to identify possible areas for collaboration and aggregation of spend in the purchase of common goods and services. If such management information is not available it is difficult for procurement staff to adopt a strategic approach and focus their expertise on higher value and more strategically important procurements.

6.3 **an assessment of the way in which these goods and services are purchased.** Historically contracting authorities have made too much use of informal tendering, largely because they want to appoint contractors quickly or they want to re-appoint existing contractors. The absence of appropriate forms of competition to appoint contractors can put the achievement of best value for money at risk.

6.4 It is the Northern Ireland Executive's policy that the procurement of goods, services and works is based on best value for money principles and all requirements must be acquired through competition unless there are convincing reasons to the contrary.

6.5 Procurement through competition remains the best way of achieving and demonstrating best value for money. In selecting the most appropriate form of competition and their procurement strategy, contracting authorities need to consider the following:

- the requirements of the UK Public Procurement Regulations;
- the cost of tendering;
- the number of potential suppliers; and
- the nature of the work.

6.6 Unless expenditure is very small, appointing contractors through competition is the best means of ensuring that contracting authorities achieve best value for money.

6.7 **the performance of key suppliers and the scope for price reductions and improvements in quality of service.** Recent reviews have shown that very few contracting authorities have gathered reliable data on supplier performance. If best value for money is to be achieved procurement staff should consider how best to assess the performance of suppliers of strategically important goods, services and works. This should not be an afterthought but built into the contractual requirements from the outset.

6.8 It is important that purchasing staff help contracting authorities to identify potential opportunities to build effective partnerships with key suppliers of strategic requirements, whilst ensuring through competition that the price they pay is reasonable when compared to market rates. It is also important that the specified quality standards are met or surpassed. Working closely with suppliers can drive costs down and improve the quality of complex, longer-term contracts for goods, services and works requirements.

6.9 the scope to adopt innovative approaches to improve procurement while reliably managing associated risks.

Research has shown that private sector companies recognise that procurement can have a significant impact on profits. Accordingly, senior managers in these companies frequently analyse procurement performance and encourage innovative approaches to buying. Other issues such as how buyers manage risk and build long-term relationships with key suppliers are paramount and considered strategically important in the private sector.

6.10 Contracting authorities should encourage their procurement staff to look for new and innovative approaches to improve procurement performance and should provide training and development in this area to build up expertise and ultimately to achieve best value for money on strategic procurements. Development of staff may well include secondment to private sector organisations and through professional bodies which span both the public and private sector.

6.11 Where possible, procurement staff should encourage suppliers to be innovative by being less prescriptive in specifications and leaning more towards output and performance levels.

6.12 Procurement staff should encourage the development of more effective and strategic relationships with suppliers. This requires a less adversarial approach by both parties, particularly in relation to strategically important supplies where joint approaches to achieve supply performance are necessary. However, due cognisance must be taken of the legal parameters governing public procurement.

6.13 Procurement risk should be assessed and managed and the procurement strategy adapted accordingly. All such risks should, however, be assessed in the light of a contracting authority's obligations under the Public Procurement Regulations.

6.14 Contracting authorities and procurement staff should also ensure that when contracting with suppliers to deliver new and innovative approaches they consider the issue of Intellectual Property Rights which may arise as a result of such innovation.

7. Principles of good practice.

7.1 The Review of Public Procurement recommends that the following principles of good practice are adopted for procurement processes for all strategic requirements.

7.2 **Plan early and clearly agree requirements:** It is essential that skilled and appropriately trained procurement staff are involved in the procurement process from the outset. It is important to plan early so that contract specifications for strategically important goods and services are clear and unambiguous. Other benefits of planning early are that:

- the procurement contract can more easily be tailored to customers' needs;
- the purchaser's bargaining power is increased;
- early consultation with suppliers can help ensure that the contract reflects latest technological breakthroughs and innovations;
- reliable risk management can be put in place, especially for more complex procurements such as major IT projects, where risk management strategies covering specification through to delivery and successful implementation are required; and
- more time can be devoted to determining how the performance of suppliers of strategically important services will be assessed and built into contracts from the outset.

7.3 Manage Risks

7.3.1 **Strategic Procurements:** High value strategic procurements are generally more complex and carry greater risks. Too often procurement staff are brought into the procurement process too late, after key decisions have been taken. They need to be involved at an early stage to ensure that they:

- understand market conditions, in particular cost drivers and the latest technological solutions;
- identify the risks and develop risk management strategies to draw up tender specifications which are output based and reflect user needs; and
- plan a contract management strategy with appropriate performance measures.

7.3.2 **Mission Critical Projects:** It is important that risk is managed in a structured way throughout the life of a project and a risk management plan should be in place to deal quickly and effectively with risk. The status of key risks that are likely to have an adverse impact on Mission Critical Projects should be reported regularly to the Senior Responsible Owner, and if appropriate to the Minister, so that an informed decision can be made on the best way forward to ensure success of the project.

The definition of Mission Critical Projects include any of the following criteria:

- (a) essential to the successful delivery of a major legislative requirement, a public service agreement or a programme for government commitment; or
- (b) if the project does not work successfully there would be catastrophic implications for the delivery of a key public service, national security or the internal operation of a public service; or

- (c) major projects that directly involve all (or at least a majority of) Departments in the achievement of a successful delivery; or
- (d) an enabling infrastructure project that is considered by the Permanent Secretaries Group as being essential for the success of the overall NICS e-Government programme.

7.4 **Think about the supply chain:** A supply chain management approach is more likely to be useful for Departments and Agencies when:

- the existing supply market is organised in the form of a chain or network, for example major equipment purchases, major service contracts such as cleaning, and construction;
- there are significant logistical or distribution aspects to the contract, for example delivery of supplies to dispersed users such as local offices;
- the procurement is high profile or sensitive requiring a close and active overview by contract managers, for example major equipment, IT and construction projects.

7.5 The costs of adopting supply chain management have to be assessed in terms of the likely benefits it will deliver. For example, the need for a possibly longer pre-tender phase in appraising suppliers' approach to managing their supply chain has to be compared to the potential for better product quality and lower costs in the longer term. Supply chain management is unlikely to be cost effective for ongoing supplies contracts of less than £100,000 in value. Values for services and works contracts will need to be determined. In many cases, it will probably be sufficient for Departments and Agencies to seek assurance from their key suppliers that they are actively managing their supply chains to reduce costs and improve quality and that this is reflected in the prices they pass on to their customers.

7.6 **Seek continuous improvement:** there are two main ways of doing this:

- **building quality aspects in to contracts:** there is scope for making greater use of incentives, either to reward good performance or to discourage poor performance, in procurement contracts particularly where a service is provided. Expert procurement advice is needed to define the performance measures and incorporate these into the contract, but the advantages are considerable;
- **closer working with key suppliers:** for large scale contracts running for several years there would be advantages in working more closely with key suppliers in terms of improved quality of the product or service provided and reduced costs for mutual benefit.

7.7 **Monitor performance:** if clients are to have assurance that they are getting the best deal from their procurement of goods and services in terms of price, quality of service and supplier performance they need to have reliable information and systems to assess the performance of all stages of the procurement process. Without such information it is very difficult to benchmark prices to ensure that they remain competitive and to track whether each year the procurement of goods is improving and that efficiency targets and savings are being realised.

7.8 It is therefore essential that the necessary data is collated to ensure timely and accurate management information is provided to allow the monitoring of performance to be carried out efficiently and effectively over the period of the contract.

7.9 All such data can then be utilised to improve the next generation of contracts in the same area or shared with wider Northern Ireland public sector bodies seeking similar supplies, services or works.