



STEP BY STEP GUIDE

FPU Factsheet 4

What is the Procurement Process?

There are 14 stages in the procurement process. The guidance is specifically aimed at managers in the public sector contemplating a PFI procurement.

Details:

Stage 1: Establish Business Need

Is there a pressing need for change in the service? Will it involve investment?

Further guidance: CUP Guidance 43

Stage 2: Appraise the Options

The Client needs to carry out extensive research: find out as much as you can about the project, have any similar projects been undertaken, what advice is available, what resources do you have, what skills do you have?

The Client needs to be clear about their output specifications i.e. **what** do you want?

An Option Appraisal should then be carried out. This is a strategic examination involving identifying and assessing options, realistic ways of achieving the change that appears necessary. Affordability should always be borne in mind.

Further guidance: CUP Guidance 38, Appraisal and Evaluation on Central Government ('Green Book')

Stage 3: Business Case and Reference Project

If there is a strong case for investment which is expected to be cost-effective, then the possibility of a PFI solution should be explored. An Outline Business Case needs to be prepared. This should be a realistic assessment of what is possible. It should

include a Reference Project i.e. a particular possible solution to the output requirement. This should be a combination of capital investment, operations, maintenance and ancillary services. Advice on the accounting treatment of the project should be sought.

The purpose of the Reference Project is to demonstrate that an investment option exists which is affordable. A Public Sector Comparator (PSC) will need to be worked out. It should express in money terms an unbiased estimate of the cost of the best available method of delivering the output specification through non-PFI means. The different types of risk involved with the project will need to be identified and evaluated and a cost implication worked out. This is usually done by running a Risk Workshop.

Further guidance: Partnerships for Prosperity, Private Skills in Public Service-tuning the PFI (CBI), CUP Guidance 54, CUP Guidance 35, Appraisal and Evaluation in Central Government ('Green Book'), Treasury Taskforce Policy Statement No. 2 and Technical Note No. 5, CUP Guidance 36, CUP Guidance 51.

Stage 4: Developing the Team

The first step is to develop the procurement organisation. Good project management is essential. External skills and experience should be contributed by advisers. Once appointments have been made, roles should be clarified and responsibilities allocated.

Further guidance: CUP Guidance 33



Stage 5: Deciding Tactics

Assess whether market sounding is necessary and if so carry this out.

The Client's professional advisers should be able to advise on the procedure for the tactics for the procurement best suited for the particular business. It is important to have a clear plan as to what is intended to be achieved at each stage. The final tender list should be limited to the least number of contenders needed to ensure genuine competition. In general this would be 3, or at most, 4.

Further guidance: CUP Guidance 16

Stage 6: Invite Expressions of Interest; Publish OJEC Notice

The formal procurement begins with publication of a contract notice in the Official Journal of the European Community (OJEC). The full information requirements must be included in either the contract notice or in the Information Memorandum. In general, for PFI procurements, the Negotiated Procedure with a call for competition is appropriate. The information above should form the basis of the information contained within an Information Memorandum to be forwarded to parties expressing interest.

Further guidance: How to Follow EC Procurement procedure and advertise in the OJEC (Treasury Taskforce Technical Note No. 2)

Stage 7: Prequalification of Bidders

The list of respondents to the OJEC, who have notified their interest on receipt of the Information Memorandum and have provided the requested information, should be evaluated against minimum standards set for technical capacity, financial and economic standing, and where the procurement is for services (but not works) ability. The purpose of this stage is to assess the competence of the

interested suppliers, with technical competence being the most important.

Further guidance: CUP Guidance 60

Stage 8: Selection of Bidders (ie Shortlisting)

From the list of potential suppliers, Clients need to compile a shortlist. Clients may be in a position to score the relative merits of the supplier's competence, and so rank them and select the required number from the resulting list. The alternative method is to formally pre-qualify every supplier who passes the minimum standards, and then to carry out a "mini-proposals" stage which falls far short of the information which will be required at Stage 10 (Invitation To Negotiate). In both cases where suppliers are not taken forward they should be informed and debriefed quickly.

Stage 9: Refine the Appraisal

In advance of the issue of the Invitation to Negotiate (or Invitation to Tender) the original appraisal of the project should be revisited, drawing on the knowledge gained during the procurement to date. The Business Case and any PSC should be further refined. Affordability and funding commitments should be re-affirmed, as should accounting treatment.

Stage 10: The Invitation to Negotiate

The Invitation to Negotiate (ITN) should be specific as to:

- The services required, in output terms;
- The boundaries or constraints on service, scope or engineering – the minimum necessary restrictions;
- The proposed contractual terms governing the arrangement, including any preferred contract length and the payment mechanism;
- The timetable and process for negotiating an acceptable set of terms and conditions and for the submission of bids;
- The criteria for evaluation of bids;



- The extent to which bidders are encouraged to submit variant bids.

The Client needs to fix his criteria for evaluating the bids and comparing one against the other, in order to permit selection of the most economically advantageous solution. This stage may be quite lengthy for complex projects – perhaps 3 or 4 months.

Further guidance: Public Sector Comparators and Value for Money (Treasury Taskforce Policy Statement No. 2),
How to Construct a Public Sector Comparator (Treasury Taskforce Technical Note No. 5),
Standardisation of PFI Contracts

Stage 11: Receipt and Evaluation of Bids

The project team will need to evaluate the bids received in accordance with the principles and criteria set out in the invitation documents. At the end, the Client may seek a best and final offer (BAFO) on the basis of the clarified bids. A well scoped project at the ITN stage should remove any uncertainty in the project specification and should avoid the need for a BAFO.

Stage 12: Selection of Preferred Bidder and the Final Evaluation

As the preferred bidder is selected the PFI proposition should be retested against the key value for money and affordability criteria:

- It must be affordable, or within a likely negotiating distance of affordability
- If a PSC is to be used, the Accounting Officer will want to compare it with the cost of the preferred bid.

Stage 13: Contract Award and Financial Close

The contract is signed and a contract award notice placed in the OJEC.

Stage 14: Contract Management

Contract management is a distinct process which follows on from the process of procurement. While some degree of continuity is important, new processes, systems and management responsibilities will be needed.

Further guidance: CUP Guidance 61,
How to Manage the Delivery of Long Term PFI Contract (Treasury Taskforce Technical Note 6)

FPU04
October 2003