



EFFECTIVE PROCUREMENT

FPU Factsheet 8

Keys to Effective Procurement

Introduction

The knowledge and expertise of public sector procurement teams has significantly improved since the early days of PFI. This is due in part to the availability of an excellent range of technical guidance (e.g. Treasury Taskforce technical notes and policy statements, SE Staffing Protocol, SE Key Stage Review process) supplemented by support from Departmental PPP Units as well as the availability of an increasing range of commercial training and conferences. It is also due to the increasing involvement in PPP projects and the willingness of project participants to share their experiences and the lessons learned.

In order to have the chance of a successful project, it is important to understand and appreciate the key aspects to effective project procurement.

The Project Itself

All projects begin with the realisation that something needs to be done to address a particular problem. The success of a project will depend on it being properly scoped and costed. A well scoped project lays solid foundations and reduces the chance of difficulties arising later.

It is essential to ensure that the project that emerges from the development process is affordable, is value for money, is bankable, is deliverable and will adequately address the need. Proceeding to market with an ill defined unaffordable project will at best result in a long and protracted procurement process that delivers poor value for money and at worst results in failure of the procurement.

It is essential therefore to set clear objectives for the project at the outset and to carry out a full option appraisal (usually a cost effectiveness analysis) against them. Full details of option appraisal methodologies can be found in the Treasury "Green Book".

A key aspect of "Bankability" is the ability of the project to deliver a sufficient cashflow with reasonable consistency to ensure that the debt can be serviced. To that end it is important that the project agreement embodies:

- A reasonable and fair performance regime;
- A tried and tested payment mechanism;
- A reasonable apportionment and adequate management of risks;
- Avoids hair trigger clauses;
- Accepted compensation on termination provisions.

Deliverability will depend on:

- Support for the project within the authority;
- Project management structure;
- Project team;
- Realism of procurement timetable;
- Management of issues that may impact on delivery.

Outline Business Case

Of key importance is the Outline Business Case. This is the document that outsiders will want to see and therefore effectively sells the project to all parties. It should be robust enough to form the basis of the case for doing the project in the first place.



It is important to bear in mind that it will be examined by people who have had no involvement in the project and so needs to be presented in a sufficient level of detail to provide a full understanding of the decisions that have been taken and the information supporting them. Key information should be presented in the body of the document with the detail being given in appendices. An executive summary giving a succinct statement of the key points should be included.

Getting the Project to Market

Getting the project to the market requires a clear and realistic programme that acknowledges the requirements of the EU procurement regulations and other constraints. It also requires the client to identify and manage those risks that may impact adversely on the successful delivery of the project. Title searches and outline planning are good examples of such risks. Both of these can be undertaken in the very early stages of the project. A problem with either further down the line could delay or at worst jeopardise the whole project.

Current practice is for a Best and Final Offer (BAFO) stage to be included in the procurement process prior to selecting the preferred bidder. However, a BAFO stage lengthens the procurement programme and can be costly to bidders. Historically, BAFOs have been necessary because first offers from bidders were not sharp enough. A well defined project can make this less likely.

The decision to dispense with BAFO should be made solely at the discretion of the client, based on the quality of submissions from bidders. It is suggested that the ITN should make it clear that if the client is not in a position to identify a preferred bidder by evaluating the bids, they may either require bidders to clarify their position on any matter or may invite more than one bidder to submit a BAFO.

The client could, if desired, also signal in the ITN, a strong preference to be in a position to select a preferred bidder based on the ITN bid submissions.

Standardisation of Contracts

There is an increasing move towards the use of standardised contracts reflecting a growing acceptance of them by the market. These should be used as the basis for contracts in the first instance although most contracts will have local variations that require some bespoke terms and conditions. Standardised documents allow negotiations to be focussed on these as the key terms are taken as given. This reduces procurement times enabling services to be delivered sooner and importantly it reduces bid costs. But the benefits of standardisation go beyond that. They create familiarity and give bidders and lenders the comfort and confidence they need to price more competitively, to reduce margins, to compete for lower value deals and to consider new approaches such as procuring the project and the financing separately. It also provides comfort to the lenders that the project is bankable.

Project Management Structure

Successful procurements require an effective project management structure. That structure has to provide a clear chain of reporting and set out the areas of responsibility and the level of decision making. Typically, it will comprise a project team with responsibility for day to day management of the project, reporting to a project board comprising relevant senior managers. These should be large enough to be representative but small enough to ensure effective decision making. In central government departments or local authorities, the project manager and members of the board will report to Ministers or the Council respectively.

The importance of "buy in" to the project by politicians and senior management cannot be



stressed enough. It facilitates decision making and demonstrates to the market the commitment of the organisation to the project.

Project Team

A good project team will have a mix of skills reflecting the nature of the project. These will include legal, financial, technical and specialist skills. Each member should have clearly defined roles and responsibilities. The team should be led by an experienced project manager who has ultimate responsibility for the delivery of the project. Good project management skills and people management skills are more important than professional background. The project manager should be empowered to make decisions and should have the support of senior management. He or she should be a skilful negotiator and should be capable of driving the project forward and keeping it to programme.

The project team will be supported by external advisers with legal, financial and technical skills. It is important to remember that the advisers' role is to advise and it is the project team and board's roles that make decisions on the basis of that advice. It is also important that the team projects a professional and confident image as potential bidders will assess the quality of the team when looking to tender. They will also assess how capable the team is likely to be at handling the bidding process, how fast or slow the process is likely to be and how likely the project is to go through once the tender has been won.

Organisations should ensure that members of the project team have the necessary skills to perform their roles effectively. A skilled project team will fulfil the role of intelligent client reducing or dispensing with the learning curve, make informed decisions and so optimising the procurement process.

Summary

Key aspects of an effective procurement process:

- A well scoped and costed project that addresses the identified need;
- Attractiveness to the market of the project;
- Affordability of the project;
- Value for money of the project;
- Robust Outline Business Case;
- Undertake title searches and seek planning permission early on;
- Consider whether there is a need for a BAFO stage;
- Use of standard contract where possible;
- Effective project management structure including clear lines of reporting, clear areas of responsibility and well defined decision making powers;
- Ensure have full support from senior management and politicians for the project;
- Consider size of project team;
- Clearly defined roles for each team member;
- Select team members for their skills and expertise;
- Select a good project manager who is able to manage the project and the team.

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