

# Batten Down The Hatches

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## Today

- ▶ The weather today is....
  - The starting line
  - Where are we typically now
- ▶ Standing under the umbrella
  - Pre procurement activity
- ▶ Wellingtons or flip flops
  - What do we want to achieve
- ▶ Metrology made easy?
  - Sector analytics
  - Evaluation
- ▶ The weather forecast

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# The Weather today is....

## The Public Sector Challenge

- ▶ To secure best VFM from all types of procurement, we need to develop the 'enablers of success'.
  - ▶ These are:
    - Collecting better data to inform decision-making;
    - Ensuring projects have the right skills;
    - Establishing effective arrangements to test, challenge & , if necessary, stop projects and ;
    - Using commercial awareness to obtain better deals.
- (National Audit Office, April 2011)

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# The Weather today is.....



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## And they are off.....



- ▶ Placed under pressure to enter into a formal procurement process too early, often with negative consequences. (ERG)
- ▶ Be seen to make progress
- ▶ Big risk & False economy?
- ▶ Once we do can take too long!

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## Standing under the umbrella - Pre procurement activity (PPA)

- ▶ Most challenging & most influential stage
- ▶ Often most neglected & poorly executed part of the process
- ▶ Increased, more focused, early engagement with providers would significantly improve process, VFM & quality of outcomes
- ▶ Lack of use of market intelligence to inform procurement route
- ▶ Many remain overly cautious over pre-procurement market activity from all sides
- ▶ Approach can be different for commissioner or potential bidder



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## Pre procurement activity

- ▶ Increased need to undertake robust preparation before embarking on procurements. This may include,
- ▶ Clarity about what is being procured
- ▶ Proper consideration of standards & outcomes
  - ICT system for shared services
  - a "subsequent mathematical error" left Fujitsu as the front runner
  - £46M to £130m spend
  - LA's project team did not have a clear design specification for the centre, which led to miscommunication about expectations and deliverables



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## Pre procurement activity

- ▶ Soft market testing – Market capabilities, capacity to deliver services you require
- ▶ Early supplier engagement –
  - ▶ Cabinet Office Minister Francis Maude “It is not illegal for public sector procurers to talk to suppliers; it’s plain common sense and good commercial practice.” (Nov11)
- ▶ Understanding your own skill base
  - ▶ Growth of internal procurement teams
  - ▶ Frequency of activity/scale of activity
  - ▶ Knowledge depth v Breadth
  - ▶ Early identification /appointment of advisers internal/external
- ▶ Detailed planning of the procurement timetable



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# Wellies or Flipflops -



- ▶ National & local policy overview
- ▶ What do you know about the existing service?
- ▶ What are you looking to achieve?
- ▶ How are you going to evaluate success from delivered contract ?
- ▶ VFM?
- ▶ Understanding Trade offs
  - Local v centralised procurement
    - Group structures, consortia
  - Large v small contracts
    - Sharp fall in contract sizes in both the large (£50m plus) and mid-sized (£10m to £50m) categories in 2011. (Credo report)
  - Short-term v long-term
    - An increase in the number of contracts which included contract extensions
- ▶ Procurement approach?

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## PPA - Maturity of your organisational procurement approach

Indicators	Tactical – Contract value	Strategic –Improvement value	Transformational – Breakthrough value
Activity focus	Price focused Securing tactical delivery	Cost & value focused Securing performance & and value	Cost, value, revenue and risk focused Securing capability & advantage
Typical initiatives	Quick wins sourcing Contract management	Core category management Supplier performance management	Business initiative led sourcing Supplier value management (SVM )
Typical deliverables	Leveraged price reduction Performance to contract	Cost down & value up Top quartile supplier performance	Transparency on cost drivers Capability access & innovation
Leadership & resourcing	Buyer led Procurement team members	Category manager led Cross-functional team members	Executive director led Business leader team members

Future Purchasing Henley Business School University of Reading, 2011

### PPA-Evaluating procurement transformation against 10 value levers

	Little evidence	Early days performer "Moving forward"	Improving performer "Real acceleration"	Best in class performer "The benchmark standard"
Value lever 8 De-Risking the supply chain	Not started	Sourcing & SVM teams focus on risk, but not in a systematic manner. Not integrated into enterprise risk management. No real line of sight on value at risk.	We are adopting a value at risk approach to volatile commodity management & are strengthening sourcing, commodity & supplier management to include risk.	Balancing of commodity and supply chain risk is driven top down through strategy, policy & well-focused initiatives. Experts in procurement and commodity analytics.

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### PPA-Evaluating procurement transformation against 10 value levers

	Little evidence	Early days performer "Moving forward"	Improving performer "Real acceleration"	Best in class performer "The benchmark standard"
Value lever 9 Product process & relationship Innovation	Not started	Category & supplier management are being used to leverage supplier relationships, rather than access capability. The focus is price not innovation.	Our core procurement processes now emphasise innovation as part of business requirements. Suppliers are involved in incremental innovation & adaptation.	Our business model has changed fundamentally to embrace open innovation. 40% + innovation & revenue growth is coming from proactive supplier input.

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## PPA - Maturity of your organisational procurement approach

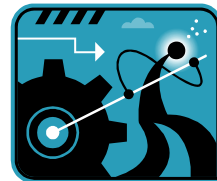
- ▶ Lots of Models for in house or external provision
- ▶ Commissioning
  - ▶ Strategic function will commission outcomes from delivery units LB Westminster
- ▶ Co operative
  - Involve Partners esp. voluntary sector
- ▶ Easy
  - Restricted services and service levels in order to minimise costs – LB Barnet
- ▶ Enterprising
  - providing services using private sector providers – Kent cc
- ▶ Decentralising – Wiltshire CC.
- ▶ Collaborative
  - Shared services with others

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## PPA - What are you looking to achieve?

- ▶ Its more than The VAT debate.....
- ▶ Exploring what is the most appropriate pricing model
- ▶ Pricing models – cost v value
- ▶ 'Sweating the asset' - What is the cost of delivering the service?
  - Overhead
  - Vehicle and fuel costs
  - Materials
  - Surplus/ Profit expectations



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## PPA - What are you looking to achieve?

- ▶ Work streams
  - Responsive , voids , planned, capital etc
  - Average RR job costs – Profile staggering
  - PPP – risk V payback
  - SOR – potential for confusion - Job costing & preambles
  - Whole Budget?
  - Fixed price?

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## PPA - What are you looking to achieve?

- ▶ Who are your customers
- ▶ Who is using which service
- ▶ How often
- ▶ Leaning your organisation
  - Value, what you are there to provide
  - Failure to deliver what is required from the service
- ▶ Deal with it or acknowledge you will pay for it!

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## The Weather today is..



### Shifting deckchairs

- ▶ Social housing work is estimated at between?
  - £9 billion annually?
- ▶ Turnover by taking market share
- ▶ Very fragmented
  - Approx 350 contractors – 10 key players
- ▶ Estimated approx % of market is outsourced?
  - 60%
- ▶ Housing Maintenance still a key are for cost reductions
  - 48% respondents targeting procurement

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## Window weather - Sector analytics

- ▶ Both buyer & seller perspective
- ▶ Understanding customer/client requirements
- ▶ Current spend profiling
  - Mr Pickles January order for - 'transformation in transparency'
  - Home Group
- ▶ The elusive contract registers
- ▶ New entrants / movers & shakers
- ▶ Who are they?
- ▶ What do you know about them?
  - Long term commitment?



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## Window weather - Sector analytics

- ▶ To who?
- ▶ Delivery value?
  - ▶ Norwich v Connaught case study
- ▶ Where?
- ▶ What type of work ?
- ▶ Contract deliverables?
- ▶ Performance?
- ▶ Direct delivery/subs?
- ▶ Extension?
- ▶ Feedback?

- ▶ To who?
- ▶ Where?
- ▶ Date ?
- ▶ What value?
- ▶ Savings against current spend?
- ▶ Retention of existing provider ?
- ▶ What type of work?
- ▶ TUPE transfers ?
- ▶ Length of contract award?
- ▶ Award criteria



Existing Contracts

Contract Awards

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## Window weather - Sector analytics

- ▶ Current market trends
- ▶ Existing Consortia /frameworks
  - ▶ Where are they
  - ▶ What do they cover
  - ▶ Can you buy in
  - ▶ Have they delivered?
    - ▶ GM procure £450m to 2010
    - ▶ NhsG Con, Fusion 21, P4Hsg - £400m/year
    - ▶ Consortia - £5.8M has been paid in Efficiency Challenge Fund (ECF) – 500 Apprentices
- ▶ Innovations
- ▶ Consultants Involved



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## Your approach



- ▶ Identify Service Need & agree procurement approach eg restricted ,open etc
- ▶ The Pre qualifying questionnaire (PQQ)
- ▶ What is it?
  - Assessing suitability of commercial, technical & financial capabilities
- ▶ Why have it?
- ▶ How often is it used?
- ▶ Numbers
  - Eg Dec10 , EN procure Elemental works framework
  - 740 expressions of interest
  - 314 expressions of interest
  - 98 contractors appoints Nov 11
  - 13 landlords , 234,000 homes, set D'd of £975m

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## Your approach

- ▶ PQQ content & evaluation criteria
- ▶ Need to be settled before the publication of the OJEU notice
- ▶ Minimum standards - Is your bar to low or high?
- ▶ Mandatory & discretionary exclusions
- ▶ Some procedures can set min& max number of bidders
- ▶ PQQ information cant be taken into account at ITT stage
- ▶ Preparation cost - To you/to bidders
- ▶ Timescales – Norwich, Southern Housing Group
- ▶ Balancing act on information needed for selection & later stages
- ▶ You are looking backwards



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## Weather check...

- ▶ Exclusion of bidders for failing to meet minimum standards
- ▶ Economic and financial standing
- ▶ Understand what you can ask for h
- ▶ Have a Due diligence checklist
  - Companies house check
  - Credit agency checks
  - Dunn & Bradstreet report – not accept a higher than average risk of business failure
  - Financial statements review –
  - Turnover - 25% rule of thumb
  - What's been happening?
  - How old are they?
  - Press review



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## Coats for all occasions.....



- ▶ Other relevant information
  - Don't be policy tick box
- ▶ Constructionline - specifying membership
- ▶ Structure chart
- ▶ E&D
- ▶ Track record
  - References - time of contact?
  - Fatigue
  - They say & they did
- ▶ Social & environmental
- ▶ Client-Based Approach to developing & implementing public sector employment & skills strategies on construction projects – June 11
- ▶ Health & Safety
- ▶ Insurance

Capabilities, technical & professional ability

V skills, experience & reliability

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## Evaluation time well spent?

- ▶ Pre set , Objective and non-discriminatory criteria
- ▶ Model should include
  - weightings & maximum scores assigned to each question,
  - quality of response required to achieve each score
- ▶ Multiple PQQ criteria
- ▶ Evidence & reference portal
  - Client, bidder, supply chain partners
  - Independent site visits
  - Use of social media
- ▶ Maintaining the standard
- ▶ Evaluation period
- ▶ Knock out feedback
  - Sect32



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## Variable weather ahead

- ▶ Public procurement changes
- ▶ Legislative changes announced Dec 11
- ▶ To make the procedures simpler & more flexible,
- ▶ An increased possible use of negotiation through the competitive procedure with negotiation & prior publication
- ▶ Simplified procedures - replace the publication of individual contract notices by the publication of a general notice for their planned procurement for the next year;
- ▶ A reduction of documentation requirements – self declaration



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## Variable Weather Ahead

- ▶ Shorter timescales
- ▶ More electronic process
- ▶ Quicker process
- ▶ Under £100k no PQQ
- ▶ Move to 5 'core' questions to encourage SME's to apply for OJEU contracts
- ▶ Split contracts into smaller lots
- ▶ Payments direct to subcontracts
- ▶ Contract finder web site
- ▶ Management of contract delivery



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## Any Questions?

- ▶ If you want to know more about the Strategic information maintenance tool please contact me.
- ▶ Many thanks
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