



**Governance Forum**

**Institute of Public Administration**

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# **Public Sector Procurement**

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**Achilles Procurement Services**



# Achilles Procurement Services

- Part of Achilles Group which operates in 22 countries
- We provide a full range of procurement related services (e.g. consultancy, training, advice etc.)
- Over 130 public sector bodies in Ireland availed of our consultancy services in 2008
- We present two training programmes in association with the IPA
  - Certificate in Public Procurement (CPP)
  - Certificate in Strategic Procurement (CSP)
  - 220 students have attended so far (Irish and European)
- We have a very good understanding of the strengths and weaknesses of public sector procurement in Ireland.



commercial goods  
business  
collaboration  
services and solutions  
results  
objectivity



services for sustainable procurement  
global resources local skills.



welcome to Achilles  
www.ach.ie/en





# Presentation Outline

- Compliance with EU and National Procurement Rules
- Procurement risk management
- Best practice Procurement and better value for money
- Level of savings that can be achieved
- Questions senior managers / board members should ask
- Useful websites





# Importance of Procurement Function

Code of Practice for Governance of State Bodies (2001) states:

*“The management and ultimately the Board, should ensure that there is a strong focus on the roles and expertise of the procurement function and that the purchasing personnel are properly conversant with all developments in this area”*



# Three Key Aspects

- Compliance with procurement rules
- Risk Management
- Value for money





# 1. Compliance with Procurement Rules



# RULES GOVERNING PROCUREMENT

- European Treaties – Rome 1957 / Nice 2003
- EU Public Sector Procurement Directive – 2004/18/EC
- Irish Regulation SI329 implementing Directive 2004/18/EC
- Dept. of Finance Guidelines on Competitive Tendering (“Brown Book”) and on Engineering and Construction Contracts
- In-House Procurement Policy & Procedures



## The Treaty Principles (apply above and below EU threshold)

- Competitive tender process essential
- Transparency
- Equal treatment and non-discrimination
- Proportionality
- Mutual recognition



## National Value Thresholds

- Single quotation
  - **<€5000**
- 3 written quotations
  - **€5000 - €50000**
- Formal tendering for anything over
  - **>€50,000**
  
- All thresholds are exclusive of VAT

**Formal Advertising at OJEU level  
required:**

**→ SERVICES**

**→ €206,000**

**→ SUPPLIES**

**→ €206,000**

**→ WORKS**

**→ €5,150,000**



# Procurement Procedures – Ideal Situation

**Government Procurement  
Guidelines & EU Directives**

**In-House  
Procurement Policy & Procedures**

**Guidelines**

**Checklists**

**Templates**

**(Working Documents)**





## 2. Risk Management



# Risk Management

## Dept. of Finance “National Public Procurement Policy Framework” document states:

“Public bodies should engage in risk assessment and management in procurement where:

- The value of the purchase is high
- The procurement process is complex
- Adverse consequences could significantly affect a public body’s operation
- Delivering the public body’s core service to the community is significantly affected”





## Typical Procurement Risks

1. Regulatory / Compliance
2. Health and Safety
3. Financial (cost overruns, contractors having financial difficulties etc.)
4. Tenderers colluding
5. Project delays
6. Late deliveries of materials
7. Performance of equipment / services
8. Industrial relations
9. Dishonesty / ethical
10. Reputational (for contracting authority)
11. Environmental
12. Intellectual property
13. Liability



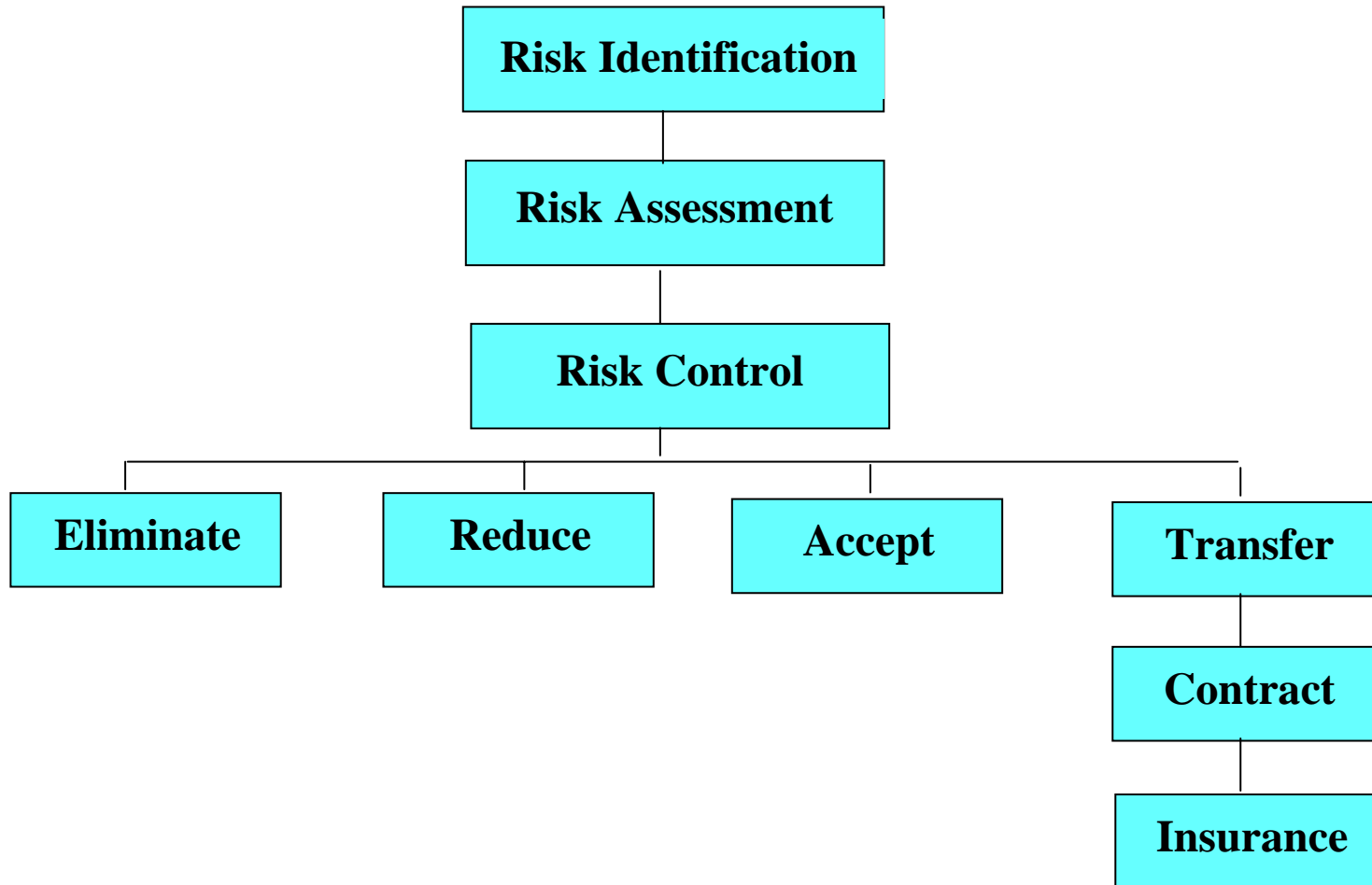


# Contractual Remedies

- Bonds and guarantees
- Liquidates damages (e. g. for delays in completion or underperformance of equipment)
- Warranties
- Payment terms linked to milestones
- Contractor's liability clause
- Acceptance testing requirements
- Suspension
- Termination
- Governing law



# Risk Management





### 3. Value for Money



# National Public Procurement Policy Framework

"Developments internationally suggest that better outcomes may be possible by moving beyond pure compliance and existing rules towards improved procurement policies and practices."

"The main aim of national policy on procurement is to achieve value for money having regard to probity and accountability."  
(Reference: Page 7 of National Public Procurement Policy Framework)





# Value for Money (1)

1. Plan well – avoid urgent / emergency purchases
2. Ensure specifications are market based and reflect the business need
3. Work with colleagues in other functions as a team – close internal collaboration
4. Pick the right tenderers / suppliers (having a clear basis for the decision)





## Value for Money (2)

5. Have well trained people and good systems and processes
6. Have a challenge process for all key decisions
7. Leverage buying power by aggregating requirements
8. Base award decisions on life-cycle costs, where possible.





# "Ultimate Cost" Iceberg

(also know as Whole Life Cost)

Tendered Price

Installation

Technical support

Delivery

Spares

Import duties

Staff training

Technical efficiency

Maintenance cycle

Tests / inspections

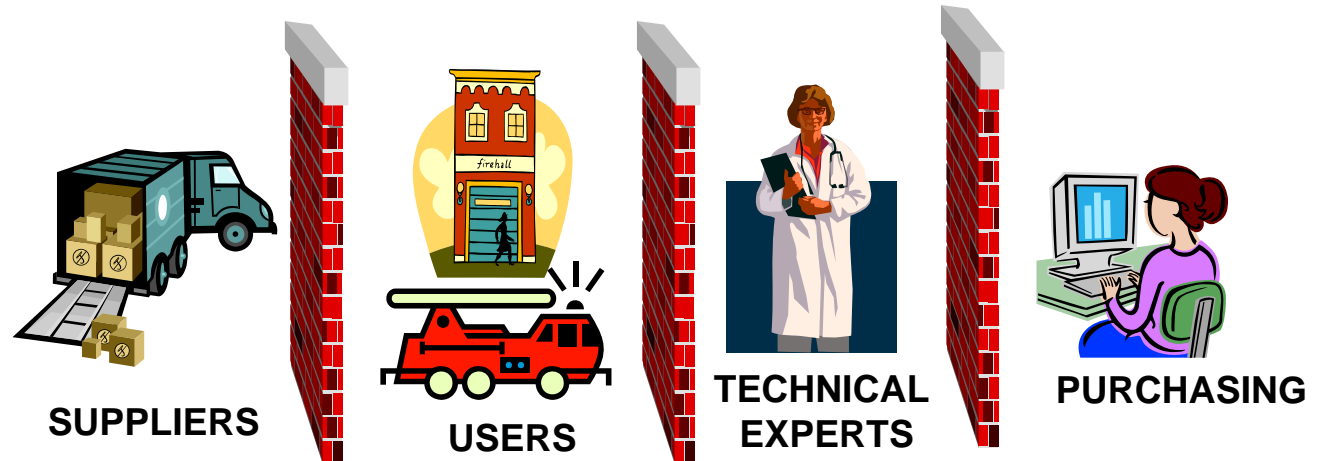
Inventory

Handling costs

Life expectancy

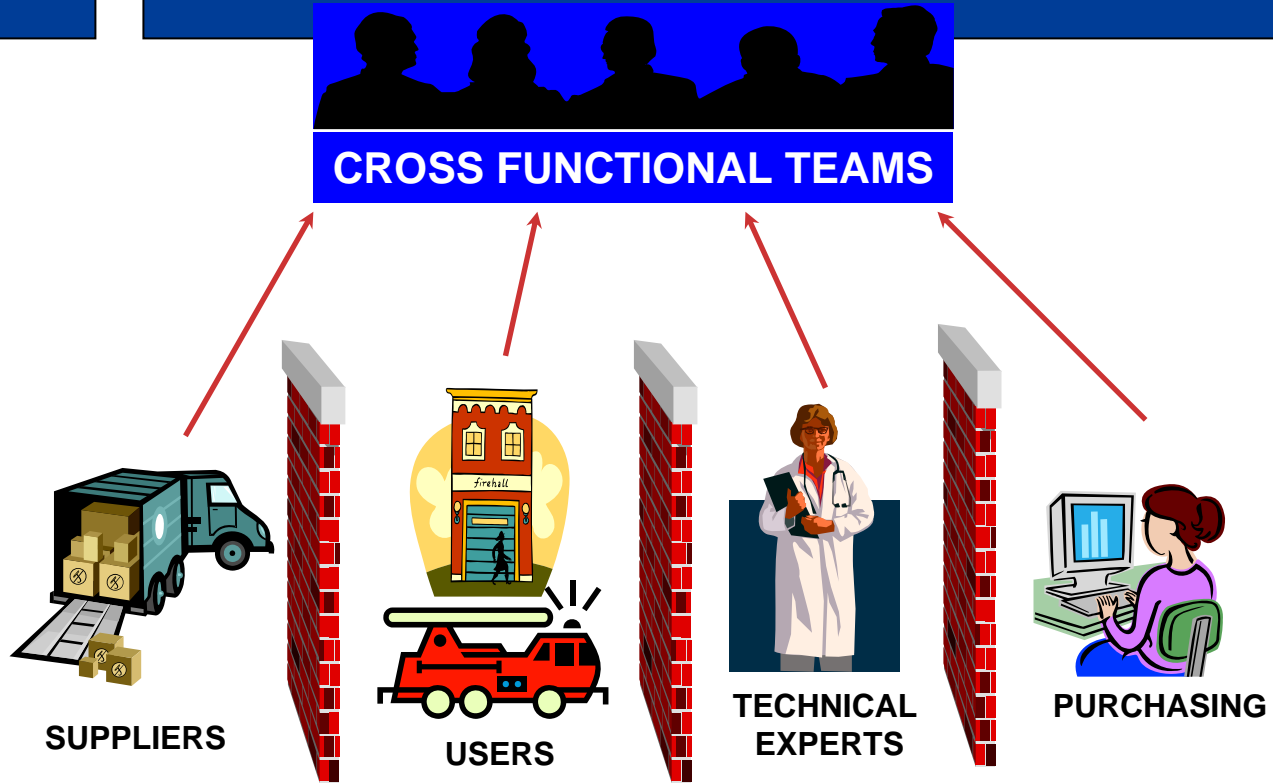
Administration

# Cross Functional teams





# Operating as a Team - Openness & Free Exchange of Information





Extracts from McKinsey *Quarterly*

**“We estimate that employing cross-functional teams can nearly double the impact of a savings initiative” (i.e. Discourage ‘Lone Rangers’)**

**“Leading companies enjoy annual cost savings from their overall sourcing efforts that are nearly six times greater than the annual savings of low performers” (based on best practice procurement survey of 200 companies)**





# Best Practice Procurement

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Traditional focus of public sector procurement



← STRATEGIC ACTIVITIES →

← ADMINISTRATIVE ACTIVITIES →





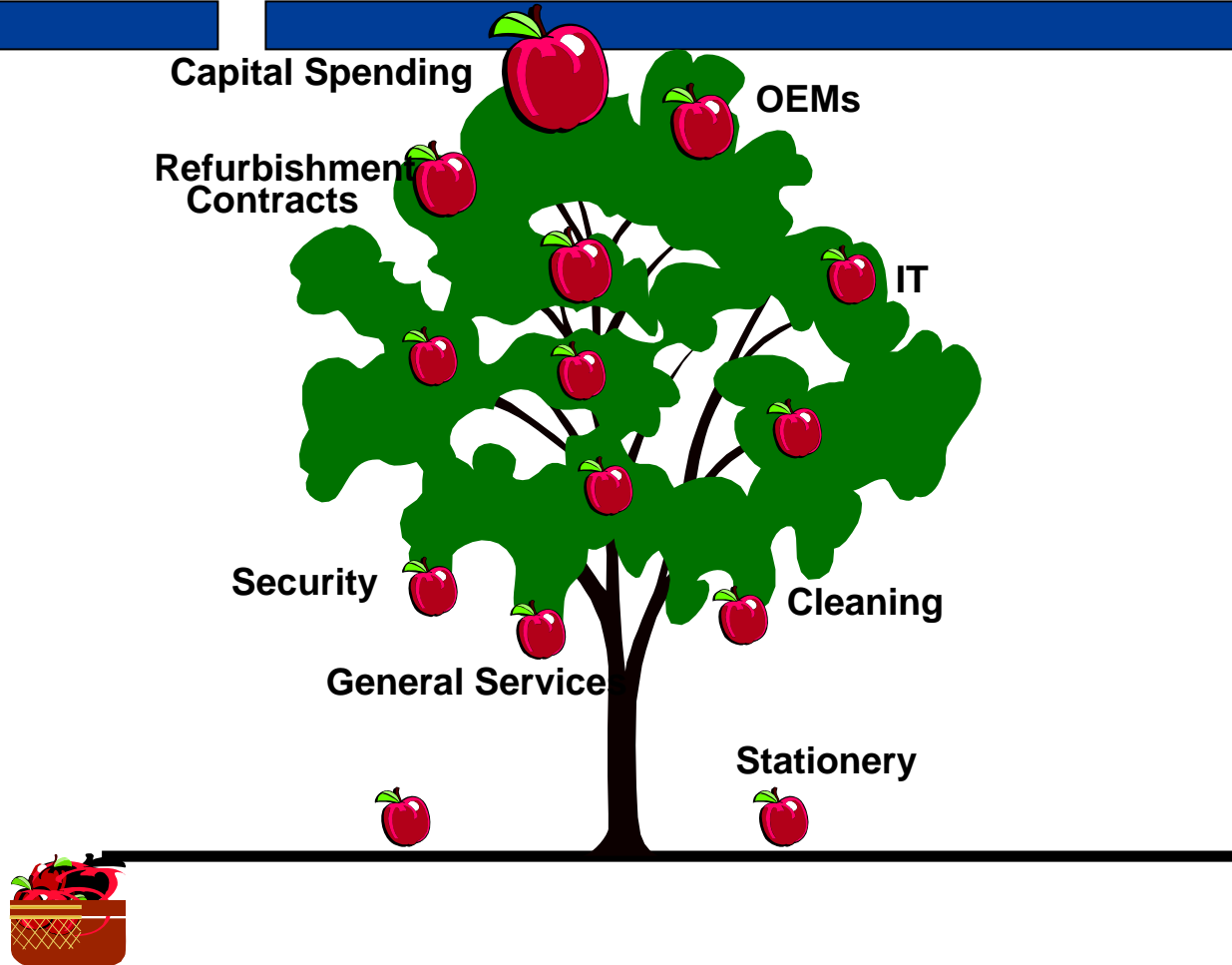
## Examples of Actual Savings Achieved (by applying best practice)

<b>CONTRACT</b>	<b>SAVING ACHIEVED</b>
→ Protective Clothing	→ 28%
→ Cleaning Materials	→ 54%
→ Tools	→ 33%
→ Air Filters	→ 27%
→ Welding Consumables	→ 45%
→ Lubricants	→ 20%
→ Bearings	→ 66%
→ Boats	→ 30%





# Lots of "Low Hanging Fruit" Available





## Questions Senior Managers / Board Members Should Ask (1)

1. Do we have an in-house Procurement Policy and Procedures manual?
2. Do we have specific annual procurement performance targets?
3. If so, do we record / report savings achieved?
4. Have we considered introducing a procurement cost improvement programme?
5. What % of our total procurement spend is accounted for by contracts / framework agreements?
6. Does everyone in this organisation, involved in any way in a tendering process, sign an undertaking to declare any possible conflict of interest that may arise and maintain confidentiality of information?





## Questions Senior Managers / Board Members Should Ask (2)

7. Has the procurement function / structure been reviewed recently?
8. Are roles and responsibilities clearly defined?
9. Do we use cross-functional teams for all significant purchases?
10. What % of our spend is managed by the procurement function? (Do we have a procurement function?)
11. What % of our spend is purchased outside existing contracts (i.e. "Maverick Spend")?
12. Do we have a suite of contract terms and conditions to cover all types of contracts?





## Questions Senior Managers / Board Members Should Ask (3)

13. Do we conduct market research for all significant purchases?
14. Do we have a "challenge process" for all significant contracts?
15. Do we aggregate / consolidate within our organisation and with other similar organisations to leverage buying power?
16. Is all procurement activity fully compliant with national and EU rules? – Is someone signing-off on this?
17. Are specifications market based, where possible?
18. Is the level of staff procurement expertise adequate?
19. Do we have a clear picture of our spend by category and by supplier in order to formulate strategies to save money

- [www.etenders.gov.ie](http://www.etenders.gov.ie) Government Procurement Website (Contains contract notices and also guidance documents)
- [www.constructionprocurement.gov.ie](http://www.constructionprocurement.gov.ie) Government construction contracts website: (Engagement of consultants and the award of construction contracts)
- [www.simap.eu.int](http://www.simap.eu.int) European Commission Public Procurement Website: (Guidance , OJEU notices, directives etc.)
- [www.ted.europa.eu](http://www.ted.europa.eu) European Publications Office Website: (Official site for publication of OJEU notices)
- [www.ogc.gov.uk](http://www.ogc.gov.uk): Office of Government Commerce, UK – official UK Treasury site for public procurement. (Useful guidance documents for reference purposes)
- [www.fpp.ie](http://www.fpp.ie): Forum on Public Procurement in Ireland (voluntary body representing buyers and suppliers on an all-Ireland basis).



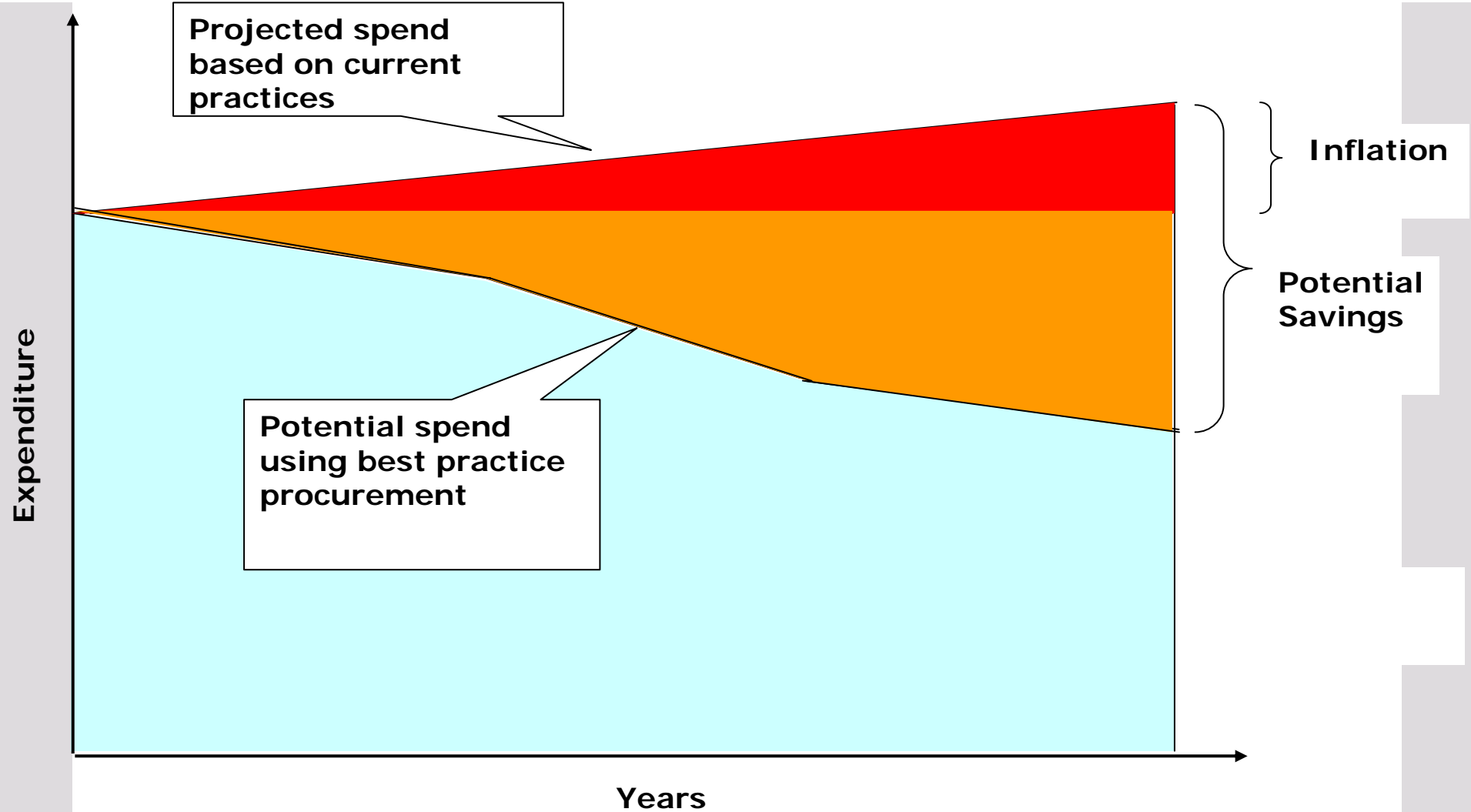
# Final Messages

- There was never a better time than now to introduce a cost improvement programme
- Remember:
  - Achieving savings on non-payroll costs is painless
  - Achieving savings on payroll costs can be extremely painful





# "THE PRIZE"



Projected spend based on current practices

Potential spend using best practice procurement

Inflation

Potential Savings

Years



Thank you.  
Any Questions?

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