Purchasing Policy and Procedures

<table>
<thead>
<tr>
<th>Purpose</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing structure, responsibilities and authority</td>
<td>9</td>
</tr>
<tr>
<td>The Purchasing and Supply Management Model</td>
<td>15</td>
</tr>
<tr>
<td>Sourcing analysis</td>
<td>16</td>
</tr>
<tr>
<td>Demand Management</td>
<td>18</td>
</tr>
<tr>
<td>Pre-contract activities</td>
<td>20</td>
</tr>
<tr>
<td>Post-contract activities</td>
<td>34</td>
</tr>
</tbody>
</table>
Purpose and application
This Purchasing Policy applies to and binds all directors, managers and employees of the organisation in any situation where they are involved in a purchasing process, whether as requisitioners or specifiers, purchasers or negotiators, or those who validate or authorise payment. 'Purchasing' includes all procurement activities including leasing and hiring, and may where appropriate include other activities accompanying the life cycle of goods (or service contracts) and the end-of-life disposal of goods which have been procured (whether or not they remain in our ownership). Adherence to the Purchasing Policy is both an individual and a corporate responsibility. Wilful breach of this policy, or unauthorised departure from the Procedures derived from this Policy, may constitute a disciplinary offence.

The Policy is not a ‘box-ticking’ exercise. For its effective implementation it requires from each person involved an active involvement, consideration and weighting of the factors.

This Policy Statement is a public document - it may be quoted in Annual Reports, Operating & Financial Reviews, shareholder/stakeholder information, and is freely available to potential suppliers. It binds all actors involved. It confirms to management and staff, to actual and potential suppliers and contractors, to customers, to governmental and other regulators and to stakeholders in the wider community, the principles on which this organisation procures and contracts.

Note that the detailed Procedures which follow are as a body to be considered Confidential, although there are many cases where suppliers and others will need to be given details of individual Procedures.

The Policy Statement can only be revised or altered with the authority of the full Board. It is permissible to modify or over-ride individual elements of Procedure, after appropriate authorisation, but only if such changes do not conflict with the aims and objectives of the Policy Statement.

Policy objectives
The organisation's Purchasing Policy exists for a number of discrete but often interconnected purposes. These objectives are expanded below, and are reflected in the detailed Procedures that follow.

The Policy commits the organisation, and every individual involved in purchasing and supply management processes within the organisation, to use their best endeavours to ensure that our purchasing and contracting activities are:

- legal
- accountable and auditable
- ethically, environmentally and socially responsible
- economically effective
- conducive to maintaining the organisation's ability to exploit appropriate technological, commercial and organisational developments as they arise
- capable of identifying, minimising and managing risks that may threaten the supply chain or the wider organisation
- open to continuous improvement and development, in particular by the training, development and support of staff.

In addition it is the Purchasing department’s objective that, as far as is within their power, it will only employ suppliers and contractors who subscribe to and operate on similar principles. Joint Venture partners, and the management of outsourced activities on an organisation's behalf, are similarly expected to abide by and promote these principles.
Of these objectives, a), Legality, and b), Accountability and Auditability, are non-negotiable.

There are no circumstances in which it is permissible for the purchasing activity or those engaged in it consciously to break, or knowingly to risk breaking, the laws that apply.

There are no circumstances in which it is permissible to requisition or buy goods or services or commit the organisation’s funds without documenting the transaction in such a way that at a future date it is possible to determine who requested, made, or approved the expenditure, the purpose of the expenditure, the process by which all key decisions were arrived at, and by whom, and the destination of any goods or services received and of any payments made.

The remaining objectives are necessarily counsels of perfection, and may be expected to create conflicts and require trade-offs. The Procedures that derive from this Policy Statement are designed in part to provide a framework within which such conflicts can be managed in a legal and accountable manner. The overall principle to be adopted in such conflicts may be memorised as BAPNEEC - that is, we will use the Best Available Procedure Not Entailing Excessive Cost.

Legality
Purchasing and contracting activity will fully respect and comply with:

- International laws, treaties and agreements to which the UK government is party (including, for example, any United Nations-approved trade sanctions)

  Note: this includes not only those laws directly applicable to the buying and selling of goods and services - it includes amongst others the laws on:

  - taxation – the purchasing department will not be a party to the evasion of income, sales, corporate, value added or other taxes, customs duties, or other charges, either by P&SM Professionals, their customers, or their suppliers
  - environmental regulations
  - employment, health and safety
  - corruption

It is not acceptable to source goods or services in a foreign territory solely in order to allow an activity to occur which would not be permissible in our home territory, and/or in those territories to which our goods and services are supplied (note that this does not preclude taking advantage of lower labour costs elsewhere, provided that these, and the associated conditions, at least meet the domestic norms of that territory).

Additionally, caution will be exercised, and advice at the highest level sought, before entering into any agreement which, whilst legal in the territories in which we operate, could injure the interests of our investors and other stakeholders by the laws of Third Party states with pretensions towards the extra-territorial application of their domestic law. The Sarbanes-Oxley Act in the United States being one example.
The organisation is committed to the fair and effective application of laws and regulations. There is therefore a positive duty on the organisation and its members to report and refer any and all reasonably founded suspicions of illegal activity (for example, attempts at corruption, evidence of anti-competitive or cartel-like activity, breaches of employment or environment law).

The purchasing policy in support of the above is to support, protect and where possible preserve the anonymity of ‘whistleblowers’, inside or outside of our organisation, who act in good faith, even if their suspicions should subsequently prove to be unfounded. The organisation, and individual members, will give full co-operation to legitimate authorities investigating such claims. That specifically includes the duty to ensure that any conceivably relevant documentation is preserved and made available, even if such documents could be construed adversely to the interests of the organisation or individual members.

Accountability and Auditability
The organisation will maintain systems, whether manual or electronic, that will, for all purchases, contracts and external commitments above the level of ‘petty cash’ and minor allowable personal expenses, record, identify and as appropriate provide justification for:

- the originator of the requirement
- the purpose for which the requisition was made
- the route by which the requisition was approved
- the methods adopted in accordance with the Procedures below, (or any variation from Procedure, with reasons) to procure the requirement, with all relevant documentation (for example Requests for Quotation, Tender documents and so on) and the reasons for decisions made
- the source of supply
- the compliance or otherwise of the goods or service, and of the supplier or contractor, with the requirement as specified in the contract or other agreement
- all actions taken to remedy any defect as recorded above; and the results
- the route by which payment was authorised, and when, to whom and in what sum any payment(s) are made.

Note: The above is the minimum requirement - there may be many procurements for which much more detailed accountability is required.

It is a fundamental of the policy that as far as is possible (and subject to the Procedures for low-value purchases), the requisitioner, the buyer, negotiator or contractor, and the authoriser of payment, will be different persons, all identifiable in the records maintained.

Ethical, environmental and social responsibility
Beyond the requirements of law and other regulations that P&SM professionals are bound to observe, the organisation has responsibilities (often referred to as Corporate Social Responsibility) to the wider community. Guidance on the general application of CSR in the purchasing and supply management context may be found on the CIPS website.
Ethical, environmental and social responsibilities very frequently conflict, both between themselves and with other objectives, such as that of economic efficiency. What follows is necessarily exhortatory rather than mandatory, but where significant conflicts do arise those involved in the procurement may be required to show (and record as set out above) that due attention and weight has been put on these issues under the BAPNEEC principle. A ‘balanced’ or ‘weighted’ scorecard approach is recommended - necessarily, the weightings to be applied to the various economic, social and environmental factors likely to be significant in a procurement must be determined, and aligned with corporate policy and goals, before the procurement process commences.

CSR policies are, or should be, set at the highest levels of the organisation. It is important that the P&SM function, as a major agent in the translation of such policies into action, ensures that it is fully represented in the formulation of such policies.

Areas of CSR policies that are relevant to the supply chain may include some or all of the following:

- Environmental responsibility
- Human rights
- Equal opportunities
- Diversity
- Corporate governance
- Sustainability
- Impact on society
- Ethics and ethical trading
- Biodiversity
- Community involvement

These are broad categories - within them may lie very focused issues which may be wholly or in large part the province of the purchasing and supply management function. Specific concerns may require this policy statement to be amplified - nonetheless, the following represent the minimum acceptable commitment:

- The sourcing of less costly labour and resources is a central part of the P&SM role: nonetheless, the organisation will NOT support sourcing where the minimum and (nationally or internationally) legally required standards are not applied. Where observance of such minima is temporarily absent, we will work with the supplier to help restore the situation, but all contracts must make it clear that continued abuse will be held to justify abnegation of the contract without further warning or redress. That option will be used, despite any short-term disruption it may be threaten to the supply chain
- The P&SM function will, where possible, prefer to purchase goods and services that can demonstrate a lower overall (life-cycle) environmental impact. The P&SM function will actively engage with suppliers to reduce environmental impacts (by, for example, reviewing material specifications, packaging requirements, transport channels)
- P&SM will treat with all actual and potential suppliers and contractors fairly, equally and objectively
- Notwithstanding the above, purchasing procedures will reflect the need to encourage diversity in the supply base, and encourage where appropriate the development of small suppliers, start-up companies, local suppliers and minority-owned suppliers
- All reasonable attempts will be made to assist suppliers to overcome difficulties and/or to improve their performance for us. Terminating a supplier or a contract is, except in extreme circumstances such as financial failure or illegal activity, to be regarded as a last resort
• P&SM activity will have due regard for the needs and sensitivities of the community in which it is located (especially but not solely in terms of environmental and amenity impact)
• All individuals concerned in the purchasing process should consider themselves bound by the individual Code of Ethics (Appendix A) - whether or not they are members of the CIPS, whose Code this is based on.

Economic effectiveness
The organisation expends a considerable portion of its revenues on bought-in goods and services, (in some organisations this figure may approach or exceed 80%) and procuring such goods and services in the most economically effective manner is, subject to the legal, ethical and other restraints outlined above, the central role of the purchasing function. In carrying out this role, all those involved in purchasing will have regard to the following:
• the desired outcome is that of greatest value gained at lowest total cost.
• total cost will as appropriate take into account the full anticipated life-cycle costs of the goods or services, including such factors as maintenance, servicing, reliability costs, and costs of ultimate disposal where this organisation may be responsible for them
• value may and should, where appropriate, be assigned, however approximately, to such factors as sustainability, environmental and social benefits and of improving the competitiveness of the supplier base on which we depend
• in addition to the total cost of acquisition or ownership, it is policy to reduce where possible the administrative cost of acquiring and owning goods and services. Selection of the most appropriate procedure to obtain an approximation to best value without incurring excessive administrative cost (or without unduly diverting limited resources from other activities and priorities) is therefore vital.

Exploitation of developments
Those responsible for purchasing will take care not to reduce or eliminate competitive development within the supply base, ensuring that the supply chain does not lose the ability to adapt to new or emerging technologies and processes

Risk management
The expenditure of resources outside the organisation, and the dependence on an external supply chain, exposes the organisation to a wide variety of risks. A significant function for the purchasing structure of this organisation is to identify, if possible minimise, and otherwise manage the likely impact of such risks (to the organisation itself and to other stakeholders). For any significant expenditure, long-term commitment, or identifiable ‘pinch-point’ (that is where even a small supply problem could have larger ramifications for the well-being of the organisation) formal risk assessments will be made, as appropriate, addressing:
• supply risk - risks resulting from the non-performance or poor performance of a supplier or contractor
• demand risks - arising from requisitioners ordering too much, too little, or the wrong goods or services, relative to the actual need
• process risks - the risk that the way goods are used or services supplied may not be optimal for the circumstances - even if they comply with the formal requirements of the tender or contract
• control risks - risks arising from deficiencies in internal processes and procedures - including, but not confined to, procedures mandated in this document
• environmental - the impact of unpredictable hazards from Acts of God through acts of Parliament to acts of terrorism
• social – risks arising from issues related to Corporate Social Responsibility such as Human Rights and so on.
Risk assessment in the supply chain is necessarily subjective: it is nonetheless required that where a significant risk is identified, the nature of the risk shall be identified to stakeholders, and where possible alternative solutions or fall-back positions considered and documented.

**Continuous improvement**

All personnel involved in the purchasing process are expected to attempt to improve their knowledge and skills, and the organisation will support such activities. The organisation aims to recruit, maintain and develop a core of professionally qualified purchasers (and others with the requisite cognate skills).

P&SM professionals who experience sub-optimal outcomes in their purchasing activities are encouraged to identify these, and with assistance correlate them with appropriate training provision. The organisation’s policy is to encourage such self-assessment, and to make appropriate training provision.

**Performance targets**

Where performance targets, incentives, bonus schemes and so on apply to individuals or groups in the purchasing process, conflicts may from time to time become apparent between the achievement of those targets and the requirements of this policy. At all times the Policy should be accorded precedence and where such conflicts appear, they should be reported appropriately.

(A list of possible performance criteria applicable to the purchasing and supply chain functions may be found on the CIPS web-site; see also the IDeA web-site product entitled ‘local performance indicators for procurement’. Where such reward schemes exist, it may be appropriate here to list the elements and explain how they are assessed against the policy objectives given above)

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**Appendix A • Code of Ethics**

(This Code is based on that subscribed to by all members of the Chartered Institute of Purchasing & Supply. CIPS is happy to advise, without liability, on ethical issues relating to procurement.)

Persons engaged in any aspect of purchasing on behalf of this organisation shall never use their authority for personal gain and shall seek to uphold and enhance the standing of the organisation by:

- maintaining an unimpeachable standard of integrity in all their business relationships both inside and outside this organisation.*
- fostering the highest possible standards of professional competence amongst those for whom they are responsible.
- optimising the use of resources for which they are responsible to provide the maximum benefit to their employer.
- complying both with the letter and the spirit of the law of the country(ies) in which they operate and with which they deal and complying with all contractual obligations incurred by or on behalf of their employer.
- rejecting any business practice which might reasonably be deemed improper.

* (Clearly it is not possible under current employment law fully to extend this principle to the conduct of employees in their private lives. Nonetheless, it should be emphasised to employees that integrity is indivisible: that their reputation for probity in their private dealings almost inevitably reflects on the reputation of their employer.)

See also explanatory notes under Purchasing Procedures, section 2.
1. Preamble

The Procedures that follow derive from the P&SM Model, described more fully in section 3. This Model is precisely that - a way of capturing the manner in which, given unlimited time and resources, Purchasing would be performed to ensure that all the Policy requirements, including that of 'most effective economic outcome', are achieved, and can be demonstrated to have been achieved.

(Note that these Procedures are also designed to be consonant with guidance issued by the Office of Government Commerce of the UK government. Such guidance is intended to assist public sector organisations, and such private sector organisations as may be acting for or on behalf of the public sector, in meeting their obligations under the various EU (and WTO where applicable) Directives and other rules on public procurement. Although such rules do not in general apply to trades between private companies, and many procurements even within the public sector will be valued below the threshold at which such rules apply, it is strongly recommended that organisations adopt a single, compliant, set of procedures for procurement. In so suggesting, we recognise that the procedures themselves are sound and comprehensive (even if the associated bureaucracy may appear onerous); the adoption of a single set of procedures reduces the potential for conflict and confusion; a single set of procedures reduces the temptation to 'bend' the rules - for example by understating the likely value of a procurement; and in the case of any dispute centred on methods of procurement, evidence that guidelines promulgated by government have been adhered to should provide a powerful, though not infallible, defence. OGC guidance is subject to constant updating in the light of national and EU case-law. See the web-site www.ogc.gov.uk).

Inevitably there are some, even many, circumstances which require aspects of the 'standard model' to be modified or circumvented. Such circumstances would include time pressures, emergencies such as the unanticipated failure of a supplier, the availability or otherwise of adequate resources within the Purchasing function. The procedures include a variety of approaches that will enable an appropriate, effective and controllable response to such situations. Nonetheless, at all times the Procedures should be implemented in such a way as to align as closely as possible to the 'standard model', and where deviation even from the modified procedures allowed below do occur, those responsible must be prepared to justify their decisions.

In no circumstances may procedures be adopted which conflict, or could tend to conflict, with the overall Purchasing Policy, unless previously authorised at the highest level.

It is essential that the full body of Procedures be considered as a whole in advance of any procurement activities. Effective operation of the Procedures requires that a number of decisions affecting both the procurement itself and the evaluation of the performance of the resulting contract are made in advance, and independently of any knowledge of the contents of any bids or offers.)
Purchasing Policy and Procedures

Purchasing structure, responsibilities and authority

2. Purchasing structure, responsibilities and authority
The precise details of the Purchasing function’s structure, and indeed of its nomenclature (for example Purchasing/Supply/Procurement) are necessarily unique to each organisation. This section, therefore, merely indicates by example the type of information which should be given in the Policy & Procedures document. Users should adapt this document by inserting relevant department/function names, job titles, and so on in line with their own practice.

The Purchasing Department is authorised by the Board to fulfil the following functions:
• Establish the Purchasing Policy and ensure that the Policy is adhered to
• Establish, promulgate and support standard Procedures that will enable the organisation to meet the objectives of the Purchasing Policy, while having regard to economic effectiveness
• Itself carry out all major, novel and significant procurements
• Establish the rules and procedures by which purchasing authority may be delegated to and exercised by other individuals and/or departments; regularly review such parameters and practices; and ensure that the exercise of such delegated authority continues to meet the Purchasing Policy requirements
• Maintain records and data systems in such a way that an appropriate, auditable, trail of each purchasing activity is available, that supplier performance can be monitored, that demand can be aggregated, supply requirements anticipated, and adherence to Policy demonstrated.

The Purchasing Department is itself a cost/profit centre and is required to operate in an efficient and effective manner with regard not only to the level of external expenditure under management but also to the internal costs generated, and to be able to demonstrate its effectiveness in this regard.

Purchasing will adopt an holistic attitude to the needs and policies of the organisation; will attempt where possible to operate in a cross-functional manner involving and recognising the needs of all stakeholders in the procurement (internal and external); and will as far as is practicable take a long-term view of the benefits and risks to the organisation (or whole supply chain, as appropriate) of any proposed procurement.

2.1 Records, systems and data
The Purchasing Department, in collaboration with others (such as end-users, finance/accounts, production, goods inward and so on) maintains systems that will record and monitor all historic and current purchasing activity, and that are capable of generating appropriate reports to inform and improve future activity.

Such systems will wherever economically viable automate the flow of relevant information to, from and within the Purchasing Department to ensure that input errors and administrative overheads are minimised.

Where only parts of the procurement function are thus automated, systems will be maintained to ensure that the equivalent data deriving from ‘manual’ transactions and procedures can be captured, incorporated and as required aggregated.

Such systems, whether manual, automated or a combination of both, will be capable of recording, analysing, correlating, cross-referencing, and reporting suitably on:

All purchases and commitments for goods, works and services, including procurement exercises where no contract is ultimately awarded
• at line item level
• aggregated into appropriate classes

with complete records of:
• the requisition
• notes of any changes made to the requisition at the behest of either the
Purchasing or the user department
• notes of the process by which the procurement strategy was decided
• notes of the process by which the contract evaluation and award criteria were decided
• all documents relating to the tender or quotation process. This will include a register of ITTs issued (see below), originals of the ITT, specification and any advertisements, evidence of how recipients of the ITT were selected, all bids/quotes received in response (whether compliant or not). Notes of any contacts with bidders, by the purchasing or other departments, that may be germane to the process.
• results of the evaluation exercise
• notes of all post-tender negotiations and their outcome
• the final contract or purchase order
• records of any variations agreed after award of contract
• records of all disputes and their resolution
• records of staged acceptances and payments and final sign-off, and reconciliation of invoices and so on with final payment.
• any warranties, guarantees and so on relevant to the transaction should be held with these records or, if retained elsewhere, a note of their location and validity filed.

Such records on individual procurements will be capable of cross-reference to a Supplier database which, for all current, historic or potential suppliers, will cover the following:
• Ownership (including ultimate ownership if, for example part of a group or holding company) with any relevant changes that may come to light
• Addresses and other contact details at both corporate and, where different, operational level
• Any relevant status checks carried out (for example accounts, bank and trade references, credit checks and so on) with dates
• Capabilities, capacities and qualifications claimed (such as ISO 9000, 14000 series)
• If nominated a ‘preferred supplier’ or similar, details of the procedure and justification
• Details of contracts awarded, procedures used, results, (including details of any difficulties and/or problems. [Note: care will be taken to include not only issues that appear to have been the ‘fault’ of the supplier or contractor, but also those which may have originated within this organisation - for example, post-award changes in specifications, quantities, delivery dates. Exceptionally good performance by a supplier should also be noted.]
• Records of ‘close-out’ of purchases or contracts, including payments and any disputes or delays thereto

The following must be reported to and recorded by the Purchasing Department:
• any actual or potential unethical approach or inducement, evidence of restrictive practices, possible conflicts of interest
• information on illegal or unacceptable practices by a supplier which could be to our discredit if we were known to be a customer
• failure by a supplier to meet our requirements, in terms of quality, quantity or delivery
• all requests by a supplier to vary the terms of a contract after it has been agreed
• occasions where the prices or other terms offered by a preferred supplier or under a call-off contract appear to be less favourable than is available elsewhere in the marketplace
• reluctance or refusal by a preferred supplier to bid for a contract, or to enter a realistic bid; reluctance or refusal to supply under the terms of an existing framework or call-off contract
• warranties, guarantees, service agreements and so on must be lodged with the Purchasing Department.
Legal and ethical concerns
Whether verified or not, all concerns about the legal
and/or ethical conduct of suppliers should also be
logged. It is worth noting that poor legal and ethical
practices often manifest themselves initially as minor
and unverifiable incidents - a pattern of behaviour may,
if such incidents are logged properly, become apparent
well before any provable wrongdoing.

Wherever possible, when problems arise with a
supplier's performance or behaviour, the purchasing
function will work with the company concerned to
help them meet the agreed requirements.

Outright corruption is fortunately rare in commercial
life in this country, but it does occur, and may be
common or even endemic in other cultures and
territories. Nepotism, for example, - the favouring of
relatives or clan members, is in many cultures regarded
as a virtue or even as a duty, but may therefore lead to
what we would regard as corruption. Any improper
approaches, whether in the form of inducements or
threats, must be reported, even if they are sufficiently
ambiguous to allow of an innocent construction. All
P&SM professionals when undertaking any purchasing
activity should consider themselves bound by the Code
of Ethics of the Chartered Institute of Purchasing &
Supply (given as Appendix A to the Purchasing Policy)
The following points should be particularly noted:

Gifts, hospitality and other inducements
Only gifts of small intrinsic value - pens, desk diaries
and the like - may be accepted from actual or potential
suppliers. Gifts of real worth should be reported, and
returned to the supplier with a polite explanation of
why the offer is unacceptable. Suppliers who persist in
making such offers should be made aware that this
organisation will cease to deal with them.

On occasion it is necessary both to give and receive
hospitality. However, any hospitality offered or
accepted must be modest and proportional to the
occasion, and of the type and scale that you would
offer if the situations were reversed.

Invitations to user sites, attend specialist
conferences, association annual dinners and the like as
the guest of a supplier should be treated with caution
and approved in advance by your line manager.
Invitations extended to a spouse or other guest will be
dealed with in exceptional circumstances which
should be approved by your line manager. All
invitations to sporting occasions and other functions
with little or no business content should be reported
and declined. This applies at all times, not just in
working hours. Invitations should be declined politely
but firmly.

Some inducements are unavoidable, as they come
packaged with the product. The obvious example is ‘air
miles’ earned on business travel. All benefits gained
through spending the organisation’s funds are the
property of the organisation and should be reported
and surrendered (although if they are of no value to
the organisation the Head of Purchasing may authorise
the recipient to retain them).

Conflicts of interest
When dealing with suppliers, potential conflicts of
interest can sometimes arise. Spouses or other relatives
may be employed by the supplier company or possess
shareholdings or other stakes; personal friendships may
grow up over time. Such potential conflicts should be
reported to your manager as soon as they are
identified. They will not normally prevent our trading
with the company concerned, but it may be in
everybody’s interests to arrange for the expenditure to
be handled by someone else.
Sometimes, former employees may be potential suppliers - indeed their knowledge of our operations may make them particularly suitable. It is important that they do not receive or expect to receive special consideration. If their 'inside knowledge', for instance of our cost structures, appears to give them an unfair competitive advantage, it may be desirable to take steps to ensure fair competition among all suppliers.

Employees should avoid as far as possible dealing with our suppliers in their private affairs, particularly if this is likely to put them under some obligation to the supplier. Where such arrangements are unavoidable, it is essential that they ensure that they are not offered any sort of deal which is not commonly available, and which could be construed as a reward for actions taken in the course of their employment.

Anti-competitive behaviour
From time to time, buyers may become aware of supplier organisations apparently acting in concert to fix prices or divide up markets. More rarely, there may be arrangements between buyers from different organisations designed to put pressure on suppliers. Any such arrangement is illegal unless reported to the Office of Fair Trading and if necessary specifically cleared by the Restrictive Practices Court. Any such suspicions should be reported (with any supporting evidence) to the Purchasing Department which will investigate and, if necessary, pass the information to the Office of Fair Trading.

'Whistleblowers'
It is our policy to support, protect and, where possible, preserve the anonymity, of any of our employees that report apparently questionable activity, even if their fears subsequently prove to be unfounded. Early reporting is essential, so that, where necessary, legal advice can be taken and both the individual and the organisation protected.

Other areas which create, at least potentially, ethical conflicts, for the organisation perhaps more than the individual, include:
• ‘Product familiarisation’ visits and associated hospitality
• Acceptance of samples, demonstration models and so on outside of a contract
• Payments to become or be retained on a list of approved suppliers or similar (or in retail buying, payments by suppliers to secure favourable shelf positions); similarly, payments towards joint projects/ventures. (Such payment demands must be related to tangible benefits accruing or expected to accrue to the supplier, and should not have the effect of excluding other businesses, especially small businesses, from consideration, and must not be, or appear to be, the ‘price paid’ for winning business.)
• Reciprocal or countertrade, where being a customer of the organisation is a condition for becoming a supplier
• Imposition - of a nominated supplier by an internal or external customer.

The situations outlined above are not necessarily illegal or unethical, but will require individual justification against the tenets of the Purchasing Policy.
Purchasing Policy and Procedures
Purchasing structure, responsibilities and authority

It is the responsibility of all those involved in a procurement to report relevant information to maintain a relevant database. Note, however, that personal observations on supplier representatives or executives should not be routinely logged onto the database, as being a likely breach of the Data Protection Acts. The Act gives individuals rights to see and have corrected data of a personal nature held about them. This would include, for example, comments about the personal qualities of a supplier’s salesman or service engineer, or about the integrity of a consultant or sole trader. Such information may of course be highly germane to the purchasing process, but anyone creating or retaining such information must keep personal detail to the minimum (such as do not identify the individual if identifying the company will do) and be scrupulous in ensuring that any such information is fair and verifiable. Particular sensitivity needs to be shown if gender, religious or ethnic details are kept in pursuance of a policy of encouraging minority-owned businesses (there can be no other valid reason for keeping such information).

Note also that the ‘supplier database’ may appropriately include details on organisations with which we do not have a direct contractual relationship (for example agents and other ‘middlemen’, logistics contractors, freight forwarders and the like retained by the supplier company, sub-contractors to the supplier company) where the operations of such organisations have the potential to have significant impact on the success of the purchase or contract.

2.2 Category Management
The Purchasing Department may be organised around the principles of category management, with identified individuals or teams taking lead responsibility for all procurement in particular classes of goods and/or services. In some cases such organisations may alternatively or additionally be based around key strategic suppliers. All requirements within such categories should be channelled through the appropriate specialist in the first instance. (Note: this may not apply in smaller Purchasing Departments.) Category teams should be shown on a structure chart appended to these Procedures.

2.3 Delegated purchasing authority
For major procurements [Note: different organisations may have their own definitions of what constitutes ‘major’; factors will include monetary value of the procurement, the timescale of the commitment, the criticality of the procurement to the business] the Purchasing Department will normally form the lead in an appropriate cross-functional team.

For some specialist procurements it may be more appropriate for another department to take the lead, but Purchasing will be continuously involved in an advisory capacity and to verify that the Policy and procedures are adhered to. (Examples might be: appointment of marketing agencies - led by Marketing Department; contracts for provision of contract labour - led by HR; contracts for supply of IT - led by IT or Finance; appointment of auditors - led by Finance.)

For small, sporadic and non-critical purchases, individuals or user departments may be granted delegated purchasing authority. The scope of such authority will be negotiated with the Purchasing Department and will be constrained by financial limits, category of goods or services, or both.
Purchasing Policy and Procedures

Purchasing structure, responsibilities and authority

Staff exercising delegated purchasing authority are required to use appropriate centrally negotiated frameworks or call-off contracts where such exist: likewise where e-procurement systems are in place, approved (and only approved) e-catalogues and so on. Where such contracts exist but are found inappropriate to the requirement, a report must be made to Purchasing so that consideration can be given to renegotiating a more suitable contract. Where, as may happen, a non-contracted supplier appears to be offering a more attractive price or commercial offer for a product than that obtainable under the relevant negotiated arrangement, this should be reported to Purchasing BEFORE any purchase is made. (There may, indeed should, be overall benefits to the organisation in using the contract even if certain offers in the range are individually less than totally competitive; additionally, although this is to be discouraged, it may be that a framework or similar contract guarantees the supplier some degree of exclusivity. Delegated purchasers should be made aware of these factors.)

Those with delegated powers must never use unauthorised e-commerce channels. Apart from the inherent risks (fraud, theft and so on), the negotiation of e-commerce facilities forms itself a major and strategic commercial contract, subject to the same policies and procedures as any other major purchase.

Purchasing will ensure that appropriate reports of delegated activity are received, and consolidated with the overall data and reporting system. (In the case of procurement cards, approved e-sourcing systems and so on, this may well be entirely automated, but procedures are still required to capture, for example, T&E expenditure).

As far as is possible the principle of ‘separation of duties’ will be followed by those exercising delegated purchasing authority: that is, that the three key functions of budget-holder, negotiator/committer, and acceptor/payer should be performed by at least two separate persons. (Clearly this is not always possible - Travel & Expense purchasing at the individual level, for example.)

Where issued, corporate purchasing cards should be employed for all suitable delegated procurements, as these automatically provide much of the required reporting detail. Users of procurement cards will note however:

- limits set on a particular type of expenditure override any overall limits on the size of transaction permitted by the card
- cards should not be used for high-value transactions even when they lie within the scope of delegated authority. (Cards cost suppliers in terms of significant merchant fees which, for big-ticket transactions, are likely to be reflected in the price)
- corporate cards are never to be used for personal purposes, regardless of any intention to reimburse the organisation.
The Purchasing and Supply Management Model

The Purchasing and Supply Management model (available on CIPS website) illustrates the sequence of purchasing and related activities in a generic procurement situation. The procedures which follow in this section reflect, with some simplification, this model.

Necessarily, there will be many instances where procedures following the full model are inappropriate, irrelevant, or impracticable, and other, simpler procedures apply. Nonetheless, all procedures used should comply with the model as far as is possible, and any deviation should be checked against the model to ensure that no excessive risks are being incurred by adopting a simpler or less rigorous procedure.

The model process divides into four sections:

- Sourcing analysis
- Requisition/demand management
- Pre-contract activities
- Post-contract activities

Although the precise nature of these activities will vary according to the nature of the procurement, and some elements may not apply in all cases, the principles are constant. They should be adhered to, and carried out in the appropriate sequence.
4. Sourcing analysis

Sourcing analysis is a continuous process. It draws on historic and current purchasing data; wider market intelligence, and the forward-looking plans, forecasts and expectations of the organisation and the wider supply chain to ensure that appropriate purchasing strategies are available for all classes of external expenditure, and that they are aligned with the Purchasing Policy and the overall organisational policy objectives. At the same time the analysis will attempt, as far as practicable, to predict the likely future requirements on the Purchasing Department and match these to available resources and appropriate timescales.

At any given moment some classes of purchase will, for reasons of business criticality, market volatility and so on, command more constant attention: nonetheless the Purchasing Department will ensure that ALL classes of external spend are regularly reviewed over an appropriate timescale.

The elements of Sourcing analysis include the following:

4.1 Process/Competence Analysis

This will:

- identify budget holders, end-use customers and other ‘constituents’ - the current and likely future sources of demands and requisitions, internal or external
- evaluate the purchasing and supply competencies of those people involved in the P&SM process, within, and, where appropriate, outside the Purchasing Department itself (which in turn may raise requirements for additional training and support). Particular attention will be paid to those exercising delegated purchasing authority
- Activity-based costing - that is, analysing the internal costs of purchasing processes (and where relevant, external costs, for example the costs to suppliers of entering a tendering process) and seek to identify savings and efficiencies that will not compromise the overall goals. This will also feed into

- evaluating purchasing systems, procedures (including this document), controls and management information to ensure their continuing fitness for purpose. It is worth noting that the Procedures document itself will tend to ‘grow’ over time as novel situations and experiences give rise to new and revised procedures. It is essential that the document be regularly revisited to ensure that procedures do not conflict, that they have not ‘drifted’ from the Purchasing Policy and the P&SM Model, and that they have not become so cumbersome or opaque as to risk confusing those who have to operate them.

4.2 Spend analysis

The Department should constantly:

- Monitor who is buying what, from whom, in what quantities and how often, over what timescales and on what terms.
- Identify opportunities to consolidate spends (eg across different user departments), to rationalise the number of separate suppliers and the range of different goods and services being bought, to exploit potential economies of scale vis-à-vis suppliers, and similarly any internal administrative economies available.
- Evaluate the progress of existing contracts and their continuing suitability.

The analysis will also review and if necessary re-categorise the most critical assets and supplies (having particular regard, for example, to supplies that have a limited availability or supplier base, and to supplies that are or appear to be specific to a given supplier).

The historical and current position is to be compared, as far as is possible, with known or expected trends in the marketplace, and the likely forward expected usage of goods and services, and significant changes noted.
Sourcing analysis

Some organisations may need to review spend against information on sources of funding; for example, where funding is dependent on a Public Finance Initiative or Public Private Partnership, or where goods are being acquired on behalf of an external customer or end-user.

4.3 ‘Political’ and risk analysis
This analysis should review the several categories of risk that may impact on the supply chain or elements thereof as appropriate for example, political instability in supplier countries, transport disruptions, regulatory impacts, financial stability of suppliers, marked narrowing of the supply base due to sector consolidation, and so on. Contingency plans should be constantly updated to mitigate, manage or avoid unnecessary risks. The appropriate plans and actions may vary widely - examples would include re-specification of a component to allow a wider supply base; re-sourcing to more stable or geographically closer countries; creating inventory buffers. The organisation's insurance provisions (and those of key suppliers) against supply chain disruption should also be reviewed.

4.4 Supply base analysis
This should evaluate the ease or tightness of supplier markets and the diversity or otherwise of the available supplier base. The historic and current performance of individual suppliers should be examined and any trends noted. Information asymmetries should also be noted and steps taken to correct them. Following on from the Risk analysis, key suppliers' isolation mechanisms' - that is, the actions they have in place to cope with supply chain risk - should be evaluated.

More generally, the supply base should be analysed using techniques such as Pareto, supply positioning analysis and supplier/customer preferencing analysis. Together with market intelligence, these analyses should be used to suggest the type of purchasing strategy and relationship to be used with particular suppliers or particular marketplaces.

It is important that these analyses are looked at with 'fresh eyes' at regular intervals - the Purchasing Department must not assume that the future will necessarily look like the past, even where supply relationships have operated happily for many years.

4.5 Supply/value stream mapping
Supply streams identified as critical or strategic should be subjected to more detailed analysis, (including where appropriate second and third tier suppliers) to determine inter alia vulnerabilities, power and dependency, where in the supply or value chain profits, margins and 'value added' are occurring (and thus, whether we, as the buying organisation, are capturing enough of the added value relative to cost). The supply stream's response to demand, and any tendencies to demand distortion or amplification, should also be examined.

4.6 Options/decisions
From the above analyses the Purchasing Department should be able to determine appropriate sourcing and procurement strategies for different suppliers and/or different classes of supply; create business cases for change (not least in purchasing processes themselves, such as electronic commerce options) and make policy recommendations around 'make or buy', insourcing/outourcing and similar questions.

Note that the strategies deriving from this analysis do not preclude the possibility that, on any particular procurement, a different strategy may be preferred.

The strategic analyses are not, in essence, quantifiable exercises - they involve a large degree of subjective judgement, and it is vital that those carrying them out receive the necessary training and support. Further, all ‘decisions’ thrown up as to what, for example, constitutes a ‘strategic’ supply, will need to be normalised and prioritised in the light of the Purchasing Department's available resources and likely workload.
5. Demand Management

It is common and helpful, in most organisations and certainly in those involved, as manufacturers or retailers, with a physical product, to distinguish between direct and indirect spend. The distinction is between those products and services that can be linked to production or service delivery (direct spend) and the capital equipment, services and supplies required for running the organisation but which are not in any real sense ‘sold on’ to the end consumer (indirect spend, sometimes referred to as MRO, for Maintenance, Repairs, Operations).

In many organisations, it may be more useful to make the distinction between those goods and services where the need derives from a reasonably well-founded plan or forecast, and those where the need arises sporadically or in response to unpredictable events. Thus, for example, areas of Marketing spend associated with and planned as part of a new product launch, or the transport and logistics requirement for a particular product or flow, have a planned demand that is established well in advance and thus have many of the characteristics of direct goods for incorporation in the product.

5.1 Direct spend

In the case of director recurring planned expenditure, the ‘day-to-day’ requirement will typically be generated automatically by some type of Planning and Scheduling system, generating a purchase order, again often automatically, direct on the supplier against an existing contract.

For such a contract to be negotiated in the first place, and at the required intervals renegotiated or re-offered, Purchasing will work as a team with other stakeholders. This involvement should commence as early as possible in the product life cycle.

Amongst other matters that such a team will need to determine, informed in part by the sourcing analysis described above are:

• Inventory policies. This will reflect degrees of supply chain risk (including risk of obsolescence, and volatility of demand/production), the economic impact of holding stock (itself dependent on whether stock is paid for when delivered, or when consumed); any economic and other advantages of such techniques as VMI (Vendor Managed Inventory) or delivery direct to line-side; physical constraints on stockholding (to include, besides space considerations, product shelf life, environmental requirements, such as temperature or humidity control, restrictions on the storage or co-storage of hazardous materials, and so on).

• Value analysis/value engineering.

• Requisition/replenishment policies - for example JIT, Kanban techniques, master production scheduling. The policy on make to stock as against make to order is crucial here, especially in the case of new products, contingency plans for demand exceeding supply, and indeed for the reverse: demand failing at least initially to meet forecast.

5.2 Indirect spend

Demand for indirect expenditure is by definition not particularly predictable: even where aggregate demand for a product category over, say, a year is reliably available, the precise nature of the requirement, and its timing, may not be. Many requirements for indirect spend fall into the ‘project’ category: specialist consultancy, minor and major works, capital equipment acquisition (including IT), specialist consultancy, although in general there will be some degree of advance notice of such requirements and Purchasing can, using its analyses, plan to some degree the purchasing strategy. Other requirements may arise suddenly, for example, as a result of major or minor catastrophes (machine breakdown, fire, temporary incapacity of supplier) and cannot be planned for in detail, although as outlined above Purchasing should have robust contingency plans at the generic level at least.
Direct and Indirect spend
For both categories of expenditure, once alerted to the likely requirement, Purchasing will:

• Identify the categories of spend involved (and using past experience, other likely expenditures that have not yet been raised but will probably be required in association: transport/logistics, for example)

• Suggest and construct the appropriate cross-functional teams to identify the needs of, and then manage/take ownership of, the procurement. These should be as small as is commensurate with adequate representation of the significant stakeholders, and it must be insisted that team members are of a status/seniority commensurate with the importance of the procurement. If necessary, likely training and support requirements for the team should be identified and acted upon as an example, in a construction or works procurement, it may be that few, if any, team members, in or out of Purchasing, have experience of being a construction client.

• Discuss and determine the appropriate sourcing strategy - that may include at one extreme the make or buy decision, at the other, the possibility of an outsourcing of future direct management control. Appropriate procedures and processes should be agreed, bearing in mind the need to minimise risk and transaction cost, and optimise value, to achieve the desired economic and other objectives, to comply with the Purchasing Policy, and of course, to meet the required timescale. Methods of assuring, reporting and verifying satisfactory progress, and the responsibilities, therefore, should also be established at this point. Although teamwork is of the essence, it will often be appropriate to identify the team ‘leader’ or focal point.

In some procurements, and especially those with a significant speculative, design or development aspect, or where there is likely to be an element of risk-sharing between buyer and supplier, it may be appropriate at this point to identify potential partners. However, great care should be taken to ensure that this does not unduly constrain competition or distort the way in which the procedures are implemented to the advantage or detriment of potential suppliers.

Whether direct or indirect spend, Purchasing will be assiduous in ascertaining that the projected demand is a genuine requirement, whether from the production plan or the real needs of the end users. It is appropriate also at this stage to ascertain that funds on the likely scale required are indeed available. If the ‘requirement’ is more in the nature of a research exercise, it should be made clear that, whilst Purchasing will do all it can to provide estimates of costs and benefits, the full panoply of the procedures will not be invoked until proper authorisation for the work is received.

At every milestone in the procurement procedure, reference back should be made to ensure that

• the requirement is still valid
• the likely required resources are still available
6. Pre-contract activities

Once a definite, or near-definite, demand or requisition has become apparent, the Purchasing Department should take the following procedure that leads (usually) to the award of a contract.

6.1 Identification of need

The Purchasing Department will establish an effective liaison with the user or requisitioner (note - this may not be the same individual, or even department, whose initial approach originated the request. To give an example, an internal Customer Care team may raise a demand for equipment to be used by an external force of field engineers/salesmen). The composition of any project or procurement team may need to be augmented to reflect the interests of the end-user.

The next step is to determine the requirements in detail and thus produce a specification. In drafting a specification a number of factors need to be considered:

• Are there technical alternatives, approaches or solutions that may achieve an acceptable result at lower cost, or perhaps using existing resources?
• Is the projected level of demand realistic, and is the timescale for which it is required appropriate? This may suggest reducing projected quantities or deferring the demand, it may on the other hand suggest that quantities required have been underestimated, or that the need is sufficiently urgent that, for example, a full tendering process is inappropriate or impossible. Requisitions giving timescales ‘as soon as possible’ should be referred back
• Can the complexity of the procurement be reduced - for example by redesign to use standard components, or by buying an off-the-peg, rather than bespoke, solution?

• What budget is available, and does this at least approximately correspond to the likely cost of the procurement? Depending on the nature of the procurement it may be necessary to query the provision for on-costs, such as maintenance, upgrades or end-of-life disposal, as well as the initial cost of acquisition.

Specifications for services are different in that, wherever possible, services should be specified in terms of desired results and outcomes, rather than by prescribing the method by which these are to be achieved. Output-Based Specifications are also highly desirable for the supply of capital and production goods, works and so on, but in their nature these are more likely to be heavily constrained by technical considerations.

Note also that many contracts for goods include a substantial service element (for example, delivery methods, Vendor Managed Inventory systems and so on for direct goods; ongoing maintenance and service provision for capital equipment). Specifications here will need to combine functional detail and output criteria.

When drafting specifications the following points should be considered:

• Technical standards should only be used where necessary to ensure satisfactory performance. International or national standards in the public domain should be used: specifiers must guard against creating in-house standards. If standards not in the public domain have to be used, copies should be provided with the package.
• In order to reduce inventory and increase purchasing leverage, a standardisation policy for commonly used materials may be in force, and the specification should make full use of this where practicable. It is for the user department to show why a standard part or material does not fulfil the need.
• The specification should wherever possible avoid the use of trade names, proprietary processes and other descriptions which could have the result of reducing effective competition. Care should be taken not to misuse trade names as generics (such as Perspex, Pop-rivet). Trade names should only be used in a specification if the use of that proprietary product is essential to achieve a specific technical end.

• The specification must contain all the information necessary for a supplier to prepare a valid bid.

Note: for contracts for services, a draft Service Level Agreement may be offered instead of, or in addition to, a Specification. (See below, Section 6.8).

6.2 Procurement Plan
If this has not already occurred, an appropriate cross-functional team should be brought together and briefed. Where necessary the ‘make or buy’ decision will be addressed. Assuming that the decision is for an external procurement, a project plan, with projected timescales, will be developed. It is recommended that these timescales be referred back to the user/requisitioner for confirmation that they are appropriate to the urgency of the need.

Note: It is important that lessons are learned and promulgated from all instances where the timescale of the requirement appears to preclude a full tendering process (even if that would not, in the event, be the preferred procurement method). Emergencies do arise, but users and requisitioners must understand the time requirements of an effective procurement process and should be discouraged from ‘last minute’ requisitioning.

For complex procurements (such as Works and Construction, or where there is a significant design/development element) the style of contract to be awarded should be considered at this stage - for example whether it will be on a cost-plus basis, whether staged payments are involved, whether industry-standard forms of contract are to be used. This decision may change in the light of subsequent negotiation, but the team should have an idea of the most desirable outcome.

The Procurement Plan will determine the forms of market testing and development required. It will set out the proposed procurement route (such as, a full, open Invitation To Tender, tendering restricted to pre-qualified firms, Request for Quotation to existing suppliers, design contest, and so on). It will establish the procedures to be used, and the criteria against which suppliers and tenders are to be evaluated (discussed later, but it is important that these criteria should be fixed before the procurement gets underway). The Plan will identify the duties and responsibilities of team members, and the authorisations and approvals that will be required at every stage of the process.

E-procurement
Note that, although the delivery mechanisms for procurement by e-sourcing, e-auctions and similar techniques are very different, the process involved is essentially the same as for a conventional procurement, and the same procedures need to be followed - indeed, because of the compression of timescales which e-procurement techniques offer, it is even more important that the ‘documentation’ is ‘right first time’ as there are fewer opportunities for amendment or renegotiation. A procurement plan is therefore required for e-procurement in the same way as for conventional procurement.

Note that the selection of e-procurement sites and market places itself offers risks to the organisation, and should therefore be approached as a major procurement in its own right.
6.3 Market testing and development

In some instances it may become rapidly apparent that only one supplier, or a small number of suppliers, is likely to be capable of fulfilling the requirement. In such cases the team may proceed directly to preparing and issuing Invitations to Tender (to the small group) or of directly negotiating with the sole supplier. It is worth noting that a ‘negotiated’ procurement is allowed under European public procurement rules in certain circumstances, principally where genuine time or technical constraints exist.

This situation must always be subjected to the most rigorous examination. The situation can arise for legitimate reasons, for example, a renewal of an existing contract to which we are committed for design or production reasons, that the organisation’s own ultimate customer has specified a particular company’s component; that the requisition is for maintenance and/or spare parts for a proprietary machine; or resulting from other Intellectual Property considerations. But wherever the lack of supply options appears to result from this organisation’s own specification, this should be challenged. Even if time does not allow for a revision of the specification, and the consequent widening of the supplier base, on this occasion, steps should be taken, either by revising the specification, or developing the supply base, or both, to prevent a similar situation occurring in future.

Ordinarily, however, the aim will be to let the contract by means of either an ‘open’ or a ‘restricted’ tender process. ‘Open’ and ‘restricted’ reflect nomenclature used in the European Union rules on public procurement. In principle, tenders, whose estimated value is above certain limits, should be ‘open’ to all comers, either directly or through an appropriate pre-qualification process, and therefore widely advertised, for example through the Official Journal of the European Union. If a properly open pre-qualification process has been carried out, subsequent tendering can be ‘restricted’ to those pre-qualified firms.

Organisations not constrained by European rules will generally restrict their Invitations to Tender (ITTs) to potential suppliers that they already have reason to suspect could meet the requirements. However, for this apparent restriction of competition to remain an effective procurement method, it is vital that appropriate market research is carried out on a continuing basis.

Where the requirement is novel to the organisation, (and there is therefore no relevant supplier history), the likely form of the outcome is unknown or unspecifiable (for example, architectural projects, contracts for marketing services), where the organisation is new to the territory from which supply is sought (for example, when setting up an overseas subsidiary), or perhaps where all existing known suppliers have proved unsatisfactory, an ‘open’ tender competition may be considered, promoted by advertising in the trade and public press and/or where appropriate, by using a suitable public e-sourcing/e-tendering channel. However, open tenders risk attracting large numbers of speculative and poorly qualified suppliers: they therefore generate a considerable, and often confusing workload, and should be avoided unless they are mandatory or otherwise strictly necessary.

A ‘restricted’ approach to tendering is to be preferred in most cases, but Purchasing should be pro-active in creating the necessary market conditions for a successful tendering exercise. This may involve ‘conditioning’ suppliers to bid for or tender for the work; it may involve identifying potential new suppliers and inviting them to bid; it may involve working with existing suppliers, perhaps in a slightly different field, to encourage them to consider the new line of business.
Care must be taken, however, on several fronts. Suppliers must not be encouraged to believe that they are a 'shoo-in' for the work; information relating to the proposed contract that is available to one potential supplier must be made available to all; great care must be taken not to suggest linkages to other contracts, existing or contemplated, that are not currently 'on the table'. It is important therefore that all dealings with potential suppliers in contemplation of a tender exercise are appropriately documented.

The aim is to attract at least three compliant (that is, meeting the specification and other requirements) bids, and preferably not more than ten or a dozen. From these, either a successful bidder will emerge, or it may be that one or more preferred bidders (or perhaps a preferred and a reserve bidder) are identified, who will become the subject of post tender negotiation (see below).

6.4 ITT/RFx documentation

Purchasing will maintain a Register of ITTs (Invitations to Tender) so that progress, response and outcomes may be monitored. This will include the following information:

- Date of ITT
- Supplier invited to tender
- A serial or identifying number for the ITT
- The method by which the ITT was despatched (such as email, post, recorded delivery, hand delivery and so on)
- Supplier contact details

and as replies are received

- Date and method of confirmation of receipt by the supplier (which might, for example, be a recorded delivery signed receipt)
- Date that a formal response to the ITT is received

ITTs and RFx (that is, Requests for Information/Quotation/Price) should contain all the information, including the specification, that a potential supplier or contractor needs to furnish a compliant bid, but only that information.

The Invitation to Tender, and its supporting documentation, are critical to the success of a procurement. As such, adequate development time must be allowed to ensure that the ITT properly describes the requirements and conditions, without being so prescriptive that opportunities to achieve greater value for money are lost.

The Invitation to Tender package falls broadly into two parts - the formal and procedural requirements, which should as far as possible be standardised, and the specification which is unique to each procurement.

When drafting the ITT documentation, it is important to keep commercial and technical requirements separate from each other, and from criteria relating to supplier qualification, as these may be evaluated separately by different teams and by different criteria.

The ITT will include the following:

- A list of contents of the ITT package
- Clear identification of the procurement, by, for instance, a reference number (especially important where several procurements for similar classes of goods or services may be in train simultaneously)
- The date and time at which, and the place to which, completed tenders must be returned. An address label, with a unique identifying code to enable the receipt of tenders to be logged in the Register without opening them, should be provided.
- The broad criteria by which bids will be judged (for instance, Best Price, Best Economic Advantage, or other more complex factors)
• Normally, only written responses to the ITT will be accepted. If, however, for special reasons such as pressure of time, responses by fax, e-mail or Telex are considered acceptable, appropriate instructions should be given.
• The address from which additional copies of the tender documentation can be obtained; also a list of any supplementary documents that may be available, and any deposits or charges payable for these.
• The number of copies of the tender to be submitted.
• A list of any supporting documentation that will be required.
• Details of any financial guarantees, performance bonds, retentions or staged payment schemes that may apply.
• The period of time for which tenders are expected to remain valid.
• Arrangements for issuing revisions to the ITT, or for requiring extensions to the validity of tenders (including instructions on how tenderers should submit modified bids in the light of changes to the ITT).
• The currency in which prices should be quoted and in which payments will be made; and where appropriate the basis of pricing required (using Incoterms such as ex-works, CIF, FOB and so on).
• The legal framework that will apply to any subsequent contract (note: this will normally be English Law, adjudicable in England or Scots Law for firms based in Scotland. Exceptionally, other jurisdictions may be appropriate, for example when procuring on behalf of an overseas subsidiary).
• If bids for part only of the contract are acceptable, this should be stated.
• The procedure to be followed if potential tenderers require clarification of any aspect of the Invitation to Tender, together with a note advising potential tenderers that such clarification will be issued to all other potential tenderers.
• If variants to the specification that would achieve the same purpose are acceptable, this should be stated.
• Elements of this organisation’s standard terms and conditions or form of contract, not covered by the above, as far as appropriate. Alternatively, and especially in contracts for construction and works, the Standard Forms of Contract (with any modifications) that will be applied.
• Forms of dispute resolution (for example adjudication, arbitration) that will apply to any contract.
• Whether Best & Final Offer processes will follow the tender process (see below).
• A confidentiality clause.

Additional clauses in the ITT may cover the following:
• Quantities - forecasts and estimates should be clearly indicated as such.
• Inspection, certification or quality assurance requirements.
• Delivery dates or schedules of deliveries, point of delivery.
• Special requirements for labelling, packaging or carriage.
• Requirements for insurance.
• Point of acceptance of the goods or service (especially if this differs from the point of delivery).
• Reservation of our right to accept only part of a tender, to reject all tenders or to cancel the tendering process.
• The extent, if any, to which we will meet specified expenses incurred by potential suppliers in tender preparation.
• Where a group of suppliers may be submitting a joint bid, any requirements for the legal form, and joint and several liability, of such a grouping.
• Any requirements for disclosing the identity and involvement of sub-contractors.
• If the ITT is for the establishment of a framework agreement, the proposed duration of the contract, or schedule of review dates, should be indicated.
Purchasing Policy and Procedures

Pre-contract activities

- Instructions to ensure a uniform presentation of pricing information, if appropriate in the form of a pricing schedule, may be given. This should include provision for the estimation of volume discounts and similar variables, and, especially in the case of foreign suppliers, any tariffs, duties, and so on payable. Pricing information must, where appropriate, be able to give an indication of the 'total cost of ownership', rather than merely delivered price.
- Any provision for price variation clauses, any provision for staged payments
- Procedure for arranging site visits and so on, as appropriate
- If a Service Level Agreement is contemplated (see 6.8 below) a draft of the proposed agreement may be included. The precise form of an SLA will normally be the subject of Post Tender Negotiation (since it will be contingent on the content of the contract ultimately agreed) and so it should be made explicit that this draft is for illustrative purposes only.

In the case of an open Invitation to Tender, it will also be necessary to request information about the potential supplier that would otherwise have been acquired in the pre-qualification process.

Model forms of documentation for the Invitation to Tender process are published by CIPS and are available on the web-site www.cips.org

RFx documentation follows similar principles but can generally be simplified - the specification, for example, may be a simple catalogue number and schedule of quantities. Often, too, the RFx represents a continuation or repeat of an order for which contract terms and so on have previously been negotiated. It is vital, however, that such terms are re-stated in the new documentation, as even a follow-on order may represent a new 'offer and acceptance'.

A Request for Information (RFI) will typically be used to identify potential suppliers for a short-listing or pre-qualification exercise, and may therefore be simpler still. In all cases, though, it is essential to ensure that the potential supplier has a proper understanding of the purpose of the approach, the procedure to be followed, and is given all the information, or asked all the questions, that are necessary for a compliant response to be prepared.

6.4 Evaluation and selection of suppliers

Often, supplier evaluation at the high level especially corporate, as opposed to technical, factors such as ownership, solvency/credit rating, capacity, market reputation and so on, will be carried out prior to the issue of the ITT/RFx and thus contribute to creating the list of 'pre-qualified' suppliers who are invited to tender. In an 'open' tender this is not possible, but it is highly desirable that the evaluation of suppliers should be carried out by an appropriate cross-functional team, in an exercise quite separate from the technical and commercial evaluation of tenders.

The information required for a robust supplier evaluation will mostly be supplied by the potential supplier company, as a response to an ITT or RFI, but every opportunity should be taken to cross-check. This may include inquiries through Companies House, reports from specialist credit and business information agencies, and especially the taking up of bank, trade and customer references. UK Embassies and Consulates may be of help for overseas suppliers. Press reports may be relevant, but like other informal sources (such as ex-employees) should be treated with due caution.
The required information falls under the following broad heads:

**Company profile**
Name, trading styles, registration numbers, addresses and contact details (both operational and ‘Registered’ address), company status (for example plc, privately owned), details of any group or holding company of which it is a part, company age and history, details of chairman, directors and, where relevant, of other key staff, details of lines of business, whether the business is manufacturer, retailer/distributor, agent/licensee and so on.

**Financial standing**
Annual accounts, where relevant, share price performance and key ratios such as profit: earnings, debt:capital financial backers. Where discoverable, any significant charges, outstanding legal disputes. Payment record (from credit reference agencies), judgements and so on.

**Capacity**
Employees, and the make-up of the employee structure, size and capacity of factories or other facilities that would be deployed in the procurement. Machinery/capital investment deployed, product range, typical output per annum and so on.

Quality and compliance procedures ISO90001, ISO 140001, MoD certifications, accident record any environment/legal issues etc accreditation for training and so on, (for example ‘Investors in People’)

**Additional information**
Membership of any employers/trade associations. Staff representation/union recognition/participation in national or local agreements. Evidence of appropriate insurance policies (such as employers liability, third party, professional indemnity)

Where the supplier is likely to be using sub-contractors, especially ‘labour only’, evidence of compliance with appropriate taxation laws. Evidence that the supplier is prepared and able to comply with our CSR policies, and is prepared and able to apply these on our behalf, top any relevant subcontractors

**Track record and references**
Customer references should be taken up. Current or previous suppliers should also have a record maintained by Purchasing (but care should be taken to ascertain whether circumstances, for example, ownership, have changed since the firm was last employed) evaluation of risk, policies and attitudes (inevitably, a more subjective approach).

A balanced scorecard approach may be required to assess some of these issues. However, although some potential suppliers will ‘score’ better than others in an evaluation exercise, this should normally be treated as a ‘stop-go’ decision, rather than a ranking - that is, a supplier is either apparently qualified for the proposed procurement, or it is not.

Note that evaluation needs to be carried out on suppliers even if they have recently been evaluated for a different procurement. Suppliers that may be deemed unqualified for a major procurement (for example, through lack of capacity or slender financial resources) may be perfectly well qualified to be considered for a smaller procurement, or one in which the perceived risk is lower.

Note: where externally-hosted e-sourcing and e-auction systems are in use, suppliers on the system may have been ‘pre-qualified’ by the system operator. It is important to verify the criteria used and the extent to which these match criteria we would use. It may be necessary to carry out our own evaluations of such suppliers.
6.6 Receipt and evaluation of tenders or offers
An evaluation team or teams will have been set up as
described above to assess bids and tenders received.
(There may, and often should, be more than one team,
evaluating, for example, the commercial aspects of a
proposal separately from the technical aspects).

The methodology to be used in evaluation will have
been agreed and recorded beforehand. It is not
appropriate to change or redefine the evaluation
criteria during the process.

Invitations to Tender should be issued to all potential
bidders at the same time. It may be appropriate to
notify bidders to expect the package. Any revisions or
alterations must similarly be issued to all bidders
simultaneously.

Where bidders request clarification, site visits and so
on, care must be taken to ensure that information thus
forthcoming is made available to all bidders.

As bids are returned, they should be logged, using the
identifier on the reply label, and stored unopened, in a
secure location. Any modified or supplementary bids
must be similarly logged, and related to the original bid.

Shortly before the closing date for bids, it may be
appropriate to draw the approaching deadline to the
attention of those companies whose bids have not yet
been received.

One or more potential bidders may request an
extension to the timescale allowed for the return of
tenders. If there appear to be good reasons to allow
this, all recipients of the Invitation to Tender must be
invited to take advantage of the new closing date. The
organisation itself may need to extend the deadline, if,
for example, postal services have been disrupted.
Again, all bidders must be given an equal opportunity
to take advantage of the new date, including the
submission of a revised tender, if response has already
been made.

Other than as given above, tenders received after the
closing date should not be considered, unless it is clear
from the postmark or other evidence that they were
despatched sufficiently early to have had a reasonable
expectation of arriving on time. Otherwise, late tenders
should be returned, unopened.

On the appointed day, all bids should be opened in the
presence of witnesses. A check should be made that
the bidders have enclosed all the required
documentation, and that there are no obvious gross
errors of arithmetic. If documents are missing or errors
are apparent, the bidder should immediately be invited
to remedy the situation.

Tenders should then be evaluated in accordance with
the previously agreed criteria. For simple procurements,
for example of standard products, evaluation may
consist purely of verifying that the proposals meet the
technical specification, and then determining which
proposal offers the best price, (noting that it should
have been determined in advance whether ‘best price’
means lowest purchase cost, or lowest total cost over
the life of the contract or of the goods, as appropriate -
that is, whole-life costing).
In general, though, one would expect most of such purchasing to have been delegated against framework or call-off contracts, or against the catalogue of a preferred supplier. For most procurements the evaluation processes will be more complex. There will generally be a series of trade-offs to be weighed. Technically, proposals will differ in their strengths and weaknesses - it may indeed be that no proposal is fully compliant with all aspects of the specification. Commercially too, proposals will vary (higher purchase price against lower maintenance costs, for example).

Evaluation can be by use of a weighted scorecard, or by ranking criteria in order of importance, or attractiveness. Examples of weighted scorecards may be found on the CIPS website, www.cips.org

It may be necessary to carry out various forms of cost and risk analysis. These will generally take time and it is important that such time has been built into the process at the planning stage. The results of such analyses may feed into the agenda for Post Tender Negotiation, or may suggest the need to redefine the specification and re-open bidding.

As stated, for most procurement exercises, the economic advantage should be calculated on a total cost of acquisition or whole-life cost basis. Pre-acquisition costs (such as the cost of market testing and of the tender process itself), will already have been weighed up when selecting the appropriate procedure. Costs that should be ascertainable from the bids (if the right questions have been asked) would typically include:

- Acquisition costs such as
- purchase price
- delivery charges
- insurance, taxes, tariffs
- installation/commissioning/associated works
- training and support
- internal costs of changing from current supplier

Other operating costs may well be:

- labour
- materials
- consumables
- energy
- contract/supplier management
- environmental costs
- other costs of change

Other maintenance costs:

- specialist labour, tooling
- cost of spares
- costs of planned maintenance/downtime
- expected reliability profile (with age)
- cost of service/maintenance contracts
- extent of warranties and so on against the above
- other downtime costs

End of life costs may contain but not be limited to:

- decommissioning
- disposal
- reinstatement of land/buildings and so on
- likely residual value, if any

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- The Charter Institute of Purchasing & Supply®
- Purchasing Policy and Procedures
- Pre-contract activities

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JUL 07
Naturally Whole-life Costing must also assess relative benefits of proposals in terms of for example greater production rates. The above analysis would apply typically to capital and production goods and can often be suitably adapted to evaluate services. For direct goods, acquisition costs are likely to be preponderant but estimates may also usefully be made of factors such as predicted in-service failure rates, consequent warranty costs and any supplier provision against these, impact on market shares and margins (such as in the choice between branded and generic goods or components) and end of life costs under producer liability.

In all cases allowance may be made for intangible benefits (social, environmental and so on) in line with the Policy. A firm and reasonable methodology for attributing value here must have been worked out in advance - such factors should not normally be used as a 'tie-breaker'.

In some tender exercises, there may be no suitable or compliant bid. In this instance the purchasing and user departments must decide whether

- to commence a new tendering exercise using the existing requirement, with different vendor companies
- to vary the requirement and initiate a new tendering exercise
- to vary the requirement, and negotiate with the present bidders to achieve a satisfactory solution
- abandon the exercise.

Where it appears appropriate to entertain one or more non-compliant or variant bids, it must be ascertained at this stage that such variance still satisfies the original purposes of the requisition. If this is not the case, the exercise should be abandoned, a new specification drawn up in the light of what is now known of market availability, and the procurement process restarted. Note that this applies even if the variant tender appears likely to be cheaper than the estimate for the original requirement.

Post-tender Negotiation
PTN is a controversial subject and needs to be handled with care. Very often, negotiation with the 'best', or the two or three 'best' bidders can lead to substantial improvements in terms and conditions, warranties, payment terms, price and so on. The process must be kept under firm control however - as in any negotiation, PTN opens the opportunity for the supplier also to improve his position.

What is not permissible is for PTN to involve any fundamental redefinition of the requirement: for example, a radical change in specification, or a suggestion to lease rather than purchase. If such does arise, all suppliers must have the opportunity to review their proposals.

There can on occasions be two or three bids that appear to be of approximately equal merit. In this case post-tender negotiation may be used to differentiate the bids and achieve the best result. The purchasing and user departments together must

- decide on the objectives (for example lower price, better specification, extended warranty)
- determine who is to lead the negotiation, and the composition of the team
- establish a timescale within which negotiations need to be completed

It is essential that negotiations should be planned in advance. The negotiator (or team of negotiators as appropriate - in this case it must be made clear who is 'leading') must have a clear idea of their objectives, and of what outcomes are or are not acceptable; equally they must be clear as to what areas are not open to renegotiation. Strategies for negotiation, and possible counter-proposals that could be available, should likewise be clear in advance of any talks.
All stages of the negotiation should be recorded as they occur; and any and all agreements reached be approved in writing by both sides. An agenda for the negotiation should be drawn up, based on the objectives as determined above, and agreed with the potential supplier(s). All negotiation must take place within this formal context.

Clarification of tenders may need to be sought (and it may emerge that this is because of a lack of clarity in the original ITT documentation). It is essential that any clarification or additional information provided to one bidder is provided to all and that all have an opportunity to revise their bids in the light thereof. This is especially so where one or more abnormally low, or abnormally high, bids have been received, as this may reflect some fundamental misunderstanding of the requirement. In some circumstances this may require an extension of the timetable.

Information provided by bidders remains confidential. It is not acceptable to pass detail of one bid to another supplier in order to attempt to set up a form of auction process. Nor is it ethical to pass on the novel ideas or solutions of one supplier to a competing bidder.

However, it may be appropriate to secure ‘Best and Final Offers’ by circulating to all suppliers (or all compliant suppliers) anonymous details of costs and prices obtained, inviting their BF O. The same result can be achieved, again with anonymity, using an e-auction, using the reverse auction procedure where suppliers are invited to reduce their prices, until either an acceptable price is achieved, or no further reductions are offered. If either of these procedures is contemplated, suppliers should have been informed of the possibility at the ITT stage, and the process time factored into the plan.

### 6.7 Creating the contract/relationship

A formal contract document is not always necessary. If the documentation around the successful bid contains all the necessary information, a letter of acceptance accompanied by a purchase order will suffice. However, this only applies where the tender documentation makes explicit that the bidder, by offering, is accepting the Form of Contract, Terms & Conditions that we have proposed in the ITT.

Otherwise, the contract with its terms and conditions will be drawn up in light of the ITT, the content of the successful bid, and the results of any post-tender negotiation.

Writing contracts ‘from scratch’ should be avoided wherever possible. If it is necessary, the procedure is to commence with a ‘Heads of Agreement’ signed by both parties, and work from there (but see Letters of Intent, below). As far as is possible, a limited range of well-understood and appropriate standard Forms of Contract should be employed. (Model Forms for a variety of purposes are published by CIPS, and by other bodies). Variations to the standard forms should be kept to the minimum, and appropriate legal advice sought. Variant clauses should be isolated within the contract (so that in case of dispute, a court may strike that clause out without rendering the entire contract void). Caution should be exercised where use of a ‘Model Form’ promulgated by a trade body (as opposed to an independent institution) is proposed; however, it may be preferable to accept such terms rather than to attempt to negotiate extensive variations, which can easily create a legal nightmare.

Wherever possible, CIPS’ own Terms and Conditions should be utilised, although this may not be realistically achievable, especially in the purchase of standard goods and commodities.
Often, a draft form of contract, with Ts and Cs, will have formed part of the ITT, in which case, and subject to any amendments negotiated post-tender, this should merely require signature; although supplementary parts of the agreement, such as delivery schedules and Service Level Agreements, may also need to be negotiated and incorporated.

Before a contract is finally signed, Purchasing must verify that the proper financial authorisations are still in place.

**Contract checklist**
The content of the contract will naturally vary according to the nature of the procurement - contracts for services, and contracts in the construction/civil engineering field in particular, contain aspects that are inapplicable to the usual contracts for the supply of goods.

A contract for the supply of goods might cover the following areas. Some may have little relevance in a particular situation, but all should be considered. Note that the detail of for example quantities, deliveries and so on will typically be given as a schedule to the contract, or in a Purchase Order subordinate to the contract. Clear distinction must be made between the merely indicative, such as schedules showing expected order or delivery quantities and dates, and those that form a contractual obligation. (For further advice on core clauses, refer to CIPS core clauses at www.cips.org)

- Definitions
- Quality and fitness for purpose
- Delivery dates
- Passing of property and risk to buyers
- Terms of payment
- Loss or damage in transit
- Acceptance
- Variations
- Intellectual property rights
- Force majeure
- Assignment and sub-letting
- Copies of sub-orders
- Progress and inspection
- Buyer's rights in specifications, plans and so on
- Free-issue materials
- Hazardous goods
- Packaging (return of)
- Warranty
- Insolvency and bankruptcy
- General conditions
- Applicable law
- Notices
- Waiver
- Severance

There are many other clauses and sections, which may be desirable in specific instances; for example provision for dispute resolution or arbitration (compulsory in Construction contracts).

A Liquidated Damages clause may be considered (note: NOT a penalty clause). The sums included here must be a reasonable reflection of real financial damage likely to be caused by any supplier default, and records of the method of calculation should be retained.

As stated, these Forms of Contract should be changed and varied as little as possible - operational detail should be concentrated in the relevant schedules and Purchase Orders where, although they are part of the contract, they do not risk creating legal ambiguities.
Letters of Intent

If the process of drafting and agreeing the contract is likely to extend for any period of time, there may be pressure from the supplier for a Letter of Intent to be issued. This should be resisted where possible, as it can often be interpreted as an offer by the buyer, which the supplier is entitled to take as legally binding. There is always a risk that relationships may break down, or circumstances unexpectedly change, while the contract is being drafted; additionally, a supplier already holding a Letter of Intent may have less motivation to negotiate constructively on outstanding issues.

A ‘letter of comfort’, if properly drafted, does not constitute a contract, and may be necessary if, for example, it is necessary to ask the supplier to extend the validity of the offer, or to encourage him to retain capacity against the probable award of the contract. Such a letter must clearly state that it does NOT constitute acceptance of the supplier’s offer.

In some cases it is desirable that the putative supplier should commence operations before the contract is signed. This might be the case where tooling needs to be manufactured, where long-lead materials have to be sourced, or in the case of construction works, where design work towards securing planning permission is required (and quite possibly signing the contract is contingent on such permission being granted). In such instances, rather than a letter of intent, a separate contract, expressly limited to those works or activities, should be created. Such a contract should be expressly limited both by time and by value.

A full explanation of the issues surrounding Letters of Intent may be found on the CIPS web-site.

Debriefing unsuccessful bidders

Unsuccessful suppliers should be informed as soon as possible. It may be appropriate to offer a de-briefing on the reasons for their failure (especially if the supplier base is tight and greater competition is sought for the future). But such a de-brief must be careful not to disclose confidential details of competing bids, including price - (although in public sector procurement winning bids and prices are required to be published).

Records

All records of post-tender negotiations and negotiations on contract terms and conditions must be retained.

6.8 Service Level Agreements

In many procurements, most obviously those for the provision of services, but also in for example those for the provision of goods over an extended period where delivery performance is of the essence, or of machinery and so on where the supplier retains contractual responsibility for maintenance or has offered guarantees as to ‘up-time’, a Service Level Agreement (SLA) may form part of the contract.

In some cases, the SLA may effectively be the contract; however, since service level requirements tend to vary over time, it is recommended that a simple framework contract be agreed, to which the SLA may form an appendix or schedule, the main contract then identifying the mechanism whereby the SLA may be periodically renegotiated as appropriate without voiding the principal contract. The main contract would also lay down the remedies and consequences for failure to perform to the terms of the SLA.
Purchasing Policy and Procedures

Pre-contract activities

The content of an SLA will naturally vary widely, depending on the nature of the service to be provided. Almost all SLAs will be concerned with the timeliness and the quality of service delivery. More generally, an SLA will address the following:

- It will lay down outcomes that can be expected to meet the requirements and expectations of the service users.
- It will establish measurable, verifiable performance targets for the supplier or contractor.
- There may also be performance targets that the procuring organisation binds itself to meet (for example, a distribution contractor may commit itself to producing a lorry at a given location within a certain timeslot; the purchasing party may also require itself to have the load, and any necessary labour, available at that time).
- The SLA will lay down suitable mechanisms for reporting, especially of non-compliant incidents, in both directions, to agreed timescales and in agreed formats. These may range as appropriate from simple incident logs to sophisticated multi-factorial metrics or Key Performance Indicators. Care should be taken to ensure that such metrics are both verifiable in terms of their components, and independent (in the mathematical sense).
- The SLA will provide a framework for escalation (that is, for raising an actual or perceived problem to an appropriate level at which it can be dealt with), for analysing root causes, and for resolving difficulties.

Where the nature of the service lends itself to sensible statistical analysis, the SLA may prescribe methods for generating ‘early warning’ of potential service level slippage.

The SLA may also describe methods for devising and implementing ‘continuous improvement’ of the activity.

Either in the SLA, or in the main governing contract, mechanisms will be specified for allocating the financial consequences both of underperformance (failure to meet the Service Level requirement) by either or both parties, and of improved or exceeded performance.

Typically, the SLA will need to be updated periodically, within the life of the main contract, to reflect changing circumstances, improved operating procedures and so on. A formal ‘change control’ regime will be specified, which should ensure that the relevant stakeholders involved in the original procurement continue to be represented. Note that continuous refinement of the SLA is not a proxy for reviewing and re-tendering the contract at the end of the contract period. Note also that it should be made clear that, in the event of a misalignment emerging between the SLA as developed, and the core contract, the latter takes precedence.

Reporting under the terms of an SLA not infrequently requires the supplier/contractor (or indeed the procuring organisation) to comment on the performance of relevant third parties. Suitable undertakings as to confidentiality of such information need to be in place.

Note: In some cases, specifically in regulated activities such as some financial services, it may be necessary or prudent to require reporting of incidents that are not directly the subject of the given contract - for example issues with regulators on contracts that the supplier may hold with other customers.
7. Post-contract activities

Once the decision to award a contract has been made, the following actions become necessary:

• Award the contract to the successful bidder
• Notify and as necessary debrief unsuccessful bidders (having regard, for example, to maintain as eager and competitive market as possible against future requirements)

For regulated public sector contracts there is the requirement to publish a contract award notice in legal form. Even where this is not required it may be deemed desirable, in terms of PR for both procurer and supplier, to make an announcement.

Contingency plans should be checked - even at this stage there is the possibility that the contract may not be accepted, or if it is, that unforeseen circumstances intervene to prevent successful implementation.

Check the plans and responsibilities for managing the contract during and after implementation, and establish, if it does not already exist, the contract management function.

Communication

Award of contract needs to be communicated swiftly to those concerned, particularly end-users, and in some cases stakeholders such as customers. Procurement contracts let under the EU public sector rules also, of course, have to be announced in the 'Official Journal'.

On award, the Finance Department must immediately have confirmed to it the amounts and timings of the liabilities that have been entered into. Care must be taken to distinguish between sums that we are currently committed to pay, and merely contingent benefits that may have been used in the evaluation - for example, proceeds from sale of replaced equipment, or rebates and discounts that depend on certain volumes being achieved.

The successful bidder may wish to inform the press. Any rules governing what publicity is acceptable should be agreed before the contract is signed (and indeed may have formed a useful negotiating tool). Approval of such publicity will normally be through the Press Relations department (where such exists) or the Marketing department, who will check the facts of the case with the Purchasing department. Publicity will normally be permitted, but care will be taken not to appear to endorse a product, service or company, unless this is specifically intended and approved.

The purchasing procedure does not end with the Award of Contract - indeed responsibilities may continue right to the ultimate ‘end of life’ disposal of goods and assets, whether or not they are still in our ownership.

The nature of post-contract activities differs, however, according to whether the purchase is discrete (such as, purchase of a single quantity of goods, performance of a single time-limited service) or ongoing - contracts extended over time, for example construction, and/or where an ongoing relationship is expected to exist with the supplier or contractor.

7.1 Product receipt and payment authorisation

In the former case, arrangements must be made (and should have been agreed in the procurement plan) for the acceptance or otherwise of the goods and services, for verifying that they conform with specifications, service level agreements and so on, for raising and resolving any disputes as to, for example, quality, quantity, late delivery, and as these are resolved, to authorise payment.

Where there is a problem in making payment within the due date (for example, because of a data mismatch) the Purchasing department should be advised promptly.
7.2 Contract/relationship/project management
Procurement responsibility does not end with the award of contract. It is necessary to ensure the following:

- Controls are in place for monitoring progress in the implementation of the contract
- As appropriate, methods of carrying out acceptance testing, on-site trials and so on, and of confirming that the results of such tests are likely to meet the requirements or expectations of the requisitioners/users
- As appropriate, establish ‘readiness for service’ and/or timescales for roll-out across the organisation. Systems should be in place to ensure that end-users are prepared, for example, in terms of training but also in terms of their continuing assessment of performance against the terms of an SLA. Where new, the new procurement is a replacement for old (such as machinery or systems) the timescale and procedure for ‘switch-over’ and for stripping out redundant items, must be confirmed. Note that often this timing will be dependent on wider business issues, not merely on the readiness of the new procurement. A retailer, for example, will not normally plan a changeover for the weeks immediately before Christmas.

For on-going contracts such as development work, construction, some marketing and consultancy activities, a project team will oversee progress and verify that milestones or other objectives (especially those which may trigger payments) are achieved. This team will probably not be identical to the procurement project team but it is important to ensure that a formal link and channel of communication is maintained between the project progress team and those who were involved in the original procurement. (In many complex projects at least part of this oversight role may be outsourced to a specialist consultant or engineer; nonetheless the link with the original procurement must be maintained). Procedures, responsibilities and lines of authority for any change management processes must be clearly established, and fully documented.

In most cases, though, the supplier or contractor will be performing services or supplying goods over a number of years, typically to a Purchase Order drawn on a framework contract, and their performance remains the concern of the Purchasing department. Purchasing (for key strategic suppliers it is recommended that a nominated individual should be, in effect, the Account Manager) will monitor progress of the contract by:

- Obtaining feedback from users that may include quality and delivery performance, performance in service, warranty performance in goods sold on. In contracts with a service element it may include progress towards the achievement, or surpassing of specified goals, innovations, and so on.

Where price variance is allowed for in the contract, the application of agreed formulae will be closely monitored feedback should also be sought from suppliers as to difficulties encountered, mistakes or errors caused by this organisation, payment problems and so on.
Purchasing will feed such information into its systems for supplier performance rating, which will inform future supplier valuation exercises.

Purchasing will also work with suppliers as far as possible, not only to remove difficulties and errors, but to create a climate of continual improvement in products, services and processes on both sides of the relationship. Since it is scarcely practical to work with all suppliers in this manner, the selection of suppliers with whom to seek a deeper relationship will be informed by the ongoing strategic sourcing analysis (Section 4 above), and not according to which suppliers create the most problems or noise.

The aim should be to retain suppliers wherever possible. Changing or dismissing a supplier, especially part way through a contract, is disruptive, wasteful of previous effort and potentially expensive. Where suppliers are consistently underperforming or giving cause for concern (for example, by conflicting with the ethical or other policies of the organisation) they will be notified in writing, and given adequate opportunity to explain the difficulty and/or to remedy the problem and this process must be fully documented. Should it be necessary to terminate a contract, legal advice on the modalities should be sought.

The early termination of a contract, or the failure of a supplier to win a contract extension, does not necessarily imply their removal from lists of pre-qualified suppliers, even though they have ceased to be a preferred supplier in a particular category. Companies may be removed from the list of prequalified suppliers for one or more of the following reasons (which are not necessarily adequate reason for terminating an existing contract):

- Cessation of trade, or withdrawal from the relevant market sector
- Misuse of the organisation's commercially confidential information; or the supplier entering into a contract with a competitor, where it appears that an unacceptable risk of the leakage of our information exists
- Evidence of financial instability that could give rise to unacceptable risk
- Unfair, unethical or illegal trading practices (including bribery, corruption, participation in price or market fixing activities; violation of fiscal, health and safety, employment or environmental laws)
- Failure to fulfil previous contracts to this organisation's satisfaction
- Repeated failure to respond to our invitations to tender.

Note: Suppliers who are removed from pre-qualification lists should also be informed of the reasons in writing, and given the opportunity to make representations.

Asset Management and disposal

Maintenance
Provision for maintenance, repair and provision of spares for capital and other assets, may have been negotiated in the original procurement, and will need monitoring, as with other contracts. In other instances, separate or ad-hoc arrangements may apply. In either case Purchasing has a responsibility to determine levels of expenditure incurred on assets, to assist in determining the economic life of the asset. Purchasing will also have a mind to any predictions, guarantees or warranties, and estimates of whole life cost that may have featured in the original procurement (including, for example, promises as to the continuing availability of spares) and take appropriate action.
Purchasing Policy and Procedures
Post-contract activities

Before purchasing spare parts or maintenance services for any products, plant or equipment the Purchasing department should review the following points:

- Is the equipment, or the relevant part thereof, still covered by warranty from the manufacturer or a previous service contractor?
- Were spare parts contracted for or provided under the original contract? (In other words, do you already possess spare part that have been forgotten about?)
- Does the fitting of parts from, or the maintenance of the equipment by, a supplier other than the original equipment manufacturer (OEM) invalidate any warranties or otherwise adversely affect our rights.
- Does the purchase of parts from other than the OEM expose the organisation to the risk of counterfeit or substandard products?
- Is it possible to procure spares at parts level from the component manufacturer, rather than at assembly level from the OEM? [Note: where replacement parts are likely to be an issue, it is advisable to establish a right to the necessary information in the original contract.]

Maintenance contracts
The Purchasing department should establish a policy on maintenance contracts. In particular, a judgement should be made on whether it is preferable to contract for maintenance and service through the OEM, or their agent, for each piece of equipment, or whether greater economy and better service can be obtained from using an independent contractor under one maintenance contract for equipment from different manufacturers.

If an independent contractor is appointed, the contract terms should define the circumstances, if any, under which the fitting of non-OEM parts is acceptable.

The Purchasing Department, in conjunction with user departments, should also determine a policy on the use of Preventative or Planned Maintenance strategies, having regard to the extra costs, as against the reduced risk of lost productive time.

Qualitatively similar considerations arise in, for example, IT-based contracts, where the consequences of third parties maintaining, servicing, modifying or adding to hardware or software systems, need to be considered.

Disposals and recycling
The Purchasing Department may also be responsible for the disposal of wastes, scrap, obsolete or redundant equipment, where such material may retain residual value, or where the costs of disposal may be significant. The normal range of procurement procedures applies, with the addition of the auction option (public or trade). This latter will normally be organised by a professional auctioneer contracted for the purpose.

Authorisation levels for disposals are the same as for acquisitions, based on the material's residual book value.

The Purchasing Department will be responsible for arranging the safe storage of all materials for disposal, having due regard to the requirements of COSHH (Control of Substances Hazardous to Health) and other Health and Safety regulations. In addition to the normal requirements, all firms tendering for the disposal of scrap and waste materials shall be required to demonstrate that they hold any necessary licences or permits, and to furnish on demand adequate proofs that materials have been disposed of to a site, or via a route appropriate under law for the material type, and in the case of landfill disposal that taxes incurred have been duly paid.
Where machinery, equipment or materials are being disposed of for possible re-use, the Purchasing Department will take reasonable steps to ensure that such goods are in a safe condition (in particular, safe to transport), but will insert appropriate clauses in any contract of sale repudiating liability for any defect in such goods. Procedures will ensure that all forms of data (whether in redundant filing cabinets or IT equipment) are effectively expunged before disposal.

The Purchasing Department will make arrangements for the safe aggregation and legal disposal (through suitably qualified or licensed contractors) of all wastes. Contracts with waste disposal contractors should include a right to see documentary proof of the disposal route used for wastes and of the payment of landfill and other taxes.

The Purchasing Department will work with Production and Sales Departments, customers and suppliers to reduce the organisation's liabilities under the Packaging Waste Regulations by reducing the amount of packaging material involved, and increasing the efficacy of re-use and recycling routes. The Purchasing Department will be responsible for maintaining the legally required records demonstrating the organisation's compliance with the Regulations. Similar procedures will be created for other material flows (such as electrical and electronic equipment, cells and batteries, vehicles) as they become affected by Producer Responsibility regulations.

Routines will be devised for economic but effective stock control and reconciliation, and the identification of redundant, damaged, or life-expired stocks. Purchasing will be responsible for the safe and economic disposal of such stocks.

Stocks properly received and paid for, but subsequently identified as surplus to requirements, should be offered back to the supplier for as good a price as can be negotiated, having regard to age and condition. Unless otherwise provided for in the contract, the supplier cannot be obliged to take such stocks back. In some instances, where demand volatility is expected to be great, it may have been possible to negotiate a 'pay as used' arrangement.

If the supplier is unwilling to take stock back, it may be generally offered for sale, or sold for scrap, as is most economically efficient. (But there may be contractual conditions preventing re-sale; additionally, it may be undesirable to offer certain items, uniforms would be an example, for resale due to security or other considerations). The Marketing Department may advise on the prospects and methods for effective resale.

Purchasing should liaise with the Accounting Department to establish the amount of the write-off involved in the disposal of such stocks, and where in the organisation it should be debited.

Under Producer Responsibility rules, which apply to a widening circle of products and materials, it is necessary for the organisation to account for volumes of particular materials received, and how they were disposed of. Such records should be used as appropriate by Purchasing as input into processes (with suppliers, and perhaps with customers) to reduce volumes of such materials (including packaging) purchased and to increase the level of high-grade re-use/recycling achieved.
7.4 Post contract review
After the completion of all major procurements (or in the case of the failure of a procurement exercise) a formal review should be held involving the procurement team and other stakeholders, and lessons learned should be fully documented, promulgated and recorded. Authority should be sought for the introduction of additional or revised procedures where appropriate.

Throughout these procedures, a variety of feedback loops should have been created. Part of the review should be to ensure that such feedback has been made to the appropriate point in timely fashion, and that the knowledge thus gained is available to be used in subsequent procurements.