



## PROCUREMENT PROCEDURES MANUAL

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## Document Change History

Document Version	Section (No. or Heading)	Description of change(s)	Date of change
<b>5</b>	Coversheet & Footer  Throughout 3.2.2 3.11.3 Throughout Throughout  4.18.7 & 4.20 5.1	Full review – minor amendments and additions: <ul style="list-style-type: none"> <li>• Policy to be reviewed in 5 years rather than annually, subject to any required updates from organisational or regulatory changes. EQUI updated.</li> <li>• Quotation threshold updated from £3k to £5k.</li> <li>• Gateway referenced updated to MyFife</li> <li>• Gateway updated to Teams or OneDrive</li> <li>• Scoring range updated from 0-4 to 0-5</li> <li>• General updates to reflect digital processes as well as manual for receipt of tender and contract award etc.</li> <li>• Recommendation approval and Award updated to SRO rather than Chief Financial Officer.</li> <li>• Brexit impact on OJEU Threshold</li> </ul>	07.06.2022
<b>4</b>	All	Full review – minor amendments and additions: <ul style="list-style-type: none"> <li>• Timescales for procurements revised</li> <li>• Brexit update added</li> <li>• Reference to ESPD changed to SPD and OJEU threshold tendering requirements updated</li> </ul>	11.03.2021
<b>3</b>	All	Full review – minor amendments and additions: <ul style="list-style-type: none"> <li>• Revised EU Procurement tender threshold changing from £181,302 for 2018-20 to £189,330 for 2020-22 (effective from 1 January 2020).</li> <li>• Procurement Flowchart Updated</li> <li>• NCA Flowchart included</li> <li>• NCA Value changed from £25k to £20k and flowchart added</li> <li>• Hyperlinks updated in content</li> <li>• Ch 3: 3.6 – removal of reference to Quotation Return Label</li> <li>• Updated procedure for Hard Copy tenders received and sharing of tenders for evaluation</li> <li>• Ch 4: 4.12 – Questions for bidders guidance</li> </ul>	18.05.2020

2	All	Full review – minor amendments and additions: <ul style="list-style-type: none"> <li>Revised EU Procurement tender threshold changing from £164,176 for 2016-18 to £181,302 for 2018-20 (effective from 1 January 2018).</li> <li>Update to reflect the practical use of the ESPD in the Pre-Qualification (Selection) stage</li> <li>Reference has been added to the need to contact ICT when any new requirement linked to IT Hardware or software is identified.</li> </ul>	18.01.2018
1	N/A	N/A	N/A

## Foreword

These procedures should be read in conjunction with the latest edition of the Fife College Financial Regulations.

The processes in this manual adhere to best practice procurement principles and are compliant with the requirements of the Procurement (Scotland) Regulations 2016, Public Contracts (Scotland) Regulations 2015 and the Procurement Reform Act 2014 following the Scottish Government Procurement Journey.

They are intended for use by Procurement staff and departments alike as a clear framework of requirements for each stage of the procurement process. Many of the template links will be for Procurement use only.

The process flowchart below is a basic flow to identify what process to follow when conducting a procurement exercise; the relevant procedure areas should also be read in conjunction with the flowchart.

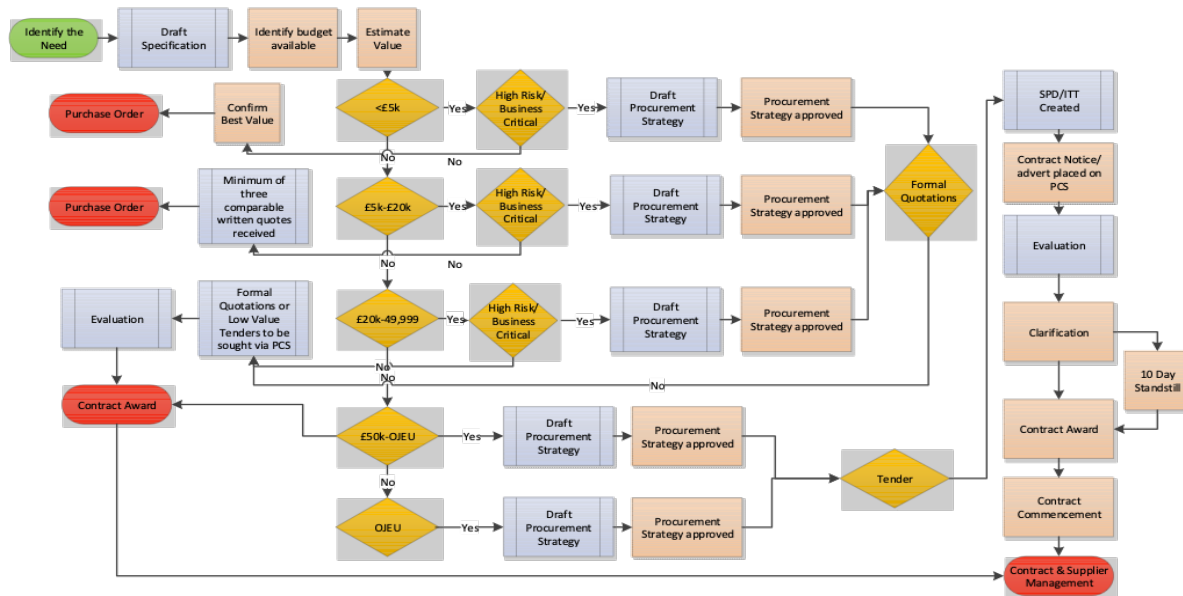
## Brexit Impacts

The Procurement Reform (Scotland) Act 2014 reflects the key principles of EU Procurement legislation in all Scottish public sector purchasing over £50k therefore no immediate change to any procurement processes and procedures detailed in this document are required.

Scottish Ministers will be responsible for reviewing the financial thresholds every two years, in January, however as the UK remains part of the World Trade Organisation's Government Procurement Agreement (GPA), threshold values must remain aligned to the GPA. This means there is no scope to vary threshold values from those of the GPA or OJEU. Values will remain consistent throughout the UK.



# PROCUREMENT PROCESS FLOWCHART



**Author:** Head of Procurement  
**Controlled by:** PA to Principal

**Fife College Validity:** Five Years from Date of Approval

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## AGGREGATE SPEND THRESHOLDS FROM 1 JANUARY 2020

- 1.1 Wherever a compliant contract or framework exists that meets the needs of the requirement, this should **always** be used. Please contact [Procurement](#) to assist you in identifying whether a suitable contract or framework is in place.
- 1.2 Where no contract or framework exists, a new procurement is required and the route to follow will be dependent on the anticipated contract (or order) value.
- 1.3 Contract value is based on the aggregate value over **full contract duration**, inclusive of any available extensions.

All limits are **EXCLUSIVE** of VAT

Contract Value	Processes	Evidence Required	By Whom	Approved by	Est. Time
Less than £5,000	Single Quotation	No formal competition required, but <b>you</b> must provide written evidence that best value for money has been achieved – A Google search may verify best price/delivery.	You	Your Manager	1-3 Days
£5,000 to £19,999	3 Written Quotations or Low Value Tender	At least 3 comparable quotes (Preferably obtained via PCS <sup>1</sup> 'Quick Quote'). Written evidence of quotes must be attached to the order with a <a href="#">Quotation Summary Form</a> .	You & Procurement	Your Manager and/or Director of Finance	2-4 weeks
£20,000 to £49,999	Low Value Tender	Tenders obtained using PCS "Quick Quote" or tender opportunity advertised via PCS <sup>1</sup> .	You & Procurement	Vice Principal (or above)	4-8 weeks
£50,000 to current relevant EU threshold (£177,897)	Formal Tender	Tender opportunity advertised via PCS <sup>1</sup> .	You & Procurement	Vice Principal (or above)	2-4 months (dependent on complexity)
Current relevant EU threshold and over (£177,897)	Formal Tender	Tender opportunity advertised in OJEU <sup>2</sup>	You & Procurement	Fife College Board (or Principal)	3-6 months (dependent on complexity)

## **CHAPTER 1:     DEFINING AND APPROVING THE BUSINESS NEED**

### **1.     DEFINING THE BUSINESS NEED**

#### **1.1     Importance of a Clearly Defined Need**

Defining the business need is a critical stage of procurement, particularly when requirements are complex. An ill-considered, vague or misleading statement of requirements can be very costly to correct at a later stage or, worse, may provide end users with an unsatisfactory product or service.

#### **1.2     How to Define the Need**

Defining the business need is the first step in the procurement process. A [specification](#) will be necessary to describe requirements and the standards to which the product or service should perform. Those determining the business need must have a thorough grasp of the requirements and take sufficient time to get the definition right.

#### **1.3     Best Value for Money (VFM)**

1.3.1 When defining the business need, it is important that best Value for Money (VFM) is always considered. This may mean that purchasing is not necessarily the best, or only, option. Prior to requisitioning a purchase, alternative solutions to the need should be considered. These may include:

- Use of refurbished or surplus items.
- Lease or hire of equipment.
- Use of in-house expertise.
- Alternative methods of providing the service.

1.3.2 The business need should always be carefully considered, in some instances there may not be a justifiable requirement. It is also essential to differentiate between needs and wants if VFM is to be achieved. It may be, for example, that a department wants to specify a particularly high standard simply because funds are available to support such a move, whereas the real business need could be satisfied by something less extravagant and expensive.

## 2. SPECIFICATIONS

### 2.1 What is a Specification?

- 2.1.1 A specification is part of the [Invitation to Tender documentation](#) issued to suppliers. It is a description of requirements and the standards to which the product or service should conform. It is a vital document in the tender process as the supplier's performance will be measured against it. Any product or service must be described in such a way that the tenderer can respond fully, but also be innovative and develop new techniques and, where possible, identify where there is opportunity for Value For Money (VFM) improvements.
- 2.1.2 The specification should **not** include information that belongs in the Conditions of Contract. This will avoid potential conflicts between the information contained in the specification and the [Conditions of Contract](#).

### 2.2 Roles and Responsibilities

- 2.2.1 The [Procurement Strategy](#) will set out the roles and responsibilities for each stage of the procurement process and must be agreed in writing with the Project Manager. General roles and responsibilities in relation to the production of specifications are detailed below.
- 2.2.2 The **Project Manager** (generally within the user department) has overall responsibility for the project and for ensuring that the specification is produced in accordance with the guidance in this section. They will collaborate closely with the Purchaser in the early stages of the specification development process. Whilst the Purchaser will assist, advise and guide, it is the Project Manager's responsibility to ensure the specification fully and accurately describes the requirements.
- 2.2.3 The **Purchaser** is the person responsible for providing advice and guidance to the Project Manager, in the early stages of the specification development, to allow them to produce the specification, questioning and challenging the requirements wherever necessary. Purchasers may have knowledge of similar requirements procured elsewhere or information from market research which will be beneficial to consider.
- 2.2.4 The **Purchaser** is also responsible for quality assuring and clarifying any ambiguities when the final draft of the specification is received, to reduce the risk of misinterpretation by suppliers. This will help to ensure that best value is achieved and that the specification fully meets the needs of the Customer. It will also assist in ensuring that specifications:
- are non-discriminatory (e.g. do not discriminate on geographical grounds, or specify standards (e.g. UK standards) that EU suppliers may not be able to meet)
  - make reference to European standards wherever they exist (and "or equivalent" where this is not possible)
  - do not contain commercially sensitive information (e.g. budget information or confidential information about current contractual arrangements)

- are written in such a way that will encourage meaningful and competitive bids (e.g. do not specify branded items that may reduce or eliminate competition, or specify unnecessary product or service performance criteria which would limit competition).

## 2.3 Specification Development Process

- 2.3.1 An initial meeting or meetings should be held between the Purchaser and the Project Owner and any technical experts or stakeholders to agree the scope of the requirements.
- 2.3.2 The [Specification Layout Template](#) should be used as a guide to assist the development of the requirements and identify any gaps in knowledge in order that further research can be carried out by the Project Manager and/or the Purchaser in relation to fully establishing the requirements and researching the marketplace.
- 2.3.3 It is important to identify the full requirements including any known future requirements with the aim of ensuring all eventualities are covered. Consideration must also be given to how the [Contractor Performance](#) will be managed and details included in the specification.
- 2.3.4 While previous similar or related specifications can be reviewed to assist in the development of specifications 'cut and pasting' should be avoided wherever possible as this could lead to inappropriate, or outdated, requirements being specified.
- 2.3.5 Following receipt of the specification the Purchaser will compile questions for tenderers to be agreed with the Project Manager. The draft questions will be passed to the Project Manager for comment/approval to ensure that all necessary information is requested from tenderers. Further detail on questions for tenderers can be found in [\(Requirements Over £50,000, Not Exceeding EU Procurement Directives Threshold\)](#).

## 2.4 Types of Specifications

- 2.4.1 **Performance Specifications:** In order to obtain the most cost effective solution from tenderers, specifications should be written in "output" terms. This means that the specification should focus on the functionality of the product, or performance of the service, by describing what is to be achieved rather than stating exactly how the service is to be delivered or the goods provided. This allows suppliers scope to propose innovative solutions that we might not have considered or been aware of.
- 2.4.2 Consideration should be given as to what is required in terms of output (what should be achieved) rather than technical terms (a description of how it should be done) where possible. For example:-
- Pest Control Services – the specification should be for the premises to be free from defined pests rather than specify that netting or grills must be used. Ask the tenderer to provide the solution (there may be other, better ways to control pests).



- Cleaning Services – the specification should be that we require clean windows rather than the windows must be cleaned once per week using liquid soap (as the supplier may have followed the specification but the windows are still not clean). Again this allows the supplier to propose a solution which could fulfil our requirements and offer added benefits e.g. the use of deionised water to clean windows. It is also easier for us to challenge the supplier if the windows are not clean.

2.4.3 There may be a need to specify certain technical requirements within the specification e.g. if there is a need to specify sustainability issues e.g. recycled paper or low energy use bulbs. If you need to describe a technical element within the specification it must be referred to in generic terms rather than brand names e.g. liquid soap not Fairy Liquid.

2.4.4 **Design Specifications:** Only in very exceptional circumstances, for a limited number of products or services, a design specification may be unavoidable. A design specification starts with exact details of the physical dimensions, the materials used, power input and output, the manufacturing and production processes required and so on. The nature of the requirement may make it essential to narrow down the options by writing a detailed full design specification. However, the need to produce a design specification should be fully tested and guidance sought from Procurement, particularly when EU Procurement Directives apply, as a design specification may restrict competition.

2.4.5 **Samples & Patterns:** If it is not possible to produce a detailed description of the requirement, samples or patterns may be issued to the tenderers or requested from them. In this case, a "sealed sample" must be kept for later comparison with the products supplied. Samples, patterns and drawings may also form part of a design specification. Any samples that are no longer required should be returned to the tenderer.

2.4.6 Care must be taken that copyright is not breached when using samples, patterns etc. for specification purposes. Consideration needs to be given to the intellectual property rights of the tenderers. Patents and copyright conditions are provided in the [Fife College Conditions of Contract](#).

## 2.5 Specification Contents

2.5.1 The specification must:

- clearly describe what is required to enable the supplier to produce a meaningful tender submission;
- focus squarely on outputs, detailing what is required without being prescriptive as to the methods the supplier should use to meet the requirement thereby allowing suppliers to propose innovative solutions that optimise VFM and performance;
- either identify any optional additions which would add value, or give the suppliers the opportunity to do so, but ask for separate costings;
- be realistic in specifying requirements including limits, tolerances, deliverables and timescales by considering the impact upon the supplier

and costs, and the availability of products which would meet the requirement;

- take account of relevant Environmental, Equality and Health & Safety legislation and requirements;
- take account of the College's IT infrastructure;
- not be written in a way that favours monopolies or single sources of supply or any particular supplier;
- provide performance targets to allow the quality and service provision to be measured against what is contractually required;
- act as a tool for contract monitoring;
- avoid over-specification of performance (more than "Fit for Purpose") to ensure procurement at the optimum cost, for example, insisting upon a 2-hour response time to fix a photocopier when a 24-hour response time would suffice (as another photocopier could be used in the interim);
- be able to form the major part of the formal contract between the Fife College and the contractor. Once the specification has been included as part of the contract it can be changed only by agreement of both parties. Changes to specifications after the contract is agreed can be expensive and must be carried out by a Purchaser.

2.5.2 Simplification and variety reduction techniques can help in reducing costs and in obtaining better [VFM](#). Applying this technique to a specification requires the elimination of complexities in the requirement by omitting different types, sizes, grades etc. of products. At its simplest this might be seen as a reduction in the number of colours in which an item is purchased, or in the sizes of envelopes which are purchased and kept in stock.

2.5.3 In major or unusual procurements there is often merit in discussing the specification with a broad range of potential tenderers, where this is practical. This must be done in a fair manner to avoid distorting competition and/or giving any potential tenderer an advantage. Extreme caution and care must be exercised to avoid not only actual unfairness, but also the impression of unfairness to some tenderers. Under no circumstances must any commitments be made during this process and suppliers should not be put to unnecessary cost through casual enquiries. Procurement should be consulted beforehand to provide advice wherever appropriate.

2.5.4 Further guidance on the layout and contents of a specification can be found in the [Specification Layout Template](#).

## **2.6 Standards**

- 2.6.1 In the context of specifications, a "standard" is a technical specification or other document available to the public. Standards are based on the consolidated results of science, technology and experience, aimed at the promotion of optimum commercial benefits and approved by a body recognised at the national, regional or international level.
- 2.6.2 There is a legal obligation to use European standards where they exist, except in a few specified instances. There are two criteria that must be satisfied before any particular make, source, process, trademark, patent, type etc. may be specified:
- the reference must be justified by the subject matter of the contract; and
  - the subject of the contract cannot otherwise be described in a manner that is sufficiently precise and intelligible to all potential providers.
- 2.6.3 Any such reference must be qualified by the words "or equivalent". Both the European Commission and the European Court of Justice are extremely strict on the use of such references, even where the words "or equivalent" are used, if both the criteria identified above are not satisfied.
- 2.6.4 Where European standards do not exist, other recognised standards may be specified provided they are followed by the words "or equivalent". Guidance should be sought from Procurement.

## **2.7 Implications of a Poor Specification**

If the specification is wrong, inadequate or unnecessarily prescriptive it may result in:

- unsuitable tenderers submitting bids or suitable tenderers submitting unsatisfactory bids;
- suitable tenderers deciding not to bid;
- tenderers wrongly or variously interpreting the requirement;
- difficulties in evaluating the bids;
- wrong or unsuitable products/services being offered/supplied or services not meeting the actual requirement;
- claims of unfair treatment being made by tenderers; and
- avoidable procurement exercises to cover requirements not included in the specification.

### **3. BUSINESS CASE**

#### **3.1 Responsibility for Preparing the Business Case**

A business case is required to justify the purchase of particular goods and/or services. It is the responsibility of the Project Manager to prepare the business case, involving the Purchaser wherever necessary.

#### **3.2 Issues for Inclusion**

3.2.1 Whilst the business case need not be elaborate, the following issues must be considered and recorded:

- the purpose of the project;
- the benefits (e.g. financial, efficiencies) to be derived and when they are likely to accrue;
- the expected deliverables;
- the expected costs;
- any long-term financial commitment
- potential impact on in-house resources (e.g. staff involvement, maintenance costs etc.);
- confirmation that financial resources are available to meet the estimated cost of the requirement or request for sufficient funds;
- an assessment of the alternatives which have been considered.

3.2.2 The business case should contain sufficient information to demonstrate that the project offers value to Fife College. A sample [business case template](#) is available on MyFife. It should then be passed to the appropriate level of management for approval. In the case of consultancy projects, the business case should be passed to the Chief Financial Officer for approval.

## **4. ESTIMATING THE PROCUREMENT BUDGET**

### **4.1 Reasons for Estimating the Budget**

- 4.1.1 The budget estimate will determine the procurement process to be followed and will assist in deciding where the requirements should be advertised.
- 4.1.2 The budget estimate will influence the timescales required for the procurement, particularly in relation to any requirements likely to be close to or above the EU Public Procurement threshold, where strict timescales and procedures must be adhered to.
- 4.1.3 Estimating the budget in advance will provide a basis for comparing the bids received. For example, bids priced well above or below the budget could indicate that the requirements were ambiguously specified.

### **4.2 Responsibility**

It is the responsibility of the Project Manager to provide an estimate of the procurement budget, involving others as necessary. This may include analysis of spend reports and industry indices or consulting with other institutions that may have let similar contracts. Procurement should also be involved as they may have information about prior purchases or be aware in general about price, markets etc.

### **4.3 Contact with Suppliers**

The Project Manager or Purchaser may contact appropriate organisations to identify likely prices on a strict no-obligation basis. The prices obtained are likely to be higher than subsequent bids, as standard or “list” prices will have been quoted, but the information received should suffice for budgetary purposes. For service requirements it is important to define the type and quantity of each skill level required as this will help to substantiate cost estimates.

### **4.4 Timing**

For most requirements the forthcoming need should have been identified well in advance, so estimation will take place annually when budget bids are being compiled. For unforeseen or reprioritised requirements, an estimate is required immediately the need has been established in order to identify whether sufficient funding exists or whether a request for additional funds is necessary and for the preparation of any associated requisition/business case. Additionally, Procurement must be notified at the outset to enable the procurement process to be timetabled at an early stage.

## **4.5 Contents**

The budget estimate should comprise all costs likely to be paid to the Contractor over the full contract period (including any possible extension periods) e.g. capital costs, implementation, service, management, maintenance, disposal, running costs etc.

## **4.6 Accuracy**

The estimate needs to be as accurate as possible in order to properly monitor and control budgets and to allow the correct procurement approach to be taken. Time taken to provide a meaningful budget estimate at an early stage will aid the procurement process, increase the potential to achieve best value, and probably save time in the long-run. Procurement will challenge budgetary estimates that appear to be unrealistic.

## **4.7 Consequences of Inaccurate Estimates**

- 4.7.1 Depending on the value of the requirement, an inaccurate estimate could result in the wrong procurement process being adopted. If the requirement is over-estimated, the timescale and resources input (for both staff and suppliers) may have been significantly greater than was necessary. However, if there is any doubt as to the accuracy of the estimated budget, it is better to over-estimate the contract value.
- 4.7.2 If the requirement is under-estimated, the procurement process may need to be aborted when bids are received. This will be the case wherever original estimates are below £50,000 (where a minimum of 3 quotations only are required), but bids received significantly exceed that level (which then requires formal tender procedures).
- 4.7.3 Additionally, where original estimates are below the EU Public Procurement Directive threshold, but tenders received breach the current limit, the tender exercise will need to be halted and re-started under the EU Procurement rules.
- 4.7.4 In the event that bids come in well above the budget estimate, the implications for the project could be that insufficient funds are available to allow the contract to be awarded. Alternatively, the higher cost may outweigh any projected benefits the project would deliver.

## CHAPTER 2: PROCUREMENT STRATEGY

### 1. PROCUREMENT STRATEGY

#### 1.1 Purpose of the Procurement Strategy

1.1.1 A Procurement Strategy helps to ensure that each project:

- delivers best value for money in whole life cost terms, optimising efficiency and effectiveness;
- complies with legal obligations;
- follows current procurement policy and procedures.

1.1.2 The Procurement Strategy outlines the processes to be followed, highlighting roles, responsibilities and timescales for completion. It also records in writing the agreement between Procurement and the Project Manager at the outset of a project. The [Strategy template](#) should be completed for all requirements over £50k or for any lower value high risk/complexity requirements.

1.1.3 The time required to carry out the development of the Procurement Strategy and level of detail contained in the Strategy Document will vary according to the complexities, value and associated risks of a project.

#### 1.2 Research

1.2.1 The Purchaser should make arrangements to meet with the Project Manager after conducting any required commodity-specific research as detailed below.

##### 1.2.2 Market Research

A key prerequisite of an effective procurement strategy is detailed knowledge of the relevant commodity market. Factors that need to be considered include:

- Supply Market - e.g. number of suppliers or monopoly;
- level of recent consolidation/ acquisitions;
- level of current supply capacity – under or over capacity?;
- key players in the market;
- level of and trends in market prices.
- Supported Businesses, SME's, 3<sup>rd</sup> Sector

##### 1.2.3 Resources

From the approved business case or from discussing with the Project Manager, the Purchaser should consider the following factors:

- Has the budget been approved and is it in place? Is it an accurate estimate of the expected costs and does it allow for all costs associated with the purchase (i.e. licences, maintenance, and training) and include all possible future requirements/extensions?

- Is there a genuine business need? Have alternative options to outright purchase, such as hire and leasing been investigated?
- Can the requirement be sourced from an existing contract?
- Is there a suitable Framework available?
- Does the department have sufficient staff resources available to commit to the project?

#### 1.2.4 Procurement Route

The Purchaser should thoroughly research all available procurement routes and give consideration as to whether it may be possible and effective to take advantage of economies of scale by working in collaboration with other public bodies. It also may be possible to “reserve” the contract opportunity for Supported Businesses only.

#### 1.2.5 Contract Period

The Purchaser should make an assessment of the optimum contract period, taking into account factors such as:

- type and value of goods or services to be purchased;
- resources (time, cost & staff) required for the procurement process;
- EU Procurement Regulations;
- duration required to meet the specified output;
- value for money criteria (duration v cost);
- contractor (and Fife College) learning curve;
- Payback period (investment or tender costs).

#### 1.2.6 Previous Experience

1.2.6.1 In the case of a contract re-let, the Purchaser should review documentation pertaining to the earlier procurement process, such as:

- a) [Procurement Strategy Document](#) – although it is important not to replicate what was done previously without considering developments in the intervening period, this may be helpful in providing a benchmark against which to assess the new Strategy development process;
- b) [Project Review](#) – lessons learned and recommendations specific to the requirement should be considered;
- c) Existing Contractor Performance Management information - this will indicate where improvements have been made that might affect the specification, and identify what has or has not worked in the past.

1.2.6.2 The Purchaser should also discuss the requirement with other purchasers and organisations that may have had experience of delivering similar projects.

1.2.6.3 Suppliers can be excluded from participation in the tender exercise where they have previously had a contract terminated by another contracting authority on grounds of poor performance.



## 1.3 Initial Meeting with Project Manager

### 1.3.1 General

- 1.3.1.1 The initial meeting with the Project Manager will generally be an exchange of knowledge and an information-gathering exercise to complete the [Strategy template](#). The Purchaser should outline the purpose of the meeting and provide an overview of the Procurement Strategy development process.
- 1.3.1.2 The Purchaser should explain that development of the Strategy should be very much a two-way process, with the document to be developed in partnership with the department.
- 1.3.1.3 The purchaser should explain the non-negotiable elements of the process, i.e. value for money based on whole life costs, fair and equitable treatment, process transparency and compliance with legislation.
- 1.3.1.4 It is essential to differentiate between needs and wants if [VFM](#) is to be achieved, and purchasers have a legitimate role in challenging the perceived need.

### 1.3.2 Objective Setting

- 1.3.2.1 The Purchaser and Project Manager should discuss and agree the specific aims and objectives of the procurement project, addressing both primary and secondary objectives. These should be objective and measurable wherever possible.
- 1.3.2.2 Where there are competing objectives (e.g. cost, quality and programme), it is important to clearly prioritise these as early as possible in the process.
- 1.3.3.3 For high value/complexity projects, the Purchaser should discuss any critical success factors with the customer. I.e. what is required to ensure objectives can be met?

### 1.3.4 Procurement Route Selection & Programme Formulation

- 1.3.4.1 The Purchaser should emphasise to the Project Manager the importance of ensuring that key details like the project budget are as accurate as possible. The consequences of getting things wrong should be highlighted, e.g. it may cause the wrong procurement route to be chosen and leave the College open to legal challenge.
- 1.3.4.2 The purchaser should explain what time commitments will be required by the Project Manager and evaluation team members for evaluation, meetings etc. and where responsibilities lie.
- 1.3.4.3 The importance of allowing sufficient flexibility/contingency in the timetable to accommodate unforeseen events (sickness, competing work priorities) should be emphasised.

### 1.3.5 Project Team Membership

- 1.3.5.1 A key requirement at the initial meeting is to agree the membership of the project team for the duration of the exercise, and the respective roles and responsibilities of all those involved. The inclusion of suitably experienced evaluation team members and of ensuring continuity of representation throughout the procurement project should be emphasised.
- 1.3.5.2 There may be a need to involve “specialists” such as Digital, H&S or user representatives.

### 1.3.6 Contract Duration

Based on discussions around the issues detailed above, the Purchaser and Project Manager should jointly determine the optimum contract period, including whether provision should be made for optional extensions (taking into account relevant EU procurement rules and avoiding locking out competition).

### 1.3.7 Confidentiality & Probity

- 1.3.7.1 As the Project Manager and Evaluation Team will have access to a large amount of confidential information, the Purchaser should highlight the sensitivity of commercial information. It is obviously important that this is not disclosed to anyone outside the project.
- 1.3.7.2 Where there is an existing contractor, it is imperative that they should gain no advantage from information provided by Project Team members.
- 1.3.7.3 As Freedom of Information legislation may require disclosure of information on decisions that affect the outcome of procurement exercises, the need for transparency of decision-making cannot be over-emphasised.

### 1.3.8 The Tender Process

Key aspects pertaining to the tendering process that should be determined:

- the need for [samples](#) or user trials, if appropriate;
- whether site and/or reference/verification visits will be required;
- whether presentations from tenderers in support of their proposals will be required.
- Whether system demonstrations will be required.
- impact of projects on other departments, and who will be responsible for consulting those affected.

### 1.3.9 Timetable

- 1.3.9.1 A detailed project timetable including target dates, key milestones and responsibilities should be developed using the [Timetable template](#).

1.3.9.2 The Purchaser should ensure that factors such as EU implications ([Standstill](#)), staff availability (e.g. planned annual leave, work commitments), contingency and required lead-in period are fully taken into account.

1.3.9.3 The Project Manager should be advised of the likely resource requirement for the evaluation team and asked to ring-fence time to complete tasks.

#### 1.3.10 Risk Management

A risk review should be carried considering all risks associated with the project. Impacts and a management plan should be determined for each risk identified.

#### 1.3.11 Contractual Arrangements

1.3.11.1 A decision should be taken on whether Fife College standard, industry standard or bespoke conditions of contract should be utilised.

1.3.11.2 Given the time and cost associated with developing bespoke conditions, these should only be utilised for high risk/value or complex contracts.

#### 1.3.12 Pricing Arrangements

1.3.12.1 As the choice of best pricing arrangements (e.g. fixed; firm; variable) should closely reflect the nature of the requirement, effective market research is a vital prerequisite to the adoption of an appropriate pricing strategy.

1.3.12.2 Any pricing arrangements proposed should aim to optimise whole life costs over the duration of the contract.

1.3.12.3 Some element of financial incentivisation or trigger level for price review may be appropriate.

#### 1.3.13 External Issues

External issues and influences on the contract that should be considered include:

- Sustainability considerations (encompassing environment, equalities, fair trade, human rights, etc.);
- intellectual property rights;
- where the provider of a service changes but the service itself is fundamentally unchanged, TUPE considerations may be relevant (advice must be sought from the College Legal Advisors, where necessary).

### 1.4 **Procurement Strategy Document**

1.4.1 All research findings and agreements with the Project Manager should be recorded using the [Strategy template](#), this should be issued to the Senior

Reporting Officer (Usually Chief Financial Officer) and copied to those committing resources to the procurement project.

## **2. COMPETITION**

### **2.1 Advising Procurement**

In the case of all prospective procurement of goods, services over £5,000, Procurement must be advised at the earliest opportunity to include the requirement in the project programme and identify available resources.

### **2.2 Purchaser's Responsibilities**

2.2.1 Purchasers are responsible for ensuring that, prior to making a formal commitment to a supplier, that requirements for formal quotations (Low value tenders) or formal tenders have been met and, where required, a contract award recommendation has been prepared and approved.

2.2.2 Purchasers, in consultation with the Project Manager and others, are responsible for identifying suppliers most likely to offer best value for money and for encouraging them to bid.

### **2.3 Goods and Services not exceeding £5,000 (excluding VAT)**

2.3.1 Where there is an existing call-off contract or framework agreement in place, orders should be raised with that supplier rather than seeking alternative quotations unless there is a compelling justification to order elsewhere.

2.1.2. Low value purchases, not exceeding £5,000 (excluding VAT) in total can be made on TechOne and do not require quotations although users must satisfy themselves that best value for money has been achieved (e.g. Google search to verify best price/delivery).

2.1.3. Any goods or services to be purchased which relate to IT related equipment or software, the purchaser should contact Digital in the first instance.

### **2.4 Goods and Services over £5,000 and not exceeding £20,000 (excluding VAT)**

2.4.1 For goods and services exceeding £5,000 but less than £20,000 (excluding VAT), a minimum of three written comparable quotations are required (email is acceptable). Records of all quotations received and justification for contract award decision must be retained on the [Quotation Summary Form](#) for audit purposes, as it is vital that decisions can be defended if challenged.

2.4.2 These are the minimum requirements for obtaining 3 written quotations however purchasers are recommended to use more rigorous procedures wherever specifications are more complex.

2.4.3 The Public Contracts Scotland (PCS) [Quick Quote](#) function can be used to obtain these quotations, if required.

2.4.4 Any goods or services to be purchased which relate to IT equipment or software, the purchaser should contact Digital in the first instance.

## 2.5 Goods and Services over £20,000 and not exceeding £50,000 (excluding VAT)



- 2.5.1 Formal tenders or formal quotations (low value tenders) should be sought using the Public Contracts Scotland (PCS) [Quick Quote](#) function, which is fully secure and auditable. A combination of scored Quality/Technical questions and pricing should be used as evaluation criteria on which to base the contract award. No contract should be awarded on price alone.
- 2.5.2 PCS Quick Quotes require the Purchaser and Project Manager to identify a minimum of 3 suppliers to invite to quote however it is recommended that no less than 5 suppliers are invited to ensure sufficient competition. Suppliers must be registered on PCS for selection and invitation to quote therefore any known capable suppliers must be encouraged to register on PCS otherwise they cannot be invited to quote.
- 2.5.3 Where insufficient suppliers are known to the Purchaser or Project Manager it is recommended that the requirement be advertised on PCS using a Contract Notice rather than issuing a Quick Quote. All evaluation criteria to be applied must be clearly stated in the Contract Notice.
- 2.5.4 Any goods or services to be purchased which relate to IT equipment or software, the purchaser should contact Digital in the first instance.

## 2.6 Goods and Services over £50,000 (exclusive of VAT)

Formal tender procedures must be used by purchasers for all purchases with a total value over £50,000 (excluding VAT), ([Chapter 3, Section 4](#)).

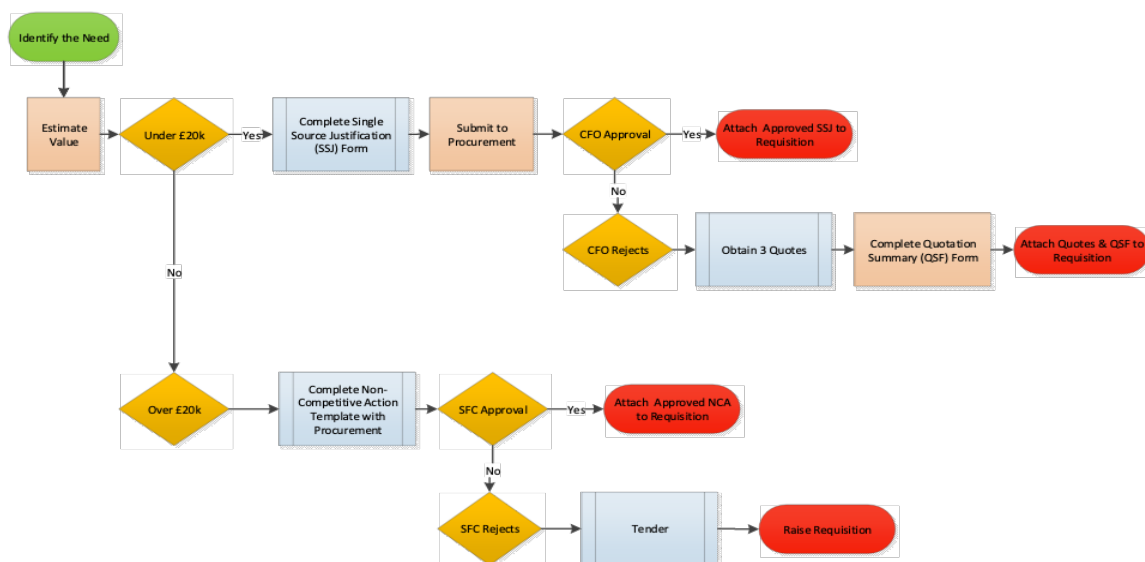
## **2.7 Goods and Services over the EU Threshold**

The EU has clear rules to open up public procurement, requiring member states to remove restrictive practices. These rules are called EU Procurement Directives and they are enforced by a set of UK Regulations, which place particular duties on public bodies that are enforceable by the UK courts. The Directives set "threshold" values for supplies, services and works, and all requirements above these thresholds must be procured using formal tenders in full compliance with the Directives ([Chapter 3, Section 5](#)).

## **2.8 Non-Competitive Action (NCA)**

Where [NCA](#) is being proposed, approval must be obtained in advance from the Chief Financial Officer by submitting the [Single Supplier Justification \(SSJ\) Form](#). Supporting evidence is required to justify the proposal.

### 3. NON COMPETITIVE ACTION (NCA)



#### 3.1 Justification for NCA

- 3.1.1 Sometimes known as single supplier justification, NCA is required when purchases that need to be made cannot be obtained through the normal competitive process.
- 3.1.2 Great care is needed in authorising NCA, as EU procurement rules must be fully complied with at all times and this must be taken into account when NCA is being considered. Additionally, it remains essential to achieve [best value for money](#) and to demonstrate the fair and equal treatment of suppliers, so the procurement process selected must always be fully defensible.
- 3.1.3 All requests to proceed with non-competitive action must receive prior written approval by the Chief Financial Officer.
- 3.1.4 Situations where NCA may be justified are:

<b>Exceptional Urgency</b>	<p>For work of exceptional urgency caused by <b>unforeseeable</b> circumstances where competitive tendering would cause unacceptable delay (e.g. after critical equipment breakdown, storm, fire, etc.).</p> <p>Insufficient organisational planning (e.g. requirement to spend funds within a particular financial year) cannot be considered as acceptable justification.</p>
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<b>Recent Competition</b>	The proposed supplier has, by recent experience (normally, within the last 12 months, but this will depend on relevant market conditions), proved to offer best value for money as the result of a fully compliant, competitive procurement exercise. Further competition would be highly likely to produce the same outcome. EU procurement rules must be taken into account, dependent on the value of the additional requirement.
<b>Single Supplier</b>	The proposed supplier is the only one known to provide the goods and/or services required (adequate research must have been carried out to demonstrate that this is the case) and there are no satisfactory alternatives.
<b>IPR/Technical</b>	For technical or artistic reasons or where Intellectual Property Rights are an issue, e.g. bespoke designs and some research programmes. It is essential that procedures are in place to ensure value for money.

### 3.2 Minimising the Need for Future NCA Requests

3.2.1 When considering an NCA request for an existing need, thought should also be given to prospective requirements in order to minimise the necessity for future NCA approvals. Areas to be considered include:

- Likely future requirements. Quantity, type and timescale.
- Length of current contract required to enable competitive procurement of future requirements.
- Would a centrally negotiated framework agreement against which goods/services could be called off avoid the need for NCA in instances of exceptional urgency?
- Can improved contract terms be negotiated in terms of Intellectual Property Rights, maintenance/support etc.?

3.2.2 Further guidance on reducing future requirements for NCA may be obtained from Procurement.

### 3.3 Information Required in Support of NCA requests

3.3.1 There are two ways to request NCA dependant on the value and complexity of the requirement.

<b>NCA Method</b>	<b>When to Use</b>	<b>Information Required</b>	<b>Completed By</b>
Single Supplier Justification Form	Generally <b>up to £20k Simple</b> requirement and clear justification.	High level details and evidence to support and justify the use of only one specific supplier.	Requestor

NCA Template	<b>Over £20k or complex</b> market situation.	Detailed report outlining context, options and evidence to justify recommendation.	Procurement
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3.3.2 All requests for NCA must clearly demonstrate why competition is not possible and should never be made in an attempt to avoid the normal competitive procurement route. Great care is needed when authorising NCA as, in the case of a legal challenge or audit, it must be demonstrable that the procurement process taken was fair and in line with Fife College Procurement Policy. It is therefore essential that each request for NCA be made with comprehensive supporting details.

3.3.3 The reason(s) for requesting NCA must be fully explained. For example, if the proposed supplier is the only one known to supply the goods, evidence that this is the case must be supplied (e.g. what steps were taken to identify alternative sources of supply, do alternative goods exist and, if so, why they are unsuitable, etc.). Additionally, details of the proposed supplier including previous purchases, approximate contract value and total spend to date (if appropriate) are required. Any other relevant details should also be included.

3.3.4 If the justification provided for NCA does not meet one or more of the examples 4 criteria detailed above, it is unlikely that approval will be given.

### 3.4 Chief Financial Officer's Responsibilities

3.4.1 The Chief Financial Officer is responsible for ensuring that NCA approval is given only when its use is fully justified. Additional information may, therefore, be requested before a decision can be made. The Chief Financial Officer will issue the decision in writing.

3.4.2 Where the Chief Financial Officer is not available to consider an NCA request, the request must be passed to the Director of Finance. In absence of the Chief Financial Officer or Director of Finance, the Principal should be approached.

3.4.3 Where a request for NCA exceeds £25,000 inclusive of VAT, the Chief Financial Officer will pass to the Scottish Funding Council for approval.

### 3.5 Action Following Approval of NCA

In order to secure best value for money, it is essential that the proposed supplier is not made aware that they are in a non-competitive situation. Quotation or tender documentation will be issued by the Purchaser as normal and the supplier will be invited to submit a bid, which will be evaluated and, if appropriate, negotiated. If the value exceeds the current OJEU threshold, the Purchaser should publish a Voluntary Ex-Anti Transparency (VEAT) Notice.

### 3.6 Non Approval of NCA

If NCA is not approved, the requirement will be purchased following a competitive procurement exercise ([see Section 2 of this Chapter](#)) and requests for quotations or invitations to tender will be issued accordingly.

### 3.7 Record of NCA Requests

All requests for NCA must be recorded by the Purchaser in the [NCA Log](#) held by Procurement. This log should detail the nature of the request, value, supplier, period of approval and a hyperlink to the completed SSJ Form or NCA Recommendation.

## CHAPTER 3: THE PROCUREMENT PROCESS

### 1. SUPPLIER APPRAISAL

#### 1.1 Introduction

- 1.1.1 The objective of supplier appraisal is to identify companies that have the necessary resources and capability to provide goods and services that may be required now or in the future and measures the potential suitability of suppliers in performing the requirements of a contract.
- 1.1.2 The extent of the appraisal will be dependent on the value of the purchase, its sensitivity, estimated risks and the complexity of the requirement or previous experience of contracting with known suppliers. For many small value purchases of standard items or simple services, the supplier appraisal may be no more complicated than confirming potential tenderers are experienced in their business and can supply the requirement. Equally, a small value purchase could involve some detailed supplier appraisal work should the item be of strategic importance or involve a frequent servicing commitment.
- 1.1.4 For high value/complex requirements that have been advertised, a pre-qualification stage of the tendering exercise may be required to assess the suitability of companies to receive tenders. This is dealt with in more detail at [Section 4, paragraph 4.5](#) of this Chapter.

#### 1.2 Requirements above £50,000 (excluding VAT) and complex/high risk requirements below £50,000

- 1.2.1 It is only possible to undertake supplier appraisal if there is a pre-qualification stage within the procurement process ([Section 5, paragraph 5.6](#)) of this Chapter). If not, the relevant details will be considered as part of the tender evaluation. At pre-qualification stage the purchaser must determine the appropriate Single Procurement Document (SPD) Standard Statements to be used and clearly state the evaluation criteria in the Contract Notice. This is essential in order to demonstrate a fair and open process for the selection of tenderers. Possible criteria may include:

- technical ability
- relevant experience and skills
- managerial structure and experience
- staff resources
- financial stability
- reliability and reputation for other similar contracts

- 1.2.2 It is important that suppliers do not become over reliant on Fife College for their survival. Purchasers should monitor the percentage of the supplier's business that their requirement represents (particularly when that is likely to exceed about 30%). This is an area of potential business risk for both the College and the suppliers, for which particular care should be exercised. When the new business to be awarded would result in supplier dependency greater than 25% for goods or 40% for services, the Director of Finance should be consulted before any decision is made.

## **1.3 References**

- 1.3.1 A request for references from existing or previous customers can provide valuable information. The number of references requested will depend upon the value and complexity of the contract, but generally two references are sufficient. References from Colleges, Universities or other public organisations are preferred, but a potential supplier should not be discriminated against because they have not previously done business with similar organisations. References should be used for verification purposes only and should not form any scored element of the evaluation.
- 1.3.2 Purchasers should view references with caution, as potential suppliers will probably provide names of organisations that are likely to give a favourable response. On this basis, purchasers should expect references to be excellent or good and if they are below this level then a further reference should be obtained. Purchasers should record and follow up problem areas with the supplier.
- 1.3.3 References can also be very subjective with the context and circumstances of successful supply of goods/servicing differing greatly from the requirement of Fife College. Purchasers must therefore ensure that references are comparable to the requirement.
- 1.3.4 Wherever possible references should be obtained by telephone as more information is likely to be offered than would be the case with a written request, although discussions must be recorded in writing. Prior to obtaining the references, pre-determined questions covering contract specific elements must be devised and asked of all referees.

## **1.4 Financial Status**

- 1.4.1 Checks on an organisation's financial status are necessary to ensure that a potential supplier is financially viable and will be able to provide continuity of supply. For all contracts in excess of the current EU thresholds where disruption of supply would cause serious difficulties, an analysis of the most recent 2 year's audited accounts is required. For all other requirements, the use of published reports (such as CreditSafe UK) will suffice.

1.4.2 The Purchaser will ensure that the appropriate checks carried out and, where an analysis of audited accounts is required, the following details should be considered, and a report produced:

- What is the firm's assessed turnover?
- Is it making a profit or loss, what is the relationship between gross and net profit?
- What is the value of capital assets and return on capital employed?
- What are the scale of borrowings, and the ratio of debt to assets?
- What is the ownership, equity or the structure?
- Is there a take-over or merger activity, which could affect supply capability?

1.4.3 More detail on financial evaluation can be found in [Chapter 5. Section 1.](#)

## **1.5 Management and Workforce**

Where appropriate, the following are recommended checks on all aspects of the supplier's personnel

- What is the management structure?
- What is the turnover of staff?
- What is the firm's approach to recruitment, training and development?
- Has the potential supplier been convicted of any criminal offence relating to the conduct of its business or profession?

## **1.6 Capacity**

- Does the supplier have the capacity to handle the requirements of Fife College as well as other orders, existing or prospective?
- What is the present level of capacity utilisation?
- What is the state of the future order book?

## **1.7 Quality Assurance**

Checks on a potential supplier's quality assurance should include:

- Does the supplier work to an independent quality standard?
- What system of quality management does the supplier use?
- Does the supplier implement a recognised continuous improvement programme (e.g. European Foundation for Quality Management (EFQM) or Total Quality Management (TQM))?

## 1.8 Site Visits

1.8.1 For more complex and critical purchases or services, field research in the form of site visits to potential supplier's premises can be considered. The results should be recorded in writing and retained on the appropriate project file.

1.8.2 A Site Visit Checklist of relevant review areas should be prepared for use during the site visit, which may include aspects such as:

- Quality capability –
  - Production methods and facilities;
  - Inspection;
  - Test and measurement facilities (production);
  - Test and measurement facilities (inspection);
- Quality Control Procedures
  - Use of control charts and other records;
  - How corrective action is taken;
- Assessment of the standard of work in progress;
- Assessment of the policies and attitudes in relation to quality;
- Assessment of the quality of management;
- Tooling capabilities (i.e. design, manufacture, maintenance, storage and tooling control);
  - Changeover from one production to next, downtime, reset time;
  - Machines (i.e. capacity, capability, operator skills, maintenance and safety);
- Planning/Scheduling;
- Handling/storage;
- Environment – general;
- Health and Safety;
- Personnel – experience;
- Packaging;
- Delivery;
- Stock holding (i.e. where, system and procedure);
- IT – links in the office with warehouse stock and goods in transit;
- Any other relevant information;

## **2. REQUIREMENTS ABOVE £5,000, NOT EXCEEDING £20,000 (EXCLUDING VAT)**

The process detailed at [Chapter 2, Section 2.4](#) should be followed for all straight forward requirements. More complex or high risk requirements should follow the process for [Requirements Above £20,000, Not Exceeding £50,000 \(Excluding Vat\)](#), detailed below.

## **3. REQUIREMENTS ABOVE £25,000, NOT EXCEEDING £50,000 (EXCLUDING VAT)**

### **3.1 The Process**

- 3.1.1 The following process sets out minimum requirements for undertaking invitation to quotes (low value tender) for lower value requirements that require more information from the supplier and greater input to evaluate.
- 3.1.2 The Purchaser must determine at the outset the level of complexity and input required and ensure that the process is not unnecessarily overcomplicated but that there is still a clear audit trail for accountability.
- 3.1.3 It is **not permissible** to award on price alone, must award on the best Price/Quality ratio known as “Most Economically Advantage Tender” or MEAT therefore appropriate quality criteria must be developed and applied.

### **3.2 Contacting Procurement**

When a need has been identified by a department or Project Manager, Procurement should be contacted to have the requirement added to the Procurement Workplan. This Workplan is issued monthly to the Executive Team and is reprioritised regularly to ensure that urgent requirements are programmed in according to business needs.

### **3.3 Timetable**

- 3.3.1 Once a procurement project has been scheduled to proceed, the Purchaser must contact the Project Manager to agree responsibilities and overall timescales.
- 3.3.2 A project timetable should be drafted by the Purchaser, ensuring that the requirement will be met within the shortest available timescale. A [sample timetable](#) can be found in [Templates](#).



### 3.4 Identifying Suppliers

- 3.4.1 Contract opportunities are required to be adequately publicised to enable open competition and meet the requirements of equal treatment, non-discrimination and transparency. Therefore purchasers must consider, on a case by case basis, which contracts should be advertised to attract appropriate competition, taking account of the complexity, value and marketplace. Where it is decided not to publicise a requirement the Purchaser must record the reasons for the decision.
- 3.4.2 If the Project Manager is aware of suitable suppliers, details should be given to the Purchaser. Where it is decided not to advertise, between 3 and 5 suitable suppliers should be identified where possible. The Purchaser should contact the suppliers by phone to ensure they are interested in quoting and can meet the required timescale.
- 3.4.3 It is possible to restrict or “reserve” participation to Supported Businesses but this must be stated in the Contract Notice. A Supported Businesses is an organisation with a workforce of at least 30% disabled or disadvantaged persons. The main aim of a Supported Business is the social and professional integration of disabled or disadvantaged persons or may provide for this to be performed in the context of sheltered employment programmes. This **does not** apply to any call-offs from a framework.

### 3.5 The Specification

- 3.5.1 The specification should be straightforward and appropriate for the requirement ensuring that only relevant information is included. For example, a one-off purchase is unlikely to require a section on performance management. The Purchaser should obtain all the relevant information in a draft specification from the Project Manager for agreement. A straightforward requirement is unlikely to need a specification with “Full Details of Requirement” of more than one A4 sheet.
- 3.5.2 The specification should be written with reference to the [Specification section](#), using the [ITQ Specification & Questions Template](#).

### 3.6 Invitation to Quote (ITQ) Documents

- 3.6.1 The ITQ (low value tender) must be clear and comprehensive, giving full details of any technical requirements and other considerations, such as delivery, packaging etc. If the ITQ omits important details, the quality of the quotation received from the supplier is likely to be affected. It is also essential that the ITQ describes the precise format in which quotations are to be submitted, thereby ensuring that all suppliers quote on an equal basis and to facilitate the evaluation process. In no circumstances should the ITQ include details of other companies being invited to quote or give information regarding the budget available for the requirement.
- 3.6.2 The ITQ should comprise of the following documents:
- [Invitation to Quote Letter](#) - This provides an introduction to the requirement and provides other important information such as contact

details for queries (the Purchaser), deadline for responses and the evaluation process.

- **Specification** - This provides full details of the requirement and will vary in length from a few sentences for straightforward purchases, to several pages for complex requirements and should be developed as set [above \(3.5\)](#).
- **Schedules to Quote** - The Schedule asks the supplier to answer questions in relation to the goods and/or services they are proposing to provide and allows comparisons to be made on a like-for-like basis. The questions asked in the Schedule are taken directly from the specification and should cover all information required to enable a meaningful evaluation of the quotation received. For the simplest of requirements, a single Schedule covering experience and delivery details is likely to suffice, along with a price. For more complex requirements, there may be separate Schedules for each service area such as experience, key personnel, training, maintenance etc. Each question should be clearly asked and space should be allowed for the supplier to insert their response. The Schedule will need to be developed by the Purchaser to suit each specific requirement. The Price Schedule should always be issued as a separate document to ensure that technical evaluation can be completed without any influence of costs.

For more complex requirements, high level weightings can be applied to each evaluation area, e.g. Technical/Quality, System Demonstrations, Samples, Presentations etc. Each evaluation area should then apply sub-weightings to each question within that evaluation area.

Example:	Technical	40%
	Samples	30%
	Price	30%

Evaluation guidance should be agreed for each question in order to assess the quality of the supplier responses against the standard scoring guidance (0-4). The overall weighting applied to the quality/technical evaluation should be allocated across each question to give a weighting based on its relative importance to each question. The evaluation criteria, however basic, must be determined prior to the ITQ being issued.

It is the Purchaser's responsibility to produce the Schedule, ensuring the questions are clear and concise with appropriate guidance so that the supplier fully understands what is required of them. An evaluation form must be produced for each evaluation area.

- **Conditions of Contract** - The standard Fife College Conditions of Contract must be included in the ITQ. These determine the main conditions under which the contract will operate. The Purchaser must identify whether or not there is a need for any additional clauses to be included in the standard conditions.

### 3.7 Evaluation Form

A Quotation [Evaluation Form](#) should be produced by the Purchaser based on the agreed evaluation guidance and individual question weightings. An evaluation form must be produced for each evaluation area, e.g. samples, presentations, system demonstrations etc.

### 3.8 Issuing Invitations to Quote

Once the ITQ is finalised it should be issued to the selected suppliers using the [PCS Quick Quote](#) and the Project Manager notified.

### 3.9 Queries from Suppliers

3.9.1 Following issue of the ITQ, suppliers may ask questions about the information provided or the exercise in general. The following information may be provided on request:

- The anticipated timescale for decisions to be taken;
- Explanation of the evaluation process;
- The number of ITQs issued (but **not** the number received);
- Clarification of information already contained in the ITQ.

3.9.2 Information that **must not** be provided includes:

- Details of other suppliers;
- Information about other quotes received;
- Pricing or budget details.

3.9.3 Suppliers should be advised to raise questions using the Question & Answers section of the PCS Quick Quote portal. If questions reveal that important information has been omitted from the ITQ, a [Pre-Bid Clarification Notice](#) should be sent to all suppliers using the Quick Quote notice options to add an additional document which will be automatically issued to all suppliers invited or who have expressed an interest in the opportunity (dependant on advertising).

3.9.4 It is vitally important that, when divulging information to one supplier, others are not inadvertently put at a disadvantage. This ensures that all quotations are submitted on an equal basis.

### 3.10 Receiving Quotations

3.10.1 Quotations may be received at any time up until the agreed deadline via the PCS Mailbox, but not opened until the deadline (hard copies must always be stored by the Director or Governance & Compliance). It is not normal practice to accept quotations that are received after the deadline, but exceptions may be made in extreme circumstances. For example, if no quotations have been received by the due date or only one or two have been received despite several suppliers having confirmed an interest. The Purchaser may then

telephone all suppliers that have not submitted a quotation to establish whether they intend to do so and, if so, whether they require additional time.

- 3.10.2 In such cases, the Purchaser must first consult with the Project Manager to establish whether a delay is acceptable. This will depend on the importance of receiving the additional quote(s) relative to the operational needs of the Project Manager. If the date is amended, the new date should be notified to all suppliers originally invited to quote. Suppliers that have already submitted a quotation should be given the opportunity to submit a revised quote should they so wish.

### **3.11 Opening Quotations**

- 3.11.1 Quotations will be opened no less than 1 hour after the deadline for receipt of quotes to allow time for any late bids to be notified by suppliers. The purchaser will have set up the PCS Mailbox to be opened by one or more nominated individuals. A single person is sufficient as the PCS mailbox is completely secure and auditable.

- 3.11.2 Hard copy quotations can be opened by the Purchaser.

- 3.11.3 All completed quotations and supporting documents should be sent to the evaluation team members by email or shared in a permissioned folder on Teams or OneDrive, with the exception of the pricing schedules which should not be shared with the evaluation team until after the technical evaluation has been completed and agreed.

### **3.12 Evaluating Quotations**

- 3.12.1 The Project Manager and any other members of the evaluation team must evaluate all quotations at a consolidated team evaluation meeting, fairly and equitably. If the requirement is of a specialist or technical nature it may require others to be involved in the evaluation process.

- 3.12.2 For most requirements it is likely that the Purchaser and Project Manager will have sufficient knowledge and additional members should only be involved where it is thought to be appropriate and beneficial. All members of the evaluation team must ensure they have read the quotations prior to the team evaluation meeting.

3.12.3 Each member of the evaluation team should use the [Quotation Evaluation Form](#) to record comments on each supplier response for each question and can give an indicative score. This form is developed by the Purchaser to reflect the specific project and will include evaluation guidance to facilitate the evaluation meeting. The scoring system used is the same as that for tender evaluation (a range of 0 – 5) to be multiplied by the question weightings and totalled for each supplier.

3.12.3 If a supplier offers goods and/or services as an alternative to that specified in the ITQ, the Project Manager must confirm whether or not it technically meets the requirement. If the proposal is technically unacceptable, the Purchaser should reject the quotation, recording reasons for doing so in the Procurement file as a dated File Note.

3.12.4 Following evaluation of all relevant factors by the Purchaser and Project Manager, the Purchaser will draft a [Contract Award Recommendation](#) for approval by the Senior Responsible Officer (SRO), usually the Executive Team member responsible for the Project Manager's department/faculty (Chief Financial Officer, Chief Operating Officer, Chief Information Officer or Vice Principal Academic Strategy). The reasons for the award decision must be fully detailed in the recommendation with all supporting documentation held in the electronic Procurement file.

### **3.13 Supplier Negotiations**

Negotiation on fundamental aspects of contracts, (especially price), which are likely to distort competition, is **prohibited** under the Regulations. Dialogue with bidders should generally be limited to requests for clarification and any discussions or meetings with bidders should be properly recorded. For more information please review the section on [Post Tender Negotiation](#).

### **3.14 Contract Award Letter**

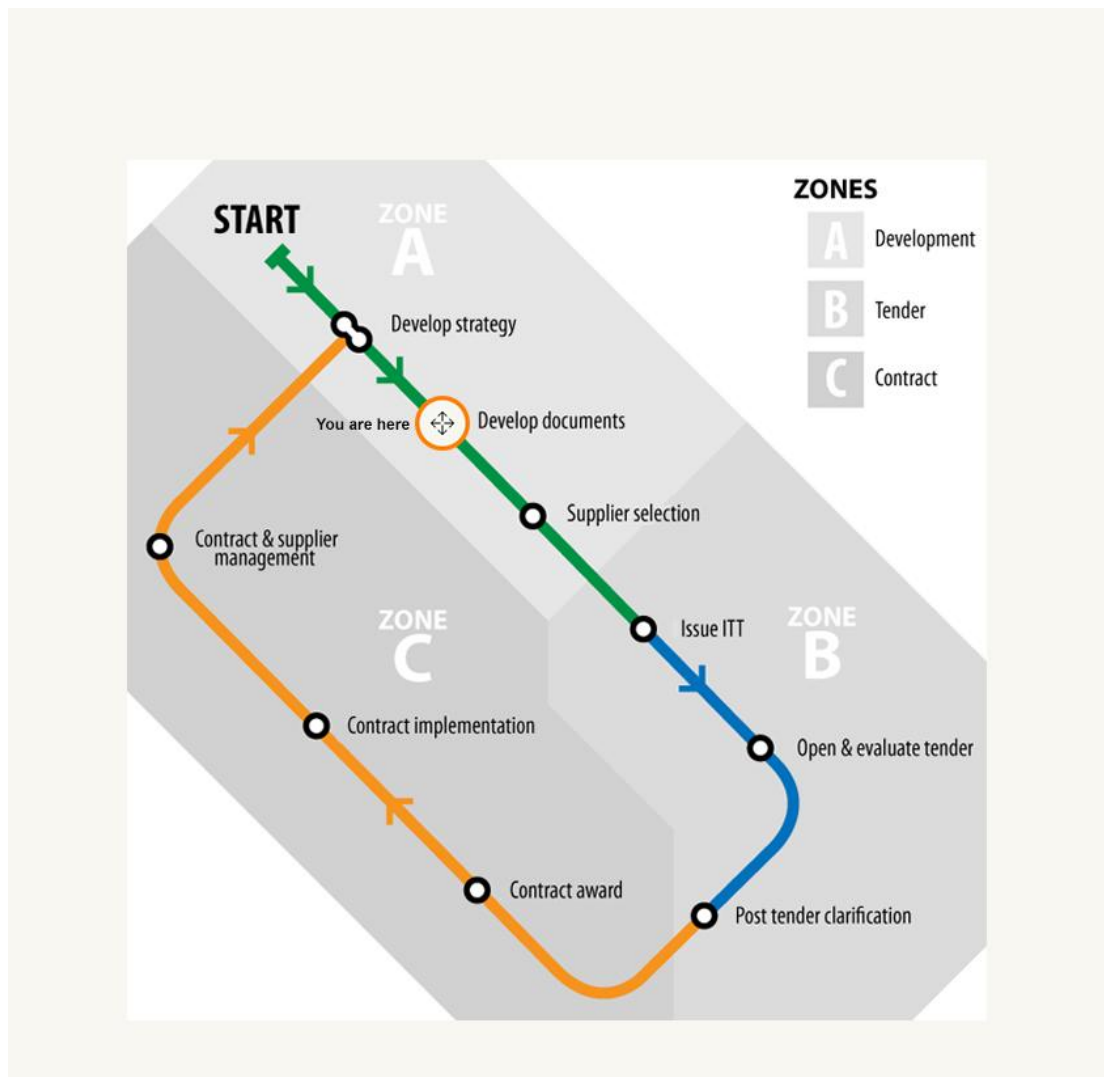
3.14.1 Unless issued electronically, the Purchaser will print two copies of the [Contract Award Letter](#) to be signed by the SRO. The Purchaser will then scan a copy of the signed Award Letter to the "Contract Documentation" folder of the Project file then issued by post to the successful supplier. This forms a legal document defining the obligations of both parties.

3.14.2 The purchaser can then contact the successful supplier to inform them of the award decision and reiterate the instruction for them to sign and return one copy of the letter.

### 3.15 Rejection Letters

- 3.15.1 Following contract award, an [Award Decision Letter](#) must be issued to all unsuccessful bidders notifying them that they have been unsuccessful on this occasion, giving them their scores, the winning bidder's scores and offering the opportunity to contact the Purchaser for further information. It is Fife College policy that all unsuccessful bidders be offered a de-brief. Debriefs should be recorded on the [Debrief Record Template](#) and saved to the "Contract Award" folder of the Project File.
- 3.15.2 All award decision letters should be issued from the Procurement Mailbox and sent at the same time.

#### 4. REQUIREMENTS ABOVE £50,000 NOT EXCEEDING THE EU THRESHOLD (EXCLUDING VAT)



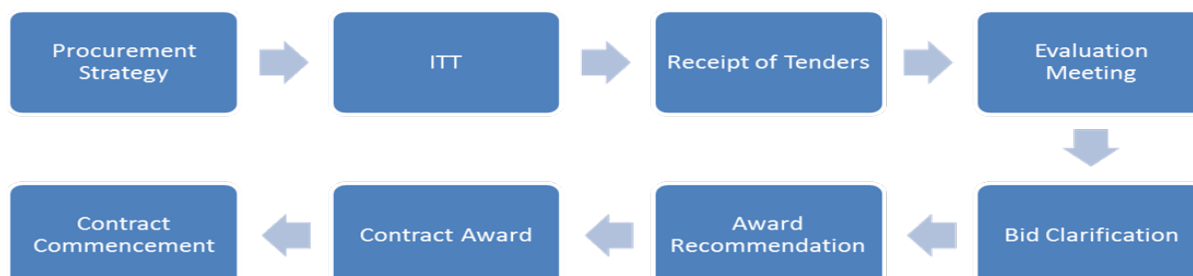
#### 4.1 Formal Tendering Procedures

- 4.1.1 Formal tendering procedures are required for all requirements in excess of £50,000 to ensure that the procurement process is executed fairly and equitably, to provide a clear audit trail and to reassure the public and suppliers that procedures have been conducted with integrity.
- 4.1.2 The complexity of the documentation and timescale for the project will depend upon the nature, value and risk of the requirement, but all those in excess of current EU Procurement Directive thresholds must follow the EU procurement procedures. The process for tendering procedures below the EU threshold is outlined in the following paragraphs.

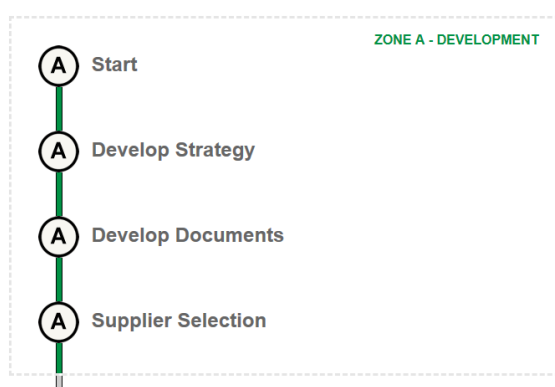
## 4.2 Contacting Procurement

When a need has been identified by a department or Project Manager, Procurement should be contacted to have the requirement added to the Procurement Workplan. This Workplan is issued monthly to the Executive Team and is reprioritised regularly to ensure that urgent requirements are programmed in according to business needs.

### Process Map



## 4.3 Procurement Strategy Document



Following the initial meeting between the Purchaser and the Project Manager, the Purchaser will produce a [Procurement Strategy](#). This not only outlines the process to be followed but examines the complete lifecycle of the requirement over the duration of the contract. It also identifies roles and responsibilities and incorporates an agreed timetable for the project.

## 4.4 Timetable

- 4.4.1 The timetable will be drafted by the Purchaser and must clearly show the timescale for each stage of the process and whose responsibility it is. The [Timetable template](#) should be used.



- 4.4.2 Where a requirement is likely to attract many suppliers, a pre-qualification stage should be considered and built into the timetable. While it may appear that this is adding time to the tender exercise it can actually save time overall as it can be less time consuming and onerous to evaluate a high number of pre-qualification responses using the Single Procurement Document (SPD) than it is to evaluate a similar number of tenders, dependant on the number of questions to be asked in the [Tender Schedules](#).

#### 4.5 Pre-qualification Process (if required)

- 4.5.1 Pre-qualification of suppliers is a method of assessing whether potential tenderers have the necessary capability and capacity to provide the goods and/or services required. It should be utilised wherever there is likely to be significant supplier interest in a requirement as it avoids the need to evaluate a large number of tender submissions. The criteria used to determine suitability to tender must be agreed by the Tender Evaluation Panel however selection questions are restricted to **only** those in Single Procurement Document (SPD).
- 4.5.2 The requirement is advertised using a Contract Notice on PCS, inviting potential tenderers to submit an SPD. Evaluation criteria must be set **prior** to the issue of the SPD and the evaluation criteria and guidance must be set out in the **Contract Notice**. A formal evaluation form is used to score responses. Completed SPDs must be returned by a date specified in the Contract Notice and are then evaluated against the agreed criteria by the Tender Evaluation Panel.
- 4.5.3 The Tender Evaluation Panel should agree in advance, the optimum number of tenders it wishes to receive (which must never be less than 5 to ensure a fair competition). The tender list will then comprise the agreed number of tenderers that scored highest in the evaluation. It is important to note, however, that if a limited number of tenders have been agreed, that is the **maximum** number that may be invited to bid (fewer may have to be invited if an insufficient number attain an acceptable score).

#### 4.6 The Tender Evaluation Panel (TEP)

- 4.6.1 For purchases over £50,000, formal procedures are required to provide fairness and confidentiality, prevent collusion, provide an audit trail and ultimately reassure the public and our suppliers that the procurement process has been conducted with integrity. For this process there is a requirement to formally agree a Tender Evaluation Panel (TEP). This TEP usually comprises the Project Manager, key stakeholders and occasionally a designated person with specialist knowledge, such as Digital or Health & Safety.

- 4.6.2 Where the Tender Evaluation Panel consists of many stakeholders, it may not be necessary for everyone to evaluate the SPD or the whole tender. The Purchaser must determine what input is relevant for each stage and ensure that only those who will add value are involved. This will be agreed when preparing the [Procurement Strategy](#). There may be one or more sections which require the technical expertise of the Digital panel member; in this case while the Digital panel member will read all the bids he or she would only be responsible for scoring the identified technical sections. This ensures that the skills and knowledge are used where appropriate and that panel members are adding value in areas relevant to them.

## 4.7 The Specification

It is the Project Manager 's responsibility to produce the [specification](#) and it is important that sufficient time is allocated within the timetable for requirements to be clearly established, undertake research etc. A clearly written specification will simplify the evaluation process, ensure that the Project needs are met and are likely to improve value for money savings.

## 8. Lots

- 4.8.1 To maximise contract opportunities for SME's, the purchaser should consider the potential to separate the requirement into lots. Lots define the categories of goods or services which a single procurement requirement has been divided into and allows for multiple providers to be appointed following one procurement process. An example might be a tender for computer hardware with one lot for "laptops" and a second lot for "desktops".
- 4.8.2 A separate specification must be developed for each lot. Each lot is effectively a separate tender exercise within the overall tender and individual contracts will be awarded per lot.

## 9. Establishing Tender Evaluation Criteria

- 4.9.1 Before issuing an ITT, the criteria by which resulting bids will be evaluated must be established and included in the ITT documentation to ensure that the evaluation can be effectively carried out and is transparent and fair. The Purchaser, in collaboration with the Project Manager is responsible for establishing the relevant criteria.
- 4.9.2 Evaluation criteria should allow comparison in terms of capability, commercial, technical (including performance) and financial terms. Criteria may be designated as "Mandatory" but, if they are and have not been met, the result **must** be rejection of the tender. Questions should be "weighted" by their relative importance using the value assigned to technical/quality split across the number of scored questions asked as required.

4.9.3 Any requirement for Samples, System Demonstrations, Presentations or Technical Validation of equipment must be clearly stated in the ITT with evaluations guidance provided to explain how this will be assessed by the evaluation panel. Evaluation criteria must be relevant to the assessment area and must be objective rather than subjective, i.e. for system demonstrations assessment will focus on how well the system performs tasks, the ease of use or how intuitive rather than whether functionality or features are included. Features and functionality will have been assessed in the technical question and you cannot score the same criteria twice. You can however use the system demonstration to verify features/functions or assess how well they perform.

4.9.4 High level weightings should be applied to each evaluation area, e.g. Technical/Quality, System Demonstrations, Samples, Presentations etc. Each evaluation area should then apply sub-weightings to each question within that evaluation area.

Example:	Technical	40%
	System Demonstration	30%
	Price	30%

4.9.5 An evaluation form must be produced for each evaluation area.

## 10. Advertising the Requirement

10.1. For all requirements over £50,000 a Contract Notice on PCS **must** be used to advertise the opportunity. All evaluation criteria to be applied must be clearly stated in the Contract Notice.

10.2. It may also be necessary to advertise in appropriate trade magazines, journals or the national press although these can be expensive and a budget for advertising will need to be agreed with the Director of Finance when developing the [Procurement Strategy](#). This encourages fair and open competition and helps to assure suppliers and the general public that the exercise has been conducted with integrity.

## 4.11 Invitation to Tender (ITT) Documentation

4.11.1 The Purchaser is responsible for pulling together all the information required for the ITT. The ITT should comprise the following documents and be set out in this order:

- [Tender Invitation Letter](#) – this provides tenderers with guidance for the completion and submission of their tender, contact details for queries (the Purchaser), deadline for responses and the evaluation process;
- [Specification](#) – Full details of the requirement including any relevant background documents and information, possibly annex's of data or drawings;
- [Schedules to Tender](#) - The Schedules ask the supplier to answer questions in relation to the goods and/or services they are proposing to

provide and allows comparisons to be made on a like-for-like basis. The questions asked in the Schedules are taken directly from the specification and should cover all information required to enable a meaningful evaluation of the quotation received. Each question should be clearly asked and space should be allowed for the supplier to insert their response. The Schedules will need to be developed by the Purchaser to suit each specific requirement. The Price Schedule should always be issued as a separate document to ensure that technical evaluation can be completed without any influence of costs.

Evaluation guidance must be agreed for each question in order to assess the quality of the supplier responses against the standard scoring guidance (0-5). The overall weighting applied to the quality/technical evaluation should be allocated across each question to give a weighting based on its relative importance to each question. The evaluation criteria must be determined prior to any ITTs being issued.

It is the Purchaser's responsibility to produce the Schedules, ensuring the questions are clear and concise so that the supplier fully understands what is required of them.

- **Conditions of Contract** - The standard Fife College Conditions of Contract must be included in the ITT. These determine the main conditions under which the contract will operate. The Purchaser must identify whether or not there is a need for any additional clauses to be included in the standard conditions;
- **Tender Return Label** (for Hard copy responses) – To be applied to the front of hard copy tender returns to ensure that tenders are easily identified so they can be stored securely until the agreed opening time.
- **Form of Tender** – This requires bidders to comply with the ITT and confirm the accuracy of the bid.
- **Single Procurement Document** – This requires the supplier to demonstrate business probity and financial standing.

4.11.2 All hard copy tenders should be returned to Director or Governance & Compliance, Fife College, Pittsburgh Road, Dunfermline, Fife, KY11 8DY, as set out in the Tender Invitation Letter.

## **4.12 Questions for Tenderers**

4.12.1 The Purchaser is responsible for working with the Project Owner to compile questions for tenderers once the specification has been agreed. Questions should be focussed on key requirements of the Specification and generally include:

- Service Requirements – How service will be delivered
- Technical Requirements – Implementation Plan/ Resources/ Infrastructure
- Maintenance & Support – Physical Maintenance or Technical Support
- Experience – Single Case Study

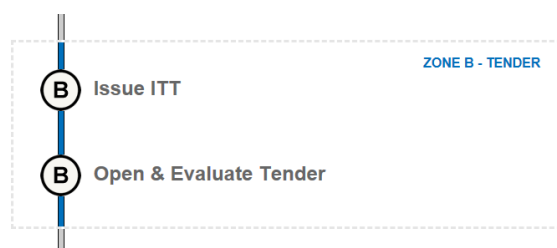
- Key Personnel – Experience, Qualifications & Skills for Active roles
- Health & Safety – Methodology or Completed Risk Assessments
- Fair Work Practices – Staff Pay & Conditions
- GDPR Compliance – Management methods

4.12.2 The questions will all be agreed with the Project Manager to ensure that the necessary information is requested. As it is the information received in response to these questions that is evaluated, it is essential that all questions be asked in a clear and unambiguous manner.

4.12.3 The Tender Schedules should also address requests for information from tenderers for areas not specifically referred to in the specification for example:-

- Declaration by Tenderer
- Organisational Information
- Statement of Non-Compliance
- Price Schedule

### 13. Issuing ITTs



4.13.1 The Purchaser is responsible for issuing all ITTs. ITT documentation should be uploaded to PCS in a Contract Notice. Once published, all suppliers registered on PCS under the category stated in the Contract Notice will be sent an email from PCS notifying them of a contract opportunity in their field of expertise. If they express an interest, the ITT documentation will be immediately available for download by the supplier.

1. The closing date for tender returns should not normally be extended, however in exceptional circumstances approval may be obtained from the Head of Procurement on provision of suitable justification. If the closing date is amended, the new date must be notified to all tenders and if any tenderer indicates that their bid has already been submitted, they will have the opportunity of withdrawing the original tender and submitting a revised one in PCS.
2. Names of organisations who express an interest in the contract must be kept confidential and should not be circulated to tenderers as this may encourage collusion.

### 14. Bidders' Conference

- 14.1. A Bidder's Conference is where all potential tenderers are invited to attend at the same time and place to address areas of the ITT that may require clarification. This ensures that all suppliers receive identical information at the same time. Commercially sensitive information must be guarded at all times (e.g. do not reveal budget information or current costs)
- 14.2. A Bidders' Conference will not be needed for every tender exercise and should only be held when absolutely necessary. This will normally be for more complex projects where it has not been possible to include all necessary information in the written documentation, or where tenderers need to visit the site to enable them to identify solutions or cost their proposals.
- 14.3. The disadvantages of Bidders' Conferences include suppliers being inhibited from asking questions in the presence of competitors, and that suppliers are made aware of the extent and type of competition involved, which may affect proposals or even encourage collusion. It is therefore necessary for the Purchaser to agree the need to hold a Bidder's Conference when developing the [Procurement Strategy](#).
- 14.4. If a Bidders' Conference is necessary, it must not take place too soon after the ITT has been issued and not too close to the tender return date. If it takes place too soon, suppliers will not have had sufficient time to prepare. If it takes place too close to the return date, sufficient time will not be available to tenderers to take account of the outcomes of the meeting.
- 14.5. The Purchaser who is taking the lead in the procurement exercise should chair the Bidder's Conference and open the meeting by setting out the agenda and introducing the personnel present. The Project Manager should then give a presentation/summary of the requirement, setting out the aims of the procurement and expected business benefits. The Purchaser will then address the procurement process. If appropriate, there can then be a walk around the facilities/site, and the meeting should conclude with a question and answer session.
- 14.6. The overriding principle to be applied is that of equality of information. Questions raised and answers provided must be confirmed in writing and sent to all suppliers that have expressed an interest in the contract using PCS, whether they were present at the meeting or not. This information should be provided using PCS not later than 5 working days before the tender return date. Suppliers should not be permitted to use audio or visual recording equipment at any time during the course of the meeting, unless agreed in advance to meet accessibility requirements, but may take their own notes of proceedings if they so wish. This should be made clear to suppliers at the outset.

## **15. Queries from Suppliers**

- 4.15.1 Following issue of the ITT, suppliers may ask questions about the information provided or the exercise in general (whether or not a Bidders' Conference is held). The following information may be provided on request:
  - The anticipated timescale for decisions to be taken;
  - Explanation of the evaluation process;

- The number of ITTs issued (but not received);
- Clarification of information already contained in the ITT.

#### 4.15.2 Information that **must not** be provided includes:

- Details of other bidders;
  - Information about other bids received;
  - Pricing or budget details.
3. Suppliers should be advised to raise questions using the Question & Answers section of the PCS portal. The Purchaser must forward all questions received relating to the Requirement to the Project Manager to agree a response or provide additional information necessary to supplement the other ITT documentation. Questions on the procurement process should be answered by the Purchaser.
  4. Any additional information or Clarification provided will form part of the Contract therefore a [Pre-Bid Clarification Notice](#) should be sent to all suppliers using the Contract Notice Options to add an additional document which will be automatically issued to all suppliers who have expressed an interest in the opportunity (or been invited, where a pre-qualification exercise has been completed). Procurement process questions do not form part of the Contract so should be answered in the “Questions & Answers” section of PCS.
  5. It is vitally important that, when divulging information to one supplier, others are not inadvertently put at a disadvantage. This ensures that all tenders are submitted on an equal basis.

## 16. Receipt of Tenders

1. All formal tenders must be returned by the deadline using the PCS secure mailbox. The Purchaser is responsible for ensuring that any hard copy only tenders are passed to the Director or Governance & Compliance to be stored unopened, within a secure locked cabinet, until they are due to be formally opened.

#### 4.16.2 Tenders returned after the due date and time will only be considered in the following circumstances:

- If there is clear evidence that the completed tender documents had been received within the Fife College estate before the tender deadline date and time. A company's frank is not proof of despatch.
- If there are exceptional circumstances that could not have been foreseen by the tenderer(s). The tenderer will be required to record and justify these circumstances. However, even in exceptional circumstances, late tenders will only be permitted with the formal approval of the Head of Procurement.

#### 4.16.3 Late tenders received in PCS are anonymous and do not include any reason or justification as to why the bid has been submitted late. The Purchaser must contact PCS to request additional information to allow the Head of Procurement to determine whether the late bid(s) will be accepted.



## 4.17 Opening of Tenders

- 4.17.1 Electronic Tenders will be opened no less than 1 hour after the deadline for receipt of quotes to allow time for any late bids to be notified by suppliers. The purchaser will have set up the PCS Mailbox to be opened by one or more nominated individuals. A single person is sufficient as the PCS mailbox is completely secure and auditable.
- 4.17.2 Hard copy tenders that are not in addition to a PCS postbox response are to be opened at the tender opening meeting by the Director or Governance & Compliance with the Purchaser present. Hard copy tenders should be opened on the first working day following the tender return date to allow time for any tenders received on time to be delivered internally, whilst maximising the available evaluation period. The Director or Governance & Compliance should be notified of the dates required for attendance at tender opening as soon as project timetables are agreed.
- 4.17.3 For hard copy tenders, the Director or Governance & Compliance is responsible for opening and checking the details of each tender individually and recording the submitted price of each on the [Tender Opening Form](#). There should be a check that the tender's declarations have been signed and dated, that the price schedule has been completed with fixed prices and that the Fife College Conditions of Contract have not been amended or altered in any way. Additionally, there must be a check that no reference to the tenderer's conditions of contract has been made. Any omissions must be recorded in writing, either on the Tender Opening Form or as a file note.
- 4.17.4 For hard copy tenders, the Director or Governance & Compliance should identify the original tender (copies should not include pricing) and must use the tender opening stamp to stamp and sign the following pages of the tender:
- the covering letter;
  - Form of Tender;
  - Declaration by Tenderer;
  - price schedules;
  - any other pages containing original signatures or pricing.
- 4.17.5 All electronic tender responses and supporting documents with the exception of the pricing schedules should be sent to the evaluation team members by email or uploaded to a Teams Project of which the Evaluation team should all be Members. Pricing schedules should not be shared with the evaluation team until after the technical evaluation has been completed and agreed.
- 4.17.6 Hard copy tender responses should be copied and posted or handed to each member of the evaluation panel, excluding pricing.

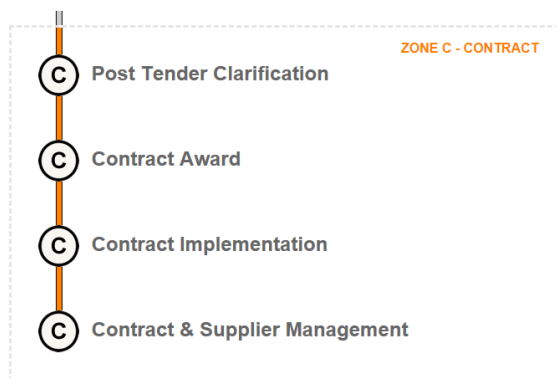
## 4.18 Evaluating Tenders

- 4.18.1 The Project Manager and all other members of the evaluation team must evaluate all tenders individually in order to prepare for the consolidated team evaluation meeting. If the requirement is of a specialist or technical nature it may require others to be involved in the evaluation process.



- 4.18.2 All members of the evaluation team must ensure they have recorded comments for each question of each bid to note positive and negative aspects of each response. This information will then be used in discussions during the team evaluation meeting where a consolidated set of comments and single score will be agreed for each question for each tender bid.
3. Evaluators should use the Tender Evaluation Form to record notes, where possible. This form is developed by the Purchaser to reflect the specific project and will include evaluation guidance to facilitate the evaluation meeting. The scoring system used is the same as that for quotation evaluation (a range of 0 – 5) to be multiplied by the question weightings and totalled for each supplier.
- 4.18.4 If a supplier offers goods and/or services as an alternative to that specified in the ITT, the Project Manager must confirm whether or not it technically meets the requirement. If the proposal is technically unacceptable, the Purchaser should reject the tender, recording reasons for doing so in the Procurement file. Note that it is the supplier's responsibility to demonstrate the equivalence of an alternative product and post-bid clarification may be required before a decision to reject the tender is made.
- 4.18.5 Any other scored elements should be assessed against the pre-agreed evaluation criteria, taking care to adhere to the guidance and not score the same element twice – i.e. samples may be included to verify product range in the technical evaluation but the evaluation of samples must focus on relevant objective factors such as the quality and durability of the item.
- 4.18.6 Following evaluation of all relevant factors by the evaluation team, [Post-Bid Clarification](#) may be required with one or more suppliers. Post-Bid Clarification should only be undertaken with suppliers that retain a genuine opportunity to win the contract.
- 4.18.7 On completion of the tender evaluation, the Purchaser will draft a [Contract Award Recommendation](#) for approval by the SRO, ensuring always that the successful supplier has met the specification in full. If the supplier selected did not submit the lowest total price, the reasons for the award decision must be fully detailed in the recommendation with all supporting documentation held in the electronic Procurement file. Recommendations must all be copied to the project team and Head of Finance for information.

## **4.19 Supplier Negotiations**



Negotiation on fundamental aspects of contracts, (especially price), which are likely to distort competition, is **prohibited** under the Regulations. Dialogue with bidders should generally be limited to requests for clarification and any discussions or meetings with tenderers should be properly recorded.

#### 4.20 Contract Award Letter

Two copies of the [Contract Award Letter](#) should be signed by the SRO and issued by email (from the Procurement Mailbox) or by post to the successful supplier. This forms a legal document defining the obligations of both parties. A copy of the signed award letter should be scanned and saved in the procurement file under "Contract Documentation".

#### 4.21 Rejection Letters

Following contract award, an [Award Decision Letter](#) must be issued to all unsuccessful bidders notifying them that they have been unsuccessful on this occasion, giving them their scores, the winning bidder's scores and offering the opportunity to contact the Purchaser for further information. It is Fife College policy that all unsuccessful bidders be offered a de-brief.

## 5. REQUIREMENTS ABOVE THE EU THRESHOLD (EXCLUDING VAT)

### 5.1 Background

The European Community's (EC) single market programme has removed barriers to the free movement of goods, services, people and capital between the member states. Rules to open up public purchasing making member states remove restrictive practices called "EU Procurement Directives" are enforced by a set of UK Regulations which place particular duties and responsibilities on all public bodies, which can be enforced by the UK courts. The procurement of products, services, and works by public bodies are subject to these rules and procedures regardless of the source of funding.

### 5.2 When the Directives Apply (Contract Thresholds)

5.2.1 The EU Procurement Directives set out threshold values for supplies, services and works, above which contracts will be affected by these rules and regulations. These thresholds are revised every two years.

5.2.2 Public bodies are required to publish details of contracts above specified thresholds which they intend to place, and to follow other specified procurement procedural rules. **Failure to comply with this legislation carries severe penalties for which Fife College would be held accountable.**

5.2.3 The Directives also give guidance on how the value of any contract should be worked out. The following paragraphs outline these rules and how they affect the procurement of goods and services.

### 5.3 Contract Values and Aggregation Rules

5.3.1 The Directives offer a number of ways in which to estimate the value of a contract. It is expressly prohibited to split requirements into smaller units or orders in an attempt to avoid the rules and regulations.

5.3.2 Procurement advice should be sought wherever necessary.

#### 5.3.2 Supplies –

a) Where volumes and prices are known in advance, then the value of the contract is the **full amount** which you will pay during the **life of the contract** e.g. 100,000 items at £2 each over 12 months, gives you a contract value of £200,000. 5 year contract = 5x £200,000 (£1m).

b) If the contract is for the hire of goods for an **indefinite period**, or for a period of time which is uncertain when the contract is entered into, then the value of the consideration is what you expect to pay each month, **multiplied by 48**.

c) Where you propose to enter into **two or more contracts** for goods of a particular type, then the estimated value of each of the contracts must be added together. This **aggregate value** is the one that must be applied

and, if it exceeds the threshold, each contract has to be advertised in OJEU, even if the estimated value of each individual contract is below the threshold.

### 5.3.3 Services –

The Directives lays down rules for calculating the estimated value of the contract. These state that, where appropriate, account shall be taken of:

- a) for insurance services, the amount of any premium payable;
- b) for banking and other financial services, the amount of any fees, commissions and interest as well as other types of remuneration;
- c) for contracts which involve design, any fee payable.
- d) If the services are sub-divided into several lots, with each lot being the subject of a contract, then the **value of each lot** must be taken into account for the purposes of calculating the value.
- e) in the case of fixed term contracts where the term is 48 months or less, the anticipated monthly value multiplied by 48.
- f) in the case of contracts of indefinite duration or with a term of more than 48 months, the anticipated monthly value multiplied by the term of the contract (i.e. 4 year contract with 2 possible one year extensions: anticipated value multiplied by 72).

5.3.4 Where the proposed contract provides extensions, the basis for calculating the contract value shall be the maximum permitted total including the use of the optional extensions.

## 5.4 Contracts for both Supplies and Services

If a contract covers both goods and services then you need to decide which Directive will apply. As a general rule of thumb, if the value of the services exceeds that of the goods, and the overall value of the contract exceeds the appropriate threshold, then the Services Directive will apply. If you are unsure which, if any, of the rules apply, the Purchaser will advise.

## 5.5 Common Features of the Directives

The Directives have some provisions in common. In general terms there is a requirement for:

- contracts to be advertised in the Official Journal of the European Union (OJEU);
- contracts to be subject to competitive tender;
- prescribed time limits for the tender procedure to be followed;
- Transparency in all procedures. Participants must be given precise information without delay on the conduct of the procedures and award criteria must be set out clearly in the ITT;
- Equality. There must be no discrimination between suppliers, including potential suppliers.
- universally acceptable standards to be used in specifications to promote wider competition;
- disqualification from taking part in a tender only if certain standards are not met by a potential tenderer;
- Minimum 10 day “Standstill” Period to apply prior to Contract Award;
- unsuccessful tenderers to be de-briefed on request.

## 5.6 Sending Notices to OJEU

- 5.6.1 When a contract is to be advertised throughout the EU because it exceeds the appropriate threshold, a Notice must be issued to OJEU who then publish it in the Journal. This process is managed by ensuring that all notices are completed and published on PCS.
- 5.6.2 Care must be taken with the wording of the OJEU Notice to avoid distorting competition or discriminating against a supplier or group of suppliers. Incorrect wording of the Contract Notice, omission of evaluation criteria or the inclusion of incorrect information may result in the receipt of complaints from potential tenderers. In some cases, this could necessitate the procurement exercise having to be halted and restarted.

## 7. Standards

- 7.1. When preparing specifications and Notices, European standards must be used where they exist. These are ISO, EN, “**or equivalent**” standards. If it is necessary to specify any particular make, source, process, trademarks, patents, types etc., there are two criteria which must be satisfied:
- the reference must be justified by the subject matter of the contract; and
  - the subject of the contract cannot otherwise be described in a manner sufficiently precise and intelligible to all potential suppliers.
- 5.72 In any such case the references **must** be qualified by the words “**or equivalent**”.
- 5.7.3 National standards may be used when the use of European standards:
- creates problems of incompatibility with existing equipment;

- causes excessive cost; or
- limits innovation.

## **5.8 Community Benefits**

5.8.1 Community Benefit Clauses (CBCs) are clauses that build a range of economic, social or environmental conditions into the delivery of public contracts. They have historically been used mainly in works projects.

5.8.2 Community Benefits must be considered as a requirement for all major goods, services, and works contracts however consideration should be given to the use of CBCs in all contracts, wherever relevant and appropriate.

5.8.3 The Contract Notice must include a summary of intended CB requirements, or reasons for not including CB requirements.

5.8.2 CBCs should include requirements such as:

- SME and Third Sector Opportunities
- Employment and Training for disadvantaged individuals or unemployed
- Facilities for all
- Education and Training
- Support for community initiatives
- Environmental Targets

## **5.9 Abnormally Low Tenders**

If a tendered price is abnormally low, (i.e. so much below the approved estimate that it prompts doubts as to whether an error has been made in tendering, especially where it differs substantially from the other tenders), written confirmation of the price and an assurance that the contractual arrangements and technical documentation have been fully understood, must be obtained from the tenderer. However it must not be disclosed that it is the lowest tender.

## **5.10 Advertising the Award of the Contract**

An Award Notice publicising the award of the contract must be placed in OJEU within 30 days of a contract having been awarded using the PCS portal.

## 5.11 Further Advice

The EU Procurement Directives are extremely complex and the consequences of non-compliance, even if unintentional, can be very serious. Wherever the total cost of a requirement is likely to exceed current EU thresholds, sufficient time **must** be allocated at the outset to properly plan the process with Procurement, who will provide further advice as required. The Scottish Government has overall responsibility for ensuring that all public bodies within Scotland comply fully with the Directives and advice will be sought from them wherever appropriate.

## 6. FRAMEWORK AGREEMENTS & CALL-OFF CONTRACTS

### 6.1 Difference between a Framework Agreement and a Call-Off Contract

A call-off contract is one where either the total quantity or value of the requirement is known and there is an obligation to "call-off" that amount over the contract period. In the case of a Framework Agreement, there is no obligation to purchase any specific quantity or value, but to purchase the total actual requirement (if any) from the successful contractor. In both cases, goods and/or services are delivered as and when required.

### 6.2 Multi-Supplier Framework Agreements

- 6.2.1 Fife College has access to Framework Agreements let by Advance Procurement for Universities & Colleges (APUC), Scottish Procurement, Crown Commercial Service (CCS) and several other specialist consortia, all which comply fully with EU Procurement Directives.
- 6.2.2 Information on available frameworks such as Buyers Guides, supplier contact details, fee rates and other relevant information is available electronically. Please contact [Procurement](#) for more information.
- 6.2.3 There are generally two ways of contracting under centrally let frameworks – Direct Award (or ranked) & Mini-Competition. Purchasers should always review the Buyers Guide and adhere to the specific call-off and/or mini-competition which apply to the Framework.

### 6.3 Direct Award

- 6.3.1 Where a supplier has been identified as the only provider on the framework (or lot) that is capable of meeting the requirement, a contract can be awarded directly to them. Evidence to support and justify this decision should be retained on Procurement files.

6.3.2 Direct award without justification should only apply where the chosen supplier has been ranked 1<sup>st</sup> in the framework suppliers. In this case only where supplier 1 is unable to meet the requirements should the purchaser approach the next ranked supplier until a framework supplier is identified who is capable. A direct award can then be made and the justifications for progressing through the rankings recorded on the procurement file.

## **6.4 Mini-Competition**

6.4.1 The Mini-Competition process is designed to further increase value for money and may be a requirement of the Framework Call-Off. It should be remembered that a specification and transparent evaluation exercise will still be required using a process similar to the [Invitation to Quote](#) (Quick Quote).

6.4.2 Under this process, the Purchaser should seek proposals from **all suppliers** on the Framework, or lot. Where there are an excessive number of suppliers listed on the framework or lot, a [capability assessment](#) should be completed.

## **6.5 Capability Assessment**

6.5.1 A brief specification highlighting the key requirements should be drafted by the Project Manager, generally not exceeding a single A4 page. This should be emailed by the Purchaser to all framework suppliers on the framework or lot requesting that suppliers respond to confirm:

- They are capable of meeting the specified requirement
- They are interested in quoting for the work
- They can meet the specified timelines

6.5.2 The Purchaser should give Framework suppliers a deadline for response and state in the capability assessment email that “nil responses will be deemed as a decline to bid”.

6.5.3 All framework suppliers who demonstrate capability and wish to should be given an opportunity to bid and issued with the Mini-Competition ITQ documentation.

## **6.6 Award Notice**

A Contract Award Notice should be published on PCS for all Call-Off Contracts following mini-competition and all Direct Awards from a framework valued at £50,000 or more over the contract period.



## **7. MINOR WORKS**

### **7.1 Definition of Works**

“Works procurement” covers the purchase of construction-related services, goods and projects ranging from small alterations and refurbishment to the construction of major building projects.

### **7.2 Procurement Contact**

Where a requirement has been identified for a works project is not covered under the provision of an existing contract, then the Project Manager must contact Procurement to allocate resources to the project. Normal procurement procedures for purchasing goods and services will then be followed.

### **7.3 Procurement Route**

7.3.1 Minor Works with an estimated Contract value **not exceeding £50,000** (exc. VAT) with requirements that are easily defined will follow the procedures for goods and services [Invitation to Quote](#).

7.3.2 Minor Works with an estimated Contract value of **over £50,000** and/or those are of a complex nature will follow the procedures for goods and services set out in [Invitation to Tender](#). As the threshold for EU Public Works Directives is currently over £4m, minor works contracts will not be subject to these rules.

### **7.4 Specialist Input**

7.4.1 Minor Works Stand-alone Contracts may require a team of specialists to be involved to assist the customer in defining the business need and preparing the specification. Specialists such as architects, engineers, quantity surveyors and planning supervisors can be used but the Project Manager must ensure that these specialist services have been sourced in compliance with procurement procedures.

7.4.2 It is important that the requirements are clearly defined, as changes made after Contract Award can prove expensive. Minor Works Stand-alone Contracts will be awarded using industry standard terms and conditions, which should be reviewed by a Legal Advisor wherever appropriate, prior to implementation.

### **7.5 Specification**

7.5.1 The Project Manager will be responsible for defining the requirement in conjunction with (if necessary) specialist advice. The specification for the works should as a minimum include a technical specification, drawings for the works, pricing schedule and bills of quantity for the works.

7.5.2 Consideration must also be given to any relevant and applicable construction specific statutory obligations and Regulations.

- 7.5.3 It may be appropriate to include a Community Benefit Clause, this should be considered at the [Procurement Strategy](#) stage and when developing the [Specification](#).

## 7.6 Contract Support

After the contract is awarded there may also be a requirement of on-going management of the contract from the Property Services Contractor. This may include architectural advice for administering the project and quantity surveying services for managing the project costs, valuation of contract variations and agreeing the contract final account.

## **CHAPTER 4: EVALUATING & REFINING TENDERS**

### **1. FINANCIAL EVALUATION**

#### **1.1. Overview**

- 1.1.1 The scope of the financial evaluation and effort associated with carrying it out should be proportionate to the size and risk of the contract. Particular care should be taken if doubts exist about a supplier's financial standing, particularly when a large value, long duration contract is being let.
- 1.1.2. Generally financial assessments will be undertaken for all contracts over £50k and this will be completed as part of the SPD review prior to contract award.
- 1.1.3. Financial viability questions in the SPD will either be "acceptable" or "unacceptable" and should not therefore be scored as part of the prequalification/evaluation process.
- 1.1.4. Rather than solely relying on financial formulae/ratios, the assessment of risk should be based on sound commercial judgement. Financial standing should only be considered as part of an overall risk management process. It may not, on its own, reflect a supplier's ability to deliver Fife College's requirements.
- 1.1.5. The assessment of financial standing should be used to identify the level of perceived risk presented by each supplier: for example, Low Risk - proceed; Medium Risk - proceed with caution; and High Risk - consider elimination (except in the case of detailed financial assessments in the course of OJEU projects). This is a qualitative assessment based on the interpretation of all the relevant information.
- 1.1.6. All suppliers, whatever their size, should be treated fairly and with equal diligence during the financial appraisal process. Small and Medium-sized Enterprises (SMEs) should not be inadvertently disadvantaged.
- 1.1.7. This section sets out procedures and guidance that are generally applicable to those contract values which exceed the EU threshold. However, the financial status of suppliers, particular market sectors and the financial market as a whole can be subject to considerable and rapid change. Purchasers must exercise judgement and discretion when using this guidance in each particular circumstance and seek advice from the Finance Office whenever appropriate.
- 1.1.8. For these requirements using a framework, the financial evaluation will then have been undertaken as part of the contract award process and will be held under review as part of the on-going contract management process by the framework manager.

## 1.2 Financial Evaluation for requirements below EU Procurement Directive Thresholds (excluding VAT)

A CreditSafeUK report should be completed for all Winning Bidders to verify their financial standing prior to Contract Award. A more detailed self-evaluation can be undertaken dependent on the risk/value profile of the contract.

## 1.3 Single Procurement Document

For contracts over £50,000, suppliers are required to complete an SPD. When the Winning Bidder has been identified, the Purchaser should request copies of any relevant documentation referred to in the completed SPD such as insurance certificates, accreditations etc. The SPD can also be used as a prequalification tool to determine the suitability of suppliers to be invited to a Restricted tender (further details in the [pre-qualification process](#) section).

## 4. Contracts exceeding EU Procurement Directive Thresholds

### 1.4.1 European procurement directives and regulations allow for, but do not require financial appraisal to be carried out.

2. In the context of the EU rules, economic and financial standing is a criterion used to select tenderers, not as part of the tender evaluation process. It is designed to identify the financial risks to be assessed alongside other relevant factors that can be grounds for selecting a supplier to tender.
3. All evaluation criteria must be clearly stated in the Contract Notice. Dependant on the value and risk, a 2-stage financial appraisal process as detailed below may be followed:

**Stage 1:** At the prequalification stage, a high-level analysis of suppliers' responses to the questionnaire by the purchaser can examine:

- **Turnover** – if a supplier's turnover in any of the last three years has been less than three times the anticipated annual contract spend then this may be a cause for concern.
- **Acid Test Ratio** - the acid test ratio is the ratio of total current assets to total current liabilities and is an indicator of a supplier's ability to meet commitments as they fall due. It is widely considered that a ratio approaching 1 or less indicates solvency problems. For more details please refer to [Annex 1](#).
- **Profit Trend** - suppliers showing a marked downward trend in profitability may be considered for elimination. This assessment will be made taking all factors and available information into account, seeking advice from the Finance Office where appropriate.

4. **Stage 2:** Following shortlisting of tenderers, for high-risk contracts a more detailed assessment of tenderers' financial capabilities should be undertaken.

5. It should be emphasised that as financial appraisal is a criterion used to **select** tenderers and that Stage 2 assessments should not be utilised to eliminate tenderers. Rather, it should be used in order to ascertain whether a tenderer's financial profile is such that a Parent Company guarantee or indemnity should be sought in order to mitigate commercial risk to the College.
6. Factors that may lead to a contract being classified as "high risk" in the event of contractor failure include:
- Serious business continuity consequences for Fife College;
  - Significant financial exposure for Fife College;
  - Lack of suitable alternative suppliers in the market;
  - Time/ resources involved in selecting a new contractor.
- 1.4.7 Wherever a detailed financial assessment is required, the Finance Office should be contacted to provide specialist advice. However, purchasers should be sufficiently competent to interpret CreditSafeUK reports without assistance from outside the Procurement team.
8. At one or both of the stages of the financial evaluation process outlined [stage 1](#) or [stage 2](#), comprehensive financial information will need to be reviewed, most commonly in the form of audited accounts. This should be requested via the SPD with evaluation criteria clearly stated in the Contract Notice.
9. At either of the 2 stages described above, a range of factors need to be considered and various financial statistics, ratios and figures analysed. In some cases, the analysis will suggest a clear-cut decision not to invite to tender, e.g. if a supplier is consistently trading unprofitably, with a negative asset value and no apparent working capital.
10. However, the situation will often be less clear-cut, and careful commercial judgement must then be applied, taking into account a total view of the supplier's capacity, capability and dependency. The principle should be that the supplier should only be **eliminated** if they are deemed to be **financially incapable "beyond reasonable doubt"**.
11. Although a contract limit based on turnover can be a useful indicator of financial capacity and dependency, suppliers should only be eliminated on the strength of contract limit alone if they clearly have insufficient capacity to deliver the requirement.

## **1.5 CreditSafeUK Reports**

- 1.5.1 Reports are available which detail the Risk Indicator, basic financial comparisons (turnover, pre-tax profit, working capital & net worth), summary balance sheet & ratios regarding financial status (acid test, current ratio, etc.), profit & loss account, and ratios for profitability. Reports also give some historical information on the background of the organisation and detail on the directors/ownership.
2. In interpreting financial reports it is important to concentrate on the factors which give an indication of the supplier's likelihood of being able to deliver the contract (such as Risk Indicator) rather than the 'Maximum Credit Recommendation'. The Maximum Credit Recommendation given in financial reports represents the maximum credit that CreditSafeUK consider should be extended to the company being assessed. This is not generally relevant to determining the maximum value of a contract to be let to that supplier.
3. Reports should be saved as PDF's in the "Contract Award" folder of the project file.

## **6. Detailed Financial Assessment**

- 1.6.1 Where appropriate, a detailed financial assessment is carried out following short-listing of tenderers to provide a summary profile of the tenderer's financial condition and that of its ultimate parent (if applicable). This assessment will be undertaken by the Finance Office.
- 6.2. On a case-by-case basis, and taking into account the information derived above, a recommendation has to be made as to whether a tenderer meets a minimum standard. Details of the various elements that should be considered as part of this detailed financial assessment.
- 1.6.3 Tenderers' audited annual reports and accounts should be reviewed. In addition to the core financial statements (i.e. Profit & Loss, cash flow and balance sheet), the explanatory notes should also be scrutinised. They may include a detailed breakdown of turnover by specific activity, changes in management staff, contingent liabilities, financial commitments and post balance sheet events.
- 1.6.4 The assessment should draw attention to any significant items in the accounts, including turnover and trading results and their trends, cash movements, and balance sheet strengths and weaknesses.
- 1.6.5 The assessment is used to identify the level of risk presented by each tenderer: for example, Low Risk - proceed; Medium Risk - proceed with caution; and High Risk - insist on Parent Company Guarantee. This is a qualitative assessment based on the interpretation of all the relevant information.

- 1.6.6 If there are doubts about the tenderer's financial status or unresolved questions such as whether a Parent Company Guarantee is available (from whatever source), the tenderer should be retained for further consideration, pending clarification of these issues.
- 1.6.7 Other information provided by tenderers or otherwise identified, that may have a bearing on a tenderer's financial position or ownership (such as credit facilities, debt ratings, current take-over activity, restructuring, new capital investment can also be assessed.

## **1.7 Turnover and Contract Limit**

- 1.7.1 A contract limit is the value of contract which is considered "safe" to award to a tenderer based on a simple comparison of the annual contract value to the annual (or average annual) turnover. As a guide, if the annual contract value to turnover ratio exceeds 25%, then the purchaser should give careful consideration as to whether this heightened level of risk is acceptable to Fife College.
- 1.7.2 While turnover can be a useful indicator, the contract limit is too simplistic a concept to deliver a clear-cut "yes or no" decision. A notional calculation of contract limit should therefore only be used as part of the assessment to confirm whether a tenderer is sufficiently viable to provide the appropriate capacity.
- 1.7.3 Tenderers should only be eliminated on the strength of contract limit alone if they very clearly have insufficient capacity to deliver the requirement and there is no appropriate support available from a third party.

## **1.8 Profit & Loss**

- 1.8.1 Profit & Loss data should be considered for both the tenderer and the ultimate parent company (if applicable).
- 1.8.2 If the Profit & Loss account is showing losses, this does not necessarily justify the elimination of the tenderer (e.g. financially sound companies sometimes make losses for a short period if undergoing a restructuring). However, as it may be symptomatic of deep-seated problems, it should be considered in the same way as contract limit, i.e. as part of the overall assessment of a tenderer's financial standing.

## **1.9 Balance Sheet**

- 1.9.1 The analysis should, where possible, include:
- (a) The calculation of the key ratios for liquidity and gearing. Loans to the tenderer should be identified (short and long-term borrowing) so that the overall stability of the tenderer can be quantified. A consistent annual overdraft (that is, of a similar sum each year, or non-diminishing) should be treated as long-term borrowing in terms of gearing and operating performance, as well as the acid test ratio (for more information on ratios please refer to [Annex 1](#)).

- (b) The debtor's element of current assets.
- (c) The value of any goodwill, intellectual property and other intangibles as capitalised on the balance sheet.
- (d) The determination of net worth (and the element of it that can be mobilised in a financial crisis).

1.9.2 This will assist in identifying (i) whether there are working capital or "overtrading" issues; (ii) the risk of tenderer bankruptcy; and (iii) investment capacity.

## **1.10 Ratio Analysis**

1.10.1 More detailed financial assessments should, where possible, include the calculation of a comprehensive set of key accounting ratios so that the performance, efficiency and overall stability of the tenderer can be quantitatively determined and compared to the previous year.

1.10.2 So that trends can be identified, the ratios should be compared with the industry averages in the sector in which the tenderer operates.

1.10.3 Details of key ratios for financial analysis purposes can be found in [Annex 1](#).

## **1.11 Warning Signals**

Although administration, receivership or creditors' voluntary liquidation demonstrably constitute the outright failure of the business, the early symptoms of financial distress are more difficult to identify. The checklist below will assist in the compilation of a financial profile for each tenderer of strengths & weaknesses, and a risk assessment:

- cash draining from the business
- sustained losses
- falling profit margins
- volatile and/or consistently falling share price
- narrowing customer base
- consistently low return on capital employed
- increasing overdraft with static turnover
- major reductions in staffing
- increasing employment with static turnover
- increasing debtor and creditor payment days
- larger increases in creditors than debtors
- increasing stocks, slower stock turnover
- deteriorating liquidity
- over-reliance on short-term debt
- high gearing
- heavy write-offs of foreign or subsidiary holdings
- late filing of accounts
- qualified accounts
- poor credit ratings



- unusual accounting policies and/or practices
- changing auditors and bankers
- debt rating downgrades/ alerts
- adverse press reports

## **2. POST-BID CLARIFICATION**

### **2.1 Introduction**

2.1.1 During the [evaluation of tenders](#) it will often be necessary to clarify details or to seek the withdrawal of any qualifications to a bid. The objective at this stage is to evaluate tenders as submitted, not to negotiate on price or other areas.

2.1.2 Post-Bid Clarification should only be undertaken with those bidders who retain a genuine opportunity to win the contract.

### **2.2 Method of Clarification**

2.2.1 The method of clarification will depend upon the nature, complexity and value of the requirement and the extent to which clarifications are required. Complex tender submissions may need to be clarified by telephone in order to meet a very tight timescale, but must be recorded in writing and agreed with the tenderer.

2.2.2 Wherever possible a letter should be issued containing a list of questions to be answered in writing, as that will avoid any potential for ambiguity. Requests for clarification on submitted tenders are titled [Post-Bid Clarification Notices](#) (numbered in ascending order from 1). Post-Bid clarification notices should be issued from the Procurement Mailbox.

2.2.3 For more complex tenders, where issues cannot be clarified by phone or an exchange of letters, or where presentations by short-listed tenderers are required (e.g. where the quality of personnel is an essential element of the contract), bid clarification meetings may be necessary. Bid clarification meetings must be planned in advance with a clear agenda set to ensure that all outstanding issues are resolved and that the outcome justifies the resource input from both parties.

## **2.3 Post-Bid Clarification Meeting**

- 2.3.1 The evaluation team should produce a list of the questions that have arisen during the evaluation process. Whenever possible, those questions should be issued to tenderers in advance of the meeting to enable them to prepare their responses.
- 2.3.2 The evaluation team should then agree who needs to be present at the meeting. For example, if technical issues require clarification, it is essential that someone can deal with supplementary issues that may arise.
- 2.3.3 The Purchaser should lead the meeting, at which individual team members should deal with questions that fall within their areas of expertise, and the Purchaser should clarify any commercial matters.
- 2.3.4 It is important that tenderers field the correct personnel at bid clarification meetings and it is the Purchaser's responsibility to ensure that that is the case. Suppliers will often wish to field senior personnel who have well-developed presentational skills, but who might lack the operational knowledge that is required to clarify issues that are raised, so if they have not been assigned to the project their ability to communicate effectively and grasp complex issues is largely irrelevant. The purchaser must confirm that the personnel who attend have sufficient authority to take relevant decisions, that they have detailed knowledge of the operational aspects of the contract and, where appropriate, that key staff named in the tenderer's proposal are included.

## **2.4 Record of Post-Bid Clarification Meeting**

The post-bid clarification meeting must be fully minuted and tenderers must be asked to confirm all clarifications in writing. This record will form part of the Contract Documentation with the successful tenderer.

## **2.5 Outcome of Post-Bid Clarification Meetings**

On completion of all bid clarification meetings, the evaluation team should meet to refine original evaluation scores, where appropriate. All issues identified during the evaluation process should have been clarified and the corresponding evaluation criteria adjusted (up or down as appropriate) to reflect the team's improved understanding of each tenderer's ability to deliver its proposals. Full justification for all amendments made to the original evaluation scores must be recorded on the [Evaluation Form](#).

## **2.6 Verification Site Visits/Meetings**

A Verification Site Visit may be undertaken with the winning bidder where it is deemed necessary to verify the statements made in the tender response. This may result in scores increasing, decreasing or remaining the same and must be stated clearly in the ITT letter.

### **3. POST TENDER NEGOTIATION (PTN)**

#### **3.1 Introduction**

PTN can be defined as "Negotiation after the receipt of formal tenders, and before the letting of a contract, with one or more of the leading tenderers". The objective of the negotiation is to obtain an improvement service, delivery or quality, in circumstances which do not put other tenderers at a disadvantage or adversely affect their confidence or trust in the competitive tendering system.

#### **3.2 Fair and Equitable Treatment of Suppliers**

3.2.1 PTN should never be conducted in such a way as to put tenderers at a disadvantage, distort competition or adversely affect trust in the competitive tendering process. In particular, PTN must not become any form of "Dutch Auction" (unfairly trading one tenderer off against another by using the lowest bid to seek a reduction in costs from any other tenderers).

3.2.2 Competition must not be distorted by allowing a tenderer, not clearly in the lead, the opportunity to improve its offer without giving the same opportunity to all other competitors. At all stages the competing tenderers must be treated in an honest, fair and ethical manner, whilst retaining confidentiality of their bids.

3.2.3 Approval must be sought from the Head of Procurement level upwards before undertaking PTN. Both the justification for using it and the results should always be fully documented and retained on the project file.

#### **3.3 Use of PTN**

The use of PTN should be restricted to trained and experienced procurement staff and a clear audit trail must be available so that it can be seen that PTN was conducted in a fair manner. The records should show:

- The justification for PTN.
- The approval of PTN (by the Head of Procurement).
- The aim of the negotiation.
- All exchanges, written and verbal.

#### **3.4 Potential Areas for Negotiation**

3.4.1 Some typical areas that may be suitable for negotiation are:

- Payment terms
- Delivery dates
- Warranties and guarantees
- Quality
- Performance indicators
- Performance monitoring
- Remedial action
- Training

- Documentation requirements
- Maintenance, repair or after-sales service
- Compensation for failure to perform
- Terms and conditions of contract

3.4.2 Any changes agreed with the tenderer must be obtained in writing and incorporated into the written contract.

## CHAPTER 5: CONTRACT AWARD AND DEBRIEF

### 1. CONTRACT AWARD RECOMMENDATION

#### 1.1 Information to be Included

1.1.1 The Recommendation should outline the procurement process that has taken place and make a recommendation for contract award, providing full justification for that recommendation. The extent of the information to be included will depend on the procurement process that has been followed and the value & complexity of the requirement. The following information should be included wherever appropriate. The [Contract Award Recommendation Template](#) should be used.

1.1.2 The main areas to be covered in order to justify the award recommendation are:

- **Background Information** – requirement overview, budget, tender route
- **Summary of Bids Received** – expressions of interest, bids returned
- **Technical Evaluation** – summary of winning bid and all technical scores
- **Price Evaluation** - summary of winning bid price mechanism and how it offers best value and all bidder price scores
- **Post-Bid Clarification** – Summary of key clarification points and winning bidder response
- **Risk Assessment** – identify any outstanding risks or management plan
- **Recommendation for award** – clear statement of recommendation

#### 1.2 Approval/Rejection of Contract Award Recommendation

1.2.1 The Purchaser should issue the completed Contract Award Recommendation to the Senior Responsible Officer (SRO) for the Project by email, requesting approval by a specified date. A copy of the email request should be retained in the “Contract Award” folder of the project file.

1.2.2 The request for approval should be copied to all members of the evaluation panel and should offer to provide any additional supporting information necessary for a decision to be reached.

1.2.3 If the Contract Award Recommendation is rejected, the reasons for rejection must be fully investigated before resubmitting an amended recommendation as appropriate.

## **2. CONTRACT AWARD**

### **2.1 Scots Law**

- 2.1.1 Under Scots law, a contract is a legal obligation by which one person is obliged to pay or perform something, or not to do or permit the doing of something. There is no fundamental difference between a "purchase", an "agreement", or a "contract".
- 2.1.2 A contract can be deemed to have been made by word of mouth, or implied by the action of the parties, even though no formal written contract exists. If a member of staff agrees to purchase something at a meeting or on the telephone, a legally binding contract is created at that time and the supplier is then entitled to resist any attempt to impose any subsequent contract terms and conditions. Further, if a verbal contract is made, the contract will be binding on Fife College regardless of its stated policy or procedure. Accordingly, care should be taken when holding discussions with suppliers to ensure that no commitments are made which may later be construed as a binding contract.
- 2.1.3 It is essential that the terms offered and those accepted are identical for a contract to be formed. Any qualifications to an acceptance will constitute another offer (commonly known as a 'counter offer'), which must then be accepted or rejected by the other party.

### **2.2 Authority to Commit to a Contract**

- 2.2.1 Only those staff authorised by the Board of Governors have the authority to sign the Contract Award Letter.
- 2.2.2 Prior to any contract being awarded there must be a clear record of the decision on the contract file and written approval where required:
- For Contracts/Purchases under £20,000 excluding VAT, a [Quotation Summary Form](#) must be completed.
  - For contracts over £50,000 excluding VAT, and for more complex lower value requirements, a formal [Contract Award Recommendation](#) must be authorised and approved by the Senior Responsible Officer.

### **2.3 Documentation for EU Procedures**

#### **2.3.1 Award Decision Letter**

- 2.3.1.1 A mandatory standstill period applies to all EU procurement procedures. This standstill period is the time following the award decision but prior to contract award which allows bidders to examine the contract award decision and to assess whether it is appropriate to initiate a review procedure or complaint.
- 2.3.1.2 The minimum period of standstill is 10 calendar days and is counted from the date after issue of sufficient and appropriate written communication of

the award decision and the proposed contract commencement. However this is the minimum allowed and Purchasers must consider any circumstances where this needs to be increased, such as, to take account of weekends and public holidays.

- 2.3.1.3 The Purchaser must use the [Award Decision \(Standstill\) Notice template](#) to inform unsuccessful tenderers of the contract award decision. This notice should be accompanied by a copy of the tenderer's own Consolidated Evaluation Sheet (including scores) to demonstrate the characteristics and relative advantages of the successful tender, and its score for the price evaluation. During the standstill period all suppliers who submitted an SPD, whether selected to tender or not, and all tenderers must be notified of the decision to award and have an opportunity to raise any issues regardless of the fact that they have previously been notified of their elimination from the competition.
- 2.3.1.4 The Purchaser must use the [Award Decision Notice \(OJEU Successful\) template](#) to inform the Winning Bidder of your intention to award the Contract to them. The notice should include a copy of the tenderer's own Consolidated Evaluation Sheet and its score for the price evaluation.
- 2.3.1.5 Should any questions be received during the Standstill Period which could be construed as a complaint or legal challenge, the Purchaser must notify the Director of Finance and Chief Financial Officer and undertake an appropriate investigation.
- 2.3.1.6 Once the query has been answered to the satisfaction of the requestor, the Standstill process will begin again for another minimum 10 calendar day period.

## **2.3.2 Contract Award Letter**

- 2.3.2.1 Following successful conclusion of the Standstill period, contracts awarded on behalf of the Fife College by a [contract award letter](#) should generally comprise the following documentation referenced in the letter (in the order listed):
- Specification;
  - accepted Tenderer's proposal;
  - Conditions of Contract;
  - Declaration by Tenderer;
  - Declaration of Bona Fide (if applicable);
  - all relevant correspondence which may amend or clarify the Specification, Tenderer's proposal or other relevant documents.
- 2.3.2.2 Any agreed amendment to the Tenderers original proposals should be submitted by the Winning Bidder as a clearly marked revised bid. These revised proposals should be referred to in place of the original proposal.
- 2.3.2.3 Unless issued electronically, two copies of the [contract award letter](#) should be signed on behalf of Fife College, by the Senior Responsible Officer, before both being issued by post to the successful tenderer for signature.

This allows 1 copy to be retained by the Contractor and the other to be returned for retention by Procurement.

- 2.3.2.4 With this method of contract award a legally binding contract will exist when the contract award letter is issued. The practice of requiring the Contractor to return a copy of the contract award letter to acknowledge its receipt has no bearing on the formation of the contract but merely confirms that the contractor has received the contract award letter.

## **2.4 Post Award Administration**

### **2.4.1 Contract Document**

On the award of the contract the Purchaser should ensure that all contract documentation is saved in the “Contract Documentation” folder of the procurement file. A contract folder containing all the documentation listed in the Award Letter should be made as required and a copy of both hard (by request) and soft versions passed to the Contract Manager. It is the Purchaser's responsibility to ensure the original contract documentation and copy are kept up to date with any agreed contract changes.

### **2.4.2 TechOne Supplier Set up**

The Purchaser is also responsible for ensuring that all new contractors are set up on the TechOne financial system by forwarding the [Supplier Information Capture Form](#) for completion in Excel to the new contractor.

### **2.4.3 Update Procurement Workplan**

The procurement workplan must be updated to show the contract dates, supplier details and contract value.

### **2.4.4 Complete VFM Form**

Use the [VFM Template](#) to record any VFM saving achieved in awarding the Contract.



### 2.4.5 Update Hunter

The Hunter Database must be updated to include all details of the contract award, including all highlighted fields required to feed the PCIP dashboard reports.

### 2.4.6 Publish Award Notice

The Contract Award notice must be published on PCS within 30 days of Contract Award.

### 2.4.7 Project Review

A project review should be held with all participants of the project to discuss lessons learned and identify recommendations for future re-lets or requirements of a similar nature. The [Project Review template](#) should be used to record findings then retain in the project file in “Post Tender Docs” folder.

## 3. DEBRIEFING SUPPLIERS

### 3.1 Objectives of Debriefing

3.1.1 Debriefing is a way of helping suppliers to improve their competitive performance, which in turn produces benefits for Fife College. Unsuccessful suppliers have a right to know the reasons for their rejection. Carrying out a debrief has the following specific objectives:

- To assist suppliers to improve their performance. Debriefing needs to cover, diplomatically, the weaknesses of the bid; suppliers then have the opportunity to address those weaknesses in any future bids.
- To offer unsuccessful suppliers some benefit from the time and money that they have expended in preparing their tender or quotation.
- To establish and maintain the College’s reputation as a fair, honest and ethical customer, thus helping to ensure that suppliers will be encouraged to participate in future tenders.
- To receive feedback from suppliers on the procurement process and documentation to ensure that they are fully understood and efficient. Relevant comments should be taken on board and improvements made to procedures wherever appropriate to facilitate continuous improvement within Procurement.

3.1.2 The completed evaluation form should be used to prepare the [Supplier Debrief Template](#) and the above objectives explained to suppliers at the outset of the debrief.

3.1.3 Care must be taken to ensure that all information that is provided to a supplier can be fully justified in the event of a formal complaint and/or legal action being made against the College.

### 3.2 Timing of Debriefing

Debriefing should take place at a mutually convenient time within a reasonable period of the request being made and in line with EU Procurement Directive requirements. The following table provides details of when debriefing should be carried out at each stage of the process.

STAGE OF PROCESS	WHEN TO DEBRIEF	TIMESCALE
<b>Quotations</b>		
Elimination having submitted an unsuccessful quotation	After the contract has been formally awarded and all unsuccessful bidders notified	Within 15 days of a written or oral request from a supplier
<b>Non-EU Tenders</b>		
Elimination at pre-qualification stage	After tender list has been agreed	Within 15 days of a written or oral request from a supplier
Elimination having submitted an unsuccessful tender	After the contract has been formally awarded and all unsuccessful tenderers have been informed	Within 15 days of a written or oral request from a supplier
<b>EU Tenders</b>		
Elimination at pre-qualification stage	After tender list has been agreed.	Within 15 days of a written or oral request from a supplier
Elimination at pre-qualification stage - following the issue of the award decision letter.	If the request for a debrief is received by the end of the 2 <sup>nd</sup> working day following the start of the standstill period. (Accelerated Time Limit)	At least 3 working days before the end of the standstill period
	If the request for a debrief is received on the 3 <sup>rd</sup> working day following the start of the standstill period, or later.	Within 15 days of a written or oral request
All unsuccessful tenderers - following formal notification of the award decision	If the request is received by the end of the 2 <sup>nd</sup> working day following the start of the standstill period. (Accelerated Time Limit)	At least 3 working days before the end of the standstill period
	If the request is received on the 3 <sup>rd</sup> working day following the start of the standstill period, or later.	Within 15 days of a written or oral request

### **3.3 Method of Debriefing**

The debriefing should be conducted by the Purchaser and a telephone or videocall (Teams) debriefing is generally sufficient. The offer of debriefing should be contained in the formal letter informing suppliers they have been unsuccessful. Successful suppliers should be made aware of this service and asked if they wish to take up the opportunity.

### **3.4 Conducting a Debriefing Meeting**

- 3.4.1 Prior to the meeting, it is essential that the supplier understands that they will be told honestly of the strengths and weaknesses of their bid. The discussion must not be viewed as a forum to debate the validity of their, or any other, bid.
- 3.4.2 Where detailed information relating to the specification needs to be provided, it may be appropriate to include representation from the relevant department at the de-brief meeting. If so, a pre-meeting should always be held to establish roles, format etc.
- 3.4.3 At the outset of the debriefing, the supplier should be informed of the objectives and told that the comments to be covered are those that were perceived by the evaluation team against the predetermined criteria. Suppliers who have been through an EU tender process will already be aware of their overall score compared and the winning score and may have some direct questions in relation to this. Do not allow this to become a point comparison exercise to justify the winning bid.
- 3.4.4 It must be made clear to each supplier that their bid only will be discussed. Under no circumstances should aspects of another bid be disclosed.
- 3.4.5 At the end of the debriefing, suppliers should be asked whether they have any constructive comments on the Invitation to Tender or quotation documentation and the process in general.

### **3.5 Recording the Meeting**

A record of the debriefing must be made and kept on the “Contract Award” folder of the project file. The record should not be offered to suppliers as they are responsible for keeping their own record although it can be issued upon request and could be required for issue under any FOI request.

## **4. Contract Variations**

- 4.1 Any variation to the contract should be formally recorded and a letter issued to the supplier by Procurement using the [Contract Variation Template](#). Where there is significant additional expenditure which would alter the estimated contract value, the letter should be signed by the Senior Responsible Officer that signed the original Contract Award (or new postholder).

- 4.2 Contract Variations should be signed and returned by the supplier, saved in the Contract Documentation Folder and a copy issued to the Contract Manager.

## CHAPTER 6: CONTRACT AND SUPPLIER MANAGEMENT

### Section

#### 1. Contract Performance Management (CPM)

##### 1.1. Roles and Responsibilities

The **Purchaser** is responsible for:

- dealing with any contractual issues e.g. contract variations / extensions, escalated issues / contract breaches.
- providing advice and guidance to Contract Managers as required.
- undertaking financial stability checks on Contractors wherever required (at least annually for business critical contracts).

The **Contract Manager** is responsible for:

- the overall management of the contract, gaining an in-depth understanding of the contract ensuring that the contractor meets its contractual obligations
- regularly monitoring the performance of the contractor against agreed service levels and Key Performance Indicators (KPIs) (where applicable)
- Engaging with the contractor to deliver continuous improvements in the contract
- Obtaining feedback from users of the contract
- Addressing timeously and where relevant escalating poor contractor performance, obtaining and analysing management information supplied by the contractor and contract administration (e.g. ensuring invoices are sufficiently detailed and paid timeously, maintaining accurate records of dealings with contractor)
- budget management including reporting spend quarterly to Procurement Services

**End Users / Customers** are responsible for:

- providing feedback on contractor performance; reporting incidents, problems & issues to the Contract Manager promptly and accurately
- reporting spend to the Contract Manager (where appropriate)

The **Contractor** is responsible for:

- fulfilling its contractual obligations
- in monitoring and reporting against the agreed performance system
- Addressing any identified poor performance areas within the agreed timescales
- Pro-actively working with the contract manager to identify areas for improvement

## 1.2. Key aspects of CPM

CPM covers a range of activities but can be grouped under the following 4 areas:-

- **Service Delivery** requires to be managed to ensure that goods and services are being delivered as agreed, to the required performance levels and quality.
- **Continuous Improvement** should be a common goal for both the College and Contractor, developing the relationship beyond merely achieving contractual compliance.
- **Relationship Management** is required to keep the relationship between the two parties open, professional and constructive, aiming to resolve or ease tensions and identify problems early.
- **Contract Administration** encompasses the formal governance of the contract and changes to the contract documentation.

[Section 1.6 \(The Process\)](#) below provides more specific detail on what is required in order to address the above 4 areas.

## 1.3. Benefits

- Goods and services **supplied to specification**;
- Improved **value for money** – improved service levels, better cost control and fewer staff resource commitments;
- **Reduced risk** of poor service delivery affecting the College's key functions;
- More contract manager's **time freed up** to concentrate on strategic CPM activity.
- **Problems** dealt with quickly and **corrective action** initiated so that similar problems do not arise again in the future;
- **Continuous improvement** in contractor's service & quality performance will result in higher customer satisfaction levels;
- Tangible, objective **data on contractor performance**.

## 1.4. Benefits - Contractor

- More **co-operative buyer-seller relationship** increases understanding of needs /requirements / expectations.
- Contractor performance management system enables contractors to gain a clear understanding of the level and quality of service they are expected to provide
- Process for **complaint resolution/ corrective action** provides a framework for escalating problem issues and prevents (in many cases) contract termination for poor performance;
- **Incentivisation** (if included in the contract) provides opportunity to benefit financially;

## 1.5. Key Performance Indicators (KPIs)

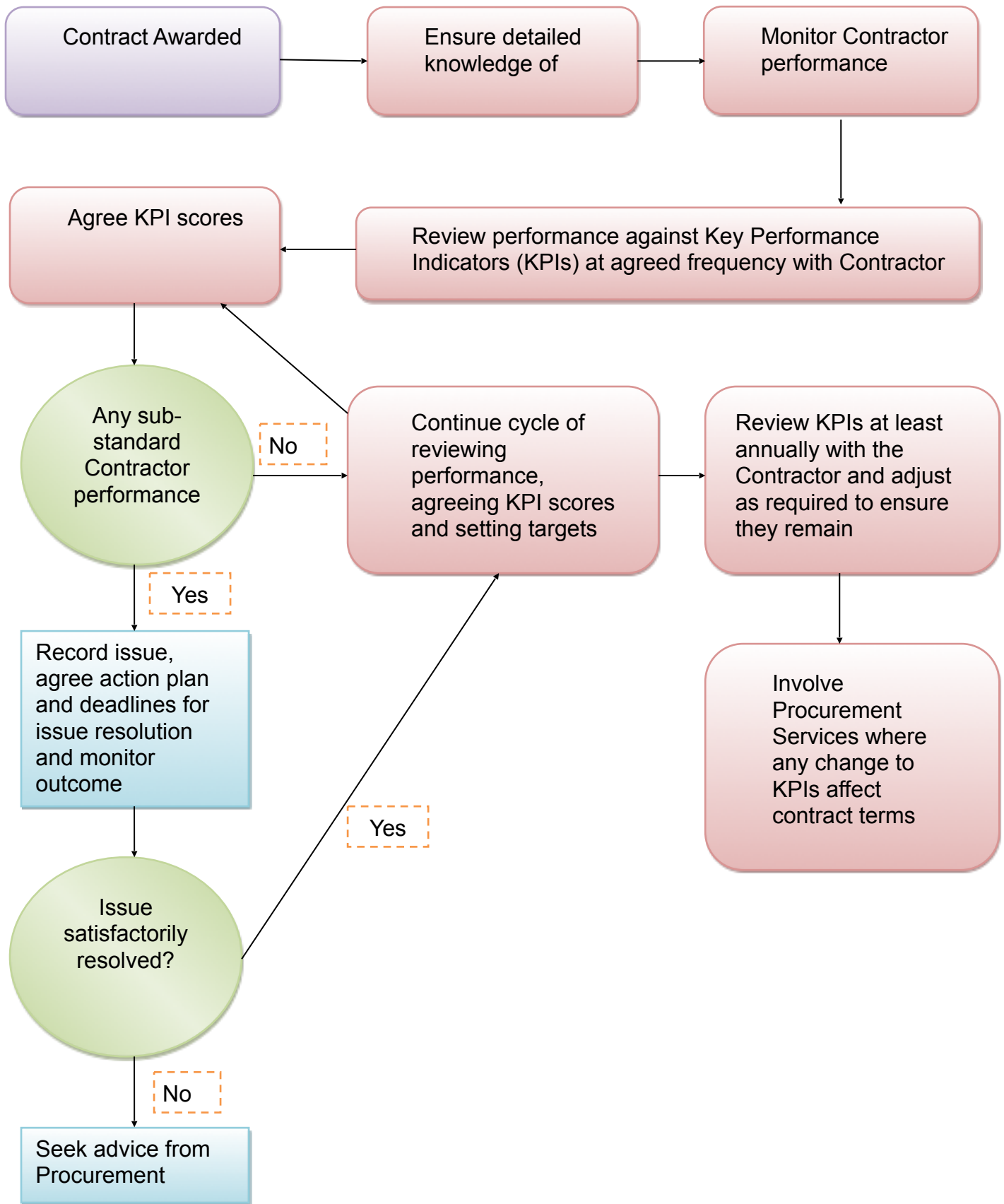
KPIs are specific measures of performance included in contracts for requirements that have been identified as key to successful contract delivery. Typically it includes the likes of activity description, weightings, and measurement methodology and assessment responsibility. KPIs are developed by the business area and Procurement Services then included in tender / quote documentation. KPIs are agreed with the successful supplier and incorporated into the contract.

## **1.6. The Process**

The **Contract Manager** shall:-

- Work closely with the Contractor during the initial period of the contract to ensure a smooth introduction of the contract
- Ensure detailed knowledge of requirements
- Manage the relationship with the Contractor and address any relationship or performance issues early
- Review performance against KPIs at agreed frequency with Contractor
- Elicit regular feedback from users of the service or product (where applicable) in a structured manner.
- Agree KPI scores
- Record any failures in Contractor performance, agree action plan and deadlines for issue resolution, monitor outcome and escalate to Procurement where issue not satisfactorily resolved
- Continue cycle of reviewing performance, agreeing KPI scores and setting targets
- Work with the Contractor and Procurement to identify and develop mutually advantageous continuous improvement opportunities.
- Review KPIs at least annually with the Contractor and adjust as required to ensure they remain appropriate to business requirements
- Manage budget, approve invoices and deal with invoicing errors or disputes & ensure that costs do not exceed those agreed contractually.
- Involve Procurement Services where any change to KPIs affect contract terms (e.g. where payment is linked to performance)

## 2. CONTRACTOR PERFORMANCE MANAGEMENT (CPM) – THE PROCESS





## CONTACTS

When a need has been identified by a department or Project Manager, Procurement should be contacted to have the requirement added to the Procurement Workplan. This Workplan is issued monthly to the Executive Team and is reprioritised regularly to ensure that urgent requirements are programmed in according to business needs.

NAME	TITLE	CONTACT NUMBER	EMAIL ADDRESS
Sharon Dewar	Head of Procurement	01383 845116 Internal ext 5574	<a href="mailto:sharondewar@fife.ac.uk">sharondewar@fife.ac.uk</a>
Ken Haig	Central Stores Team Leader	01383 845034 Internal ext 5200	<a href="mailto:kenhaig@fife.ac.uk">kenhaig@fife.ac.uk</a>
Laura Russell	Procurement & Contracts Co-ordinator	01383 559062 Internal ext 5434	<a href="mailto:laurarussell@fife.ac.uk">laurarussell@fife.ac.uk</a>
Aaron Muir	Procurement Officer	TBC	<a href="mailto:aaronmuir@fife.ac.uk">aaronmuir@fife.ac.uk</a>
General Contact			<a href="mailto:procurement@fife.ac.uk">procurement@fife.ac.uk</a>

## KEY RATIOS FOR ANALYSIS

Ratios can be logically divided into 3 main groups (a summary table for reference is shown at the end of this Annex).

### 1. Financial Structure

- 1.1 The assessment of whether a supplier is likely to experience cash flow problems. Also, is the business adequately financed, and from what sources is the finance derived?
- 1.2 The main areas of interest are *liquidity* and *gearing*.
- 1.3 *Acid Test Ratio: (current assets – stock) / current liabilities*

This measure (also known as the Liquidity or Quick Ratio) is a more severe test of liquidity than the Current Ratio as it excludes the least liquid portion of current assets, namely stocks. Its “defect” is that it does not define the liquidity of the individual components of liquid assets and current liabilities. These individual factors could be crucial to the overall liquidity of the business.

While a ratio of 1:1 is generally considered appropriate, many companies can survive and trade with ratios considerably less than that and others have liquidity problems with ratios well in excess of it.

- 1.4 *Long-term Leverage Ratio: (long-term debt / net worth) x 100 = %*

This is sometimes calculated in relation to total capital employed rather than to net worth. It highlights the relative importance of long-term debt in the capital structure and can therefore provide useful additional information for assessing the acceptability of the overall leverage position of the business.

- 1.5 *Bank Leverage Ratio: (bank debt / net worth) x 100 = %*

This is important in terms of the financial viability of the business because of the relatively strong position in which banks usually put themselves relative to other providers of funds.

Bank debt is usually secured and entails comprehensive powers for the bank to take action if the ratio gets out of line or some other financial deterioration in the position of the business occurs. The ratio should be kept at a level acceptable to the lending bankers.

## 1.6 *Interest Cover: operating profit / interest charges*

This shows the number of times available profit covers interest charges and measures the extent to which operating profit can fall without being insufficient to cover the interest charges and thereby create a pre-tax loss.

## 2. **Operating Performance**

2.1 The principal ratios for assessing operating performance are listed below and combined with the ratios above would assist the detailed financial appraisal process.

2.2 *Return on Capital Employed (ROCE): (operating profit / capital employed) x 100 = %*

Also known as the Primary Ratio, ROCE is the most important measure of the overall efficiency of the management of the business. This is because it relates the result of operations to the total funds being used in the business.

It avoids the distortions that might arise from different capital and financing structures and therefore gives a measure of the efficiency with which the resources of the business have been utilised irrespective of how they have been financed.

It sheds more light on the criticality of gearing and, when compared with the Acid Test, gives an idea as to the supplier's vulnerability to take-over and bankruptcy.

Capital employed is the total of the shareholders' funds and long-term debt or can be expressed in terms of assets as total assets less current liabilities.

Operating profit is used because loans are included in the capital employed and therefore the return on them must be calculated before charging the interest on them.

2.3 *Return on Total Assets: (operating profit / total assets) x 100 = %*

This ratio measures the overall efficiency with which assets are being utilised.

2.4 *Gross Profit Ratio: (sales less cost of sales / turnover) x 100 = %*

Also known as the Gross Margin, this ratio is an indicator of the efficiency of the production operations of the business as distinct from the selling and general management areas. A gross loss would usually indicate that the company was selling its products below cost.

2.5 *Operating Profit Ratio: (profit before interest & tax / turnover) x 100 = %*

Also known as the Operating Margin, this ratio is one of the best measures of the efficiency of the operating management of the business and indicates management's ability to generate profits from the business before deducting costs that have nothing to do with operating efficiency.

**2.6** *Collection Period or Debtor Days Ratio: (average debtors x no. of days in period) / turnover*

This gives an estimate of the number of days between the dates of credit sales and when payment has been received for them. It is a good indicator of the credit trends within the business and of the liquidity of debtors.

**2.7** *Payments Period or Creditor Days Ratio: (average creditors x no. of days in period) / cost of sales*

This ratio gives an estimate of the number of days' credit being taken from the company's suppliers. An increase in this period could be an indication of cash flow problems causing the company to delay the payment of its creditors.

As with the Collection Period, it should first be compared with the period of credit given to ascertain whether the creditors are being stretched and thus likely to put pressure on the business's liquidity.

**2.8** *Inventory Period and Stock Turnover: (stock x no. of days in period) / cost of sales*

This gives an estimate of the number of days' stock in terms of cost of sales being held in the business. It effectively determines the number of days it takes to convert stock, in all its forms, into cash or debtors. It therefore can give a good indication of the liquidity of the inventory element in current assets.

Stock turnover is derived by dividing cost of sales by the average stock of finished goods. If the rate of stock turnover declines, it takes longer for stock to be converted into debtors or cash.

### **3. Investment Ratios**

**3.1** Investment ratios can be used to assist with the detailed financial appraisal analysis. However, they are usually only applicable to public companies whose shares are traded on the stock market(s). They are an indicator for assessing future prospects. The principal ratios calculated are:

**3.2** *P/E Ratio: market price of share / earnings per share*

This is the most important ratio used by the market generally to assess the relative rating of a share and the company's prospects. The higher the P/E Ratio, the higher the market's rating of the share.

It identifies the number of years' earnings needed to cover the current market price of the share. It should not be used to compare suppliers in differing industries.

3.3 *Earnings Yield: inverse of P/E Ratio*

3.4 *Dividend Yield: dividend per share / market price of share*

This is the actual yield currently available on investment in the share at the current market price.

#### 4. **Average Ratios: UK Industry Classifications**

The table below shows some average industry ratios:

Industry Classification	Median Ratio					
	Acid Test	Long-term Leverage	ROCE	Return on Total Assets	Collection period (debtor days)	Payment period (creditor days)
<b>Manufacture of computers &amp; other IT equipment</b>	0.9	1%	25%	6%	51 days	24 days
<b>Software consultancy &amp; supply</b>	1.2	-	267%	133%	18 days	-
<b>Data processing (FM services)</b>	1.0	-	90%	43%	28 days	-
<b>Business &amp; management consultancy activities</b>	1.1	-	84%	24%	18 days	-
<b>Telecoms</b>	1.0	-	63%	14%	25 days	4 days
<b>General construction &amp; civil engineering works</b>	0.9	4%	28%	9%	20 days	12 days
<b>Labour recruitment &amp; provision of personnel</b>	1.1	-	48%	13%	45 days	3 days

#### 5. **Principal Ratios: Reference Table**

The following summary table shows the grouping of the principal ratios and how they should be calculated:

Area of Assessment	Ratio	Calculation
<i>Financial Structure</i>		
Liquidity	Acid Test or Quick Ratio	$(\text{current assets} - \text{stock}) / \text{current liabilities}$
Gearing	Long-term or Leverage Ratio	$(\text{long-term debt} / \text{net worth}) \times 100 = \%$
	Bank Leverage Ratio	$(\text{bank debt} / \text{net worth}) \times 100 = \%$
Interest payments	Interest Cover	$\text{Operating profit} / \text{interest charges}$
<i>Operating Performance</i>		
Efficiency	ROCE or Primary Ratio	$(\text{operating profit} / \text{capital employed}) \times 100 = \%$
	Return on Total Assets	$(\text{operating profit} / \text{total assets}) \times 100 = \%$
Profit margins	Gross Profit Ratio or Gross Margin	$(\text{sales less cost of sales} / \text{turnover}) \times 100 = \%$
	Operating Profit Ratio or Operating Margin	$(\text{profit before interest \& tax} / \text{turnover}) \times 100 = \%$
Debtors	Collection Period or Debtor Days Ratio	$(\text{average debtors} \times \text{no. of days in period}) / \text{turnover}$
Creditors	Payments Period or Creditor Days Ratio	$(\text{average creditors} \times \text{no. of days in period}) / \text{cost of sales}$
Stock	Inventory Period & Stock Turnover	$(\text{stock} \times \text{no. of days in period}) / \text{cost of sales}$
<i>Investment</i>		
Future prospects	P/E Ratio	$\text{Market price of share} / \text{earnings per share}$
	Earnings Yield	Inverse of P/E Ratio
	Dividend Yield	$\text{Dividend per share} / \text{market price of share}$