

Procurement of Goods and Services

Commercial Policies, Costing and Pricing

Contents

Process Management Aims, Risk & Potential Impact.....	3
Aim	3
Risk & Potential Impact	3
Summary of Process.....	4
Detailed Process Guidance	5
1 Policies and Procedures.....	5
2 Ethical Guidance	7
3 Choosing a Supplier	8
4 Rules Governing Purchase Thresholds.....	8
5 Single Sourcing	9
6 Market Testing.....	10
7 Contracts for Recurrent Purchases – Separation of Duties	12
8 Non-recurring Contracts	13
9 Additional Guidance	13
Obtaining Assurance.....	13
1 Monthly Assurance Gathering.....	13
2 Monthly Reporting at the Business Risk Management Meeting.....	14

Process Management Aims, Risk & Potential Impact

Aim

To ensure that:

- whole life costs are evaluated before decision is taken to proceed;
- we obtain “value for money” when contracting for receipt of goods and services and
- the British Council is not exposed to inappropriate liability, any risk of external audit qualification or unfavourable public attention.

Note:

Following the recent appointment of the Head of Strategic Procurement, based in Global Estates, a new procurement policy and strategy will be designed and issued. Until such time, the following guidelines should be used.

For information, when this chapter refers to the Procurement Team, they are based within Global Estates and were previously known as the Purchasing section.

Risk & Potential Impact

- Exposure to inappropriate liability and / or potential collusion with suppliers with intent to defraud where responsibility is not clearly defined and adequately separated
- Compensation payments payable to the full value of the contract, due to complaints of unfair competition or a non-compliance highlighted by the European Commission
- Contract does not offer value for money
- Use of disreputable supplier – may not be able to fulfil contract or supplier reputation could affect reputation of organisation
- Lost discount potential where supplier is used more than once or by more than one office / department or where more suppliers are used than is necessary; negative impact on another area of the organisation
- If goods / service not to requirement, more difficult to obtain re-dress if payment made up front or weak contract agreement
- Penalties incurred where contract not honoured / incorrect recovery
- Ineffective management of cash flow leading to possible penalties or lost investment potential
- Approved Supplier List (ASL) does not reflect Value For Money (VFM)
- Suppliers deteriorate service to customer
- Full potential of contract is not realised due to poor management of contract

Summary of Process

- Activity which involves proposed procurement approved through FPS planning process - adequate management trail (C1)
- Business Case prepared for material contracts to ensure that whole life costs are taken into consideration, including Value For Money (VFM) and impact on other parts of organisation (C1)
- Budget Holder and Approving Officer responsibility clearly identified and communicated in Approval Limits (General & Specific) (C1)
- Specific responsibility for entering into contract for receipt of recurrent services assigned in approval limits and reviewed at intervals. Responsibility that the role carries clearly communicated (C1, C7)
- Individual undertaking contract negotiation responsible for meeting the standard clearly identified, if someone other than Budget Holder for activity (Guidance contained in this chapter and provided by Procurement Team)
- Staff involved in Procurement Process have been adequately trained in procurement practice (C1)
- Staff involved in the procurement process abide by the ethical guidance contained in this chapter (C2)
- Appropriate tendering process followed, depending on contract / purchase value – for guidance refer to sections (C4 – C6)
- Note: Countries should refer to guidance contained in section (C4 – C6), however, they may set a lower materiality level for tendering process if appropriate - limit needs to be practical while also being mindful of risk and local environment. If local limits are being applied, these should be documented locally.
- Compliance with EU Public Procurement Directives where proposed procurement meets the criteria (C1)
- Separation of duties **MUST** exist between negotiating and approving contracts as highlighted in guidance (C7)
- Appropriate terms & conditions should be used. Wherever possible, the contract Terms & Conditions should incorporate the British Council's Standard Terms & Conditions, available from the Procurement Team's intranet site. Procurement Team should be consulted for guidance if required. If a contract is not in place, Purchase Orders or official order mechanism being used locally, should be made subject to the British Council's Standard Terms & Conditions wherever possible. (C1)
- Supplier evaluation criteria should be in place (in the case of sealed bids, these **MUST** be in place prior to the opening of the responses) (C3, C6)
- Supplier performance evaluation criteria should be included in the contract, to permit effective contract management (C1)
- Decisions on supplier selection (for both contracts and approval supplier lists) should be recorded (C3, C6)
- Contract reviews should be held for suppliers on the Approved Supplier List (ASL) at least annually (C3)
- When contracts are due to expire and need to be replaced, research and specification development should take place as early as possible during the final year of the existing contract. Note: In the case of expenditure projected to be above the EU Procurement thresholds, the tender exercise needs to commence at least 6 months prior to the expiry of the existing contract (C1)

Detailed Process Guidance

1 Policies and Procedures

- 1.1 A Procurement Manager should be assigned as Process Owner to oversee the overall Procurement process within the overseas office / UK department, who should report to the Business Risk Management (BRM) Meeting on the effectiveness of the process in place.
- 1.2 Planning for procurement of goods or services should be done and approved through the FPS planning process (in principle).

Note: This will not apply to all projects, however, you should be aware of the majority of projects to be undertaken at planning stage. These will be “approved” in principle at this point. You should also refer to Essential Finance Chapter 1 on Business Financial Planning & Monitoring.

To meet EU reporting requirements, the Procurement Team must be notified of expenditure expected to be over £80k in value over the life of the contract, which will not usually be for a period of more than 4 years.

- 1.3 Approval of contracts should be in line with the delegated limits documented in Approval Limits. Staff **MUST not** act outside this authority. If it is considered that the AL's do not adequately meet the business need, this should be communicated to Budget Manager for review. The decision to purchase should be rational and transparent.
- 1.4 The process should be adequately resourced by trained staff who:
 - have authority to sign contracts;
 - are capable of exercising that authority properly and ethically (see section 2 below);
 - have received training in contracting, procurement and negotiation.
- 1.5 A Project (Contract) Manager should be appointed to manage the supplier relationship in terms of:
 - monitoring the performance of the successful supplier;
 - managing the contract and / or Service Level Agreement.

Project (Contract) Managers should liaise with the assigned Procurement Manager and/or Procurement Team in the UK, for Procurement guidance and advice as required.

- 1.6 Comply with requirements of the European Union Public Procurement Directives - the EU Directives apply to all offices in member (and potential member) states and members of the WTO. The situation for Council offices outside the EU is not quite so clear, so you should seek advice from the Legal Adviser or Procurement Team in London.
- 1.7 Development Services overseas and UK project or contract managers who need to purchase goods and services on behalf of the Department for International Development or other British Council clients, should comply with the client's purchasing rules and procedures.
- 1.8 Anyone dealing with construction or (re)building contracts, should always seek advice from Global Estates. Refer also to Chapter 16 on Building Investments Projects. Additionally there are specific tax guidelines relating to engaging construction industry suppliers so advice must be sought from CFS Tax Department (refer to Essential Finance Tax policy).
- 1.9 Contracts should be costed and evaluated for Value for Money (VFM). VFM does not necessarily mean getting the lowest price. It means buying the right quality, in the right quantity, at the right price, at the right time. (Note: Competition is usually the best way to demonstrate VFM – refer to section 6 Market Testing and to specific Market Testing Chapter 27 in Essential Finance). Value for money covers:
 - fitness for purpose i.e. quality;
 - delivery and availability – against price;

- whole life costs or 'the cost of ownership' e.g. consider the ongoing maintenance/running costs, in addition to the initial purchase price;
- additional costs e.g. transport and storage;
- the cost of procurement itself e.g. the time spent on the purchase.

Note: Prior to the replacement of a contract, the specification should be reviewed to identify opportunities for process improvement.

- 1.10 Impact on other parties / activities should be considered when entering into a contract e.g. a contract entered into in one activity stream, may increase the workload in another activity area thereby increasing costs elsewhere in the organisation. Such decisions should be reviewed bearing in mind the impact on the organisation as a whole.
- 1.11 For contracts of a material value that require significant capital commitment, a business case should be presented that considers cost and benefit, impact on the organisation's capital resources, as well as payback.
- 1.12 Quotations should be obtained for all purchases over £500 – refer to section 4 on Rules Governing Purchase Thresholds and section 5 on Single Sourcing. Refer to section 5.1 for exceptions related to contracts already in place in the UK.
- 1.13 When contracts are due to expire and need to be replaced, research and specification development should take place as early as possible during the final year of the existing contract. Note: In the case of expenditure projected to be above the EU Procurement thresholds, the tender exercise needs to commence at least 6 months prior to the expiry of the existing contract.
- 1.14 Supplier performance evaluation criteria should be included in the contract, to permit effective contract management.
- 1.15 Formal contracts or official purchase order forms / official order mechanism being used locally (for low level purchases) should be used, containing the British Council's terms and conditions, the specification, the delivery date, the cost and any taxes payable. If you have local terms of reference for overseas offices a local legal adviser should check these. Some orders will be placed verbally but this should be an exception. If orders are placed verbally, they should be limited to small purchases and details of the agreement should be noted on file.
- 1.16 Procurement Team should be consulted when required, to ensure appropriate terms and conditions are used.
- 1.17 Contractual arrangements should:
 - avoid price variation clauses;
 - ensure that there is a specified end date for services and that the agreement can only be extended at the request of the Buyer in writing. (Note: "Evergreen" clauses should not be used. Evergreen clauses automatically extend the life of the contract, if notice of termination is not issued in writing by the Buyer "n" months prior to the expiry of the initial contract term).

Notes: Never agree a clause that would allow for a contract to be automatically renewed or extended or requires the contract manager to give written notice of intention not to renew/extend.

Never agree to a contract that runs for more than four years.

1.18 Key considerations for buying services:

- **Risks** e.g. is company financial sound? Can the British Council end the contract early if service provider not performing?
- **Specification** e.g. what kind of specification should be used? Is there anything in the contract to allow the services to be varied (ensure changes are mutually agreed and priced in advance)?

- **Contract performance** e.g. are roles & responsibilities of parties clearly defined? Are service level agreements and key performance indicators in place to measure performance?
- **Access to premises** (where service to be delivered on British Council premises) e.g. reference to health & safety legislation? Access to premises at weekends?
- **Rights and responsibilities** e.g. who owns the tools? Is the supplier providing all consumables required for the servicing contracts?

1.19 Key considerations for buying goods:

- Ensure specification is clear (i.e. legible and contains clear details of what is required – product reference numbers where appropriate)
- Check what's included in the quote e.g. delivery cost, VAT etc?
- Include total cost on an order
- Specify quantities required, delivery dates, delivery & invoice addresses (marked for attention of named person)?
- Check when ownership of goods is transferred
- Where applicable, make reference to:
 - quotations received (use quotation reference numbers & dates)
 - British Council's terms & conditions
 - product codes
 - payment terms
- Ensure you provide contact details when contacting suppliers and reference your order
- Request acknowledgement of order by phone / fax?

Note: Further information and guidance on tendering and contracting can be found on the Procurement intranet site.

2 Ethical Guidance

2.1 There should be no conflict between official duties and private interest, therefore the following ethical rules **MUST** be followed:

- dealings with suppliers **MUST** be honest, fair and even handed;
- do not tell a supplier the names of other suppliers from whom you are seeking competitive tenders (they may be tempted to price fix);
- offer the same extension to all suppliers if one supplier asks for the tender deadline to be extended;
- do not accept a cheaper offer if offered to you by one of the suppliers after you have received the tenders;
- do not identify your preferred supplier before you start negotiations;
- you should not either give or accept from a supplier any gift / service, in cash or in kind, that could be viewed as an inducement or reward for business. This applies to current and potential suppliers;
- write evaluation criteria prior to opening sealed bids;
- if one supplier asks a question, publish the response to the other bidders.

3 Choosing a Supplier

- 3.1 Overseas budget holders can buy in the UK, locally or in a third country (Value For Money (VFM) criteria will determine the country of purchase).
- 3.2 Overseas offices should maintain an Approved Supplier List (ASL), when not buying in the UK.
- Procurement Manager should ensure that contract reviews are held for suppliers on the ASL at least annually and compare and carry out market testing of suppliers for VFM.
 - Procurement Manager (or Budget Manager in their absence) to be provided with supporting documentation for ASL review, showing market testing information and comparison made, together with reasons for adding or deleting suppliers from the list. Procurement Manager (or Budget Manager in their absence) to approve changes.
 - Any interim additions / deletions to be supported with appropriate information for decision being made and approved by Procurement Manager (or Budget Manager in their absence).

Note: The use of Approved Suppliers negates the need for obtaining quotes.

4 Rules Governing Purchase Thresholds

Value of purchase	Procedure
Under £500	<ul style="list-style-type: none"> • No need to seek quotations. • Use Departmental Procurement Card (DPC) wherever possible • From time to time you should check the market to compare prices available and to reassure yourself that your regular suppliers are not over-charging. <p>Note: If becomes a regular purchase (but not under a contract), the first purchase should be benchmarked.</p>
£500 - £999	<ul style="list-style-type: none"> • Obtain at least three telephone quotations. • Assess and choose the one giving best VFM (see 1.9). • Keep a simple record of the quotations on your contract file, so that they can be reviewed by the person signing the contract / approving the payment. The nominated supplier should confirm the quotation in writing e.g. supplier can fax the quote through. This will highlight if there are any misunderstandings • If the order is complicated, you should give suppliers a very clear specification of what you want.
£1,000 - £4,999	<ul style="list-style-type: none"> • Obtain at least two written quotations. • Give the suppliers a detailed specification. • State your delivery requirements. • Give a deadline for the receipt of quotations. • Assess and choose the one giving best VFM (see C1.9). • Keep a record of the quotations received on your contract file, so that they can be reviewed by the person signing the contract / approving the payment.
£5,000 – 19,999	<ul style="list-style-type: none"> • Obtain at least three written quotations. • Give the suppliers a detailed specification. • State your delivery requirements. • Give a deadline for the receipt of quotations. • Assess and choose the one giving best VFM (see C1.9). • Keep a record of the quotations received on your contract file, so that they can be reviewed by the person signing the contract / approving the payment.

Value of purchase	Procedure
£20,000 – 79,999	<ul style="list-style-type: none"> For these goods and services you should test the market more thoroughly and undertake a fully competitive tender. Send at least three invitations to tender which would include a detailed specification of what you want, your delivery requirements, payment terms and management information etc a template is available on the Procurement Intranet site
£80,000 and above	<ul style="list-style-type: none"> The financial limit applies to the lifetime of the contract and you cannot disaggregate the contract in order to avoid the tendering process. It is assumed that the contract life will not be longer than four years. Go to competitive tender. In most cases contracts of this value MUST be advertised in the Official Journal of the European Union and go through legally defined and lengthy tendering procedures Contact Procurement Team at least 6 months before the goods or services are required for advice and guidance on the procedures involved.

Specimen telephone quote form Essential finance Chapter B1.

5 Single Sourcing

5.1 Purchases under £80,000

- Contracts already in place in UK

There is no need to seek more than one quotation when you are placing orders in the UK for goods or services for which the British Council already has a central contract. If the British Council has centrally agreed a schedule of rates (i.e. there is no variation in cost), no written quotations are required, but the central contract **MUST** be referenced on your order to ensure that the correct rates are applied. Currently contracts are in place for the supply of:

- Stationery
- Books
- Periodicals and CD Roms
- International courier services
- Air freight
- Surface freight

Although it is necessary to obtain a quotation / costing for budgeting purposes, it is not necessary for demonstrating VFM.

Note: Details of suppliers for contracts already in place can be obtained from Procurement Department.

- Anticipating single sourcing

There will be times when for other goods and services there is only one supplier with whom you can or want to place your order. The expectation is that this will be used infrequently and there **MUST** be a robust business case to support single sourcing.

On these occasions you **MUST**

- document on file a tenable case for the decision not to seek quotations so that the management trail is clear
- document evidence that the price you are paying is fair and that you have achieved value for money

Where the reason for single sourcing is to make a repeat order, award a contract renewal or second contract to a supplier who was originally selected through the normal competitive procedures, you should exercise special care about price

As the repeat business situation arises quite often, it is wise to protect yourself by anticipating your requirements. So, when you are seeking quotations, you should ask suppliers also to quote for repeat orders or to give follow-on pricing frameworks for any future or second phase work.

5.2 Purchases over £80,000

You **MUST** refer any proposed single sourcing where the value is over £80,000 to the Procurement Team for approval.

6 Market Testing

For detailed guidance refer to Chapter 27 on Market Testing which covers the following areas:

6.1 Detailed Specification

The detailed specification may be approached in 2 alternative ways:

- by stating the outputs or benefits required. This is the preferred way and gives competitors an opportunity to explore different ways of providing the service or
- by stating the inputs required or costs involved, where it is difficult for the British Council to monitor outputs or to keep in regular touch with the contractor. This should be the exception rather than the rule.

The following should be included:

- the proposed duration (normally two years with an option to extend for a further two years) and payment method for the contract (fixed sum or daily rate, for example) see 1.14 footnotes.
- the proposed management and monitoring arrangements (see Management and Monitoring section 6.4 below).

6.2 Invitation to Tender

- Before drawing up the invitation to tender, the Project (Contract) Manager should consult Procurement Team who will advise on the application of EU Public Procurement Directives and supply previous invitations to tender which may be used as a model. The invitation to tender should include:
 - the detailed specification (normally attached to the invitation to tender)
 - a list of the criteria on which bids will be evaluated, which will normally include the capability of competing organisations (i.e. an assessment of their ability to provide the services required), their technical response to the invitation (i.e. the extent to which they meet the basic needs set out), commercial and financial considerations. The weightings that will be given to each criterion should not be specified

- a request for competitors to set out their equal opportunities policy
 - a statement of how many competitors have been invited to tender
 - the selection procedure (including any pre-qualification procedure: section 6.3 below).
- The selection of companies to be invited to tender may involve a pre-qualification process if there are a number of organisations that could undertake the work. If a pre-qualification process is necessary, the Project (Contract) Manager should consider obtaining outside help. In areas where few companies are active or for small contracts (under £80,000 in total) the process is simpler. Advice is available from Procurement Team.
 - Supplier evaluation criteria should be in place (in the case of sealed bids, these **MUST** be in place prior to the opening of the responses).

6.3 Evaluation

- The Project (Contract) Manager **MUST** establish an evaluation team (usually two to four people, including a representative from Procurement).
- Tenders should all be opened simultaneously in the presence of the evaluation team. Bids should be evaluated against the criteria set out in the invitation to tender.
- The bids should normally be ranked on quality with price considered later. Ranking should be determined using a points system (say, up to 5 points for each criterion).
- The criteria should be weighted in favour of those which are most important to users of the service (say, a weighting of 4 for the most important and 1 for the least important). Contact Procurement Team for the tools used to develop weightings.
- Mark each bid against each criterion and multiply the points for each criterion by the weighting for that criterion. A final score for the quality of each bid is arrived at by adding up the marks. This can be done individually or in a group exercise.
- The information on price will now enable a decision to be made on which bid represents best overall VFM. It is possible that some bids may rule themselves out on quality grounds alone, irrespective of price.
- Before reaching a conclusion on the most cost effective bid, the contract manager should take into consideration any related but not central costs, in particular any redundancy costs. Refer to Chapter 27 – Market Testing for further guidance.
- There may be occasions where one bid is clearly of a better standard than the other, but is also more expensive. When this occurs post tender negotiation on price may be justified except in cases where EU Public Procurement Directives apply (see the Invitation to tender). In this situation advice should be sought from Procurement Team Post-tender negotiation on other aspects of the bid will be more common. Procurement Team should be consulted for advice. Post-tender negotiation should be restricted to one bidder. To negotiate with more than one bidder at a time is unethical.
- The evaluation **MUST** take place in strict confidence. All bidders should be informed of the decision within 24 hours of its being taken. This is to avoid the embarrassment caused by bidders first hearing the news unofficially. Unsuccessful bidders should be given a broad idea of the strengths and weaknesses of their proposals, but specific detail should be avoided. Details of other bids **MUST not** be given. Procurement Team can advise on the kind of information, which may be given out.
- If a decision is made to contract out, a contract based on the invitation to tender **MUST** be drawn up and signed with the successful bidder before work commences. Procurement Team can advise on the form of a contract. The contract will also need to be checked with Legal

Department and Tax Manager, Corporate Finance. If an in-house bid has been successful, a service level agreement (SLA) **MUST** be drawn up and agreed before changes proposed in the bid are made. Again, Procurement Team can advise on the form of such an agreement.

6.4 Management and Monitoring

- As mentioned in Section 1.5 above, Project (Contract) Managers should manage the contract with the supplier.
- A Project (Contract) Manager's responsibilities would include the following:
 - Tendering process
 - Undertaking post-tender negotiations with the selected supplier where appropriate
 - Assessing the risks inherent in the contract and their likely impact
 - Keeping a record of reasons for selecting the preferred supplier
 - Ensuring the contract process follows the British Council's Procurement policies & procedures
 - Managing the implementation of the contract
 - Monitoring performance against the contract and meet the supplier's contact regularly to discuss this (Contract & Supplier Management).
- Regular meetings with the supplier should be used to discuss contract issues, e.g. where supplier performance is not in line with service level agreement. Performance should be monitored to ensure improvements are made. At the end of the contracted period any extension (see 1.14 footnotes) should normally be agreed only if performance has been good, and any complaints dealt with swiftly. The maximum recommended length of time for a contract and any extensions is five years.
- If it is necessary to make changes to the original specification during the lifetime of the contract re-tendering may be necessary. An organisation that gives best VFM undertaking one task might not provide equally good value for money in undertaking other tasks. If you need to break the original contract, it is advisable to consult the Legal Department.

7 Contracts for Recurrent Purchases – Separation of Duties

Note:

The key tasks to protect with separation of duties are that of **selecting the supplier** and **approving the contract**, so there should be different individuals involved at these key stages. (See **example** in table below).

The power to approve a recurrent purchase contract **MUST** be specifically given in "Specific Approval Limits" within the AL's document.

Task	Budget Holder with specific Approval Limit #	Procurement Manager with specific Approval Limit #	Budget Manager with specific Approval Limit #
Approval to pursue contract as part of the FPS planning process	N	N	Y
Researching suppliers	Y	Y	Y
Selecting supplier	Y	Y	N

Task	Budget Holder with specific Approval Limit #	Procurement Manager with specific Approval Limit #	Budget Manager with specific Approval Limit #
Negotiating	Y	Y	N
Approval of contract	N	N	Y

8 Non-recurring Contracts

The separation of duties for non-recurring contracts are similar to those required for the payment process. There should be two individuals involved in the payment approval process. Detailed guidelines can be found in Chapters 4a – Payment Process (Overseas) and 4b – Payment Process (UK).

9 Additional Guidance

The Procurement Team's intranet site provides further advice and guidance on contracting and purchasing, including checklists and model contracts.

Obtaining Assurance

1 Monthly Assurance Gathering

- 1.1 As Process Owner, the Procurement Manager will be responsible for overseeing the Procurement Process.
- 1.2 Timely reviews provide best control against risks materialising.
- 1.3 Observing processes as they are being carried out and talking to those who are involved in the process will provide you with assurance on the quality of the process being followed. Based on your observations and the evidence that you have gathered, you should make an assessment of performance against the British Council's Procurement standards, policies and procedures guidance given in this document and supporting documentation. This will include making recommendations that will improve the performance or bridge the gaps that you have identified.
- 1.4 You should report your findings and recommendations to the Business Risk Management (BRM) Meeting. Activity Manager and Budget Manager should be consulted immediately where an issue is considered material or potentially poses an immediate risk. Keep a record of any review that you perform (e.g. observing the process, spot checks on contracts placed), which can be used as a basis to assess how gaps have been addressed etc.
- 1.5 Spot checks may be performed on contract payments. The Finance Unit should be able to provide a list of payments on request for a period from which you can select a sample to check. If you do not work close to the procurement process on a day to day basis, select a transaction from each value range at different stages during the year and review the management trail for the transactions chosen.

2 Monthly Reporting at the Business Risk Management Meeting

2.1 As Process Owner, the Procurement Manager should report on the following at the BRM Meeting, but if any are identified earlier, Budget Manager should be consulted immediately. If Budget Manager and yourself reach a conclusion that the deviation from the standard poses a high risk, you should consult the centre for advice

- Signing of contracts outside designated Approval Limits
- Breakdown in separation of duties (for whatever reason including covering for absences)
- Non-compliance with the British Council's procurement standards, policies / procedures (e.g. whether through negligence or lack of training)
- Non-compliance with the EU Public Procurement Directives (e.g. whether through negligence or lack of training)
- Entering into contracts without due consideration of impact on other areas of the organisation
- Evidence of unethical behaviour (see guidelines on Ethical Behaviour in section 2 above)

Evidence of the above and action to be taken e.g. risk containment, responsibility for action etc. should be documented in the Minutes of the BRM. Future BRM Minutes should show evidence that actions have been followed up.