

Transparency in MOD procurement

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Affordability

- A Hard-headed Approach To What We Can Afford
 - Banner display in the foyer of Main Building
- Affordability is a limit, not a spend target
- Defence needs to buy only what it really needs and at the lowest possible price
 - Achieving Better for Less



Moving from 'The Old Days'

- The traditional approach perceived to be 'buy the best' we can for the money available
 - JSP 507 informs value-for-money decision
 - Delays led to a funding 'black-hole' of £38Bn
- Defence budget recently announced to be 'under control' - but must be kept there
- The emphasis is now on doing what we really have to do at reduced cost



Procurement regulations



- EU Public Procurement Regulations frame the methods applied to contracting
- 'War-like Stores' exempt from the regulations - but the principles still apply as best practice
- Much Defence expenditure is on services and non-exempt equipment
- There is an over-riding requirement for 'transparency' in all procurement action



The Regulations



- EU Directive Public Contracts 2004/18/EC and 2009/81/EC
 - UK Statutory Instrument 2006 No. 5 - The Public Contract Regulations 2006
 - UK Statutory Instrument 2011 No. 1848 - The Defence and Security Public Contracts Regulations 2011
- Designed to ensure fully fair and open competition in Public Procurement



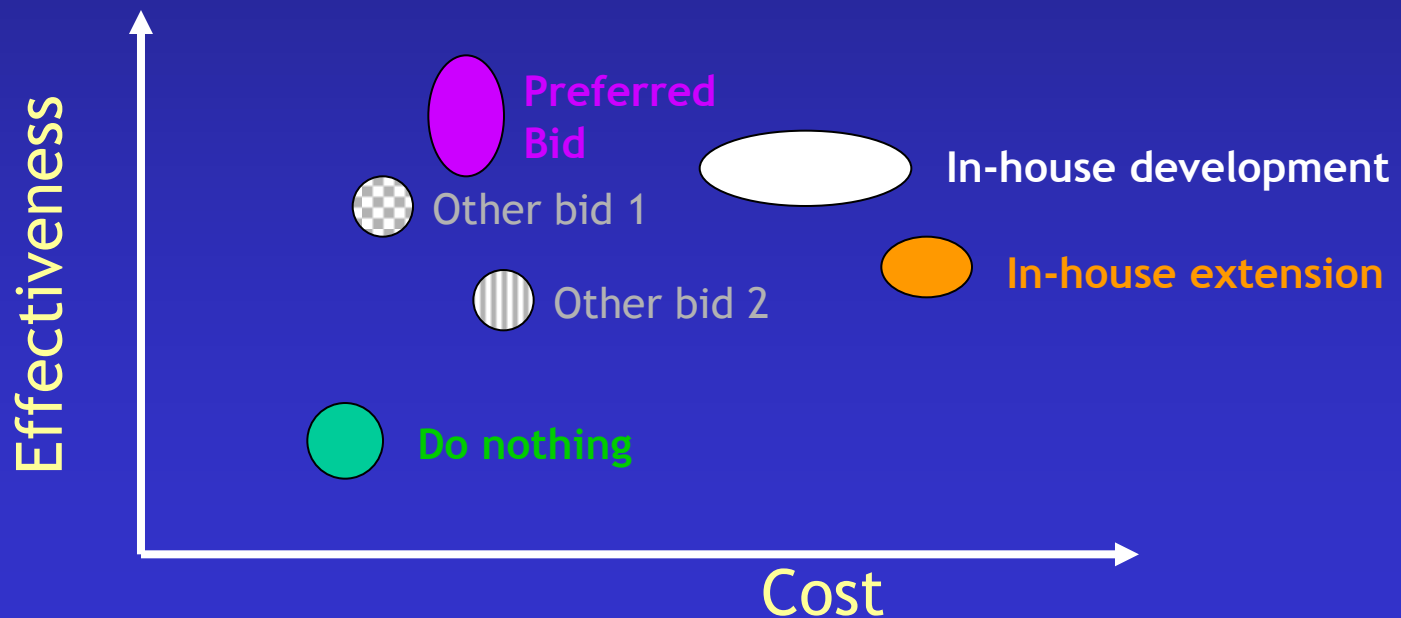
Transparency

- Telling everyone exactly how the competition is to be determined at the start of the process and then sticking exactly to it
- Traditionally a COEIA has been used at the end of a competition to select the 'winner'
 - This does not achieve transparency
- A COEIA can still be used to consider a 'winning' bid against non-procurement options



The COEIA plot

- The final decision on a procurement is made by comparing the preferred bid with other options
 - Only the 'winning' Preferred Bid can be selected



The issue

- It is important that the selected bid offers the right capability at the right price
- The selection criteria must focus on capability delivery while ensuring value for money



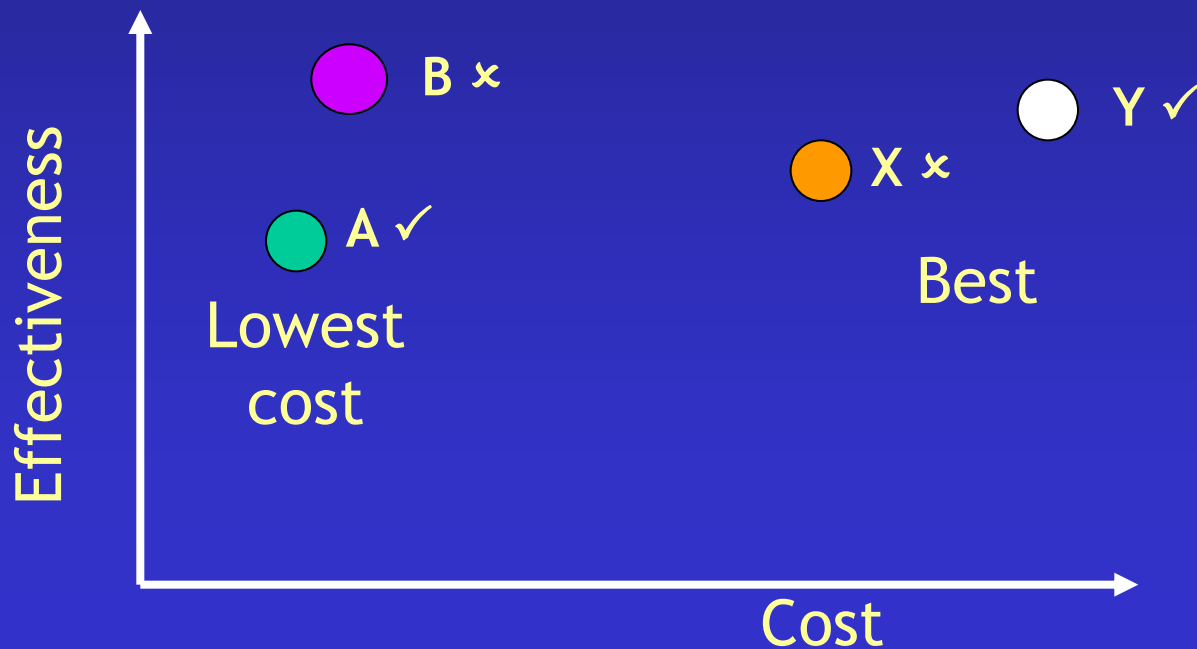
Selection methods

- If we know what we want we could take the lowest cost compliant bid
- If we want the best capability we could take the technically best affordable bid
- Balancing cost and capability can define a basis for a Most Economically Advantageous Tender (MEAT)
- Value For Money must always be demonstrated
- Recent projects have used a number of approaches



Potential COEIA problems

- Defining the selection criteria is not easy
- Lowest cost - a bit dearer and much better fails
- Best - not quite as good but much cheaper fails



Example - Equipment

- Technical specification defined required capability
 - Bids evaluated to establish acceptability
- Winning bid decision made on basis of lowest cost
- In the event of cost overlap the decision made on greatest capability score
 - maximising capability for a given cost
- Approach generated savings for Defence against allocated budget, excess returned



Example - continuing service

- Renewal of an existing outsourced service
- No requirement to improve the current service levels, just sustain the delivery
- Selection aimed to achieve the lowest cost solution
- A strong competition ensured that quality was maintained without cost inflation
 - Funding returned from the budget allocation



Example - 'best' service

- Unusual example - a fixed budget, but reduced from current levels
 - Therefore need to obtain the best possible capability for the reduced money
 - Bidders informed of money limit
 - Necessarily providing a reduced service
- Selection focussed upon technical excellence



Example - new outsourcing

- New contract to outsource a service from in-house provision
- Aim to modernise delivery at an affordable price
 - Improvement in outcomes required
- MOD prepared to pay a premium for improved performance
 - Contractor incentivised with metrics based upon long-term outputs
- Funding returned from the budget allocation



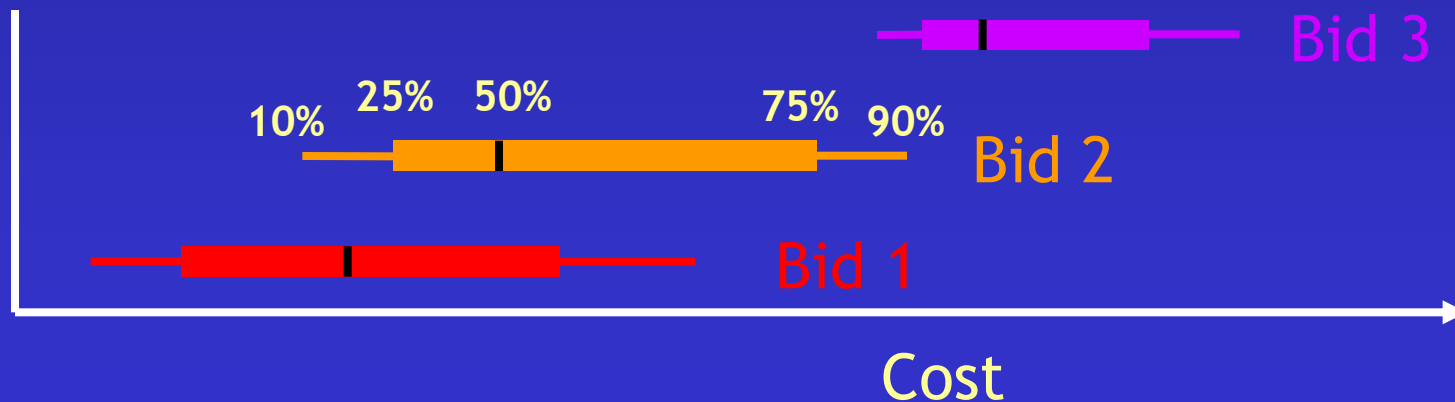
What is the cost?

- Prices from industry are not the Project cost
 - Authority expenditure
 - Authority risk provision and management
- VFM has to consider Whole Life Cost
 - So when are costs different?
 - What are we prepared to pay?



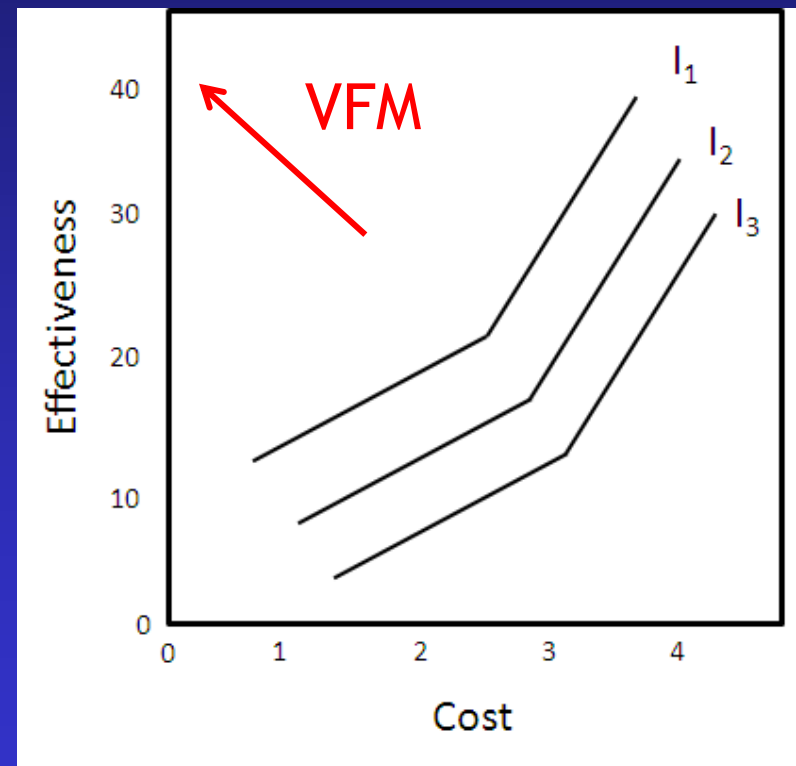
Cost overlap

- Must consider Risked Whole Life Costs
 - Costs might be considered 'different' if profiles do not overlap
 - A project has looked for separation in the inter-quartile range of the risk analysis
 - Lowest overlapping bids separated technically



'Scientific' selection methods

- Seeking a more scientific basis for cost comparison
 - Supported by Dstl and University of Strathclyde
- Statistical tests are difficult to implement as datasets are skewed and often with different profiles



Work in progress

- Guidance being provided to Project teams on defining 'Quality' criteria
 - JSP507 being updated
- Investigating methods to test cost 'differences'
 - Supported by Dstl
- Investigation methods to compare bids that are not firm price
 - Could be Not To Exceed prices or Rate Cards



So What?

- Defining selection criteria is 'easy'
 - Defining the right criteria to deliver the best capability at least cost requires significant effort
- Comparing prices is much more complex than just taking the bid prices
 - When are prices effectively 'the same'?
- Setting the relationship between 'quality' and 'cost' has to be a decision for each project
- Above all, everything must be transparent

