

Supplier Adoption and Economic Development (Strand 5)

Detailed Guideline: Towards a Unified Approach to Supplier Prequalification and Accreditation

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Detailed Guideline: Towards a Unified Approach to Supplier Prequalification and Accreditation

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1. Introduction

This paper aims to assist Local Authorities who wish to move towards a simple, appropriate and unified approach to pre-qualification and accreditation of potential suppliers as recommended by the Better Regulation Task Force (BRTF) and now adopted by central government and incorporated into the National Procurement Strategy.

The paper sets out the issues, reviews work that is currently in place, both in the local and central government arenas and concludes with some recommendations as to how to proceed.

The paper has been prepared by the Supplier Adoption strand of the National e-Procurement Project and draws on our consultations with individuals responsible for this aspect of procurement, supplemented by recent experiences of public body pre-qualification and tendering procedures. Our thanks also to Exor Management Services for their valuable input.

2. Recommendations of the Better Regulation Task Force

The Better Regulation Task Force has recommended, and government has accepted that:

The public sector should develop a common core pre-qualification information document for lower value contracts so that businesses do not have to put together different information in different formats to get past the expression of interest stage. The Office of Government Commerce and the Office of the Deputy Prime Minister working with the Local Government Association should develop and pilot this by Spring 2004.

(Recommendation 5, BRTF and Small Business Council Report: Government: Supporter and Customer? 2003 - now government policy)

The BRTF recommendation is that government should develop a common pre-qualification questionnaire (PQQ) for low value procurement. The PQQ should be as simple as possible and where possible avoid asking for supporting documentation until needed. They considered that a standard, reasonably simple PQQ would improve the procurement process, in particular to the benefit of SMEs who wish to bid for Public Sector Business.

The key points made by the BRTF were that prequalification documents:

- Need to have a common format
- Should be as short as practicable
- Should avoid large amounts of supporting documentation
- The information required should be proportional and appropriate to the contract

In short, public bodies should adopt a risk management approach and only ask for information appropriate to the task in hand. Thus the pre-qualification procedures required for supplying a simple commodity should reflect the much lesser risk than that involved in the procurement of large construction or IT projects on the one hand or the sensitivities of providing care for children on the other. The principles of proportionality, accountability, consistency, transparency and targeting should be applied.

The rationale for this approach is two-fold:

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- To safeguard the benefits of using flexible, innovative small organisations to deliver better value to public sector procurement.
- To avoid the implementation of cumbersome, one-size-fits-all procedures which favour the larger, established organisations.

The BRTF observes that bundling and aggregation saves money in the short term but risks stifling innovation and competition in the long run by reducing the number of players that can bid.

A particular concern of the BRTF was to ensure greater publicity and ease of quoting for smaller tenders under the EU threshold. (The promotional issue - using supplier portals to notify suppliers of forthcoming contracts - is dealt with in a **Detailed Guideline on Supplier Portals** published on this site.)

3. A Tiered Approach

Such best practice as can be found suggests that a tiered approach is appropriate if councils want to avoid excluding smaller suppliers. This means that there is a standard entry level that any organisation seeking to trade with the council should complete. Although there may still need to be scope for waiving some requirements in exceptional circumstances, the introduction of such a policy should raise the quality of procurement across the council and, nationally, the level of Best Value for the taxpayer.

Additional levels of information will then be required according to the degree of risk to the council on the one hand and particular needs of the tender on the other. Examples: requirements of the licence details of HGV drivers or the demonstration that the relevant clearances have been obtained for individuals working with children.

4. Should you use an external service?

There are a number of private and independent bodies who are engaged in providing a service for local authorities whereby they register and accredit suppliers for a fee. The two national service providers are Constructionline (owned by the DTI but run by the private sector) and Sinclair Directories (run by Exor Management Services). There are other specialist sector services such as CHAS, for construction Health & Safety checks. CHAS and COnstructionline have recently developed a joint service.

The benefits of using an external service of this kind include:

- The savings from not having to maintain in-house preferred supplier lists (Constructionline covers only one area, Sinclair Directories covers all spend categories)
- Ongoing day-to-day monitoring reduces risk – NB not available from all services
- The opportunity to use existing pre-qualified suppliers rather than having to source them each time
- The opportunity to co-operate with other neighbouring councils to provide a 'level playing field' using standardised pre-qualification criteria – significant benefit for regional suppliers.

Both services identified above quote a small fee 'per seat' for making use of the facility from within the council but this will easily be offset against the savings available from outsourcing management of the preferred supplier list and reduced risk. More details are given at Appendix A.

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The disadvantages of this outsourcing approach appear to be entirely on the supplier side, in that the costs have been pushed out to them. It can be relatively expensive and time-consuming to participate and there is no guarantee of sales in return for the investment. It also runs the danger of weakening the relationship between buyer and supplier. On the positive side, with recent price changes by Exor, the basic subscription cost for a small company (£50) is insignificant against the potential benefit.

Some councils will not wish to charge suppliers, especially their local SMEs and concerns have been expressed by legal departments about such services. These can be resolved by engaging such services on a non-exclusive basis – ie allowing pre-qualification to be handled within the council in certain circumstances, at least in principle.

One option to deal with this would be to set up a self-accreditation register and only transfer companies to the external service as buyers start to use the suppliers, effectively raising their status dynamically from self-accredited to fully accredited. This is a feature of the @London pilot which is being implemented in Newham from April 2004 and which will take non-accredited suppliers through a Kick-Start process to get them trading online and accredited to a basic standard. Buyers will be presented with accredited suppliers in preference to non-accredited. For more information on this pilot, contact nepp@imaginist.co.uk.

Another option would be to subsidise the supplier charge – an approach being taken by JobCebtrePlus for its main suppliers and being considered by some councils and other public sector organisations who are currently spending money on managing approved lists and see this as a better value option or who are able to tap into regeneration funding – see **Key Question 5** on this site. The benefits of this approach are the lowering of barriers to supplier adoption of the accreditation process and the opportunity to negotiate a bulk charge with the service provider.

5. Standardised Pre-Qualification - Regional Collaborative Initiatives

Current activities in the local government arena to arrive at some standardisation in the supplier pre-qualification process are generally fragmented, with at best some regional approaches. Nevertheless a number of regional initiatives are underway to achieve some degree of consolidation of which the following are but a selection of examples.

5.1 London

Work has started towards developing a common pan-London framework to be called One Capital, One Standard with a view towards providing a badged standard which will be supported by a number of partner organisations including IDeA, BL4L, LDA, LSCSG, DTI, Constructionline etc

Brent is working on a draft specification for the new standard, which is to be based on a combination of the frameworks used in Constructionline and by Exor Management Services Ltd. Main London contributors are Croydon, Haringey, Havering, Hammersmith and Bromley. The next step in this programme is to produce a concordat of key stakeholders.

The One Capital, One Standard group is intending to develop a 2-tier, risk-based model and is considering a simple entry level with different additional information according to the subject matter of the tender. For instance construction contracts would need to focus on Health and Safety Issues while Social Services would have specific requirements such as consultation of police records. **For more information contact: Chris Keady, London Borough of Brent: chris.keady@brent.gov.uk**

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5.2 Southern England

In Sussex a standard PQQ and tiered, risk orientated standard document has been produced. In other words, the complexity of information required will vary with the degree of risk, the need for management of quality and the specific nature of the tender. This has not however been rolled out in the CBC area although the other councils have contributed their views to the production of the document.

5.3 North East Purchasing Organisation (NEPO)

NEPO is working on a common set of Terms and Conditions but they are taking a one-size fits all approach and are not planning to retain information centrally, so that each time the supplier re-bids they will have to re-submit pre-qualification information. However they believe that the supplier will benefit by having the information already to hand for future submissions.

5.4 West Yorkshire

In West Yorkshire there is activity funded by IEG to come up with common Terms and Conditions and Pre-Qualification Questionnaire (PQQ) – to be ready by March 2004. The different councils are working together on a range of issues to develop common solutions.

5.5 West Midlands

The West Midlands Forum includes Wolverhampton, Walsall, Sandwell, Redditch and Birmingham and Coventry and has had a common equal opportunities prequalification standard in place since 1998. It has been approved by CRE and other stakeholder groups and has been “exported” to Kirklees on the one hand and Southwark and Haringey on the other. This is at present based on a series of written forms, but the intention is to web-enable the applications in the mid-term.

Prequalification that depends on ‘tick lists’ such as equal opportunities and Health and Safety and Insurance is an ideal candidate for online processing.

The West Midlands Forum aspire to do some more work in this area, particularly considering adopting the CHAS (construction industry Health and Safety) standard for Health and Safety.

5.6 West Midland OGC Pilot

Perhaps the most advanced relevant initiative is occurring under the auspices of the OGC. They are running a substantial pilot in the West Midlands, working with 500 SMEs to develop an integrated approach to procurement making use of a Tender Opportunity Portal on which tenders, guidance notes and criteria are posted.

One of the workstrands is aimed at developing a standard PQQ. This will be developed after review of the performance of 2 alternative models:

- One based on Constructionline. This was chosen because of its established market position and endorsement by ODPM and NHS-PASA, its central repository and its proactive management of updates and search and selection facilities. Construction is an area of considerable concern to the participating public sector organisations (GOWM, Defra etc)
- An alternative, simpler self-registration approach aimed at sub £100k tenders but aimed at 2 tiers of contracts – basic and complex

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The pilot aims to facilitate electronic submission of documents.

It aims to promote self certification by asking for confirmation that documents exist but doesn't ask to see them until later in the tender process. It also aims to be free to the supplier at the point of use and to facilitate automated evaluation.

The principle is that questions should only be asked if necessary at the PQQ stage and documents only requested if they are to be evaluated at this stage.

The proposed approach will follow the BRTF recommendation that the information requested should be proportional to the risk involved - criteria may include:

- Monetary Value
- Payment Profile
- "Mission-criticality"
- Time criticality
- Lack of alternatives
- Potential for damage to purchaser due to failure
- Legal or statutory requirements

See section 8 below for a full list.

The aim is to produce a core framework to which additional questions can be added for specific types of purchase. An alternative one-size-fits-all approach is seen as too cumbersome.

The PQQ will be sent out as a word template and will be returned as a fax or hard copy. Technically, the PQQ could be sent electronically if it were completed over a 128-bit SSL link. However, sending financial information over an un-encrypted email link is considered unsafe as the information would be considered to be at "level 2" of the Government's Security Framework policy and guidelines.

Following the BRTF guidance, information required will fit into 4 main categories:

- Basic Company / business details
- Financial, economic and banking information
- Work undertaken / reference sites
- Compliance with legislation and good practice

Finally, information about what the supplier is interested in terms of contracts or geographical range is requested.

In general this follows the format for information currently requested by councils such as St Helen's and Thurrock who have developed approaches to help local companies – see the exemplar web pages under **Resources** on this site.

The West Midlands pilot will assess the Constructionline model versus the alternative, on grounds of:

- Cost
- Ease of use by buyers
- Ease of use by suppliers

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- Completeness of information
- Relevance and appropriateness of information

Recommendations for changes or enhancements to Constructionline may be made as a result. We can expect that the outcomes of the West Midlands pilot will be assessed and that an approach based on this learning will be proposed for national adoption during 2004/5.

6. Operational Issues

Pre-qualification vetting of suppliers for contracts over a certain value has always been part of the day-to-day workload of the finance function within every local authority. However standing orders and governance rules vary between local authorities and there are few examples of councils getting together to set common standards. Moreover a lack of resources and the decentralisation of buying prevents most local authorities applying standards across their procurement activity except where the risks and the need for supplier management are very high, as in some social services care situations.

e-Procurement provides an opportunity to change this and to improve the position, relevance, degree and use of supplier accreditation and performance measurement. Automated workflow systems can be introduced to enable buyers to apply higher standards while reducing their workload. The ability for a local authority to achieve Best Value standards requires that they are able to demonstrate that appropriate pre-qualification evaluation of suppliers has taken place.

A linked accreditation, selection, performance measurement and feedback process is an established part of supplier development in the private sector, where it is recognised as the key to moving towards partnership relationships with their strategic suppliers and raising quality standards across their procurement activity.

We believe that implementing the same process in the local authority sector is essential if local authorities are to achieve the levels of best value and cost reduction that government is looking for as part of the improvement of procurement and streamlining of the processes enabled by e-procurement.

7. Other considerations

A pre-requisite of good practice will be the central retention of completed pro-formas to simplify and speed up future bids. This is a feature of the services offered by Constructionline and Exor. These organisations also keep their central databases under continual review so that the accreditation is always up to date.

This should be a core feature of any centrally organised pre-qualification system, including any internally managed system.

8. A practical approach to pre-qualification

Developing a standardised approach to supplier pre-qualification is now recognised as an essential part of lowering the barriers for SMEs to trade with government.

Local authorities must adopt a simple, workable process that can be used across the council without imposing an impracticable one-size-fits-all solution.

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The following general principles should be adopted:

- Carry out a supplier analysis
- Establish a supplier database
- Review all categories of spend and apply the relevant tiered level of accreditation
- Consult suppliers
- Take a tiered approach
- Share accreditation standards with your neighbouring councils and accept once-only registration
- Make accreditation simple, cost effective and not over-heavy, but make it mandatory
- Provide advice and support on your website

These are discussed below.

Carry out a supplier analysis

Supplier accreditation in essence means “understanding your potential suppliers”. In order to engage your suppliers in any new initiative you must understand who they are, what quality of goods and services they deliver and how much business you do with them. An initial supplier analysis from your financial management data is recommended as a first step, as dealt with in **Practical Steps to Successful e-Procurement** on this site.

Establish a supplier database

For any online initiative to work efficiently and bring the desired cost savings, it requires that ALL suppliers that the local authority wishes to use, from the local florist to the multimillion £ construction company, are captured on a local authority-wide procurement database.

In order to establish such a database, the suppliers must be identified and checked according to accreditation criteria agreed by the local authority. Most larger local authorities in certain categories of work (i.e. construction related) represent a very attractive marketplace for suppliers and there is not normally a shortage of choice. However, in affluent areas and for more specialised categories, such as social services care, supplier choice can be limited, with the potential for exploitation by the supplier in a monopolistic position. By adopting “open” accreditation standards and use of a national database of qualified companies, the local authority can broaden its choice of suppliers.

Where local suppliers are critical to the economic well-being of the local authority, these can be targeted and recruited, in some cases in conjunction with an e-enablement programme aimed at raising the local SME's ability to trade with a wider marketplace, as dealt with in **Practical Steps to Successful e-Procurement** and other guidance on this site.

Review all categories of spend and apply the relevant tiered level of accreditation

The local authority must review all of the categories of spend that it contracts and apply the relevant level of accreditation according to the risk, average contract value and size of the business. Take a simple approach to the initial screening which will seek to establish the size, financial stability, ability to comply and capability of delivering the service or products required.

A basic level accreditation is recommended as a baseline for low value transactions – see below for an example of a 19-point list - with 2 or 3 levels above this, based on value and type of transaction.

Consult suppliers

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The local authority should consult suppliers and include consideration of their needs into implementation plans; emphasis can be given to the continued long-standing business relationship that will be cemented by the programme for quality and good value goods and services provided to the authority.

Take a tiered approach

Request the majority of detailed information only at tender stage and take a tiered approach which only asks for more stringent capacities and compliances where they are directly relevant to the performance of the contract as a whole.

Share accreditation standards

A significant amount of time and money can be saved by both the authority and supplier not having to go through the pre-qualification component of new bids and tenders - it only has to be done once - and as authorities begin to accept shared accreditation standards, existing accredited suppliers will be eligible to bid without further pre-qualification. Consider using an external verification service such as Constructionline or Exor (the latter covers all spend categories) which provide a vehicle for a shared approach, using a tiered, structured, externally verified approach with a central repository and ongoing updating capacity.

Adopt existing good practice wherever appropriate. This may take different forms. Councils might consider adopting established protocols in certain areas, such as the West Midlands Forum's approach to Equal Opportunities or the CHAS approach to Health and Safety.

Wherever possible, collaborate across regional groups. We particularly recommend Counties and their associated District Councils working on this issue together. We would further recommend that such groups communicate with each other to achieve a degree of consistency nationally, so that suppliers who are accredited and in good standing with one local authority or group are able to transfer their standing to other local authority clients with a minimum of information processing.

Make accreditation mandatory

It is imperative that the authority makes clear to the supplier base that accreditation is a mandatory requirement and that they are committed to the process. Initial reaction from existing suppliers may be to utilise their long-standing relationships and try to "short circuit" or ignore the process. This will be an initial problem area for any change programme. Managers can expect to get phone calls and complaints in the initial launch stages and should be prepared to robustly support and confirm their position.

In order to make this approach work from the point of view of the SME, however, the process must be simple, cost effective and not over-heavy. It should also display an effective balance between financial, technical and compliance issues. (There is some evidence that some procuring authorities may be more concerned with political correctness than evaluating the supplier's capacity to do the work.)

Provide advice and support on your website

Provide sufficient advice and support on your website to support any company that wishes to go through the process of gaining accreditation – see **What is a Supplier Portal and what does it do?** on this site.

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9. Baseline Questions

The levels of information requested by Thurrock or the proposed OGC West Midlands Pilot are appropriate as a point of departure. Also see the list of question categories used by Exor in section

Thurrock is questioning the concept of national directories on the grounds that the charging regime may be a barrier for smaller suppliers. (This certainly was the case until recently. Exor has introduced its Bronze service which is not meeting any resistance from suppliers. We do not have any information about other services moving in this way.) Thurrock has developed their own streamlined pre-qualification process based on their own tiered, risk-management model. Currently Thurrock is engaged in consulting their suppliers to establish their views.

Thurrock requests the following information:

- Company details and trading address
- Contact, Date of formation and registration details, number of employees
- Details of Health and Safety Officer and whether a policy exists with a statement that a copy will be required at the tender stage.
- A similar approach is taken to equal opportunities
- Simple financial figures are required with confirmation that 3 years accounts are available.
- Brief details of insurances, quality assurance and environmental policy.
- References and indication of the types and values of work that the organisation is interested in tendering for.

The OGC West Midlands Pilot intends to develop a questionnaire based on those used by a number of best practice organisations. It expects to cover:

Financial Questions

1. Turnover and Profit and Loss for the last 2 year's
2. Organisation's Net Worth
3. Current cash and credit facilities
4. Can you provide if requested accounts and cash flow figures
5. Are your companies house filings up to date
6. Have you met all loan, wage and creditor payments in the last year

Work issues

7. What do you do
8. Minimum and Maximum contract sizes
9. Geographical areas

References

10. Client
11. Description of what was supplied
12. Approximate contract value and dates of supply
13. Customer Contact details

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Governance

14. Have any contracts been terminated for poor performance in last 3 years
15. Details of Insurances including PII
16. Quality
17. Health and Safety
18. Equal Opportunities
19. Legal compliance

A tiered approach like this can be introduced by a local authority but may need amendments to its Standing Orders. Ideally the local authority should be using such an approach in its Economic Development work to support the growth of local businesses. By promoting accreditation as a route for improvement, the council will help local companies develop the capabilities to meet a more stringent vetting criteria, which will make them more competitive and should lead to greater value of business coming into the community.

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Appendix A: External Accreditation Services

Constructionline

Constructionline has an established position and serves a wide range of different public sector buyers. There is a charge to the supplier (£70 per year upwards depending on turnover) but no charge to the buyer other than that identified above.

Constructionline is owned by the Department of Industry (DTI) and is a contributor to the Rethinking Construction initiative. It is the UK's largest register of pre-qualified construction contractors and consultants. Constructionline is designed to streamline procurement procedures and save valuable resources in the construction industry rendering it more efficient and effective.

Over 12,000 contractors and consultants are registered with Constructionline and have all met pre-qualification requirements supported by the DTI. They cover the full spectrum of construction activities from architecture to demolition and range in size from small specialists to the largest main contractors.

Constructionline's 1700 plus clients range from large central government departments to Local Authorities, Universities / Further Education and NHS Trusts. They have direct access to the database and Constructionline helps them to achieve best value objectives.

Source: Constructionline website: www.constructionline.co.uk

Constructionline is specialised for the construction market and does not offer a 'tiered' approach.

Exor Management Services

Exor Management Services Ltd offer the Sinclair Directories independent accreditation service to cover all local authority categories of spend. Like Constructionline, Exor raise a charge to the supplier, rather than the buyer, apart from the small fee per seat for making use of the facility from within the council.

A four-level service is offered, based on value and type of transaction, starting from a basic level accreditation for the simplest, least expensive contracts, as follows:

- Bronze: 25 checks, £50 pa - aimed at discretionary spend up to £5k and suitable for small local suppliers and sub-contractors
- Silver: 75 checks, £250 pa - aimed at quotes up to £20k and suitable for local suppliers and contractors
- Gold: 120 checks, £600 pa - aimed at tenders up to £100k and suitable for regional & all other suppliers and prime contractors
- Platinum: full monitoring, £1000 pa - aimed at OJEU contracts partnerships, major long term contracts and special high-risk projects.

The Exor service looks at previous track record, financial stability, outstanding county court judgements and H&S, equal opportunities, environmental and other compliance issues as appropriate.

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The following types of check can be made:

• EXPERIAN Agency	• Full Financial Analysis
• Risk & Credit Rating Score	• Safe Trading Level Allocation
• Bank Details & Payment Records	• Certificates of Competence
• Licences and Associations e.g. CORGI/NISEC	• IT Compliance
• Insurances	• Public Liability etc
• Captured and Monitored	• References
• Category Specific	• Independently Sourced
• Health and Safety	• Policy Review and advice
• Probity and Fidelity	• Banned Directors
• Cross Company Ownership	• CCJ's
• Equal Opportunities	• Racial Discrimination
• Sexual Discrimination	• Disability Discrimination
• Working in Occupied Dwellings	• Environmental & Sustainability

To apply this service effectively, the local authority must review all of the categories of work that it wishes to put out to tender and apply the relevant level of accreditation according to the risk, average contract value and size of the business. It will need to apply this approach to all actual or potential suppliers.

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