

Ministry of Finance, 2002-1  
November 2002

# Government Procurement Policy

*Efficiency, Competition, Accountability and Transparency*

Approved by the Government of Iceland  
15 November 2002

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## Foreword

The Government of Iceland has approved a Procurement Policy of the State, that primarily aims to achieve trust and dependable environment for public procurement. The procurement policy has a reach that extends to ministries and state institutions. The policy stipulates as well special emphasis and goals for government Procurement in the years 2003-2006. The government emphasizes the performance of procurement to ensure procurement in general is economic, open, conducted responsibly and in a fair manner. The arrangement of procurement aims at strengthening market competition.

The policy stipulates, measurable targets for the government in general, for individual ministries and specific projects. Moreover, general preconditions are defined that forms a basis for preparation and execution of government procurement. Finally, the focus is on tasks that will be in the forefront for the next years. It is made clear that procurement not only refers to the product, the service or the work that is being procured, but also the entire process from the time the procurement is being prepared until the use of the relevant procurement is complete.


It is necessary for managers within the government to be aware of their operational cost and the cost of comparable operations in the market. By entrusting private entities with carrying out certain tasks it is possible to achieve better efficiency, increased competitiveness and diversity of the service, which is suited to build up knowledge in the society and is of use for others in the market. The procurement policy therefore affects outsourcing operations or tasks that are now carried out by official institutions.

The procurement policy is a guide for ministries and government institutions but at the same time demands that rules are adhered to and defined savings targets are met over the next years. Bearing in mind that public money is being spent, the execution of procurement should be responsible.

The procurement policy does not have legal force, however it is required that ministries and government institutions use it as a basis for their procurement. The subject of the policy therefore acts as a special guide for ministries and institutions.

Reykjavík Novemeber 15<sup>th</sup> 2002

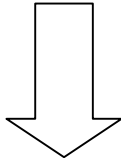
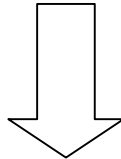
*Minister of Finance,*



## 1. Introduction

The legal environment of public procurement has been under constant review over the past years in addition to a greater emphasis on guidelines and areas of special concern in the field of public procurement. The foundation of the procurement policy rests on this work and outlines the path which the state intends to follow, within the legal environment that has been established. The following table outlines the framework for public procurement in Iceland.

### Public Procurement Framework Reference

<p><b>Legal environment</b></p> 	<ul style="list-style-type: none"> <li>- Act on Public Procurement no. 94/2001</li> <li>- Act on State Finance no. 88/1997</li> <li>- Act on rights and obligations of civil servants nr. 70/1996</li> <li>- Act on the Tender procedures Procedures. no. 65/1993</li> <li>- On Public Projects Procedures. no. 84/2001.</li> </ul>	<ul style="list-style-type: none"> <li>- Regulation no.705/2001 on coordinating the procurement procedures of entities operating in the water, energy, transport and telecommunications sectors</li> <li>- Regulation no. 1012/2003 on threshold limits for public procurement on the EEC and according to WTO agreement on public procurement.</li> <li>- Regulation no. 715/2001 On Public Projects Procedures.</li> <li>-</li> </ul>
<p><b>Policy</b></p> 	<ul style="list-style-type: none"> <li>- State Procurement Policy                             <ul style="list-style-type: none"> <li>- <i>Best value</i></li> <li>- <i>Responsibility and Transparency</i></li> <li>- <i>Simplification and Efficiency</i></li> <li>- <i>Education and Specialization</i></li> <li>- <i>Enforcement of the Competitive Market</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Public Procurement Policy for Ministries</li> <li>- Public Procurement Policy for Public Institutions</li> </ul>
<p><b>Guidelines and special projects</b></p>	<ul style="list-style-type: none"> <li>- Guideline on classified procurement</li> <li>- Manual on Public Procurement</li> <li>- Individual directives and contracts.</li> </ul>	

## 2. Measured objectives

The State Procurement Policy sets the following objectives to be achieved and areas specially emphasised within Public Procurement.

- **Efficiency in procurement:** The state procurement amounts to 70 billion ISK. The goal for this policy is to save 2,5 billion ISK in the next four years, or **600 – 650**

**millions** annually. These goals will partly be reached with the distinctive special tasks that are named in the policy. It is expected that the savings will be divided in the following manner:

	M. ISK.
– Coordinated procurement – Electronic commerce. Reduced transaction cost and shortened procurement processes.	1.100
– Tender procedures for services and specialist services.	500
– Large projects. Project management and Contract management.	700
– General knowledge and improved work procedures.	200

- **Electronic Commerce:** The state is to purchase electronically certain routine purchases by the end of 2004. General office supplies, standard software, food, furniture and instalments. Special emphasis will be put on electronic procurement for medical and healthcare supplies.
- **Framework contracts:** Planned increase in the use of framework – contracts is 30% annually in measured turnover over the next four years mainly through the addition of product categories to the system of framework contracts, as well as increased general use of the system.
- **Definition of procurement:** All ministries are to produce a separate procurement policy also applicable for their subsidiary institutions, by the end of 2003. The policy shall contain their emphasis on procurement, procedures that are to ensure successful implementation and savings and the objectives that are based on the procurement policy. The ministries are expected to publish their individual policy and introduce it's content and targets to their institutions and their employees. The ministries are expected to report annually on the results of the policy.

The Ministry of Finance will publish the contents of the procurement policy for all the ministries and relevant public institutions and monitor that the objectives are achieved.

### **3. General terms of the procurement policy**

The procurement policy is expected to generate active competition in the market and ensure efficiency in the operations of the state. The policy outlines the main themes and considerations that are to be considered for each procurement decision. Efficient procurement or **best value** is considered to be the cornerstone of the policy. Other considerations that are to be kept in mind are:

- Accountability and Transparency.
- Simplification and Efficiency.
- Education and Specialization.
- Enforcing market competition.

The policy furthermore defines duties and responsibilities of those who conduct procurement on behalf of the state. These employees are expected to:

- Adhere to laws and regulations for public procurement.
- Conduct procurement according to the procurement policy of the state.
- Follow published guidelines and manuals regarding public procurement.

Those who purchase are responsible according to the Act on the Rights and Duties of State Employees no. 70/1996.

### **Best value**

Those who purchase for the state are expected to target the best possible result with respect to cost and benefit. The lowest price does not necessarily mean best value. Best value is considered with respect to the life-time cost of the product, works or services, which can be subject to:

Financial terms, i.e. price and payment terms.

- Definition of purchaser's requirements and optional procurement methods.
- Knowledge, experience and qualifications of the seller.
- Competitiveness of the market.
- Scrap value.

Selection of the buying method can affect the notion of best value. The preparation for procurement and various requirements in tender procedures can entail substantial costs both for buyers and sellers. Procurement method and required qualifications of sellers shall be proportional to size of the project in order to prevent unnecessary costs in the procurement process.

Environmental-issues as well as costs and quality are to be taken into consideration in procurement. When goods are comparable in all aspects, the product that is considered less harmful to the environment is to be chosen. It must be kept in mind that a product that is more expensive in procurement is possibly more cost saving in the long run. An example is a low-energy consuming light bulb, that has a longer lifetime and use less power. When procurement a product it is recommended that one inspects to see if it carries a recognized environmental-label, like the one issued in the European Union or the Nordic environmental label "The Swan".

Best value not only means procurement of goods and services for current operations but it is required that state and its institutions consider if particular activity of their operation or even certain tasks are performed better by procurement on the open market. The demand

for best value therefore not only concerns goods, work or services, but also to the internal operation of the state. The operations of the state must always be comparable to the market. If ideas for solving an activity in a more efficient way are introduced by a private entity, the relevant state entity must demonstrate what the current in-house cost of the operation is, and moreover scrutinize if it is carried out more efficiently than claimed by the private entity.

### **Accountability and Transparency**

Procurement not only considers the product itself, the service or the work in question, but the entire process from the time a need for the procurement arises until the relevant product or service has fulfilled its purpose. The procurement decisions, their arrangement and follow-up is the responsibility of the assigned employee and the head of each organization.

Procurement decisions fall under the responsibility and duties of directors, according to art. 38 of Act no. 70/1996 on the rights and duties of civil servants. The director is responsible for the efficient utilization of funds. In the case a director has been found in breach with his duties, he shall be formally given a word of warning and in case of a substantial or repeated negligence, the director shall be freed from his duties temporarily, according to the Section IV of Act no. 70/1996. The general principle that is in force is that individual employees are responsible to the director of the organization and his instructions.

Ministries and state institutions are obliged to operate in the manner that the costs of individual tasks are transparent and easily comparable between different operators, whether within the state or in the private market.

Those responsible for state procurement, must be confident that the procurement process is transparent and open towards the market. Formal decisions and pending procurements shall be accessible in all cases to guarantee competition and best-value for money. Transparency towards outside entities also entails that the results of the procurement decision are open and the participants in a tender procedure are always given an justification, upon request, why their particular offer was accepted or rejected. Clear rules and open procedures are to open and clear communication with participants in the market and pave the way for the state to achieve the objectives of best-buy.

### **Simplification and Efficiency**

The procurement method which is chosen is to reflect the scale and scope of the requirement. Purchasers shall take into consideration the situation of the market when requirements are specified for the procurement. Coordinated procurement and electronic procurement work towards the simplification of procurement processes and reduction in transaction costs.

Procurement has considerable influence on the efficiency of the operation of state organisations and financial results. Organisations of the state are to ensure that procurement contracts are :

- monitored and evaluated on regular basis and to monitor the proposed benefit, and that they work towards the organisational objectives of the ministry or institution .
- Coordinated procurement, e.g. framework contracts, increase procurement efficiency, where suppliers are selected in advance but information and quantity area uncertain. By advertising and maintaining a list of service-providers, e.g. when procurement consultancy, it is possible to advance procurement and thereby increase efficiency.

### **Training and Specialisation**

Directors of state organisations are to ensure that employees, responsible for procurement are sufficiently knowledgeable and receive training in proportion to the scale of procurement requirements. Trained purchasers need thorough understanding on the principles of procurement and strategy. They also need to be experienced to ensure best-value. Larger projects and programmes require knowledge of project management and contract management.

Ríkiskaup (State Trading Centre) will make available education and training in public procurement for state-employed purchasers. On larger and more complicated procurement tasks, state organizations shall utilize the expertise of Ríkiskaup in public procurement.

### **Strengthening the market competition**

In light of its size the state has great influence on competition in the market. State procurement is well suited to assist with:

- Building up specific narrow markets and improve the competitiveness of Icelandic companies.
- Improving services that can be used by both private and public entities.
- Improving work procedures and training.
- Opening access and reducing transaction costs for companies doing business with the state.

With the transfer of various tasks to the market, the state can in the long run contribute to the building of new industries and services in the private market. By sharing the knowledge, expertise and experience of the state, the economy can benefit and become more competitive internationally.

The government has placed special emphasis on the use of electronic tools in Icelandic business community with the objective that Iceland will stay at the forefront internationally.

E-Procurement market place and the state Procurement Card are examples of the effort to increase efficiency in public procurement. E-procurement and electronic payments are considered key factors for strengthening the market in this field, as the trade becomes less dependent to location.

#### **4. Special Emphasis in Procurement 2003-2006**

##### **Electronic Commerce**

The advantage derived from the use of electronic commerce for government operations is compelling. The state has already launched a few large projects in that field. First to be mentioned is a new financial and human resource information system for the government, a system which can be considered the beginning of a new era in the operations of the government, with tighter coordination and possibilities for electronic procurement and e-commerce. The systems are a fundamental prerequisite to making it possible to reap the full benefits of e-commerce.

The state has many objectives with the use of e-commerce. A direct benefit for operations envisaged by using e-commerce, but the state can in light of its size, organization and discipline in procurement help in building markets, that previously did not exist. An example is the Procurement Card as well as the e-Procurement marketplace. In these cases the state paved the way and companies on the market have benefited.

Development projects regarding the State Procurement Card have been concluded. The use of the card and its adoption to the operations of the state has resulted in clear rationalization, especially concerning retail procurement. Financial benefit is demonstrated with increased discipline in procurement and reduced transaction cost. It is therefore required that all ministries and government institutions adopt the card.

The Ministry of Finance and Rikiskaup have lead the development of the e-procurement marketplace on behalf of the government. The approach to the project is to develop the marketplace as a general procurement system for the government and the private sector. The operating cost is therefore be divided between the government and the private market. The government has urged state institutions to utilize the marketplace and the possibilities it offers.

##### **Coordinated procurement**

Coordinated procurement by government entities is very important for efficient procurement. In the light of its procurement power, the government can achieve large savings with discounts. Coordinated procurement also means efficiency for the suppliers, as it becomes easier to monitor the procurement needs of the government. Moreover the procedure of the procurement becomes more effective and standardized.

A consensus on the procedures of coordinated procurement is a key factor. Contracts on coordinated procurement by the government is normally based on certain quantity which directly affects price. In order to obtain best value, it is therefore necessary that state institutions be aware of the commitment to purchase will mean that suppliers are able to offer better price. It is however possible to do individual contracts that are not obligatory for the state. However this is not a guarantee for best value.

Framework contracts, that The Rikiskaup makes with suppliers for routine goods and services, are the most common form of coordinated procurement. All ministries and institutions are obliged to be subscribers and use the Framework contracts. Individual contracts shall be made following a survey on the requirements of government institutions. If an institution considers that it is not in its interest to participate in individual contracts, it shall notify to Rikiskaup formally, that they intend to withdraw from that contract prior to the tendering process.

### **Contracting out operations**

Contracting out by tender invitation, various operational tasks, e.g. accounting, research services, specialized consultancy, cleaning and outsourcing information systems has increased in the recent years. Government organizations have increasingly realized the advantage that is found by transferring certain operational tasks of the government to the private market, especially those tasks that are classified as support services. Over time institutions develop specialized knowledge in certain spheres that today can be provided externally in a more efficient way.

It is requested that government institutions regularly, and in an organized manner investigate if certain tasks are currently being solved more efficiently internally than by having it provided on the market. By giving private parties a opportunity to send inquiries to institutions on the operation of a certain task, creates a powerful check and responsibility to the institution that must be taken into consideration.

Related to the creation of their individual procurement policy, the ministries in collaboration with their subordinate institutions will examine the operations that are ideal for outsourcing and name objectives and timeframes in that relation.

### **Tender procedures for specialised consultancy services**

Each year, ministries and institutions buy special consultancy services for over ISK 3 billion. More emphasis will be put on committing a requirement analysis and tender procedures before such services are purchased. Tender procedures for consultancy services can either be in relation to each project or by maintaining and updating a list over qualified consultants that can be contacted at the beginning of the projects.

## Emphasis on different types of procurement projects

Public procurement can be roughly divided in half. On the one hand there is general procurement, necessary for the daily operations of ministries and institutions. On the other, there is the specialized procurement, where each and individual project can substantially affect the operation of ministries and institutions. It can vary by the nature and size of institutions how this type of procurement is classified in these two categories and not necessarily accurate to look solely at amounts, in this respect. The Act on Public Procurement, stipulates a 5,5 million threshold limit which requires public entities to offer for tender **all goods** that are to be purchased, and similarly **10,9 million for services and works**. In Act furthermore requires that government entities seek special assistance when procurement substantially surpasses these amount limits.

Different procurement methods are applicable depending on whether the procurement is considered general or specialized. Regarding general procurement a clear policy has been issued, that electronic procurement shall be utilized on a greater scale, coordinated procurement increased and automated procurement used to the utmost. In the cases where there are no formal tender procedures, it is required that suppliers are compared. In specialized procurement there is a pre requisite that tender procedures are to be carried out. All employees that are responsible for procurement are required to adhere to the laws and regulations that order tender procedures. In larger procurement it is important that preparations and procedures are from the outset diligently carried out and that every contract is carefully monitored. Increasingly, the procedures associated with project management have been applied in larger procurement. Moreover, distinctive procedures for contract management have been implemented with good result.

At the beginning of a work or project it is recommended that its scale and scope is defined in with reference to the following specifications:

- Project ISK 10-25 million: use tender procedures and evaluate the need for project management. Regarding goods, the contract threshold is ISK 5,5 millions.
- Project ISK 25-100 million: use tender procedures, project management and evaluate the need for contract management.
- Project >ISK 100 million: Unconditional that tender procedures are to be used, project management and contract management.

It is required that ministries and government institutions seek professional consultancy on these issues in the case of large scale projects.

## Training and Information

Training and information play an essential role in ensuring a professional course of action for procurement. Rikiskaup has a special mission in this respect, where the organization has developed and acquired specialized knowledge in this field. Ministries have duties as well in these matters, such as providing information on the emphasis it has put on their procurement, legal issues, objectives and monitoring. A special emphasis is going to be placed in the next years on publishing guidelines on the preparations and procedures of

procurement in general, as well as manuals on the procurement of certain operating sections of institutions and organizations. Collaboration of institutions that are operating on similar fields create opportunities and basis for exchanging experience and knowledge in addition to the notion that coordinated procurement delivers increased economy.

### **Private Public Partnership.**

The concept of Private Public Partnership (PPP) has proved itself as a clear choice in respect to the execution of various tasks, mainly in relation to the combination of real estates and services. The Central Government has defined PPP as one of its objectives that the advantages of PPP are to be used in an increasingly for government operations. The methodology that has been developed in PPP, and relates to the preparation, execution and monitoring of procurement, is just as applicable in other kinds of projects, such as procurement of complex services and the procurement of software. This kind of procurement often requires a clear definition of procedures in advance, in order to ensure value.

### **Policy-making by the Ministries**

Procurement concerns a considerable part of each ministry's overall operations. It is therefore important that the individual ministries form their own policy in this field, and the purpose is to increase efficiency. Therefore it is required that the ministries publish their own procurement policy before the end of the year 2003. The Government's Procurement Policy shall be the basis for this policy-making. A special weight shall be placed on the different issues that are the focus within the individual ministries, both with regard to preparation, organisation and control of procurement. Furthermore the ministries shall specify a criteria intended to help in the quest for obtaining the objectives set in the procurement policy. The Ministry of Finance will be in assistance in the creation of the policy and in defining the measurable objectives. The adoption of the policy will become a part of inter ministerial relations, as well as with the institutions, in things like performance management contracts.

It is very important that procurement becomes one of the clearly defined tasks in the organizational structure of ministries and institutions. In larger government institutions it is preferable that the employee, responsible for procurement, is a direct sub-ordinate to the director or manager of larger division in the organization.