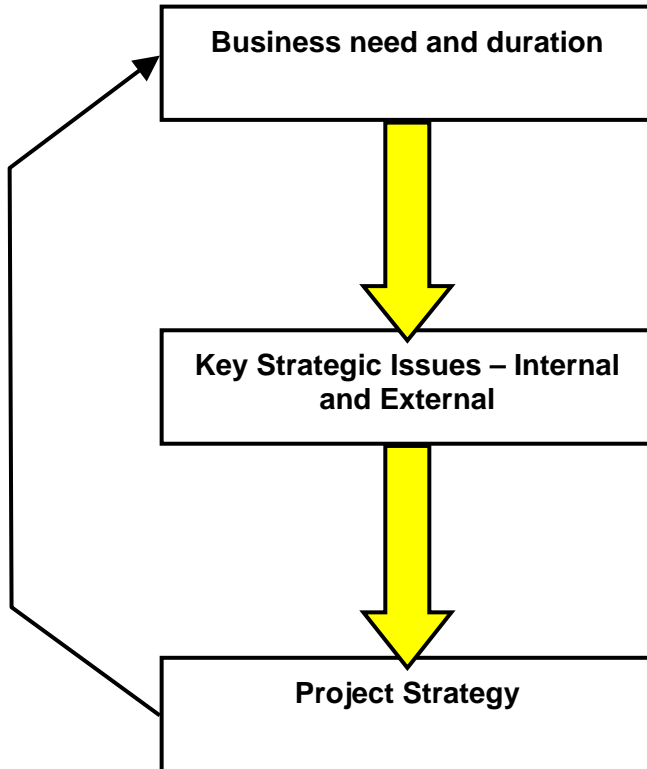


Index



Part 0 Provides an introduction aimed at SROs and others

Part 1 Helps you consider how the project relates to the overall goal of your organisation. Also helps you consider the duration of your need and your ability to change.

Part 2 Sets out key internal and external factors to be considered before settling on a project strategy

Part 3 Helps you determine the most appropriate procurement approach and suggests deal shape options.

Part 0: Introduction

1. Purpose of this guidance

This guidance is intended to help your Department or Agency or NDPB with the strategic planning needed before projects begin and also to determine which procurement approach and risk profile best meets your particular needs for a particular project. It is aimed both at those who take the decisions on which projects to pursue, and at those who implement such decisions.

2. What SROs need to know

Senior Responsible Owners (SROs) need to look at the characteristics of their organisation and business objectives in order to determine the appropriate strategic approach:

- If there is confidence about the long-term goal, stability of the organisation and business objectives, and the outcome responsibility can be passed to a contractor, then there is scope for contracting for an outcome, using a partnering approach where appropriate
- Where there is stability of requirement, but a relatively simple set of objectives and processes, then contracting for outputs is the most likely path.
- In some circumstances where there is low stability, frequent change, and new approaches are developing rapidly, contracting for inputs is the better option, and often such contracts should be limited in scale and duration.

Before contracting, SROs should think through the likely lifetime of their organisation, and of its goal. Some goals, such as improving the health of the nation, are unlikely to change. Others are more short lived. Contract length should not exceed the likely lifetime of the department's goal.

Deciding on which path to follow is an iteration process before the Outline Business Case; a check with the market for feasibility and cost is essential before settling on the strategic path. Once the strategic path is settled the procurement strategy can be chosen from the broad contracting approaches that are outlined.

Making a success of the project will involve clear consideration of the internal capacity needed to manage the exercise at the inception of the project, during its implementation and subsequently. In some circumstances consideration of the availability or cost of doing this properly may cause a change of procurement strategy.

For construction projects, SROs should also see the 'Achieving Excellence in Construction – A Manager's Checklist' at [A manager's checklist](#)

For ICT projects, the specific guidance on the Partnerships UK website at www.partnershipsUK.org.uk should be consulted.

3. Outcomes, outputs or inputs? (please see definitions at paragraph 7)

Your Department's or Agency's overall goal is the starting point. It is sensible to consider whether this goal will change over the lifetime of the project. Successful projects have a clear link between project outcome and the ongoing departmental goal. This outcome should be shared with all those involved in the project. Most major projects involve more than one contract, and considerable effort within the organisation. We recommend you write the project outcome in the introductory section at the front of every project related contract and consultancy contract, whether or not you hold your contractor solely responsible for delivering this outcome.

Your contracts can help you to achieve your goals in three ways – contract for outcomes, for outputs or for inputs.

Major long-term contracts for outcomes are used to transfer to the contractor both responsibility for

delivery of an outcome, and all the related risk. It is rare that full external ownership of a high level outcome can occur but on some occasions the risks can be transferred and hence there is scope for a long-term contract for an outcome. In practice it is impossible to transfer the risk of publicised failure from your department to your contractor. It is also extremely difficult to transfer the risk of failed change management to a contractor unless the entire activity is outsourced.

A less ambitious approach that is suitable to a wider range of circumstances is to contract for an output, that is to pay for goods or services that can be specified, and transfer production risk. These outputs contribute directly to your project outcome. An example would be the procurement of fully serviced IT infrastructure, enabling your department to process outputs for relatively straightforward business operations. A long term contract for outputs, taking a partnering approach, can deliver step change improvement, but only under very specific circumstances where your Department, Agency or NDPB has excellent contract management capacity.

Outputs are often difficult to define. If after considerable effort you cannot define your output so that you and your potential suppliers understand exactly the same thing by it, you should contract for inputs instead.

Contracting for inputs (e.g. IT hardware, a short consultancy by the person day) is appropriate only where the Department, Agency or NDPB has the ability to integrate a variety of contracts for inputs to deliver the output. Also, contracting to pay for inputs means that the Department or Agency or NDPB takes nearly all the risks to delivery, so when using this approach it is essential that appropriately skilled staff are available, or can be hired, to manage the technical and business integration of the project.

The pocketbook 'Achieving Excellence in Construction – [Construction project Pocketbook](#)' gives a brief overview of procurement for construction projects.

4. Key decision points in project life cycle

This guidance should be considered at the earliest opportunity before starting your procurement project. In terms of its relevance to the Gateway process, it informs your Strategic Assessment analysis. It is also relevant to those involved in further stages of the gateway process, especially Gateway 1 (Business Justification) and Gateway 2 (Procurement Strategy).

The Gateway Process is summarised in the document 'The Gateway Process – [A manager's checklist](#).

5. Key considerations

Innovative projects require particular care. Short, small and modular contracts are likely to have a better chance of success, which minimises costs if the innovation does not work. Conversely, the more stable the technology, the more likely it is that long term contracts are appropriate.

Skills and capabilities are another major issue. The less access your Department, Agency or NDPB has to commercial and contract management skills, the more likely it is that relatively short, small contracts are the best approach. In this case, breaking down programmes and projects into manageable chunks is essential. However, if you break programmes and projects down into manageable chunks you need technically capable staff or consultants to integrate the component parts.

The market may not offer what you want at the time you want it, especially if what you want is a large contract for an output or outcome. You may need to wait or re-design your programme or project.

6. Using the guidance

The first part of this guidance helps you think through your goal, outcome, output (s) and inputs, and the key risks. There will be risks that the selected input may not deliver the required output. Separately

there are risks that the output, delivered on time and to specification, still may not lead to the desired outcome. Best procurement practice is that risks should be allocated to the party (your Department/Agency/NDPB etc, or your contractor) best able to manage them. Using this principle, you can determine whether:

- contractors in the market are well placed to manage all the key risks, and therefore you can contract for an outcome
- the contractor is likely to be well placed to manage lower level (input to output) risks, but not the overall risk that the outputs will not yield the required outcome. In this case contracting for outputs is likely to be best
- where it is not possible to transfer many of the risks of creating outputs, contracting for inputs to a greater or lesser extent will be appropriate.

This key element of your strategy settled in principle, the guidance then asks you to consider further the impact of external factors in the market place that affect your strategy. For most projects an iterative approach will be required. First you look at desired inputs, outputs and outcome, and then consider what the market has to offer. You may then need to re-visit the first set of questions. One possible conclusion at this stage is that you need to re-shape or postpone your project (for example if the market is unlikely to be able to meet your needs.)

In most circumstances the next decision is how many suppliers to involve in your project. Availability and competence of internal contract management resources is as important a variable as the size and shape of the market. For construction projects, the 'Achieving Excellence in Construction Initiative' recommends, an integrated project team and procurement route that bring together the designer and builder as one team.

The guidance to this point should have helped you identify which contracting model / approach or shapes and procurement route are most likely to work well in your particular circumstances. This comes though with a strong health warning; guidance from the centre can never replace expert advice, especially on major and business critical projects.

7. Definition of terms: Goal; Outcome; Output; Input

The Goal of an organisation is its overall objective. Some organisations, and all local authorities, have more than one goal.

The Outcome of a project is the contribution it makes towards the goal of the organisation. For a Government Department an outcome may be the achievement of a PSA target, or of a lower level target that directly contributes towards the goal of the organisation.

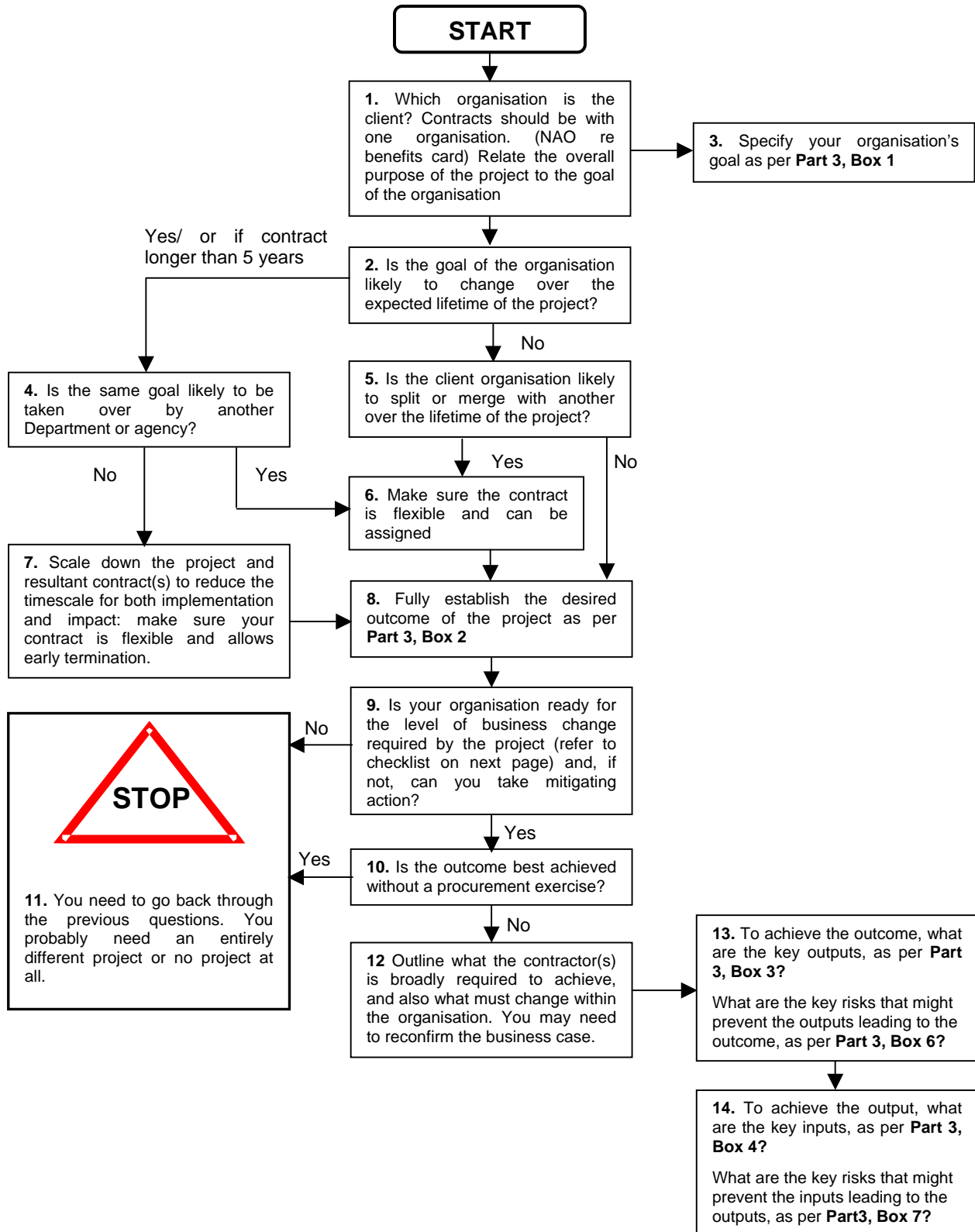
Outputs are intermediary objectives that support the delivery of outcomes. Improved IT systems (hard and software) are often outputs to projects. These contribute towards outcomes that directly contribute to organisational goals, (for example improving benefits payments) but the achievements of those outcomes are also dependent on the actions of employees (they must use the system effectively).

Inputs secure Outputs. For example, in an IT project these may include hardware, off the shelf software, additional work such as the design of databases and spreadsheets, wiring, etc. Normally many inputs are required to secure outputs. For a construction project the outputs of the various professionals and tradesmen in creating a building might be regarded as inputs.

There is an element of "Russian dolls" to this approach. The company that produced the computer on which this is written saw the computer as an output. To OGC it is an input. In turn this guidance is to OGC an output. To you, it is an input in your thinking about your project.

The principles in the following few pages can be used in designing contracting to support projects at all levels.

Part 1: Business Need and Duration



Overall readiness for change programme: Checklist

Risk to potential success of project.	Low	Medium	Medium	High
Internal Factors	Ratings			
	Excellent	Good	Acceptable	Poor
Cultural & Attitude to Change				
Track record of key personnel in managing change successfully (or the ability to acquire the necessary skills/expertise)				
Existence / ability to develop intelligent in-house client capability				
Senior management commitment to project or programme				
Completeness of stakeholder analysis and ability to secure stakeholder buy-in.				
Communications strategy / planning				
Motivation, morale (of staff affected by change)				
Weakness of those wishing to PREVENT change. (That is the opposite of the level of their power)				
Power of those wishing to PURSUE change				
Availability of funding for lifetime of project.				
Industrial relations and other HR questions on change issues				
Chances of success	High	Average	Average	Low

Use your judgment. If you have several poor ratings, or none that are good or excellent, you will need to investigate whether there is any possible mitigation to improve the rating and reduce the risk

If any of the above factors are rated **Poor** and the risks cannot be mitigated satisfactorily you may wish to reconsider your strategy before proceeding with the project as designed. Departments should also be aware of the risk of a bias towards over-optimistic assessments.

Part 2: Key Strategic Issues

From the chart below, determine whether your organisation is best placed to manage contracts for outcomes, outputs or inputs. Insert your conclusion (i.e. your overall view based on internal factors of whether you are best placed to contract for an outcome, output or input) in the second column of the [Strategic Preference table](#).

<i>Risk to potential success of project</i>					<i>Particularly important for</i>		
	<i>Low</i>	<i>Medium</i>	<i>Medium</i>	<i>High</i>			
Internal Factors	Excellent	Good	Acceptable	Poor **	Outcomes	Outputs	Inputs
Client Side Capability							
Track record in managing major long-term outcome based contracts					X		
Track record in managing change					X	X	
Knowledge and experience of procurement process and good practice governance arrangements					X	X	
Skills and competences in commercial awareness					X	X	
Knowledge and experience of risk identification, allocation and management					X	X	
Availability & competence(in – house or contracted) of contract management skills ++					X	X	
Flexibility of HR or consultancy procurement systems to recruit suitable new staff						X	X
Quality of internal management resources to manage business integration							X
IT resources to manage technical integration (for construction staff competence in brining build into use)							X
Technical IT resources for programming and interfaces (for construction staff competence in long term operation and maintenance)							X

** any ratings in this column will require investigation before a decision can be taken on the overall strategic preference table (part 3)

++ particularly important for Output

From this chart, determine whether your organisation is best placed to manage contracts for outcomes, outputs or inputs. Insert your conclusion (i.e. your overall view based on external factors of whether you are best placed to contract for an outcome, output or input) in the third column of the [Strategic Preference table](#)

External Factors Market factors in the light of other known current major procurements	Many Players in Market can Deliver (>10)	Few Players in Market can Deliver (<10)	One Player in Market can Deliver	No Conceivable Players or Consortia in the Market
The Entire Proposed Outcome				
The Entire Proposed Output				
The Proposed Output broken into Manageable Parts				
The Entire Proposed Input				
The Proposed Input broken into Manageable Parts				
Suitability of approach	High	Med	Low	Impossible
Probability of risk that VFM will not be achieved	Low	Med	High	N/A

For example, if there are

- no players who could deliver the outcome;
- many players who could deliver the entire proposed output or the proposed output broken into manageable parts;
- many players who could deliver the entire proposed input or the proposed input broken into manageable parts

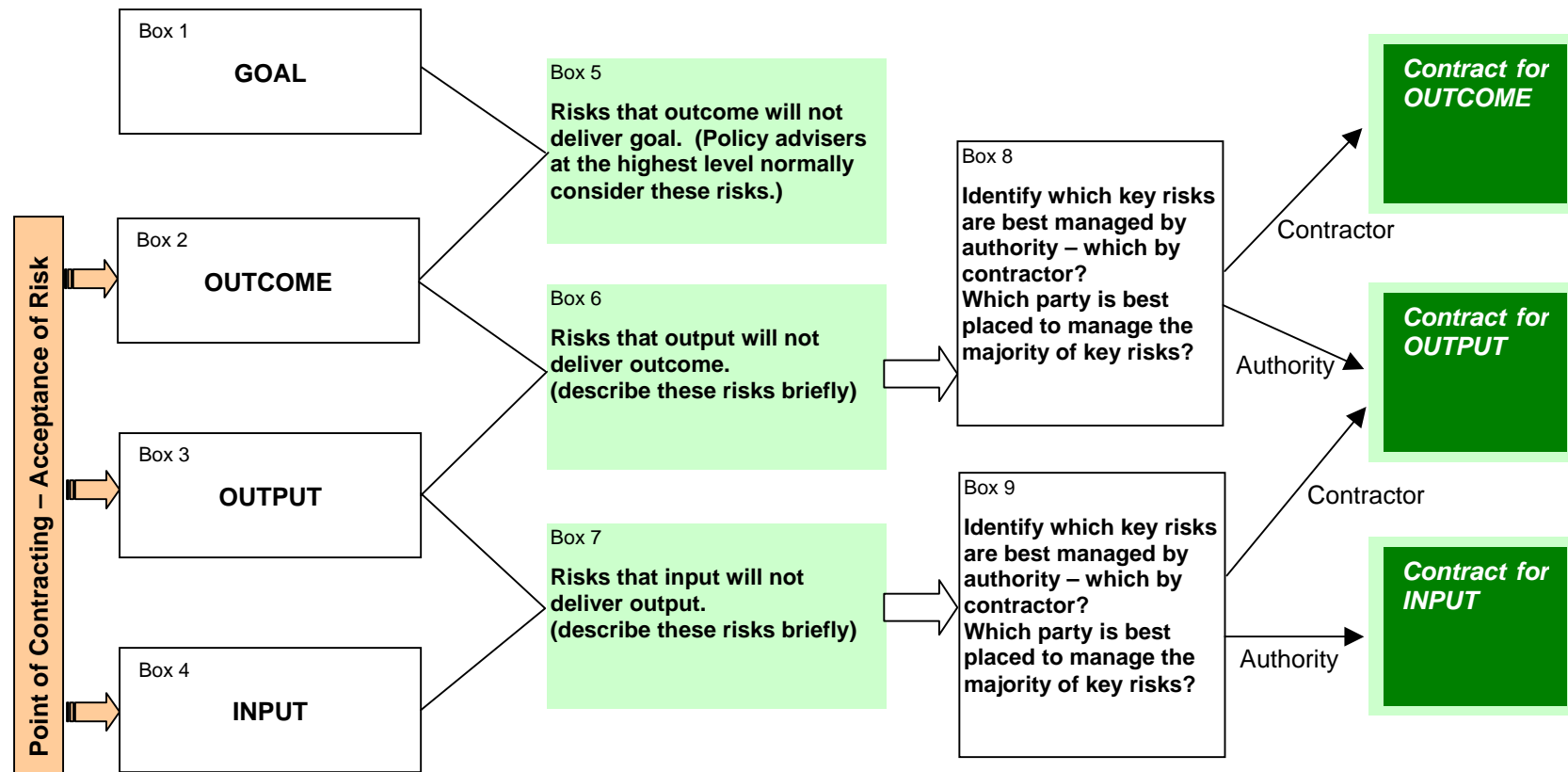
External Factors Market factors in the light of other known current major procurements	Many Players in Market can Deliver (>10)	Few Players in Market can Deliver (<10)	One Player in Market can Deliver	No Conceivable Players or Consortia in the Market
The Entire Proposed Outcome				X
The Entire Proposed Output	X			
The Proposed Output broken into Manageable Parts	X			
The Entire Proposed Input	X			
The Proposed Input broken into Manageable Parts	X			
Suitability of approach	High	Med	Low	Impossible
Probability of risk that VFM will not be achieved	Low	Med	High	N/A

	Initial Project Strategy	Internal Factors	External Factors
Outcome			
Output			X
Input			X

In the [Strategic Preference table](#) you would put a cross in both the output and input rows for the external factors column as, in accordance with the External Factors table, the suitability of the approaches would be **High** and the probability of risk that VFM will not be achieved will be **Low**. Whereas contracting for the entire proposed outcome would be **Impossible**.

Part 3: Initial Project Strategy Contracting for Outcome, Output or Input

This flow chart should be used in conjunction with the flow chart in [Part 1 'Business Need and Duration'](#) to help you determine the optimal project strategy in terms of contracting for outcomes, outputs and inputs based on appropriate risk allocation, as shown. Insert your conclusion (i.e. your overall view of whether you are best placed to contract for an outcome, output or input) in the [Strategic Preference Table](#).



Risk Allocation Model for Project Strategy and Procurement

Notes:

- Decisions about whether to contract for Input, Output or Outcome will initially be driven by the Authority's business needs, its attitude to the key risks and the packaging of the Requirements. (Contracting for a goal is judged not feasible for large IT enabled business change projects unless the project amounts to setting up an entirely new organisation). In construction, Contracting Private Developer Schemes or leasehold can be considered as contracting for an outcome (See '[Achieving Excellence in Construction](#)' – 06 Procurement and contract strategies).
- The decision will also take into account the relative ability of the Authority (Client Side Capability) and the Market to meet the requirements and support particular contracting approaches.

Strategic Preference table

	Initial Project Strategy	Internal Factors	External Factors
<i>Outcome</i>			
<i>Output</i>			
<i>Input</i>			

Your initial strategic assessment from part 3 above enables you to put a cross in one of the boxes in the first column. Your assessment of internal and external factors from part 2 enables you to cross boxes in the second and third columns.

The first time you do this you are not likely to have all the crosses in a row. You will need to consider whether it will easiest to alter the internal or external factors, or to re-visit your initial project strategy. You may need several iterations before you decide on whether to contract for an outcome, output or input.