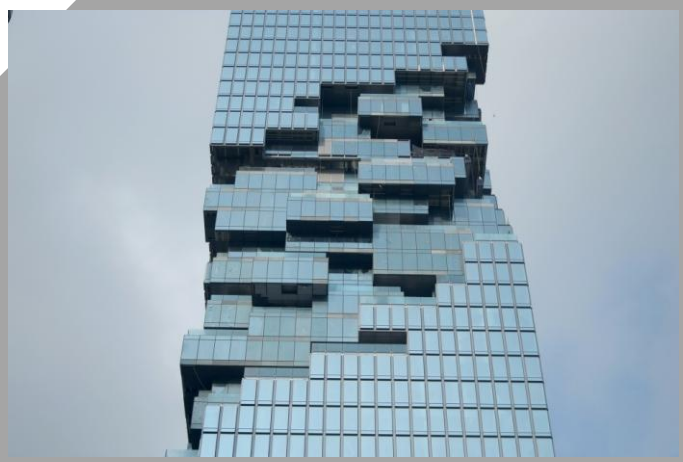
SPP REGIONS
REGIONAL NETWORKS FOR SUSTAINABLE PROCUREMENT

BEST PRACTICE REPORT



Performance / Output Based Specifications

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Performance/Output Based Specifications

Best Practice Report

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Publisher: ICLEI – Local Governments for Sustainability, European Secretariat

Author: Prof.Andrew Douglas, University of the West of England

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About SPP Regions: SPP Regions promotes the creation and expansion of 7 European regional networks of municipalities working together on sustainable public procurement (SPP) and public procurement of innovation (PPI). The regional networks are collaborating directly on tendering for eco-innovative solutions, whilst building capacities and transferring skills and knowledge through their SPP and PPI activities. The 42 tenders within the project will achieve 54.3 GWH/year primary energy savings and trigger 45 GWh/year renewable energy. More information: www.sppregions.eu Email: info@sppregions.eu

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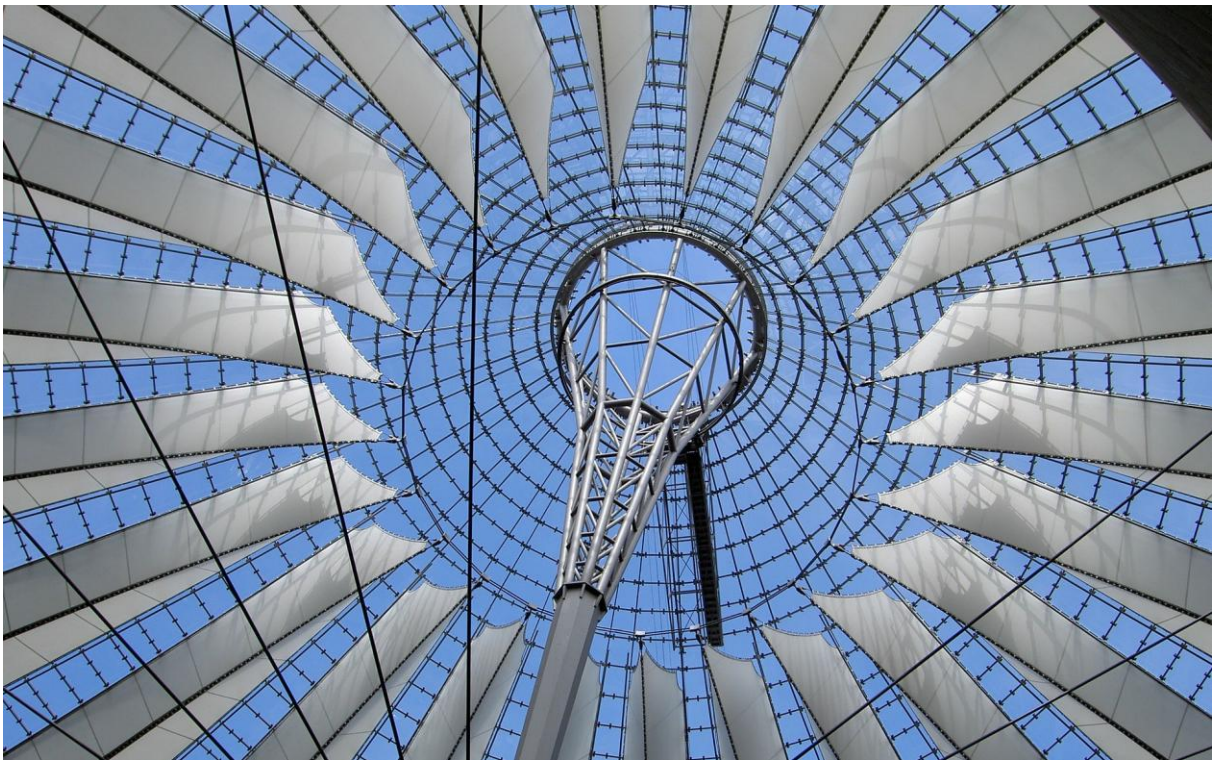
What are Performance / Output Based Specifications?

Performance / Output Based Specifications (POBS) are the foundation for a purchasing approach commonly called Performance Based Contracting (PBC). This approach focuses on identifying the required outputs or outcomes to be provided by the contracted supplier. Some - or all - of the contracted supplier's payment(s) are typically linked to delivering the specified performance standards and requirements. These contracts may include incentives (usually monetary) that reward performance which exceeds the required performance standard.

Traditionally, public and private sector contracts have tended to emphasise inputs (what is needed to perform the task) rather than outcomes (the expected result). Under POBS, the end results expected of the contractor are clearly spelled out without prescribing the manner in which the work is to be performed. Contractors are given the freedom to determine how to meet the purchasing authorities' performance objectives.



How have they developed over time?

Historically

Procurement of goods has traditionally been based on describing the item required rather than what it is designed to achieve. A purchasing request may include a specific drawing or specification that accurately describes the item to be manufactured or supplied from a suppliers existing product range. Where a specification is used, it is to assist in the description of the product rather than

focusing on its intended outcome - although this may in some cases be included in the narrative. For example, a purchaser may require a diesel powered stand-by generator. The specification for this will typically include performance criteria, service frequency, warranty period etc. The purchaser (more likely the internal specifier) may have already decided the make and model they wish to purchase based on previous experience or even a personal preference. This type of purchasing also makes it difficult to include sustainability benefits such as carbon reduction in the specification.

GUY'S AND ST THOMAS' HOSPITAL TRUST (UK) DELIVER SUBSTANTIAL SAVINGS BY USING AN ENERGY PERFORMANCE CONTRACT

Guy's and St Thomas' Hospital Trust (UK) procured an energy performance contract (EPC) in 2013, with the objective of determining the energy usage of the estate and identifying, delivering and measuring energy saving opportunities.

To promote innovative solutions from the bidders, the performance based specifications included details from previous energy audits, from which energy saving measures and calculation models were requested. Bidders were also asked to suggest how they would measure and verify performance (energy savings) and how a profit sharing mechanism would work.

British Gas was the successful bidder and entered a 10 year partnership contract with the Trust in which annual energy savings of 10% were guaranteed. The contract has delivered annual savings of £1.3 million and an 11% reduction in carbon emissions.

In contrast, the purchasing of services has often by necessity included a performance based element within any specification. This is particularly true for outsourcing of business support or operational processes, such as facilities management, transport, IT support etc. It is, in many respects, the origin of what we know today as POBS. These service specifications describe, often in granular detail, what the contracting supplier is required to achieve.

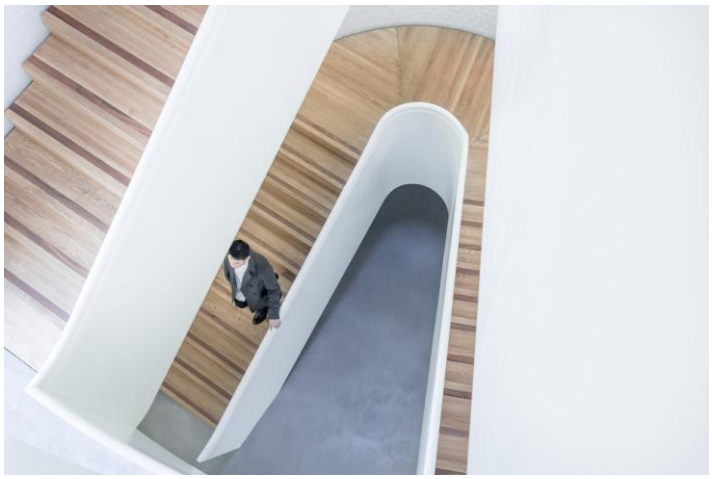
An example that typifies this approach is a specification for office cleaning services. Here the specification will identify the level and frequency of cleanliness required area by area leaving it to the contractor to work out how to achieve it. Specifications may include user surveys to assist in the assessment of how the contracted supplier is performing.

The Step Change

The leap forward from a service contract that includes performance based elements to a tender/contract based solely on POBS is a significant one. The buyer/internal specifier has to cast aside all preconceptions (and maybe even prejudices) to allow the selected supplier to deliver the required outputs in the way they believe is most appropriate.

For example, an organisation may create a POBS to: 'deliver an internal IT help desk service that increased customer satisfaction by 20% based on a current employee service'. Implied in this POBS is the use of a skills base appropriate to achieving such an aim, regardless of where it is based. If it is

currently an in-house service, the tender, like any other that transfers an entire role to a third party, will be required to address employee transfer considerations under any legislation protecting employees' rights and conditions.



The progression to a tender and eventual contract that is solely based on a POBS is usually made in stages. Organisations often use a POBS in combination with other more defined requirements as part of the overall tender specification.

The rest of this report will examine how the use of POBS has developed and the challenges involved. In particular, it will consider how they are used to support the implementation of sustainable and innovation-friendly procurement initiatives.

What are the main characteristics of a POBS approach.

Summarised below are the key POBS characteristics collected from the case studies we have examined as part of compiling this report.

- Outputs are aimed at satisfying a functional need in terms of quality, quantity, and reliability
- The technical specifications define the desired result, which outputs will be measured, and how they will be measured and the frequency of measurements
- Payment is usually made in accordance with the quantity of outputs delivered, subject to their delivery at the level of quality required; reductions from payments (or retentions) may be made for lower-quality level of outputs, and in certain cases, premiums may be paid for higher quality level of outputs
- Emphasis is placed on what is to be performed rather than how to perform it. The bidding documents do not normally prescribe the inputs or a work method for the contractor, thus leaving the contractor free to propose the most appropriate solution, based on mature and well proven experience. However the contractor would have to demonstrate that the level of quality specified in the bidding documents will be achieved
- POBS provides bidders with scope to offer latest and more efficient technology without the risk of disclosing trade secrets therefore increasing competitive advantage
- As the supplier can use their own tried and tested approach / methodology/ it creates the opportunity for shorter implementation times. Also if the supplier is left to define the method / equipment used it helps reduce the number of bidder claims relating to non-compliance in this area.
- More responsibility ,risk and assets are transferred to the contractor

- A POBS approach helps to objectively evaluate performance by clearly defining the set of numbers and other metrics against which success will be measured
- A POBS approach defines or measurement of performance in stages: a baseline period where the current performance levels are factually established, an allowance for due diligence by both parties so the prospective buyer can see examples of the suppliers proposal and the supplier can examine the buyers premises / equipment etc. in more detail, a typical 90-day ramp-up period before any final changeover takes place (maybe longer in some instances) and then the full execution of the monitoring metrics and associated incentives/disincentives
- An increasing use of sustainability related objectives that form part of the overall performance criteria

Of course these characteristics are not necessarily exclusive to POBS specification, as some have been deployed for many years as part of a sub contract or outsourcing initiative

LONDON FIRE BRIGADE AND CITY & FIRE BRIGADE OF GHENT - NEW TECHNOLOGIES DRIVE ENVIRONMENTAL AND COST SAVINGS IN SERVICE FLEETS

In 2012 the London Fire Brigade (LFB) partnered with the City & Fire Brigade of Ghent in Belgium as part of a 3 year programme called Fired-Up, with the aim of improving innovation in the environmental performance and efficiency of their frontline vehicles.

In order to understand current performance the LFB procured a telematics and equipment tagging system to collect and analyse data from the vehicles. The LFB undertook extensive background research and market consultation activities, including a facilitated workshop, attendance at trade fairs markets, development of a sounding questionnaire and company visits, which provided an understanding of the capacity and innovation in the market and helped to facilitate the specification development.

Performance based specifications were included in the Invitation to Tender through the detailed description of the functionality and outcomes needed, without prescribing how this functionality should be achieved.

Tender responses were evaluated against the following criteria and weightings: methodology 30%, environmental impact 12.5%, Innovative character 12.5%, maintenance and warranties 10% and whole-life cost 35%. Two companies were appointed to develop and install data collection systems as pilots and flexibility within the contracts allowed certain technology challenges to be resolved through creative and innovative solutions.

What are the key benefits of adopting a POBS approach?

POBS approaches are essentially results oriented. They are used to acquire goods and services via contracts that define in full or in part what is to be achieved, not necessarily how it is done.

The key benefits for using this approach are presented below with some examples of where such benefits have been achieved:

It **motivates suppliers** to develop and use innovative approaches in order to deliver the predefined performance standard.

DANISH MUNICIPALITY OF HEDENSTED ENCOURAGE SUPPLIER INNOVATION USING A PERFORMANCE BASED APPROACH

The Danish Municipality of Hedensted procured heating and ventilation solutions that saved money and reduced both CO2 emissions and resource consumption.

Hanne Kronborg, co-founder and director of the chosen supplier Cronborg, commented that they would not have been able to comply had traditional procedures existed where the system specifications must match the tender descriptions for the supply of free cooling equipment. He explained that they would have better chances of expanding the market if municipalities based their procurement specifications on the function, performance and result rather than specific product details. This approach would provide the suppliers the possibility of contributing with new and innovative solutions based on knowledge of the market.

It **transfers key responsibilities** including potentially the ownership of assets to the supplier who, in many cases, is required to deliver an innovative solution that helps achieve the predefined performance. A typical example of this is the negotiation of an Energy Savings Performance Contract (known as EPC or ESPC). These are an alternative financing mechanism designed to accelerate investment in cost effective energy conservation/savings measures in existing public sector buildings without up-front capital costs. Thus, an EPC uses private sector financing to implement energy conservation methods and energy efficiency technologies. The supplier typically conducts a comprehensive energy audit for the buying authority to identify improvements to save energy. The supplier then guarantees that the improvements will generate energy cost savings sufficient to pay for the project over the term of the contract.

CONSIP SAVES ENERGY THROUGH SUPPLIER PERFORMANCE GUARANTEES

Consip (Italy) uses a performance based contract for the management of heating, cooling and electrical systems through which the supplier has to guarantee a pre-determined “comfort situation”, and energy savings and carbon dioxide reduction.

Specifications include a settled temperature to be preserved inside the buildings; installation of electronic meters and constant monitoring of the indoor temperature; an assessment of the optimal consumption level for heating and energy services; and energy audits for every building. The contract includes a performance clause requiring a minimum amount of energy saved (375 TOE). Actual energy saved under the framework (6,000 TOE) was higher than the minimum required.

THE CITY OF ROTTERDAM HAS SET THE TARGET OF ACHIEVING A 50% REDUCTION IN CO2 EMISSIONS BY 2025 AS WELL AS REDUCING ENERGY CONSUMPTION BY 34% MINIMUM

In 2010, as a pilot initiative, the Real Estate Management Department of the Development Corporation Rotterdam (RE DCR), tendered for an energy performance contract (EPC) covering nine swimming pools, with payments based on actual energy savings delivered. The 10-year EPC contract, which also included responsibility for maintenance of the facilities as well as operation, was awarded through the competitive dialogue procedure. Energy bills were analysed and checked against real consumption. The baseline measurements and preliminary analysis of potential improvements indicated that a 10 year payback period would be sufficient. The award of the contract was based on the energy savings offered by the tenderers.

The winning contractor guaranteed annual energy savings of 34%, with savings beyond this to be shared by the city and the contractor. The initial investments in energy saving measures will be paid back through the energy savings made over the 10 year contract period. The city pays periodic compensation to ESCo based on the actual delivered savings (bonus/penalties) and annual maintenance budgets. The inclusion of maintenance responsibility within the contract made sense as the contractor has a clear incentive for ensuring newly installed equipment is performing correctly and achieving energy savings.

It **supports a value for money outcome** through a combination of efficiency, effectiveness and service quality.

CATALAN GOVERNMENT REDUCED ENERGY CONSUMPTION THROUGH ESCO SCHEME

The Energy efficiency service for school buildings**, Ministry of Education and ICAEN, Catalan Government (Spain)**, runs under an ESCO scheme on the EPC model, where the awarded company is responsible for the energy management of 12 secondary schools in the Province of Barcelona for a period of 4 years.

The POBS element of the contract includes providing diagnosis and technical advice, energy savings measurement and verification, implementation as well as monitoring of saving measures and training and awareness.

The estimated reduced annual energy consumption achieved is between 13 and 18%.

It **facilitates the introduction of innovative approaches** to SPP within both the buying and supplying organisations.

ROBERTSON FACILITIES MANAGEMENT LEVERAGE SUPPLIER RELATIONSHIPS TO DELIVER IMPROVED SUSTAINABILITY PERFORMANCE

Robertson Facilities Management (UK) provides total facility services to public and private sector clients across North England and Scotland. In 2014 Robertson used its strong relationship with two of its suppliers delivering cleaning and electrical services to jointly develop new supply partner contract arrangements that reflected their sustainability objectives.

Performance based specifications and Key Performance Indicators (KPIs) were developed and agreed to reduce sustainability risks associated with the manufacture, delivery, use and disposal of the cleaning and electrical products and associated packaging. These specifications and KPIs included the identification of opportunities and innovations to reduce risks associated with environmental and social impacts.

It **delivers Social, Economic and Environmental Sustainability** benefits to the Buying Organisation, its customers and the geography that it influences.

LONDON OLYMPICS CREATE A SUSTAINABLE SOURCING CODE THAT EMBODIES KEY SUSTAINABILITY PRINCIPLES

The London Organising Committee for the Olympic and Paralympic Games (LOCOG) UK required generators for the temporary power supply in 2012. They were seeking a solution that would significantly reduce air emissions and therefore the impact on urban areas.

Prospective suppliers and licensees were encouraged to exceed non-prescriptive specifications and respond in an innovative way to the tender evaluation criteria. LOCOG aimed to embed sustainability throughout the procurement cycle by developing a framework that set out in their Sustainable Sourcing Code which was a contractual requirement and included the following core principles,
a) responsible sourcing,
b) using secondary materials,
c) minimising embodied impacts and healthy materials.

The code embodied key social, environmental and economic sustainability principles. A detailed report on their achievements can be found at
http://learninglegacy.independent.gov.uk/themes/procurement/index.php

What conditions are needed to execute a POBS tender/contract?

Any performance-based statement of work is an important element of a performance based contract. This requires careful attention during the procurement planning phase and its further implementation. Key elements include performance standards and indicators, the quality assurance surveillance plan, selection procedures, and the contract type.

The responsibilities of managers and leaders in a POBS tender have not lessened but have radically changed. Procurement officials now need to be well trained in the methodology for achieving measurable metrics and acceptable quality levels when developing the performance work statement (PWS) and /or statement of objectives (SOO).

A well-articulated and executed Sustainable Procurement Policy typically underpins the use of a POBS (as well as many other purchasing contracts with a sustainability interest).

10 key elements of typical sustainable procurement policy

When developing a Sustainable Procurement Policy there are a number of key elements to include to ensure it provides a sound basis to underpin your initiatives in this area. Below are the 10 key elements that make up a 'best in class' sustainability policy.

1. Statement of Intent produced by or at least supported by the CEO / MD or a similar individual

This links the sustainable purchasing policy to the overall sustainability strategy/direction of the organisation. It will underpin procurement/ supply chain management's lead role and set out intended outcomes.

POBS Link

You need commitment from your senior management that they support you taking a full or part POBS approach to a tender so that this sets out an expectation of support from all internal stakeholders.

2. Definition of Scope that details the goods / services covered by policy as well as the geographies, locations and departments who have to comply

This will set out the sustainability 'impact areas' and may give particular direction that relates to organisational sustainability areas of interest and associated targets. It will also give guidance on what is expected re supplier engagement.

POBS Link

You need to be clear on the areas of the organisation that will be affected by the tender and have a clear understanding and agreement on the sustainability-related activities that are covered by the tender.

3. A CLEAR ORGANISATIONAL BUSINESS CASE FOR SUSTAINABLE PROCUREMENT

This will establish a robust measurement and reporting approach, and will quantify benefits to the organisation and to key stakeholders. Such benefits may be financial, operational, commercial, risk or compliance related. In practice, they are often a blend of all of these. Benefits will usually be linked to the overall organisations business sustainability policy.

POBS LINK

Your specification needs to be unambiguous with respect to the key environmental and operational performance deliverables. This should include how, by whom and when each element will be measured and reported.

4. A SUSTAINABLE PROCUREMENT LEAD/CHAMPION WHO HAS SUPPORT AND INFLUENCE AT SENIOR MANAGEMENT LEVEL

It will also give a clear identification of the procurement staff's roles and responsibilities as well as any training needed for the relevant staff in sustainable procurement best practices. In addition, it will include sustainable procurement performance goals and objectives in a relevant individual's personal development evaluations and assessments.

POBS LINK

POBS may be new to your organisation/department, so you might need an individual who is prepared to investigate, develop and execute your first POBS procurement as an example to others. This may not be 100% successful as there is often a steep learning process towards embedding POBS, so support from colleagues is important.

5. TRAINING TO PROVIDE A DETAILED ANALYSIS OF WHAT AND HOW THIS NEW SPECIALIST KNOWLEDGE IS TO BE DELIVERED

This will address key topics such as an introduction to sustainability and the organisation's sustainability policy, how to develop a sustainable purchasing policy and strategy at buyer, product and supplier levels, managing stakeholder relationships and how to identify sustainability related risks.

POBS LINK

Take the time to fully understand POBS by engaging with other organisations that have deployed it and researching all available material. Ensure you include key stakeholders in the process to ensure ongoing buy-in.

6. Stakeholder Engagement Strategy identifying all key influencers within and outside the organisation

This will detail how internal and external individuals or groups can contribute to the success (or mastermind the failure!) of a sustainable procurement initiative.

POBS Link

You must engage with all interested / influential parties both within your organisations and potential suppliers at the earliest possible time to ensure both understanding and support for your POBS initiative. Your market engagement strategy will form a key part of this process.

7. Communications Strategy establishing who will deliver and receive sustainable procurement directives, updates etc

This will also identify who owns the content, how it will be delivered i.e. formal and/or informal, written and/or oral, the technology of communication – emails, written notices, meetings etc. Importantly, it also identifies the expected outcome of such communications.

POBS Link

Make sure you widely publicise the POBS initiative from the outset mentioning the participating stakeholders and your sponsoring manager(s).

8. Supporting Processes to ensure sustainability is considered in the procurement of products and services

This will include a detailed expenditure analysis of the organisation's supplier spend profile and the measurement and mitigation of key sustainability impacts/risks for each procurement category. It also ensures that key contracts have incorporated sustainability criteria along with the development of a validated cost savings analysis.

POBS Link

Make sure you document how you have developed a POBS within your organisation to help others follow in the future. Also document your key measurement and analysis processes early in the project.

9. SUPPLIER ENGAGEMENT TECHNIQUES INCLUDING THE IDENTIFICATION OF SUPPLIERS TO TAKE PART IN A SUSTAINABLE PROCUREMENT INITIATIVE

In addition the engagement process may be through a third party process (a commercial index or similar) or by engaging in a collaborative process with peers and/or competitors.

POBS LINK

Support of suppliers is key to any POBS initiative. Make sure you engage with them early in the process to get their understanding and input into what you are trying to achieve.

10. PUBLISHED PROGRESS AGAINST PREVIOUSLY IDENTIFIED TARGETS

This will help to validate achievements/results. It will typically cover financial benefits, improvements in the organisation's sustainability performance, internal improvements such as training or process improvements, supplier engagement activities, stakeholder management and the overall contribution to risk reduction. It will also make attempts to demonstrate a degree of peer group benchmarking.

POBS LINK

This is clearly the ultimate measure of your POBS approach. Make sure you have full agreement from internal and external stakeholders before publication to avoid unnecessary disputes on your figures.

A good example of how a strong Sustainable Purchasing Policy underpins the use of a POBS as part of a tender is the initiative to protect the water resources of the area of Rennes, a member of the Réseau Grand Ouest Purchasing Consortium (France), by including improving water quality in the surrounding rivers as part of the contract specification.

They developed contracts with their suppliers aimed at supporting the progression of farms towards more sustainable modes of production. This approach (with its guidelines and set of indicators) is designed to encourage the farmers to play a key role in the selection and adoption of an appropriate move towards sustainability and to take into consideration their own interest and farm.

Their criteria for the evaluation of tenders are as follows:

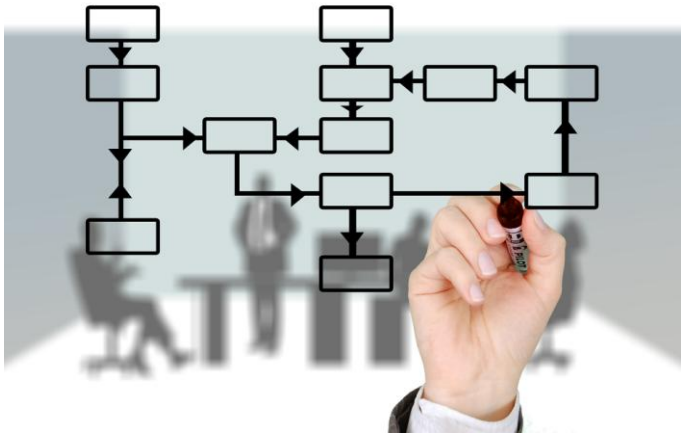
- Sustainability of farms 50%
- Quality of products 30%
- Prices 20%.

The suppliers are expected to comply with the following requirements

- To carry out a diagnosis of sustainability of their farm
- To set, for the maximum duration of the contract (3 years), a project aimed improving the sustainability of their farm.
- To impartially determine the objectives to be achieved in terms of improvement of the score for the overall sustainability and the score for 21 indicators targets for quality water.

In addition, suppliers (farmers) are therefore expected to

- implement their project aimed at improving their level of sustainability,
- accept a regular evaluation of the implementation of their project
- to be assisted and supported by an expert



What are the main challenges when using a POBS approach?

All new initiatives come with a range of challenges when they are first introduced. Below are the most often identified ones associated with taking a POBS approach. Of course a number are not exclusive to a POBS initiative and are to be found when any change is proposed or initiated.

Lack of clear direction from leaders

Solution: Develop good communication channels with all relevant managers. Consider this an opportunity for you to create certainty by proposing or even setting the direction. You may have to 'educate' them on the subject matter. It is always good to use a 'cost of not doing it' argument.

Incentive systems that fail to reward innovation in sustainability and performance

Solution: Work with your Manager and your HR team to include sustainability related factors into all key staff's individual annual target setting so it becomes a review element in any appraisal activity. Relate this to your organisations overall sustainability objectives

Failure to integrate sustainability objectives into procurement processes

Solution: Ensure the procurement team have a good understanding of Sustainable Procurement policy and practices. Make sure their sustainability obligations are included your organisations overall sustainability policy / objectives.

Preparation of functional specifications may require specialized training of public sector personnel

Solution: Work with HR to deliver appropriate training. Re-useable on-line material may be very beneficial. Build any projected costs into your departmental budget. Consider learning from peer organisations that are willing to share knowledge / experience either directly or at public events.

Evaluation of different offered solutions may require hiring external expertise

Solution: Check your collective subject matter skills to see if you need this supplementing externally. Seek advice from sector peers who have made a similar decision and build up a list of potential experts. Ensure you develop a clear specification of what the expert is required to do so you can assess potential candidates and measure their eventual output.

The employer's need for higher performance security may increase the project cost and restrict competition as only bidders with financial strength will meet prequalification requirements

Solution: Consider splitting the opportunity into smaller 'work packages' that enables an increased number of smaller suppliers to meet the bidding criteria. Ensure the bidding criteria is reviewed to reflect needs rather that 'would be nice to have'. Ensure any bidding criteria has not been unduly influenced by the larger potential suppliers.

Inability to undertake / manage any potential risk

Solution: Recognise that not all organisations are natural innovators and your organization will need to be encouraged by the success of other peer organisations. This way you will be given encouragement to undertake risks and also learn from others how to manage them.

Moving skill set from specifications/bid writing into the evaluation & monitoring

Solution: Take one example and work through it as a team with a lead individual. Ensure you capture all relevant learning as part of your training materials. Identify any skills shortages and put in place action plans to address them. Nominate a lead person to be a team mentor for subsequent POBS initiatives.

Potential to stifle competition at the bidding and evaluation stage

Solution: Use your market engagement strategy to develop an approach that will educate and encourage smaller / niche suppliers to participate. Ensure your bidding and evaluation criteria are based on factual needs.

Have ability to accommodate long term calculations around fixed budgets for fiscal periods

Solution: Work with your finance and legal teams to ensure you can let long term contracts with appropriate review dates / break clauses. Use peer organization examples to overcome any concerns re legality / practicality.

No available baseline data

Solution: Educate your peers that this is essential to develop a POBS approach. Use your supplier consultations to establish the data needed for a successful tender execution. Use external resources where appropriate to help calculate required data.

Managing concerns over their Intellectual property rights

Solution: Use your internal legal resources (which they will supplement with external advice as appropriate) to ensure your tender documentation and subsequent contract contains all relevant IP clauses to fully protect both you and your selected suppliers rights in this area. Provide training to your buying team in this area so they fully understand the need for robust IP protection as part of the tender process. Use peer organisation knowledge where possible to ensure you cover all potential challenges.

A 12 step checklist when undertaking a POBS based tender

There are a number of usually sequential actions that have to be taken to successfully develop and execute a POBS based procurement activity. They are not all necessarily exclusive to a POBS approach as some are crucial in many other types of procurement activities. It should also be noted that these steps do not reflect taking account of the current EU/National public sector procurement regulations that are prevailing at the time and these will need to be factored in as appropriate.

Remember - Performance / Output Based tenders are a results-oriented contracting method that focuses on the outputs, quality, or outcomes that may tie at least a portion of supplier's payment, contract extensions, or contract renewals to the achievement of specific, measurable performance standards and requirements. These contracts may include both monetary and non-monetary incentives and disincentives

The 12 POBS Key Steps

1. **Ensure all possible internal stakeholders have a good understanding of a Performance / Output Specification approach**. This will both help identify POBS opportunities and ensure full participation in any subsequent initiatives.
2. **Internally identify a potential purchase that may be suited to a POBS approach**. At this stage it will not be a definitive project until there is a real expectation that your organisation can successfully complete its role and there are an appropriate number of credible suppliers identified.
3. **Create a team for the project** including all key stakeholders including representatives from internal specifiers, budget owners, key users, procurement lead plus legal, sustainability and financial support.
4. **Initially describe the background / circumstances that created the tender request**. This will allow prospective suppliers to understand more about your organisation, how the requirement was generated and where it fits into any overall strategic direction.
5. **Develop a performance specification** either as a Performance Work Statement (PWS) or a Statement of Objectives. Either approach will need to clearly identify the desired outcomes and timeline of the work to be performed. Ensure this is what is to be performed rather than how to perform it.
6. **Take time to understand how similar projects have been completed** in the public and private sectors – particularly noting the success factors and any pitfalls to avoid.
7. **Develop your Market Engagement strategy**. This should include an early dialogue phase to understand-
    a. is the market ready to deliver what's required? Is it evolving or diversifying with suppliers entering or exiting the market?
    b. will the market be technically capable of meeting your requirement?
    c. are any technological advancements or product/service developments expected and how can your requirement be 'future proofed' to take advantage of these?
    d. how many suppliers provide what is required? Will you have effective competition?
8. **Establish how to measure and manage performance**. This should be based on required outputs / outcomes, quality and timeliness. You have to balance your requirements so they are not unduly burdensome and drive up costs, which might result in the supplier not bidding. Also you should not set requirements too low, which could risk a lack of supplier focus and lead to poor performance and stakeholder dissatisfaction.
9. **Identify both supplier incentives and disincentives**. Incentives should be tied to meeting or exceeding key measurements and often have a financial element attached. Disincentives can be similarly applied with potential financial penalties. Be careful not to include every deliverable and also make financial penalties such that once this lower threshold is reached there is no incentive to improve.
10. **Take the output from the activities above to create your tender documentation**. You may take a phased approach and seek expressions of interest and/or have a pre-qualifying stage or you may publish your tender as a single activity. In any event you must as always follow a path of transparency ensuring there is a fair and open competition.
11. **Select the right supplier**. As with all such evaluations you can use a mixed process that will typically include-
    a. Selecting the most qualified bidders to undertake a period of due diligence before a final tender round. This is characterised by open communications, site visits and reference reviews.

b. Using a 'best value' selection criteria
c. Oral presentations from most qualified bidders
d. Lowest risk option

12. **Post award management process**. This will typically include an initial start-up phase which may have to allow for any transfers of people and capital assets. So this period will vary from typically 3 – 6 months before the contract is fully running. To a large degree, the management of contract performance is guided by the contract's terms and conditions and is achieved with the support of the business relationships and communications established between the supplier and the procuring organisation. It is very important to have regular documented reviews with a clear escalation process to ensure challenges are addressed at an early stage.

Frequently asked questions and supporting guidance

Below are some of the common questions along with supporting guidance that have been raised by SPP Project partners and others when they are considering or in the process of adopting a POBS approach.

1 *"We have real problems managing our specifiers / stakeholders. They often have already established a preferred product / service along with a favoured supplier. How can we get them to be more open in their thinking?"*

Guidance

- You will need strong support and direction from senior management
- Look for willing participants within stakeholder communities
- Start with the 'easiest' areas and then you may be able to 'shame' the most difficult into participating
- Make sure you publicise any success and ensure stakeholders are prominent in any credit given

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2 *"We have had a bad experience using a POBS. We were unable to get any suppliers to bid for the vehicle fleet tender and had to revert to a traditional specification. How can we regain our confidence?"*

Guidance

- Assess what went wrong
- Assess the need and plan
- Pre procurement to assess market
- Put in time and resources

3 *"Our organisation has a fear of 'being first' for anything. This means we do not have an innovation culture. How can we improve this situation?"*

Guidance

- Remember - it is not a problem for your innovation strategy to be a 'follower' in which case.
- Try to partner with other organisations who have more experience / seen to be more innovative so you can gain experience and confidence
- Develop 'brainstorming' sessions (maybe with external facilitator) to encourage a more open thought process
- Encourage top management to be more supportive in this area and maybe nominate 'champions'
- When you are successful, publicise it widely and use it as a springboard for further initiatives

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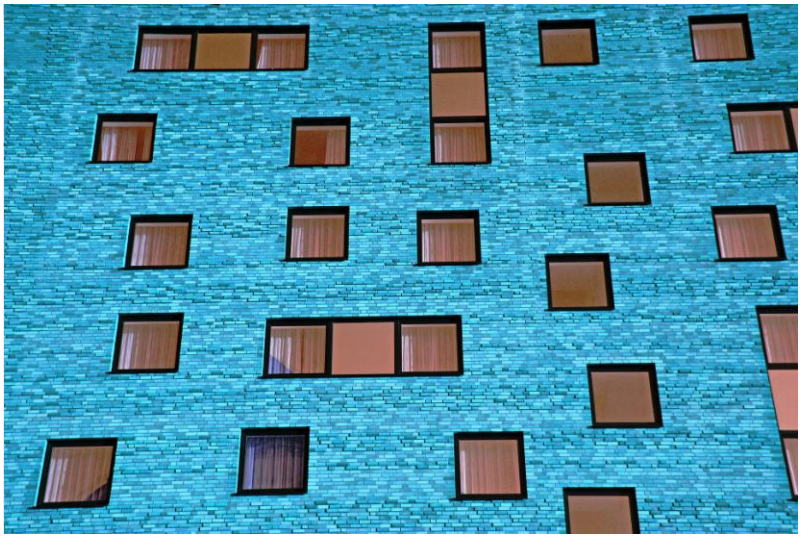
4 *"We want to create an Energy Performance Contract. What are the most important factors to consider when developing our Performance / Output based Specification?"*

Guidance

- Make a clear and transparent list of the efficiency measures or results you require
- Identify where you are requesting guaranteed or shared savings
- Do your research – Look at other organisations, European Code of Conduct for EPC etc.



Summary

Performance / Output based Specifications have been used in the tender process for many years without necessarily being recognised as a defined characteristic. However, over the last 5 years or so the inclusion of a POBS has become a clearly defined approach especially when the tender has a sustainability related topic or desired output.

As can be seen from the narrative and examples above, taking a POBS approach requires

- Vision
- Training
- Stakeholder support
- Participating suppliers
- An appropriate tender topic
- Trust between all parties

What can also be seen is that a POBS will often be part of the overall tender approach rather than the sole characteristic of a tender structure. This is important as it allows potential users of this approach to include tender elements that follow a traditional approach whilst deploying a POBS to encourage innovation on the part of the supply base. Another key factor is the recognition that it requires a degree of innovation (and maybe accompanying risk) on the part of the buying organisation and some buying individuals /organisations are not natural innovators. In these circumstances, it is quite acceptable to be a 'follower' and learn from and/or partner with an organisation with POBS experience or the skillset and desire to be a 'pathfinder' in this area.

Potential POBS users should also not underestimate the time (and sometimes cost) that needs to be taken to inform, educate and train the various internal and sometimes external stakeholders in an approach that some will find quite challenging to adopt.

Neither should they underestimate the challenge in developing factual baseline data as this will form the basis on which any future judgements will be made in particular those relating to achievements and supplier payments.

Finally it is important to understand that to get the best out of this guidance on Performance / Output Based Specifications you should also digest the three other publications produced as part of this SPP Regions initiative, namely Circular Procurement, Market Engagement and Life Cycle Costing as a successful POBS implementation relies on a good understanding of all three of these areas of expertise.

References and resources

Additional Resources

London Fire Brigade Case study - further details can be found here
http://app.thco.co.uk/fire/firedup.nsf

London 2012 Sustainable Sourcing code – further details can be found here
http://learninglegacy.independent.gov.uk/publications/locog-sustainable-sourcing-code.php

SPP Regions POBS Workshop, Danish EPA Offices, Copenhagen, June 2016

Supporting Literature on performance based specifications

Content description	Data source
CIPS/NIGP, 2012: "Public Procurement Practice, Performance Based Contracting": Guidance document on how to implement performance based contracting	http://principlesandpractices.org/wp-content/uploads/2013/04/PerformanceBased.pdf
Government Procurement, 2005: Article: "What Performance-Based Contracting Really Means for Procurement Goals"	http://americancityandcounty.com/resource-center/what-performance-based-contracting-really-means-procurement-goals
Skanska on performance-based procurement White paper, "Delivering Mission Critical Solutions", p. 1-8:	http://www.usa.skanska.com/Global/MissionCritical/Skanska_Procurement%20WP.pdf
United States General Accounting Office, "Guidance Needed for Using Performance-Based Service Contracting", 2002: Guidance on performance-based service contracts and review of existing US government contracts	http://www.gao.gov/new.items/d021049.pdf
Shine network – general information on output specifications	http://www.shine-network.org.uk/downloads/Guidance_Module_7.pdf
Government Buying Standards Provides specifications on specific categories Electrical products: Including air coediting units, condensing units, domestic & non-domestic gas boilers, lighting systems, fridge & freezers, commercial refrigeration And procurers note on electrical products	https://www.gov.uk/government/collections/sustainable-procurement-the-government-buying-standards-gbs#specifications-for-the-gbs-listed-by-sector https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/346189/GOV.UK_GBS_for_air_conditioners_1407.pdf
Directive 2004/18/EC of the EP. Procedures for the award of public works contracts Chapter IV Technical specifications	https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/35922/Classic_Directive_I_13420040430en01140240.pdf

iisd Moving towards performance based specifications in public procurement	http://www.iisd.org/pdf/2013/specs public_procurement.pdf

Literature on performance based specifications for energy efficiency outcomes

Content description	Data source
US Department of Energy, "How-To Guide for Energy-Performance-Based Procurement":	http://apps1.eere.energy.gov/buildings/publications/pdfs/rsf/performance_based_how_to_guide.pdf
Driving energy efficient innovation through procurement, A practical guide for public authorities	http://www.iclei-europe.org/fileadmin/templates/iclei-europe/files/content/ICLEI_IS/Newsletter/2010/january/fileadmin/template/iclei/ICLEI_IS/files/Newsbits/Images/2009/December/SMART_SPP_Guide_FINAL_en.pdf
WRAP Model wording for Construction with a focus on resource efficiency, plus some templates, clauses, PQQ and ITT guidance that include energy efficiency. Similar information on construction can be found on the Zero Waste Scotland website.	http://www.wrap.org.uk/content/procuring-resource-efficient-construction-model-wording http://www.resourceefficientscotland.com/sites/default/files/RES%20Construction%20Procurement%20Guidance.pdf
SEAD – Energy efficient public procurement: Best Practice in Program Delivery. Feb 13 Seems like quite a useful document on public sector energy procurement. Energy Specifications referred to throughout the document.	http://www.superefficient.org/en/Research/PublicationLibrary/2013/Energy-efficient-Public-Procurement-Best-Practice-in-Program-Delivery.aspx http://www.superefficient.org/Research/Procurement
A Guide to energy performance contracts and guarantees	http://www.seai.ie/Your_Business/Public_Sector/Energy_Performance_Contacts_and_Guarantees.pdf

Examples of performance based specifications and relevant energy efficiency

Content description	Data source
Worldbank, 2003: pdf document - Sample bidding document by the World Bank: Procurement of Performance-Based Management and Maintenance of Roads	http://siteresources.worldbank.org/INTPROCUREMENT/Resources/perf-based-roads-ev2.pdf; website - http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20104107~menuPK:84284~pagePK:84269~piPK:60001558~theSitePK:84266~isCURL:Y~isCURL:Y,00.html
Skanska on performance-based procurement, IT case study Case study 2012,TELUS Communications Company, p. 9:	http://www.usa.skanska.com/Global/MissionCritical/Skanska_Procurement%20WP.pdf
The World Bank - Public procurement on energy efficiency services From p. 69	https://www.esmap.org/sites/esmap.org/files/P112187_GBL_Public%20Procurement%20of%20Energy%20Efficiency%20Services_Lessons%20from%20International%20Experience_Singh.pdf
Provides example on university campus construction project	US Department of Energy, "Whole Building Performance-Based Procurement Training": http://energy.gov/sites/prod/files/2013/12/f5/commlbldgs12_pless_040413.pdf

About SPP Regions

SPP Regions is promoting the creation and expansion of 7 European regional networks of municipalities working together on sustainable public procurement (SPP) and public procurement of innovation (PPI).

The regional networks are collaborating directly on tendering for eco-innovative solutions, whilst building capacities and transferring skills and knowledge through their SPP and PPI activities. The 42 tenders within the project will achieve 54.3 GWH/year primary energy savings and trigger 45 GWh/year renewable energy.

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