



Module 5: Chapter 2

Inventory Procurement



**Indian Association of Preventive and Social Medicine
Gujarat Chapter**

Inventory Procurement

Learning objectives: At the end of this chapter students will be able to know

1. Various procurement procedures
2. The process of tendering

Any healthcare establishment is heavily dependent on material, equipments and medicines and hence logistics management assumes great importance since availability of the right item, at right time, right place and in the hands of the right person can often make the difference between life and death in a hospital.

Broadly, Logistics and materials management involve a large number of activities, which are more sensitive in a hospital because each activity influences & is influenced by other activities.

These are listed below and are explained subsequently:

- (a) Tendering, procurement & inspection
- (b) Storage, standardization, codification & classification
- (c) Materials accounting & physical distribution
- (d) Transportation
- (e) Security of materials
- (f) Condemnation and disposal of stores

Tendering, procurement & inspection:

Any organisation has to resort to purchasing of goods or services (process of actual buying of materials for services) to ensure an uninterrupted flow of materials, a minimum inventory investment and to buy materials / services at a reasonable cost .

Broadly, the steps involved in purchasing are summarized as follows.

Factors for vendor rating:

- Financial capacity
- Production capacity
- Value of business
- Reputation
- Other customers
- Service facilities
- specifications

Identification of need→selection of the correct sources of supply (vendor rating)→analysis of bids→price negotiations→ issue of purchase order→inventory actions

Concept of Tenders: Tender buying is resorted to by all govt. /public sector organisations wherein enquiries are floated to various short-listed vendors, for purchases to be done. Tenders may be Open tenders (through advertisement in media) Limited tenders (where bids are called for only from reputed / prequalified parties); Simple tenders (where only one firm is asked to submit its rates in writing) and Global tenders (in case of large purchases tenders are often invited from within India and abroad).

All govt and public sector undertakings should follow the following steps in the tendering system while undertaking purchases:

1. Specifications of the item to be purchased are established carefully.
2. A vendor list is identified which should have as many vendors as possible.
3. Competitive bids are invited from vendors through an open advertisement, which should also mention the technical specifications of the item, modalities of payment and any other terms & conditions.
4. Bids received are opened in front of representatives of vendors on a pre-notified date and time.
5. Comparative statement is drawn up of the quality, price & support services of those bids which meet the qualifying requirements.
6. Bids are evaluated. Contract is awarded to lowest responsible bidder, who meets the specifications which are pre-determined.
7. Price negotiation with the selected vendor.
8. Issue of purchase order.
9. Supply of items within the stipulated time frame.
10. Inventory action (including inspection and issue to concerned department)

Types of purchase processes

(1) Rate contract is the purchase system wherein the rate of an item is determined through a tender system, without specifying the quantity to be purchased. Under running contract system, the minimum quantity to be purchased is specified. Followed by all Govt./ PSU through DG S&D, the system reduces the lead time for the organisation, since purchases are made at pre-determined rates (centrally carried out by the DG S&D).

(2) Blanket ordering is a contract with a vendor to periodically supply low cost items only on receipt of an authorized release order from the organisation.

(3) Cash purchases (Imprest purchases) are the purchases made from the open market on strictly need basis and are usually confined to urgently required but low priced items, required in small quantities.

(4) System contracting is a form of purchasing which does not involve maintenance of any stocks and inventory by the organisation and where authorized individuals from the organisation can draw low priced materials needed in high quantity directly from a supplier's store.

(5) Reciprocal purchases involve a policy where two contracting parties purchase their specialized items from each other on a mutual basis.

Types of contract

The Authority uses a variety of contracts. The type of contract depends on the requirement for the goods or service. For example, for a low value, simple procurement, a letter of agreement referring to the Authority's Standard Terms & Conditions can be sufficient. However, for the provision of high value and/or high risk goods or services, a tendering process will usually be used. The varieties of contracts we use include:

1. Purchase orders - a purchase order will usually be issued for any purchase of goods and services. As a general rule the Authority's Standard Terms & Conditions apply to all procurements.

2. One-off contracts - these are contracts which meet a specific need and will generally be short-term to supply goods, services or works. For example:

- A consultancy for a one-off project
- The purchase of a particular piece of equipment
- A one off building project.

3. Call-off or framework contracts - this is where the terms, conditions and prices (or at least the pricing strategy) are agreed with a supplier or a number of suppliers, for the supply of goods and services. Making orders under the umbrella contract is by way of quotation if there is more than one supplier on the framework, or calling off from the single supplier. These contracts are usually longer term, i.e. between three and five years. Examples of this type of contract are:

- Repair work to premises
- Purchase of consumables
- Purchase of IT equipment.

4. Partnership contracts (or partnering contracts) - these are contracts where the Authority is seeking to develop a service or asset, in partnership with a service provider. The service provider will often have a substantial say in how the service (or works) is developed throughout the life of the contract. Where services are concerned, partnership contracts will be long term (often five to seven years). An example of this type of contract is for the design and construction of new buildings, roads.

Contract rules and laws

Public Procurement Regulations

The Authority must be able to demonstrate Best Value in all its procurement, meaning "the optimum combination of whole life costs and benefits to meet the customer's requirements".

There is no need for Compulsory Competitive Tendering (always buying the cheapest product or accepting the lowest tender), although price is still important and forms part of the evaluation criteria. It is necessary to look at quality and price to make sure that the product, service or works being procured is the most suitable whilst providing value for money for the Authority.

These Procurement Directives must be adhered to for any public sector organisation. The effect of the Directives and Regulations is:

- To require the Authority to advertise tenders for all its contracts over the current threshold. The value of a contract is **not** based on the annual value but the amount that the Authority will have to pay to the supplier over the whole life of the contract (including any possible extension)
- To require the Authority to ensure that the specification is not drawn up in such a way as to make it any more difficult for a non-government or international company to bid for the contract.

There are four ways in which procurement can be carried out under the Directives and Regulations. These are:

1. Open Procedure - where the Authority advertises a tender and everyone who is interested is invited to tender

2. Restricted Procedure - where the Authority advertises for expressions of interest and draws up a shortlist of companies to be invited to tender from those expressing an interest

3. Negotiated Procedure - where the procuring body negotiates with the bidder of its own choice. There are only very limited circumstances in which this procedure may be used. They are used mainly in connection with major outsourcing and Private Finance Initiative (PFI) contracts. There is more scope to use a negotiated procedure for service contracts than supply contracts.

4. Competitive Dialogue - where the Authority presents or describes a need and initiates dialogue with suppliers, who will identify and determine the best solution to the need. This method is used in preference to the Negotiated Procedure. Aspects of the contract can be discussed with the chosen candidates during this dialogue. However, the Authority must not reveal any solutions or confidential information to another party.

How we advertise for tender opportunities

All advertisements for contracts will be advertised in the Leading newspapers of the country & institutional websites

Lower value tenders will be advertised in Local/National papers, appropriate trade journals, on our website, or in some cases, through direct contact with suppliers.

The advertisement may:

- Be an 'open' invitation which means that anyone who wants to, can tender for the contract being advertised
- Ask for 'Expressions of Interest' which means that you will have to fill in and return a questionnaire asking for information about your company - this information will be used by the Fire Authority to select a shortlist of companies who will be invited to tender
- Go directly to preferred suppliers (where applicable).

How to respond to an advertisement for tenders

The way in which supplier should respond to an advertisement for a tender, and therefore the information needed to send to the Authority, depends on the type of advertisement issued for a given tender.

Open invitations

All bidder needs to do is to contact the Service employee named in the advertisement and ask for a tender pack for the contract.

Expressions of interest

If the advertisement asks Bidder to express an interest in a tender opportunity he will need to email the named contact and ask for a *Pre Qualification Questionnaire* (PQQ). The type of information requested in the PQQ is:

- Details of incorporation if Bidder are a company
- Financial statement/company trading accounts
- Customer/trade references
- Health and safety policies
- Equal opportunity policies
- Insurances
- Quality/training and environmental systems.

For higher value or more complex contracts Bidders will **also** be asked:

- About relevant experience
- About the staff who will work on the Authority's contract
- For more information about health and safety, environmental and equality policies of the bidders company.

With the PQQ, Bidder will be given more information about the subject matter of the contract.

Bidder will need to complete and return the PQQ to the name and address supplied by the specified return date.

The Authority will use the information in the PQQ to draw up a shortlist of the most suitably qualified organisations to meet the particular requirements of the contract. These companies will then be invited to submit a tender for the contract. Bidder will be informed about the outcome of his PQQ on or around the date specified in the PQQ.

The Authority will set criteria which organisations wanting to do business with the Authority will need to meet. These are in three categories - legal, financial and technical:

Legal

- Bidder must accept the jurisdiction of the Courts
- Bidder must accept our contract conditions (where these are supplied), although minor changes may be agreed if they are in the interests of both parties
- Bidder must have no convictions for serious environmental offences, fraud, corruption or other major breaches of the Companies Act in the last three years or, if Bidder have, Bidder can explain what steps Bidders company has taken to respond to such conviction;
- Bidder have no findings of unlawful discrimination of any kind in the employment field in the last three years or, if present, party can explain what steps they have taken to respond to such findings

Financial

- Bidder must pass a financial check usually based on his companies (preferably audited) accounts/financial statements
- Bidder must provide evidence of an acceptable level of public liability insurance, employers liability insurance, and professional indemnity insurance where required. Very occasionally and dependent upon the subject matter of the contract, we may require additional/alternative specialist insurances.

Technical

- Bidder must meet the technical requirements as set out in the specification
- Bidder must provide references for his company that authority can contact
- Bidder must provide evidence of any quality standards (appropriate to the requirements of the contract) held by his company

- Bidder must provide (as a minimum) a company policy statement covering health and safety, environment and equalities aspects of his business that must meet legislative requirements.

The tendering process

If bidder is short-listed he will be issued with a tender package. This will comprise (at least):

- The Invitation to Tender (ITT)
- Instructions to Tenderers
- Form of Tender
- The Contract Specification
- The Contract Terms and Conditions. Note: Special Terms and Conditions **will** be applied depending on the specific procurement
- Form of Offer
- Canvassing Certificate
- Parent Company Guarantee (if relevant)
- Supplementary information (if applicable).

Contracts are awarded on the basis of lowest price or 'most economically advantageous. The ITT will tell bidder about the basis on which his bid will be evaluated. The evaluation criteria will consider a range of quality and other non-commercial issues that may lawfully be taken into account in addition to the price.

If the contract is a complex, high value or high risk to the Authority, they may ask bidder to come to an interview and/or ask to visit one of his reference sites.

At the end of the evaluation process authority will make decision and select a preferred bidder, and inform both successful and unsuccessful companies of the outcome.

Managing contracts and payment

Managing our contracts

Authority will work with bidder to achieve the best service possible. Where Authority enters into a long-term relationship with bidder Authority expect to work together to achieve a continuously improving service for the Authority and service users.

Authority will monitor bidder performance against any key performance indicators (that have been either specified by the Authority or agreed with bidder and form part of a Service Level Agreement) and for compliance with companies health and safety, equalities and environmental policies as agreed with us.

How will authority pay

As set out in Financial Standing Orders, authority will pay within xyz days of receipt of invoice as the norm or within any subsequently agreed terms to suppliers via a bank or society account.