

# Community and Renewable Energy Scheme Project Development Toolkit Procurement Module

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## Module Structure

The CARES Project Development Toolkit is intended to be used as a reference by CARES clients of all kinds, including community groups, community based businesses and rural businesses. This module is one part of a series of documents forming the CARES Toolkit and is designed to cover all sizes of project, although the scale and complexity of multi MW projects may require more detailed evaluation than smaller projects.

Other modules that may also be of particular interest to those reading this module are as follows.

- establishing a community group
- project finance
- securing the site
- planning
- grid connection
- the Feed-in-Tariff
- investment ready process
- community investor
- sources of finance
- construction module

This module is structured in four parts to act as a guide and reference document for CARES Clients in the development of a renewable energy project in Scotland.

### **Procurement context**

An overview of procurement within a renewable energy project.

### **Procurement – the main issues**

A brief introduction to the main issues that may be face when procuring equipment and services.

### **Procurement process**

A more detailed look at each stage of Procuring equipment and services including developing and issuing Invitations to tender

### **Further Information**

Appropriate links, definitions and references to other information, collated for quick reference.

## Procurement context

At some point in your project, you will have to procure goods and services. Depending on the size and nature of the project, this may include the services of:

- consultants to provide support for preparing planning permission, project management, detailed design activities;
- professional services such as accountants and lawyers;
- civil engineering contractors;
- electrical engineering contractors;
- heating contractors; and
- transport contractors.

This is in addition to procuring the hardware you need for your project.

While most of this process can be reasonably straightforward, there are some areas where you must be clear as to what your approach will be, where you will go to find the services that you need and how much control you wish to exert over the process.

For instance, it is possible to secure the services of a dedicated project manager who can undertake the entire development process for you, including all procurement activities. For some schemes, this may be a good option as the cost of employing the project manager may yield savings elsewhere in the development process and lead to less risk for your group or business. On the other hand, you may feel that you have enough capability in your organisation to undertake the management of project delivery and the required procurement processes.

This module assumes you will be undertaking the procurement.

## Procurement – the main issues

### **How do I find the things and people that I need?**

This can be a challenge if you have not procured similar services before, especially as you will be looking for specialist goods and services, and to procure the most cost-efficient solution. However, these goods and services have been procured by other community groups who will be happy to share their insight.

From the outset, it is important to recognise that it is best practice to get references and seek competitive tender. This maybe a funder requirement for grant funded work; usually at least three quotes are required, but for higher grant amounts there maybe more rigorous conditions. Where you need specialist services, such as electrical connection, construction of a foundation for a wind turbine or construction of framing for solar PV cells, recommendations from other similar groups will help to identify suitably qualified suppliers.

For general services, such as building work, plumbing, legal and accountancy services, it may be possible to use local suppliers and to get local references.

When procuring legal and financial services, it is important to make sure that the suppliers have experience of providing similar services to other groups. Lenders can be very particular about the legal and financial service providers that they will expect you to use.

Against this background, it is a good idea to split your needs into 'general' and 'specialist' goods and services. For instance, many of the things that you will need to deliver a hydropower project are likely to be highly specialised, with the exception of non-contestable grid-connection activities, the creation of temporary roads and most issues concerning finance provision, which are offered by a number of providers. On the other hand, most of the plumbing work to install a biomass boiler will be the same as that for boilers fired on any fuel. The only issues requiring specialist input are likely to be the boiler/fuel feed installation and control.

It is also important that you have confidence in your supplier. This can be difficult, especially as you will probably not have been involved in a project of this nature before. Talking to organisations that are similar to yours about how they developed their project will help you to gain recommendations based on their experience. It is also important to ensure that the suppliers you choose have undertaken or supplied similar projects to yours and that they can provide relevant case studies, references and proof of competence/accreditation.

If you do require specialist services or equipment, then you should always seek competitive tender, ideally from at least three potential suppliers. It is likely that all but the simplest of tenders will have differences in what your requirements will be and how they will be met. This means you need to have an agreed approach to make direct comparisons as to the best value offered by each. This makes how you specify your requirements important.

From the outset, you must also be clear about who will judge the tenders you receive and how they will undertake the assessment process.

## Procuring consultancy and similar services

A single consultant would normally be employed to help with a specific aspect of a project. Different consultants may be required to cover different elements of the work.

Consultants are often independent, self-employed experts; a member of a small group of subject-specific experts in a specialist company; or part of a larger, multidisciplinary practice. Generally, the fees charged by independent consultants are less than those charged by large practices. However, things to consider here are the consequences of dealing with separate consultants providing you with services. For instance, your planning application may require a number of separate specialist inputs. To be effective, these must be coordinated and the planning authority may indeed require a single report combining all of these inputs. This is work that you must undertake or contract to someone else. A multidisciplinary consultancy is likely to be able to produce the required consolidated output and this may reduce the risk of planning rejection on technical grounds. It might also increase the overall value for money of the service.

Therefore, when procuring the services of a consultant, it is important to be clear about the outcome you require and the timescales for the work to be completed. It is also good practice to work on a fixed-fee basis so that you know the cost of delivering the desired outcome from the outset and that the risk of cost overrun is with the consultant.

Another thing to ask for when procuring the services of consultants is the level of their professional indemnity (PI) insurance. While all consultants should have good PI cover, this is particularly important if the consultant is undertaking some kind of engineering design. This is because if the design is proved to be in any way defective, leading to loss of generation income, rebuilding costs or physical failure leading to third-party liabilities, etc you will want to recover your losses. A consultant's PI cover is there to provide the means to make these payments which may total £1 million or more, even for a community project. For non-engineering disciplines, you should look for cover which is at least ten times the value of the fee paid. In the case of engineering consultants, cover in excess of £1 million should be in place, but this should be more for larger projects.

## Choosing a consultant

As mentioned earlier, recommendation is a good basis for consultant selection, but it is still a good idea to seek competitive tender.

Where no recommendations are available, it is possible to gain information from elsewhere. For instance, local authorities have information and full documentation on successful (and failed) planning applications. These documents are usually prepared by consultants and can be used to identify consultants with local experience of delivering successful planning outcomes for similar projects.

Technology suppliers can sometimes take the role of consultant or can provide contact information for consultants that they have worked with. In addition, some professional institutions can provide a list of members. There are also databases that contain details of consultants and are maintained by organisations such as Skillfair, often in conjunction with the professional institutes. The Free Index website has an extensive list of energy consultants. Details for both Skillfair and Free Index are listed in the Appendix.

The most relevant source of information is likely to be the Scottish Renewable Energy Directory; also listed in the Appendix.

## Procuring equipment

In many ways, this is a more straightforward process. Again, other projects similar to yours will identify potential technology suppliers and much information is available from the relevant trade associations. The Renewable Energy Association can provide links to all of these; when you have reached this stage in your project you should refer to the Renewable Energy Association website which is listed in the Appendix.

The process of procurement is as described above, with the option of seeking tenders against a detailed specification or an 'output specification'. One approach you may like to use is to seek initial budgetary quotations from a wide range of suppliers in the first instance. This can bring two main benefits. Firstly, it will help you with your initial high-level financial appraisal. Secondly, it will identify those potential suppliers that appear willing to help and those less willing to engage and support your project. At this point, you can select a smaller number of potential suppliers that you are willing to work with, who can ultimately be invited to provide a full competitive quotation.

As with any equipment purchase, it is important to understand what is included and excluded from the quotation and that, as far as is possible, all quotations are made on the same basis. Examples are the inclusion or exclusion of installation services, the nature and extent of warranties, and commissioning and post commissioning support. The cost of long-term maintenance should also be considered. At this point, the pedigree and longevity of your supplier must be considered as the long-term availability of support and spare parts are important.

It is important to agree who is responsible for delivering the equipment the site, the manufacturer or purchaser, how and when the delivery will take place. For wind turbines these points will be covered in the Turbine Supply Agreement. Other aspects to consider before taking responsibility for the equipment are warranty on performance (power curve) and availability, and ensuring that the guarantee includes details of compensation for under performance.

Check with your prospective finance provider as to what specific information is required from the supplier and the nature of the supplier guarantee. For instance, in the case of small or new technology suppliers, insurances may be required to cover against technical failure and contingent liabilities, such as your loss of earnings.

## **Procurement process**

### **Step 1: Setting specifications**

There are two general approaches to setting specifications.

- Be as detailed as possible in your requirements. You could ask a PV panel supplier to quote for the number of panels that you estimate you will need.
- Describe the outcome that you wish to achieve. You could ask the supplier to provide a quote that maximises your return from the FIT and is based on the surface area available to mount the panels on, orientation, etc.

The latter approach will allow the supplier to define the best panel for the location to maximise yield rather than you having to make the decision.

Using this 'output specification' approach gets around the problem of you potentially overlooking items. It also puts the onus on the supplier to specify in detail how to achieve the best outcome from your project.

Irrespective of which approach is taken, it is important to ask for the costs comprising any tender response to be broken down. This will enable you to compare responses and to identify areas where costs might be reduced. However, it is important to note that any quote will have been prepared on the basis of undertaking all of the work listed. Therefore, the cost of individual items may not be the same if supplied on a 'standalone' basis or, if an item is removed from the tender, then the overall price may not be reduced by the cost of that item.

### **Step 2: Producing an invitation to tender**

As described above, there are many project-specific issues to consider when procuring equipment and services for a project. Therefore, a standard invitation to tender (ITT) template should not be

used for this exercise. CARES has developed a number of template ITTs which you can tailor to your project, more details are provided in the Further Information section.

The information provided in the template ITTs is not complete and is unlikely to account for all project types and variations. It is therefore, the responsibility of those using the ITTs to ensure the template is tailored to be accurate and representative of the project.

These cover the services that you can procure using a CARES development grant or pre-planning loan. These include pre-feasibility studies and detailed feasibility studies.

### Step 3: Issuing Invitations to Tender

When issuing an ITT, consider the following things.

#### How many potential suppliers should be invited to tender?

It is good practice to invite at least three to tender. If you invite more then you must weigh up the benefit of this and the extra work for you in assessing them. There is also a danger that if the competition is too fierce in terms of numbers, then some potential suppliers may choose not to tender.

If you are not familiar with organisations that can provide the support you are looking for, then you can post your ITT on a number of different websites and open the opportunity to a range of bidders; details for a number of examples are included in the Further Information section..

#### Timescales

The organisations or individuals that you select to provide quotations are likely to be very busy. Therefore, the timescale that you set for your ITT must be realistic from their perspective. If you give them only a short time to respond, their response may be rushed and incomplete or they may even choose to decline your ITT. As a result, you should plan well in advance of when you need the response and give your prospective consultant or supplier three weeks or a month to respond. This may need to be up to two months if the ITT is for a major activity such as a detailed design or where subcontracts or component parts are required and must themselves be costed by your potential supplier.

Your group needs to allow time for reviewing the proposals. This process can take a number of days depending upon how many proposals you receive. If a decision needs to be made at a group's board meeting, this should be scheduled into your overall project program.

The example ITTs available from CARES included indicative timetables and milestones.

#### Governance

It is important that you explain in your ITT who you are, give some background to your project and explain why you are sending your ITT to the prospective supplier. You should give contact details (e.g. phone number and email address) of one person in your organisation who can answer any questions about the ITT. You should also make it clear to whom the ITT should be returned and the deadline for returns (i.e. date and time).

## Be clear on what you want

As discussed above, there are two general approaches to tendering. One is to be highly specific about what you want, the other is to describe the outcome you are seeking. Irrespective of which approach you are taking, you must be clear about what you are asking the prospective supplier to quote against. For example, you may have a detailed specification for a wind turbine base that you are seeking a quotation to build. In this case, you can supply the specification and drawing, details of the location, when you need the work doing, details of any restrictions on access and your preferred payment schedule to fit in with your loan finance. On the other hand, you might be asking for support with a planning application. In this case, you might ask the supplier to liaise with the planning officer to confirm what information is needed and then provide the necessary information to secure planning permission.

Another issue to consider is if you will need your supplier to provide you with information during the course of the project. For instance, in the example of the planning application, you might want a weekly report on progress as this may influence the duration and cost of the work. In this case, you must put in your ITT the frequency of the reports you want, how they are to be delivered (verbal, email, written report) and who the report is to be sent to. Keep in mind here that you will likely be paying for your support on an hourly basis and that the more you ask for, the more it will cost. If you want a final presentation made to the group's board or to a community meeting, this must be specified.

If you have a deadline that the supplier must meet for starting and/or finishing the work, then this must be made clear in your ITT.

It is also normal for you to state in your ITT that you are not going to pay the cost of ITT preparation and that you are not obliged to accept any quotation.

## Financial issues

If the objective in offering your ITT is to get 'real world' costs then clearly there is merit in not including an indicative budget in your ITT. However, be prepared for your prospective suppliers to press you for a figure. On the other hand, you might set a budget ceiling in your ITT, which is at or just below your own cost estimates. Make it clear that this is a competitive process.

You also want to be sure that all of your quotations are directly comparable. In this case, be clear as to how you want the costs to be broken down and in what detail. In addition, you need to be clear when payments for the work will be due, if a deposit required, and if stage payments are expected and, if so, what triggers them?

As described previously, in the case of consultants in particular, you need to be sure in the ITT that you ask for evidence of the level of insurance cover they have.

## Step 4: Scoring proposals

From the outset, you need to be clear how you will decide which tender you will accept and to be clear about this in the ITT. If the sole criterion is cost, or any other issue or set of issues, then you need to tell the tenderer how you will apply this judgement. If not, you may, for instance, get a low capital cost on equipment, but with no ancillary equipment, in an attempt to win the bid and then

hike up the installed costs later. Examples of things to consider are warranties, timescales for delivery, payment terms, local benefits (such as employment) and flexibility.

A scoring matrix can be used to score the bids against different elements. This approach can be used to introduce 'weighting' so that key items (e.g. cost) have a greater influence on the outcome compared to other issues such as delivery schedule. In this way, 'cost' might be 50% of the points available, 'flexibility' might be 25%, 'use of local labour' might be 10% and so on. An example procurement scoring matrix is available from Local Energy Scotland; details are available in the Further Information section.

You also need to set a deadline for making your decision.

Once you have made your selection, you will need to inform unsuccessful bidders, who may ask for feedback on why they were unsuccessful. This makes transparency in your decision-making process essential, especially for a community group where local relationships are important. This transparency will be apparent if you use the available scoring matrix.

### Step 5: Keeping records

A record of the contracts procured and your suppliers should be included and updated in a single, secure central repository (either a local or online store), such as the [CARES Investment Ready tool](#), as this information will be needed in the future. This provides a record of the liabilities that the group has taken on and a record of the project costs. This record of all costs incurred and services procured held in your CARES Investment Ready Tool will be important when entering into discussions with lenders.

## Further information

### CARES Toolkit

This, and the other CARES Toolkit modules referred to, are available from the Local Energy Scotland website - <http://www.localenergyscotland.org/funding-resources/resources-advice/cares-toolkit>

### Procurement – the main issues

- [Your local CARES development officer](#) will know of other community groups in your area that have procured similar services. Contact them for further information.
- CARES has a number of tools available to support you in the procurement of goods and services. [Your local CARES development officer](#) can provide you with these – [Local Energy Scotland](#) has a network of development officers across Scotland to provide regional advice and support wherever you are.

### Procuring consultancy and similar services

- There are databases that contain details of consultants and are maintained by organisations such as Skillfair, often in conjunction with the professional institutes. For lists of consultants visits:
  - Skillfair - [www.skillfair.co.uk/consultantsListing.aspx](http://www.skillfair.co.uk/consultantsListing.aspx)
  - Free index Energy consultant directory [www.freeindex.co.uk/searchresults.htm?searchtype=directory&k=energy\\_consultant&l=scotland&locid=30491](http://www.freeindex.co.uk/searchresults.htm?searchtype=directory&k=energy_consultant&l=scotland&locid=30491)
  - Scottish Renewable Energy Directory [www.scottishrenewables.com/directory/](http://www.scottishrenewables.com/directory/)

### Procuring equipment

- The Renewable Energy Association can provide links to potential technology suppliers see [www.r-e-a.net/](http://www.r-e-a.net/)

### Procurement process

#### Step 1: Setting specifications

#### Step 2: Producing an invitation to tender

- CARES has developed a number of template ITTs which you can tailor to your project <http://www.localenergyscotland.org/tenders>

#### Step 3: Issuing ITTS

- If you are not familiar with organisations that can provide the support you are looking for, then you can post your ITT on a number of different websites for example
  - Public Contracts Scotland gives free access to contract opportunities in Scotland. It includes details of all public sector contracts. If procuring for services funded by CARES, this is a good place to post your ITT (see <http://www.publiccontractsscotland.gov.uk/Default.aspx>).

- Tenders Direct is a subscription service that contractors will subscribe to. If your ITT is posted on Public Contracts Scotland it will likely appear here (see <http://www.tendersdirect.co.uk/Default.aspx>).
- Supply is part of a national SME engagement programme and a portal to public sector contracts. If your ITT is posted on Public Contracts Scotland it will likely appear here (see <https://www.supplycontracts.co.uk/>).

#### Step 4: Scoring proposals

- An example procurement scoring matrix is available from Local Energy Scotland, please contact your [local development officer](#) to find out more.

#### Step 5: Keeping records

- A CARES [Investment Ready Tool for wind](#) and [Investment Ready Tool for hydro](#) include a comprehensive list of questions that all need to be answered in the development of your project. It is applicable to any group that requires finance to develop the project.

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