

ETZ Procurement Strategy 2023 – 2031

Version 1.0

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ENERGY TRANSITION ZONE

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PROCUREMENT STRATEGY DOCUMENT

EXECUTIVE SUMMARY

Energy Transition Zone (ETZ) Ltd is a private sector led and not for profit company, operating since 2021 with a clear ambition to reposition the North East of Scotland as a globally recognised integrated energy cluster focused on the delivery of net zero.

ETZ operates with significant funding from the Scottish Government and UK Government, and therefore needs to consider the public procurement regulations in our strategic approach to procurement. This procurement strategy is designed to enable procurement activity that support in delivering our company's strategic vision, through an approach that considers the relevant procurement legislation and best practices.

This document comprises eight sections which form the Procurement Strategy:

- **Section One** and **Section Two** introduce the purpose and scope of the document.
- **Section Three** and **Section Four** recap the operational context and ETZs strategy at a business level.
- **Section Five** presents an overview of ETZ's proposed activities, to outline the current and future procurement capability and needs. This section introduces several high-level procurement categories that structure the focus of ETZ's procurement. These categories are referred to throughout this strategy and may be used as the basis of a more detailed category strategy.
- **Section Six** summarises the legislative and market conditions of the external landscape in which ETZ conducts procurement. The section provides a framework to interpret which regulations should be considered by ETZ and highlights the policies most relevant to sustainable procurement practices. An evaluation of market side conditions is presented by procurement category, and the key challenges faced in conducting procurement are presented as a summary of this section.
- **Section Seven** describes ETZ's procurement vision and strategy framework. This section explains how our procurement themes uphold our overarching business values and outlines the strategic priorities that we consider throughout our procurement approach.

- **Section Eight** describes a typical approach to procurement which applies our strategic values in the context of the regulatory environment. The procurement process signposts which decisions are required throughout the contract process flow, and highlights where we need to consider our strategic priorities and the policy environment. This section includes guidance on execution of the strategy and identifies how to monitor a successful implementation.

This procurement strategy outlines ETZ's generic approach to procurement and is not a substitute for a category strategy and detailed procurement plan.

1 PURPOSE OF THE PROCUREMENT STRATEGY DOCUMENT

The procurement strategy sets a framework for how ETZ will work to ensure that its procurement activities deliver value for money and provided an approach for how ETZ plans to meet its procurement obligations and carry out regulated procurement activities¹. In accordance with section 15(1) the Procurement Reform (Scotland) Act 2014, the Procurement Strategy is intended to:

- Guide and govern procurement activity in ETZ in line to ETZ's functions and achievement of its purposes
- Set out how regulated procurement will comply with their duties such as treat relevant economic operations equally and without discrimination, act in a transparent and proportionate manner and comply with the sustainable procurement duty
- Clearly show how the procurement strategy is driving delivery and value for money
- Clearly include a statement of ETZ's general policy on compliance with key requirements
- Set out how ETZ intends to ensure payments are made no later than 30 days after the invoice is presented to either its contractors or sub-contractors

This Procurement Strategy should be read in conjunction with ETZ's Procurement Policy and Scheme of Delegation.

2 SCOPE OF THE PROCUREMENT STRATEGY DOCUMENT

This document will cover the procurement approach for all indirect and direct procurement activities conducted directly by ETZ. This includes the buying of goods, services, and works from ETZ's partners and suppliers². This document also covers the procurement approach required for private and publicly funded grants.

The scope of this procurement strategy includes all current and planned procurement activities, which will in the future extend further than just conceptual and design activities and will comprise of land preparation, refurbishment of buildings, construction and fit out activities. Further detail around ETZ's active projects can be found in **Appendix A**.

It is assumed that where public or private sector partners, and current or prospective ETZ tenant companies or landowners are involved and responsible for directly funding activities, these organisations will lead the

¹Procurement Reform (Scotland) Act 2014, c. 15(1). Available at: <https://www.legislation.gov.uk/asp/2014/12/part/2> [Accessed: 20 February 2023].

² Scottish Government, 2022. Procurement policy manual. [Online] Available at: <https://www.gov.scot/publications/procurement-policy-manual/> [Accessed 20th February 2023].

procurement process for the required goods and services and will be responsible to ensure compliance with grant funding, public sector requirements and alignment with this procurement strategy.

3 BUSINESS CONTEXT

Energy Transition Zone (ETZ) LTD is a private sector led and not for profit company with a clear ambition to reposition the North East of Scotland as a globally recognised integrated energy cluster focussed on the delivery of net zero. The limited liability company was established to attract and hold funding, and to deliver the ETZ project.

ETZ Ltd have been operational since April 2021, and have received initial investment from Opportunity North East (£5.7m), Just Transition Funds (£15.3m) and funding from the Scottish Government (£26,300,000) with a future commitment of funding promised by the UK Government of £27m promised by the UK Government (Department for Levelling Up, Housing & Communities) with a purpose to drive forward the vision of transforming North East Scotland to become a global leader in energy transition activities and a net exporter of energy transition technologies, services and skills.

As ETZ continues to deliver its key projects, procurement activity will remain an important part on the Company's ability to deliver the expected progress. ETZ is required to put in place a Procurement Strategy to ensure that services or works contracts entered into that are utilising public sector funding specifically are procured in accordance with the Scottish public procurement rules. This will ensure procurement is completed in an open and transparent manner and value for public funding is demonstrated.

4 ETZ'S STRATEGY

4.1 ETZ'S VISION

ETZ's vision of transforming North East Scotland to become a leader in global energy transition activity and a net exporter of energy transition technology, services, and skills.

"By 2030 we will have designed and built-in phases a unique Energy Transition Zone (ETZ) adjacent to the new harbour development at Aberdeen South Harbour. It will be a leading-edge catalyst for innovation and high value manufacturing, and a centre of excellence for offshore renewables, hydrogen, and CO2 storage. Through the success of the ETZ, the region and the energy supply chain will become a global leader in energy transition, and a net exporter of product, services, technologies, and skills."

This purpose-built net zero green space, connected to the coastline, will provide future Energy Transition organisations and the local community with amenities, job opportunities and a long-term business environment; harnessing the region's natural resources and existing incumbent skills to maximise the future value potential from Energy Transition developments for future generations."

The ETZ project is a catalytic project for accelerating the implementation of energy transition in the North East of Scotland at a scale that makes a significant contribution to the economies of the City of Aberdeen, the wider region, Scotland, and the UK.

4.2 ETZ'S STRATEGIC OBJECTIVES & CRITICAL SUCCESS FACTORS

ETZ have four focus areas that act as a framework for accelerating the region's energy transition ambition:



1. **Land & Infrastructure**
2. **High-level manufacturing & supply chain**
3. **Capability & Skills**
4. **Innovation, R&D & Technology**

1. Land & Infrastructure

- Leverage the £400m Aberdeen South Harbour (ASH) Investment
- Enable offshore wind and hydrogen high value manufacturing
- Deliver green space enhancements and community facilities

2. High Value Manufacturing & Supply Chain

- Attract inward investment for high value manufacturing
- Supporting infrastructure for emerging hydrogen production, storage, and distribution business
- Provide scale-up and mentoring support to capitalise on new energy transition opportunities
- Internationalisation and export of offshore engineering, and manufactured projects

3. Innovation, R&D and Technology

- Home of National Floating Wind Innovation Centre (FLOWIC)
- Site of proposed Green Hydrogen Test and Demonstration Facilities
- Energy Incubator and Scale-up Hub to support green start-ups and scale-ups
- Applied R&D linked to advanced manufacturing
- A centre for data and digital innovation

4. Capability & Skills

- Build on existing energy skills and experience in the region
- Work with the local community to deliver inclusive job opportunities
- Establish the National Energy Skills Accelerator (NESA)
- Develop Energy Transition Pathway for supply chain
- Deliver the Advanced Manufacturing Skills Hub

There are five strategic objectives that guide the delivery of ETZ's vision. Underpinning the achievement of these strategic objectives are an additional ten Critical Success Factors (CSF), which are to be considered through delivery of each of the projects (see the **Appendix B & C** for further detail).

5 ETZ'S PROCUREMENT ACTIVITIES

5.1 ETZ'S CURRENT PROCUREMENT CAPABILITY

The early focus for ETZ's strategy included the National Floating Wind Innovation Centre (FLOWIC), National Energy Skills Accelerator (NESA) and Energy Incubation & Scale Up (EISH) facilities, with ongoing focus on R&D, supply chain and green space enhancements. With most projects that require procurement activity in the conceptual and design stages.

At the time of writing this procurement strategy, the only project that has been fully tendered is the W-Zero-1 refurbishment (which is a building owned by ETZ Limited with the aim of it being the home of the National Floating Wind Innovation Centre). The proceeding procurement activity will be to appoint design teams for the EISH and Advanced Manufacturing Skills Hub (AMSH) projects. (Refer to **Appendix A** for a more detailed project listing).

Currently procurement activity is undertaken by the Chief Financial Officer, supported by the Finance and Commercial co-ordinator and with input from relevant ETZ staff. There are no formal procurement category or contract managers in place.

5.2 ETZ'S FUTURE PROCUREMENT CAPABILITY

ETZ's procurement capability to date has focused on the conceptual and design stages of the approved projects. However, ETZ's future procurement activities will broaden to deliver the projects outlined in Table 1.

These activities will be delivered by a by a lean fit for purpose team that will expand its procurement capacity and skills to meet the procurement demand and grant / public procurement requirements. ETZ will obtain external support from legal advisors and subject matter experts (where required) to ensure they are involved upfront in the scoping and development of project requirements.

Campus	Location	Description	Key activities
Marine Gateway	St Fittick's (OP56 Opportunity Site) ³ (Bay of Nigg / ASH (OP62 Opportunity Site))	Integrated cluster creating a catalyst for the wider Energy Transition Zone attracting high value manufacturing associated with offshore renewables.	<ul style="list-style-type: none">• High Value Manufacturing – land preparation and enabling works• Road realignment services• Environmental Management Services• Biodiversity Enhancement services• Water Quality Enhancement services• Community Facilities services

³ *Development capacity at the Marine Gateway is reduced slightly (8.6 ha to 7.9 ha) from previous Board reporting, as a result further review of road alignment and environmental buffer zones

Campus	Location	Description	Key activities
Hydrogen Campus	Doonies (OP61 Opportunity Site) Peterseat	Centred around Doonies and sites at Peterseat Drive, to provide infrastructure that supports green hydrogen Test & Demonstration and emerging production, storage and distribution technologies. It will include a new road link crossing Doonies Farm to connect to the Coast Road.	<ul style="list-style-type: none"> • Green Hydrogen Test and Demonstration facility • On shore hydrogen landing point • High Value Manufacturing – land preparation and enabling works • New Access Road • Environmental Management services • Biodiversity Enhancement services
Offshore Wind Campus	Hareness Road – Altens	Centred around the National Floating Wind Innovation Centre – operated by ORE Catapult and brownfield land to the east of Altens.	<ul style="list-style-type: none"> • Test and Validation • Research and Development • Supply Chain Collaboration
Innovation Campus	Former Trafalgar House Site – Hareness Road	Centred around the new-build Net-Zero Incubator that supports green start-ups and scale-ups.	<ul style="list-style-type: none"> • Design and construct an energy Incubator and Scale Up Hub
Skills Campus	Former Muller Dairies Site – Hareness Road	Centred around NESCoI / NESA and Net-Zero Exemplar development that provides Energy Transition pathways for supply-chain and re-skilling.	<ul style="list-style-type: none"> • Design and construct an advanced Manufacturing Skills Hub • Deliver a jobs and skills programme to support inclusive employment opportunities • Community engagement activities
Community & Energy Coast	Across Campus	Centred around delivering a green network for walking, cycling and enhanced community amenities, linking the ETZ with the coast and the city.	<ul style="list-style-type: none"> • Programme of investment in active travel, community infrastructure, green networks, and biodiversity.

Table 1 - Overview of key activities proposed at the Energy Transition Zone adjacent to Aberdeen South Harbour

5.3 ETZ'S KEY PROCUREMENT ACTIVITIES AND CATEGORIES

Procurement activity is an integral part to support ETZ's ability to deliver on their current vision and key projects. A high-level indicative category summary of the procurement activity (indirect and direct) currently being conducted and will be conducted in future is detailed below:

Direct procurement:

Direct procurement is the procurement of materials or services required to drive ETZ's direct performance. In ETZ's example this could include procurement activities to engage and manage services to conduct design, master planning, development, building, refurbishment, and construction of the Energy Transition Zone adjacent to Aberdeen South Harbour.

Note: This is not a comprehensive list of the categories and subcategories, and only indicative based on current project budgets.

Level 1	Level 2 – Category	Level 3 – Sub-Category	Description
Direct	Professional Services	Engineering Services	Engineering services such as environment planning, design planning, innovation & R&D, road realignment services
		Consultancy and Legal Services	Legal services (consents and change of use), Consultancy services, tax advisory services, general advisory services (e.g., sustainability), marketing services (for campaigns or investors and community engagement)
		Architectural services	Design planning for building, infrastructure, and land, including landscape architecture
		Programme Management Services	Planning and Programme Management services to deliver the large projects or works
		Quantity Surveying and Cost Management	Construction programme cost advisory and management services to deliver the large works contracts
		Property & Facilities Management (Utilities)	Standard utilities services (gas, electricity, water, telecommunication to service an operation ETZ) cleaning, waste management, security, landscaping, winter maintenance, mechanical and electrical maintenance and repairs, life safety systems, internal and external building maintenance, IT infrastructure, CCTV Monitoring, out of hours call outs, collection of waste and other sustainability data and car parking
		Planning & Environmental Services	Planning services for the change of site use, environmental impact assessments, utilities provision, environmental management services, biodiversity enhancement services, water quality enhancement services

Level 1	Level 2 – Category	Level 3 – Sub-Category	Description
		Community Services	Community facilities services and advisory services to consider how suppliers, unemployed people and the community can benefit, as well as how to deliver jobs and skills programme to support inclusive employment opportunities
	Works	Construction Works	Building and refurbishments, land preparation works to enable land identified for investors or companies, design, and construction of shell building for investors, detailed design of community facilities

Table 2a: Summary of ETZ's indicative direct procurement categories

Indirect procurement:

Indirect procurements are purchasing of goods and services that are critical to ETZ's day to day operations of ETZ's business. In ETZ's example this includes marketing, IT, office services etc.

Note: This is not a comprehensive list of the categories / subcategories and only indicative based on current operating budget

Level 1	Level 2 – Category	Level 3 – Sub-Category	Description
Indirect	IT	IT services, IT software, IT hardware, Telecommunications, licenses	Comprises of all phones, laptops, and software licenses etc.
	Corporate Services	Other Corporate Services (e.g., HR)	Other corporate running costs, including training and skills development, HR, investor development etc.
	Office services	Office expenses, printing, subscriptions, desks	Covers all office expenses
	Professional Services	Consultancy, Financial Services, Legal Services, Insurance, HR Services, Compensation & Benefits, Learning and Development, Policy and Communications Advisory services	Covers all professional services required to run the business (e.g., insurance, certifications, company accounts, business consultancy, learning and development programmes)

	Marketing & Branding	Marketing services, media, branding, market research, PR	Includes creation of brand and marketing identity
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Table 2b: Summary of ETZ's indicative indirect procurement categories

6 EXTERNAL LANDSCAPE

6.1 SCOPE OF CURRENT REGULATORY REQUIREMENTS FOR ETZ PROCUREMENT

ETZ procurement conducted in Scotland will be delivered in accordance with the Scottish procurement policy framework, however an overview of the current regulatory requirement is summarised below.

Public Procurement Regulations for ETZ Ltd

ETZ are delivering their strategic vision through the award of Scottish and UK Government funding, in addition to investment from private sector partners. Procurement contracts which are funded in whole or in part by public funding are typically subject to public procurement rules, even when conducted by private / not for profit sector organisations. Therefore, ETZ procurement activities are to be conducted according to public sector procurement regulations, as we conservatively have assumed ETZ will fall within the definition of a “body governed by public law” outlined in Regulation 2(1) of PCRS 2015.⁴

Jurisdiction	In Scope - Regulations applicable for ETZ Procurement in Scotland	Out of scope – Regulations not applicable for ETZ Procurement in Scotland
Scotland	The Public Contracts (Scotland) Regulations 2015	
United Kingdom		The Public Contracts Regulation 2015 The Procurement Bill
European Union		EU Directive on Public Procurement (2014/24/EU)

Table 3: Summary of the Jurisdiction of Procurement Regulations for ETZ Procurement Activities in Scotland

Regulations in scope for ETZ procurement in Scotland

ETZ procurement conducted in Scotland will be delivered in accordance with the Scottish procurement policy framework, the key public procurement regulations that are applicable for ETZ are:

- Public Contracts (Scotland) Regulations 2015⁵

⁴ The Public Contracts (Scotland) Regulations 2015, c.2(1). Available at <https://www.legislation.gov.uk/ssi/2015/446/regulation/2/made> [Accessed: 20 February 2023]

⁵ The Public Contracts (Scotland) Regulations 2015. Available at: <https://www.legislation.gov.uk/ssi/2015/446> [Accessed 20 February 2023].

- Procurement Reform (Scotland) Act 2014⁶
- Procurement (Scotland) Regulations 2016⁷
- Utilities Contracts (Scotland) Regulations 2016⁸

There are different public procurement rules which apply to contracts based on various contract value thresholds and the type of contract being procured. ETZ acknowledge the estimated contract value thresholds that have been in place since 1 January 2022 and are further summarised in **Appendix D**.

Regulations out of scope for ETZ procurement in Scotland

Apart from procurement of Defence and Security Public Contracts (Schedule 6, paragraph 19), which is out of scope of ETZ's the expected procurement activities, the UK Public Contracts Regulations 2015 are generally not applicable for ETZ when conducting procurement in Scotland⁹.

It is not anticipated that ETZ will access any EU grants in the future, however if the situation changes ETZ will refer to the funding provider for further advice on the EU procurement rules. For example, EU Directive on Public Procurement (2014/24/EU).

Proposed Changes to UK Public Procurement Regulations

The UK Government introduced The Procurement Bill to the House of Lords in May 2022. The Procurement Bill proposes to reform the public procurement regime in the UK following its exit from the European Union. Scottish Government have not agreed to adopt the legislation.

One important challenge which is unresolved at the time of preparing this strategy document, is to define the specific agreement that enables access to public procurement frameworks between the UK and Scotland. Without this agreement, the introduction of the Procurement Bill in the UK would prevent bodies conducting public procurement according to Scottish legislation from accessing UK frameworks (e.g., CCS).¹⁰

6.2 SUSTAINABLE PROCUREMENT POLICY REQUIREMENTS

Public procurement rules are designed to ensure those conducting procurement with public sector funding follow transparent and fair procurement practices, and to promote competition and value for money. The Scottish Model of Procurement promotes value for money as being an appropriate balance between cost or price, quality, and sustainability^{11,12}.

⁶ Procurement Reform (Scotland) Act 2014. Available at: <https://www.legislation.gov.uk/asp/2014/12/contents> [Accessed 20 February 2023].

⁷ The Procurement (Scotland) Regulations 2016. Available at: <https://www.legislation.gov.uk/asp/2014/12> [Accessed 20 February 2023].

⁸ The Utilities Contracts (Scotland) Regulations 2016. Available at: <https://www.legislation.gov.uk/ssi/2016/49> [Accessed 20 February 2023].

⁹ The Public Contracts Regulations 2015, c.6(19). Available at: <https://www.legislation.gov.uk/ssi/2015/446> [Accessed 20 February 2023].

¹⁰ Scottish Parliament, 2023. Procurement Bill. [Online] Available at: <https://www.parliament.scot/bills-and-laws/legislative-consent-memorandums/procurement-bill> [Accessed 20 February 2023].

¹¹ Scottish Government, 2022. Procurement policy manual. [Online] Available at: <https://www.gov.scot/publications/procurement-policy-manual/> [Accessed 20 February 2023].

¹² Scottish Government, n.d. Public Sector Procurement. [Online] Available at: <https://www.gov.scot/policies/public-sector-procurement/> [Accessed 20 February 2023].

Three important sections of the Procurement Reform (Scotland) Act 2014 for consideration by ETZ are: the Sustainable Procurement Duty Act; the Community benefit requirements; and the Guidance on Selection of Tenders and Awards of Contracts.

Procurement Reform (Scotland) Act 2014, Part 2 - General Duties and Procurement Strategies, Section 9 Sustainable Procurement Duty

This Act outlines the duty to consider how conducting the procurement process can: improve the economic, social, and environmental wellbeing of the authority's area; facilitate the involvement of small and medium enterprises, third sector bodies and supported businesses in the process; and promote innovation. In accordance with the Act, providing a view of how to secure the improvements is also part of the duty.^{Error! Bookmark not defined.}

Procurement Reform (Scotland) Act 2014, Part 3 - Specific Duties, Section 24 to 26 Community Benefit Requirements

These provisions outline specific requirements for procuring authorities conducting procurement for major contracts greater than or equal to £4,000,000. The authority must determine whether to apply community benefit requirements as part of the procurement. A statement is required in the contract outlining the reasons for not doing so if that is decided.

Procurement Reform (Scotland) Act 2014, Part 3 - Specific Duties, Section 29 Guidance on Selection of Tenders and Awards of Contracts

This provision provides the legal basis of the Fair Work First policy. The Fair Work First policy should be interpreted and implemented with this Act and in combination with SPPN 6/2021 and Chapter 5 of the Procurement Reform (Scotland) Act 2014: statutory guidance.¹³¹⁴ The Fair Work First policy aims to drive high quality and fair work across the labour market in Scotland. The Fair Work First Criteria are:

- Appropriate channels for effective voice, such as trade union recognition
- Investment in workforce development
- No inappropriate use of zero hours contracts
- Action to tackle the gender pay gap and create a more diverse and inclusive workplace
- Providing fair pay for workers (for example, payment of the real Living Wage)
- Offer flexible and family friendly working practices for all
- Oppose the use of fire and rehire practices

The Fair Work First criteria should be evaluated along with other relevant criteria, while ensuring the appropriate balance between quality and cost of the contract.¹⁵

¹³ Scottish Government, 2021. Fair Work First implementation - Scottish public procurement update: SPPN 6/2021. [Online] Available at: <https://www.gov.scot/publications/implementation-of-fair-work-first-in-scottish-public-procurement-sppn-6-2021/> [Accessed 20 February 2023].

¹⁴ Scottish Government, 2022. Procurement Reform (Scotland) Act 2014: statutory guidance. [Online] Available at: <https://www.gov.scot/publications/procurement-reform-scotland-act-2014-statutory-guidance/pages/5/> [Accessed 20 February 2023].

¹⁵ Scottish Government, 2022. Procurement Reform (Scotland) Act 2014: statutory guidance. [Online] Available at: <https://www.gov.scot/publications/procurement-reform-scotland-act-2014-statutory-guidance/pages/6/> [Accessed 20 February 2023].

Proposed changes to sustainable procurement policy in Scotland

ETZ's approach to procurement should be aligned with the existing sustainable procurement policy requirements and best practice. However, the Scottish Government is proposing significant changes in this area through a consultation on the introduction of legislation around Community Wealth Building (CWB).¹⁶

CWB is focussed on 5 pillars of activity: Spending; Inclusive Ownership; Workforce; Land and Property; and Finance. The introduction of legislation on Spending would significantly impact the sustainable procurement policy landscape in Scotland. This strategy will need to be reviewed in line with the agreement of any proposed changes, factoring in the time to make changes in line with any policy transition periods published with the introduction of new legislation.

In addition, until only recently, the majority of organisations have been focused on measuring and reporting their GHG emissions from their own operations and electricity consumption (Scope 1 and 2), rather than also considering indirect emissions that occur in a company's value chain (Scope 3). Emissions through Scope 3 sources generally make up the majority of total corporate emissions.¹⁷ Despite not currently being mandated, a future consideration for ETZ especially if they are to play a key role in achieving net-zero by 2045 within Scotland and the UK is to consider their future emissions and reporting methodology.

6.3 GRANT REQUIREMENTS

ETZ is delivering with the use of grant funding from the Scottish and UK Government. Each Grant Offer Letter outlines specific terms and conditions to be met and will guide the approach to procurement and detailed procurement policies. Grants awarded by the UK government are expected to comply with the terms and conditions of the Grant offer letter, and the Code of Conduct for Grant Recipients of General Government Grants, unless otherwise specified.¹⁸

There are conditions outlined to ETZ at a corporate level by Scottish Government and UK Government through grant letters and the Code of Conduct for Recipients of General Government Grants.

Appendix E outlines some key conditions applied under a Scottish Government Grant, but it is important that the approach outlined in this document and ETZ procurement policies are updated regularly in accordance with any future grant awards and conditions.

6.4 ALTERNATIVE PROCUREMENT FRAMEWORKS AND CONSIDERATIONS

The online procurement portal Public Contracts Scotland (PCS) has been used by ETZ for several qualifying procurement activities to date, in particular the Quick Quotes and PCS Contracts Register. This portal is an effective way to access a wide range of Service and Works providers, using a public sector platform that promotes transparency, fairness, and competition, as well as meeting legal procurement requirements.

Other platforms exist to enable public procurement through the use of framework agreements. ETZ will consider framework platforms when outlining the most suitable route to market in **Section 8 – Procurement**

¹⁶ Scottish Government, 2023. Building community wealth: consultation. [Online] Available at: <https://www.gov.scot/publications/building-community-wealth-scotland-consultation-paper/> [Accessed 20 February 2023].

¹⁷ Green House Gas Protocol, n.d. Corporate Value Chain (Scope 3) Standard. [Online] Available at: <https://ghgprotocol.org/standards/scope-3-standard> [Accessed 20 February 2023].

¹⁸ HM Government, 2018. Code of Conduct for Recipients of Government General Grants, London: HM Government.

Approach outlined in this document. Some of the common frameworks that could be considered are outlined in **Appendix F**.

The entry criteria for participating buyers that wish to access public sector frameworks, will be specific to the particular agreement in consideration. Typically, public sector frameworks are segmented by: procurement category; location; a range of estimated contract values; and preferred procurement route. Consideration of these factors will be useful in determining the most appropriate framework.

Two common eligibility requirements for accessing public sector frameworks, will be for ETZ to demonstrate that they are:

- 1) A body “governed by public law” according to Regulation 2(1) of PCRS 2015; and
- 2) Operating according to Public Contracts (Scotland) Regulations.

Independent consultation and advice may be required to determine ETZs compliance with specific eligibility criteria outlined in the above legislation.

6.5 2023 UK ENERGY MARKET LANDSCAPE

The outlook of the market side appetite to engage with ETZ to deliver its vision remains positive, with significant focus on the transition of the energy sector in the UK and around the world.

UK Energy Transition 2023

The UK oil and gas industry provided more than 200,000 jobs across the country and contributed £28bn gross value added (GVA) to the economy in 2022 and remains a large pillar of the UK economy. However, the broader UK energy industry is exposed to a rapidly changing landscape. The oil and gas industry, faces internal and external pressure for transformation towards a net zero energy environment by 2050. In parallel, there is increased focus to develop an energy supply which provides energy security for the UK¹⁹.

Transition opportunities for UK Oil and Gas

The UK and Scottish Governments have set ambitious targets to reduce greenhouse gases and transition to renewable energy sources^{20,21}. Whilst this presents several challenges, participants of oil and gas supply chain have opportunities to pivot towards the development and delivery of renewable and low carbon energy technologies. The UK’s oil and gas industry has existing infrastructure, experience and many skills that can be repurposed to play a role in the net zero transformation of the UK’s energy supply market. However, it will need continued support to overcome labour market challenges and a volatile investment climate to realise the potential of these existing resources.¹⁹

Increased focus on Energy Security

Russia’s invasion of Ukraine in 2022 highlighted the importance of an energy mix for the UK that provides security of both supply and price²². Through the vision outlined in the 2050 net zero strategy and the Ten Point plan for green industrial revolution, the UK Government are committed to supporting the delivery of reliable and affordable power through diversification of the UK energy supply^{23,24}. The UK oil and gas supply chain

¹⁹ OEUK, 2023. Supply Chain Report 2023, Aberdeen: OEUK.

²⁰ Climate Change Act 2008, Available at: <https://www.legislation.gov.uk/ukpga/2008/27/> [Accessed 20 February 2023]

²¹ Climate Change (Emissions Reduction Targets) (Scotland) Act 2019, Available at: <https://www.legislation.gov.uk/asp/2019/15/contents/enacted> [Accessed 20 Feb 2023]

²² IBIS World, 2022. Industry Report[D35.110]: Energy Production in the UK, s.l.: IBIS World.

²³ BEIS, 2021. *Net Zero Strategy: Build Back Greener*, HM Government.

²⁴ BEIS, 2020. *The Ten Point Plan for a Green Industrial Revolution*, HM Government.

played a critical role during 2022 to mitigate shocks to the UK energy supply. Although it will need continued commitment and longer-term transformation to play a sustainable part in the diversification strategy¹⁹.

Continued Global Investment

The global energy transition requires significant investment from a range of sources. For the first time, global investment on low carbon energy technology exceeded \$1 trillion in 2022²⁵. This is expected to increase to beyond \$100 trillion by 2050, to meet the net zero commitments made around the world.²⁶ In the UK, there are increasing commitments of public and private investment which provide a range of funding sources available for the UK energy supply chain participants to deliver the transition to a net zero economy. The industry is facing strong headwinds through inflation and increased cost of capital for infrastructure programmes. Despite this, to facilitate the energy transition in the UK the offshore energy sector is expected to spend more than £200 billion by 2030.²⁷

6.6 EXTERNAL MARKET IMPACTS AND CONSTRAINTS

In determining ETZs approach to specific procurement contracts, useful factors to consider are the relative cost of the procurement activity and an assessment of the level of risk to supply.

The supply side considerations that impact the relative risk in the supply across ETZ's key procurement categories introduced in section 5.3 are outlined in Error! Reference source not found. **Appendix G**. The appendix outlines current trends across the procurement categories which could impact ETZ's planned procurement. An indicative position of Supply Risk and Relative Cost to ETZ is also identified.

The approach to each of ETZ's procurement activities will be assessed individually based on the specific needs of ETZ. This overview aims to outline categories where particular consideration may be required most often.

Key Insights

Strategic Procurement Categories

Figure 1 shows that Programme Works is the procurement category with the most strategic importance, since it has the highest relative cost, and a high risk to supply. The considerable supply risk in the Programme Works sector is described in **Appendix G**, and the spend in this category is likely to account for several times the combined value of other the procurement activities.

Strategic procurement categories are characterised by a naturally less competitive market environment with suppliers holding more bargaining power on cost and contract terms. There can also be less focus from the supply side on developing strong and lasting relationships.

Procurement Categories with Lower Supply Risk

Procurement in categories with lower supply risk may present opportunities for ETZ to hold greater bargaining power on contract terms and pricing. The Leverage procurement categories, which are characterised by both a lower supply risk and a higher relative spend (such as Planning and Environmental Services, as indicated in Figure 1 and **Appendix G**), may offer the greatest opportunity to deliver a greater overall value through more favourable terms and pricing.

²⁵ BNEF, 2023. Global Low-Carbon Energy Technology Investment Surges Past \$1 Trillion for the First Time. [Online] Available at: <https://about.bnef.com/blog/global-low-carbon-energy-technology-investment-surges-past-1-trillion-for-the-first-time/> [Accessed 20 February 2023].

²⁶ BNEF, 2022. New Energy Outlook 2022, London: Bloomberg New Energy Finance.

²⁷ OEUK, 2022. Economic Report 2022, Aberdeen: OEUK.

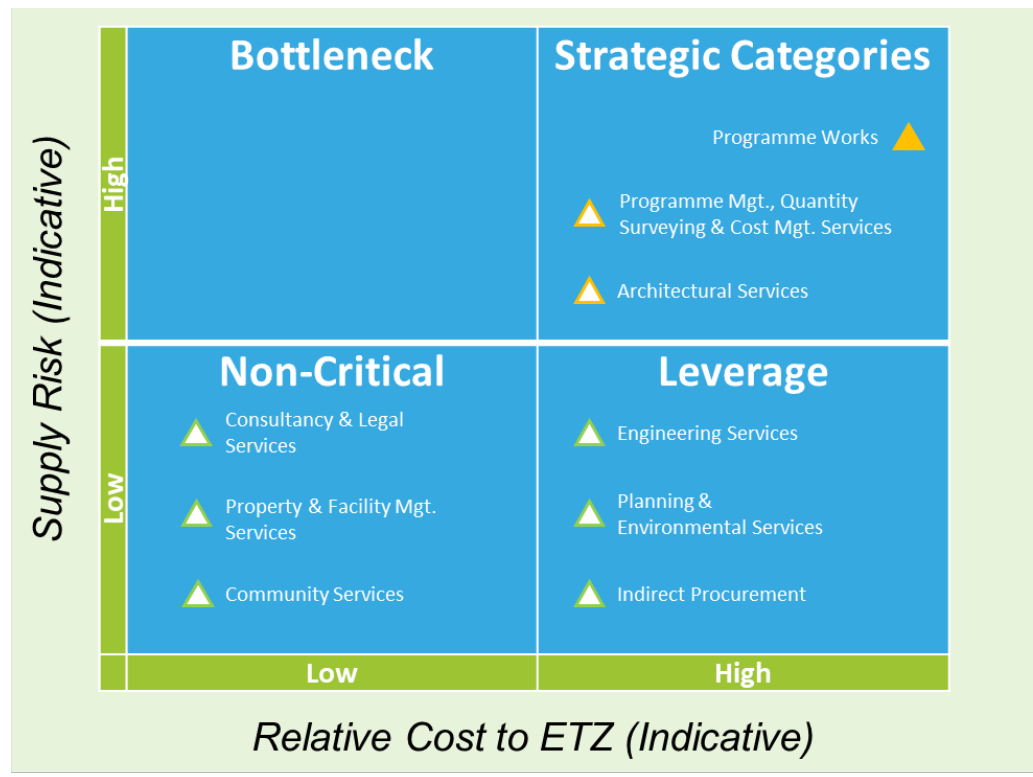


Figure 1 - ETZ's Indicative view of the market by procurement category

6.7 MITIGATIONS OF THE KEY RISKS AND CHALLENGES RELATING TO PROCUREMENT

Through an evaluation of the external landscape, four key challenges have been identified that present significant areas of consideration for ETZ in delivering the strategic approach to procurement. These are captured below, in Table 4.

Procurement Challenges	Mitigations
Regulatory Environment Challenges	
Challenge 1: There is significant complexity involved in delivering procurement activities in a way which is consistently compliant with the existing procurement policy environment in Scotland. ETZ operate a lean organisation structure with of a small number of core full time staff who manage multiple cross functional responsibilities.	Mitigation 1: The systematic navigation of public procurement policy in Scotland will require the setup of robust processes; operating procedures; governance; and appropriate training, to deliver procurement in a way that meets the purchasing principles laid out in this strategy and the regulatory requirements outlined in section 6.2.
Challenge 2: With an ambition to improve the transparency, innovation and sustainable sourcing practices of public procurement, there are two significant proposed changes to UK and Scottish law. If introduced, the Procurement Bill and a proposal to introduce legislation on Community Wealth Building, would have a material effect on the public procurement policy landscape.	Mitigation 2: It is likely that one or both changes will be introduced during the timeframe of this procurement strategy. ETZ should monitor the development of these two policies in particular through UK and Scottish parliament, and any others which may be introduced. A review of the regulatory conditions that define the procurement approach and detailed procurement policies will be required upon confirmation that these changes will be introduced.
External Market Challenges	
Challenge 3: ETZ have ambitious and progressive targets for delivering their vision through the local supply chain. Two tensions that obstruct these targets are: (1) the specific competitive tendering rules that apply to contracts of different threshold values; and (2) the availability of the finite local professional services and works suppliers.	Mitigation 3: (1) A detailed assessment of the procurement activities by category and supplier that feeds into a comprehensive procurement plan could provide structure for more strategic procurement planning with the local supply chain. (2) The development of a procurement plan which outlines longer term needs of ETZ may also identify procurement activities more applicable for local sourcing under the regulations outlined in section 6.1 and 6.2.
Challenge 4: Ensuring contracts include comprehensive requirements, both technical and legislative is critical to agreeing achievable and high-quality procurement. With a lean organisation structure, ETZ may not have the in-house resource and expertise to define, tender and manage and large procurement contracts.	Mitigation 4: Programme assurance is especially critical for ETZ to ensure grant funding allocations are released on the agreed timelines, so the development, monitoring and management of robust contracts that cover unforeseen delays and issues is critical. Outsourcing elements of procurement or accessing preapproved suppliers through framework agreements for major programmes may improve delivery assurance.

Table 4: Summary of key challenges and the mitigations

7 ETZ'S PROCUREMENT VISION & STRATEGIC PRIORITIES

7.1 PROCUREMENT STRATEGY (2023 – 2031)

This Procurement Strategy establishes the framework for how ETZ will work with its community, partners, and industry to help deliver their key priorities and future value to the North East of Scotland.

Implementation of this strategy will therefore seek to define the procurement ambition, as well as uphold ETZ's values:

- Create an exemplar, low carbon development that will provide future energy transition organisations, the supply chain and the community with amenities, job opportunities and a long-term business environment
- Deliver a jobs and skills programme to support inclusive local employment opportunities that support the wellbeing of the communities;
- Promote the Scottish Governments' Community Wealth Building Policy²⁸ and support both businesses and the current and future workforce in the region to build resilience to economic fluctuations and provide community benefits by contributing to job retention and creation, reskilling and upskilling, bringing exciting careers and job opportunities for future generations across the community;
- Help the energy supply chain be more capable and effective, and support its growth and sustainability in low carbon energy markets;
- Highlight the significance of energy transition for North East Scotland as an entire region as well as the activity within the 30-40 hectare Energy Transition Zone;
- Make a significant contribution to the energy transition cluster to be developed in Scotland;
- Play a key role in achieving net-zero by 2045 within Scotland and the UK; and
- Attract inward investment and showcase the region as the most exciting and attractive location in Europe to invest in to develop and accelerate the commercialisation of innovative low-carbon technologies.

7.2 PROCUREMENT VISION

The vision for procurement is to:

Working in collaboration with our community, leading experts, partners and industry to deliver exceptional quality procurement outcomes that drive community, sustainability, economic and environmental benefits and deliver a transition to net zero emissions in the North East of Scotland.

The following key procurement themes will support delivery of this:

- Deliver impactful outcomes and value for money for the local community
- Increase Community, Sustainable, Economic and Environmental Value
- Act with integrity and be fair, open, transparent, and compliant

²⁸ Scottish Government, 2023. Cities and regions – Community Wealth Building. [Online] Available at: <https://www.gov.scot/policies/cities-regions/community-wealth-building/> [Accessed 20 February 2023].

7.3 OUR VALUES

This strategy seeks to define the procurement ambition, as well as uphold ETZ's overarching values, which can be seen below:




Our values		Procurement themes
Impact – We make a difference; our ambition is to drive change, improve skills, create jobs and deliver a sustainable energy future for our region		Deliver impactful outcomes and value for money for the local community
Inclusion – We value our people. We work collaboratively with our partners, community, and industry to add value		Increase Community, Economic, Sustainable and Environmental Value
Integrity - We do what we say and follow through on our commitments. We can be trusted to make things happen at pace and at scale.		Act with integrity and be fair, open, transparent, and compliant

Table 5: Summary of ETZ's values against procurement themes

7.4 PROCUREMENT STRATEGIC PRIORITIES AND GUIDING PRINCIPLES

Our procurement priorities need to go further than only meeting the technical requirements. They also need to consider the impact on creating strong local economies, creating jobs and building community wealth, as well as harnessing the region's expertise to help deliver a new level of sustainable value and support the North East Region to transition to net-zero.

The below details the key procurement strategic priorities and guiding principles that should be considered (and where relevant applied) to all procurement activity, with obligations cascaded down to all of ETZ's partners.

Additional detail on the procurement process to apply these principles (as well as different considerations based on thresholds) is detailed in '**Section 8 – Procurement Approach**' section.

These priorities will also be considered in the evaluation criteria when assessing future tenders.

Procurement Theme 1) Deliver impactful outcomes and value for money for the local community
Procurement Strategic Priorities & Guiding Principles:
SP 1.1 Procurement activities are aligned ETZ's corporate vision and strategy
SP 1.2 Procurement activities align with ETZ's business case priorities (including strategic objectives and Critical Success Factors)
SP 1.3 Procurement activities are aligned with Project requirements / Grant Funding Requirements (where required)
SP 1.4 Procurement activities deliver impactful and social outcomes for the local community

SP 1.5 Procurement activities to attract inward investment / regional interest

SP 1.6 All contracts are awarded on the basis of value for money

SP 1.7 Promote genuine and effective competition through procurement activity

SP 1.8 Leverage Crown Commercial Services Frameworks / SCAPE etc (where possible) to save time and money

Procurement Theme 2) Increase Community, Economic, Sustainable and Environmental Value

Procurement Strategic Priorities & Guiding Principles:

Community Priorities

SP 2.1. Consider the Scottish Governments' Community Wealth Building Policy²⁸ and maximising community benefits when conducting procurement activities

SP 2.2 Integrate with the Aberdeen City Region to attract employment, provide societal benefits, generate jobs and provide wider economic benefits to Scotland and the UK

SP 2.3 Promote inclusive local employment opportunities that contribute to job retention and creation and support the wellbeing of the communities, by increasing fair work practices, and developing the labour market

SP 2.4 Consider community societal benefits (including coastal access, open space, landscape, and biodiversity enhancements)

Economic Priorities

SP 2.5 Generate economic development through local and community means (procure locally with a focus on local suppliers and locally produced goods – encouraging new entrants, smaller businesses, and local companies to build community wealth)

SP 2.6 Procurement activity should focus on supporting the energy supply chain be more capable and effective (e.g., access to amenities, job opportunity and a long-term business environment)

SP 2.7 Support local business and the current and future workforce in the region to build resilience against economic fluctuations

Sustainable & Environmental Priorities

SP 2.8 Mitigate ETZ's future supply chain risk by ensuring appropriate pre-qualification of suppliers and due diligence checks

SP 2.9 Ensure to uphold sustainable supply chain practices by selecting a 'fit for purpose' supplier base and buying responsibly and sustainably

SP 2.10 All procurement activity to aim to contribute to low carbon development, a net zero future and support growth and sustainability in low carbon energy markets (e.g., low carbon energy sources, resource efficient buildings and low carbon construction practices)

SP 2.11 Integrate ESG priorities into procurement and ensure cascaded to all suppliers including procurement of fairly and ethically traded goods and services

SP 2.12 Monitor and uphold responsible workforce practices across all projects and suppliers (e.g., compliance with the Health and Safety at Work)

SP 2.13 Before carrying out regulated procurement, consider how conducting a procurement process can meet the sustainable procurement duties (improve the economic, social, and environmental wellbeing of

the authority's areas, facilitate the involvement of SME, third sector bodies and supported businesses and promote innovation)
Procurement Theme 3) Act with integrity and be fair, open, transparent, and compliant
Procurement Strategic Priorities & Guiding Principles:
<p>SP 3.1 Creates standardised procurement processes with appropriate controls (e.g., separation of duties), compliance, and governance to ensure ETZ remains compliant but also agile where matters require it</p> <p>SP 3.2 All procurement activity must comply with the principles of public procurement and be fair, proportionate, open, and transparent manner²⁹</p> <p>SP 3.3 All procurement activity must comply with principles of equal treatment and non-discrimination, proportionality, and mutual recognition²⁹</p> <p>SP 3.4 Abide by all relevant public sector rules and regulations when delivering projects through public sector funding including applying the highest ethical standard in procurement activity</p> <p>SP 3.5 Apply ETZ's procurement policy and procedures</p> <p>SP 3.6 Maintain appropriate documentation / records</p> <p>SP 3.7 Deliver on our commitments to best of our ability, quality and to promised timescales</p>

Table 6: Summary of ETZ's procurement strategic priorities and guiding principles

By applying these principles, ETZ's business growth can remain aligned with the ETZ's wider strategic direction.

8 PROCUREMENT APPROACH

This section describes the typical approach ETZ can follow when performing procurement activities to apply the above strategic priorities and promotes transparency, fairness, and competition.

8.1 DECISION CRITERIA FOR PROCUREMENT

Below details the decision criteria needed to be considered by ETZ prior to selecting an appropriate project procurement route (e.g. goods, services, works, projects etc.)

Please note the reference list below is only a starting point, additional research should be conducted prior to proceeding with each of the procurement routes.

Part 1: Define the scope of regulatory coverage		
Decision 1: Is this procurement activity covered by public or private funding?		
Options	Procurement route	• Reference materials
Private funding	In the case of private funded project, ETZ will refer to the funding provider for further advice on requirements and will follow	<ul style="list-style-type: none"> • ETZ Procurement Policies / Procedures • ETZ Procurement Strategy • Private grant funding requirements

²⁹ The Public Contracts (Scotland) Regulations 2015 c.19, Available at: <https://www.legislation.gov.uk/ssi/2015/446/regulation/19/made> [Accessed 20 February 2023]

	ETZ's procurement policies and procedures and procurement strategy as far as reasonably practicable	
Public funding	Follow rules and procedures relevant to the specific jurisdiction (see below for further details)	<ul style="list-style-type: none"> • Public Procurement Regulations • ETZ Procurement Policies • ETZ Procurement Strategy • Public grant funding requirements
Decision 2: What is the source of funding for this procurement activity?		
Note: It is assumed that procurement will be conducted by ETZ based in Scotland. In the case of that and foreign ETZ entity is conducting procurement, the authority of local procurement regulations should be determined.		
Options	Procurement route	Reference materials
Grant Funding – UK	Follow UK Grant Funding Requirements and Scottish Procurement Rules unless otherwise specified	<ul style="list-style-type: none"> • Grant Funding Requirements • Public Contracts (Scotland) Regulations 2015 • Procurement Reform (Scotland) Act 2014 • Procurement (Scotland) Regulations 2016 • Utilities Contracts (Scotland) Regulations 2016
Granting Funding – EU	In the case of EU funded projects, ETZ will refer to the funding provider for further advice on the EU procurement rules and thresholds that should be applied. ³⁰	
Private Funding	<i>Refer to Question 1</i>	<i>Refer to Question 1</i>
Grant funding – Scotland	Follow Scottish Procurement Rules & Grant Funding Requirements	<ul style="list-style-type: none"> • Grant Funding Requirements • Public Contracts (Scotland) Regulations 2015 • Procurement Reform (Scotland) Act 2014 • Procurement (Scotland) Regulations 2016 • Utilities Contracts (Scotland) Regulations 2016
Decision 3: What type of procurement activity are you conducting? (e.g. Services, Works, Utilities (Services) and Utilities (Works))		
Options	Procurement route	Reference materials
Services and non-construction supplies (Herein: Services)	Procuring a contract for the provision of services or goods	<ul style="list-style-type: none"> • Public Contracts (Scotland) Regulations 2015

³⁰Scottish Government, 2021. Procurement - changes to legislation following the UK's exit from the EU: SPPN 5/2021. [Online] Available at: <https://www.gov.scot/publications/sppn-5-2021-changes-to-scottish-procurement-legislation-following-the-uks-exit-from-the-eu/> [Accessed 20 February 2023].

	which are not related to the delivery of Works	<ul style="list-style-type: none"> • Procurement Reform (Scotland) Act 2014 • Procurement (Scotland) Regulations 2016 • Grant Funding Requirements
Works and construction supplies (Herein: Works)	Procuring a contract for: construction; design and construction; or procurement, design, and construction; or supplies for the delivery of Works	
Utilities (Services)	Procuring a contract for: water, energy, transport, and postal services	<ul style="list-style-type: none"> • Procurement Reform (Scotland) Act 2014 • Utilities Contracts (Scotland) Regulations 2016
Utilities (Works)	Procuring a contract for: water, energy, transport, and postal works	<ul style="list-style-type: none"> • Procurement Reform (Scotland) Act 2014 • Utilities Contracts (Scotland) Regulations 2016

Part 2: This section is only applicable to Scottish Procurement Rules

Decision 4: What is the estimated value of the procurement contract? E.g. Services, Works, Utilities (Services) and Utilities (Works)

There are three regulatory coverage scenarios for procurement of non-Utilities services. These depend on the estimated value of a standalone procurement contract:

- 1) Estimated contract value is below the regulatory threshold of all three policies:** ETZ as an organisation should follow the overarching principles to procurement set out in the regulations and procure according to the values in this Procurement Strategy. However, specific procurement activities are not regulated by Scottish procurement policy.
- 2) Estimated contract value is over PR(S)A 2014 and P(S)R 2016 thresholds, but below PC(S)R 2015:** In addition to (1), procurement activities in this category are subject to several regulatory rules*. For example: regulated sustainable procurement responsibilities; requirements for advertising the tender; and the ways which ETZ need to communicate with successful and unsuccessful bidders are introduced.
* For contracts with estimated values over £4,000,000, the Procurement Reform (Scotland) Act 2014, Part 3 - Specific Duties, Community Benefit Requirements need to be considered.
- 3) Estimated contract value is above thresholds of PR(S)A 2014, P(S)R 2016 and PC(S)R 2015:** In addition to (1) and (2), procurement activities in this category are subject to the much more extensive regulations of PC(S)R 2015 that apply across the scope of procurement. For example, the rules which govern the six procurement routes are introduced: Open procedure; Restricted procedure; Competitive procedure with negotiation; Competitive dialogue; innovation partnership; and Negotiated procedure without prior publication.

This is summarized in the tables below:

Estimated Services Contract Value (ex. VAT)	Procurement Reform (Scotland) Act 2014	Public Contracts (Scotland) Regulations 2015	The Procurement (Scotland) Regulations 2016
1) Below £50,000	Not regulated by PR(S)A 2014	Not regulated by PC(S)R 2015	Not regulated by P(S)R 2016
2) Above £50,000, below £177,897	Regulated by PR(S)A 2014	Not regulated by PC(S)R 2015	Regulated by P(S)R 2016
3) Above £177,897	Regulated by PR(S)A 2014	Regulated by PC(S)R 2015	Regulated by P(S)R 2016

Table 7a - Regulatory coverage Scenarios for Services Procured by ETZ

Estimated Works Contract Value (ex. VAT)	Procurement Reform (Scotland) Act 2014	Public Contracts (Scotland) Regulations 2015	The Procurement (Scotland) Regulations 2016
1) Below £2,000,000	Not regulated by PR(S)A 2014	Not regulated by PC(S)R 2015	Not regulated by P(S)R 2016
2) Above £2,000,000, below £4,447,447	Regulated by PR(S)A 2014	Not regulated by PC(S)R 2015	Regulated by P(S)R 2016
3) Above £4,447,447	Regulated by PR(S)A 2014	Regulated by PC(S)R 2015	Regulated by P(S)R 2016

Table 7b - Regulatory Coverage Scenario's for Works Procured by ETZ

Based on your selection in Decision 3, review the value thresholds below to determine the next steps in your procurement activity.

A) Services Contracts

Options	Procurement route	Reference materials
1) Below £50,000 (ex. VAT)	Follow Route 1 , which provides guidance and templates for low risk and non-repetitive procurement	<ul style="list-style-type: none"> Route 1 Introduction Procurement Journey Scottish Government regulations as per above
2) Regulated procurement between £50,000 - £177,897 (ex. VAT)	Follow Route 2 , which provides guidance and templates for regulated procurement	<ul style="list-style-type: none"> Route 2 Introduction Procurement Journey Scottish Government regulations as per above

3) Regulated procurement over £177,897 (ex. VAT)	Follow Route 3 , which provides guidance and templates for regulated procurement	<ul style="list-style-type: none"> • Route 3 Introduction Procurement Journey • Scottish Government regulations as per above
4) Regulated procurement over £4,000,000 (ex. VAT)	Follow Route 3 , which provides guidance and templates for regulated procurement and Confirm Community Benefit Requirements	<ul style="list-style-type: none"> • Route 3 Introduction Procurement Journey • Scottish Government regulations as per above • Procurement Reform (Scotland) Act 2014, Part 3 - Specific Duties, Community Benefit Requirements
<p>Note: Ministerial Departments and Executive Agencies of the Scottish Government are mandated to apply the Consultancy Procedures (v1.7) when conducting procurement with consultants. Whilst these procedures are not mandated for ETZ, this guide may be regarded as a useful benchmark for good practice.</p> <p>Use of consultants: guidance - gov.scot (www.gov.scot)</p>		
B) Works Contracts		
Options	Procurement route	Reference materials
1) Below £2,000,000 (ex. VAT)	Follow Construction Procurement Route 1A or 1B (CPR 1A or CPR 1B) for guidance	<ul style="list-style-type: none"> • Construction Procurement Handbook - gov.scot (www.gov.scot) - Chapter 6 • Scottish Government regulations as per above
2) Regulated procurement between £2,000,000 - £4,000,000 (ex. VAT)	Follow Construction Procurement Route 2 A (CPR 2A) for guidance	<ul style="list-style-type: none"> • Construction Procurement Handbook - gov.scot (www.gov.scot) - Chapter 7 • Scottish Government regulations as per above
2*) Regulated procurement between £4,000,000 - £4,447,447 (ex. VAT)	Follow Construction Procurement Route 2 A (CPR 2A) for guidance and Confirm Community Benefit Requirements	<ul style="list-style-type: none"> • Construction Procurement Handbook - gov.scot (www.gov.scot) - Chapter 7 • Procurement Reform (Scotland) Act 2014, Part 3 - Specific Duties, Community Benefit Requirements • Scottish Government regulations as per above
3) Regulated procurement over £4,447,447 (ex. VAT)	Follow Construction Procurement Route 2 A (CPR2B) for guidance	<ul style="list-style-type: none"> • Construction Procurement Handbook - gov.scot (www.gov.scot) - Chapter 7 • Scottish Government regulations as per above
C) Utilities (Services) Contracts		
Options	Procurement route	Reference materials

Below £355,660 (ex. VAT)	Procurement to be conducted in line with this strategy, but is not regulated by UC(S)R 2016	<ul style="list-style-type: none">• The Utilities Contracts (Scotland) Regulations 2016 (legislation.gov.uk)• Scottish Government regulations as per above
Above £355,660 (ex. VAT)	Procurement to be conducted in accordance with this strategy, and is by UC(S)R 2016	
D) Utilities (Works) Contracts		
Options	Procurement route	Reference materials
Below £4,447,447 (ex. VAT)	Procurement to be conducted in line with this strategy, but is not regulated by UC(S)R 2016	<ul style="list-style-type: none">• The Utilities Contracts (Scotland) Regulations 2016 (legislation.gov.uk)• Scottish Government regulations as per above
Above £4,447,447 (ex. VAT)	Procurement to be conducted in accordance with this strategy, and is by UC(S)R 2016	
Decision 5: What procurement procedure should be followed?		
<p>The procurement procedures below apply to Services and Works contracts regulated by Public Contracts (Scotland) Regulations 2015 and Utilities Contracts (Scotland) Regulations 2016.</p> <p>Each procurement route (procedure) has specific regulatory conditions including different timescales, documentation expectations and variant terms that must be met. More information is available in the relevant legislation, promoting a call for competition except where regulation 33 (use of the negotiated procedure without prior notification) permits ETZ to award a contract using a negotiated procedure without prior publication]S27(1) of the Public Contracts (Scotland) Regulations 2015 (legislation.gov.uk). ETZ will need to review the legislation and determine the most appropriate and compliant procurement procedure to follow.</p>		
Options	Procurement route	Reference materials
Open Procedures	Open procedure should generally be followed for all procurement procedures	<ul style="list-style-type: none">• Open Procedure Procurement Journey• Construction Procurement Handbook Chapter 1, Section 9
Restricted procedure	Where there is a genuine need for pre-qualification and /or there is a large marketplace with potential for high numbers of bidders	<ul style="list-style-type: none">• Restricted Procedure Procurement Journey• Construction Procurement Handbook Chapter 1, Section 9
Innovation partnership	Where there is a need for development of an innovative product or service that doesn't exist on the market	<ul style="list-style-type: none">• Innovation Partnership Procurement Journey• Construction Procurement Handbook Chapter 1, Section 9
Competitive procedure with negotiation	Only to be used in limited situations if ETZ are unable to define how to meet technical	<ul style="list-style-type: none">• Competitive Procedure with Negotiation Procurement Journey

	needs and/or cannot specify the legal or financial requirements of the contract	<ul style="list-style-type: none"> Construction Procurement Handbook Chapter 1, Section 9
Competitive Dialogue	Multistage process with complex and high-risk projects	<ul style="list-style-type: none"> Competitive Dialogue Procurement Journey Construction Procurement Handbook Chapter 1, Section 9
Negotiated Procedure without Prior Publication	Should only be used in very exceptional circumstances following an unsuccessful call to competition	<ul style="list-style-type: none"> Negotiated Procedure without Prior Publication Procurement Journey Construction Procurement Handbook Chapter 1, Section 9
Decision 6: What procurement route to market should be used?		
Options	Procurement route	Reference materials
Direct request	Direct request for quotations (email) where applicable	<ul style="list-style-type: none"> Prepare Documents Procurement Journey
Public Contracts Scotland	Procurement through PCS Portal using: Quick Quote; Prior Information Notices; Contract Notices; and PCS-T	<ul style="list-style-type: none"> Home - Public Contracts Scotland PCS - Tender (publiccontractsscotland.gov.uk)
Public Procurement Frameworks	Procurement through public sector framework agreements	<ul style="list-style-type: none"> Crown Commercial Services SCAPE Private Sector Facilitators Additional detail contained within Appendix F – Public Procurement Frameworks
Dynamic Procurement System	A DPS is an electronic system of pre-qualified suppliers, for commonly used purchases – typically limited to IT services, but the scope is expanding	<ul style="list-style-type: none"> Dynamic Purchasing Systems (DPS) - gov.scot (www.gov.scot)

Table 7: ETZ's procurement decision matrix

8.2 PROCUREMENT PROCESS

This section describes the typical approach that ETZ can apply when conducting procurement activities to ensure compliance with the Public Procurement requirements. ETZ will also ensure to continue to create a standardised procurement process that maintains appropriate controls, compliance, and governance (**SP 3.1**)

It is important to note that all procurement activity must comply with the principles of transparency, equal treatment and non-discrimination, proportionality and mutual recognition³¹ **(SP3.2)** and constant referencing to the legislation should be made whilst applying the procurement process. This process should also be read in line with ETZ's Procurement Policy and Procedures **(SP3.5)** and ETZ Scheme of Delegation.

When proceeding with the procurement process, it is important to apply ETZ's procurement decision matrix above, which is referenced throughout the process. It is important to note that there will be changes to the procurement activities based on the different scenarios.

Source to Contract				
1.0 Procurement Strategy	2.0 Strategic Category Management	3.0 Supplier Relationship Management	4.0 Strategic Sourcing	5.0 Contract Lifecycle Management
1.1 Define Strategic Objectives	2.1 Define Category Portfolio Management & Segmentation	3.1 Define Supplier Portfolio Management & Segmentation	4.1 Identify Supplier Opportunity & Business Requirements	5.1 Establish Contract Portfolio Management
1.2 Develop Operating Model	2.2 Build Business Alignment	3.2 Certify & Develop Supplier	4.2 Develop Sourcing Strategy	5.2 Manage T&Cs & Contract Templates
1.3 Define Governance & Stakeholder Management	2.3 Perform Category Analysis	3.3 On-board Supplier & Setup Supplier Master Data	4.3 Execute Sourcing Strategy	5.3 Manage Contract Compliance & Admin.(Incl. Master Data)
1.4 Define People & Resourcing Strategy	2.4 Develop & Execute Category Strategy	3.4 Manage Supplier Performance & Risk	4.4 Negotiate & Select Supplier	5.4 Close Out Contract
1.5 Define Risk Management & Regulatory Compliance Strategy	2.5 Define Buying Channel		4.5 Author & Finalise Contract	
1.6 Define Technology Strategy	2.6 Govern & Manage Category		4.6 Enable Supplier & Item Master / Catalogue	
1.7 Define Data Insights & Performance Mgmt. Strategy				

Table 8 – Indicative Source to Contract process flow for ETZ to refer to throughout the procurement process

Refer to **Appendix I** for a full-page view of table 8.

DEFINE YOUR BUSINESS NEEDS

Procurement Planning (develop business & project requirements)

Procurement planning is the initial phase of the procurement process and is required prior to the commencement of any procurement activity that ETZ will undertake: This planning should include:

- Identifying ETZ's business needs / project requirements by working with key SME and business stakeholders (this will help support the creation of the high-level specifications)
- Check budget availability
- Ensuring the identified procurement activities are aligned with ETZ's corporate vision, business case and strategy **(SP 1.1 & 1.2)**, key project requirements and grant funding requirements **(SP 1.3)**
- Review whether the project requirements / business need aligns with the strategic priority to attract and maximise inward investment **(SP 1.5)**
- Consider any additional community societal benefits that could be delivered as part of the project (including coastal access, open space, landscape, and biodiversity enhancements) **(SP2.4)**
- Consider Community Wealth Building approach²⁸ and ways to maximise community benefits when approaching procurement. This could include how to grow local supply chain, support the creation of good fair work opportunities for local people, promoting Real Living Wage and wider fair work objectives, bringing vacant and derelict land into more product use, using land as a tool to achieve net zero etc) **(SP2.1)**

³¹ Scottish Government, 2022. Procurement policy manual. [Online] Available at: <https://www.gov.scot/publications/procurement-policy-manual/> [Accessed 20 February 2023].

- Consider whether this project requires integration with the Aberdeen City Region to attract employment, provide societal benefits, generate jobs, and provide wider economic benefits to Scotland and the UK **(SP2.2)**
- Consider (and where relevant document) how these procurement activities can deliver impactful and social outcomes for the local community **(SP1.4)**
- Consider how the procurement activity could focus on supporting the energy supply chain be more capable and effective (e.g., access to amenities, job opportunity and a long-term business environment) **(SP2.6)**
- Consider how the procurement activity can achieve ETZ's sustainable procurement duty (e.g. improve the economic, social, and environmental wellbeing of the authority's areas, facilitate the involvement of SMEs, third sector bodies and supported businesses and promote innovation) **(SP2.13)**
- Consider how the procurement activity can embody ETZ's vision to become a catalyst for leading-edge low carbon innovation **(SP2.10 & 2.13)**

Following this assessment, it is important apply the decision criteria outlined above to determine the specific procurement route needed and documentation to apply.

D1**Decision 1: Is this procurement activity covered by public or private funding?****D2****Decision 2: What is the source of funding for this procurement activity?**

Market analysis

The next stage is the market analysis, where it is important to firstly determine the specific type of procurement category you will be procuring as well as the appropriate procurement route, thresholds, and documentation that needs to be applied.

D3**Decision 3: What type of procurement activity are you conducting? e.g. Services, Works, Utilities (Services) and Utilities (Works)**

At this stage, it is important for ETZ to conduct an external market analysis on the category that is required to be procured. **Section 6 – External Landscape** can be used as a starting point for this analysis. This purpose of this section is to help ETZ to identify potential suppliers and support future buying decisions by conducting the following activities:

- Understand any current supply risks to ETZ
- Understand current market positioning across the North East Region
- Understand current cost for services / works to ETZ
- Conduct any market testing and engagement
- Develop / review category strategies (as applicable)
- Where applicable, review and apply any available category strategies

Align with budget requirements

Based on the external market analysis conducted above, it is important to determine the estimated value of the procurement contract to ensure the appropriate procurement rule, thresholds, and documentation.

D4

Decision 4: What is the estimated value of the procurement contract? (A) Services, (B) Works and (C) Utilities (Services) (D) Utilities (Works)

Before proceeding further, ETZ will need to confirm the procurement activity will be within ETZ's approved budget (in line with ETZ Scheme of Delegation), as well as understand key performance metrics needed from the procurement activity moving forward.

DEVELOP AND ISSUE TENDER DOCUMENTATION

Procurement approach

Prior to developing the tender documentation, ETZ will need to confirm the procurement approach that needs to be followed based on the decision criteria detailed above (e.g., value thresholds, types of services / products etc).

D5

Decision 5: What procurement procedure should be followed?

Where possible, ETZ should assess whether it is appropriate to leverage existing frameworks in place (e.g., Crown Commercial Services Framework/ SCAPE/ Private Sector frameworks etc.) to save time and money across procurement activity (**SP 18**). (Refer to question 6 in the decision criteria.)

D6

Decision 6: What procurement route to market should be used?

ETZ will need to select a procedure that ensures to promote genuine and effective competition through procurement activity (**SP 1.7**) and if a restricted procedure is suitable this will need to be appropriately justified and documented.

Prepare tender documents and project specifications

Based on the decision criteria listed above and in line with the Scottish Government Regulations and ETZ Procurement Policy, ETZ to develop the tender documents and project specifications by:

- Review and confirm the documentation required for the selected Procurement Route and procedure method (based on value, risk etc)
- Where applicable, review and apply any category / contracting strategies and specific selection criteria
- Collaborate with technical SMEs (as required) and ETZ project team members to prepare project specifications (ensuring consistency and detail across pricing, quality, technical specifications)
- Complete required tender documentation ensuring it provides suppliers with a detailed breakdown of requirements, conditions of contract, goals and objectives of each contract, any relevant assumptions etc
- When preparing the tender documentation, it is important to consider how conducting a procurement process can meet the sustainable procurement duties (**SP 2.13**)

Prepare assessment criteria to evaluate potential suppliers

ETZ's evaluation criteria will change based on various values / threshold. ETZ will establish key evaluation criteria to be included in the tender, as well as to evaluate potential suppliers.

The following are examples of the criteria that may be included and used to evaluate a supplier's ability to perform work or meet requirements:

- Evaluation of prior experience in similar applications
- Evaluation of prior performance on similar work
- Evaluation of management capabilities
- Capability evaluations
- Evaluation of team structure and staff available to perform the work
- Evaluation of health and safety policies (**SP 2.12**)
- Contractor vetting and selection
- Evaluation of available facilities and resources
- Evaluation of the ability to work with the proposed supplier
- Evaluation on achieving value for money (further guidance is included in **Appendix H**)
- Compliance with Sustainable Procurement Criteria (including consideration of **SP 2.10, SP 2.9**)
- Evaluation of innovation presented to support net zero ambition (**SP2.10 and 2.13**)

In all instances it is important that all procurement activity must comply with the principles of public procurement and a reference to the legislation should be made whilst applying each of these sections, however in the instances where the procurement is below any public thresholds (as well as the ETZ Procurement Policy thresholds) ETZ may consider procuring locally / identifying local suppliers to invite to tender to support the below:

- Promote inclusive local employment opportunities that contribute to job retention and creation and support the wellbeing of the communities, by increasing fair work practices, and developing the labour market (**SP2.3**)
- Generate economic development through local and community means (procure locally with a focus on local suppliers and locally produced goods – encouraging new entrants, smaller businesses, and local companies to build community wealth) (**SP2.5**)
- Support local business and the current and future workforce in the region to build resilience against economic fluctuations (**SP2.7**)

Internal approval

Before issuing or publishing any tender documentation and requesting quotes from suppliers, ETZ need to ensure that internal approvals have been attained as per the ETZ Scheme of Delegation and ETZ's Procurement Policy.

Issue tender documents in accordance with the procurement procedure

Issue tender documents in accordance with the Public Sector funding requirements and to the extent stipulated by ETZ's Procurement Policy (**SP 3.4**).

EVALUATE TENDERS AND SELECT SUPPLIERS

Evaluate suppliers

All responses will be documented and evaluated in line with the evaluation criteria, the supplier's value for money (**SP 1.6**), any risks associated with each proposed supplier and the proposed suppliers' ability to perform the work. All responses will be evaluated in line with ETZ's Procurement Policy. All procurements must also comply with principles of equal treatment and non-discrimination, proportionality, and mutual recognition (**SP 3.3.**) and offer value for money.

Select suppliers

The preferred supplier will be selected, and the rationale clearly documented against the evaluation criteria. They will be formally notified, and the onboarding / contract award stage will commence.

Supplier onboarding and pre-qualifications

Suppliers will be onboarded, and the appropriate due diligence checks will be conducted to mitigate ETZ's future supply chain risk and any potential reputational risk (**SP 2.8**)

AWARD CONTRACT AND MONITOR SUPPLIERS

Contract award and implementation

A contractual agreement will be awarded to the preferred suppliers and needs to be awarded on a value for money basis (**SP 1.6**)³². The contractual agreement will be aligned with The Public Contracts (Scotland) Regulations 2015 and could include:

- Document what the project will provide to the supplier such as services, facilities
- Document the requirements to be fulfilled by the supplier
- Establish the statement of work/contract, specification, terms and conditions, list of deliverables, schedule, budget and acceptance process and criteria
- Identify who from the project and supplier is responsible and authorized to make changes to the supplier agreement
- Identify how changes to requirements and the supplier agreement are determined, communicated, and addressed.
- Identify standards and procedures that will be followed
- Identify critical dependencies between the project and the supplier
- Identify the type and depth of project oversight of the supplier, procedures, and evaluation criteria to be used in monitoring supplier performance
- Identify the types of reviews that will be conducted with the supplier
- Document acceptance criteria (if applicable)
- Identify the supplier's responsibilities for ongoing maintenance and support (if applicable)
- Identify warranty, ownership, and usage rights for the acquired products
- Compliance with any Modern Slavery Requirements, responsible workforce practices across all projects and suppliers (e.g., compliance with the Health and Safety at Work) (**SP2.12**)
- Compliance with relevant Sustainable Procurement Duty requirements (**SP 2.13**)

³² Scottish Government, 2022. Procurement policy manual. [Online] Available at: <https://www.gov.scot/publications/procurement-policy-manual/> [Accessed 20 February 2023].

- Consider cascade suppliers any key ESG priorities (**SP 2.11**) and requirements around carbon reporting (**SP 2.10**)

All agreements must be in writing, approved, and signed prior to the time when the supplier starts work. Any contracts for the procurement of goods, services and works should be awarded by the appropriate ETZ delegating authority.

Agreements will be revised when necessary to reflect agreed upon modifications to the requirements to be fulfilled by the supplier. In situations where modifications are extensive, the requirements allocated to the purchased component may have to be revised.

ETZ will also maintain a register of contract in accordance with section 35 (Part 3) of the Procurement Reform (Scotland) Act 2014.³³

Monitoring supplier performance against contractual agreement

Supplier performance will be monitored over the life of the contractual agreement. Monitoring progress and ensure that ETZ and ETZ partners deliver on contractual commitments and to the expected quality and timescales (**SP 3.7**). This will be achieved by periodic reviews, technical reviews, management reviews, etc.

Supplier scorecards may be used to summarize the performance of a supplier over a defined time, monitor and track any key risks / issues and to ensure compliance with contractual terms and sustainability requirements (e.g., workplace practices **SP 2.12**)

PROJECT CLOSE OUT

Acceptance testing (where applicable)

ETZ will help to ensure that all acquired products / services satisfy the stated and agreement requirements. Where applicable, ETZ will conduct acceptance reviews, tests, and audits. Specific acceptance criteria will be documented in the supplier agreement for each product/service. All documented criteria must be verified before a product/service will be accepted as defined in the supplier agreement.

Procurement Documentation

Throughout the procurement activity it is important to maintain appropriate documentation detailing the procurement activity and process followed, as well (**SP 3.6**) This includes the following (in line with Chapter 4 of the Public Contracts (Scotland) Regulations 2015:

- Maintain documentation showing all procurement activity complies with the principles of public procurement and be fair, proportionate, open, and transparent
- Maintain a complete set of records to trace the supply chain of all goods and services for the Project / Programme received Grant funding for
- Keep copies of all documentations relevant to the tender and evaluation process
- Keep all contractual documentation and variations on file

³³ Procurement Reform (Scotland) Act 2014. Available at: <https://www.legislation.gov.uk/asp/2014/12/contents> [Accessed 20 February 2023].

8.3 ROLES AND RESPONSIBILITIES

The table below summarises at a high-level how the procurement process will generally be executed across ETZ.

Role	Responsibility
Chair Approval	<ul style="list-style-type: none"> ● Evaluate and approve funding requests for procurement in line ETZ'S Scheme of Delegation ● Approval of documentation in line with the Procurement Policy
Board Members	<ul style="list-style-type: none"> ● Evaluate and approve funding requests for procurement ● Approval of procurement activity in line ETZ'S Scheme of Delegation ● Approval of documentation in line with the Procurement Policy ● Monitoring effectiveness of procurement activity
CEO	<ul style="list-style-type: none"> ● Responsible for reviewing and approving the Procurement Strategy ● Evaluate and approve funding requests for procurement in line ETZ'S Scheme of Delegation ● Approve procurement documentation in line with the Procurement Policy
CFO	<ul style="list-style-type: none"> ● Monitor and update the Procurement Strategy ● Evaluate and approve funding requests for procurement in line ETZ'S Scheme of Delegation ● Approval of documentation in line with the Procurement Policy ● Prepare the Annual Procurement Plan ● Prepare project reports and project budgets that comply with various grant funding requirements ● Complete all procurement activities for ETZ with support from ETZ team ● Maintain appropriate procurement documentation and records ● Compile periodic reports on project procurement status, as necessary
ETZ Executive Directors	<ul style="list-style-type: none"> ● Prepare and complete project specifications / project briefs with SME's and ETZ team ● Prepare and complete Board Paper / Business Case for procurement activity ● Follow procurement procedures, policies, and procurement strategy ● Support on completing all procurement activities for ETZ ● Maintain appropriate procurement documentation and records ● Monitor the performance of suppliers / subcontractors against contractual requirements ● Monitor and implement the KPIS ● Review and approve or escalate any issues with suppliers / sub-contractors
Subject Matter Experts	<ul style="list-style-type: none"> ● Provide SME input into project specification / contractual clauses
Other Project Team Members / Leads	<ul style="list-style-type: none"> ● Follow procurement procedures, policies and procurement strategy ● Maintain appropriate procurement documentation and records

Table 9 – Roles and responsibilities for future procurement activities moving forward

8.4 HOW DO WE EXECUTE THE PROCUREMENT STRATEGY?

The systematic navigation of public procurement policy in Scotland requires the setup of robust processes; operating procedures; governance; and appropriate training, to deliver procurement in a way that meets the purchasing principles laid out in this strategy and the regulatory requirements outlined in sections 6.1 and 6.2.

The below details the next steps / actions that should be taken in order for ETZ to achieve this:

Topic	Next steps
Legislation / policy requirements	<ul style="list-style-type: none"> ● Ongoing monitoring around the regulatory landscape specifically in relation to the development of the Procurement Bill and legislation on Community Wealth Building to cover any materials impacts ETZ moving forward ● Ongoing monitoring and detailed review of the current policy / legislation requirements, Grant Requirements and any additional policies applicable to ETZ
Training requirements	<ul style="list-style-type: none"> ● Additional organisation wide training on the Grant Requirements, Public Procurement Requirements, and the Procurement Strategy to ensure ongoing compliance
Contract management	<ul style="list-style-type: none"> ● Review potential contracting strategy and contracting options (e.g., implementing JV structure, sub-contractor approach etc.) ● Implement a more robust contract management function to manage the ongoing performance of suppliers ● Ensure contracts are robust and include all legislative and technical requirements to support any supplier / supply chain risks
Procurement processes and documentation	<ul style="list-style-type: none"> ● Detailed Procurement Management Plan to be put in place to manage the procurement activities across ETZ's pipeline for the coming years ● Detailed processes, operating procedures to be put in place to ensure compliance against the legislation and Procurement Strategy ● Development of high-level category strategies for the high risk/ high-cost categories
KPIs	<ul style="list-style-type: none"> ● Implement the KPI measurements suggested in this Procurement Strategy
Monitoring of suppliers	<ul style="list-style-type: none"> ● Consider implementing additional tools which may help to monitor ESG suppliers moving forward (e.g., EcoVadis ratings and CDP reporting etc) ● Develop a more robust supplier onboarding / supplier pre-qualification process ● Implement a more robust function to manage performance of suppliers against contractual obligations and ESG requirements (see contract management section)
Operating Model, People & Governance	<ul style="list-style-type: none"> ● Clarity on the roles and responsibilities of procurement across the ETZ organisation ● Review of governance in line with the procurement strategy ● Additional upskilling and training of the ETZ team (see training requirements section)
Data / Category Analysis	<ul style="list-style-type: none"> ● Conduct a spend analysis to understand the spend against each of the procurement categories and suppliers to inform the longer-term procurement plan and help provide structure for more strategic planning with the local supply chain

	<ul style="list-style-type: none"> Set up more robust spend classification taxonomy (including procurement spend categories) to enable consistency across budgeting / forecasts and allow historical and accurate category spend analysis
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Table 10 – Next steps to implement a robust procurement strategy



8.5 WHAT DOES SUCCESS LOOK LIKE?

Below details the key success metrics that ETZ can implement to measure the success of their procurement strategy, ensure to uphold their three (3) key procurement themes, and align with Public Procurement requirements.

These indicators will be monitored throughout the life of the Procurement Strategy on a continuous basis. Monitoring progress should be conducted on a quarterly basis and will involve a review of the procurement tender responses, evaluation criteria, spend to date and supplier's compliance against contractual terms.

The metrics detailed below will help track adherence to the Public Procurement Requirements, help to identify and mitigate any key risks and issues identified. To the extent that any regulated procurements do not comply, ETZ will document any mitigations and how they intend to ensure that the future regulated procurements do comply.

The success metrics are detailed below against the procurement themes:

No.	Procurement Themes	Success metrics	Metrics
1	Deliver impactful outcomes and value for money for the local community 	All procurement activity complied with this procurement strategy (% of tenders)	% compliance
2		All contracts were awarded on the basis of value for money under a competitive tender (% of contracts)	% compliance
3	Increase Community, Economic, Sustainable and Environmental Value 	List any community benefit requirements included as part of the procurement activities that were fulfilled during the year (% of tenders)	As applicable
4		List any steps taken to facilitate the involvement of supported businesses in regulated procurements activities that were fulfilled during the year (% of tenders, % blend of local suppliers)	As applicable
5		All suppliers are 'fit for purpose' and meet the 'Sustainable Procurement Criteria'. Conduct a compliance audit against these criteria (% of contracts awarded)	% compliance


6	Act with integrity and be fair, open, transparent, and compliant 	All procurement activity complied with the principles of public procurement (% of tenders)	% compliance
7		All required documentation is completed and stored in a shared location(% of tenders and % of contracts)	% compliance
8		All projects delivered against their contractual commitments and required timescales (% of contacts)	% compliance
9		Payments are made within 30 days of invoice (% of invoices)	% compliance

Table 11 – Procurement Success Metrics

8.6 ADDITIONAL CONSIDERATIONS FOR PUBLIC SECTOR REQUIREMENTS

This section introduces the Annual Reporting duties defined in the Procurement Reform (Scotland) Act 2014, sections 15 to 21 for authorities with ‘significant procurement expenditure’. They become applicable when the estimated value of regulated contracts becomes greater than or equal to £5,000,000 per year.

Annual Procurement Reports

In accordance with section 18 of the Procurement Reform (Scotland) Act 2014, where ETZ each year ETZ is required to prepare an annual procurement report on its regulated procurement activities as soon as reasonably practicable after the end of that financial year. This report must include: ³⁴

- Summary of the regulated procurements that have been completed during the year covered by the report
- A review of whether those procurements complied with the authority's procurement strategy
- To the extent that any regulated procurements did not comply, a statement of how the authority intends to ensure that future regulated procurements do comply
- A summary of any community benefit requirements imposed as part of a regulated procurement that were fulfilled during the year covered by the report,
- A summary of any steps taken to facilitate the involvement of supported businesses in regulated procurements during the year covered by the report,
- A summary of the regulated procurements the authority expects to commence in the next two financial years
- Other information specified by the as the Scottish Ministers

Payments are made within 30 days after invoice

In accordance with section 15(5) d of the Procurement Reform (Scotland) Act 2014, ETZ needs to outline how they intend to ensure all payments are made no later than 30 days after the invoice is received this is further stipulated below:

³⁴ Procurement Reform (Scotland) Act 2014, c.18. Available at: <https://www.legislation.gov.uk/asp/2014/12/part/2> [Accessed: 20 February 2023]

Payment type	ETZ's approach
Payments due by the authority to a contractor	All payments to be made within 30 days of invoice date
Payments due by a contractor to a sub-contractor	Where available, ETZ will use standard building contracts which will include payments due to a nominated sub-contractor
Payments due by a sub-contractor to a sub-contractor	As above

Table 12 – Summary of ETZ's payment terms

ETZ's Policy

In accordance with section 15 (5) (b) of the Procurement Reform (Scotland) Act 2014, ETZ needs to include a statement of the authority's general policy on:

Policy	ETZ's Policy Statement
Use of community benefit requirements	ETZ will include community benefits in procurements which are above the thresholds as set out in the Procurement Reform Act
Consulting and engaging with those affected by its procurements	Where appropriate, ETZ will directly engage with communities that are directly impacted by the procurement. This engagement will inform the scope and timings of any works.
The payment of a living wage to persons involved in producing, providing, or constructing the subject matter of regulated procurements	All procurement exercises require prospective contractors to include a statement on payment of the living wage.
Promoting compliance by contracts and sub-contracts with the Health and Safety at Work etc Act 1974 and any provision made under this Act	Health & Safety compliance will be measured through the method statements provided by contractors at tender stage.
Procurement of fairly and ethically traded goods and services	This will form part of ETZ's sustainable procurement requirements which form part of all ETZ tenders

Table 13 – Summary of ETZ's policy statements

Additional areas may need to be considered as determined by the Scottish Ministers.

APPENDIX A – PROJECT SUMMARY FEB 2023

Energy Transition Zone Limited Scottish & UK Government Fund

SUMMARY

		Budget £000
		Total
Land & Infrastructure	Masterplanning - General	4,119
	Hydrogen Campus (Greenfield)	7,939
	St Fitticks (Greenfield)	8,559
	Gregness (Greenfield)	4,158
	Property Strategy (Brownfield)	3,606
	Green Network & Community - Mitigation	12,689
	Green Network & Community - Enhancements	7,832
	NZ Exemplar (Including Green Energy Solutions)	4,621
HVM & Supply Chain	Offshore Wind - High Value Manufacturing	289
	W-Zero 1 Refurbishment	750
	Energy Supply Chain Transition	183
	Energy Incubation & Scale Up (EISH)	4,255
Innovation R&D & Technology	Green Hydrogen Test & Demo	7,172
	Digital, Data & Other feasibility	487
Capability & Skills	National Energy Skills Accelerator (NESA)	386
	Advanced Manufacturing Skills Hub (AMSH)	300
Total Budgeted spend 2023/24 to 2025/26		67,347

APPENDIX B – ETZ'S STRATEGIC OBJECTIVES

The (5) strategic objectives for the ETZ are set out below:

- 1 Attract and maximise inward investment**, retain existing investors and help ensure the region becomes the focal point for energy transition in the UK, promoting and harnessing our local natural resources and existing skills and expertise to create a sustainable low carbon integrated energy cluster
- 2 Assemble the land for the core staging areas** to support the offshore wind potential and related UK supply chain content from the ScotWind licensing round and hydrogen production and the supporting infrastructure to leverage the Aberdeen South Harbour new facility
- 3 Develop an Energy Coast** to deliver a green network for walking, cycling and enhanced community amenities, linking the ETZ with the coast and the city
- 4 Stimulate research, development and innovation** through to commercialisation and scale; creating and enabling energy transition opportunities and international export potential in the short (2020-25) and medium term (2025-35) to **support commercialisation of green hydrogen and floating wind; high-value manufacturing** related to the offshore wind and hydrogen; digital solutions and **business innovation and incubation** related to low carbon energy including CCUS
- 5 Design and deliver a jobs and skills programme** to support inclusive employment opportunities by reskilling and upskilling to establish a new long-term sustainable industry base with international export potential, that will unlock exciting careers and job opportunities for future generations across the community, and targeting those areas in the immediate vicinity of the zone

APPENDIX C – ETZ'S CRITICAL SUCCESS FACTORS

To support the achievement of the strategic objectives the following Critical Success Factors (CSFs) have been defined by ETZ partners. CSFs will be used to support the ETZ project options appraisal activity.

The ten (10) Strategic Priorities for ETZ are set out below:

- 1** The ETZ must have serviced land/sites available and suitable for **offshore wind and hydrogen** investments, infrastructure requirements and **low carbon transport facilities** such as electrification and hydrogen production and infrastructure
- 2** The ETZ must have land / sites to accommodate **energy transition projects**, such as offshore and onshore renewables such as wind and hydrogen, other low-carbon energy project
- 3** Land assembly and preparation must enable **private sector investment** in the ETZ for energy transition activities
- 4** The ETZ must offer **communities societal benefits** including coastal access, open space, landscape, and biodiversity enhancements
- 5** The ETZ must be integrated with the Aberdeen City Region to **attract employment**, provide **societal benefits**, **generate jobs** and provide **wider economic benefits** to Scotland and the UK
- 6** In line with the outline timeline for the start of the ScotWind development and deployment, priority sites selected must be available and marketable by **May 2025**
- 7** The total area of ETZ must meet a **minimum of 28ha** to accommodate **offshore renewables sector** requirements and other low-carbon operations that require large areas for manufacturing and lay-down of large components
- 8** At least 8-9 ha of the ETZ must be available which is **directly adjacent to the harbour** and has a **flat topography** to accommodate **offshore wind marshalling and assembly and related activity**
- 9** The ETZ must be able to deliver options for research and development, test and demonstration, business incubation and a skills academy
- 10** ETZ sites must be an **exemplar for net zero low carbon energy**, such as powered by low carbon energy sources, resource efficient buildings, and low carbon construction practices

APPENDIX D – SUMMARY OF THRESHOLDS FOR PROCUREMENT REGULATIONS

Following the UK's exit from the European Union, Scottish Ministers no longer refer to Article 4 of the EU Directive on Public Procurement (2014/24/EU) and must now revise the threshold values of procurement regulations every two years to ensure they remain aligned to thresholds set out in the World Trade Organisation's Government Procurement Agreement ("GPA"). The next update to the thresholds is expected in 2024.³⁵

VAT is recognised as described in the table below, per the rules of the GPA.

Procurement Reform (Scotland) Act 2014	
Procurement of Services	Contracts are regulated above £50,000 ex. VAT
Procurement of Works	Contracts are regulated above £2,000,000 ex. VAT
Public Contracts (Scotland) Regulations 2015	
Supplies and Services Contracts	Regulations apply for contracts above: £213,447 (£177,897 ex. VAT)
Works Contracts	Regulations apply for contracts above: £5,336,937 (£4,447,447 ex. VAT)
Small Lots: Supplies and Services Contracts	Regulations apply for contracts above: £70,778 (£58,872 ex. VAT)
Small Lots: Works Contracts	Regulations apply for contracts above: £884,720 (£737,267 ex. VAT)
The Procurement (Scotland) Regulations 2016	
Procurement of Services	Contracts are regulated above £50,000 ex. VAT
Procurement of Works	Contracts are regulated above £2,000,000 ex. VAT
The Utilities Contracts (Scotland) Regulations 2016	
Utilities Supply and Services Contracts	Regulations apply for contracts above: £426,955 (£355,660 ex. VAT)
Works Contracts	Regulations apply for contracts above: £5,336,937 (£4,447,447 ex. VAT)

Table 14 – Summary of key procurement contract value thresholds for Scottish Procurement Regulations

Public Contracts (Scotland) Regulations 2015 and The Utilities Contracts (Scotland) Regulations 2016 have other thresholds for additional procurement categories, for example Schedule 1 and Light Touch Regime for Services within Public Contracts (Scotland) Regulations 2015. These are not recorded in this Appendix D due to the expected scope of ETZ's procurement activities but can be found in SPPN 8/2021 and may need to be considered if ETZ's procurement scope extends to these categories in future.³⁵

³⁵ Scottish Government, 2021. Procurement thresholds and VAT inclusion in estimated contract value: SPPN 8/2021. [Online] Available at: <https://www.gov.scot/publications/procurement-thresholds-and-vat-inclusion-in-estimated-contract-value-sppn-8-2021/> [Accessed 20 February 2023].

APPENDIX E – EXAMPLE GRANT CONDITIONS TO BE CONSIDERED IN PROCUREMENT ACTIVITY

Below details some example conditions which have been included within a Grant Letter awarded by the Scottish Government in exercise of their powers under Section 126 of the the Housing Grants, Construction and Regeneration Act 1996, which may impact the way in which procurement is conducted by ETZ. These include, but are not limited to:

- Ensuring compliance with the Fair Work Framework and comment to applying the Fair Work First criteria in a way that is relevant for the Grantee
- Maintaining adequate and proper records and books of accounts; recording all receipts and expenditure evidence; maintaining documentation of expenditure to date under the grant and in line with the Project or Programme objectives
- Specific financial and general reporting requirements (e.g., Annual Project Plans, monthly reports, quarterly reports, including details on progress against budget and milestones, underspend or overspend etc.)
- Demonstrate compliance with all applicable anti-slavery and human trafficking laws, statutes, regulations, and codes from time to time in force, including the Modern Slavery Act 2015 and the Human Trafficking and Exploitation (Scotland) Act 2015
- The requirement to oblige through procurement contracts that contractors and subcontractors comply with anti-slavery, human trafficking and exploitation laws, statutes regulations, and codes
- Ensure adequate controls are in place to prevent bribery

APPENDIX F – PUBLIC PROCUREMENT FRAMEWORKS

UK Public Procurement frameworks which are regulated under UK Public Contracts Regulations 2015, such the Crown Commercial Service enable access to frameworks for organisations in devolved authorities through strategic partnership agreements. These partnerships support the needs of local policy such as Procurement Reform (Scotland) Act 2014 and The Procurement (Scotland) Regulations 2016.³⁶

There are other available platforms through which compliant public sector procurement can take place through Framework Agreements:

- **Crown Commercial Services (CCS):** is the UK government's central procurement body operates a range of frameworks to provide access to pre-approved suppliers for various goods and services, with a view to streamlining procurement and improving value for money for public funded bodies³⁷
 - In addition to public sector bodies, not-for-profit and charity organisations are typically eligible to use CCS commercial frameworks for procurement. However, each CCS agreement may have different specific eligibility criteria which are defined on a per-framework basis.

³⁶ Crown Commercial Service, n.d. Devolved Strategic Partnerships. [Online] Available at: <https://www.crowncommercial.gov.uk/sectors/devolved> [Accessed 20 February 2023].

³⁷ Crown Commercial Services, n.d. About Crown Commercial Service (CCS). [Online] Available at: <https://www.crowncommercial.gov.uk/about-ccs/> [Accessed 20 February 2023].

- Procuring through existing and future CCS frameworks to access the enhanced purchasing power and streamlined procurement process may be suitable option for ETZ, subject to the eligibility criteria outlined in a relevant framework.
- **SCAPE:** is a public sector organisation, dedicated to creating efficiency and social value via the built environment. SCAPE has a range of frameworks that support Construction, Consultancy and Civil Engineering in Scotland, for both public sector and non-public sector procurement.³⁸
- Access is available to 'For the Public Sector' SCAPE frameworks for organisations listed in Schedule 1 of the Public Contracts Regulations 2015, Schedule 1 of the Freedom of Information Act or covered by the Public Contracts (Scotland) Regulations.³⁹
- In addition to the restricted public sector frameworks, 'beyond the public sector' SCAPE frameworks manage Construction, Consultancy and Civil Engineering frameworks for local authority owned private companies, charitable bodies, joint venture partnerships and special purpose vehicles.
- **Private Sector Facilitators:** for example, Pagabo which is an example of private sector organisation that supports public sector procurement across the UK by facilitating framework agreements that are compliant with public procurement requirements.
- Pagabo operates a number of frameworks that facilitate construction procurement in Scotland, however direct engagement with Pagabo would be required to establish the specific procurement requirements and the most applicable framework available to ETZ.
- Beyond managing their framework agreements, Pagabo also offers additional services to facilitate activities for clients across the procurement lifecycle.
- Other private sector framework facilitators are available. ETZ will need to review and consider the available market participants according to the procurement principles outlined in this procurement strategy. ETZ will then need to assess the viability of these procurement services / frameworks and ETZ's eligibility to access them in future.

³⁸ SCAPE, n.d. Direct award public sector frameworks. [Online] Available at: <https://www.scape.co.uk/for-the-public-sector> [Accessed 20 Feb 2023].

³⁹ SCAPE, n.d. Find your procurement pathway. [Online] Available at: <https://www.scape.co.uk/working-with-us/find-your-procurement-pathway> [Accessed 20 February 2023].

APPENDIX G – SUPPLY SIDE MARKET CONSIDERATIONS

Market Supply Side Considerations by ETZ's indicative procurement categories

ETZ Procurement Category	Supply Risk (Indicative)	Relative Cost to ETZ (Indicative)
Programme Works	High	High
<p>Material Cost and Availability</p> <p>Rising energy costs have directly fed into higher material costs, since many of the key construction materials: steel, cement, and glass are all energy-intensive industries.⁴⁰ There are difficulties in product and raw material sourcing in some sectors in the UK, affected by the Russia's invasion of Ukraine. Materials supply chains are under increased cost pressure and issues around sustainable sourcing have been given lower priority.⁴¹</p> <p>Labour Shortages</p> <p>Labour shortages continue to impact the construction industry.⁴¹ An extra 19,550 workers are required across the construction sector in Scotland by 2027, which accounts for an annual recruitment rate of 1.7%.⁴⁷ Labourers, Electricians and other professional and technical staff are professions which have the highest Annual Recruitment Requirements across the construction sector.⁴⁷</p> <p>Inflation</p> <p>Shortages of both labour and materials are still particularly important. But, while the share of contributors highlighting these factors is beginning to decline, the proportion of RICS Construction Monitor respondents identifying financial constraints as an obstacle rose consistently in 2022 to reach 62% (the highest level since Q3 2020). This pattern is also evident from credit availability insights provided around in the industry.⁴²</p>		
Engineering Services	Low	High
<p>The UK Oil and Gas supply chain possess many of the technologies and skills required to contribute to the development of net zero technologies.⁴³ Most of the large UK engineering consultancy companies have worked on feasibility studies, FEED and implementation planning of net zero technology projects, but there is work required to fully activate the supply chain.¹⁹ From a delivery and execution perspective, the innovation and engineering sector will need to retrain and attract thousands of reskilled new to the labour market.⁴⁴</p>		
Consultancy & Legal Services	Low	Low

⁴⁰ RICS, 2023. *Global Construction Monitor Q4 2022*, London: RICS.

⁴¹ Mintel, 2022. *Construction UK 2022*, London: Mintel Group Ltd.

⁴² RICS, 2023. *UK Construction Monitor Q4 2022*, London: RICS.

⁴³ BEIS, 2022. *Hydrogen Strategy update to the Market*, London: HM Government

⁴⁴ CCSA, 2021. CCUS Supply Chain Report Showcases Major UK Opportunity. [Online] Available at: <https://www.ccsassociation.org/all-news/ccsa-news/ccus-supply-chain-report-showcases-major-uk-opportunity/> [Accessed 20 Feb 2023].

ETZ Procurement Category	Supply Risk (Indicative)	Relative Cost to ETZ (Indicative)
Scotland's Renewable Energy sector employs more than 21,000 people, from entrepreneurs who're designing new ways to capture energy from nature, consultants who make projects viable and lawyers who negotiate contracts. ⁴⁵		
Architectural services	High	Low
Architectural services are in increasing demand across the UK, and this will impact the availability and competitiveness of procured contracts for ETZ. The CITB predict that on a percentage basis the strongest demand for growth over the next five years of any professional occupation in the construction industry will be for Architects. Across the whole of the UK there is a predicted 2.8% Annual Recruitment Requirement (ARR). The recruitment requirement is even greater in Scotland at a predicted 5.6%, which will pressure on the incumbent Architectural Services industry to keep up with demand and expand the workforce. ^{46,47}		
Programme Management Services, (Inclusive Quantity Surveying and Cost Management)	High	High
The ongoing labour shortage across the Construction Services sector will impact the capacity and cost competitiveness of available services contractors for ETZ in despite an easing demand pressure in the short term. ⁴⁷ There has been a sharp drop in workload growth predicted across the UK construction industry in 2023. Construction activity growth is reported at negative 1% growth, compared with a positive 17% at the beginning of 2022. RICS outline that the cautious outlook of respondents for 2023 is due the challenging macro environment. ⁴² Despite the difficult operating environment, labour shortages across the construction services sector are still widely reported. RICS state that more than 50% of contributors to their 2023 Construction Monitor, report difficulties in hiring quantity surveyors and other construction professionals including project managers. ⁴²		
Property & Facilities Management (Utilities)	Low	High
Demand for facilities management services in the UK are growing at a moderate pace. Facility owners and operators looking for cost savings and energy management improvements have been key drivers of demand and growth in the sector in 2022. ⁴⁸		
Planning & Environmental Services	Low	Low
Despite continued growth and steady business opportunities in the environmental consulting sector, economic headwinds present challenges for profitability in the sector. ⁴⁹		
Community Services	Low	Low

⁴⁵ Scottish Renewables, 2017. RENEWABLES' REMARKABLE INDUSTRIAL IMPACTS. [Online] Available at: <https://www.scottishrenewables.com/news/67-renewables-remarkable-industrial-impacts> [Accessed 20 February 2023].

⁴⁶ CITB, 2022. The Skills Construction Needs - United Kingdom Five Year Outlook 2022-26, London: CITB.

⁴⁷ CITB, 2022. Labour Market Intelligence Report - Scotland 5-year Outlook 2022-26, London: CITB.

⁴⁸ RICS, 2023. Q4 2022: RICS UK Facilities Management Survey, London: RICS.

⁴⁹ Environment Analyst UK, 2022. Future of Environmental & Sustainability Consultancy Survey 2022/23 (UK & Ireland edition), London: Environment Analyst UK.

ETZ Procurement Category	Supply Risk (Indicative)	Relative Cost to ETZ (Indicative)
Advisory service providers are responding to the needs of the infrastructure sector, which increasingly seeks to align its work and values to make a positive impact on society.		
Indirect Procurement Services	Low	High
The indirect procurement services required by ETZ are likely to be general in nature, and do not present significant supply side risk to ETZ.		

APPENDIX H – VALUE FOR MONEY

In the Procurement Policy Manual, it sets out that⁵⁰ Value for money (VfM) is defined as: .

‘The optimum combination of whole life costs and quality (or fitness for purpose) to meet the customer's requirements. Depending on the nature of the contract, whole life cost may include implementation costs, ongoing operating costs and end-of-life disposal.

The Scottish Model of Procurement promotes VfM as being an appropriate balance between cost or price, quality and sustainability. In addition, a procurement strategy sets a framework in which a contracting authority will work to ensure that its procurement activities deliver value for money, how it plans to meet its procurement obligations and how these targets are subsequently met. In delivering VfM, cost or price, quality and sustainability are all factors which should be taken into account when establishing contract award criteria.’

⁵⁰ Scottish Government, 2022. Procurement policy manual. [Online] Available at: <https://www.gov.scot/publications/procurement-policy-manual/> [Accessed 20 February 2023].

APPENDIX I – INDICATIVE SOURCE TO CONTRACT PROCESS FLOW FOR ETZ TO REFER TO THROUGHOUT THE PROCUREMENT PROCESS

Source to Contract				
1.0 Procurement Strategy	2.0 Strategic Category Management	3.0 Supplier Relationship Management	4.0 Strategic Sourcing	5.0 Contract Lifecycle Management
1.1 Define Strategic Objectives	2.1 Define Category Portfolio Management & Segmentation	3.1 Define Supplier Portfolio Management & Segmentation	4.1 Identify Supplier Opportunity & Business Requirements	5.1 Establish Contract Portfolio Management
1.2 Develop Operating Model	2.2 Build Business Alignment	3.2 Certify & Develop Supplier	4.2 Develop Sourcing Strategy	5.2 Manage T&Cs & Contract Templates
1.3 Define Governance & Stakeholder Management	2.3 Perform Category Analysis	3.3 On-board Supplier & Setup Supplier Master Data	4.3 Execute Sourcing Strategy	5.3 Manage Contract Compliance & Admin.(Incl. Master Data)
1.4 Define People & Resourcing Strategy	2.4 Develop & Execute Category Strategy	3.4 Manage Supplier Performance & Risk	4.4 Negotiate & Select Supplier	5.4 Close Out Contract
1.5 Define Risk Management & Regulatory Compliance Strategy	2.5 Define Buying Channel		4.5 Author & Finalise Contract	
1.6 Define Technology Strategy	2.6 Govern & Manage Category		4.6 Enable Supplier & Item Master / Catalogue	
1.7 Define Data Insights & Performance Mgmt. Strategy				