

Conclusions of the National Audit Office

Innovative public procurement procedures

Great expectations have been put on public procurement. A primary goal set in the national innovation policy strategies is creating demand for innovative solutions, while public procurement is also expected to boost profitability of the public sector. The goals of the audit were to determine what kind of approaches can be utilised in innovative procurement and to determine how the opportunities of the government to support innovative solutions could be promoted by identifying good practices.

The audit included an assessment of how the audited innovative procurement projects were able to promote the development of new kinds of ideas and solutions. It was a question of innovative approaches or good practices that can be used to realise innovative procurement.

Strategic utilisation of innovative procurement was studied in more detail in an audit on implementation of the innovation strategy in public procurement, which was completed simultaneously with this audit.

Innovative procurement is a complex concept

The concept of innovative procurement can be understood in many ways. The fact that the concept is subject to interpretation may hinder related discussions. The lack of a generally accepted definition may easily lead to a situation where the debaters' ideas of innovative procurement are based on divergent subjective views. Interpreting, verifying or measuring goals that are based on ambiguous concepts is difficult. In this audit, the concept of innovative procurement refers to a legal framework that promotes innovative procurement (procurement procedure and contractual solution), a new kind of operational approach and broader dynamic effects of procurement on the market or in public sector service structures.

Procurement procedures and procurement contracts can be realised in a manner that promotes innovation

Procurement regulations or contractual principles do not prevent innovative procurement. However, the procurement unit must operate within this legal framework. Procurement arrangements and contractual arrangements may also support the finding of innovative solutions. The incentives enabled by the legal framework can be utilised in many ways.

Several approaches that promote innovation were observed during the audit. Identification of new markets and market dialogue encourage potential suppliers to offer new kinds of solutions or solutions that otherwise comply with the client's needs, while careful planning of the procurement reduces the resources needed during the latter stages of the procurement procedure. In most cases, the resources required for the procurement have to be assessed by studying the procurement procedure as a whole.

A negotiated procedure or a competitive dialogue has been determined as a useful approach particularly in the case of procurement processes where the service to be procured is new to the procurement unit. Interactive negotiations allow the market players to participate in the procurement process. Public procurement can also be utilised as a tool in user-driven innovations. Inclusion of users usually generates

more ideas, and usually the final result of the procurement process better corresponds to the expectations of the users.

According to the observations made during the audit, terms that obligate the parties to cooperate and set shared goals can also be included in a procurement contract. In the case of an approach that emphasises cooperation between the parties, which is the approach in most innovative procurement projects, the cooperation is not limited to the planning of the procurement and the tendering; instead, cooperation during the validity period of the contract is often highly significant.

According to the observations made during the audit, new kinds of solutions are usually created at the interface between the parties or networks formed by the parties. A procurement process or contractual relationship can be implemented in a manner that enables joint development by the interested parties. Different types of interaction can be used at the different stages of procurement planning, tendering and the contractual relationship. Most approaches encourage the interested parties to share information and develop new solutions.

At present, only a few procurement units systematically utilise approaches that promote innovation.

Risks related to innovative procurement can be managed

A very common risk when trying out new solutions is the risk of failure. The public sector often tries to avoid risks in its operations, which may limit the willingness to engage in innovative procurement. According to the observations made during the audit, general risk management tools in innovative procurement include support from the management of the procurement organisation and an operational culture that accepts the taking of controlled risks.

Furthermore, terms and conditions on risk management may be included in the procurement contract. Contract templates that are based on cooperation and mutual trust will prevent conflicts of interest and commit the contracting parties to the shared goals. According to the observations made during the audit, more general incentives for innovative procurement (interactive procurement planning and implementation models as well as cooperative contractual solutions) will also reduce the risks.

All in all, the risks related to innovative procurement and the means used to manage them may be varied. Special characteristics of the procurement may also play a significant role in the management of risks. Thus, there is no specific set of means that could be used to manage the risks of all innovative procurement projects.

Risk management in innovative procurement is based on expertise. A key issue in the management of risks is familiarity with the procurement target and the procurement unit. Successful risk management can lower the threshold to break away from the traditional solutions and realise the procurement in an innovative manner.

Recommendations of the National Audit Office

1. Organisations that realise innovative procurement projects must be able to determine the concept of innovative procurement in order to have a shared view on innovative procurement projects and in order to interpret, verify and measure the goals set for innovative procurement.
2. Innovative procurement procedures are a combination of procurement processes and contract templates that promote innovation, a variety of interactive approaches and risk management approaches. The organisations in charge of procurement should apply these good concepts in a more systematic manner.