Hitachi Digital Services

The UK Public Sector Procurement Act: Key Changes and Practical Implications

Presented by
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Welcome

As the UK Procurement Act ushers in the most significant reform to public procurement in a generation, we're here to discuss key consideration, particularly the implications regarding AI.

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Mike Pierides' practice encompasses a wide breadth of commercial and technology transactions. Mike also focuses his practice on data privacy and cybersecurity law, and supports clients across a number of data privacy needs, including transactional support and privacy and security advisory support and assessments.

James Wake
Services
Principle
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Services

James leads Hitachi Digital Services' Public Sector in the UK, bringing 25 years of industry experience in technology. James is particularly invested in helping organisations to utilise technologies such as GenAI and Automation to drive operational efficiencies.

Agenda

1 Introduction
2 Hitachi expertise and relevance to the UK Public Sector
3 UK Procurement Act Breakdown and Key Considerations
4 AI Implications for the Public Sector
5 Real life AI use case overview
6 Wrap up
7 Q&A

Hitachi expertise and relevance to the UK Public Sector

2

We are a Hitachi Group company

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OT 110+

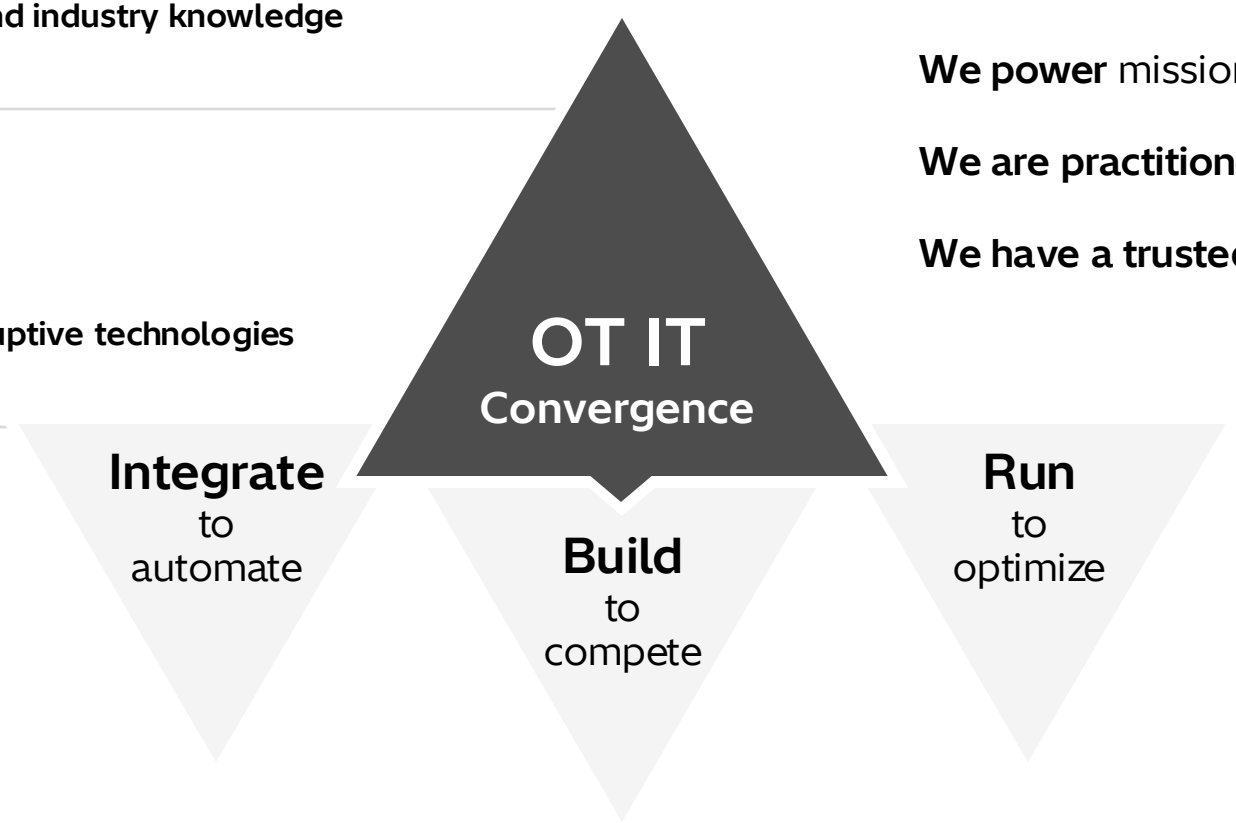
Years of operations excellence and industry knowledge

IT 60+

Years of digital enablers and disruptive technologies

AI 20+

Years of AI experience



Hitachi Digital Services
is a global systems integrator.

We power mission-critical platforms.

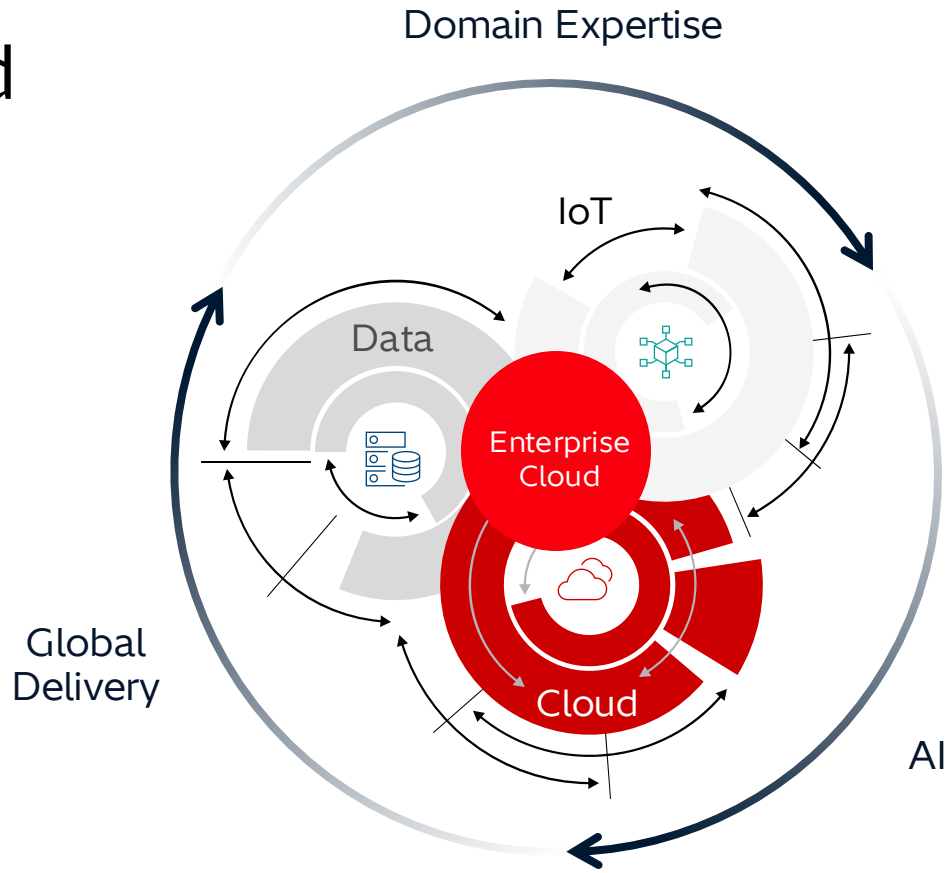
We are practitioners in IT x OT convergence.

We have a trusted network of talent.

We combine our core tech capabilities, domain expertise and global delivery to reliably power mission-critical platforms

We are good at:

- Enterprise Cloud
- Cloud Engineering
- Data & AI
- Industrial IoT
- Managed Services and HARC



UK Procurement Act Breakdown and Key Considerations

3

UK Public Sector Rules: The New Act

What is it?	The Procurement Act 2023
When did it come into force?	January 2025
Who does it apply to?	A public authority, or in the case of a utilities contract, a public authority, public undertaking or private utility, other than an excluded authority.
What does it apply to?	The award, entry into and management of a public contract, including any step taken for the purpose of awarding, entering into or managing the contract, a part of the procurement; and termination of the procurement before award.
What does it replace?	The Procurement Act 2023 will replace the Public Contracts Regulations 2015, Concessions Contracts Regulations 2016, and Utilities Contracts Regulations 2016, regulating procurement in England, Wales, and Northern Ireland.

Key Changes to the UK Public Sector Rules

- Increase in number of notices to be provided during procurement and contract lifecycle.
- Authorities are given new flexibilities to design bespoke procurement processes, subject to certain limits.
- There is a new requirement for authorities to set and publicly report on Key Performance Indicators (KPIs) for larger contracts valued over £5 million.
- The Act introduces a supplier debarment list, allowing for debarment when mandatory (“excluded suppliers”) or discretionary (“excludable suppliers”) exclusion criteria are triggered.
- Authorities must consider dividing contracts into Lots to reduce barriers to SME participation.
- The Most Economically Advantageous Tender (MEAT) is replaced by the Most Advantageous Tender (MAT), allowing for broader award criteria including technical merit and social value.
- Conditions of participation must be proportionate to the cost, nature, and complexity of the contract, and cannot require previous contract awards or specific qualifications without accepting equivalents.
- The Act allows for the refinement of award criteria and weightings during procurement, provided certain conditions are met.

Key Changes to the UK Public Sector Rules

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- The Act introduces a dynamic market, expanding the use of Dynamic Purchasing Systems (DPS) for more sophisticated requirements.
- Direct awards are permitted in specific scenarios, such as for novel goods/services or where only one supplier can meet the requirement (e.g., due to ownership of certain intellectual property rights).
- A new concept of "open" frameworks allows new suppliers to join during the framework's lifetime, with a maximum duration of eight years.
- The standstill period is reduced to 8 working days, with no requirement for light touch contracts or urgent direct awards.
- The Act mandates the publication of a Contract Details Notice within 30 days of contract signature, or 120 days for light touch contracts.
- Minimum time limits for procurement processes are generally five days shorter than current equivalents, with flexibility for certain notices.
- A Procurement Termination Notice must be published if a procurement is abandoned.
- For contracting authorities expecting to pay more than £100 million in the coming financial year, a pipeline notice must be published within 56 days of the financial year start, detailing contracts over £2 million for which they intend to publish a tender or transparency notice.

AI Implications for the Public Sector

4

Procuring AI for Public Sector Use

AI Procurement Strategy

- Procurement should be part of a broader AI adoption strategy, leveraging economies of scale and sharing knowledge across government.
- Collaboration with other teams and establishing networks are encouraged to share insights and best practices.

Multidisciplinary Teams

- Decisions should be made by diverse teams with expertise in various fields such as domain expertise, commercial expertise, systems and data engineering, model development, data ethics, and visualization.
- Successful bidders should also assemble diverse teams to mitigate bias in the AI.

Data Assessment

- Conduct a data assessment before procurement to ensure data availability and address potential biases.
- Define data sharing protocols with vendors and establish data governance mechanisms from the start.

Benefits and Risks Assessment

- Clearly define public benefit goals and assess the socio-economic impacts of AI systems.
- Conduct initial AI impact assessments and revisit them at key decision points.

Market Engagement

- Engage with AI suppliers early to foster a competitive market and avoid unnecessary burdens on suppliers, including SMEs and under-represented groups.

Route to Market:

- Focus on challenges rather than specific solutions, allowing suppliers to propose innovative responses. Explore different procurement routes like Innovation Partnerships and the AI Dynamic Purchasing System

Procuring AI for Public Sector Use

Governance and Assurance:

- Develop governance plans to ensure oversight throughout the AI system's lifecycle.
- Adhere to existing codes of practice and maximize transparency in AI decision-making.

Avoiding Black Box Algorithms:

- Encourage explainability and interpretability of algorithms to prevent vendor lock-in and ensure future engagement with other suppliers.

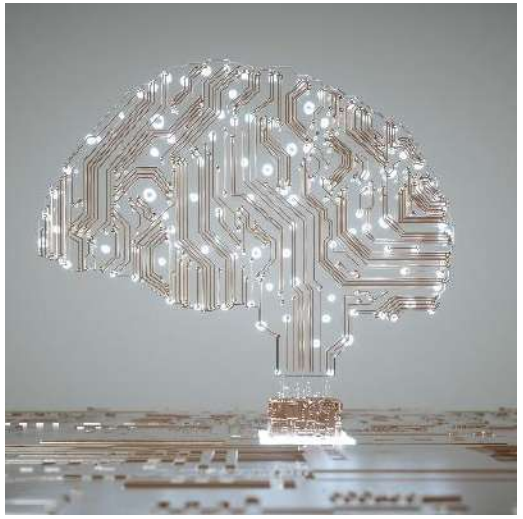
Technical and Ethical Evaluation:

- Address technical and ethical limitations during evaluation, ensuring suppliers have plans to mitigate bias and meet governance requirements.

Ongoing Support and Evaluation:

- Ensure continued evaluation, and ongoing support, training, and knowledge transfer are part of the procurement requirements to maintain AI system efficacy and usability.

Use of AI in the Procurement Process



PPN 017 – Improving transparency of AI use in procurement

Effective 24 Feb 2025

Suppliers are encouraged to use AI to enhance their bids, but they must disclose AI usage in tender creation and ensure no confidential information is used as training data for AI systems.

Due diligence is crucial when suppliers use AI tools, requiring checks on their capacity and capability to meet contract requirements.

Additional time may be needed in procurement processes to accommodate increased activity and due diligence due to AI use.

In cases involving national security concerns, additional risk mitigations may be necessary, and commercial teams should consult with Information Assurance and Security colleagues.

AI's role in non-AI services is increasing, and suppliers may be required to declare AI use in service delivery, prompting potential contractual amendments.

Market Trends - AI

- Forecast through to **2028**
- Worldwide AI spending expected to reach **$632b** – includes AI-enabled apps, infrastructure, and related IT and business services
- GenAI spending will be less than the combined total of all other AI applications e.g. machine learning, deep learning, and automatic speech recognition

IDC

Top AI Use Cases based on 5 Year CAGR (2023–2028) (Value (Constant))

Use Case	CAGR (5 Years)
Augmented Claims Processing	+35.8%
Digital Commerce	+33.2%
Augmented Sales Planning and Prospecting	+32.8%
Smart Factory Floor	+32.5%
Augmented Product Requirements, Design & Collaboration	+32.2%
Others	+28.6%

Source: IDC Worldwide AI and Generative AI Spending Guide - Forecast 2024 | Aug (V2 2024)

Type of AI

- Gen AI or… “traditional” AI? AI like machine learning has been used for decades.

- Quick reminder of basic distinction:
- Trad AI: great at analysing data—and making predictions or decisions
- Gen AI: does the above—and also creates new content and data

- The concerns we are addressing in today’s talk mostly revolve around Gen AI, but remember that most proposed AI regulation is not limited to Gen AI.
- Need to also consider the latest AI offering: Agentic AI.

Notification of AI use

- *General disclosure obligation:* A service provider may be contractually obligated to keep a customer informed of AI usage as part of services and/or products.
- *Information requests:* A customer may seek a right to receive specific information on the use of AI as part of the services, on request. A service provider might counterbalance such a right with protecting its commercially sensitive business information and the confidential information of other customers whose data sets are used to train the AI tool or that benefit from the AI tool.

- Note how the AI definitional issue complicates the disclosure obligation.

Notification of AI use

- Issue notification: If a party detects issues with the use or output of AI, then each party will likely seek a mutual obligation to be promptly notified. Key points of negotiation may include:
- the scope of “issues.” Aside from data breaches, these could include inaccurate, biased, or unrepresentative outputs;
- time period and scope of notification; and
- consequences of any issues. Could the parties agree to a remediation plan? Will the customer have a right to suspend the use of AI (or the services themselves)?

Testing the AI

Customers will want provisions that require the vendor to implement processes and procedures that test the AI e.g.:

- For compliance with law
- In accordance with standard of care e.g. reasonable/best practices in the industry
- Related warranties e.g. use of data, ensuring accuracy and reliability of data
- For bias
- For defects

Vendors may have their own policies and principles, which may be published or made available

- Consider how these align from a customer standard perspective

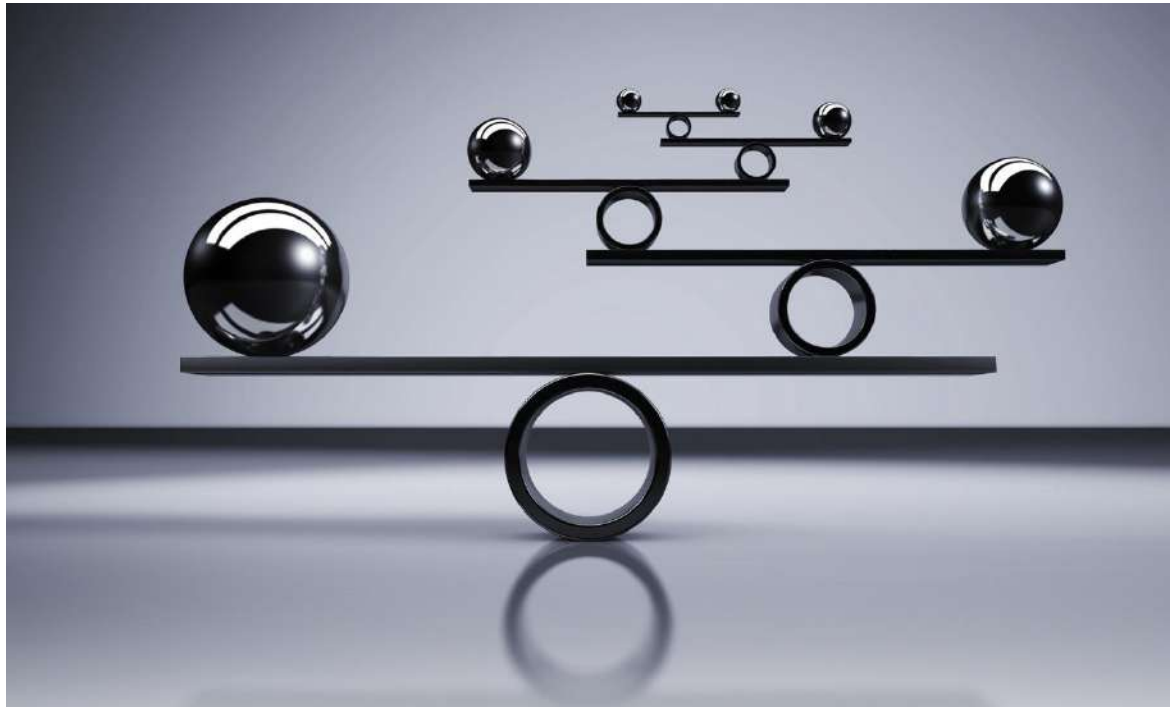
Compliance with law

- The contractual allocation of compliance responsibility within the AI ecosystem is becoming increasingly important.
- Key responsibility point falls on the party providing the dataset(s) that train the AI tool. Negotiation point: whether service provider's responsibility to not cause customer itself to violate applicable laws through its use of the AI tool, or whether customer alone is responsible for its own compliance obligations (e.g., sector-specific regulations).
- Further, if an AI tool is used to collect or process personal information, then it is crucial to ensure that this data is handled in accordance with relevant privacy laws and regulations.

IP ownership/licensing

What are the components potentially involved?

- Licensed Customer IP and Data
- Developments (improvements to pre-existing, or new new)
- Adapted data (i.e. learning and fine tuning that the AI has made utilising customer's data)
- AI system outputs e.g. "AI System Works"… anything created, invented, etc. by the AI
- Vendor training data (as opposed to customer-provided data)



IP ownership and infringement

- Ownership rights and responsibility in the input data
  - Large language models trained on vast quantities of data – can vendor warrant third-party IP non-infringement?
- Ownership rights in new data/outputs:
  - Follow general principles of newly developed IP (i.e. owned by customer… and with third-party infringement protection)?
  - Variations on this?
    - Unique to customer?
    - Owned by customer

Protecting outgoing data

- Why do we care?
- Beware of permitting use of your data generally to “improve the services.”
- Prohibit data from being used to seed, train, or improve AI (even if anonymous).
- “In no event will Supplier use any Client Data, or derivatives thereof (whether or not such Client Data has been anonymized or deidentified), to train or improve any algorithm or model used in any artificial intelligence product or services without Client’s prior written consent.”

Vendor work product

- Why do we care?
- Beware of the IP (copyright infringement) and OS (viral) risks.
- Require consent if AI is used to create work product.
- “In no event will Supplier use any artificial intelligence, including generative artificial intelligence, products or services to perform the Services or generate or produce any Deliverables (or any components thereof) without the express prior written consent of Client.”

Liability and warranty considerations

- Context and use case-specific in terms of the types of liabilities that could arise (other than third-party IP infringement risk) and should be allocated
- Conceptually, the potential business losses where AI is involved (e.g., as part of a wider technology or outsourcing arrangement) might not be materially, or at all, different, but **allocation of responsibility** may be more challenging?
- Warranty considerations:
- Transparency / AI interpretable
- No bias / discrimination
- IP infringement
- Security / no loss of data / no virus, etc.

What happens on expiry/termination?

- Important, including from a legal and regulatory perspective, to consider licensing arrangements in the event of a termination of use of the AI tool, whether planned or sudden, in order to minimise service disruption.

- Portability and retention of data analytics from a service utilising an AI tool is another key commercial consideration.

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- Our Technology Transactions, Outsourcing and Commercial Contracts lawyers provide regular updates on the latest developments and trends affecting the technology and outsourcing industries.
- Stay updated on all of our future seminars and webcasts, which we host regularly on hot issues in the market.

Hitachi GenAi Use Case

We drive AI strategy success with R202.ai

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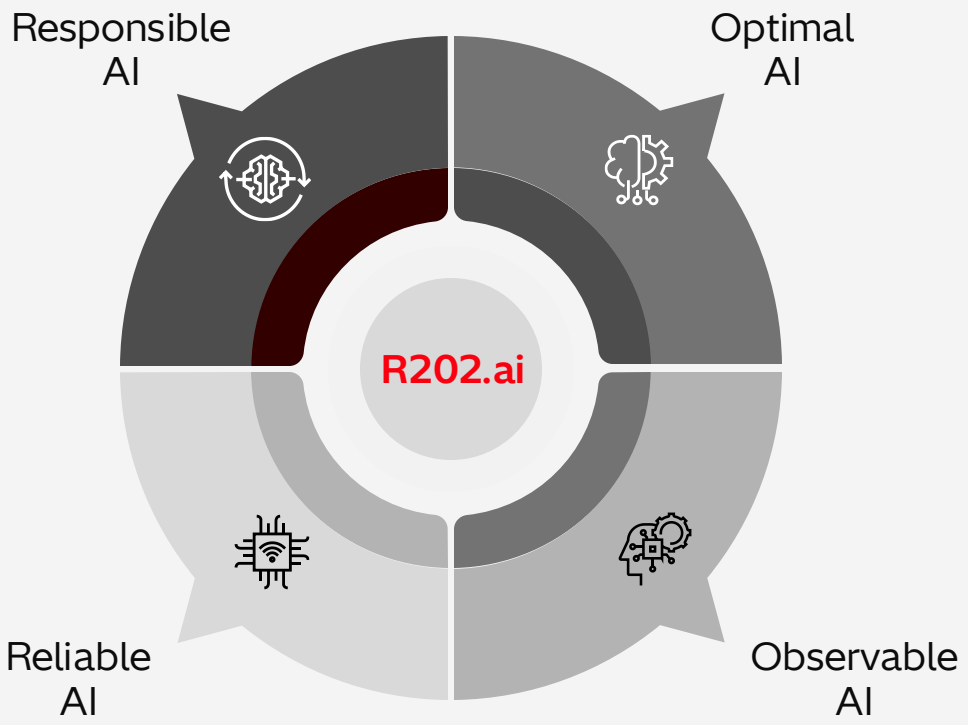
Leverage our assets

- Pre-built and reusable AI libraries and blueprints
- AI compass for Responsible AI
- HARC for AI – end-to-end observability for proactive management, security, data/model governance and cost optimisation



R202.ai accelerates adoption of scalable AI technologies to improve business outcomes and internal productivity, and enable AI governance.

Case study

Accelerating invoice processing efficiency with GenAI for DS Smith, a leading global packaging company

Invoice processing optimisation using an Intelligent Document Processing solution

Challenge

Optimise the processing of **150,000 supplier invoices** At the time, only **55% of** these invoices were automated,

This resulted in inefficiencies, higher costs, and increased error risk.

Annual volume of **1.5 million** invoices

An earlier attempt to automate invoice processing failed due to its inability to meet business requirements.

Solution

The Hitachi Digital Services innovative approach involved integration of the following key components:

- **LLM** with visual capabilities
- **Hitachi DS Custom algorithms** & Customer designed prompt
- **Cloud Optimisation techniques, Prompt Caching**
- **AWS Cloud,** Bedrock, Textract, Comprehend

Key results include

- **95% accuracy** for documents uploaded to customer financial systems
- Tool's **running cost per document reduced by** more than **90%**
- Review process of remaining document made efficient by **a more user-friendly UI**

Results

Key results after Phase 1 go-live:

- Achieved **95% accuracy** for documents
- Reduced the tool's running cost per document by more than **90%**,
- Review process for remaining documents made more efficient

Expected results after full-scale deployment

- Increase AP process accuracy **from 65% to 95%,** eliminating the need for manual intervention.
- Reduce invoice processing costs by **60%** through end-to-end automation.
- Free up the AP team from repetitive, manual tasks
- Establish IDP as the standard approach for document handling, enable cost savings across additional document workflows.

Wrap and Questions

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Q&A

Thank you

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