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Innovating in public sector procurement

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Innovating through Design in Public Services

Seminar Series 2010-2011

Seminar 1: Innovating in Public Sector Procurement

Wednesday 17 November, 2010

The Northumberland Hotel, WC1



Innovating in Public Sector Procurement

Paul Rainford and Jane Tinkler

Overview

In 2008/09, the public sector spent £220 billion on goods and services alone. This is around one third of all public sector spending. Central government spending accounts for around 30 per cent of this figure (NAO, 2010). In addition the public sector spends around £25 billion on property. There are around 50 different procurement bodies across the public sector. Collaborative procurement across organisational boundaries has been slow to develop. This leads to multiple overlap in terms of procurement processes and structures. Government is also unable to leverage maximum value-added from this buying power.

The Green Review

The recent *Efficiency Review* by Sir Philip Green found that 'Government is failing to leverage both its credit rating and its scale'.

Key Findings:

- Basic commodities are bought at significantly different prices across government departments.
- There are inconsistent commercial skills across departments.
- There is no mandate to purchase even basic commodities through a central team.
- The data collected and held by the public sector is inconsistent and hard to get at, making it impossible to buy efficiently.
- The centre of government is dependent upon each department submitting a manually produced return about procurement. Alternatively they rely on suppliers to provide cross-government data.

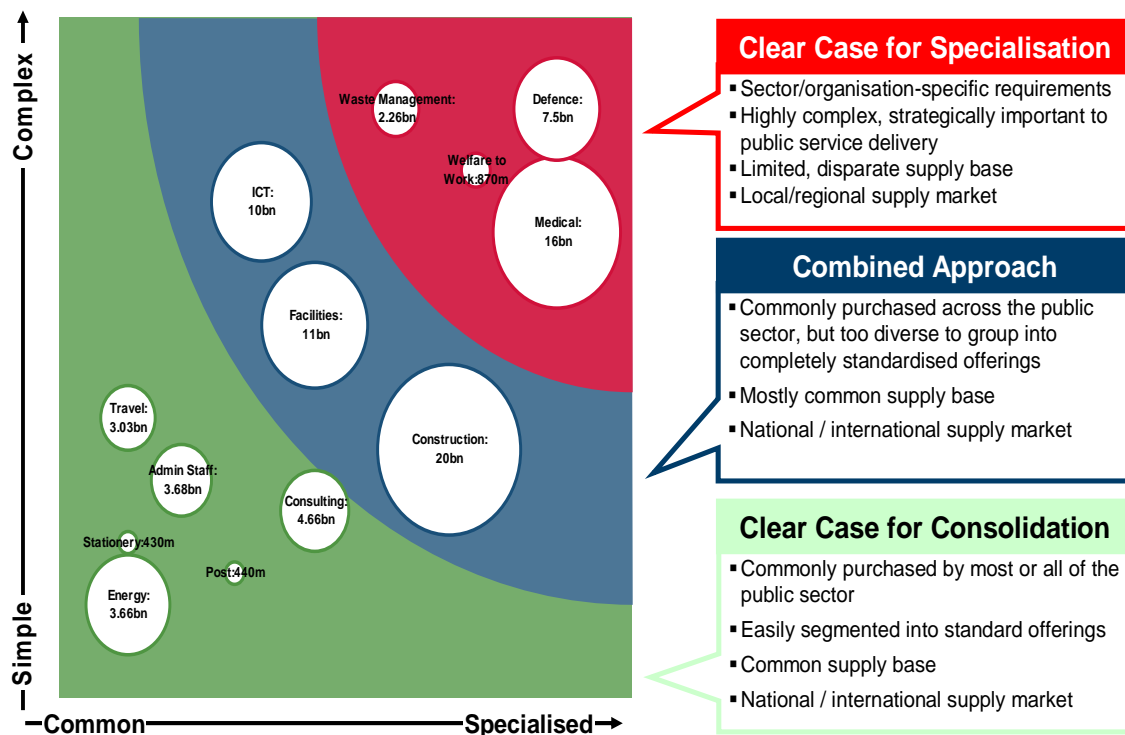
Recommendations:

- Government must leverage its name, its credit rating and its buying power.
- There needs to be an audit of all contracts with more than £100 million remaining value (estimated total £16 billion) by a central, experienced negotiating team.
- A property strategy must be written and implemented.
- Recommended approach to budgeting, monitoring and forecasting.

Collaborative Procurement

A report by the National Audit Office (2010) on outlined principles whereby collaborative procurement across the public sector would be most feasible.

Figure 1: Procurement principles for a pan-government approach



Key Findings:

- The public sector procurement landscape is fragmented, with no overall governance.
- There are nearly 50 professional buying organisations, as well as individual public bodies running commercial and procurement functions.
- Many public bodies continue to undertake expensive procurement exercises rather than using existing framework agreements to buy standard commodities, such as stationery, computer equipment and travel services.
- Public bodies are paying a wide range of prices for the same commodities, even within the existing collaborative arrangements.

Procurement Examples

Example 1: mobile phones

(Green Review, 2010).

The total annual spend on mobile phones in central Government is £21 million. There are around 105,000 devices in use and 98 per cent of central government spend is with one provider. This provider has 68 contracts with government departments and arms length bodies, typically negotiated by each department separately and not ending at the same date. This makes the process very inefficient and fails to leverage scale

Example 2: travel

(Green, 2010).

The Green Review reported that it was initially advised that the annual travel spend for central government was £2 billion; the second estimate was £500 million and the third estimate was £768 million. A thorough review revealed that the actual spend was £551 million. There is considerably more spent on travel outside central government but they were unable to confirm actual spend

Example 3: copier paper
(NAO, 2010)

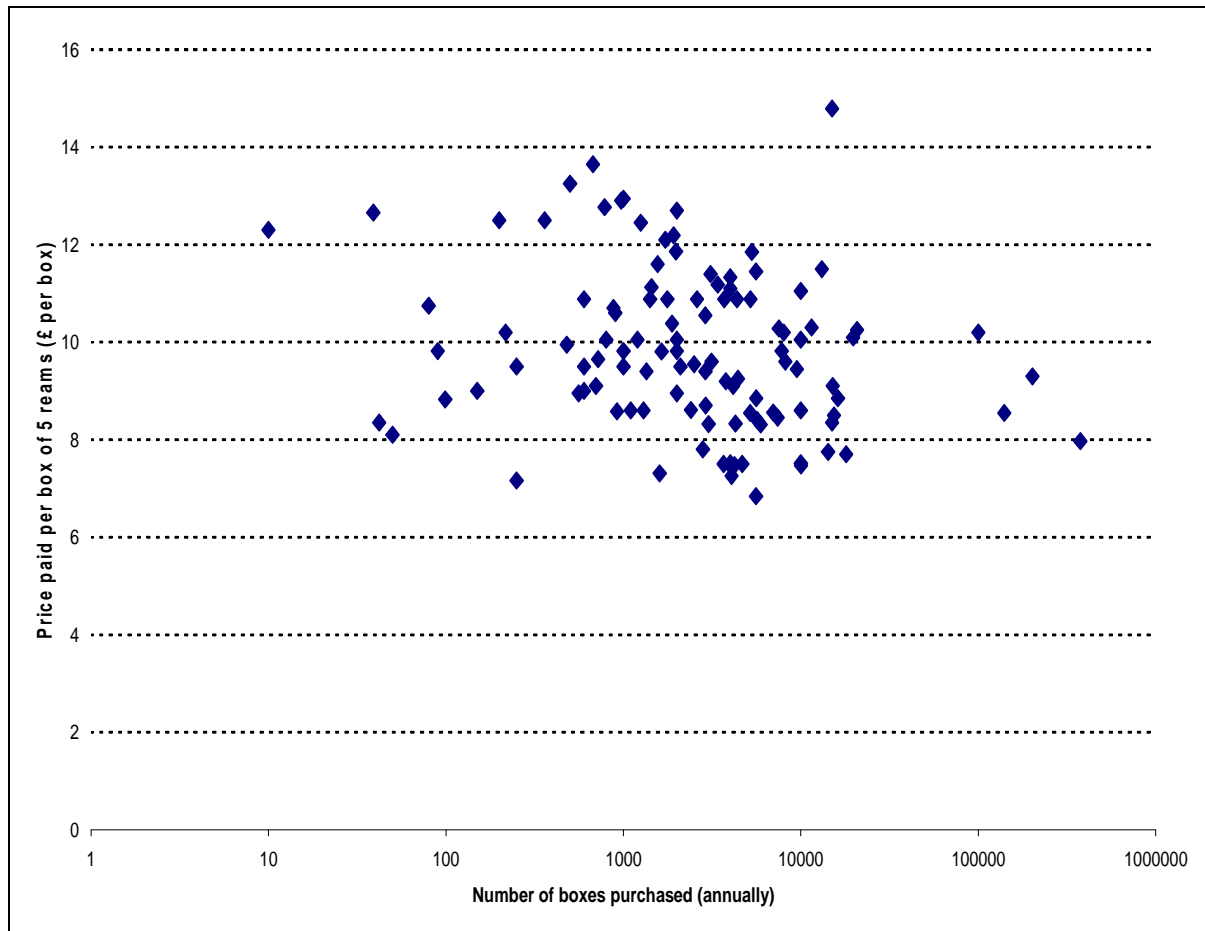
Figure 3.1: Specification, expenditure and volume for copier paper

Good/ service	Specification	Quantity
Photocopier paper	A4 size, Plain white paper, 100% recycled, 80g/m ²	Box of 5 reams, 500 sheets per ream

Total volume across respondents: 1,282,508 boxes annually

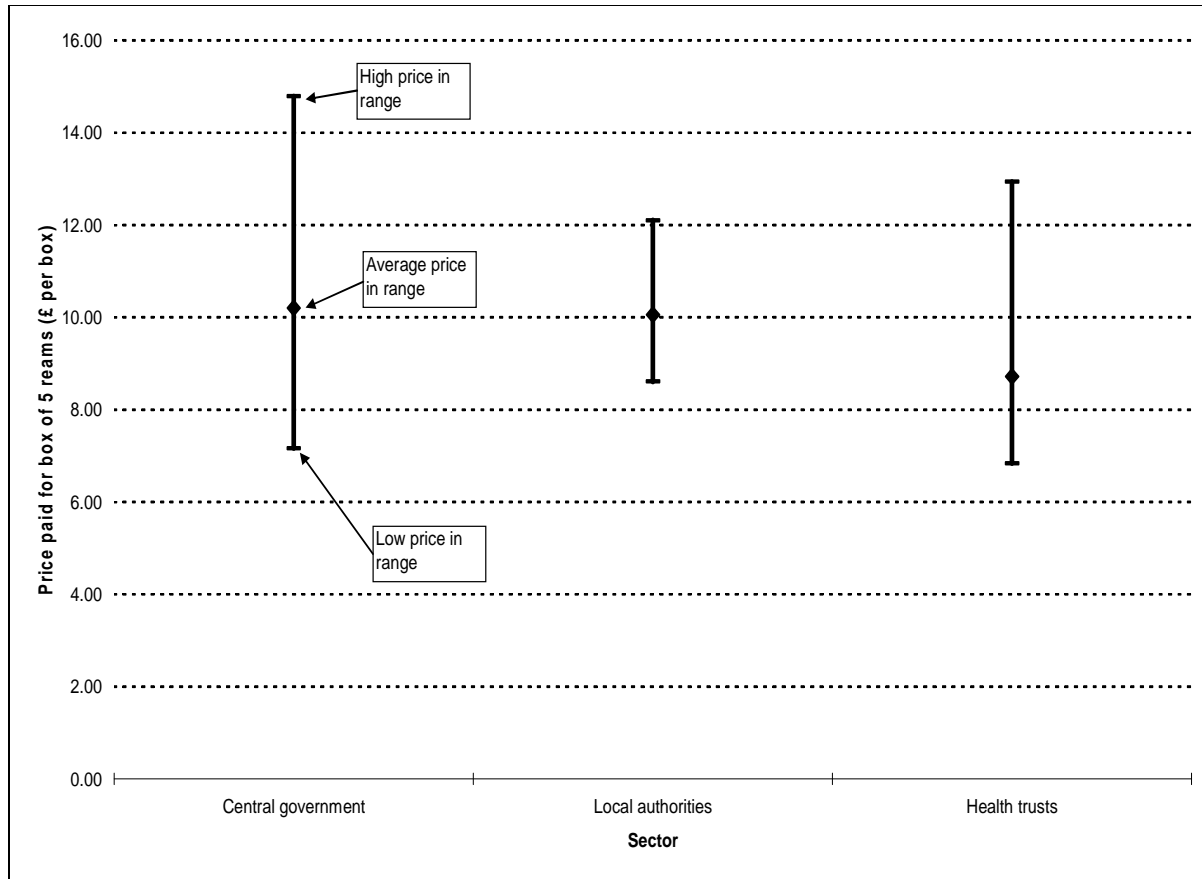
Total expenditure across respondents: £11,519,094 annually

Figure 3.2: Scatter chart of prices paid for 5 ream box of copier paper against annual volume purchased



Notes: Number of observations: 112 organisations. The x axis shows a logarithmic scale to allow all observations to be viewed on one chart.

Figure 3.3: High, low and average prices paid by sector for 5 ream box of copier paper



	Sector		
	Central government	Local authorities	Health trusts
Number of observations	63	22	27
High price (£ per box)	14.79	12.10	12.94
Low price (£ per box)	7.16	8.61	6.84
Average price (£ per box)	10.20	10.06	8.72

Notes: Number of observations: 112 organisations. The average is the mean price across the sector.

Example 4: LCD monitors

(NAO, 2010)

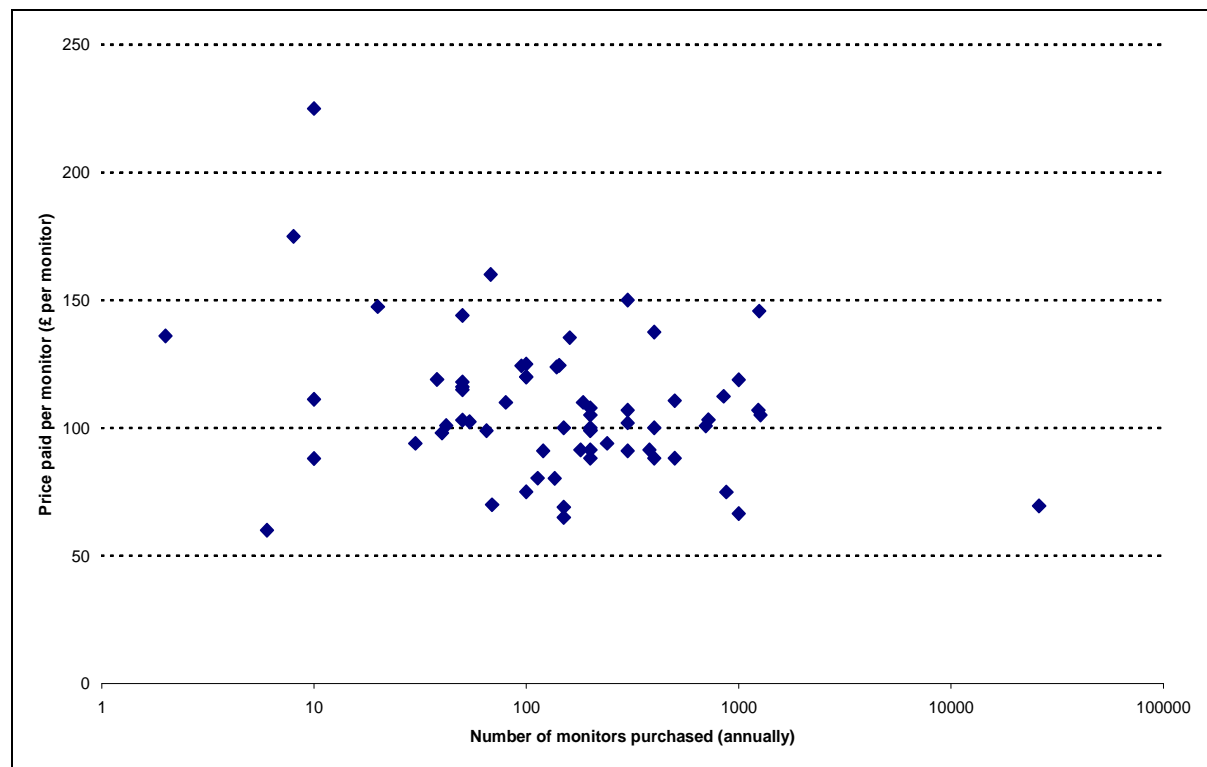
Figure 4.1: Specification, expenditure and volume for LCD monitors

Good/ service	Specification	Quantity
LCD flat screen monitor	TFT (Thin Film Transistor) 17 inch flat screen monitor; aspect ratio 4:3; resolution 1280 x 1024; excludes sound and other additional features (e.g. extra USB ports)	Single monitor

Total volume across respondents: 43,244 monitors annually.

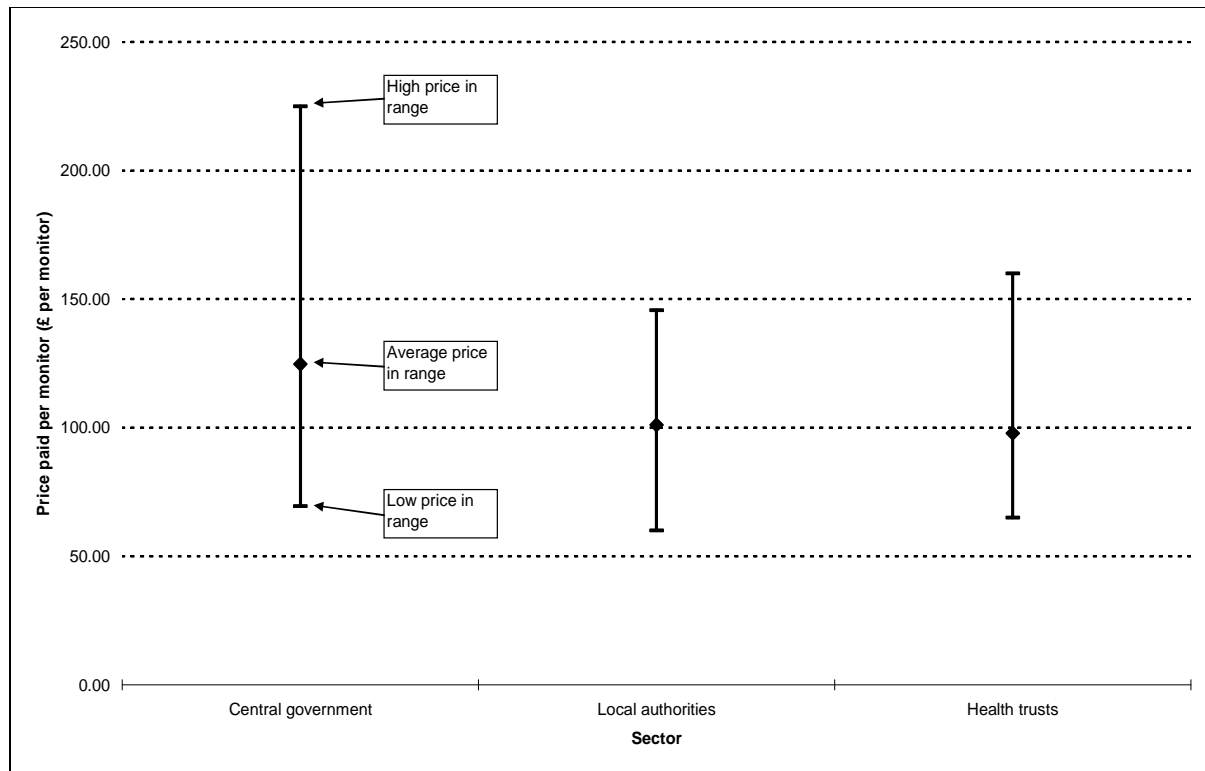
Total expenditure across respondents: £3,612,866 annually.

Figure 4.2: Scatter chart of prices paid per LCD monitor against annual volume purchased



Notes: Number of observations: 65 organisations. The x axis shows a logarithmic scale to allow all observations to be viewed on one chart.

Figure 4.3: High, low and average prices paid by sector for LCD monitors



	Sector		
	Central government	Local authorities	Health trusts
Number of observations	21	17	27
High price (£ per monitor)	225	146	160
Low price (£ per monitor)	70	60	65
Average price (£ per monitor)	125	101	98

Notes: Number of observations: 65 organisations. The average is the mean price across the sector.

Ways forward?

- Combined and collaborative procurement is needed across the public sector to leverage its enormous buying power, save on repeating contract negotiations and achieve huge price discounts through aggregating demand.
- Coordination frameworks for procurement and value for money assessments need to be used where they are in place, and developed where necessary.
- E-procurement and online solutions need to be radically simplified and then used utilised much more frequently and effectively.
- There needs to be consolidation of information and tendering platforms with central government input on this.
- Procurement rules must be much more flexible, and e-procurement solutions much simpler and more accessible to use, in order to allow greater involvement of SMEs, third and voluntary sector organisation in line with innovative models of public service delivery.
- Efficient and digital data collection and data use must be sharpened considerably to allow the centre of government to act as an 'intelligent customer' whilst facilitating devolved delivery. Without appropriate governance arrangements, the aggregation of information needed to capitalise on the large scale of central government and the public sector will not be achieved (Dunleavy, 2010).

Key Reading

Dunleavy, Patrick (2010) *The Green report on procurement efficiency is an indictment of governance structures across Whitehall*. British Politics and Policy blog. Available from: <http://blogs.lse.ac.uk/politicsandpolicy/?p=4443>

Green, Philip (2010) *Efficiency Review: Key Findings and Recommendations*. London: The Stationary Office. Available from: <http://download.cabinetoffice.gov.uk/efficiency/sirphilipgreenreview.pdf>

National Audit Office (2010) *A review of collaborative procurement across the public sector*. London: The Stationary Office. Available from: http://www.nao.org.uk/publications/0910/collaborative_procurement.aspx

Office of Government Commerce (2010) *Collaborative Procurement: Progress against uptake of endorsed deals*. London: OGC. Available from: [http://www.ogc.gov.uk/documents/Compliance_update_v6_\(3\).pdf](http://www.ogc.gov.uk/documents/Compliance_update_v6_(3).pdf)

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