

# Redesigning procurement in the public sector will be a vital part of meeting budget reductions

Dec 14 2010

*In 2008/09, the public sector spent £220 billion on goods and services alone, accounting for one third of all spending. However, there is multiple overlap in terms of procurement processes and structures across the public sector and collaboration across organisational boundaries has been slow to develop. **Chris Cox** and **Paul Rainford** report from a recent seminar organised by the London School of Economics and the Design Council in which it was argued that innovative procurement will be crucial if the public sector is to reduce duplication, provide value for money and survive austerity.*



Doing more for less is the current mantra in public services across the UK. The coalition's efforts to cut the UK's deficit by enforcing a policy of fiscal austerity provide the immediate context and spur for this process. However, with an aging population, the pressures of globalisation and international migration, and ever increasing levels of public expectation, there is a need for long-term strategically focussed change in the design and implementation of public services for the benefit of local communities, and not simply short-term expediencies from budget cuts and efficiency savings.



[The Green Review](#) of government procurement made headlines recently when it reported that if a company spent money the way government does, it would go out of business. Collaboration between departments was found to be the exception rather than the rule, with government failing to leverage its size, buying power and credit rating. The resulting duplication means that it routinely failed to get value for money. There were huge price variations for common commodities such as paper, mobile phones and laptops. Additionally, despite aspirations for government to become an intelligent 'hub' of high-quality data, there was precious little information available on what is being purchased.

The Design Council and the London School of Economics have launched a [series of seminars](#) exploring in detail how design and innovation can help deliver better outcomes at lower costs across the public sector. In this opening session, public sector procurement professionals reflected on the Green Review, discussed the challenges that lie ahead, and shared examples of how innovative procurement is becoming increasingly central to surviving austerity.

## Central government procurement needs good information

Martin Chown, director of business services procurement at [Buying Solutions](#) (OGC), started proceedings by admitting that data on public sector procurement is very hard to come by, but he challenged the media sensationalism over price variations, by claiming that average variation was around 10-15 per cent for most items. Chown then discussed options for the government to better leverage its name, credit rating and buying power through a combination of collaboration, aggregation and mandation processes.

Collaboration between government bodies in procurement can be very effective, but it is resource intensive and is slow to set up. It also involves attrition, with spend unavoidably being pulled away into other areas after it has been committed. Aggregation, by contrast, is a centre-led process, with a central purchasing body procuring the relevant items from the market and then distributing them amongst its users. This process requires a commitment to volume and a high degree of market sensitivity. Moreover, the effectiveness of aggregation can be reduced with each repeated transaction. The third approach – adopted by government following the Green Review – is mandation, which provides the fastest route to the market but encompasses attendant risks as suppliers dislike being mandated to and there are questions as to how to bring



Image credit: hithatswitch

in a wider range of suppliers including SMEs and more 'Big Society' type providers.

Quality data is vital, but this has to be turned into management information. There is a clear need for more electronic portals where the best deals are available for all purchasers. This is a vital part of any 'intelligent centre' approach to procurement and it requires better governance structures and disintermediation, with deals being done further up the supply chain.

### **Challenges for the NHS**

The NHS faces a paradox: while power is being decentralised, there are imperatives from central government to find major savings across the whole health sector. There is a real conflict between long-term strategic aims and short-term financial goals – namely the £6.2 billion efficiency savings to be found in this financial year (with £1.6 billion coming from NHS procurement). Finding these savings will be tough because procurement is not strategically managed in trusts and does not get board-level attention. Within the NHS, other obstacles include competing procurement partners, limited ability to take commitment to markets and a poor appreciation of the value that technology can bring.

To add further complications, the landscape of NHS procurement is also shifting, with two of the eight [Collaborative Procurement Hubs](#) (CPHs) disappearing next year, one moving into NHS Shared Business Services and another moving to the private sector. The NHS Supply Chain has had a troubled relationship with the Collaborative Procurement Hubs which were originally intended to bring hospitals' demands to market. Instead CPHs became mini-contract framework organisations, creating competition where it was not wanted and threatening the neutrality of NHS Supply Chain.

The coalition government's proposals to decentralise power will result in the loss of other organisations, including strategic health authorities and more than 150 primary care trusts. Commissioning will be moving to groups of GP consortia, overseen by a new NHS commissioning board. A new regulator will oversee the market and ensure that it functions well. There is thus a danger of the fragmentation of the procurement system – directly countering the effects of leveraging centralised buying power.

### **Innovating locally**

Local authorities will be on the front line of budget cuts and efficiency savings while having to maintain essential public service quality. Innovation in procurement will be needed to provide a stream of savings and a better use of scarce resources. [Birmingham City Council](#) – the largest of its kind in Europe – is facing up to this reality and has created a sustainable procurement consortium. It is designed as a social enterprise – aimed at third sector providers as well as private companies – and it offers lower acquisition costs and an easier route to market. It is being piloted on a project retrofitting photovoltaic cells onto council houses and buildings, which, it is hoped, will stimulate a local market both to manufacture and install the cells.

The authority is also facilitating collaborative procurement as West Midlands fire and police services have combined forces to increase their purchasing power. The Council is also examining how it spends its money, and using online tools to develop ways to reducing costs and involving voluntary sector groups. It has established a new mechanism for reducing spending on conference suites and meeting rooms in hotels. By encouraging sixty third sector organisations to register their meeting rooms on city-wide online portal, venues for Council meetings and events are now accessible at better prices and are of better quality.

*The LSE Public Policy Group's briefing paper (pre-put) for this event is [available here](#).*

*To learn more about the joint LSE Public Policy Group/Design Council seminar series, Innovating through Design in Public Services, please [click here](#).*

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