Paul Rainford and Jane Tinkler

Innovating in public sector procurement

Conference Item [briefing paper]

Original citation:
Originally presented at Innovating in public sector procurement, Innovating through design in public sector services seminar series, 17 November 2010, LSE Public Policy Group.
This version available at: http://eprints.lse.ac.uk/37803/

Available in LSE Research Online: August 2011

© 2010 Paul Rainford and Jane Tinkler.

LSE has developed LSE Research Online so that users may access research output of the School. Copyright © and Moral Rights for the papers on this site are retained by the individual authors and/or other copyright owners. Users may download and/or print one copy of any article(s) in LSE Research Online to facilitate their private study or for non-commercial research. You may not engage in further distribution of the material or use it for any profit-making activities or any commercial gain. You may freely distribute the URL (http://eprints.lse.ac.uk) of the LSE Research Online website.

http://eprints.lse.ac.uk
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

British politics and policy at LSE: http://blogs.lse.ac.uk/politicsandpolicy/
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

<table>
<thead>
<tr>
<th>Good/service</th>
<th>Specification</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Photocopier paper</td>
<td>A4 size, Plain white paper, 100% recycled, 80g/m²</td>
<td>Box of 5 reams, 500 sheets per ream</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Central government</th>
<th>Local authorities</th>
<th>Health trusts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of observations</td>
<td>63</td>
<td>22</td>
<td>27</td>
</tr>
<tr>
<td>High price (£ per box)</td>
<td>14.79</td>
<td>12.10</td>
<td>12.94</td>
</tr>
<tr>
<td>Low price (£ per box)</td>
<td>7.16</td>
<td>8.61</td>
<td>6.84</td>
</tr>
<tr>
<td>Average price (£ per box)</td>
<td>10.20</td>
<td>10.06</td>
<td>8.72</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Central government</th>
<th>Local authorities</th>
<th>Health trusts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of observations</td>
<td>21</td>
<td>17</td>
<td>27</td>
</tr>
<tr>
<td>High price (£ per monitor)</td>
<td>225</td>
<td>146</td>
<td>160</td>
</tr>
<tr>
<td>Low price (£ per monitor)</td>
<td>70</td>
<td>60</td>
<td>65</td>
</tr>
<tr>
<td>Average price (£ per monitor)</td>
<td>125</td>
<td>101</td>
<td>98</td>
</tr>
</tbody>
</table>

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


Supported by:

[LSE Knowledge Transfer: Higher Education Innovation Fund](image)