



PUBLIC SECTOR REPORT

SMARTER PUBLIC SECTOR PROCUREMENT

Achieving value for money

PRINT

QUIT

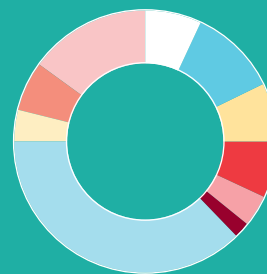
HOME

▶ ACHIEVING VALUE FOR MONEY THROUGH SMARTER PUBLIC SECTOR PROCUREMENT

CENTRAL AND LOCAL GOVERNMENT PROCUREMENT IS BOUND TO BE AT THE CENTRE OF ANY DRIVE FOR EFFICIENCY SAVINGS OVER THE NEXT DECADE. THE PUBLIC SECTOR IS AN EXTREMELY POWERFUL PURCHASER. ACCORDING TO THE OPERATIONAL EFFICIENCY PROGRAMME¹, THE £175BN SPENT ON PROCUREMENT IN 2007-8 BY THE PUBLIC SECTOR REPRESENTS SOME 30 PER CENT OF PUBLIC SPENDING.

Procurement by central government accounts for a large amount of this spending. However, the majority of public sector procurement spend is undertaken by organisations in the wider public sector, with £103bn of the total spent by local authorities, schools and health organisations².

Public Sector Procurement Expenditure on Services 2007–2008³



- General public services 7%
- Defence 11%
- Public order and safety 7%
- Economic affairs 7%
- Environment protection 4%
- Housing and community amenities 2%
- Health 37%
- Recreation, culture and religion 4%
- Education 6%
- Social protection 15%

This short paper looks at the contribution which public sector procurement – beyond central government – could make to achieving efficiency savings and suggests some ways in which the procurement process could be made more effective.

BDO's experience leads us to believe that the capacity of public bodies for smarter procurement needs to be significantly enhanced, and the market for professional services shaken up to be made more competitive and innovative.

¹ Operational Efficiency Programme, HM Treasury, 2008.

² *ibid.*

³ Public Expenditure Statistical Analyses, HM Treasury, © Crown copyright 2010.

PRINT

QUIT

HOME

A. RAISING PROCUREMENT CAPACITY AND PROFILE WITHIN PUBLIC SECTOR ORGANISATIONS

Given the large sums of public money being invested and the complex and strategic nature of large scale public sector procurement, procurement is often given a relatively low profile within public sector organisations. Projects are often managed by dedicated procurement officers rather than being managed at higher levels and integrated with the strategic aims of the organisation.

There needs to be a much greater awareness among chief executives of public sector bodies of the importance of good procurement and the opportunities and risks involved. Senior officers within the organisation should be involved in the specification and bidding process for large scale procurement to help achieve the right service and the right price, and to help build a constructive relationship with the supplier. From the beginning of the project, the senior leadership team of the organisation needs to be clear about the objectives, pose challenging questions to the bidder and look for bids supported by evidence.

In addition, public sector organisations need to recognise when they lack the internal capacity to undertake large scale and complex procurement and seek external support or partnership arrangements to help them achieve the best deal. This extra capacity may come from the private sector, partnering with other public sector bodies or even from inviting non-executive directors or advisors from business to share their expertise with the public sector.

Public sector bodies should also recognise the opportunities for learning that working with external organisations can offer, seeking to build procurement capacity among staff to enable them to procure effectively in the future.

GIVEN THE LARGE SUMS OF PUBLIC MONEY BEING INVESTED AND THE COMPLEX NATURE OF LARGE PUBLIC SCALE PROCUREMENT, IT IS OFTEN AN AREA WHICH IS GIVEN RELATIVELY LOW PROFILE. PROJECTS ARE OFTEN MANAGED BY DEDICATED PROCUREMENT OFFICERS RATHER THAN BEING MANAGED AT HIGHER LEVELS AND INTEGRATED WITH THE STRATEGIC AIM OF THE ORGANISATION.

CASE STUDY: EPSOM AND ST HELIER UNIVERSITY HOSPITALS NHS TRUST (ESTH)

WORKING WITH ALL STAKEHOLDERS TO BUILD CAPACITY AND SUSTAINABLE CHANGE

ESTH, a £300m acute general hospital serving a population of 420,000, needed the services of an experienced firm with a clear understanding of the current NHS strategic context to develop its local commissioning policy for acute care and prepare a business case for investing in new facilities at St Helier, reconfiguring services at Sutton Hospital and maintaining equity of provision for Epsom hospital.

BDO's approach to this work included three themes:

- Technical advice and analysis
- Management of communication and negotiation between ESTH, its partners and key stakeholders
- Project directorship, governance, risk management and co-ordinating the activities of our client staff and other technical advisers.

A key theme running through BDO's approach was the transfer of skills and knowledge to ESTH, ensuring that the operational team had the necessary skills to manage the delivery of national and regional health policy. BDO achieved this with ESTH through joint development of models and analysis, or where this was not possible, through subsequent training. There was a clear focus on providing comprehensive feedback and learning lessons with the client to continually strengthen their position and their confidence in BDO's work and advice.

A key success for the project and BDO's work was the level of clinical buy-in that was achieved, a result of joint working with ESTH and other stakeholders in the local health economy – particularly clinicians – at every stage, from identifying the issues to suggesting possible solutions.



PRINT

QUIT

HOME

The Conservatives have already suggested recruiting private sector non-executives to form the majority of new non-executive members of Central Government Department boards to bring a greater business focus to running government. These new boards would be handed powers to recommend the dismissal of permanent secretaries. At present, most non-executives on departmental boards come from the public sector. Under the Conservatives, senior Whitehall officials would be judged on their financial performance, and all senior civil servants would have a fiduciary responsibility to act in the interest of the taxpayer.

Wider public sector bodies, particularly local authorities, could also find ways to draw on business expertise, to ensure a focus on value for money, particularly in procurement. One possibility is that large cities or sub-regions could set up partnerships along the lines of Greater Manchester's Improvement and Efficiency Commission to lead the improvement of value for money public services. These could include representatives from the private sector, Regional Improvement and Efficiency Partnerships, IDeA and other relevant bodies to develop sub-regional procurement hubs, promote innovation in procurement and lead the efficiency agenda.

Looking forward, building capacity for effective procurement will become increasingly important where public institutions are being given greater financial autonomy and independence. In education for example, the current trend towards financial and managerial independence in schools looks set to continue. The Conservatives, for instance, are currently committed to creating a new breed of "free schools" which, like the Academies set up under Labour, would not operate under the auspices of the local authority. Some estimates suggest that up to 3,000 of these could be created, requiring extensive training of school bursars and heads of finance.

KEY RECOMMENDATION:

Public sector bodies should build up internal capacity by procuring professional advice which explicitly seeks to transfer knowledge about methodologies and processes, and works with all stakeholders across the organisation to remove barriers to change and produce sustainable outcomes.

KEY RECOMMENDATION:

Public bodies should require bidders to transfer knowledge as part of their proposal, and provide a significant commercial incentive for them to do so.

KEY RECOMMENDATION:

Sub-regions and large cities should consider setting up partnerships such as Greater Manchester's Improvement and Efficiency Commission, including private sector representatives, to advise them on procurement and other business-related issues.

CASE STUDY: VISITBRITAIN, KNOWLEDGE TRANSFER AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

'VisitBritain' is Britain's national tourism agency, responsible for marketing Britain overseas and is a non-departmental public body.

Following the 2008 Budget, government bodies were required to adopt the International Financial Reporting Standards (IFRS) for their 2009/10 accounts. Following some exploratory meetings with the VisitBritain finance team, BDO developed a tool to allow VisitBritain to manage the transition to the new accounting standards, and worked with the client to enable them to conduct the main project in-house – thus saving significant costs.

The client gained a proper and timely appreciation of the full impact of IFRS on their organisation. This added significant value in that they were able to avoid considerable future expense and strain on the business.

The key to the success of this project was to ensure successful knowledge transfer to the client.



LOOKING FORWARD, BUILDING CAPACITY FOR EFFECTIVE PROCUREMENT WILL BECOME INCREASINGLY IMPORTANT WHERE PUBLIC INSTITUTIONS ARE BEING GIVEN GREATER FINANCIAL AUTONOMY AND INDEPENDENCE.

PRINT

QUIT

◀ HOME ▶

B. JOINT PROCUREMENT

Fragmentation and lack of co-ordination in the procurement landscape presents a key barrier to driving greater value for money from collaborative procurement across the public sector. For example, local authorities and Primary Care Trusts (PCTs) tend to procure goods and services alone, missing opportunities for increased purchasing power by procuring together or with neighbouring authorities. Political, geographical or cultural barriers often act as barriers to achieving best value for the customer and citizen.

The opportunities presented by joint procurement were identified by the Treasury's Operational Efficiency Programme (OEP), which recommended strong local collaboration between public sector bodies, with local leaders working jointly to meet agreed local priorities.

Joint procurement is undeniably challenging, both for the public sector organisations who must align their interests and for the suppliers who must deal with more than one client. However, these difficulties are not insurmountable and should lessen as relationships are built between local organisations through Local and Multiple Area Agreements and other initiatives such as Total Place. In areas where there have been recent moves towards integration and joint management arrangements of local authorities and PCTs, primarily in London, such opportunities will be easier to realise. There are also new opportunities to support collaboration at a regional level through arrangements such as the Regional Improvement and Efficiency Partnerships (RIEPs).

In particular, local authorities should seek opportunities for joint procurement of services which are seen as "non-political" services, such as waste disposal and many back office functions.

There are examples of good joint procurement in the public sector which demonstrate the value that can be achieved by working together. Some neighbouring authorities for example have worked in partnership on projects such as Building Schools for the Future, and there are good examples of district and county councils as well as London boroughs working in partnership to deliver services such as waste disposal.

KEY RECOMMENDATION:

Public sector organisations should examine opportunities for driving efficiency through joint procurement with other public sector bodies.

KEY RECOMMENDATION:

Regional Improvement and Efficiency Partnerships should prioritise supporting efficient procurement in local government through enabling collaboration to lever economies of scale and reduce duplication.

CASE STUDY: WEST MIDLANDS PROCUREMENT HUB

The Improvement and Efficiency Partnership West Midlands runs a procurement hub which acts as a one stop shop with access to live procurement contracts and standard procurement documents, as well as information about regional procurement events and training and a national procurement discussion forum. £2.7m of savings have been achieved through the Hub and associated procurement frameworks in 2008/9, with a further £4m through collaboration in procurement of goods and services including home to school transport, banking and insurance.

CASE STUDY: TEES ESK AND WEAR VALLEY NHS FOUNDATION TRUST AND COUNTY DURHAM PCT JOINT PROCUREMENT

BDO provided full financial advisory services to the procurement phase for an innovative project whereby two PFI schemes were combined into a single procurement. The combined value of the two schemes was £30m and financial close was achieved in May 2008.

The joint procurement comprised a mental health facility on the Earls House site in Durham and a replacement of Stanley Health Centre. BDO worked closely with both the Tees Esk and Wear Valleys NHS Trust (in relation to the mental health facility) and County Durham Primary Care Trust (for the health centre), bearing in mind the different levels of experience in PFI that the two organisations had.

The key benefits for the public sector included economies of scale savings which principally related to the clients' internal teams, where only one public sector procurement team was required. For this project, the team was mainly made up of people from the more experienced organisation with representation from the less experienced organisation. This helped with the transfer of knowledge to the less experienced organisation and also allowed for more robust negotiations. There were also savings on the private sector side in terms of reduced bid and set-up costs which ultimately translated into a reduced price for the public sector. In addition, there were savings on advisory fees with only one set of advisers required for the public sector.

Issues that needed to be managed included the project timetable which had to take into account the different timings of board and other meetings for the two organisations. BDO tailored the delivery of documents in accordance with these. Overall the project ran to time, which may not have been the case if the projects had been procured separately. There were also considerations in terms of selection of the preferred bidder and a protocol that allowed for each organisation to put forward their preference, with an "appeal" system that allowed for selection where both organisations could not reach agreement.

As there were two projects, with two financial models and two loan agreements, BDO advised the two organisations on the optimum arrangements for financial close, and managed to achieve both financial closes on the same day.

PRINT

QUIT

HOME

C. INNOVATION IN PUBLIC SECTOR PROCUREMENT

Public sector bodies sometimes have a tendency to work within tried and tested procurement methodologies and contract models. In part, this is driven by the need to comply with EU procurement rules. Although some public sector organisations are achieving cost savings through innovative procurement models such as e-auctions and smarter contract management, these practices are not widespread. In addition, there are a number of ways in which the procurement process could be made to operate more efficiently and support cost savings.

e-auctions

In an e-auction participating suppliers compete against each other to place increasingly lower bids representing the amount they would be prepared to accept in payment for the contract on offer. More commonly used in the private sector, the tendering body issues a tender online and suppliers are able to see the value of the latest bids on screen, although they can not tell who they are competing against or how many companies are bidding.

There are examples of the public sector using e-auctions to procure goods and services. For example as part of the Government's OEP programme, Buying Solutions organised 12 e-auctions, resulting in savings of around £10m on the cost of mobile solutions, IT hardware and furniture. One e-Auction run for North Yorkshire County Council achieved savings of up to 29 per cent compared with the last purchased price⁴.

Public sector bodies can also use e-auctions to harness their purchasing power. In the above example Buying Solutions consolidated the individual organisations' tenders so that they could pool their requirements.

Smarter contract management

Innovative reward methods for suppliers can be used to help achieve value for money and efficient project delivery. Reward and remuneration of contractors, as well as of consultants, can be based on the completion of phased objectives, for example knowledge transfer, training and timing of delivery, or contracts can be based on the achievement of outcomes which are reviewed regularly. This can be challenging to the body specifying the procurement contract: for example phased delivery targets require great attention to detail in the early phases. However they can also help guard against upward cost pressures on the contract from changes to the scope of the project once it is underway.

KEY RECOMMENDATION:

Consultants or providers of services should be rewarded on the completion of project milestones and key objectives. These could be based on project deliverables, including outcomes for customers, knowledge transfer, training and timing of delivery.

STEVENAGE HOMES (A SUBSIDIARY OF STEVENAGE BOROUGH COUNCIL): PERFORMANCE IMPROVEMENT AND COST REDUCTION

Stevenage Homes (SHL) is a wholly owned subsidiary of Stevenage Borough Council. As part of a number of initiatives by SHL to achieve the "two star service" rating, a full review of SHL's Customer Service Centre (CSC) and Information Communications Technology (ICT) service provision was carried out by BDO to ensure that the service being provided addressed their specific business requirements and represented value-for-money. This review also required expert management of stakeholders, because Stevenage Borough Council is not only the owner of SHL but also supplied both ICT and CSC services.

To achieve a successful outcome we tailored our methodology to SHL's specific needs ensuring a successful project outcome and fostered an effective working partnership between SHL and BDO teams.

In addition, we used market information, best practice and our experience of comparative businesses to support our findings and recommendations around short, medium and long term improvements to SHL's current services provision and future requirements.

Our findings and recommendations were fed back to key staff in workshops. These workshops were supported by a detailed written report summarising our findings and recommendations. We find the mechanism of workshop enables all stakeholders to fully and efficiently understand the focus of the report and key findings.

As a result of our work, SHL have been able to build their own knowledge of ICT & CSC services and a clear understanding of the quality and type of service they should receive from their suppliers. Our review resulted in significant cost savings (£300,000) for ICT provision in addition to improved efficiency, clearer roles and responsibilities and improved relations between SHL and the service provider. In addition, to working relations between SHL and Stevenage Borough Council have improved.

SHL have recently been through a review by the Audit Commission and believe they will be awarded the two star rating.

PRINT

QUIT

HOME

ALTHOUGH SOME PUBLIC SECTOR ORGANISATIONS ARE ACHIEVING COST SAVINGS THROUGH INNOVATIVE PROCUREMENT MODELS SUCH AS E-AUCTIONS AND SMARTER CONTRACT MANAGEMENT, THESE PRACTICES ARE NOT WIDESPREAD.

Removing barriers to innovation in the market

BDO believes there is a structural bias against innovation in public sector procurement, particularly in the market for professional advice, which represents a total spend of £2.8bn each year. This bias is manifest in various elements of the procurement process and tends to create barriers to entry for smaller firms with potentially innovative solutions, resulting in higher unit costs, rising fee levels and higher longer-term consultancy costs.

Some of these barriers to entry result from the content of Pre-Qualification Questionnaires (PQQs), which are sets of questions used by a public or private sector purchaser to help them assess the suitability of prospective tenderers. Smaller firms can find the nature of the questions challenging, for example the emphasis on a firm's track record in providing a particular service or the proportion of a firm's work currently in this area. PQQs often require firms to demonstrate compliance features which are not of direct relevance to the service required, for example the ability to provide a service nationally. In addition, the wide variety of PQQs used by different organisations makes the process of completing them time-consuming and therefore costly for firms – costs which are ultimately passed onto the public sector further down the line.

There have been some good examples of how the procurement process has been simplified by standardising PQQs. For example, in the joint procurement model cited above, the Tees, Esk and Wear Valley NHS Trust and County Durham PCT designed a standardised procurement process for PFI contracts with hospitals which have had a significant impact on efficiency. In fact, the period between appointment of preferred bidder and financial close was one of the fastest among NHS contracts, six months to date. The process involved standardising the funding competition protocol, standard term sheet and draft information memorandum. This process is now being used elsewhere in NHS procurements.

A standardised process of derogation within contracts can also help improve efficiency in project delivery. Where this practice is permitted, specific aspects of a contract which need to be amended or updated in the light of changing project deliverables can be changed without re-entering a complicated negotiation stage.

The system of preferred bidder lists also needs to evolve to re-balance weighting between experience and price, and take into account other factors, such as the potential for innovation and individual expertise. The Building Schools for the Future programme, for example, offers a good case study of where the managing body, the Department for Children, Schools and Families, encouraged new entrants to the market, smaller firms and those with a shorter roster of experience.

Some local authorities, such as Leicestershire County Council, rank each bidder both by discipline and by geographical area they are able to serve, thus removing some of the inbuilt bias against firms that don't operate nationally where this is not a necessity of the work tendered. One possibility is that this could be taken a step further and a tiered approach adopted in the PQQ, with some contracts deliberately being allocated to smaller firms without national coverage.

Overall, the public sector by virtue of its purchasing power has the potential to shape supply markets and promote competition, for example by sourcing its requirements from a range of suppliers, providing incentives to innovate or invest, or by helping firms to overcome barriers to entry. There may be potential for partnerships such as the Regional Efficiency and Improvement Partnerships or umbrella organisations such as the Improvement and Development Agency (IDeA) to identify markets which could operate better and consider ways in which public sector bodies can influence markets in the interests of value for money and outcomes for citizens.

KEY RECOMMENDATION:

PQQs should be standardised where possible, with Regional Improvement and Efficiency Partnerships supporting public sector bodies to do this. Standardising procurement documents will remove barriers to entry, enhance innovation and reduce costs.

KEY RECOMMENDATION:

Procuring bodies should ensure there is a wider range of approved firms on bidder lists, to enhance innovation and drive down costs. This could be done by adopting a tiered approach to PQQs, with some work allocated to smaller niche firms without national coverage, where this is appropriate.

PRINT

QUIT

HOME

▶ CONCLUSION

THE PUBLIC SECTOR WILL CONTINUE TO HAVE FUNDING PRESSURES WHICH WILL ONLY INTENSIFY. REGARDLESS OF WHO WINS THE NEXT ELECTION PROCUREMENT WILL BE AN AREA WHICH NEEDS FURTHER FOCUS.

RAISING PROCUREMENT CAPACITY AND PROFILE WITHIN PUBLIC SECTOR ORGANISATIONS

- Public sector bodies should build up internal capacity by procuring professional advice which explicitly seeks to transfer knowledge about methodologies and processes, and works with all stakeholders across the organisation to remove barriers to change and produce sustainable outcomes.
- Public bodies should require bidders to transfer knowledge as part of their proposal, and provide a significant commercial incentive for them to do so.
- Sub-regions and large cities should consider setting up partnerships such as Greater Manchester's Improvement and Efficiency Commission, including private sector representatives, to advise them on procurement and other business-related issues.

JOINT PROCUREMENT

- Public sector organisations should examine opportunities for driving efficiency through joint procurement with other public sector bodies.
- Regional Improvement and Efficiency Partnerships should prioritise supporting efficient procurement in local government through enabling collaboration to lever economies of scale and reduce duplication.

INNOVATION IN PUBLIC SECTOR PROCUREMENT

- Consultants or providers of services should be rewarded on the completion of project milestones and key objectives. These could be based on project deliverables, including outcomes for customers, knowledge transfer, training and timing of delivery.
- Pre-Qualification Questionnaires should be standardised where possible, with Regional Improvement and Efficiency Partnerships supporting public sector bodies to do this. Standardising procurement documents will remove barriers to entry, enhance innovation and reduce costs.
- Procuring bodies should ensure there is a wide range of approved firms on bidder lists, to enhance innovation and drive down costs. This could be done by adopting a tiered approach to Pre-Qualification Questionnaires, with some work allocated to smaller and medium sized firms without national coverage, where this is appropriate.

Procurement by the public sector can play a key role in helping the sector achieve cost savings as well as improve service delivery. The proposals discussed in this paper are by no means exhaustive but they should all be considered by organisations seeking to respond to the current financial climate and deliver high quality public services.

PRINT

QUIT

◀ HOME ▶

▶ PUBLIC SECTOR: OUR PARTNERS ARE YOUR PARTNERS



ABOUT BDO

BDO is an award winning UK Member Firm of BDO International, the world's fifth largest accountancy network, with more than 1000 offices in over 100 countries*.

BDO is a fresh-thinking alternative for public sector advice, working in partnership to help you deliver more for less. With many years of combined experience in the public sector, we work with you to create positive and sustainable change, using a mixed team approach to reduce fees and avoid gaps in thinking. Come to us for best practice in innovation and a track record of improving the financial position and service delivery of major UK public sector organisations.

HOW WE CAN HELP YOU

If you would like further information about this publication or to discuss how BDO can help your organisation please contact:

PHILIPP PRINCE

philipp.prince@bdo.co.uk
020 7486 5888

Alternatively contact your local BDO business centre:

BIRMINGHAM

peter.green@bdo.co.uk
0121 352 6200

BRISTOL

malcolm.joy@bdo.co.uk
0117 930 1500

CAMBRIDGE

gary.hanson@bdo.co.uk
01223 535 000

CHELMSFORD

ray.adams@bdo.co.uk
01245 264 644

EPSOM and GATWICK

philip.rego@bdo.co.uk
01372 734300

GLASGOW

neil.craig@bdo.co.uk
0141 248 3761

HATFIELD

martin.kaye@bdo.co.uk
01707 255 888

LEEDS

andy.mahon@bdo.co.uk
0113 244 3839

LONDON

philipp.prince@bdo.co.uk
020 7486 5888

MANCHESTER

andrew.dumbleton@bdo.co.uk
0161 817 7500

NORTHERN IRELAND

angela.reavey@bdo.co.uk
02890 439 009

READING

simon.watson@bdo.co.uk
0118 925 4400

SOUTHAMPTON

malcolm.thixton@bdo.co.uk
0238 088 1700

www.bdo.co.uk



'Tax Team of the Year' 2009 and 2008
'Audit Team of the Year' 2008
'Corporate Finance Deal of the Year' 2008

*Including exclusive alliances of BDO Member Firms.

BDO LLP operates across the UK with some 3,000 partners and staff. BDO LLP is a UK limited liability partnership and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO International is a world-wide network of public accounting firms, called BDO Member Firms. Each BDO Member Firm is an independent legal entity world-wide and no BDO Member Firm is responsible for the acts and omissions of another member. The network is coordinated by BDO Global Coordination B.V., incorporated in the Netherlands with its statutory seat in Eindhoven (trade register registration number 33205251) and with an office at Boulevard de la Woluwe 60, 1200 Brussels, Belgium, where the International Executive Office is located.

BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Services Authority to conduct investment business.

BDO is the brand name for the BDO International network and for each of the BDO Member Firms.

BDO LLP is the Data Controller for any personal data that it holds about you. We may disclose your information, under a confidentiality agreement, to a Data Processor (Shamrock Marketing Ltd). To correct your personal details or if you do not wish us to provide you with information that we believe may be of interest to you, please contact Mandip Dulay on 0121 352 6312 or email mandip.dulay@bdo.co.uk

Whilst every care and attention has been taken to ensure the accuracy of this information, it is intended for general guidance only. Please call us if you would like specific advice on any matter.

Copyright © January 2010. BDO. All rights reserved.



This document is printed on 9lives 80, a paper containing 80 per cent recycled fibre and 20 per cent virgin Totally Chlorine Free (TCF) fibre sourced from sustainable forests. 9lives 80 is produced by an ISO 14001 accredited supplier.