

This paper is a draft extract from the book I have not finished about turning public liability into assets but I think even in its rant state it is pretty relevant. If you read and agree do get in touch. Feel free to use it but please give me a credit and reference if you do.

AW February 2015

1.6. BACKGROUND

The evolution of the procurement process

In 2009/10 the environment was very different. National Government had committed the country to legally binding targets for reduction in Carbon emissions and the National Procurement Strategy had embraced the concept of social, economic, and environmental equivalence for consideration of the sustainability in the spending of public money. At the same time many public bodies were also fundamentally reviewing the role of procurement with a growing understanding both of its importance in managing costs and in being used to help achieve wider policy objectives.

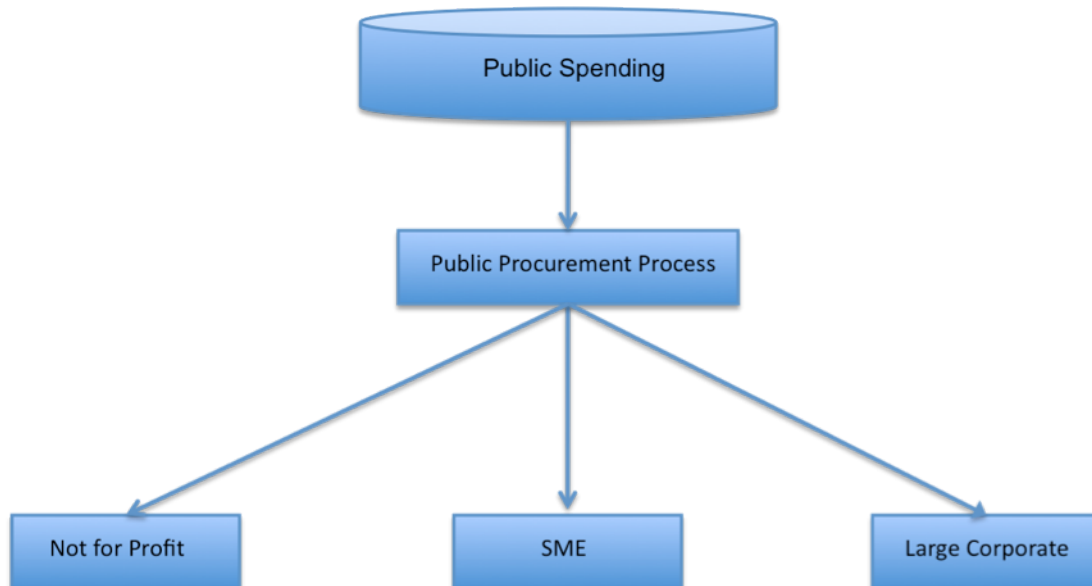
These changes in priorities for, and processes of, procurement posed significant challenges and are outlined below. The current model of public procurement follows the structure of the diagram below:

Fig 1. Summary of current model of public spending.

Of particular interest in this diagram are two elements that have changed radically in the last few years. First that the Not for Profit sector is now included and at an equal weight to the other sectors. Ten years ago the not for profit would have had a separate funding

line labelled 'Grant funding' then over the last ten years it would have had a muddled picture with a combination of Grant, Service level agreement, and Commissioning. Now for all practical purposes it is firmly in the Procurement box.

The second area of interest is the prominence of the public procurement process. Again a number of different factors have combined to promote public procurement from a minor back office function to a key strategic corporate role (in theory but in practice?). This is not the place for a full examination of these forces but two do need to be mentioned. Significant propulsion for this change has come from the direct realisation that a large proportion of public procurement was at best questionable (questionable in what way?) as in the past lack of information systems were coupled with a widespread move to devolved



adam@adamwilkinson.com

tel:07811160822

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procurement. This lack of any kind of central control led directly to

duplication and multiplication of orders to suppliers very often resulting in unintended infringements of public organisations own constitutions and of European legislation. The swing back to central procurement has often been motivated by this difficulty although it is very rarely expressed.- why are you talking about this? What does it add to the overall narrative.

However the second and continuing pressure to change the role of procurement has come from a positive set of forces. It was the increasing realisation that the spending of public money should not be seen in isolation from the broader aims of the public policy. This was the growth in the concept and, theoretically at least, the practice of sustainable procurement. Again different environmental, social, and economic pressures combined, not in a planned form, but rather accidentally and formed a pressure point around the spending of public money. This was given focus by the report of the Sustainable Procurement Taskforce that, among other important elements, for the first time clearly expressed the scope of sustainability in public sector. The diagram below is taken from that report.

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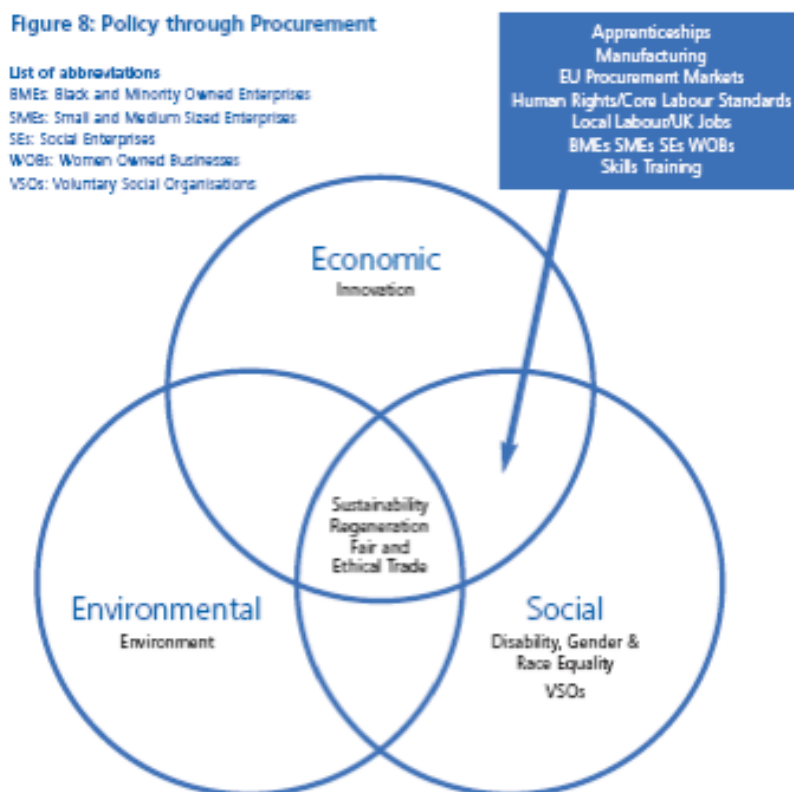
Fig 2. Policy through Procurement

and led to the following definition of sustainable procurement now adopted by government.

“Sustainable Procurement is a process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation, but also to society and the economy, whilst minimising damage to the environment.”

Procuring the Future, Recommendations from the Sustainable Procurement Task Force, 2006

This has led to a situation where for every procurement - social, economic, and environmental factors are supposed to be considered and where possible maximised for the benefit of the community represented by the public body purchasing the goods or services; be that local, regional, or national.

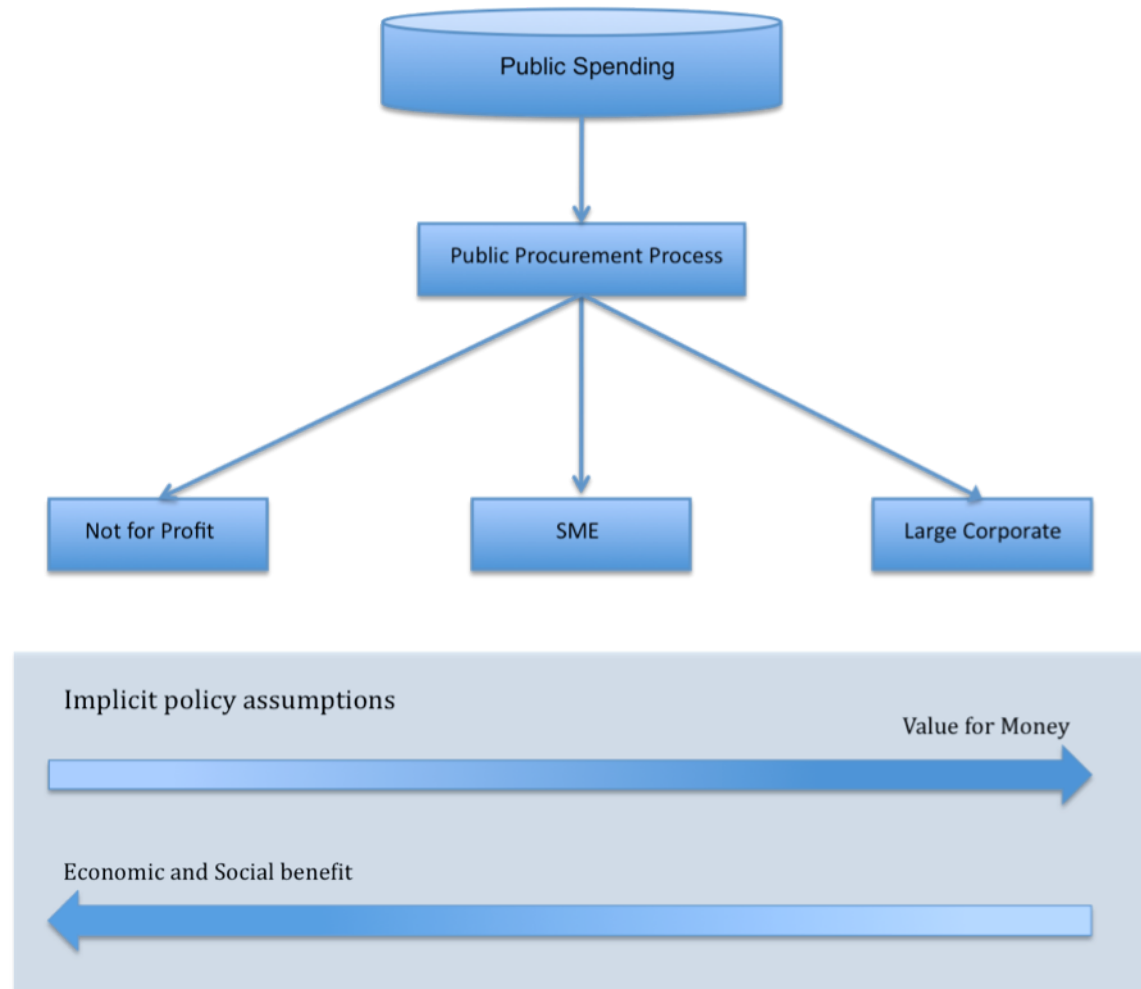


adam@adamwilkinson.com

tel:07811160822

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Fig 3. Implicit assumptions of current model.



This diagram represents the theoretical position at the moment with all three of the sectors now competing on an equal basis for government tenders. In simplistic terms DCLG (Department of Communities and Local Government) and the Cabinet Office having been on the side of the Not for Profit. BIS (department for Business, Innovation, and Skills) on the side of the SME, but by far and away the majority of public procurement being secured by large corporates. A recent analysis of Durham County Council showed this percentage to be in excess of 95% of all spending. This is the norm.

There is an implicit assumption that this is in some ways a planned procurement structure, in fact it is largely accidental. In many ways this produces results that are unsuccessful if measured against some policy outcomes. For example it sets up a system which forces a

small charity can compete against multinational or that if more SME's were to win a larger share of public money this is 'better' for business and communities. This paragraph is very unclear and needs rewriting.

The implementation of the Public Services Act in January 2013 provides an additional statutory expression for this tension by further increasing the duty on the public sector to consider the 'Social Value'. In December 2012 the Cabinet Office issued its Procurement Policy Note (Appendix 6). So relevant is this that the introductory paragraphs are included verbatim below:

"Introduction to the Act

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5. The Act places a requirement on commissioners to consider the economic, environmental and social benefits of their approaches to procurement before the process starts. They also have to consider whether they should consult on these issues.

6. The Act applies to the pre - procurement stage of contracts for services because that is where social value can be considered to greatest effect. Commissioners should consider social value before the procurement starts because that can inform the whole shape of the procurement approach and the design of the services required. Commissioners can use the Act to re-think outcomes and the types of services to commission before starting the procurement process.

7. Demand for core public services will increase significantly over the next few years in a time of reduced funding. Increasingly, commissioners will need to identify better targeted more innovative and radical service delivery solutions to meet this demand.

8. In these tight economic times it is particularly important that maximum value in public spending is achieved. However currently some commissioners miss opportunities to secure both the best price and meet the wider social, economic and environmental needs of the community. Commissioners and procurers should be taking a value for money approach - not lowest cost - to assessing contracts and the Act complements that approach. The Cabinet Office's new Commissioning Academy will focus on these issues and this note explains the duties placed on commissioners and procurers by the Act. It also suggests approaches that may be taken when applying its considerations to the design of procurement processes. This note is not a substitute for reading the Act itself and authorities must familiarise themselves with it – see <http://www.legislation.gov.uk/ukpga/2012/3/enacted>”

Extract from Appendix 6

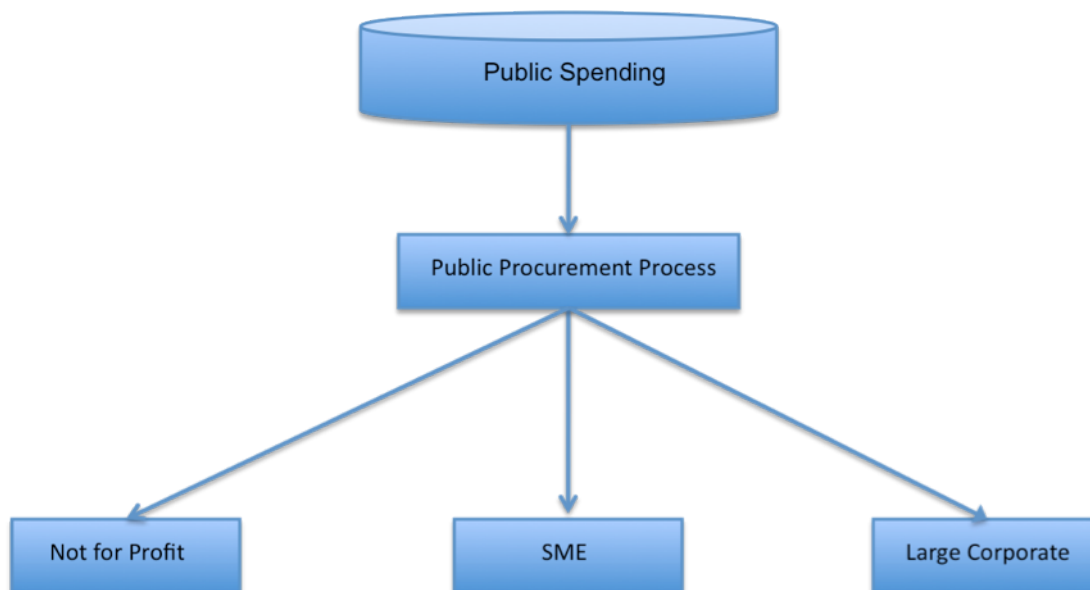
So the current arrangement that I hope I have shown has arisen not because of planned development but instead largely as the arbitrary outcome of miscellaneous forces on procurement practice. This is now facing a further change in the environment – the very real impacts of the cuts that are being in made in public sector expenditure. It is here that the real impacts begin to be seen and it is for this reason that this paper sets out an alternative view. The reasons that we have a continuing and intensifying concentration on reducing public expenditure through efficiency/cuts are too obvious to recapitulate again nor are they necessarily wrong. **The specific aspect of the problem is really that in the public sector there really is no concept of public wealth or its creation.** In any business we look continually to increase return on investment by both reducing costs (cuts and efficiencies) and increasing sales (creating value) the public sector because it has no accepted way of measuring value creation can only operate by reducing cost. This distorted approach means

that the default always becomes buy the cheapest and the argument is entirely centered on what cheapest means. This then opens up all sorts debate around lifecycle analysis and other methodologies, but what it does not do is help to express value or value creation through the delivery of service. Now if we return to fig 1

adam@adamwilkinson.com

tel:07811160822

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and if we accept the arguments about how this position was reached laid out earlier then we can see that this is immediately a no win position without doubt for the not for profit and almost as certainly for the SME. As both of these depend on being able to advance objective broader value creation to overcome the scale and economy of scale in the large corporate and neither can succeed in this in an environment where value cannot be expressed.

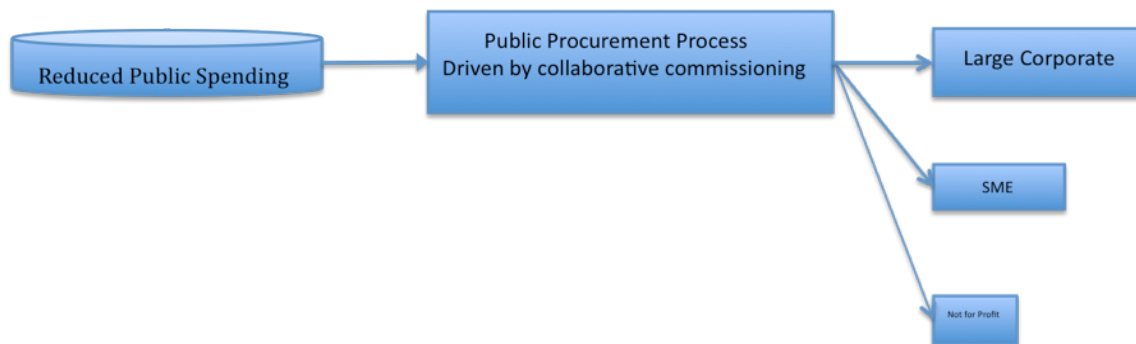
I am aware that I am skating over large areas of work, for example in social return on investment, and that many would and do argue that if a more enlightened approach were to be taken to procurement

and particularly sustainability then it would be possible to achieve a different result. While there is real value in this counterbalancing approach I am coming to believe that we need to find a better way where we try to work with the forces rather than head to head.

If we do not find a more effective way of organizing public procurement across sectors then as the diagram below illustrates I think it inevitable that reduced public spending driven by a cut methodology will inevitably result in not only in a straight line reduction but an exponential one, particularly for a not for profit sector that is already ineffective and supremely unsuited to compete against large tier one suppliers on an even footing; and no amount of government training workshops on procurement is going to change this.

Fig 4. Effect of cuts on public commissioning on procurement outcomes.

The solution that is presented below is not perfect but it does try to acknowledge the imbalance that exists while still maintaining the proposition of including broader benefit in public sector procurement.



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Suppose for a minute that we wipe the sheet clean. Lets forget where the current model of procurement has come from and instead

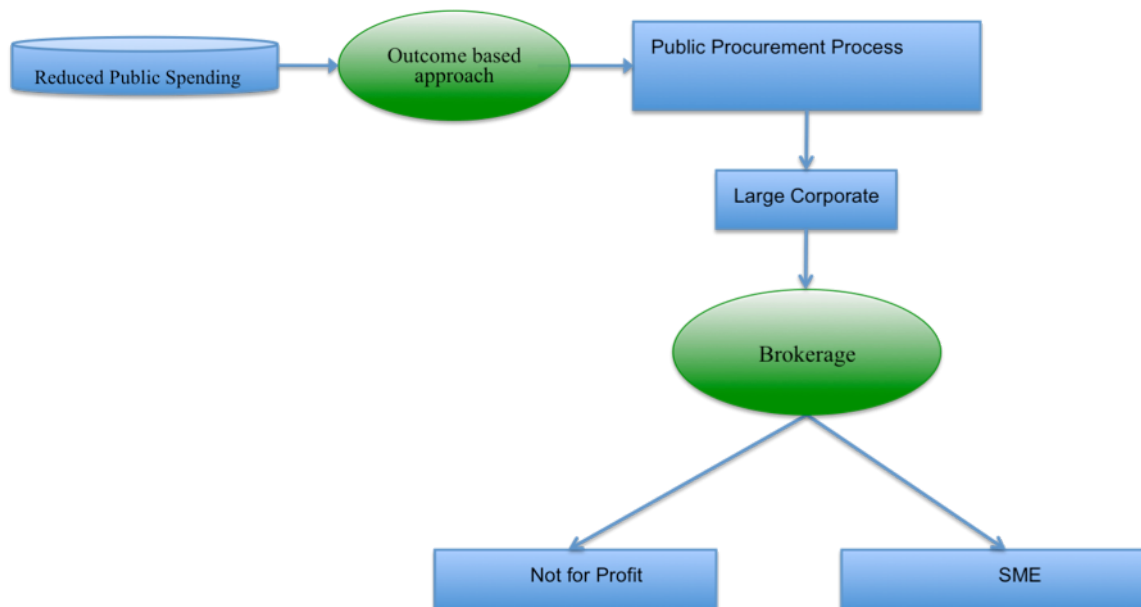
see what happens if we respond to the practical realities of procurement and public spending. First what are the priorities?

- Achieve a significant reduction in the role of the State and the proportion of GDP that is spent by the State.
- Achieve a move to an 80% reduction of carbon in the economy by 2050
- Get better value from public spending by delivering social, economic and environmental benefit from within procurement. So how we might rearrange the model in such a way that would help to achieve these ends? If we start with the first of our conclusions – that the current system is inevitably going in favour of large tier one suppliers then the first stage is to accept this. We should let it occupy the space it does in fig. 4 in the preeminent position. Once it is positioned there we should think about how we might change the other components to set things up for a potentially better social, economic and environmental outcome. I would argue that the result is as illustrated in Figure 5. Instead of investing and wasting resource on inappropriate competition the Smes and the not for profits would be much better employed looking to build partnership arrangement with the large corporates. If these sectors are right in their claims (and the implications of government policy about the broader economic, social and environmental benefits that they can offer then instead of competing head to head they can use this higher value to enhance the highly competitive arena of the large corporate. However for this to work two factors are critical. The first is that they can measure these benefits effectively and the second is that the delivery of these can be incorporated within the contract being won and delivered by the large corporate. In

order to do both of these things some further steps are necessary. But for now with the arrangement as illustrated below we can look at the what each of the stakeholders within this relationship has to gain.

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Fig 5. Alternative model for public procurement.



Government wins as it finds a much easier way to achieve its ‘efficiency’ gains and without the political pain and additional resource of at the same time insisting that it treats all three sectors equally. In fact if government gets smart it actually also has a way of hugely increasing the value for money by exponentially increasing the social, and economic benefits to its communities as well. How it might do this is discussed in more detail below.

The large corporate gains because it can concentrate on delivering its core business efficiently, but in addition to a short term return on investment for its shareholders it simultaneously gains a mechanism to drive longer term values and objectives that are becoming

increasingly important in this world. These are often lumped together as corporate social responsibility and while to many these are seen as some sort of marketing gimmick this is rapidly changing as companies see how they can use for example environmental sustainability as a way to drive efficiency.

The sme and the not for profit benefit by redirecting their very limited resources in such a way in both cases to be complementary to their core missions whether these 'charitable' towards a wider society or the making of reasonable profit at a scale which is appropriate to the size of the business. At the same time they both get the opportunity to increase the size of the slice that they get from the public purse.

So strangely and perhaps counter intuitively it does seem that all parties may benefit by operating within the reality of the world as it actually is rather than wasting resource trying to respond to a false picture. However there are two additional elements in Fig 5 that have not yet been discussed.

A critical element of this approach is that while public sector procurement is highly regulated both at the corporate and international levels, this does not apply to the private sector. Thus the private sector is free to behave entirely as it wishes in procuring the goods and services to deliver a public sector contract. If therefore it wishes to favour local business it can do so quite overtly. The trick therefore is to arrange matters so that it becomes in its interest to deliver the broader social economic and environmental aspirations of government.

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It is not going to do so unless it can increase its chances of winning business (a competitive edge) and can demonstrate in doing so that

it is adding shareholder value. It is therefore obvious that for this to work properly and for the broader benefit of society the public sector and in particular procurement in the public sector needs to get its act together.

This is not the place for a full explanation or account of what is wrong with public procurement; some indication has already been given in the description of how we came to be in this position. What is important is to realise that demanding cuts on an ever-greater scale is just not going to work. In the end the public sector has got to get better at describing what it wants not just in terms of say air conditioners but the broader objectives which it exists to deliver. So, for example in the case of local authorities all have a responsibility to deliver viable and vibrant local communities.

The huge mismatch is that at the moment no mechanism exists to join up these broader objectives to more specific requirement (such as air conditioners). An outcome-based approach lies at the heart of making this possible and by rearranging the model in the way set out above this is much easier to deliver. The example below which is taken from an accumulation of true life cases demonstrates how this approach may result in very different impacts.

1 Upton Cottages, Upton, Somerset, TA4 2JG

