

Buying Smarter in Tougher Times

Conclusions and Recommendations of the EIB Procurement Taskforce

Executive Summary

February 2011

This report has been produced for the Efficiency and Innovation Board via the Procurement and Commissioning (Work-stream). It examines opportunities for procurement to deliver efficiencies and support economic regeneration. As such it contributes to both the 'Efficiency and Innovation' programme and 'Economic Renewal – A New Direction'. This is one of seven work-streams and is chaired by Mohammed Mehmet CEO Denbighshire Council. The report has been produced for consideration by the wider Welsh public sector.

Executive Summary

1.0 Introduction

- 1.1 The Welsh public sector spends over £4.3 billion each year, or around one third of its budget, on external goods, works and services. How we carry out this procurement, has a major impact on the value we gain from the expenditure and our ability to secure wider social, economic and environmental benefit for Wales.
- 1.2 This report has been produced by a Taskforce set up through the Efficiency and Innovation Board's procurement work-stream to review Welsh public procurement and make recommendations for improvement. It was asked to examine "capability" (the skills, systems, infrastructure, processes, - i.e. how procurement is carried out) and "categories" of expenditure – examining current strategies and opportunities in main areas of Welsh public sector expenditure. Current members of the Taskforce include:
 - Alison Standfast , Value Wales
 - Kerry Wilson, Value Wales
 - Nick Sullivan, Value Wales(joined December 2010)
 - Catherine Weller, Value Wales (joined October 2010)
 - Elizabeth Lucas, Caerphilly County Borough Council
 - Rob Jones, Welsh Purchasing Consortium (WPC)
 - Mark Roscrow, Welsh Health Supplies
 - Larry Petterson, Cardiff and Vale NHS Trust
 - With additional input provided by Ian Mowatt – Gwynedd Council
- 1.3 Evidence has been drawn from the capital and revenue procurement of the Local Authority sector, the NHS and the Assembly Government which accounts for 80% of the total spend. Procurement activity in the Education sector has been separated while the 'Front Line Service' review was initiated. However, many of the recommendations will be relevant for consideration by this sector and others.
- 1.4 Since the 'Better Value Wales Review' of procurement in 2000 there have been major improvements. There has been a marked growth in the profile of the profession; most Local Authorities now have a strategic procurement function; there is a national sourcing strategy and collaborative procurement across and within sectors is widespread – over 70% of Local Authorities and Local Health Boards use all major all-Wales agreements; investment is being made in e-procurement and the national website thrives; processes are more open to smaller and more local suppliers; and there are many excellent examples where community benefits have been achieved in terms of local supply chains, training, and helping disadvantaged groups.
- 1.5 However, Welsh public sector procurement is not exemplary. There are opportunities to deliver significant efficiencies in major areas of expenditure but there are limitations in the public sector's current capability to deliver.

2.0 Capability

- 2.1 The capability self-assessment exercise conducted in July 2010 clearly shows disparity between organisations and highlights particular weaknesses in drafting specifications and managing contracts. Skills are varied and the adoption of e-tools and the xchangewales e-trading hub has been slow. Although the NHS, the Assembly Government and around two thirds of Local Authorities have invested in Procure to Pay (P2P) systems, those who have not, fail to readily produce the management information that is the pre-requisite for effectively managing procurement expenditure. This weakens collaborative agreements and allows maverick spend to take place, meaning that we are not fully leveraging the market.
- 2.2 Local Authorities who have not invested in the use of technology have failed to benefit from automation. Manual procurement processes (tendering, requisitions, purchase orders, invoices) cost money and take staff time away from front-line services. Organisations that have invested in technology as exemplified by best practice are better equipped for standardisation, collaboration and access intelligent management information. They also operate leaner and smarter procurement activity.
- 2.3 Inconsistent approaches to procurement in Wales have created different processes which has generated waste in the system. There are still many examples of suppliers producing bids or responding to pre-qualification questionnaires that extend to thirty pages or more. It is estimated that it costs business at least £20m¹ per year just to pre-qualify to tenders and some processes act as a barrier to smaller suppliers. Maintaining separate documents, policies and procedures across organisations is not time well spent and does not help the supply base. Adopting one risk based approach, maximising use of common questions and electronic links will reduce cost for both buyers and suppliers. The recent Supplier Qualification Information Database (SQulD) development on pre-qualification is promising, but there also needs to be a standard approach across all aspects of procurement and standard documentation used. Not all opportunities are advertised as fully and extensively as they could be. During the engagement process for 'Economic Renewal - A New Direction', businesses raised several issues in regard to procurement. These included; the need to simplify procurement processes, which are seen as being overly bureaucratic and complex; recognising a need to create more opportunities for Small Medium Enterprises (SMEs); and a perceived reluctance to split contracts into smaller bundles which an SME could have a realistic chance of winning.
- 2.4 These issues are more significant to smaller suppliers who cannot so easily afford the time to complete excessive tender requirements and is important because the SMEs provide over 40% of private sector employment in Wales. However, this is no different to the rest of the UK.

¹ Source: 'Value Wales' PQQ calculator – 2010 and ongoing. Approximately 45 suppliers have contributed to this figure, from all sectors. More data is needed to increase confidence in this figure.

In Wales 40% of private sector employment is accounted for by large enterprises (those with 250 or more employees), which compares to the 42 per cent figure for the UK as a whole.

- 2.5 Current analysis shows that 50% of total spend across the public sector is with suppliers based in Wales. The number and proportion of SMEs and Wales based suppliers winning work worth between £1m-£5m, £5m-£10m and £10m plus have been analysed. For spend below £10m per year there is no evidence that SMEs are failing to secure contracts. In fact 58% of suppliers winning work worth £5-10m per year were SMEs. Conversely only 18.5% of suppliers winning work worth over £10m per year were SMEs. This latter group was largely made up of construction suppliers where few of the larger suppliers are based in Wales.

3.0 Economic and Social Issues

- 3.1 With some notable exceptions, the Welsh public sector does not engage particularly well with the supply base. There is no central strategic supplier relationship management to optimise innovation and reduce cost. Often fear of EU regulations prevents a sensible dialogue taking place. While care must be taken to avoid direct involvement of individual suppliers in shaping specifications open early dialogue can identify areas for improvement.
- 3.2 This is exemplified when considering engagement with the 'third' sector (social enterprises, charities and the voluntary sector) who are an important part of the economy and may provide opportunities to re-think how public services are shaped, delivered and procured.
- 3.3 It is important that we balance the pursuit of efficiencies with the maintenance of a sensible cost/quality approach and continue to recognise opportunities to secure wider benefits. We know that the reduction in public spending will impact our supply base. Our suppliers must play their part in driving down cost, but at the same time we must ensure we support economic growth and foster strong and competitive Welsh supply chains in both the private and third sector. We have evidence that where procurement has focused on delivering local benefits 30% more of the capital expenditure has been re-invested in local employment.
- 3.4 There has been progress and the significance of public procurement has been recognised in the policy 'Economic Renewal – A New Direction'. Wales based suppliers are now winning over 50% of expenditure. However, supply voids remain. These are areas of demand which are fulfilled entirely by suppliers based outside Wales, or where there is no Welsh supply to meet the demand. Alignment of central and local economic development activity with public sector expenditure is patchy. In some cases, bureaucratic or risk adverse processes act as barriers to Welsh suppliers; in others Welsh suppliers simply fail to compete effectively. Despite supplier training programmes run through the Department of Economy and Transport (DE&T), many suppliers still fail to tender effectively. In individual tenders there will always be more losers

than winners but currently an overall sense of frustration exists on both sides, exacerbated by a lack of data.

- 3.5 In tackling these issues there remains a shortage of qualified and experienced procurement professionals in Wales. The 'Home-grown Talent' project supported by the European Social Fund will go some way to address future needs but this issue remains a barrier to change and makes collaboration and access to skills and advice even more critical.

4.0 Collaboration

- 4.1 In terms of collaboration, the National sourcing strategy has reduced duplication between buying consortia. Agreements led by Value Wales are not usually replicated within the sector arrangements, and the majority of organisations support the overall direction. However, our total spend remains too fragmented and whilst pockets of excellence exist within some sectors, as a whole we have too many organisations buying similar items without joining up. For example, some Registered Social Landlords and Local Authorities in Wales are paying 10% more for the same housing refurbishment products across Wales.
- 4.2 Where we do collaborate, our behaviour sometimes undermines the benefits, as there is reluctance to compromise on specifications and commission in a different way, which reinforces the existing culture. Agreements are shaped to fit all, standardisation and supplier rationalisation are very limited. For example, taking the simplest thing that we buy, we still have an 800 line core list for the all Wales Stationery framework as participating organisations still want to buy the products they always have rather than agreeing to have, for example, one black pen for Wales.
- 4.3 Reducing clinical choice in the NHS, in order to standardise specifications across Wales has generated significant savings. For example mandating the standardisation across nursing uniforms has generated savings of £500k, which demonstrates that if a stronger "mandatory" regime is adopted, these savings could be replicated in other areas.
- 4.4 Our large spend areas include Construction, Housing, Roads, Waste, Social Care, Transport, Information and Communications Technology (ICT) and Consultancy. The Report identifies opportunities in all these areas to release efficiencies and improve outcomes, through leveraging our scale, through demand management, through process improvement and improved dialogue with Welsh supply chains. Savings of circa £200m are possible but will only be achieved if the capability issues are addressed and if the public sector shows true leadership.

5.0 Leadership

- 5.1 The significant question is why change has not already occurred. Often procurement officers lack the influence, confidence, or position to challenge and drive change.

- 5.2 Changing what is bought and how contracts are managed cannot happen without service heads and budget holders' agreement. However, there is still reluctance to compromise on specifications and an unwillingness to allow low risk decisions to be made by others. The variation we allow in common items costs the taxpayer money. This is a leadership issue that has to be tackled at all levels.
- 5.3 Making the decision to adopt change is often painfully slow and the notable exceptions are led from the top. Trusting others and taking a 'leap of faith' instead of waiting for others to trial changes would cut the cost of engagement and speed up the delivery of savings. Decisions which are important for local democracy need to be distinguished from those which do not impact local tax-payers and service users. These latter decisions need to be taken in the context of the wider public sector. Success will be underpinned by a willingness to challenge and be open to challenge and to embrace radical change.

6.0 Conclusion

- 6.1 Reduced public spending, an ageing population, rising public expectations and other social changes are all intensifying the demand for services. In this context, doing nothing is not an option.
- 6.2 In order to deliver the opportunities we need to "transform public procurement in Wales to world class collaboration, leading changes which improve public services and drive economic renewal. Through practical leadership, harness professional skills and technology to make a lasting and substantial step change in Welsh public sector procurement".²
- 6.3 Achievement of this vision would mean that the Welsh public sector will:
- realise optimum savings,
 - drive efficient standard processes,
 - remove duplication and wasteful practices,
 - support innovative and intelligent commissioning,
 - encourage a strong and vibrant supply base in Wales, and
 - achieve long term benefit for the citizens of Wales.
- 6.4 It is critical that **Leadership and commitment** comes from the top to require change to be adopted – we need a strategic re-organisation to our capability and support from all Chief Executive Officers (CEOs) to make standardisation of product/service and process happen. Changes in behaviour at all levels, will only come from real leadership to address barriers and issues and ensure decisions are made for the greater good of Wales.
- 6.5 We need to **Organise our spend** – so we go to market effectively and secure value from even stronger collaboration.

² Source: EIB Procurement Vision – Summer 2010

- 6.6 We should **Invest in the capability** to drive commercial value – a capability self assessment has highlighted that contract management and the development of specifications require improvement.
- 6.7 We need to **Rely on technology** to reduce transaction processing costs by automating manual processes, increase commitment and contract usage to improve prices at point of purchase and then use management information to identify further opportunities for price savings and cost reductions.

7.0 Principle Recommendations:

The recommendations to tackle the issues identified are as follows:

Governance

To develop and strengthen clear governance structures, leadership and change management:

1. Leaders and CEOs should mandate recommendations arising from this review, and in particular champion the appropriate use of standard specifications and collaborative arrangements.
2. It is recommended that the Procurement Board remains, but recognises and works with current governance arrangements within sectors to champion implementation of the recommendations.
3. Effective arrangements should be put in place to monitor performance and report progress on the implementation of the recommendations. It is therefore recommended that WLGA (LAs) and the NHS National Delivery Group report progress on a regular basis to the Procurement Board.
4. The Local Authority sector must have reviewed their decision making process and by October 2011 have set up governance arrangements so that decisions can be made on behalf of the entire sector.

Policy, Process and Technology

To implement standard policy, process and technology approach including the following;

5. The Assembly Government should produce a standard format for common procurement key performance indicators, drawing on best practice by July 2011. Public sector leaders thereafter should review their performance on at least an annual basis, starting from March 2012.
6. Public sector leaders should invest in developing the capability of the procurement profession to support the future vision of procurement across the Public sector. The 'Home-grown Talent' project should support this activity.

7. To improve management information across sectors, it is recommended that there is a move to a standard chart of accounts and standard coding structure with an all Wales reporting capability. It is recommended that the WLGA take this forward with the Welsh Treasurers' Society.
8. Organisations should buy directly from collaborative contracts, via the xchangewales e-trading hub.
9. Building on the Breaking down Barriers project, it is recommended that;
 - (a) LAs and NHS move to standard contract documentation and;
 - (b) LAs and NHS should have common standing orders and financial instructions within each sector.
10. Within two years, the flow of information should be transmitted electronically into back office systems, this includes invoices, orders and tenders.
11. The work on the single approach to pre-qualification through the Supplier Qualification and Information Database (SQiD) when completed should be mandated.
12. Supplier development activity made available by DE&T and other relevant Assembly Government departments should target resources to provide tailored training and support to the Welsh supply base to reflect and support the resulting public sector procurement workplan.
13. The Assembly Government should require all major³ contracts and grant funded procurements to deliver a social return on the investment through the adoption of a "Community Benefits"⁴ approach.
14. The Assembly Government should provide a central mechanism to collate best procurement practice and provide organisations with a menu of tried and tested options to deliver local efficiencies and improve outcomes.
15. The Assembly Government should review its processes for issuing grants & capital funding to ensure planned procurement can be undertaken to secure greater value for money.

National Procurement Service

To develop a shared service model for procurement across the Welsh public sector which will address the following:

16. To achieve efficiencies, the public sector needs to identify common and repetitive spend and then buy as one through a shared service.

³ Major: Defined as contracts > £2m

⁴ This approach is described in guidance "Community Benefits – Delivering Maximum value for the Welsh Pound" issued by Welsh Assembly Government March 2010.

17. As an indicator between 20-30% of public sector expenditure should be through a shared service. (The areas of spend that should be considered first are Professional Services, ICT, Transport, Building & Engineering Materials, Provisions, Waste, Office Consumables, Street Lighting, Protective Clothing, Cleaning. Further opportunities to be explored include Social and Continuing Care.)
18. The tendering, catalogue and contract management for common and repetitive spend needs to be delegated to one shared service for Wales and all organisations should commit to using these contracts.
19. In the meantime, where existing collaborative contracts are in place, they should be adopted by all, unless a formal exemption is agreed with the contract owner.
20. Establishing a shared service will mean that changes to existing structures will be required and movement of staff may take place. Value Wales should co-ordinate the work to progress this recommendation and develop a detailed proposal.

Category Management

21. A cost reduction programme should be initiated with the top 50 suppliers by contract value to Wales. The process should be coordinated by Value Wales in partnership with sector leads.
22. There should be a planned development of category procurement expertise for high spend areas which organisations can call upon for advice. As a minimum this should include Construction, Social Care, Consultancy and ICT and should help to inform the delivery and development of national strategies in these areas such as the Digital Strategy for Wales and the work following the White Paper on Social Care. Value Wales should develop options for how this approach to support category management could be delivered in Wales.
23. Finally, it is recommended that the WAO formally review progress of the implementation of the recommendations and report to the EIB Programme in September 2012.

By generating savings through more efficient processes, less duplication and better supplier performance - citizens will gain where savings are re-invested, and where we use our spend to deliver social and economic benefit. It is possible to save circa to £200m over five years if we can truly work as one public sector in Wales.