

THE PROCUREMENT CHALLENGE



INTRODUCTION - THE CURRENT LANDSCAPE

The need to reduce UK borrowing is indelibly linked to almost every decision currently being made by the Coalition Government, a theme which looks set to continue across the lifetime of this Parliament. The Government's aim is to halve the current UK deficit of £160 billion over the next five years while simultaneously maintaining frontline public services.

Work to reduce borrowing has begun. The Comprehensive Spending Review in 2010 laid out the budgets for every Government department and the level of savings each will have to find. In addition, a radical overhaul of the benefits system and other initiatives, such as the culling of non-departmental public bodies, will make a further contribution to reducing the UK's level of debt.

The three areas of major Government expenditure can be broadly assigned to benefits (£270 billion), salaries (£164 billion) and third party procurement spend (£236 billion). There has been a continued focus on ways to reduce spend in the first two areas, and whilst the Government has committed to a new centralised procurement programme across Whitehall, no overarching policy has yet emerged for driving more for less from procurement.

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PROCUREMENT - THE PAST

Government procurement has been the subject of a number of reviews in the past decade - all designed to drive greater savings and improve cost-efficiencies - yet relatively little seems to have been achieved in terms of positive procurement outcomes.

Historically, the doctrine has been to rely on 'collaborative procurement' as the means to deliver value for money. The 2005 Gershon report in particular, identified the need for greater collaboration between public sector buying groups as the most effective route to drive savings and efficiency improvements.

Two years later, in 2007, the Office of Government Commerce established a Collaborative Procurement Programme which has led to some improvements to the way public bodies buy goods and services.

However, six years on from Gershon and four from the new Programme, the National Audit Office and the Audit Commission reported that while there were some pockets of success, collaboration was not working effectively.

Clearly, the need for those savings is significantly greater now than it was in 2005 and 2007. While greater collaboration will always be an important element of success here, past experience has shown that such collaboration cannot be achieved quickly, and in many instances, not at all. Public

sector procurement in theory has massive spending power which should be leveraged, but a combination of culture and sheer size and complexity means this 'ship of state' cannot be turned on a sixpence. Given the size of the deficit, time is no longer a luxury, and some fresh thinking is needed.

PROCUREMENT - THE PRESENT

The current public sector procurement landscape is fragmented, with no overall governance. There are nearly 50 professional buying organisations within the civil service, and many individual public bodies running their own commercial and procurement functions.

Many of the procurement teams in these Departments and organisations are buying the same goods and services, often from the same suppliers, but at different rates. Sir Phillip Green, the National Audit Office and the Coalition Government have all acknowledged that public bodies are not leveraging their buying power to secure the best prices or the most favourable terms.

Yet this is not the entire picture. The continued separation of teams and fragmented buying activity costs significantly more than a more centralised approach, not just from duplicated backroom salaries and other staff costs, but also from needless additional processes such as OJEU advertising and tender management.

The Coalition Government has nonetheless made good progress in a short time. Reducing Government inefficiency is a political priority and a key stream of activity for a rejuvenated Cabinet Office. A review of Government contracts is taking place. Prices are being renegotiated. Product lists are being pared down and supplier terms tightened up. Initiatives to encourage the creation of social enterprises and pathfinder mutuals have been announced alongside moves to involve SMEs much more in Government contracts and procurement tenders where this is permitted by EU regulations.

PROCUREMENT - THE FUTURE

Efforts to encourage and incentivise public sector buyers to work together have been tried with little demonstrable success on a large scale. In fact, the evidence of the past six years points in the opposite direction, with Public Sector spend having grown from over £100bn¹ to £220bn².

Drawing heavily on our experience in managing procurement for some of the world's leading businesses and public sector

organisations, including the complex National Health Service, we believe there are five key steps in a new procurement policy that would be much more likely to deliver transformational change in public sector procurement.

These are:

1. **Centralising the buying process:** The Coalition Government seem to have accepted the general thrust of Sir Phillip Green's 2010 report and the Cabinet Office has embarked on a major central initiative to renegotiate prices and reduce product choice in an effort to streamline procurement processes and decision-making. This is clearly to be welcomed; however, this is not a simple task to achieve for two important reasons. First, the general thrust of government policy is to decentralise and focus on local delivery – creating a clear conflict. Secondly, central government only controls about one third of total public sector spend, leaving the bigger majority largely uninfluenced by centralisation measures.

Current activities extend to centralising around £13 billion – just 5% of total public sector spend. Clearly other approaches are required to drive value from the other 95% - £223 billion.

2. **Mandating collaboration:** Whilst the Cabinet Office is already implementing centralised procurement for nine commodity categories, the Government should now look to apply this approach to the public sector.

A simple step, it will require public sector buyers to collaborate on the basis that it will drive better value for money for the taxpayer and delivers savings much more quickly than would be the case if the voluntary approach were continued.

3. **Separating the aggregation of demand from sourcing and supply:** Despite the difficulties highlighted above, there is a strong case to require public sector buyers to collaborate over the aggregation of demand. This will make an important contribution to improving value. However, the process will be cumbersome and will take time. In our view a complementary approach involving the private sector is required. The NHS Supply Chain contract is structured around the procurement of a very wide range of products on behalf of a diversity of NHS Trusts, many of whom have variable product requirements. So national frameworks are put in place that reflect this diversity. The outcome is a broad range of products in each category, yet aggregation has been achieved on a national level – reducing unit prices – and the number of OJEU tenders by individual trusts is decreased dramatically. This sourcing and supply of products and services is best handled by the private sector,

¹ Sir Peter Gershon CBE: Independent Review of Public Sector Efficiency – "Releasing resources to the front line," July 2004

² National Audit Office & Audit Commission: *A review of collaborative procurement across the public sector*, May 2010

drawing on experience of and access to global markets, price negotiation and delivery logistics.

Private sector suppliers should be required to operate as the delivery engine to what would be a smaller cadre of public sector buyers who instead of duplicating their activity would be focused on issues of consumption rates, range duplication and project delivery in their Departments.

4. Operate wide framework agreements:

This is the most important of all the steps recommended in that this is the simplest way to reduce the cost of procurement while still managing the sheer size and scale of public sector buying. It is not a new concept.

DHL has a framework agreement to source and deliver every product for the NHS aside from medicines. NHS hospitals are not legally required to use the framework contract, though many do and the increasing 'non-mandated centralisation' of product sourcing and supply means we can offer market leading prices and procurement services, which in turn encourages more NHS hospitals to opt in. We have already saved more than £200m and are on target to deliver savings in excess of £1 billion by 2015. Aside from best value pricing, the framework concept means we are able to manage the costly OJEU tendering process in a much more streamlined way, with significantly reduced advertising and tender management, while simultaneously simplifying and centralising the internal buying, billing and delivery process for hospital procurement teams across the UK.

5. **Set framework agreements to meet a clear set of additional and valuable policy aims:** As well as establishing framework agreements as a means to deliver savings, there is also a need to derive other benefits from them. This would include a reduction in carbon emissions as well as increased access to Government contracts for SME suppliers, which the Government is already taking significant steps to achieve. An interesting opportunity exists to support the localism agenda too.

It is possible to create a national framework of local suppliers – and remain compliant with public procurement regulations (OJEU).

CALLS TO ACTION

- **An assessment of the 95% public sector spend** – In keeping with the themes from Sir Phillip Green's report, the Government should evaluate where this money is being spent and how.
- **Clarification on collaboration** – Public sector buyers will require guidance from Government on areas where future collaboration should be considered. The analysis of the 95% public sector spend should inform the Government's guidance to buyers.
- **Private sector suppliers performing as delivery engines** – The private sector, with its experience, access to global markets and delivery logistics is better placed than the public sector to source and supply products. The Government should promote increased and better use of private sector suppliers who would operate as the delivery engine to a smaller number of public sector buyers. This would reduce the scope for duplication and allow buyers to focus their attention elsewhere.
- **Non-mandated centralisation** – The simplest way to reduce the cost of procurement, avoid duplication and other unnecessary costs. This is already happening in the NHS for example. A recent National Audit Office report - *'The procurement of consumables by NHS hospital trusts'* in fact raised concerns that a national contract - NHS Supply Chain - run by DHL was not being used enough and thereby hampering efficient buying and increasing the risk of trusts incurring unnecessary costs.
- **Review sustainability in the context of procurement** – A more streamlined approach to procurement has the potential to improve sustainable practices across a broad range of industries for e.g. in the construction sector. The Government, in partnership with the private sector should review how better procurement can deliver these benefits.



ABOUT DHL SUPPLY CHAIN IN THE PUBLIC SECTOR

DHL's Public Sector proposition has been created to help Government and local authorities deliver better quality products and services at lower cost during difficult times. This proposition is more than just a logistics offering. We operate the supply chain for the NHS – sourcing everything except medicines for many NHS Trusts under a contract to save the NHS £1 billion over 10 years. We are also responsible for the sourcing and supply of fresh fruit for the School Fruit and Vegetable Scheme, and are trusted by the Government to supply a range of products for prisoners and for our armed services.

At DHL we believe we are resourceful when it matters most, across the entire public sector. Government exists to make decisions that impact the quality of all our lives. But deciding *what needs to be done* is not the same as providing the services and resources that *make things happen*. Government as *decider* and private sector as *provider* is an increasingly attractive model that can save money and increase transparency and control.

We specialise in implementing innovative solutions in critical and complicated public sector environments – where an ability to operate at scale combines with entrepreneurial flair and a motivation to act decisively. Not everyone immediately recognises us for our depth of experience in the public sector but from hospitals to prisons we provide innovative and integrated services: we source products globally, supply locally, simplify, consolidate, support, maintain and dispose – all managed efficiently, ethically and sustainably.

CONTACT DETAILS

DHL is a trusted partner of Government, working alongside the Department of Health, Ministry of Justice, Ministry of Defence and many local authorities. To find out more about our work, please visit www.dhl.com/publicsector or call **David Bingham**, DHL Head of Public Sector on **07799 581814**.