

Strategic Commissioning

North West local authorities spend £6,500m pa on procurement and commissioning. The UK local authorities' expenditure is nearer £40,000m pa. This is often referred to as third party spend. This makes up over 40% of the cost of local government and is key to the delivery of services. The subject is therefore of more than academic importance.

What is the distinction between procurement and commissioning? Both relate to the obtaining of goods or services for a consideration. Both are subject to contract law and the EU procurement directive. However, the term 'commissioning' is most commonly used in relation to social services, for example the placement of a special needs adult into a care home, and can be used for fostering a child. It can also be used in construction but, generally, whilst 'procurement' tends to be regarded as a commercial activity, 'commissioning' tends to apply where commercial considerations are perceived to have a lower priority.

Is the difference more apparent than real? The answer may be that procurement has traditionally been seen, and with some justification, as focusing on lowest price, whilst commissioning for care is seen as focusing on quality. The reality is that procurement has to deliver 'the right products, at the right time, to the right quality, in the right place, at the right price'. These are value for money criteria. Procurement has become more complex in recent years.

The outsourcings, which started in the 1980s, have led to a huge growth in the number and value of some contracts. The growth in complexity and style of IT systems together with the related hardware and software issues, has led to increasingly complex procurements and the Private Finance Initiative, started in 1989, has added to cost and complexity. Building Schools for the Future is an example. The traditional approach to procurement is therefore not relevant to the bulk of purchase spend by value, although it may still be suitable for some commodities, goods and services. These, however, make up less than 25% of purchase spend.

The European Union has recognised the increasing complexity of procurement by introducing the Competitive Dialogue process which is suitable where it is not practicable to create a specification at the outset and one needs to be developed with suppliers.

Social Care is not immune from budgetary constraints and as the need for social services continues to increase, the focus on best value for money will increase. Both 'procurement' and 'commissioning' exist in a world of rapidly changing supply markets, globalisation (ever more care providers are part of multinational groups) and constraints on spending. There is no reason to suppose that care services will be exempt from the financial constraints of the Comprehensive Spending Review. As with 'procurement', more advanced skill sets will be needed than those required in the past. Increasingly it is being recognised that procurement is not a generalist activity but a group of specialist activities with skill sets and knowledge varying according to the products, services or markets. Arguably, commissioning is one of these.

A top class commodity or service specialist can reduce costs by as much as 30% compared to a good quality 'generalist'. This is, for example, through understanding the market, influencing the market and working with suppliers to reduce costs. The day when procurement was just about following the correct procedures has long since gone. Tendering procedures may provide good audit trails, but there is evidence to suggest that they do not necessarily lead to value for money. Procurement is on the boundary between the public and private sectors and has to be able to react effectively with a dynamic and rapidly changing private sector.

There is a legitimate argument that care services are just another procurement category. But even care services are really a number of categories in which markets are different and need to be treated differently. Both 'commissioning' and 'procurement' rely on management of the markets. This in turn requires an understanding of purchase spend, by product or supplier. It also requires an understanding of the options for delivery.

So where does the customer fit in with this? In local authorities, the customers judging value for money are the recipients of services and the council tax payers who pay for them. There are ever increasing demands and expectations for improving quality and service. So the delivery of services should be recognised for what it is, the end of a long supply chain. Put simply, a supply chain should start with information passing from the customer up the line to the procurers / commissioners and thence to the providers of the component parts of the service. Component parts of the service move down the supply chain and eventually form the full product that the customer receives. It should therefore be the customer who drives procurement and commissioning and it should be the customer or stakeholder who determines priorities. Stakeholders are as concerned about cost as they are about quality of service; it is up to procurement and commissioning staff to ensure they get the balance right.

So how can we ensure the balance is right? As we have seen, done properly, procurement and commissioning is a highly skilled, knowledge-based activity. Increasingly, our customers and stakeholders are seeking exceptional results. Exceptional results require exceptional people. Systems alone will not provide this. It is recognised that there is a shortage of such people – in any field, not just procurement and commissioning – and there are too few for each local authority to have such people on tap. Even where such people do exist, there needs to be continuing skills and knowledge development, and such people, if in too small a group, can become de-skilled. One option is to create procurement and commissioning teams that can serve a number of local authorities and, through this aggregation, to be large enough to employ specialists, keep them fully occupied to enable their skills to be passed on to others within the team – thus avoiding single point failure that can occur in small teams. Such larger teams can take a more strategic view of business. They can understand the supply markets, pay consistent prices for consistent care, services or products, monitor and manage quality much better and influence the markets so that they can be developed where development is necessary. No longer need we – and this means our customers - be at the beck and call of supply markets. We – and our customers – can be king.