

## **The Contribution of Procurement to Sustainability and Social Objectives Paper for Seville Conference**

1. The expenditure by EU governments on procurement is in the region of €2trillion (€2000billion) a year. Put in a more comprehensible way, the UK government procurement expenditure amounts to over €3000 per adult and child per annum.
2. The range of EU procurements is immense. The following examples give an indication of the diversity:
  - Commodities, goods and services
  - Major outsourcings
  - Research and development
  - Medical equipment
  - Health and social care
  - Power stations
  - Roads
  - Buildings
  - Drugs
  - Scientific equipment - a vast range
  - Transport and means of transportation
  - IT and major computer projects
  - Major service contracts
3. Procurement by EU governments represents an immense resource, the potential of which is well short of being realised. Traditionally, procurement has been expected to produce value for money and to demonstrate probity. In many EU countries, procurement had been expected to support national industries, but EU policies and procedures have been in place for many years to try to prevent government procurement organisations from discriminating in favour of their own national industries; and these are proving increasingly effective.
4. Recent developments have been the introduction of policies to support sustainability, social development and innovation. One justification for the latter is to help EU countries compete more effectively with the “tiger” economies of the Far East. The scale of government procurement is such that, for better or for worse, it can have a major impact on all these areas.

## **Pre-requisites for High Quality Procurement and Implementation of Sustainability and Social Objectives**

5. What are the prerequisites for procurement to be able to rise to all these policy challenges and procurement fit for purpose?

6. In the UK, government procurement is handled through several hundred procurement organisations, though a third of this is dominated by a few large organisations and collaboration between procurement organisations is increasing. Also, there is increasing overall management of some supply markets and top suppliers. Nevertheless, the current procurement picture still falls short of strategic management. This lack of strategic management of procurement is mirrored in many EU countries and throughout the EU as a whole.
7. Four underpinning elements of a strategic approach are:
  - 1) Understanding the procurement landscape, i.e. purchase spend and the expertise available to handle it.
  - 2) Expertise in procurement, and specialist expertise in markets and commodities
  - 3) Good quality systems and
  - 4) The right procurement structures, i.e. the right delivery vehicle
8. Other elements of a strategic approach include:

Forward programme to deliver overall efficiency targets, eg through

  1. Proactively addressing key procurement categories
    - Effective Management of key markets
    - Single point management of key suppliers (mirroring the way suppliers tend to manage government markets)
    - Relationship management
    - Working with suppliers and supply markets to reduce costs
    - Working with customers to harmonise requirements and ensure they are aware of the potential benefits of doing so.
  2. Development and transfer of procurement expertise and knowledge and satisfactory opportunities for career development.
  3. Focus on customer service to achieve and sustain 'buy-in'.
  4. Accountability through effective performance monitoring
  5. Effective internal controls and discipline so that purchasing power is properly harnessed and policies followed and that procurement expertise is used to maximum effect.
9. Fundamental to understanding the procurement landscape is an understanding of procurement spend. My own organisation, the North West Centre of Excellence, has piloted an approach for 47 local authorities in the north-west of England with a combined spend of €10bn per annum. This is despite very diverse finance systems and the lack of procurement information systems, but was done at a cost of only €400,000. The analysis took raw data from finance systems, analysed it and ran it against other commercial data bases. This pilot has demonstrated that it should be possible to obtain a reasonably comprehensive view of procurement spend for the EU as a whole, and for many individual member states. Information gained includes:

- Spend by supplier
- Spend by commodity
- Proportion of spend with common suppliers
- Proportion of spend with local and regional suppliers
- Proportion of spend with small to medium enterprises (SMEs)
- Number of contracts and purchase orders
- Any combination of the above

The analysis includes any combination of the above and has been done regionally, sub-regionally and for individual local authorities.

### **Existing Landscape**

10. Knowing where one is starting from enables one to set meaningful targets, policies and to monitor progress towards one's destination.
11. Fragmented procurement structures are not conducive to effective strategic management of procurement. The skills and expertise are often not in the right place or may be inadequate to the task. The comprehensive information on purchase spend needed to develop meaningful policies on sustainability and social objectives and to monitor progress towards implementation is largely absent. This means policies can be ill-conceived, mis-directed and ineffective.
12. What is also apparent is that although the expectations placed on government procurement are much greater than for many private sector organisations, government procurement is often less fit for purpose. One aspect of procurement that is often little understood by governments is that it operates in a dynamic, commercial environment. There is frequently an assumption that following procedures will automatically deliver value for money and other desirable outcomes. This is contradicted by my experience which is that top class procurement professionals with specific commodity or service and market expertise can deliver up to 35% better value for money and effective policies for sustainability and other desirable outcomes that the average procurement professional or administrator can barely dream about. Such expertise cannot be sustained in small procurement organisations and needs to be harnessed on behalf of all. It is only through this expertise that the elements of a forward programme described above, can be delivered effectively, in particular, the use of advanced procurement techniques.
13. Unsuitable and, in particular, fragmented procurement structures can therefore prevent government bodies from securing best value from their procurement staff. Not only nationally, but across the EU, the lack of coordination means that government procurement organisations can be competing with each other in the supply market - thus pushing up prices – and fragmenting the management of suppliers and supply markets. Suppliers often have a clear structure for managing government markets. The EU and many EU governments as a whole have inadequate structures for managing suppliers and supply markets

and can place differing demands, procedures and specifications on the same suppliers for the same products and similar outcomes. Quality of contracting and contracts management will vary greatly. All this adds to suppliers' costs and, hence, to prices paid. Lack of coordinated and informed approach also reduces the investment that suppliers are likely to make in innovation in sustainable products and in delivery of social objectives.

## **Transforming EU Procurement**

14. One solution is to create a limited number of coordinated procurement structures (hubs) serving groups or organisations:
  - Led by the right people
  - Staffed by people with appropriate and often specialist contracting commodity category management, service contracting and outsourcing experience
  - With the right authority
  - With suitable governance
  - With Service Level Agreements
  - Accountability and transparency in terms of costs output and value for money delivered all being known.
  - With external auditing of performance

Coordination and strategic procurement could be improved further by some hubs specialising/leading in certain procurement categories on behalf of the others.

15. Such structures could powerfully deliver EU procurement policies on value for money, sustainability and innovation and would enable the extent and impact of delivery to be monitored. However, it is not clear how far such an approach could be applied across boundaries between member states of the EU. Also a pre-requisite for delivery, whether within national boundaries or pan-EU, is a satisfactory purchase spend analysis.

## **Conclusion**

16. Without the above pre-requisites for professional procurement, individual government and EU policies for procurement will be at best, only partially implemented. The appropriate “vehicles” for procurement need to be designed. The challenge for the EU is to promote the creation of such vehicles and the appropriate relationships between them so that, without compromising national sovereignty, this massive procurement spend of €2trillion per annum is harnessed to best advantage.
17. Fine words and ambitions are all very well. However, action needs to follow. It is proposed to hold a conference later this year or early in

2008 in Manchester, North West England, [at Old Trafford, the home of Manchester United Football Club, if possible] for all parties interested in taking this further.

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