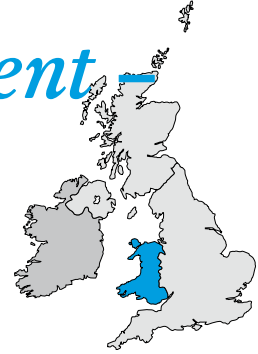


Anthony Barrett – David Rees

# Public Sector Procurement the Challenges Facing a Small Country



**SUMMARY.** Public sector organisations within small countries have some significant advantages. They are small enough to have a good understanding of local needs and often have in-depth knowledge of the experience and skills available in local labour markets. However, these advantages can be off-set and even outweighed by the challenges of dealing with lack of economy of scale, scarcity of specialist procurement expertise and a greater risk of supplier collusion. This article focuses on public procurement in Wales and examines how the Welsh Government has been seeking to confront the challenges facing public procurement in a small country through the development and improvement of public procurement practice and capacity. The article concludes by looking at how the Auditor General for Wales is contributing to addressing the challenges facing public procurement in Wales through the exercise of his audit powers.

**KEYWORDS:** procurement, public services, consultants, procurement expertise, audit, value for money

**JEL CODES:** G38, H57, M42

Wales is a small country with a population of just over 3 million people. Whilst Wales is part of the United Kingdom, it has its own parliament (the National Assembly for Wales) and its own government (the Welsh Government). The Welsh Government is responsible for both policy and arranging service delivery in relation to a wide range of devolved matters. Healthcare, housing, education, planning, transport, economic development and local government are all devolved.

The Welsh Government delivers public services through a range of public organisations, including councils, local health boards, housing associations, police and fire authorities and national parks. Wales has over 800 public bodies, which provide some services directly

and others through contracts with private and charitable sector organisations. (See Figure 1) Total public spending in Wales is approximately £27,000 million per year of which approximately £5,500 million per year is used to buy goods and services. The bulk of procurement spend takes place in local government and the National Health Service.

Public spending in Wales is considerably higher than in some other parts of the United Kingdom. Spending on public services represents a very significant component of the Welsh economy, amounting to approximately 50% of Welsh Gross Domestic Product (GDP).

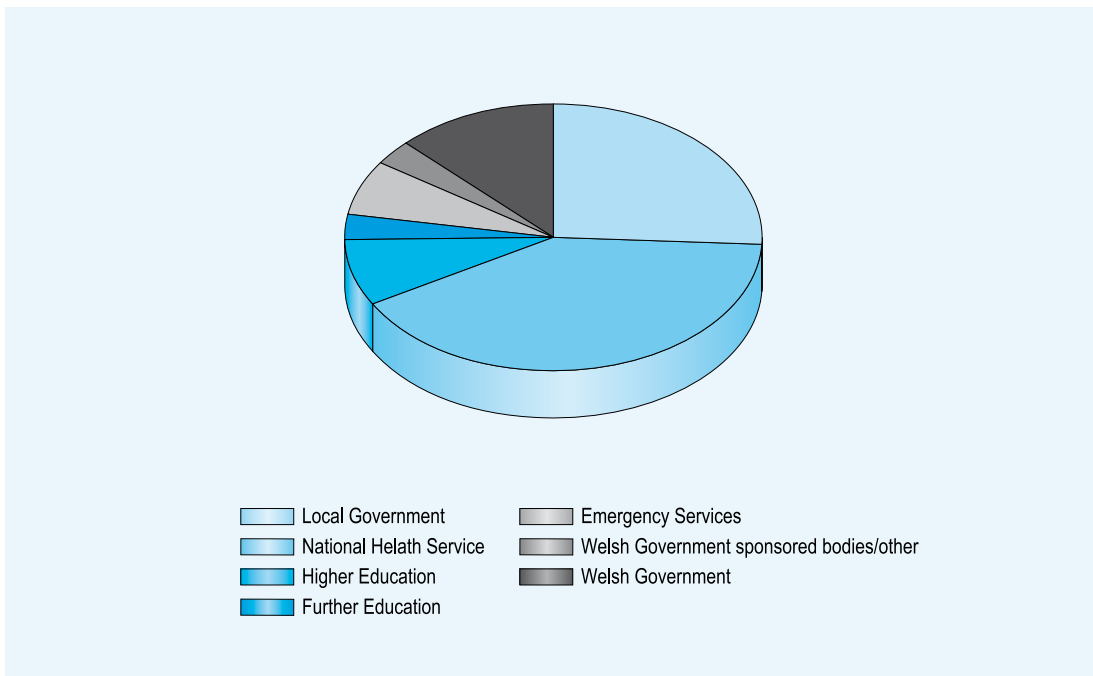
Welsh public bodies have some significant advantages as they seek to procure goods and services. They are small enough to have a good understanding of local needs and have in-

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Figure 1

**ANNUAL WELSH PUBLIC SECTOR PROCUREMENT SPEND – PERCENTAGE BY SECTOR**



Source: Welsh Local Government Association

depth knowledge of the experience and skills available in local labour markets. However, the localised nature of procurement in Wales results in risks and challenges to the Welsh public finances. These include:

**ECONOMY OF SCALE** Many of the contracts let by individual Welsh public bodies are small volume, low value contracts. These contracts are often not attractive to medium-sized and large private sector suppliers. The level of competition for these contracts is often very low and the prices bid are often significantly higher than the wider market average. Consequently, individual Welsh public bodies often fail to achieve good value for money in the market, unless they procure jointly with other public bodies.

**LACK OF PROFESSIONAL PROCUREMENT EXPERIENCE AND EXPERTISE** Many Welsh public bodies are relatively small but are responsible for procuring a wide range of different goods and services.

Some procurements (e.g. in health, social care, waste management) require specialist expertise. Smaller public bodies cannot employ procurement specialists for all the services that they are responsible for procuring. Some do not employ any procurement specialists. For complex procurements, many Welsh public bodies have difficulty specifying their procurement requirements, evaluating tenders and managing contracts.

A review commissioned in 2012 by the Welsh Government found that there was significant variance between types of public body in the availability of specialist procurement staff resource. The National Health Service employed one procurement specialist for every £4.5 million of procurement expenditure, whilst the Welsh Government employed one procurement specialist for every £21.4 million of procurement spend. The review concluded that public bodies in Wales should have a

minimum of one procurement specialist for every £10 million of procurement spend.<sup>1</sup> (See Figure 2)

The procurement expertise available to large private sector tenderers means that these organisations often have an inherent advantage when negotiating with the public sector.

consultancy delivered is variable. Welsh public bodies are not always able to evaluate whether consultants have the knowledge and expertise to deliver successful projects. There are many examples of public bodies managing consultants poorly, leading to cost and time over-runs.

### RELIANCE ON CONSULTANTS

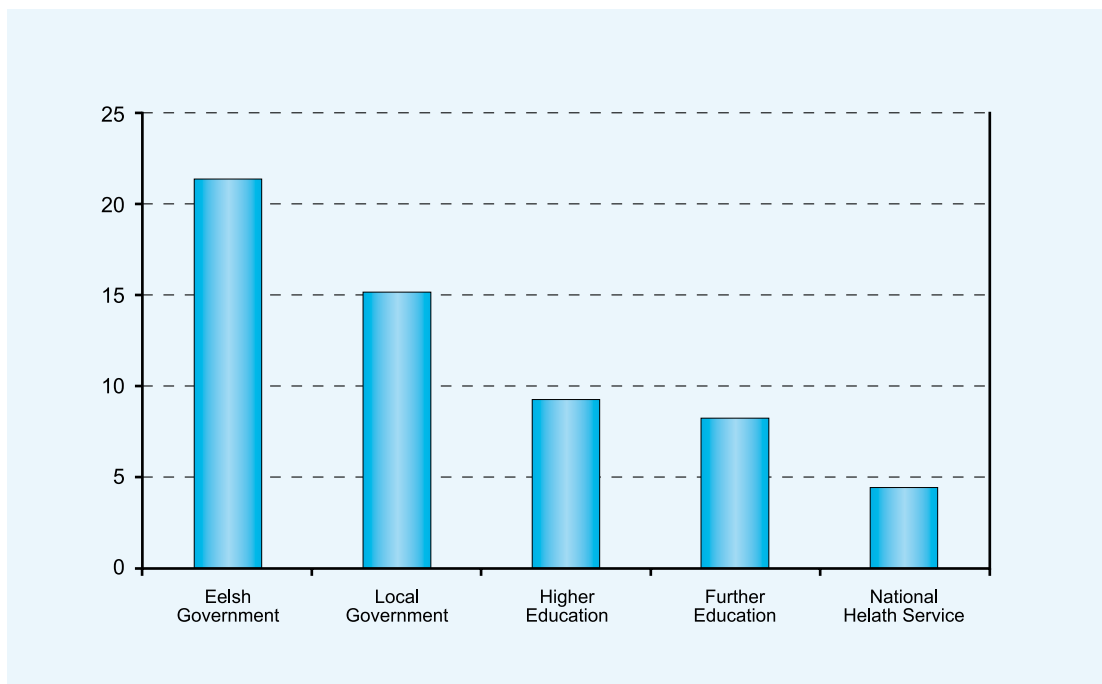
With a lack of procurement specialists, many Welsh public bodies place heavy reliance on external consultants to guide them through the procurement process, from project design to establishing contract management arrangements. Consultancy services cost the Welsh public sector approximately £180 million per year. However, the quality of the

### RISK OF CORRUPTION AND COLLUSION

Many of Wales’ public bodies serve very small communities, and many contracts are awarded to locally based suppliers. Whilst this can benefit the local economy and labour market, the risk of corruption and collusion is increased. Many public officials, including those involved in procurement, have social connections, or even financial interests, in local suppliers. There is a significant risk of local

Figure 2

**AVERAGE PUBLIC PROCUREMENT SPEND IN 2012 PER SPECIALIST PUBLIC SECTOR PROCUREMENT STAFF MEMBER (£ MILLION)**



Source: Maximising the Impact of Welsh Procurement Policy - John F McClelland, CBE, August 2012

suppliers colluding to drive up prices. Locally based consultants, supporting the design and letting of public contracts, may have been engaged previously by the suppliers who will bid for them. In June 2013, the UK's National Fraud Authority published estimates of the cost of fraud to the UK economy. It estimated that procurement fraud against the UK public sector is worth approximately £2.3 billion per annum and is the highest value category of fraud in both central and local government.<sup>2</sup> (See Figure 3)

In common with most European countries, Wales is facing huge pressure to improve efficiency and reduce the cost of public services. Many Welsh public bodies are seeking to out-source services, hoping to use private sector competition to drive up value for money. The value of goods and services being procured by

Welsh public bodies is therefore increasing. However, they are only likely to achieve the objective of improved value for money if they address the challenges and risks we have described.

### THE WELSH GOVERNMENT RESPONSE

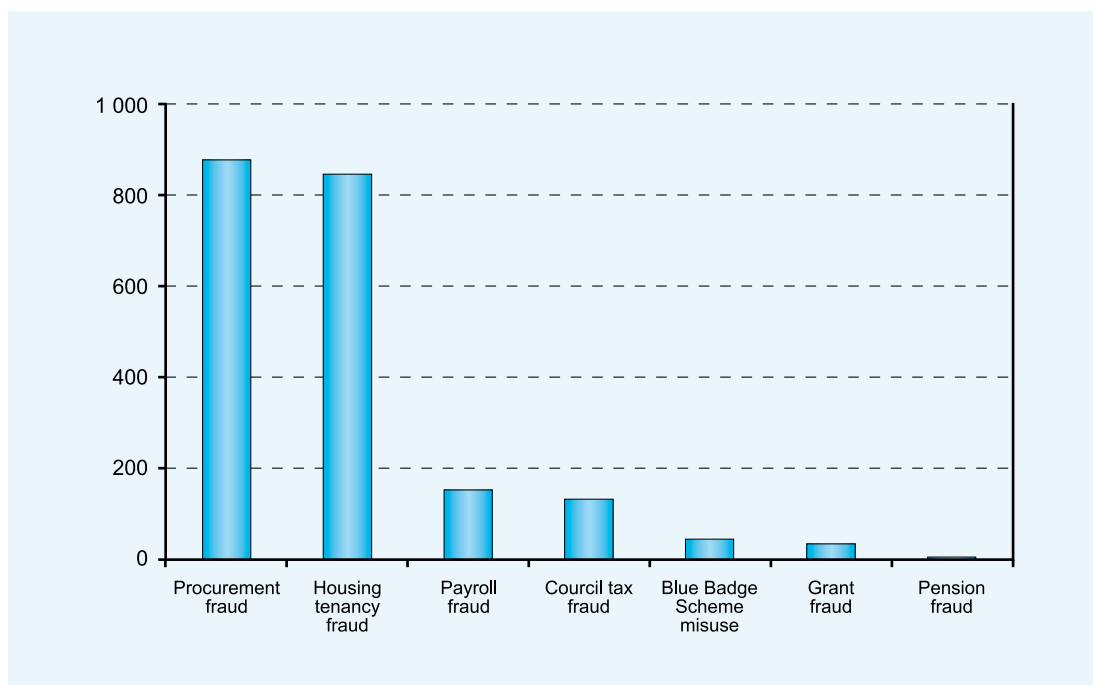
The Welsh Government recognises that it needs to create a national procurement framework to address the challenges faced by Welsh public bodies. It has been working to achieve this objective for several years.

In 2002, the Welsh Government established 'Value Wales' as the procurement arm of the Welsh Government with the objective of:

- increasing savings through collaboration;
- improving process efficiency, especially through the use of technology;

Figure 3

#### ESTIMATED ANNUAL COST OF FRAUD WITHIN LOCAL GOVERNMENT, BY FRAUD TYPE (£ MILLIONS)



Source: National Fraud Authority 2013

- enhancing the economy by encouraging smaller and more local suppliers and seeking re-investment in local communities; and
- building procurement capability.

Value Wales has been integral to the Welsh Government's efforts to improve procurement in the Welsh public sector and realise improved value for money. It is responsible for shaping policy, monitoring practice, supporting and advising professionals, developing the procurement profession, and compliance with EU regulations. Value Wales provides guidance and a range of services including the 'Procurement Route Planner' (<http://prp.gov.wales>). The planner provides clear guides to buying goods and securing services and national e-procurement services for both buyers and sellers.

In 2010, Value Wales, secured £5.7m funding from the European Social Fund Convergence Programme towards an £11m, five year project to improve procurement across public services. The overall aim of this project, called 'Transforming Procurement through Home-Grown Talent', was to raise procurement skills and capacity in Welsh public services. The objectives of the project were to:

- Recruit new talent for the procurement profession in Wales;
- Create a cadre of trained and experienced officials – drawn from both new graduates and existing staff – to become procurement leaders of the future;
- Provide a procurement training and mentoring programme, which integrated leadership and management and procurement-specific training; and
- Provide a series of cross-public service placements for new recruits, to enable them to deliver projects and complete assignments specific to procurement.

In November 2015, the Welsh Government published a detailed evaluation of the project, which found that the objectives of the project had largely been achieved.<sup>3</sup>

In 2006, the Welsh Government set up an information source and procurement portal ([www.sell2wales.gov.wales](http://www.sell2wales.gov.wales)) for public sector bodies. The portal advertises the availability of public contracts and provides suppliers with access to contract opportunities. The Welsh Government expects all Welsh public sector bodies to advertise all contracts over £25,000 and publish their forward contract programmes through sell2wales. The initiative was designed to encourage greater competition within the market, and improve value for money in procurement. It also reduces the risk of supplier collusion in local markets.

In February 2012, the Welsh Government commissioned an external review into how to strengthen the impact of Welsh procurement policy. The review gave a detailed critique of procurement strategy and delivery by Welsh public bodies and set out 28 recommendations for improvement.<sup>4</sup>

In December 2012, the Welsh Government responded to the review in a Wales Procurement Policy Statement<sup>5</sup> setting out its expectations of how the Welsh public sector bodies should carry out procurements. The document identified nine key principles of Welsh public procurement policy and what the Welsh Government and Welsh public bodies should do to comply with these principles.

#### Key Principles of Welsh Procurement Policy

- ◆ Procurement should be recognised and managed as a strategic corporate function.
- ◆ Procurement should be professionally resourced.
- ◆ [Assessment of] value for money in procurement should [include consideration of] economic, social and environmental impact.
- ◆ Delivery of added value through community benefits policy must be an integral consideration in procurement.

- ◆ Procurement should be conducted through open, accessible competition.
- ◆ Procurement processes should be open and transparent and based on standard approaches and use of common systems that appropriately minimise complexity.
- ◆ Areas of common expenditure should be addressed collectively using standardised approaches and specifications to reduce duplication, to get the best response from the market, to embed best practice and to share resources and expertise.
- ◆ Dialogue with suppliers should be improved to help get the best from the market place, to inform and educate suppliers, and to deliver [maximum] value for money.
- ◆ Procurement performance and outcomes should be monitored to support continuous improvement, and examples of good and poor practice openly shared.

The Welsh Government is currently implementing the measures set out in the Wales Procurement Policy Statement. Some of these measures are particularly noteworthy.

The Welsh Government established a National Procurement Service (NPS), which became operational in November 2013. The NPS brings together public sector purchasing power of over £1bn, representing 20% to 30% of the Welsh annual expenditure in common and repetitive spend. Over 70 Welsh public sector organisations have made a five year commitment to use the NPS. The Welsh Government has set a target for the NPS to save £25 million per year.

Also in 2013, the Welsh Government began a ‘Procurement Fitness Check’ programme intended to cover all Welsh public sector bodies. The fitness checks measure the development of procurement in individual public bodies. Issues covered include leadership and governance, strategy and objectives, collaboration, contract and supplier management, purchas-

ing processes and systems performance management and capability. The process results in an agreed report with recommendations. Public bodies are required to formulate improvement plans to address the recommendations made.

In September 2014, the Welsh Government established the Wales Procurement Board. Its purpose is to ensure Welsh public bodies follow best practice in public procurement policy. The Board is made up of representatives from across the public sector in Wales, including the Welsh Government, local authorities, the NHS, higher and further education, and police and fire services. It focuses on encouraging all Welsh public sector bodies to adopt the procurement principles set out in the Wales Procurement Policy Statement. The Board also oversees the work of Value Wales.

In June 2015, the Welsh Government issued a revised and updated Wales Procurement Policy Statement. The new Statement adopts the definition of procurement developed by the UK Government’s Sustainable Procurement Taskforce:<sup>6</sup>

*“the 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”.*

Whilst the Welsh Government has worked to develop and improve public procurement in Wales, as a devolved administration, it did not have the power to legislate for public procurement. This has been a significant obstacle to the regulation of public procurement practice. In July 2015, the UK Government gave Welsh Ministers the power to legislate for public procurement in Wales.<sup>7</sup> The Welsh Government is currently drafting legislation

to support the Wales Procurement Policy Statement. The early priority is to require all Welsh public sector bodies to apply a community benefits approach to procuring contracts of over £1 million. Such an approach requires contracting authorities to take any wider community benefits, realised because of the procurement, into account when considering the value for money of tenders.

## THE RESPONSE OF THE AUDITOR GENERAL

The Auditor General for Wales (Auditor General) is responsible for the audit of most public bodies in Wales and therefore has a key role to play in ensuring that procurement challenges and risks are being effectively addressed and managed.

As the auditor of the Welsh Government, the Auditor General's role includes assessing and reporting on the implementation of the Welsh Government's national procurement policy, and whether related actions are achieving their objectives. The Auditor General is currently reviewing procurement in Wales, considering whether Welsh Government initiatives are improving standards, increasing professionalism and promoting value for money in procurement. The Auditor General expects to publish his findings in 2017.

As the auditor of local public bodies in Wales, the Auditor General is very well placed to identify and report on common themes and issues that affect procurement practice. Where the Auditor General identifies a common theme, he may publish a national report that highlights the issue and makes recommendations on how the matter can be addressed. Recommendations may be at a national or a local level. In 2013, the Auditor General published his findings of such a review relating to the procurement and management of man-

agement consultants. Local audit work had identified that this was frequently a poorly managed area. The Auditor General's national report concluded that:

- there is scope for the Welsh public sector to save some £23 million each year by adopting better procurement practices in appointing management consultants;
- few public bodies had a robust strategy for the procurement and management of consultants;
- there was little collaboration between public bodies in the procurement and management of consultancy services;
- public bodies were failing to follow good practice in the procurement and management of consultancy services;
- the quality of records in support of consultancy services projects was generally poor;
- there was an absence of robust systems for assessing the need for consultants and specifying the requirements;
- contract management during the delivery of consultancy projects was weak in many public bodies; and
- public bodies did not routinely evaluate the benefits of, or learn the lessons from, their use of consultants.<sup>8</sup>

The Auditor General also has a statutory role when auditing the financial statements of all local government and health service bodies in Wales. He must satisfy himself that audited bodies have in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. Auditors, working on behalf of the Auditor General, examine whether the arrangements public bodies put in place to procure goods and services are robust, effective and designed to prevent fraud and corruption. Audit reviews of procurement processes often identify deficiencies and poor practice. These matters are reported to the audited body with recommendations to enable



the audited body to improve its procurement practices going forward.

The Auditor General is acutely conscious that procurement is an area susceptible to corrupt practices, though he is not responsible for detecting corrupt practices. Auditors working on his behalf actively consider whether audited bodies have good arrangements in place to mitigate the risk of procurement corruption. These arrangements include systems and processes to record and manage the outside interests of employees, gifts and hospitality and arrangements for the scrutiny of single-tender procurements.

The Auditor General also uses data-matching to identify any undisclosed interests public sector employees and members of their families might have in organisations seeking to

supply goods and services. This data-matching exercise forms part of the National Fraud Initiative (NFI), which matches data within and across public bodies in the UK for the purpose of preventing and detecting fraud and corruption. The Auditor General administers NFI in Wales.

Procurement continues to be an area where public bodies can achieve greater value for money. Collaboration and increased professionalisation of processes will increase the likelihood that public procurement will deliver reduced costs and appropriate service quality. The Auditor General will continue to examine public procurement through local studies, national studies and in response to issues identified by auditors, politicians and members of the public.

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#### NOTES

<sup>1</sup> Maximising the Impact of Welsh Procurement Policy – John F McClelland, CBE, August 2012

<sup>2</sup> Annual Fraud Indicator – National Fraud Authority, June 2013

<sup>3</sup> Final Evaluation of Transforming Procurement through home grown talent – final report: Welsh Government, November 2015

<sup>4</sup> Maximising the Impact of Welsh Procurement Policy – John F McClelland, CBE, August 2012

<sup>5</sup> Maximising the Impact of Welsh Procurement Policy – Wales Procurement Policy Statement: Welsh Government, December 2012

<sup>6</sup> Procuring the Future Sustainable Procurement National Action Plan: Recommendations from the Sustainable Procurement Task Force, 2006

<sup>7</sup> The European Communities (Designation) (No. 2) Order 2015 SI No 1530

<sup>8</sup> The Procurement and Management of Consultancy Services – Wales Audit Office, February 2013