



Improving the efficiency of public procurement

The role of standards

raising standards worldwide™

BSI
British Standards

What are standards?

A standard is a document defining best practice, established by consensus and approved by a recognized body, such as BSI British Standards. Each standard is kept current through a process of maintenance and review whereby it is updated, revised or withdrawn as necessary.

Standards are designed to set out clear and unambiguous provisions and performance objectives in order to help trade and communication but may also meet other needs. For example, they might improve the use of resources, assist with bringing products from development to market, stimulate innovation through the quick and efficient dissemination of critical information, or improve the quality of life through health, safety and environmental requirements.

Standards are developed when there is a defined market need through consultation with stakeholders and a rigorous development process. New areas for standardization are often developed through fast-track mechanisms like the publicly available specification (PAS) via BSI Standards Solutions. Formal standards in more mature areas are developed through a committee structure that operates at the national, European and international levels. These committees include representatives of government, testing laboratories, suppliers, consumers, academic institutions, societal interests, business, manufacturers, regulators and trade unions.

Although standards are voluntary and separate from legal and regulatory systems, they can be used to support or complement legislation.

Executive summary

The government has challenged public sector procurement professionals as never before to make savings by improving efficiency. This is not just a matter of encouraging good practice and cutting costs. Ministers want to spend more public money on services without increasing taxes, creating a strong political imperative to the efficiency drive launched by the 2004 Gershon report.

Officers are under pressure to explore every opportunity to deliver savings without compromising quality. Yet ironically that pressure can lead to waste if they start from scratch in seeking procurement process improvements, or if different parts of large organizations make an uncoordinated approach to markets. Time and resources can be lost 'reinventing the wheel' when the work has already been done.

Standardization can help procurement professionals to meet their targets – it allows them to use tried and tested processes to procure products and services that they can be sure will meet their objectives. Standards bring predictability and confidence to procurement, whether an organization uses existing standards or commissions bespoke ones. They can also help to ensure that procurement meets other policy objectives, such as requirements to foster sustainability or to buy from small businesses.

The government intends the use of better procurement techniques to take root and outlast the present three-year targets – those involved will find standards an invaluable weapon in their efforts to secure continuous improvement.

Gershon and beyond

The government's drive for more efficient procurement has posed challenges to the public sector's capacity, culture and imagination. After some years of increasing pressure, the turning point was Sir Peter Gershon's 2004 report *Releasing Resources to the Front Line*, which led to the Treasury setting a target for £21.4bn worth of efficiency savings by 2007/08.

The procurement efficiency drive is about having more money to improve public services without increasing taxes. This will require exploiting all the tools available.

Sir Peter defined efficiency as: "Those reforms to delivery processes and resource utilization that achieve reduced numbers of inputs whilst maintaining the same level of service provision." That could mean procurement at lower prices, or extra services secured for the same money.

There is a carrot as well as a stick. The government has said that the money saved can be reinvested in services, or in lower council tax increases in the case of local authorities. According to the Treasury, departments and local authorities reported provisional annual efficiency gains totalling £6.4bn by December 2005.

The imperative to make savings is likely to increase further, as the Treasury's zero-based review of public spending shapes the new spending period. The National Audit Office warned in its February 2006 review of the efficiency programme that Gershon had instigated a demanding programme, whose long-term challenges would require "structural, cultural and process reforms within central government". It said the greatest risk would be that "efficiency gains are accompanied by unintended falls in the quality of service delivery".

The government is trying to make its money go further, and the procurement efficiency drive has a strong imperative that is unlikely to change under any foreseeable government. It is about having more money to improve public services without increasing taxes to do so.

To achieve this, those involved in public sector procurement must exploit all the tools available. Standards are a ready-made unambiguous way of judging products and business processes that all concerned can understand. Thousands of standards are already available, but where a gap is perceived any organization can work with BSI to produce a standard designed specifically to meet its requirements. They remove the need to start from scratch on each specification and can be easily built into contracts, but, despite these advantages, are they being used sufficiently?

Ministry of Defence

Procurement fit for purpose

The MoD seeks to make its procurement straightforward by using BSI standards for specifications, although it will sometimes write its own for specialized military equipment. Philip Wells, head of standards policy, says civil standards have been used in MoD documentation since the 1980s, and “where we can we use those from BSI”. The reason for this is that “in procurement you need something readily adaptable and understandable and everyone knows what is meant when standards are used, and knows what you are talking about”.

When it does write its own standards, the MoD uses BSI’s standard for writing standards, BS 0, as the template for their development and the information they should convey. Mr Wells says: “There are thousands of defence standards and in order to know how to create them we need best practice, and what could be better than BS 0, except where we have something very specialized?”

The MoD feels that the use of standards is fundamental to effective and efficient defence acquisitions because they define the fitness for purpose of goods and services and so can be used as a basis to develop improvements.

Standards can also promote improvements in health, safety and environmental concerns, and are widely recognized benchmarks against which supplies may be measured. Their technical requirements are unambiguous and can be quoted in contracts and specifications where suppliers will readily understand them, Mr Wells says.

Are procurement skills in place?

The public sector spends £125bn annually on procuring a wide range of goods and services, from everyday items such as office supplies, to construction such as schools and hospitals (*Transforming Government Procurement*, HM Treasury, 2007).

The Gershon report urged public sector managers to improve the professionalism of procurement to increase their ability to gain savings from this huge expenditure. Sir Peter pointed to research by the National Audit Office, which had found that most purchasing was not carried out by designated procurement staff, and that such specialists were “often consulted too late in the procurement process”. Local authorities suffered a similar skills gap. “Too much public procurement is undertaken without professional support, which results in sub-optimal value for money and unnecessarily high prices being paid for goods, works and services,” Sir Peter said.

Mike Low, director of BSI British Standards says: “The National Standards Body could help both procurement professionals and those whose experience lies elsewhere to exploit the full potential of this purchasing power. Standards offer a plug and play means to reduce the impact of skill gaps, as they are ready-made guarantors of quality on which anyone can draw.”

Can efficiency enter the public sector’s DNA?

There is no shortage of exhortation to improve procurement, but does the public sector, with no conventional profit motive, think in value-for-money terms?

John Oughton, former deputy chief executive of the Office of Government Commerce (OGC), who was responsible for the efficiency programme, told the House of Commons Public Accounts Committee in March 2006: “In a sense it has not been in the routine of how government have done business, which is why a focus was put on efficiency in Gershon’s report. Part of the challenge is to embed efficiency for the longer term so that it becomes absolutely embedded in the DNA of how departments do their business.”

How is efficiency to be sustained beyond three years? At what point do inefficiencies begin to creep in again? It is an ongoing issue.

The short-term nature of public sector budgets and policy-making present challenges when embedding such a culture. Ian Tough, director of major projects at business relationship management advisers PSL, says: “The government is targeting an efficiency drive derived from the Gershon Review over three financial years. That’s fine, but how is efficiency to be sustained beyond that period? At what point do inefficiencies begin to creep in again? For me, it is an ongoing issue, not a finite one.”

The OGC’s collaborative procurement executive director, Richard Abbott, is encouraged by the progress to date. “I believe the efficiency attitude has taken root. The targets are going well and the £21.5bn figure should be achieved. Gershon talked about collaboration not being in the DNA of civil servants and I think that is right, and so we try to articulate that it must be.”

Roy Ayliffe, director of professional practice at the Chartered Institute of Purchasing and Supply (CIPS), says: “Procurement is taken more seriously in some parts of the public sector, but some have not done enough to develop their capability. It is a matter of whether an organization’s leadership is interested in the subject. Things are getting better but it is a big job that will last for many years.”

Standards by themselves cannot put good procurement into departmental DNA, but they can help in navigating shifting policies and ironing out unproductive differences that arise when people engage in similar work but are isolated from each other in ‘silos’. BSI’s director of operations, Shirley Bailey-Wood, says: “As priorities and budgets change standards are always there, always up to date, so they can be referred to confidently even by those who are new to a

field. Standards by their very nature are vehicles of knowledge transfer and so can sustain efficient procurement practices across complex organizational structures even if the people implementing them change”.

A specialized function

Everyone makes decisions about purchases in their daily lives, which can lead to an unfortunate assumption that anyone can ‘do’ procurement. But specialist skills are needed to secure the best deal and tie down a sound contract with a supplier.

The CIPS is the main professional body in this field, offering a range of qualifications. Mr Ayliffe says the public sector faces both a shortage of procurement professionals, and the effects of involvement by senior staff whose expertise is different. “They need to have their skills developed and not just assumed,” he says. “For example, negotiation is something most people think they are good at just because they are happy in a bazaar in Tunis or wherever haggling over a carpet. Good negotiation means lots of thinking about what is appropriate in different circumstances. People doing procurement need that as part of their jobs.”

Another issue is that even where senior management accepts the need for a professional approach to procurement, this can be slow to spread across the semi-autonomous units common in public sector bodies. National Health Service Procurement and Supplies Agency (PASA) former chief executive Duncan Easton says the service’s sheer size makes it hard to embed the message. “The NHS is a large and disparate organization with many separate parts,” he says. Its constituent parts can choose to procure for themselves without going through PASA, and Mr Easton says his approach is to “engage key people so they don’t think they want to do it differently”.

Don’t reinvent the wheel

The desire to put a personal stamp on any project is understandable, but it rarely helps to make procurement efficient. Staff can be tempted to ‘reinvent the wheel’ when devising a contract, either because they are unaware this is wasteful, or from a misplaced belief that this is expected of them.

Part of efficient working is to learn from best practice, copy successful methods and use tried and tested products and services. Another is to ensure that if an organization needs to buy a commodity, its demand can be aggregated instead of every constituent part starting from scratch on a separate tender. Standards enable both.

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NHS PASA is “reasonably rigorous” about preventing staff from starting from scratch, says Mr Easton, but he finds that enthusiasm for reinventing wheels is “always a danger. We allow staff to say if something needs changing, but do not allow them to ‘gold plate’ stuff so they do not waste time.”

Mr Abbott at the OGC also finds this “is certainly an issue because people feel responsible and want to do it personally. We see duplication of effort which is clearly not efficient”. The OGC sees cases, he says, of advertisements appearing in the *Official Journal of the European Union (OJEU)* from different arms of government seeking to buy the same thing. “That could have been aggregated for a better price,” he notes.

Reading the market’s reaction

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Letting huge contracts may mean that only large companies, or a consortia of them, can bid because of the volume involved and so a lack of choice of suppliers diminishes the advantages to procurers. Driving a hard bargain with suppliers may also give a less than optimum result. David Hawkins, PSL’s director of operations, says: “If you try to bundle too much together in one procurement contract it gets too rigid to deliver, and the savings you might have made are cancelled out by the market because too few suppliers can handle it.”

Savings from aggregation will dwindle unless procurement staff keep up with their market. He warns: “It is often said that there is a glass floor. Aggregation gets you to a certain level, and if you do not look beyond that the market will begin to adapt to what you are doing and the savings will dissipate. If you look only at the short term you will not get below that glass floor.”

Standards are a useful tool for managing this says BSI marketing director, Frank Post: “Every one of our 27,000 standards has been created in response to demand. The market identifies a need, consistent with changing circumstances, and comes to us to standardize the solution. If you want to know where the market is moving, standards are a good indicator.”

Home Office

Making biometrics successful worldwide

The Home Office is relying on standards to ensure that research into biometric technologies is successfully applied, for example to passports and the planned identity cards. Standards are central to the development of robust biometric systems. As well as helping to ensure that this technology is fit for purpose, they offer assurance that UK programmes are compatible with others around the world.

Marek Rejman-Greene, head of the Home Office's Biometrics Centre of Expertise, says a key standard is ISO/IEC 19795-1, which sets out best practices for testing biometric devices and reporting findings. It outlines which data should be collected to test biometric solutions, defines the terminology that should be used in reporting and offers guidance on calculating failure rates. "The standard provides a basis on which to test devices and systems," Mr Rejman-Greene says. "Any findings we are presented with need to withstand scientific scrutiny, and the standard sets out processes which make this possible. It's a strong source of credibility."

Use of the standard has saved time and money, because writing reports and making assessments of studies without the agreed vocabulary that a standard provides "would involve extended discussion, debate and negotiation, resulting in considerable additional costs and delays", he says. "It also permits common test methodologies across UK government biometric programmes. It's imperative that these technologies are accepted and deployed successfully around the world. The standard makes this possible."

Supporting the small business economy

One complication in public sector procurement is that it can be loaded with policy obligations that are not directly related to best value. Public bodies may be required to award a certain proportion of contracts to small businesses, or those owned by members of ethnic minorities – so how should procurement staff act if these obligations lead to higher costs?

Francesca Woodhouse, former policy officer at the Federation of Small Businesses (FSB), said the proportion of members with the public sector as their main client has shot up from 3% to 24% in two years, but she expects a struggle to maintain this progress. "There is a local multiplier effect, and local authorities have a duty to support their local economy. The problem comes at central government level," she said. This is because innovations such as demand aggregation, e-auctions and procurement clubs – all encouraged by central government – are beyond the scope of most small firms. She explained: "The problem for SMEs comes if aggregation means contracts become too big to engage with."

According to Mr Easton, NHS PASA has tried to help small suppliers with “a national database, where those who want to supply the NHS need only go into that system to register once, before that it was done every time they bid. It is less bureaucratic now”.

One approach is to develop potential suppliers’ capabilities to participate in open competitions, so contracts need not be ring-fenced for particular types of suppliers. As Mr Hawkins says: “You need to help the market to respond, and bring small suppliers together to get an aggregated market but still meet demand for local businesses”.

The Metropolitan Police is one organization which is required to encourage small and minority ethnic firms, and to buy sustainably, because it is subject to London mayor Ken Livingstone’s environmental and diversity policies. Procurement director Anthony Doyle says: “One challenge in our efforts to engage more with diverse suppliers is that we need to build a database to know who they are, so that we can encourage them to bid in the first place.”

The police have many contracts large enough to require an *OJEU* advertisement and so are obliged to seek competitive tenders. Mr Doyle says: “We recognize that our tenders are quite time-consuming and complex documents for a small business to deal with so we need to develop more user-friendly versions for these suppliers.”

Standards can assist here, says BSI British Standards director Mike Low. “Suppliers do not want to have to start from scratch on each specification, particularly if they are small firms that lack administrative resources,” he explains. “If a standard good or service is specified, the supplier will know readily whether they meet that, or could do so. Likewise those putting out the tender know that they will get something that helps them to hit value targets and policy objectives as well as technical requirements.”

Environmental standards can help procurers to make sense of conflicts by enabling them to demonstrate that they have followed independently established and externally recognized sustainability criteria where possible.

Balancing price and sustainability

Sustainability can also create conflicting demands for procurement staff. Goods whose production has minimized its impact on the environment and whose use will minimize environmental damage do not necessarily correlate with the objective of gaining the cheapest price.

Mr Doyle says: “The aspiration to include factors such as environmental sustainability means there is a balance to be struck. For example, if you decide to buy environmentally-friendly paper you must procure it at best value for money for an environmentally-friendly specification type.”

Environment Agency Standards for sustainability

The Environment Agency uses one management system, known as the Agency Management System, for all its activities. It has achieved certification for this to both ISO 14001 (environmental management system) and ISO 9001 (quality) and it has also been registered to the Eco-Management and Audit Scheme (EMAS). These registrations cover everything the agency does, from its head office work, to construction projects to operations at its pumping stations.

The agency procured goods and services worth some £600m in 2004/05, and it needed to identify and manage the associated environmental impacts, supporting its commitment to ISO 14001 and EMAS. Consideration of the environmental aspects and impacts of the goods and services is one strand of sustainable procurement, which also considers economic and social impacts of procurement.

The agency's objective is that all its procurement should deliver best value, best practice and the most sustainable outcome. At the heart of sustainable procurement is the resource/waste hierarchy: rethink, reduce, reuse, recycle. If this is applied to procurement decisions, impacts on the environment can be reduced or better managed. The environmental management system provides a framework to help achieve this goal.

Sustainable procurement is fully integrated within the Agency Management System because the agency believes that sustainable procurement should not be viewed as an 'optional extra', but should be fully integrated into its activities.

ISO 14001 provides an example of UK influence on international standardization. It started life as BS 7750 and developed into an international standard that specifies a framework for organizations to control the environmental impacts of its activities, products and services, and to continually improve its environmental performance.

There are situations "where people find policies are contradictory such as on sustainability" according to Mr Abbott of the OGC. "The only logical response is to say 'this is the policy, and this is the price', and make a judgement between the two."

Environmental standards can help procurers to make sense of these conflicts by enabling them to demonstrate that they have followed independently established and externally recognized sustainability criteria where possible. Ms Bailey-Wood of BSI says: "Sustainability can be a somewhat ill-defined concept and the use of standards brings clarity by setting out defined paths towards this goal."

To help organizations demonstrate that they are taking a sustainable management approach BSI launched a new standard for this in June 2006, coinciding with the government's endorsement of the Sustainable Procurement Task Force's action plan.

This is a key building block in efforts to make the UK a world leader in sustainable procurement by 2009, one of the objectives of the government's sustainable development strategy. Sir Neville Simms, who chaired the task force, says: "Too often, the business side of government fails to reflect its policy goals. All these areas can play a role in delivering genuine sustainability. Parts of the private sector are already doing it, and they expect to see the public sector doing the same."

The task force concluded that embedding sustainability into public procurement would improve value for money, provide environmental and social benefits and encourage innovation in environment-friendly technologies. Ms Bailey-Wood says: "Sir Neville noted that many public sector procurers had complained to him about a lack of clear direction from the top of their organizations on the priority for sustainability in procurement and of a lack of tools for putting it into practice. Using a standard to develop a sound approach demonstrates that work towards sustainable procurement is in hand."

Standards can enable procurers and suppliers to work together so that they share the advantages of innovation and collaboration, while minimizing the scope for future disputes.

Best value for a contract's life

Good procurement does not merely involve taking the cheapest price offered – what might the long term hold for the assets procured? And would a different supplier give a better deal by being willing to collaborate to achieve future savings that can be shared with the procurer?

Peter Howarth, chief executive of the Society of Procurement Officers (SOPO), says: "One has to emphasize that letting the contract is just the first stage, and more emphasis on contract management is needed to extract benefits from that contract."

This can include collaboration between buyer and seller to find savings from better ways of working, and an agreement to share such savings. But rules that govern public sector probity can require open tendering and inhibit collaboration.

Ways exist to gain these benefits but still observe integrity, according to Mr Howarth. "Collaboration does not happen as much as it could because of the probity rules," he says. "But the benefits can be realized without any threat to public probity. Suppliers work for a profit, and there is nothing wrong with that. We are trying to extract benefits, and by working together both can be improved."

Mr Hawkins of PSL points to wider opportunities for clients and suppliers to mutually benefit from improved working practices. He explains: "If you find a good supplier and get a good price, do you return to traditionally based procurement or look for long-term relationships? You can prompt a supplier to improve their processes if they know they have got the business, and reducing suppliers' cost bases can improve your cost base. That is a challenge to the traditional view of purchasing."

Standards offer clear ways in which such business collaboration can take place, says Mr Low of BSI. "These can enable both procurer and supplier to work together so that they can share the advantages of innovation and collaboration while minimizing the scope for future disputes."

Standards can be a solution

Standards provide a common vocabulary for specifying the quality and functionality of products and services, and yardsticks for judging whether a supplier's business is well run.

David Keech, a former BSI committee manager who spent 25 years with British Gas in the supplies and transport department, says: "Standards were valuable in all the purchasing I have done, whether we used a publicly available standard or created one for ourselves. Standards form a very effective shorthand when placing an order, because everyone knows what they will be getting."

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BSI believes that its product and process standards provide the tools that procurement managers need to help them meet their demanding targets and remove any need to reinvent the wheel. Mr Post says: "We hope thinking about standards will become instinctive to the procurement profession, because they both make its work easier and help it to reach better buying decisions. Perhaps standardization has not been promoted as much as it should have been, but we are sure that it would benefit everyone involved in procurement."

It is not just BSI that takes this view. Many procurement experts already make extensive use of standards. Mr Howarth of SOPO believes that standards are useful in developing contracts. He says: "I would encourage everyone to use BSI wherever possible, because if you use standards the certainty that gives will lead to a better price. If you create many non-standard specifications it is so much harder. All kinds of people get involved in procurement, be they senior management, technical specialists or even politicians. They may not be well-informed about procurement, and standards give something all can grasp."

Mr Hawkins of PSL has 40 years' experience in buying and finds standards have simplified judgements about business processes. He says: "Thirty years ago we would visit a supplier and go through processes like rats up a drainpipe, but now we would say if they have ISO 9000 from a reputable source, that is sufficient, it gives a degree of confidence about the way a company is run. British standards give you the confidence to go to the next level."

It is an attitude shared by Mr Easton at NHS PASA, who declares himself "a great believer in quality standards". The FSB would like to see simpler versions of standards, tailored to small firms' needs. But Ms Woodhouse says: "If a BSI standard is used for a product, everyone understands it".

The OGC is also supportive of the wider use of standards, in particular as an aid to procurement innovations where it is essential that all concerned understand clearly what is happening. Mr Abbott says: "They are important to the spread of e-auctions where one of the biggest drivers is to get the right taxonomy and specification so it is understood by all. British standards are tremendously helpful in letting everyone concerned know what is needed."

Standards are not limited to those that BSI has decided to produce. There is every opportunity for businesses and public bodies to commission their own standards for any part of their procurement, and indeed for the procurement process itself.

BSI's expertise is available to guide the production of these standards to ensure that they are rigorous and fit-for-purpose and that the customer's business objectives are reflected accurately in their content. Customers work with BSI to develop these bespoke standards – which can be made generally available or kept private as the customer chooses.

Standards can be an invaluable weapon in the imperative to secure continuous improvement in public procurement.

They could be used, for example, to ensure that different parts of an organization procure products that meet the organization's specific needs and to ensure that the procurement process used is standardized throughout the organization to discourage any attempts to reinvent the wheel.

"Standards cannot solve every procurement problem," believes Mr Low, "but they can make life a great deal easier for officials who deal with procurement."

How BSI can help

Standards matter. They contribute at least £2.5bn each year to the UK economy and play a key role in enabling innovation, improving competitiveness, increasing reliability, ensuring safety, improving accessibility, controlling quality, managing risk and improving business performance.

As the world's first national standards body, BSI British Standards has a globally recognized reputation for independence, integrity and innovation. It is also a leading provider of standardization and consortia services through its Standards Solutions team. Part of the BSI Group operating in 86 markets worldwide, BSI British Standards serves the interests of a wide range of industry sectors, as well as government, consumers, employees and society overall, to make sure not just British but European and international standards are useful, relevant and authoritative.

BSI champions UK interests at home and abroad and is an incubator of many of the world's leading standards. It is the national gateway to all the European and worldwide standards bodies promoting fair trade, technology transfer, economic prosperity and security.

Several publications describe the benefits of using standardization to achieve broader organizational and national strategic objectives. Information about these is available from both BSI and the National Standardization Strategic Framework (www.nssf.info), a joint initiative between BSI, the CBI, the Department for Innovation, Universities and Skills and the United Kingdom Accreditation Service.

To find out more about how BSI can help you, visit the website at www.bsigroup.com or email britishstandards@bsigroup.com.

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