

Better value?

The common issues with public sector procurement of professional services

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Better value?

The procurement of services is more complex than the procurement of goods. The purchasing of goods, for example, typically involves comparing like-for-like offerings with fixed parameters.

Services, on the other hand, are often procured in order to solve a specific problem. The skill and knowledge of a service provider can lead to unique solutions, the relative effectiveness of which are more difficult to compare than for standardised goods.

Why should we improve the way we procure professional services?

Simply put, inefficiency in procurement processes costs money that the public sector cannot afford to waste.

The recent recession has reinforced the need for greater value for public sector investment. This is reflected in the current guidance on best practice from HM Treasury and the Office for Government Commerce.

There is potentially much to be gained. Sir Peter Gershon's 2004 review of public sector efficiency identified a total of £20 billion of efficiencies that could be achieved over four years. Sir Peter noted that, in 2003-04, the public sector spent over £100 billion purchasing goods and services.

What reduces value for money?

There are a number of common problems with the procurement of services. These are set out in the table on page 3, along with an outline of their likely impact and some potential solutions.

How can the public sector avoid these issues in the future?

By applying a number of best practice principles, public sector bodies can reduce the risk of inefficient procurement and failure to deliver good value for money.

ACE recommends that the following principles are applied to the procurement of professional services by the public sector:

- Base procurement decisions on whole life value. For every £100 of capital cost, £500 can be spent on maintenance over the lifetime of a building.
- Pay particular attention to the procurement strategy. This can be a major determinant of the project's overall costs and value.
- Engage with the market early to identify potential issues and establish a realistic and appropriate procurement approach.
- Incorporate established best practice into procurement processes. Avoid re-learning past lessons or repeating past mistakes.
- Pay attention to the skills and capabilities of your procurement team. Ensure they have the appropriate experience and skills necessary to deliver the process.
- Ensure project risks are placed with the party best placed to manage them.



- The form of contract used matters. Industry standard forms of contract should be used as far as possible.
- All payments should be made within the terms of the contract, unless negotiated with the supplier. Sub-contractors should never be paid on a “pay-when-paid” basis. Consider using project bank accounts where appropriate, and implement the OGC’s guidance on best “fair payment” practice.

Some common problems with the procurement of professional services and their potential solutions

Problem	Likely impact	Potential solutions
Poorly-scoped projects requiring remediation or re-tendering.	Time and money wasted. Damage to client-supplier relationships. Damage to client reputation. Increased risk of litigation.	Greater focus on developing realistic project plans. Early engagement and market testing with supply chain. Ensure end users are involved throughout.
Poorly-constructed procurement processes resulting in legal challenge.	Time and money wasted. Damage to client reputation. Loss of confidence in supply chain	Learn lessons from similar projects. Incorporate best practice into procurement strategies.
Smaller suppliers excluded unnecessarily from supply chain.	Long term damage to supply chain capacity to deliver. Innovation and best value solutions may be missed.	Pay attention to pre-qualification processes. Consider offering smaller packages of work or two-tier frameworks.
Expensive bidding processes that can deter potential suppliers.	Best value solutions may be missed. Ultimate cost to the client is increased as a result.	Incorporate best practice into procurement processes. Learn lessons from other similar projects.
Expensive framework processes that can result in no work forthcoming.	Some suppliers deterred from bidding. Cost risk shifted onto the supply chain. Potential damage to viability of supply chain.	Consider whether a framework is really necessary. Learn lessons from other framework procurement processes. Consider joint frameworks with other client organisations, as per Transport for London’s professional services framework.
Inadequate risk management.	Potential for excessive project costs for the client. Increased risk of problems and disputes. Sub-optimal value for money. Damage to client-supplier relationships.	Avoid confrontational approaches. Ensure risks are placed with those best positioned to manage them. Avoid offloading risks to the supply chain.
Use of highly bespoke terms and conditions.	Increased cost of project management for the client and suppliers. Unnecessary extra expenditure, e.g. on legal fees.	Use industry standard forms of contract (e.g. ACE Agreements or NEC3) where possible.
Poorly skilled procurement teams making poor choices.	Risk of having to redo or retender for works. Increased costs and sub-optimal value for money.	Ensure procurement teams are competent to procure services. Ensure high quality internal collaboration within the client organisation.
Late payment of suppliers and sub-contractors.	Cash flow issues for supply chain. Damage to client-supplier relationships. Reputational damage.	Ensure all payments are within agreed terms. Consider using project bank accounts where appropriate, and explore the use of the “fair payment principle”.



Further reading

ACE (2009). *Avoiding procurement pitfalls: an ACE guide*. London: ACE.

ACE (2010). *Procuring professional services: best practice principles*. London: ACE.

HM Treasury (2010). *Managing public money*. Available from: http://www.hm-treasury.gov.uk/d/mpm_annex4.4.pdf

Office for Government Commerce (2007). *A formula for success: procurement effectiveness in major project delivery*. London: OGC.

Office for Government Commerce (2007). *Guide to best "fair payment" practices*. London: OGC.