

**Procurement as a Driver of Innovation**  
**Text of a letter to the Prime Minister**

29 March 2012

Procurement professionals are critical to the work of our most innovative businesses. They are at the centre of the creative networks that are essential in maintaining a competitive edge in advanced manufacturing processes and the ever more complex and advanced integrated systems demanded. They are instrumental in seeking out opportunities, in defining new requirements, in brokering new solutions to them, and in ensuring that those solutions are delivered in a cost effective and timely way.

The tasks that confront government can be even more complex and it needs to learn from businesses' experience. The technologies of administration and of service delivery alike are changing beyond recognition and partnerships across multiple organisations are now responsible for providing services. Procurement has become more critical than ever to the delivery of some of our most ambitious and innovative public service programmes, and will become more so.

Events have moved fast since we first discussed the subject with you. We have discussed with Francis Maude his developing programme to put government procurement onto a more professional and cost effective footing. The Innovation and Research Strategy for Growth<sup>i</sup> made a number of procurement commitments. And the Government is now working to analyse the strategic opportunities for growth presented by its forthcoming pipeline of major contracts over several years. Our advice seeks to provide practical recommendations on what might be done to make the most of the unique opportunities that the Government's ambitious reform programme presents.

**Joining initiatives up**

You asked for our advice on the ways in which public procurement might be better deployed to promote UK innovation in priority areas. We met specialists from government and academia, procurement practitioners, advanced manufacturers, small businesses, and venture capitalists. Consistently, their view was that the UK needs to do more to exploit the potential of government procurement to support innovation, and do so in a way that gets better value for money, and benefits the wider economy. Early indications from one study are that government procurement is already driving innovation on a wider scale than is sometimes recognised,<sup>ii</sup> and we came across some outstanding UK examples.

As stated above, some excellent initiatives are already in train, but many businesses have yet to see the difference in practice. There needs to be the strongest possible connection between the departments and initiatives involved if they are to realise their full potential. The Government needs to give a clear and consistent message: for instance, the potential of the Small Business Research Initiative (SBRI) as a tool for solving fundamental problems in public service delivery remains underexplored in many areas. A cross-government approach that brings the various threads of procurement policy together, and incentivises the most significant departments to play their part, is essential.

- 1. There needs to be a Cabinet-level statement setting out the changing nature of government procurement, and how it will be used to achieve better public service outcomes.**
- 2. An identified Cabinet Minister should be responsible for tracking progress against procurement commitments and ensuring that key departments step up to the challenges involved.**

### **Learning from innovative businesses**

Businesses involved in complex manufacturing processes routinely make a distinction between relatively simple “catalogue” purchasing, where buyers negotiate the best price for an item and then make use of it throughout the business thereafter, and those where a different and more collaborative relationship with suppliers prevails. Both are important, and government needs to learn from the distinction.

In simple cases, specifications and other pre-qualification requirements should be stripped to a minimum. Once a good deal has been found, it should be used as widely as possible across the public sector. We recognise that work led by Efficiency and Reform Group in the Cabinet Office to streamline and centralise spend has made very significant efficiency savings from the negotiation of major contracts for core products used by a large number of government departments, including on utilities, ICT, and stationery.

On the other hand, where there is a prospect of really worthwhile innovation, businesses adopt a different procurement relationship, one characterised by close collaboration and trust. The relationship is often governed by framework within which costs are only finalised after the product is shown to be working, reflecting the fact that the overall benefit of an efficient technical solution far outweighs any original concern over costs alone. Commonly, the buyer will have its own engineers based on the suppliers’ premises to work together on new products and the lean processes that underpin them. Factors like intellectual property rights are addressed upfront.

This is a challenge, but it is one that the public sector can rise to: the Olympic Delivery Authority gives an excellent example.<sup>iii</sup> The strategic use of procurement, a concerted effort to throw opportunities open to the widest possible range of providers, and a collaborative approach to defining needs and outcomes with suppliers was critical in the development of many of the products and processes that, together, resulted in the Olympic Park: from the design of the velodrome to the development of sustainable concrete mixes.

For the first time, the Government’s profile of major contracts of strategic significance in the pipeline over the coming years will give a comprehensive picture of cases where procurement decisions have the potential to transform services for the better.

Major infrastructure projects, as well as aspects of healthcare, defence, energy and transport, all offer real opportunities for innovation in a way that will also secure greater value for money in the long term.

- 3. The Government should establish robust procurement criteria in order to distinguish between catalogue and more complex procurement requirements, and adapt its approach to specific cases accordingly.**
- 4. The Department for Business, Innovation and Skills (BIS) and the Cabinet Office should work with other departments to identify forthcoming opportunities which might be procured from highly innovative sectors and ensure that support for innovation is fully integrated into procurement processes, alongside effective engagement with the supply chain. This should be rigorously linked to those areas that were recently identified as priorities in the Innovation and Research Strategy.**

We have written elsewhere about the wider challenges facing NHS procurement.<sup>iv</sup> The NHS is an important example of how procurement that is equipped for cost-effective innovation needs to become a core element of long-term organisational strategy in the public services. Fundamental changes in the technologies of medicine (for instance, genomic medicine, stratified medicines, robotic and other novel engineered devices, advanced information technology and expert clinical support systems) will increasingly impact on the purchase of medicines and devices as well as service commissioning.

### **Making better use of the UK's procurement expertise**

Good procurement requires a significant commitment of resource in the form of expertise and experience. The challenges go well beyond managing specific transactions: procurement professionals need to manage some of our most strategically significant government programmes through to completion. The publication of the pipeline will provide another opportunity here. It needs to be underpinned by a strategy for allocating and developing the expertise needed for specific projects. In really key areas government will need to bring in procurement staff of the highest quality who can lead major development projects to completion. In many cases, this will involve offering rewards that are commensurate with the financial returns that their expertise will bring, but there is also a need to develop and make better use of the expertise that both the private and public sectors have to offer in other ways.

- 5. The Government needs to put in place a strategy for developing the right mix of skills in its procurement services. Openness to private sector expertise from our most innovative companies is critical: whether through secondments, or more informal advisory relationships.**
- 6. The need for more advanced skills is most urgent in the case of larger scale and complex projects. In this area, the Government should assemble a “tiger team” bringing together procurement skills from outside government.**

Existing expertise within the public sector could also be better used. There are some good pilots and models in place. The SBRI, led by the Technology Strategy Board (TSB), illustrates what the procurement relationship can look like in practice. It is built

around a competition in which public services specify a service problem (not, critically, a *solution* to it) and companies with potential answers bid for a fully funded development contract.

To take one example, NHS East of England ran an SBRI competition with a view to developing technologies that would help support people with long-term conditions in the community. Eykona Technologies came forward with a proposal for the development of new 3D imaging technology to monitor the healing of chronic wounds, eliminating the need for patients to visit outpatient departments. Eykona's proposal was one of a number of SBRI contracts that were awarded as a result of the competition. This intervention made a real difference to patient care, and to the local economy, allowing the company to raise capital for new premises and a threefold expansion.

We understand that the EU is considering creating its own comparable scheme. The SBRI was initially modelled on a US example, the Small Business Innovation Research programme which has been running for 29 years and typically spends \$2.5 billion per annum.<sup>v</sup> There are other good initiatives with similar aims: notably the Cabinet Office's Innovation Procurement platform, and BIS's Forward Commitment Procurement (FCP) programme.

The benefits of these initiatives go wider than the specific transaction. They create frameworks within which professionals can experiment with new forms of relationship with suppliers, and develop the confidence and experience to do so in new contexts. We need to make the most of this precious resource.

- 7. The Government's work to develop a better lead customer relationship needs to build upon the expertise that we already have. The SBRI's experience in securing effective competition in situations where government's precise needs are hard to define is a case in point. Any new initiatives should be linked where possible to existing TSB programmes.**

### **Tackling risk aversion**

SMEs highlighted to us the practical obstacles they face when dealing with public sector buyers. These are well known: at its worst, public procurement is delegated too low in the organisation, and purchasing inevitably becomes cautious and predictable, with too many irrelevant conditions and processes deterring potential suppliers. We discussed with Ministers the ways in which the imposition of prohibitive performance bonds have worked in practice, disadvantaging smaller companies and mutuals in competing with existing, and much larger, suppliers.

The Government's current work to make procurement processes more transparent and accessible based on direct feedback from businesses is welcome. We recognise that changes to the cultures that underlie these processes will take longer. Some of the mythology surrounding the EU procurement framework is a factor, and excessively cautious legal advice can complicate matters in practice. Equipping procurement professionals with the right skills is not enough: public service leaders as a whole also need to be able to take calculated risks from an informed position.

- 8. More needs to be done to equip buyers to focus on output-based specifications and to reduce prequalification processes to the absolute**

**minimum. There needs to be an active campaign to dispel some of the myths surrounding the procurement rules.**

- 9. Procurement should be recognised not as a peripheral activity but as a core part of effective and innovative service delivery. The Cabinet Office needs to make this awareness a core competence for senior decision-makers of all kinds.**

### **Setting the right framework for local procurement**

The problems that can follow from the division of procurement responsibility amongst multiple agencies at local level are well known. Last year the National Audit Office highlighted the waste that comes from parallel purchasing in the NHS, with proliferating specifications across trusts resulting in a multiplicity of near-identical products.<sup>vi</sup> We heard of one case where a health trust had imposed a large number of unnecessary specifications on a tender for rubber gloves, which clearly ought to have been regarded as catalogue items.

The Government is exploring the potential for transparency requirements to remove some of the waste in public sector purchasing. This might involve centralised negotiations for catalogue items, combined with freedom for local decision-makers to depart from centrally negotiated contracts where this is necessary, but backed up by public accountability for the reasons for their decision to do so.

At the same time we need to promote local dialogue and flexibility where this makes sense. There are excellent examples of local trusts working with suppliers to secure a real transformation in the service that patients receive<sup>vii</sup>, and this should be encouraged. For complex cases, local decision-makers will need access to expert procurement skills and networks.

- 10. There needs to be greater transparency of local procurement decisions for catalogue items. For more complex purchases, the Department for Communities and Local Government and the Department for Health need to ensure that local agencies have access to government's developing procurement networks if effective local procurement partnerships are to develop in practice.**

In preparing this advice, we have attempted to focus on practical and implementable recommendations. We would of course be happy to expand on any specific points.

We are copying this letter to the Deputy Prime Minister, Vince Cable, Francis Maude, Andrew Lansley, Eric Pickles, David Willetts, Sir Jeremy Heywood and Martin Donnelly.

Signed:

Sir John Beddington  
Professor Dame Nancy Rothwell

CST co-chairs

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- i These include more investment in the Small Business Research Initiative and the development of procurement centres of expertise in healthcare and sustainability, BIS, *Innovation and Research Strategy for Growth*, 2011.
- ii Jakob Edler, Luke Georghiou, Andrew McMeekin, Elvira Uyarra, *Closing the Procurement Gap*, Manchester 2011.
- iii These included an e-procurement portal, CompeteFor, supported by the work of a dedicated Buyer Engagement Team (BET). BET worked to promote procurement opportunities with potential suppliers, and embed the use of CompeteFor amongst ODA contractors themselves to extend opportunities as widely as possible to supply chain contracts. Olympic Delivery Authority, *Lessons learned from the 2012 Games construction project*, 2011.
- iv Council for Science and Technology, *The NHS as a driver for growth*, September 2011.
- v The US government has recently reaffirmed its commitment to the programme: US Small Business Administration, “\$2.5 billion Small Business Innovation Research (SBIR) Program for small R&D firms extended 6 years”, SBA.gov, 3 January 2012. The scale of expenditure is several orders of magnitude greater than the UK equivalent, reflecting the requirement that larger government departments and agencies allocate 2.5% of their research budgets to the SBIR. David Connell, *“Secrets” of the world’s largest seed capital fund. How the United States Government uses the Small Business Innovation Research (SBIR) programme to support small technology firms*, Cambridge Centre for Business Research, 2006.
- vi National Audit Office, *The Procurement of Consumables by NHS Acute and Foundation Trusts*, February 2011.
- vii For instance, Rotherham NHS Trust adopted the Forward Commitment Procurement approach to a tender for new lighting. Starting with a definition of need that was framed in terms of the desired outcomes rather than existing products, the project resulted in an innovative and cost effective product that saved money, helped the trust meet energy efficiency targets, and positively improved its services to patients. NHS Sustainable Development, *Procurement Case Study: Rotherham Lighting Project*.