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CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PUBLIC PURCHASING POLICY
Note by the Central Policy Review Staff

Introduction

1. Public purchasing policy has already been identified by the Ministerial Steering Group on Government Strategy (MISC 14) as an area of particular importance, which could respond to a strong Government lead and which deserves to be given high priority in the immediate future. It was the subject of a number of the strategy proposals originally put forward by Ministers, all of them directed towards more vigorous use of public purchasing policy in promoting the interests and export potential of United Kingdom industry.
2. In the recent report made by the Chancellor of the Exchequer as Chairman of MISC 14 to the Ministerial Committee on Economic Strategy (E(79)84, discussed at E(80) 1st Meeting, Item 3), two important issues were identified:
 - (a) how to reconcile getting 'best value for money' on the individual purchase with the objective of promoting United Kingdom industry;
 - (b) how to ensure that specifications and standards required in certain major public purchasing operations (particularly in the nationalised industries) take sufficient account of the suppliers' other market opportunities, including export.
3. The Chancellor's report pointed out that a joint Treasury/DoI paper on public purchasing policy was being prepared for E Committee and that an ACARD working party on R & D in support of public purchasing was near completion. These are the two documents now before Ministers (E(80)15 and E(80)7). Together they provide the opportunity for Ministers to consider the issues, and to indicate how they wish policy (and practice) in this important area to be developed.

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Comment

4. The CPRS accepts much of the general analysis set out in E(80)13, but would like to draw special attention to the following:

(a) Scale of overseas purchasing. The percentage of direct purchases from abroad is estimated in paragraph 2 of E(80)13 at around 11 per cent for non-defence supplies ordered by Departments, and a similar percentage for nationalised industries and local authorities. This may seem a fairly low percentage, but -

(i) In money terms, even 11 per cent is very significant - around £1½ to £2 billion.

(ii) But the 11 per cent figure does not include foreign goods ordered from UK-based firms, nor the foreign components of goods assembled in the United Kingdom, nor foreign goods provided as part of a works contract. It therefore under-estimates - possibly seriously - the real degree of 'foreign' purchasing.

(iii) So far as Government Departments are concerned, the overall proportion is brought down by high PSA expenditure in a field where foreign purchasing is only between 1 per cent and 2 per cent. If PSA expenditure is excluded, the proportion of overseas and non-defence supply purchases is around 17 per cent rather than 11 per cent (including e.g. 25 per cent for CSD and 17 per cent for DHSS). In addition, there is evidence to show that this proportion has been rising slowly over the last five or six years.

All this suggests that we cannot afford to be complacent about the level of foreign purchasing, and that more effective systems of monitoring and control are needed.

(b) Best value for money. The CPRS does not question the importance of this general principle. In broad terms it serves the interests of the purchasing authority, the tax payer, and UK industry (by promoting its efficiency and competitiveness). But in an important minority of cases the conclusions to which 'best value' points will conflict, depending on whether priority is given to the interests of the immediate purchasing authority or the wider interests of "UK Ltd." (viz. UK industry including the tax payer), and depending on whether these interests are weighed against a shorter or longer timescale. The more important of such cases need to be identified and considered in a wider context.

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(c) International obligations. These are summarised at Annex B of E(80)13. It should be noted that the EEC supplies directive does not apply to nationalised industries, and that both nationalised industries and local authorities are excluded for the time being from the GATT Government Procurement Code which takes effect in 1981 (pressure may arise for its later extension). Since nationalised industries are larger purchasers than Government Departments, NHS and local authorities together, the exception to the EEC supplies directive is important. More generally, there is considerable evidence, as recognised in paragraph 11 of E(80)13, that our competitor countries, despite international obligations, use public purchasing both as an effective non-tariff barrier, and strategically as a way of launching new products and technologies. The CPRS believes that the United Kingdom cannot afford to be less active.

(d) Relationships with suppliers. The CPRS strongly supports the view that closer links between purchasers, suppliers and sponsor Departments need to be developed and maintained. Wider market opportunities, including export potential, can be frustrated by unnecessary and over-detailed specification by an influential purchasing authority. The variety of performance here (paragraph 13 of E(80)13) needs to be brought up to the standards of the best. In the specific area of R & D expenditure in support of public purchasing, the main theme of the ACARD report (E(80)7) is that suppliers should be given a much wider influence on R & D programmes, either through participation in R & D planning or through themselves taking over R & D functions. If Ministers accept the general conclusion, action will be needed to give it effect.

Scope for action

5. The great difficulty in public purchasing is to bring agreed general principles to bear on specific cases. If Ministers accept the general case for using public purchasing discriminately, but more vigorously than at present, in support of UK industry and UK suppliers, they need to be as specific as possible in prescribing relevant action. Unless effective pressures are brought to bear to ensure that immediate short term interest as perceived by a purchasing authority are in appropriate cases considered in a wider context, the balance will not be corrected. The main scope seems to lie in the following areas -

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(a) Ministers in charge of purchasing departments should be asked to ensure that the administrative measures already taken (Annex C of E(80)13) are actively implemented.

(b) The DoI should be asked to identify a selected number of specific areas - in addition to those at paragraph 2 of Annex C of E(80)13 - where it seems practicable and worthwhile to give priority to efforts to promote closer customer/supplier relationships.

(c) Ministers (whether from the sponsoring Department or from DoI or both together) should have discussions as proposed with nationalised industry Chairmen. Given the wide variety of practice and circumstances these might be more effective and specific if separate discussions were held with each industry. Pressure should be brought to bear to ensure that adequate 'early warning' systems are set up and informative progress reports delivered.

(d) In the case of local authorities, discussions with the associations should seek to establish (i) what significant areas of public purchasing are involved (e.g. office equipment), and (ii) how these might be influenced (e.g. it might be possible to arrange for similar administrative procedures as those for Government Departments to apply to central purchasing arrangements made by local authorities).

(e) Given that there are occasions when the interests of the purchasing authority will conflict with wider national interests (even when both have been properly assessed), Ministers may wish to ask DoI to propose criteria in specified areas under which industrial support expenditure could properly be applied to reconcile the conflict.

(f) The specific recommendations of the ACARD report (E(80)7) should be considered by the Departments concerned, and proposals for any resulting action brought back for consideration by Ministers.

(g) The Secretary of State for Industry and the Chancellor might be asked to report on progress on (a) to (e) above in, say, six months' time.

6. Finally, Ministers will wish to note two areas where relevant work is in progress:

(a) One of the strategy proposals was that public purchasing policy might do more to promote small firms (as part of the Government's

wider policies to promote this sector). Ways of encouraging small businesses to tender for Government business are currently being considered (paragraph 10 of E(80)13). Ministers may wish to be informed of the outcome.

(b) Public purchasers can and should have an important influence both in setting standards and in supporting them by their procurement practices. This is one of the issues which will be considered in the CPRS report on standards, which is due to be completed by Easter.

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