

GO INTERVIEW

Bob Hillman

Bob Hillman, Chairman of the London Contracts and Supplies Group, speaks to *GO* Features Editor **Morven MacNeil** about current procurement issues, including the implications of the Comprehensive Spending Review 2007 and Budget 2008.

The London Contracts and Supplies Group (LCSG) is one of the oldest and most successful local authority consortia in the UK. While the LCSG runs a portfolio of successful framework agreements for its members, saving the public purse millions of pounds, it is also successful as a networking and opinion-forming organisation. In addition, it delivers a range of strategic value-adding projects, discussion papers, seminars and learning and development activities and events, promoting better procurement thinking and practice in London and beyond.

GO spoke to LCSG Chair Bob Hillman about the Group's forthcoming annual conference and his thoughts regarding the implementation of CSR07.

What are the main benefits that end-users gain as a result of closer working between the public and private sectors?

'Closer working' covers a wide spectrum of potential relationships between the public and private sectors.

In its simplest form closer working means that, through appropriate and intelligent dialogue/engagement, end-users' requirements are better understood and thus able to be better matched by the marketplace.

It also opens up the possibility of continuous improvement over the life of a commercial relationship, with both sides sharing in improved efficiencies and savings. At the other end of the spectrum, complex long-term arrangements, such as PFI and PPP schemes, implicitly involve a much greater degree of sharing of risk and reward.

Typically, end-users can achieve significant benefits in the form of operational expertise and major inward investment in infrastructure and systems from the private sector in return for a long-term contractual arrangement.

HM Treasury has stated that Comprehensive Spending Review 2007 will include an ambitious and far-reaching value for money programme which will further develop the efficiency areas established in the Gershon Review. How do you think this will be achieved?

CSR07 builds on both the challenges and achievements of its predecessor CSR04 which, in turn, drew upon the recommendations of the Gershon Review and the guidelines in the National Procurement Strategy. I think that it's worth briefly reviewing the key elements of CSR04.

Principally, CSR04 set a target for each council to achieve 2.5 per cent per annum efficiency gains, with at least half those gains to be cash-releasing. Non-cash-releasing gains could count towards the total efficiency target and indeed efficiency projects already up and running during 2004-05 counted towards the target.

In the final analysis, £3.3 billion cash savings were achieved against a collective target of £1.5 billion (about £1 billion attributable to smarter procurement).

These gains were made through the various methods below, with the Regional Centres of Excellence (RCEs) often acting as a catalyst:

- greater use of professional buying organisations, eg consortia – including the LCSG
 - better understanding of key spend markets
 - increased collaboration at sub-regional level
 - growth in the use of e-procurement
- The public sector 'efficiency landscape' has seen significant changes over the past year as the Government has sought to establish a more integrated approach through:*
- a National Improvement and Efficiency Strategy

- combining RCEs and Improvement Partnerships into Regional Improvement and Efficiency Partnerships (RIEPs)
 - Local Area Agreements (LAAs) and Comprehensive Area Assessments (LAAs)
- Within this framework, CSR07 sets much tougher challenges for local authorities over the next three years. Councils are expected to achieve three per cent per annum cash-releasing efficiency gains. The collective target is almost £5 billion with procurement expected to account for almost 60 per cent of the total.

To meet these challenges we (local authorities) need to build on the progress made under CSR04. In particular we need to develop and implement deliverable procurement strategies which fit each LAA area; and to collaborate with colleagues to develop and implement shared procurement solutions in high-spend strategic areas.

Budget 2008 was unveiled recently; do you think it will encourage government departments to seek value for money?

CSR07 sits at the heart of the Government's 2008 Budget plans. It sets a very challenging annual savings target of £30 billion across central and local government as well as aiming to reduce central government's administration budget by five per cent per annum in real terms.

The targets are much tougher and significantly more challenging in the current expenditure review. This will, I believe, lead to government departments placing value for money improvements high on their priority list.

Also in the Budget, Chancellor Alastair Darling said he would look into the practicality of setting a goal for small and medium-sized enterprises (SMEs) to win 30 per cent of all public sector business in the next five years. What are your thoughts on this?

The SME sector is very important as a source of innovation and economic growth. At the start of 2004, SMEs accounted for:

- more than half (58 per cent) of all UK employment (small enterprises accounting for 46.8 per cent; medium-sized enterprises accounting for 11.7 per cent)

- more than half (51.3 per cent) of the UK's estimated business turnover of £2400 billion (small enterprises accounting for 37 per cent; medium-sized enterprises accounting for 14.3 per cent)

These businesses merit support through simplification of processes and reduction of time spent in prequalifying and bidding for public sector business.

John Denham, Secretary of State for Innovation, Universities and Skills has launched the White Paper *Innovation Nation* which concludes that the power of government spending must be harnessed to create demand for innovative products and services. Do you agree with the findings?

I would agree in principle that public sector expenditure can be a powerful force to incentivise development of innovative products and services.

The tools and techniques ultimately employed will, however, have to be carefully thought through and intelligently implemented with clearly defined outcomes.

Mervyn King, Governor of the Bank of England, has issued a strong warning about the current state of the world economy. What impact do you think an economic downturn would have on public procurement?

Economic growth in the OECD's 30 members — which include the US, UK, Germany and France — is forecast to slow to 2.3 per cent in 2008 from 2.7 per cent in 2007.

China, not an OECD member, risks overheating its economy, according to the OECD. The organisation urges the Chinese government to allow the yuan to appreciate more rapidly.

The impact on public procurement is difficult to predict, but we can expect some companies seeking to maintain their order books to redouble their efforts to follow up on procurement opportunities, which could lead to greater competition. Conversely, where companies seek to consolidate/trim their costs, focusing their activities on markets that are familiar to them, we may find this leads to fewer entrants in 'new' market areas.

China's economy is already showing signs of higher inflation levels which will

feed through into higher input costs, pressure on exchange rates and higher import prices for the UK.

Given there is the predicted economic downturn, what volume of opportunities will there be for purchasers?

The latest Bank of England lower-end forecasts for growth for the UK are 1.75 per cent (2008), 2.25 per cent (2009) and 2.5 per cent (2010). This projected growth is greater than that projected for Japan, USA and the Eurozone.

Opportunities will arise from companies seeking to vigorously follow up on procurement opportunities, hence greater competition.

The build-up to the London Olympics in 2012 will have a huge impact on demand for services such as construction. What impact do you believe this will have on

projects for the public sector, not least in terms of cost, demand for resources and delivery times?

With a total budget of over

£5 billion for preparing for 2012, this is one of the biggest construction programmes being undertaken in the UK over the next two to three years.

'Big ticket' items include civil and construction works which will account for some £2.5 billion, transport projects at £800 million, and a further £1.2 billion for the Olympic Village and Park-wide projects. Clearly this will attract a large proportion of available resources in the construction industry and may result in a shortfall in certain trades and disciplines available for other projects in and around London. Almost inevitably this will lead to longer lead-times and higher costs for other clients looking to commission works during this period.

You are set to address the LCSG Annual Conference in May. What will be your main message?

The tough new financial challenges facing London local authorities demand that we build on our good progress and notable achievements, in particular those registered over the past three to four years. This work has proven the principle; now we have to forge ever-closer links in order to spread best practice much more

widely and establish new partnerships to achieve optimum results across the whole spectrum of council services.

The new government efficiency agenda focuses on achieving results through partnership working — it has never been more important to collaborate effectively.

What key message do you have for procurement professionals in 2008?

There has never been a potentially more exciting period in which you can demonstrate the benefits that your professional skills can bring to your authority. However, the optimum outcomes can only be achieved through close collaborative working. You therefore need to ensure that you are able to work effectively in partnership with others. Seize the agenda and provide leadership by developing and implementing challenging but deliverable procurement strategies suited to the needs of your area.

Thank you for speaking to GO. 

A BRIEF HISTORY



Mr Hillman's early career was in printing and paper manufacturing before joining local government in 1982 with Bexley Council as Principal Contracts and Purchasing Officer. More recently, he headed up Bexley's Corporate Procurement Unit helping develop Bexley's policies in line with the National Procurement Strategy, before retiring in 2004. On a professional level, Robert represented London on the SOPO National Executive Council for two years. Also active on CIPS, he became a member of the National Council in 1992. He now provides consultancy services in procurement and project management and is currently the Chair of the LCSG.

Further information

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www.lcsg.org

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