

Audit Conclusion from Audit

17/24

Public procurement within state administration and the use of centralised contracting

Key facts

Public procurement market



CZK 486 billion

CENTRALISED PROCUREMENT RESORT SYSTEM



CZK 45.2 billion

Estimated annual volume of public contracts*

→ **CZK 8.2 billion**

Real volume of public contracts in 2016

Of which: Ministry of the Interior CZK 4.4 billion;
Ministry of Finance CZK 0.3 billion; Ministry of Regional
Development 0.03 CZK billion



470 public contracts**

in 2016

CENTRAL STATE PURCHASING



CZK 0.011 billion

Real volume of public contracts in 2016



1 public contract

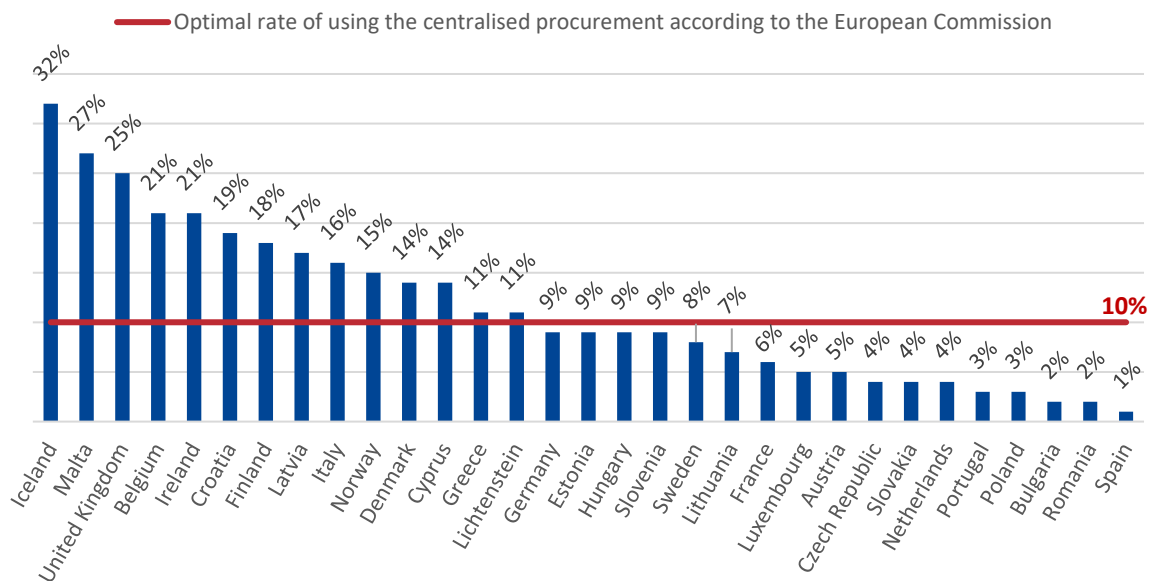
in 2016

Explanatory Notes:

* MRD estimate in 2011 (Document No. 732/11 for Government Resolution No. 563 of 20 July 2011).

** According to the *Report on Evaluation of Centralised State Procurement and Purchasing Resort Systems for 2016*.

Rate of Using Centralised Procurement in Individual EU Member States in 2016



Source: EU public procurement according to the “cooperative procurement” indicator available at:

http://ec.europa.eu/internal_market/scoreboard/performance_per_policy_area/public_procurement/index_en.htm.

I. Summary and Assessment

There are two parallel centralised procurement systems in the Czech Republic. The Centralised Procurement Resort System (hereinafter the “CP RS”) has been used since 2012 and it is considered as functional according to the SAO (Supreme Audit Office), as opposed to the central state purchasing (hereinafter the “CSP”). Although the government meant to significantly strengthen the economic effects achieved via CP RS by implementing the CSP, **after four years of the commencement of its preparations, the CSP considerably lags behind the original governmental plans.**

According to the Ministry of Regional Development (MRD) data¹, the public procurement market reached CZK 486 billion in 2016. The European Commission considers the optimal rate of using the centralised procurement to be at 10% which corresponds to a volume of contracts worth CZK 48,6 billion. However, the Czech Republic fails to achieve this rate. **When the CP RS was being implemented, it was expected to award public contracts in the amount of CZK 45.22 billion. In 2016, the RS CZ volume amounted to CZK 8.2 billion.**² Therefore, the expected RS CZ potential is not being utilised.

In comparison to CP RS, **there was a single public contract awarded in the CSP** for the purchase of office paper and the volume in 2016 amounted only to **CZK 11 million** (CZK 36 million in the following year).

The CSP system is not functional, particularly for the following reasons:

- the involvement in CSP is voluntary unlike CP RS;
- in both centralised procurement systems, the same commodities may be purchased and, the example of *the office paper* commodity as the only public contract in CSP shows that the price achieved in CSP was not lower than in CP RS;
- technical or functional standards are not approved, with the exception of technical standards for passenger cars. However, the approved technical standards are one of the prerequisites for the optimal operation of CSP;
- there is no electronic tool supporting CSP which would comply with the needs of central purchasing bodies, in particular, in the area of gathering the requirements from the contracting authorities.

The obligation to implement CP RS is assigned to **16 central government bodies** (hereinafter the “CGB”) which oversee over 500 organisational state units and state-funded institutions. Although CP RS was supposed to, among other things, bring about a reduction in administrative burden, the implementation of exceptions while purchasing the commodities tailored to the specific needs of the contracting authorities increases the administrative

¹ Given the fact that the MRD may ensure the access to all aggregated data on public procurement only against payment to the information system vendor, the SAO used the data published in the *2016 Annual Report on Public Procurement in Czech Republic*.

² According to the *Report on Evaluation of Centralised State Procurement and Purchasing Resort Systems for 2016* (hereinafter the “Evaluation Report for 2016”). The report for 2017 had not been finished by the time the audit ended.

burden. For example, the Ministry of the Interior (MI) approved 398 requests for exception for the purchase of *the office supplies, computers and equipment* commodity categories in 2017. The central purchasing bodies and contracting authorities are also burdened by the obligation to annually calculate the savings of the public contracts awarded in CP RS and, moreover, these are misrepresented. **The reduction of administrative costs and streamlining purchasing processes is not monitored and evaluated in all CP RS nor in CSP.**

The obligatory commodity purchase in CP RS only applies to their purchase and other methods of acquisition (e.g. rent) are not included in this obligation, even though they may be more economical.

The MI continually analyses the conditions on the public procurement market and evaluates the suitability of centralised purchase of commodities in CP RS; therefore, it has established a specialised department for centralised procurement as the only one of the audited entities.

In 2014, the government issued a decision to include software product purchases in the CSP. Since the MI as the central purchasing body has been ensuring these purchases for entities from the entire public administration since 2008, SW purchases cannot be considered a benefit arising from the CSP implementation. The SW purchases amounted to the total of CZK 3.39 billion for years 2014 to 2017. The framework agreements guarantee a discount on the listed prices to all customers. When purchasing SW for MI, Ministry of Finance (MF) and MRD, the guaranteed discounts were achieved in accordance with the framework agreements; in some cases, the discounts obtained were even higher. **Centralised SW purchase allows contracting authorities to purchase the software products quickly and easily along with the professional support of the central purchasing body.** SW is one of the most purchased commodities through centralised procurement in terms of the financial volume.

The SAO has not detected uneconomical spending in the selected sample of centrally purchased commodities of SW, paper, passenger cars and furniture.

The MRD is the administrator of the public procurement information system which contains data from the *Publication subsystem (Věstník veřejných zakázek)* and makes it available to the general public. The MRD may only gain access to all aggregate data on public procurement for a fee. **By the time the audit ended the MRD had not reduced the dependency on the information system supplier, so called vendor lock-in.**

Based on the weaknesses identified in the centralised procurement, **the SAO recommends** reevaluating the existing centralised procurement system setting, in particular then to:

- focus on reducing the administrative costs and evaluating non-financial benefits;
- ensure overall electronization of the centralised procurement process according to the needs of central purchasing bodies and contracting authorities which would also allow automated monitoring and evaluation of financial benefits, including the price development of purchased commodities;
- reassess the scope of mandatory purchased commodities with regard to the benefits and negative impacts on centralised procurement.

Annex: International Comparison

In the context of international cooperation³, the SAO compared the setup of centralized public procurement systems in the state administration in Finland, Austria, Hungary, Portugal and Slovakia. European legislation⁴ has broadly defined the functioning of the centralized public procurement system, leaving the specific approach left to national legislation. Thus, there is no unified approach to centralized public procurement in Europe.

Table 1: Comparison of centralized public procurement systems in selected countries

Reviewed area	Czech Republic	Slovakia	Finland	Hungary	Portugal	Austria
Centralized public procurement system at state level	Yes	Not established	Yes (including municipalities)	Yes	Yes	Yes
Centralized public procurement system at sector level	Yes	Not established	Not established	Not established	Yes	Not established
Obligation to purchase commodities through the centralized public procurement system	Yes (for selected entities)	No	Yes (for selected entities)	Yes (for selected entities)	Yes (for selected entities)	Yes (for selected entities)
Funding for centralized public procurement	From the budget of the central purchasing body	From the budget of the central purchasing body	Fees	Fees and budget of the central purchasing body	Fees and budget of the central purchasing body	From the budget of the organisation
Quantification and monitoring of the benefits of centralized procurement system	Yes (savings were assessed for individual orders)	-	-	-	Yes (transaction costs and economies of scale were assessed)	Yes (purchases and development of centralized procurement were evaluated)

Source: Information found in the audit and in the framework of international cooperation of the supreme audit institutions.

³ International cooperation was carried out on the basis of Section 16 of Act No. 166/1993 Coll., on the Supreme Audit Office. The SAO addressed the Supreme Audit Institutions of selected countries.

⁴ See Directive 2014/24/EU of the European Parliament and of the Council on public procurement and repealing Directive 2004/18/EC.

Centralised Public Procurement Systems

The common feature of the centralized public procurement systems in **Austria, Hungary, Portugal** and **Finland** is the existence of a specialized, state-run or state-controlled entity that establishes centralized public procurement system throughout the state administration (henceforth "at state level"). The distinction in each country lies, in particular, in the legal form of the responsible entity.

In **Austria**, Bundesbeschaffung GmbH (hereinafter referred to as "BBG"), which is owned by the Federal Government, is responsible for the centralized award of public contracts and is subject to supervision by the Austrian Federal Minister for Finance

In **Hungary**, centralized public procurement is carried out by the Directorate-General for Public Works and Supply which is subordinated to the Ministry of National Economy.

In **Portugal**, the governmental entity eSPap⁵, which is subordinated to the Ministry of Finance, is responsible for centralized public procurement. Apart from eSPap, there are also territorial central purchasing bodies, but they purchase other commodities than eSPap does.

In **Finland**, the role of the central purchasing body is exercised by two organizations, which are: Hansel, an organization subordinate to the Ministry of Finance, which carries out centralized public procurement at state level, and Kuntahankinnat, a non-profit organization owned by the Association of Finnish Local and Regional Authorities⁶ and acting as a central purchasing body for municipalities.

In contrast, in **Slovakia** no specialized body is set up to purchase commodities at state level through centralized procurement. The law provides the possibility of using centralized procurement. If the contracting authority is the Slovak Republic represented by its contracting authorities and the value of public procurement for the commodities listed in the by law presumed implementing regulation is above threshold, the Ministry of the Interior of the Slovak Republic in cooperation with the Ministry of Finance of the Slovak Republic implements all activities related to the centralized procurement. The law in this section is not applicable as the relevant implementing regulation has not yet been approved.

In the **Czech Republic**, a system of centralized state procurement, the so-called "Central Purchasing of the State", is being introduced. The Ministry of Finance and the Ministry of Interior will be the central state purchasing bodies. At the same time, sectoral centralized procurement systems are being introduced which must be established if the conditions are to be met⁷.

⁵ A Entidade de Serviços Partilhados da Administração Pública

⁶ Association of Finnish Local and Regional Authorities, more at: <https://kuntahankinnat.fi/en>

⁷ The central government bodies carry out the administration in their defined areas of competence. These offices are not governed by any other office but, as a rule, by the government. An example of central government bodies are ministries.

Obligation to purchase commodities through centralized public procurement system

The range of entities (contracting authorities) that are obliged to purchase commodities through the central purchasing body is similar in **Austria, Hungary** and **Portugal**. The central government bodies⁸ in these countries (in the case of **Austria**, all federal institutions) are obliged to purchase goods through the central purchasing body⁹. Other public entities can do so voluntarily.

In **Finland**, procurement of commodities through the central purchasing body is voluntary for most entities, with the exception of certain public entities which have the obligation to use the framework contracts concluded by Hansel, the central purchasing body, for selected commodities. Municipalities purchase commodities through the Kuntahankinnat organization on a voluntary basis¹⁰.

In the **Czech Republic**, no obligation to purchase commodities through centralized procurement system is set at the state level. However, central government bodies have the obligation (in compliance with the conditions laid down by the government¹¹) to establish a system of sectoral centralized procurement system and purchase defined commodities only through this system.

In **Slovakia**, no entity has the obligation to purchase commodities through centralized public procurement system. The use of centralized procurement system is voluntary for all contracting entities.

Scope of Commodities Acquired

The range of centrally purchased commodities is very similar in the compared countries (except Slovakia). In all these countries, electricity, gas, furniture and ICT commodities (software and hardware) are purchased centrally at state level. Other centrally purchased commodities are, for example, health care and cleaning services in **Portugal**, and the provision of transport in **Hungary**. In **Austria**, besides cleaning and transport services, e.g. newspapers and books are purchased centrally as well.

The common feature of the centralised procurement systems in **Portugal** and the **Czech Republic** is the existence of sectoral centralised purchasing bodies. Sectoral purchasing bodies in **Portugal** purchase only resort-specific commodities. On the contrary, in the **Czech Republic**, the sectoral central purchasing bodies purchase obligatory also the commodities, which should be purchased centrally at state level¹², and in addition to the commodities set, the individual sectors can centrally purchase other commodities.

⁸ All or legally defined central government bodies.

⁹ Except, for example, institutions providing army or national security.

¹⁰ Central purchasing bodies Hansel and Kuntahankinnat will merge into one entity at the beginning of 2019.

¹¹ Each central government body that has more than two subordinate organizations is required to establish the sectoral centralized procurement system.

¹² The scope of commodities is similar and is defined by Government Resolution no. 24 of January 18, 2016, on sectoral centralised public procurement systems following the rules for the Central Purchasing of the State, and by Government Resolution No. 913 of 9 November 2015 on Information on Preparation for

Financing of the centralized public procurement system

There are two basic approaches to financing of the central purchasing body's activity. The first approach is to finance the central purchasing body through its own budget, or through the state budget and is applied in the **Czech Republic or Austria**. The second approach to financing the central purchasing body's activity through a fee is applied in Finland where the central purchasing body charges suppliers up to 1.5% of the contract value. In **Hungary and Portugal**, a combination of both approaches is applied, i.e. the activity of the central purchasing body is covered both by the budget of the central purchasing body (or by the state budget) and by the fees paid by contractors.

Quantification and monitoring of the benefits of centralized public procurement

The approach to monitoring benefits or monitoring savings achieved through centralized public procurement is different in the **Czech Republic** than in the compared countries. Each central government body that has introduced a sectoral centralized procurement system is required to quantify the savings achieved each year for each individual contract. Three types of methods are used to calculate savings. Other benefits than achieved savings (such as reducing administrative burden, streamlining processes) are not evaluated.

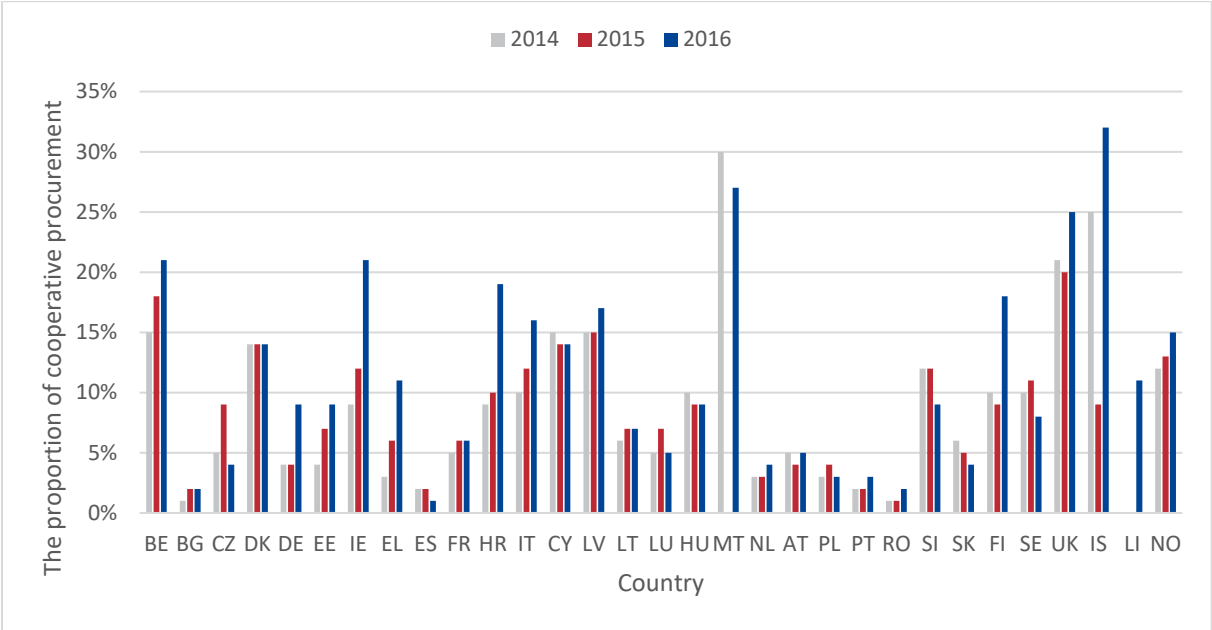
In contrast, in other compared countries, savings are not quantified at the level of individual public procurement contracts, and the benefits are assessed in a comprehensive way. E.g. **Portuguese** eSPap quantifies savings through data available from the electronic system and further monitors transaction costs and economies of scale. The **Austrian** BBG processes regular reports that compare purchases and assesses the development of centralized procurement as a whole.

The European Commission uses the "**Cooperative Procurement**"¹³ indicator to monitor the use of centralized public procurement system in individual countries and considers 10% as an optimal centralized public procurement rate. If the indicator does not reach 10% in the country, the European Commission considers the level of centralized procurement to be insufficient. Indicator values for 2014 - 2016 are shown in Graph 1.

Central Purchasing of the State and the draft central purchasing framework schedule for the years 2016-2020.

¹³ The indicator is calculated from the data published in the Official Journal of the EU where all mandatory public contracts above the EU threshold level are published and other public contracts are published voluntarily here.

Graph 1: Cooperative Procurement Indicator in 2014-2016



Source: Public procurement in the EU is available at:
http://ec.europa.eu/internal_market/scoreboard/performance_per_policy_area/public_procurement/index_en.htm

In the compared countries, the 10% limit was exceeded by only Finland in 2016 with a centralized public procurement rate of 18%. The Czech Republic and Slovakia reached 4% in 2016, Portugal 3%, Austria 5%, and Hungary 9%.