The Commercial Ineptitude of the Public Sector

Procurement and Supply Chain Management Made Simple.

Foreword

Public procurement is frequently discussed through the language of legislation, procedure, governance and compliance, yet considerably less attention is given to whether public organisations are genuinely good at buying. With hundreds of billions of pounds passing annually through contracts for goods, works and services, that distinction matters enormously. Following the correct procurement process is unquestionably important, but procedural correctness alone does not assure that the resulting commercial decision represents genuine value for money.

Commercial ineptitude is deliberately provocative terminology, but it does not suggest that every public-sector procurement professional or organisation performs poorly. Many excellent examples of sophisticated commercial practice exist across government, local authorities, social housing and other public bodies. The concern is instead that recurring weaknesses remain remarkably persistent, despite successive legislative reforms, professionalisation initiatives and procurement strategies intended to improve how public money is ultimately converted into effective services, sustainable contracts and measurable outcomes.

A career spent within procurement and supply chain management repeatedly demonstrates the difference between running a compliant tender and securing a genuinely good commercial deal. Specifications, evaluation methodologies, pricing structures, supplier margins, inflation mechanisms, risk allocation and contract management all influence eventual value. None can be reduced simply to completing the correct documentation, observing statutory timescales or demonstrating that several suppliers were provided with an opportunity to compete through a demonstrably fair and transparent procurement process.

Social housing provides a particularly revealing environment in which to examine these issues. Registered providers procure substantial programmes covering repairs, maintenance, construction, decarbonisation and professional services, while simultaneously facing increasing financial pressure and heightened expectations from residents and regulators. Every pound unnecessarily surrendered through inappropriate indexation, poorly constructed pricing schedules, excessive framework charges, weak commercial challenge or uncontrolled variations is ultimately a pound unavailable for investment elsewhere in homes, communities and essential services for residents.

Procurement reform alone cannot guarantee better commercial outcomes. The Procurement Act 2023 provides significant opportunities for improvement, but legislation cannot supply commercial judgement, curiosity, challenge or negotiating capability. Those qualities must come from the organisations and professionals responsible for spending public money. The objective should never be merely to demonstrate that procurement was undertaken correctly, but to demonstrate that the resulting commercial arrangement was intelligent, sustainable, appropriately challenged and capable of delivering measurable value throughout its contractual life.

The Commercial Challenge: £434 Billion of Public Spending

UK public sector procurement totalled £434 billion in 2024/25, an increase of £19 billion on the previous year and roughly a third of total public expenditure, making its mismanagement particularly consequential. For social housing providers procuring repairs, maintenance and new-build contracts worth billions annually, commercial competence cannot be peripheral. Yet errors in pricing, evaluation, competition and contract management continue to resurface across sectors, decade after decade, despite repeated attempts at procurement reform.

Although a new legislative regime has arrived, many established commercial habits remain. The Procurement Act 2023 came into force on 24 February 2025, replacing the Public Contracts Regulations 2015 and introducing the "Most Advantageous Tender" test in place of MEAT, alongside mandatory pipeline notices and a single digital platform. Revised procedures cannot themselves correct decades of weak commercial practice. Legislation can reshape procurement processes, but it cannot manufacture the commercial judgement upon which genuine value ultimately depends.

Social housing has particular exposure to these commercial weaknesses because registered providers depend heavily on third-party frameworks, including Fusion21, LHC, Procurement for Housing and CHIC, to deliver repairs, decarbonisation and development programmes worth hundreds of millions of pounds. From April 2026, the rebranded Government Commercial Agency assumed a stronger central role in professionalising commercial capability. Nevertheless, framework convenience can still substitute for rigorous commercial scrutiny when individual call-offs and supplier appointments are actually undertaken.

Against this background, the following article examines ten recurring commercial weaknesses within UK public procurement, ranging from mismeasured inflation and framework dependency to weak evaluation, abnormally low tenders and contract management that deteriorates after award. Each weakness is illustrated through real organisations, named throughout, whose documented experiences demonstrate precisely what commercial ineptitude can cost taxpayers. More importantly, these cases demonstrate what disciplined, informed and genuinely commercial purchasing should look like when public money is treated with appropriate commercial rigour.

Mismeasuring Inflation: Why CPI and RPI Distort Costs

Many public contracts continue to use the wrong ruler when indexing annual price increases, relying upon the Retail Prices Index or Consumer Prices Index, which measure household spending on items such as food, clothing and fuel. Construction and maintenance costs behave differently. BCIS analysis placed general building cost inflation at 3.8% in March 2026 against CPI of 3.3%, a gap understating the true annual cost pressure on a £10 million contract by roughly £50,000.

Input indices matter because the Purchase Price Index (PPI) and construction-specific measures such as Building Cost Information Service (BCIS's) Price Adjustment Formulae Indices track what contractors actually pay for materials, labour and plant, drawing upon the Office for National Statistics (ONS) PPI Index rather than household spending patterns such as the RPI or CPI Indexes. JCT and NEC contracts both provide for this form of adjustment precisely because it reflects the contractor's real cost exposure, rather than forcing an estimate based upon unrelated consumer inflation into the original tender price.

Badly designed indexation can cut both ways commercially. Broad CPI-linked uplifts can provide suppliers with windfall increases unrelated to movements in their actual cost base. At the same time, overly rigid fixed pricing encourages contractors to incorporate defensive inflation contingencies into their tender prices instead. Social landlords negotiating multi-year repairs and decarbonisation contracts should therefore specify an index that genuinely reflects the works being undertaken, rather than simply selecting whichever published measure happens to be easiest to locate and cite.

The commercial consequences of selecting the wrong index are rarely obvious during the first year because the financial effect compounds steadily thereafter. Across a five-year repairs contract, a one-percentage-point annual difference between a general index and actual construction cost movements can remove six figures from a landlord's budget, or provide a supplier with margin that nobody intended, creating precisely the type of commercial exposure that few evaluation panels are adequately equipped to identify before contract signature.

The Framework Illusion: Convenience at a Price

The convenience offered by third-party frameworks can carry a significant price tag, with some framework providers levying operational charges on suppliers calculated against the value of contracts awarded through them. Published commentary on the National Audit Office's July 2024 report on centralised purchasing has cited charges reaching as much as 6% of contract value, creating a cost that suppliers must ultimately accommodate within their commercial models. The NAO also identified duplication and increased bidding costs across an estimated £259 billion of annual expenditure.

The National Audit Office warned that greater oversight of framework agreements could save the public purse an estimated £500 million, criticising insufficient scrutiny of whether providers' pricing structures, growth incentives and commercial terms represented the best available route to market for buyers. Its findings suggested that contracting authorities too often defaulted to established frameworks because they offered speed and procurement compliance, rather than independently testing whether the chosen framework actually represented genuine value for money.

Not-for-profit frameworks within the housing sector demonstrate that the framework model itself is not necessarily the problem when appropriate commercial governance is applied. LHC, established in 1966 as a not-for-profit central purchasing body, reported saving the equivalent of £27.7 million in management and administration costs on £210 million of purchases in a single year, while Fusion21 recorded £13 million of efficiencies on £67 million of investment, demonstrating that framework governance ultimately determines the value delivered.

For social landlords, the important commercial lesson is that frameworks provide a procurement route rather than an automatic guarantee of value. Registered providers should interrogate a framework's fee structure, supplier margins and mini-competition rigour with the same commercial discipline that would be applied to an open tender. Framework membership should never become a permanent substitute for commercial scrutiny, particularly when determining whether each individual call-off continues to represent the most appropriate and economically advantageous purchasing decision.

Before the Tender Begins: Getting the Requirement Right

Effective procurement specifications should describe the outcomes required rather than prescribe precisely how a supplier must deliver them, because excessive prescription restricts innovation and prevents bidders proposing more efficient delivery models. When combined with inadequate preliminary market engagement, authorities can enter procurement with limited understanding of market capacity, contemporary pricing or emerging commercial models. The procurement strategy is consequently fixed before potential suppliers have been given any meaningful opportunity to inform, challenge or improve the proposed approach.

Birmingham City Council provides a striking example of the consequences when requirements and business processes are inadequately understood. The Council began replacing its SAP finance system with Oracle Fusion in 2019, with an original budget of £19 million. Subsequent analysis identified systemic business-process and specification failures, with projected costs reaching £216.5 million by 2026. The Oracle difficulties formed part of the Council's wider financial crisis preceding its September 2023 Section 114 notice, alongside a substantially larger equal pay liability.

Procurement specifications can gradually accumulate preferences and desirable features that *provide little measurable operational benefit, while each additional requirement potentially reduces the number of suppliers willing or able to compete. Every mandatory condition, whether a particular certification, arbitrary turnover threshold or unnecessarily bespoke reporting format, should therefore be challenged against genuine operational necessity. Requirements inherited from previous contracts should never automatically survive into their replacements simply because they have become embedded through many years of established and unchallenged organisational practice.*

Accurately forecasting an organisation's actual demand is equally important because poor visibility of anticipated volumes, stock condition, or asset numbers forces suppliers to incorporate contingency into tender rates from the outset. Social landlords procuring responsive repairs or void works without robust and current stock condition information are effectively asking bidders to price uncertainty rather than genuine identifiable risk. The resulting contingency increases expenditure without necessarily providing any corresponding improvement in the service ultimately delivered to tenants.

Scoring the Wrong Things: When Evaluation Undermines Value

Getting the balance between price and quality wrong can fundamentally distort a procurement outcome. Excessive price weighting may award the contract to the cheapest bidder despite inferior whole-life value, while excessive quality weighting can reward marginal improvements carrying substantial cost premiums. Poorly constructed evaluation methodologies create problems in either direction, particularly where panels insufficiently challenge commercial assumptions, proposed resources, overhead recovery and supplier margins concealed behind an exceptionally polished and persuasive tender method statement.

Carillion demonstrated the consequences when commercial warning signs are insufficiently reflected in public procurement decisions. The company held 420 live public sector contracts when it collapsed in January 2018, despite receiving £1.9 billion of new taxpayer-funded work after revealing a financial black hole in July 2017. The Cabinet Office did not increase its risk rating to "red" until September, while no evaluating body concluded that procurement rules then in force provided grounds to disqualify Carillion's bids.

Evaluation can also end up scoring the promise rather than assessing the likelihood of subsequent delivery. Suppliers skilled at producing sophisticated tender responses do not necessarily provide superior operational performance after mobilisation. Commitments concerning staffing levels, technology, response times and social value can achieve substantial evaluation scores yet receive comparatively little scrutiny once delivery begins. Authorities may consequently discover the difference between the written tender commitment and operational reality only considerably later, when the contract has already been awarded.

The quality premium should therefore be subjected to an explicit commercial test rather than assumed to represent value simply because an evaluation methodology produces a higher overall score. Where a supplier scores marginally higher against a 30% quality weighting but submits a price 15% above a competitor, authorities should explicitly monetise and interrogate that difference. The fundamental question remains whether the additional quality being purchased genuinely provides sufficient measurable benefit to justify the additional price being paid.

Commercial challenge should not automatically end when tender prices are submitted. Where the chosen procurement procedure permits negotiation or clarification, authorities should test assumptions concerning staffing, overhead recovery, margins, mobilisation, risk allowances and proposed contractual terms before accepting that the submitted position represents the supplier's best commercial offer. Private-sector buyers routinely challenge these components of a deal. Public bodies that regard negotiation as somehow incompatible with procurement discipline can unnecessarily surrender legitimate commercial leverage before the contract has even begun.

Beyond the Tender Price: Understanding the True Cost of the Contract

Headline tender prices can conceal substantial future expenditure when mobilisation, maintenance, energy, consumables, variations and exit costs are excluded from evaluation. Contracts can consequently appear economical when signed but become considerably more expensive during subsequent years of delivery. Although whole-life costing is an established principle across most UK public procurement, many evaluation methodologies still fail to extend beyond comparatively simplistic year-one price comparisons between competing suppliers that have successfully reached the final tender shortlist.

Croydon Council illustrates the consequences of entering major commercial relationships without adequately understanding their complete financial implications. The Council transferred land worth considerably more to its wholly owned developer, Brick by Brick, in transactions described by Private Eye as being at "mate's rates", while lending the company almost £200 million without receiving interest or dividends. The Council subsequently issued a Section 114 bankruptcy notice in 2020, with auditors concluding investment decisions were "not grounded in a sufficient understanding" of the market.

Suppliers can recover margin through pricing mechanisms that receive considerably less scrutiny than headline tender rates. Ambiguous schedules of rates allow bidders to price highly visible, high-volume items competitively while recovering margin through call-outs, variations and lower-volume ancillary services. Without sufficiently disaggregated historical expenditure data, authorities cannot reliably determine whether the resulting pricing schedule accurately reflects their genuine purchasing profile or has instead been structured around the supplier's own strategic decisions concerning where future profitability will ultimately be generated.

Understanding where a supplier expects to generate profit is equally important when assessing whether a pricing model represents sustainable value. Management charges, subcontractor mark-ups, overhead recovery, rebates and margins on variations can materially alter the economics of a contract without appearing prominently in the evaluated headline price. Commercial scrutiny should therefore examine not simply what the authority expects to pay, but how the supplier expects to make money, particularly where open-book arrangements or significant volumes of additional work are anticipated.

Developing genuine should-cost discipline requires whole-life evaluation of occupancy, lifecycle replacement, energy and exit costs alongside the headline tender price from the outset. Pricing schedules should also be rigorously tested against actual historical call-off volumes before contract award, rather than retrospectively questioned after delivery has commenced. Commercial scrutiny becomes considerably less effective when it begins only after the first unexpectedly expensive invoice for a supposedly minor variation arrives unannounced on the finance team's desk several months later.

Shrinking the Field: Competition, Aggregation and SME Exclusion

Reducing the number of bidders invariably weakens the competitive tension that helps deliver better pricing and value for money. Restrictive financial thresholds, disproportionate insurance requirements and unnecessarily complex procurement documentation can discourage SMEs and other capable suppliers from participating. The Procurement Act 2023 places greater emphasis on removing unnecessary barriers facing smaller businesses, while government has separately maintained ambitions to direct a substantial proportion of public procurement expenditure towards SMEs, making proportionate procurement requirements commercially important as well as a matter of policy.

Single-bidder markets demonstrate why maintaining genuine competition matters. The National Audit Office's July 2023 report on competition in public procurement found that the Cabinet Office had neither established expected bidder numbers within major markets nor systematically monitored single-bidder trends across departments. Suppliers identified high bidding costs and limited confidence in the fairness of evaluation processes among the reasons for choosing not to compete, meaning that potential competition was already being reduced before tender opportunities were even formally published.

Aggregation can strengthen or undermine competition depending upon how intelligently requirements are structured. Consolidating fragmented departmental expenditure can improve purchasing leverage and significantly reduce duplicated supplier overhead. At the same time, excessively large lots can exclude SMEs and specialist suppliers capable of offering better quality or pricing for individual elements. Fusion21's regional lot structure, dividing national frameworks into local and service-specific lots, provides one deliberate design response to this recurring commercial trade-off between achieving economies of scale and maintaining accessible competitive markets.

Too Cheap to Be True: Testing Tender Prices

An exceptionally low tender price can sometimes reflect genuine supplier efficiency, but it may equally indicate omitted costs, misunderstanding or deliberate underpricing designed to secure market share regardless of longer-term consequences. English case law, including Varney v Hertfordshire CC, requires authorities investigating suspected abnormally low tenders to communicate specific concerns to the bidder, maintain a clear audit trail and provide an appropriate opportunity for the supplier to explain its pricing before any decision to reject the tender is made.

Carillion demonstrated the consequences of underbidding at considerable scale, building its final years around rapid acquisition and substantial debt. At the same time, evidence submitted to Parliament described wafer-thin profit margins and aggressive pricing used to secure work and maintain market presence. Approximately 30,000 suppliers and subcontractors were owed close to £2 billion when the company collapsed in January 2018, demonstrating the consequences when apparently competitive pricing proves financially unsustainable across a substantial portfolio of contracts.

Benchmarking becomes essential because authorities can mistakenly accept a tendered price simply because it is lower than competing bids, without external comparisons, historical analysis or should-cost modelling to establish whether any submission genuinely represents value for money. Every tender received could be comparatively expensive, or alternatively every tender could be unsustainably low. Without an independent commercial reference point against which prices can be tested, evaluators have no reliable means of determining which of those circumstances actually applies.

Establishing an informed should-cost position before entering the market significantly strengthens an authority's ability to challenge tender pricing, regardless of whether individual bids appear unexpectedly high or suspiciously low. That reference position should be developed before tender issue using historical expenditure, appropriate market intelligence or independent cost modelling. The relatively modest investment required to understand what a service should reasonably cost is insignificant compared with the considerable commercial and operational risks that this discipline can remove from the procurement process.

After the Ink Dries: Contract Management, Variations and Incumbency

Winning a competitive tender does not automatically mean that an authority continues to receive value throughout the resulting contract. Commercial gains secured through competition can rapidly disappear without robust KPIs, benchmarking, appropriate open-book scrutiny, and active challenge of invoices and post-award variations. Weak contract management is arguably one of the largest sources of lost value in UK public contracting, particularly because commercial performance after award often receives considerably less scrutiny than the competitive procurement exercise that originally established the contract.

Birmingham City Council's experience demonstrates how costs can continue compounding long after implementation. Its Oracle expenditure did not end with go-live in 2022. Having already spent more than £100 million, the Council awarded Oracle a further £9.987 million professional services contract in mid-2024 to stabilise a system that remained not fully functional, alongside £45 million identified in early 2024 alone to correct posting errors, with variations accumulating considerably beyond the scope originally envisaged and agreed.

Variations and specification changes can gradually erode the value established through a competitively tendered contract when they receive only a fraction of the commercial scrutiny applied during the original procurement exercise. Uncontrolled contract extensions create similar exposure when they are exercised simply because the underlying agreement permits them. The existence of an extension option should never remove the commercial discipline of periodically testing whether the incumbent supplier continues to represent genuine value against prevailing market prices, capabilities and alternative solutions.

Incumbency can become a commercial trap when familiarity with an established supplier gradually reduces competitive tension and historical pricing becomes accepted without testing whether superior alternatives have subsequently entered the market. Allowing an incumbent to become operationally indispensable can make credible competition particularly difficult when reprocurement eventually occurs. Effective contract management should therefore preserve competitive tension throughout the relationship, periodically benchmark performance and pricing, and ensure operational dependency never becomes an unintended barrier to meaningful future market competition.

Pricing Risk Badly: Allocation, KPIs and the Myth of Risk Transfer

Transferring contractual risk to a supplier does not eliminate that risk or its associated cost because contractors price the liabilities allocated to them into every tender submitted. An authority transferring every conceivable risk to its contractor therefore does not necessarily avoid paying for those risks; instead, it pays through increased tender prices, frequently including a substantial premium for contingencies that may never materialise. Intelligent risk allocation should place each risk with the party genuinely best equipped to manage it.

Interserve illustrates the importance of considering financial risk alongside procurement opportunity. The company secured a place on the £8 billion Homes and Communities Agency Panel in September 2017 despite its falling share price and steadily mounting debt. Subsequently, it continued winning major public contracts, including a £227 million DWP award. Interserve plc entered administration through a pre-pack arrangement in March 2019, with its operating businesses transferring to a lender-owned company and continuing to trade, thereby avoiding the immediate service disruption associated with Carillion's collapse.

Poorly conceived service levels can create unnecessary commercial risk when performance requirements extend substantially beyond genuine operational need. Suppliers inevitably price the additional resources, capacity and contingency required to meet those obligations, increasing tender costs without necessarily delivering corresponding value to the organisation or its residents. Service requirements should therefore reflect proportionate operational need and realistic risk exposure, ensuring authorities purchase the performance they genuinely require rather than paying a premium for contractual protection unlikely to provide meaningful practical benefit.

Reading the market's own warning signs should form an integral part of continuing supplier risk management. Interserve's financial distress, like the warning signs preceding Carillion's collapse, was visible through its declining share price and increasing debt levels well before its restructuring. Public bodies that monitor supplier financial health as rigorously as operational KPIs are considerably better positioned to understand and manage commercial risk appropriately, rather than discovering the true extent of their exposure only after financial distress has reached a critical stage.

Compliance Theatre: Procurement as Paperwork, Not Commerce

Procurement compliance is essential, but being procedurally compliant is not synonymous with securing good value for an organisation, its residents or taxpayers. Perhaps the most fundamental weakness within UK public procurement is its tendency to treat procurement principally as an exercise in demonstrating procedural compliance, rather than a commercial discipline requiring negotiation where appropriate, market intelligence, financial analysis and active management throughout the contract lifecycle. A perfectly compliant procurement can *still ultimately produce a commercially mediocre outcome.*

The scale of this problem was illustrated by the Public Accounts Committee in December 2023, which found that the government could not demonstrate value for money across £259 billion of procurement expenditure in 2021-22. Significant gaps were identified in the quality and completeness of published contract data, providing clear evidence that compliance with transparency and publication obligations had not translated into meaningful commercial oversight or demonstrated value for money across this considerable level of expenditure from the public purse.

High levels of investment alone provide no guarantee of successful outcomes. Social landlords collectively commit billions of pounds to repairs and maintenance. Yet, the Housing Ombudsman continues to publish findings of maladministration involving major providers failing to meet tenants' basic repair requirements. The resulting contrast between substantial expenditure and delivered outcomes demonstrates the limitations of compliance-focused contract management, particularly where organisations measure whether money was properly spent without adequately establishing what that expenditure actually achieved for residents.

Genuine commercial capability requires strong procurement teams to combine lawful competition with negotiation where the chosen procedure permits it, informed market intelligence, rigorous commercial analysis and appropriate allocation of risk, followed by active contract management after award. None of these disciplines requires another piece of procurement legislation to achieve. Instead, organisations must recognise their procurement teams as professional commercial functions responsible for extracting sustainable value from expenditure, rather than administrative departments principally responsible for processing compliant procurement paperwork.

Summary: From Compliance to Commercial Confidence

These are not isolated procurement failures but manifestations of a recurring commercial pattern. From Birmingham's £216 million ERP failure to Carillion's collapse and Croydon's bankruptcy, the individual mechanisms differ considerably. Yet, familiar weaknesses repeatedly emerge: prescriptive specifications, insufficiently scrutinised pricing, weak evaluation challenge and contract management that gradually fades after signature. With £434 billion of annual public expenditure at stake, legislative reform alone cannot optimise procurement outcomes, however necessary and genuinely welcome that reform may be.

The Procurement Act 2023 should therefore be regarded as an opportunity to improve commercial practice rather than a solution in itself. Alongside the Government Commercial Agency's expanded remit from April 2026, it creates genuine opportunities to embed better practice, particularly through greater transparency and below-threshold flexibility for SMEs competing for smaller contracts. However, legislation reshapes process; it cannot replace should-cost modelling, whole-life evaluation and rigorous commercial challenge that contracting authorities must consciously choose to apply themselves on every procurement.

Social housing consequently requires considerably greater commercial discipline from registered providers managing billions of pounds in repairs, decarbonisation and development expenditure through frameworks and open tenders alike. Closing the gap between procurement that is merely compliant and procurement that is genuinely commercially astute is neither optional nor aspirational. It represents the difference between value demonstrably delivered to tenants and value quietly surrendered through indexation errors, framework fees, unchallenged variations and contracts whose true costs were never properly understood.