

CONSOLIDATED (CENTRAL) PUBLIC PROCUREMENT AS EFFECTIVE TOOL FOR THE COUNTY MANAGEMENT FOR RATIONALIZATION OF COSTS OF REGIONAL UNITS

Ivan LUKIĆ, univ.spec.oec.

Izabela BELIĆ, univ.spec.oec.

Davor VLAOVIĆ, univ.spec.oec

Brod- Posavina County,
Slavonski Brod

Abstract

Public procurement (PP) is a very important segment of the economy of each country, including the Republic of Croatia, especially if you take into account the fact that its value on an annual basis is between 10 and 15% of GDP, respectively 30 and 45 billion Croatian kuna.

Legal requirements for implementation of the procedure of unified or central procurement is given in Article 8 of the Public Procurement Act, which stipulates that entities may purchase goods, works and / or services from or through a central body for public procurement. This includes the establishment of an effective system of central procurement accountable to taxpayers and to all economic operators involved and publicly-cost environment in order to achieve savings in public spending, taking into account the optimal relation between quality and price of the purchased goods, works and services, taking into consideration ecological and socially acceptable solutions, sustainable ("green") public procurement and encouraging small and medium enterprises. Using the positive effects, with the awareness of the shortcomings and possible abuses (cor-

ruption), the county management, using the financial management and unified organization (central) Public Procurement (CPP) has a significant potential for reductions of cost, significant expense savings and increased efficiency of regional governments.

Keywords: *unified public procurement, regional units, rationalization of costs, the county management*

JEL Classification: H57, H83, J58

1. INTRODUCTION ANALYSIS

Every year more than 250,000 public authorities in the EU spend from 18-20% of GDP for the procurement of goods, works and services. Compared to period before the recession, the volume of public procurement in Croatia is, as is the GDP itself, constantly decreasing. In 2007 it amounted to 16% share in GDP, and in 2012 it fell to 11.9%, which can be considered a negative trend comparable with countries such as Greece. The total value of public procurement in the Republic of Croatia in 2013 amounted HRK 39,485,757,201¹, of which the total value of the published contracts and framework agreements in 2013 amounted HRK 33,148,035,625, value of recorded bargain purchase is HRK 6,335,248,494.¹

According to Central Bureau of Statistics, GDP for the year 2013 amounted 328,252 million HRK and, consequently, the share of the total value of public procurement in GDP for 2013 was 12.0%. (Graph 1).

Local and regional self-government units (hereinafter: LRSGU) concluded in 2013, 3122 contracts worth a total of 3.2 billion. HRK, or 14.67% of the total value of public procurement of all contracting authorities in the Republic of Croatia in the year, without the bargain purchase (Table no. 1).

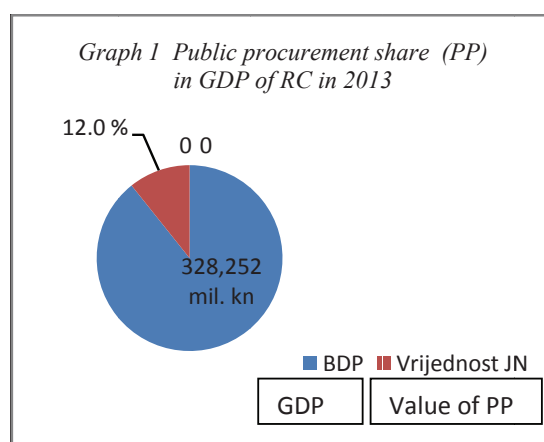
¹ Statistic report on public procurement in Republic of Croatia for 2013, Ministry of Economy, The Public Procurement Directorate, June 2014.

Table no. 1 Number and value of contracting authorities in 2013

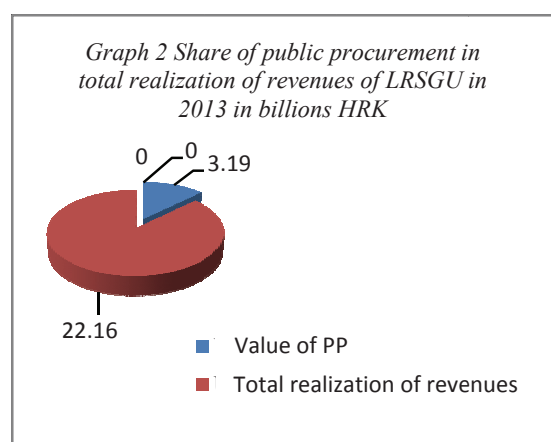
CONTRACTING AUTHORITIES	Number of contacts	%	Value	%
Ministries and other government bodies	1694	9.50	2,343,625,633	10.77
Government agencies/offices	172	0.96	75,702,535	0.35
LRSKU	3122	17.51	3,191,300,232	14.67
Local and regional agencies/offices	41	0.23	54,721,614	0.25
Legal persons	12,800	71.79	16,091,552,440	73.96
Total contracting authorities	17,829	100.00	21,756,902,454	100.00

Source: Authors' calculations based on data from the Statistical report on public procurement in the Republic of Croatia for 2013.

As the total budget realization of LRSKU in 2013 amounted 22.16 billion HRK, it is clearly seen what importance the public procurement has in the financial management of local government units. Hence, the management improvement and organization of public procurement has a significant potential for cost rationalization, cost reduction, and ultimately increase of efficiency of local communities.



Source: author's calculation



Source: author's calculation

The paper will describe the legislative and institutional framework for the implementation of central procurement, requirements which must be realized, as well as positive effects and drawbacks and challenges (corruption) in the implementation process of central public procurement. Special emphasis is given to the role of local management in the implementation of central procurement procedures using the example of Brod Posavina County with reference to the financial effects and reductions, as well as recommendations for the future.

2. THE LEGISLATIVE AND INSTITUTIONAL FRAMEWORK FOR THE IMPLEMENTATION OF CENTRAL PROCUREMENT

By joining as a full member of the EU, the Republic of Croatia has adopted legislation that regulates the establishment of central or centralized public procurement of the member states as provided in the Public Procurement Directives (2004/17 / EC and 2004/18 / EC) which contain specific provisions on the bodies for central procurement. These directives allow member states the adoption of public procurement regulations containing provisions relating to the authority of the bodies for central procurement bodies (CPB). Basically, the establishment of CPB is not mandatory, but is one of the possibilities that are available to the member states.

Croatian Public Procurement Act (PPA) regulates public procurement procedures of all values in which the contracting authorities and tenderers sign contracts for public works / goods / services, the responsibility of the Public Procurement System of the Ministry of Economy, Labour and Entrepreneurship and the State Commission for supervision of Public Procurement and legal protection in relation to public procurement procedures. PPA regulates the procedures for granting concessions for public works and procedures of conclusion of public works carried out by concessionaires who are not contracting authorities within the meaning of the Public Procurement Act. Besides the already mentioned PPA the legislative framework for public procurement makes a number of other laws: the Law on Concessions, the Law on Public-Private Partnerships and the Law on the State Commission for Supervision of Public Procurement and other related laws (Law on Administrative Procedure, the Law on Obligations, Law on Administrative Disputes) and regulations eg. Regulation on conditions for applying the Common procurement Vocabulary, the Regulation on announcements and records of public procurement, etc.

Centralized or central public procurement in the EU countries in the past has been organized on the principle of monopoly model, where the central office of the Public Procurement procures goods and services, followed by TSN state administration was obliged to purchase necessary goods and services from the central office, which is often a warehouse function. This model is now largely abandoned in favor of a more decentralized and flexible model.

Another approach to central or centralized public procurement is the use of specialized agencies that are established for the procurement of specialized goods and are able to offer better prices, quality and delivery times.

The third form of centralized procurement takes place at *regional and local level* and will be given more attention below.

3. PRECONDITIONS FOR CENTRALIZING (UNIFICATION) OF PUBLIC PROCUREMENT

SIGMA / OECD (OECD 2011, No.47) that centralized procurement implies that the procurement for the needs of the client are not implemented individually or every person for himself, but to the needs of the client to consolidate and to conduct one public procurement procedure through which will specific subject-matter be acquired that will suit the needs of each client by the quality, characteristics and quantity.

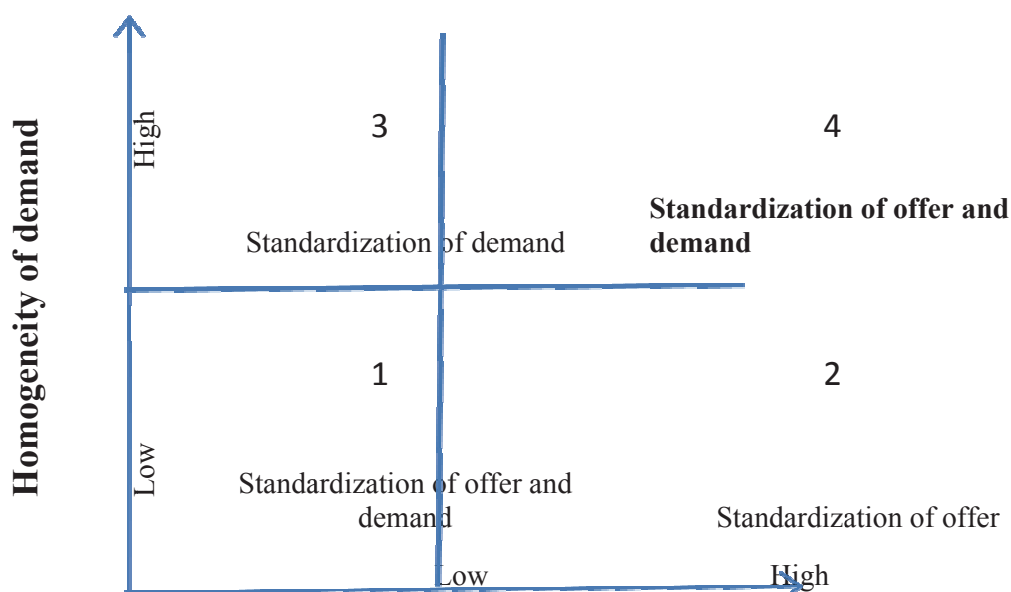
From the above results the first requirement for a successful and effective unified public procurement, and that is that the needs of the client for a specific subject of public procurement matched in terms of properties, quality, technical and other characteristics, in addition to quantity. If one or more clients would not get what they need, a key goal of a unified public procurement will not be met.

Another essential prerequisite that should be filled so the integration of public procurement was justified is that this method achieved better conditions and benefits in relation to the individual conduct of public procurement, in particular with regard to the purchase price. The procurement of large quantities of the same goods makes possible realization of *economies of scale* and meeting all the requirements of the individual customer for lower cost than would be the case of procurement from a large number of bidders. In this way the bidders are given the possibility of realization of the effect of “*economies of scale*”, which, what it is in particular the case of procurement is more accentuated, increases the potential for rationalization of costs and achieving savings through centralization.

In this context cases need to be determined when the unification or centralization of public procurement is justified and consider the relationship between the homogeneity of demand and economies of scale offers.

In the authors' Pranjic & Turuk (2013: 8) "If it is a standard goods (works, services) which by description, properties, purpose and technical characteristics do not differ and are the same or nearly the same for all clients, and if there is more tenderers that such goods / works, services) can offer (to execute, deliver) in the whole area where the purchasers are then the success of joint procurement is inevitable". In order to find cases where it is justified to implement the PPA, it is necessary to analyze the relation of supply and demand that may occur in the market (Figure 1).

Figure . Economics of offer scales



Source :Author's adaptation of OECD (2010) Public procurement Training for IPA countries Sigma Training Manual, OECD

In the event that the clients have the same or very similar needs regarding the characteristics and product quality, time and place of delivery and other conditions or when they match high homogeneity on the demand and severe (high) economies of scale on the supply side (Figure 1, quadrant 4), the unification of public procurement for more clients is justified. Otherwise, if the needs of the client are heterogeneous in terms of properties, quality or other conditions (term, delivery, technical characteristics), the integration of public procurement will not be able to meet their needs in the best way. Therefore, in a situation (Quadrant 2) of nonstandardized demand, even if there is significant potential for achieving economies of scale, there is no justification for the CPP.

If there is no economy of scale and in specific, small-scale products / Quadrant 3), there is no reason for the CPP, even if the client wants to get the same goods.

And the last case, where there is no homogeneity in demand nor the possibility for the realization of economies of scale, there is no reason for the CPP (quadrant 1), but clients should conduct themselves individual procurement procedures.

By centralizing public procurement we take care of small bidders (SMEs) who specialize in selling to the immediate area (county, city, municipality) and which usually cannot compete in the cases of procurement in the wider area, are without work and fail. On the other hand, those same bidders employ workers with these core areas that pay taxes and thus on them and their salaries depend the perspective of the local community. Additionally, they know best characteristics of each individual client and are ready to adapt to their specific needs, which is not characteristic of large bidders from other areas. A skilled and capable management will use Consolidated Public Procurement as an effective tool to help small and medium-sized enterprises, and through it the development of their local communities.

4. POSITIVE EFFECTS, DEFECTS AND CHALLENGES IN THE IMPLEMENTATION PROCESS OF CENTRAL PROCUREMENT.

In order to observe the positive effects, disadvantages and challenges in the implementation of central procurement process we conducted a SWOT analysis which is given below.

Table 2 SWOT analysis for integration of public procurement

S – STRENGTHS	W – WEAKNESSES
Organizational units for public procurement	Shortage in human resources with specialized education
Acieiving best value for invested money	Specific subject matter of the individual client
Sandardization and catalogization of goods and services	Difference of procurement items
Human resources	Shortage in IT support and continuous education of those personnel
Experience in implementation of public procurement procedure	Large and complex procurement require lot of time to conduct and be subject to appeal
Better coordination of procurement	
Local management role in realization of saving and development of local community	

O – OPPORTUNITIES	T – THREATS
Rational use of assets and realization of saving	Tracking of contract realization and frame agreements
Economy of scales – larger quantities generate better prices	Limitation of involvement of SMEs in public procurement procedures
Decrease in administration costs	Longer deadlines for submission of tenders
Transparency of procedure	Submission of legal remedies and retrials
Anti-corruption effects	Favoritism of certain tenderer
Simplification of procedure PP	Only a small group of bidders or only one bidder can meet the need of the client
Encouraged of competition	manus manum lavat or increased exposure to the corruptive risks
Implementation of advanced technologies	
Application of green and sustainable public procurement	

Source: made by authors

From the above SWOT analysis in which sublimated strengths, weaknesses, opportunities and threats of unified public procurement result in positive effects, disadvantages and challenges in the implementation of central procurement processes which are given below.

According to the SIGMA / OECD (OECD, 2010) *Advantages* that can be achieved by centralizing or CPP in the event of its legitimacy are multiple. The most significant positive effects of centralization are:

1. greater purchasing power of the client, which puts it in a more favorable relationship towards the bidders;
2. great potential for reducing the cost price which is based on “economies of scale” (proportion);
3. reducing transaction costs, because more procedures are replaced with one;
4. concentration and improvement of knowledge (expertise) of which the benefit is divided among number of clients;
5. reducing the risks that the procedure fails;
6. better coordination and higher level of standardizing and
7. lower risk of favoritism for particular manufacturer.

In addition to the above positive effects of CPP in the SWOT analysis is listed a number of advantages (strength) and opportunities whose purpose is self explanatory and it is not necessary to elaborate it in more detail.

We will just give a brief review of sustainable and green UP.

Green public procurement means that the client orders products/services that, compared with conventional products and services, during their lifetime have a smaller impact on the environment and the same and/or better functionality and positive social and economic effects. The overall objective of the project "Promotion of green public procurement in support of achieving the objectives of 2020" is to significantly increase the implementation of green public procurement within the target countries in the short and long term, through capacity building and implementation of the competition.

Specific objectives of the project are:

Capacity building within the public authorities for the implementation of green public procurement for the purchase of energy efficient and environmentally friendly products, works and services

- ✦ Capacity building at providers of educational programs in order to facilitate integration criteria of green public procurement in regular training programs

- ✦ Reduction of CO₂ emissions through the implementation of green public procurement

- ✦ Promotion of the transfer of knowledge about the concepts of green public procurement of innovative technologies and services between bodies conducting public procurement

- ✦ Improving the support structures in the system of green public procurement

Substance of sustainable procurement is to select those products that are acceptable and have beneficial social and ecological effects. Sustainable public procurement is an investment in a better world.

Disadvantages of CPP are shown in the SWOT analysis in the framework of the weaknesses and threats, and special emphasis will be only to increased exposure to the risk of corruption or phenomenon called *manus manum lavage* ("one hand washes the other"). According to the author Ivanušec's opinion et.al (2008: 29) "One of the areas of public administration which is particularly exposed to corruption risks is the area of public procurement. The public procurement resulting in a contractual relationship in which the latter is acting

in the role of the customer, and private companies (and public) in the role of the seller or bidder of goods, works and services. In this respect both sides are certainly motivated enough to succumb to the challenges of corruption. It is a game in two: on one side of the briber, who wants to buy something that he/she does not have the right to and the other is a person who has some power and that this power is illegally sold. The mercenary side has, therefore, a dual power: the legal right to decide and illegal selling power. Therefore in the relationship of briber and corrupted one the power of the latter is much greater.“

A feature of the public procurement interaction of the private sector, which is led by profit interests, and the public sector that profit interests should not have. As in the case of public procurement of often purchase of expensive works and service the problem that often occurs is **corruption**.

Despite the implementation of anti-corruption program of the Ministry of Justice, the publication of the tender on the Electronic Public Procurement Official Gazette, the site of the commercial courts, regional and local governments, etc., the publication database that exists on the website of the Association Windmill and similar, corruption is still possible at all stages of public procurement. Most often are problems that stand out in the first stage when already the preparation of tender documentation is in favor of a specific bidder, then the overestimation of the required amount, exactly certain technical characteristics, cartel agreements ...

According to the “Draft of Anti-Corruption Strategy 2015 to 2020” (Ministry of Justice 2015) “Estimates are that because of corruption losses are 10% of the total procurement value, therefore 3-4 billion of kunas per year. The open procedure, in which each bidder may submit a bid, is the most commonly used procurement process. Average number of tenders received in the public procurement process in our country is 3.3, but the percentage of cases with only one received bids is around 40%, and in 17% of cases in the process there are two bidders indicating no competition or the fact that one cannot speak of an efficient market competition before the negotiated economy.

5. A UNIFIED PUBLIC PROCUREMENT AS AN EFFECTIVE INSTRUMENT OF COUNTY'S MANAGEMENT IN THE RATIONALIZATION OF COSTS AND ACHIEVING SAVINGS OF REGIONAL UNITS

According to IFAC (2001) "By synthesizing many definitions we can conclude that managers are professional executives who perform management functions: planning, organizing, leading and controlling and those who have formal authority over the organization they manage. Responsibility for the successful execution of the basic functions of the state, and which they perform mostly in the public sector, bears the so-called public management".

The function of the strategic objectives of regional governments such as economic development, employment, because of their importance, as already pointed out in the introduction, needs to be the public procurement too. It allows achieving other strategic goals, such as: neutralizing the negative effects of the economic crisis and recession, attracting foreign investments, development of the local economy (SMEs), employment etc. The specific objectives of the county management in improving the public procurement system should be: 1) the services that are offered to citizens at the level of LRSGU are provided at lower prices, and that the quality is better, 2) to create the conditions for greater participation of SMEs in tenders in local government (LG) which would lead to boosting economic development of the LG and strengthening of market competition, 3) increase the effectiveness and efficiency of PP locally through CPP wherever economically justified, 4) more efficient monitoring and verification procedures of PPA to take advantage of the information technology and trained personnel in PU, such as JN Portal etc.

From a review of the most important procedures and achieved savings of the Office of the Central Procurement (OCP) it is evident that due to the large volume of public-supply of certain categories (eg. Office supplies, furniture, IT equipment, cars, etc.) in this segment great savings can be made (Table 3).

Table 3. Potential savings in united public procurement Of EC countries

Procurement category	Potential savings (%)
Office supplies	14-22
Furniture	10-15
PC/Server	10-20
IT equipment	7-10
Automobiles	10-15

Source: The action plan for the establishment of the Central Public Procurement Authority, 2009.

Bearing in mind the vision and mission of the Strategic Plan of the National Office for Central Public Procurement 2013-2015 NOCPP (2012: 1-11) who is determined to establish an efficient system of central procurement or to establish an effective system PPA accountable to taxpayers, County budget, taxpayers of CPP (budget users and health care institutions) involved in the CPP in order to achieve savings in public spending, taking into account the optimal relation between quality and price of purchased goods, works and services, taking into account the ecological and socially acceptable solutions and SME top management of the County (BPC) issued the **Decision on determining the goods and services to be implemented in unified public procurement in 2015 and 2016, which was published in the official gazette of the county.**

After that, the Decision on appointment of authorized representatives of the Brodska Posavina County as a central body for public procurement and the individual client in the open public procurement procedure for the procurement of office supplies for budget users. In a further process between the County as a central purchasing body and budget users (24 primary schools, 10 secondary schools, BP Museum, Gallery, 6 health facilities and two public institutions) that implemented CPP signed an **Agreement on Consolidated Public Procurement for 2015.**

Before the start of the procedure for CPP the County was required to obtain authorization (consent) of the said entities for which the procedure is performed CPP. All individual clients as participants filed County procurement plan (request for necessary goods), and the BPC as a central body of them is incorporated in its comprehensive plan. Before starting the procedure for CPP all budget users (total 44) received the text of tender documents as well as the proposal of Framework Agreement that BPC will sign with the chosen bidder,

and that in due course be able to submit their observations. After the implementation of CPP procedure and the expiration of the appeal deadline, BPC, as a central body, signed the Framework Agreement for 2 years and all budget users signed individual contracts with the selected tenderer under the terms of the Framework Agreement.

The total estimated value of public procurement was for two years 4,350,000.00 HRK (including VAT), and the price of the winning bid was 2,961,545.00 kuna, which indicates a significant realized savings of over 35%. When calculating the savings, due to the impossibility of comparison with the same specifications / contracts / framework agreements from previous years, the estimates are determined based on:

- planned values of individual clients,
- unit prices realized in procedures of PP which individual clients implemented individually for the goods,
- based on offered prices of other bidders from the tender.

Carrying out the CPP procedure for the office supplies, the strategic, tactical and operational management of BPC justified the largest part of the reason that it wanted to achieve: savings, rationalization of costs (administrative and transactional), simplification of procedures, inclusion of SMEs of the County, and thus ultimately contributed to its the most important task: a more effective management of public money and more efficient public needs of its residents.

6. INSTEAD THE CONCLUSION: FURTHER STEPS AND RECOMMENDATIONS FOR THE FUTURE

Centralization of public procurement county management can significantly increase the effectiveness, economy and efficiency of public procurement.

By bringing together public procurement of state and regional government, its public management wants to manage the risks and costs associated with spending taxpayers' money, and the introduction of standardization, typification and cataloging in the public procurement of goods, works and services, most problems can be avoided.

Consolidation of public procurement has resulted in strict compliance with the basic principles of PP: transparency, non-discrimination, market competi-

tion and equality of treatment and achieve best value for the invested money. From the proceedings conducted of CPP it is clear that the clients received favorable prices and achieve significant budget savings. At the same time we must not forget the challenges that these procedures can initiated, possible conflicts of interest and corruption.

The conditions in which the integration of public procurement produces positive effects are not sufficiently represented in the total value of public procurement, even in EU countries, where the purchases through centralized body with a total value of public procurement in 2010 amounted to about 5%, which is still unsatisfactory given the effects that can it be achieved.

If the CPP is carried out in a manner and conditions that are not adequate, the negative effects can be numerous: inadequate quality and value for money for our clients and creation a small number of large bidders who each can easily arrange and create a non-competitive conditions to the detriment of the client. It is extremely important to properly assess the reasonableness of the procedure for the CPP and the effects that this will cause the regional government.

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