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**Extract from Rigsrevisionen's report  
submitted to the Public Accounts Committee**

# **The costs of tendering in the public sector**

# 1. Introduction and conclusion

## 1.1. Purpose and conclusion

1. This report concerns costs of tendering in the public sector. The study was initiated at the request of the Danish Public Accounts Committee in June 2018. The members of the committee state as the reason for their request that several contractors in the private sector indicate that bidding for public sector projects involves considerable costs. In some cases, the costs are so high that some contractors refrain from bidding which weakens competition for the public sector projects.

The Public Accounts Committee requests answers to two overall questions. The first question concerns a statement of costs of procurement processes in the public sector. The second question concerns best practice and the potential to improve the efficiency of public sector procurement, including an assessment of the potential for improving the efficiency of tendering in the public sector. The questions put forward by the Public Accounts Committee appear from appendix 1, which also refers to the specific sections of the report, where the questions are answered.

The report revolves around tendering processes and the administrative costs associated with tendering which are also referred to as *transaction costs*. Transaction costs of tendering include the contracting authority's costs of inviting tenders and the providers' costs of bidding for a project. The *contracting authority* incurs costs for drawing up the invitation to tender and managing the tender process, including costs for market consultations, evaluation of offers and contract management. The *bidders'* costs concern drawing up offers, including communication with the contracting authority, any information sessions and meetings to conduct negotiations with the contracting authority. Transaction costs are inevitable and necessary. Some transaction costs may however be unnecessary and result in disproportionately high costs.

2. The purpose of the study is to assess whether selected ministries can improve their efforts to minimise transaction costs. The report answers the following questions:

- What are the transaction costs incurred by the ministries (contracting authorities) and the bidders in connection with different types of tenders?
- Do the ministries work on minimising transaction costs, and is it possible to identify best practice and potentials for improvement?

### Agencies and departments included in the study

#### *The Ministry of Defence*

- The Acquisitions and Logistics Organisation

#### *The Ministry for Children and Social Affairs*

- The National Board of Social Services.

#### *The Ministry of Environment and Food*

- The Environmental Protection Agency.

#### *The Ministry of Energy, Supply and Climate*

- The Danish Energy Agency.

#### *The Ministry of Employment*

- The department
- The Danish Agency for Labour Market and Recruitment.

#### *The Ministry of Education*

- The department
- The National Agency for Education and Quality.



## Conclusion

It is Rigsrevisionen's assessment that the ministries can improve their efforts to minimise transaction costs. The study also shows that total transaction costs incurred by the ministries and bidders in connection with some of the tenders, make up more than 50% of the total value of the procurement.

Rigsrevisionen has estimated the transaction costs of selected EU tenders and advertisements published by six ministries. The costs are estimated, because neither the ministries - nor generally the bidders - keep records of the costs they incur in connection with tendering. The statement is therefore affected by uncertainty. The statement shows that the contracting authorities and the bidders incurred total estimated transactions costs in connection with selected EU tenders of, on average, 17% of the value of the purchases. For selected advertised tenders the corresponding figure was 38%.

The study also includes examples of specific tenders with high transaction costs: In four out of 25 EU tenders and in six out of 17 advertised tenders, total costs were estimated at more than 50% of the value of the procurement. Particularly, small purchases with many bidders generate high transaction costs, which means that the cost of administration makes up a significant proportion of the value of the purchase.

The study shows that there is potential to minimise both the ministries' costs and the overall transaction costs in several areas. Before inviting tenders, the ministries should consider doing more market consultations and communicating more with potential suppliers. The ministry should also focus more on ensuring that the tender invitation and requirements specification do not include unnecessary requirements or details, particularly in connection with tenders inviting suppliers to submit bids to provide services. Additionally, two of the six ministries do not coordinate their tenders and procurement across the department, and two ministries do not draw up procurement plans, as they are required to according to a government circular on procurement. This practice entails the risk that the ministries miss out on opportunities to reduce their transaction costs through the issue of joint invitations to tender.

The study also shows that in some areas, the ministries are working to minimise transaction costs; four of the six ministries are currently bringing together their procurement capabilities to handle purchases and tenders in the remit of the ministry and more effectively coordinate procurement across the department. Furthermore, most of the ministries use templates for their tenders, and they have involved professional as well as legal expertise in the implementation of most of the tenders examined, which can also help minimise transaction costs.