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How Should The Public Sector React To Inflation?

Inflation in the 12 months to March 2022 hit 6.2% in the UK, according to recently released figures from the Office for National Statistics. This will result in the biggest fall in living standards in 30 years.

Expectations are for inflation to rise even further. It's a trend we're seeing around the world – one that will result in difficult conversations and even harder decisions being taken in households everywhere.

The effects of inflation are most often felt in the increase in the price of household bills, groceries, and gas for your car, as your money buys less than it used to. But public sector organizations around the world that provide essential public services are not immune to the risks that inflation brings either.

These same difficult choices that private citizens are having to make will have to be made by local governments and public bodies too. As the cost of providing their essential services continues to rise, procurement departments will witness these increases first-hand.

Inflation has the potential to severely disrupt public bodies, especially through their contract procurement and contract management as the cost of services, materials, and supplies rise further. To better insulate themselves from the decline in purchasing power, public bodies should be looking to update their existing contractual terms.

Already agreed fixed-price contracts bring risk too. The increase in cost of building supplies may incentivize contractors to cut corners to save money, resulting in poor quality results. Inflation also has the potential to put suppliers and contractors out of business – leaving the customer with few options for compensation. The management of especially high-value contracts will need specialist skills and expertise to negotiate and manage, as the risks of failure are significantly greater.

Public procurement departments must also be alert to opportunistic suppliers trying to pass on costs because they see the public sector as a soft target with unlimited funds. Or alternatively, they may continue to charge higher prices while blaming inflation – even if the cost of goods begins to fall. To guard against this, procurement professionals need to have the skills to manage contracts in a way that benefits the public, mitigates and identifies potential risks, and delivers value for money.

Public bodies are there to serve citizens. As inflation rises, securing value from taxpayer money will become more important than ever, while continuing to provide essential services that many people rely on. As times change and volatile world events shape our reality, contract negotiation and management will be the first line of defence to guard against these pressures.

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