



National Audit Office

Procurement in the Culture, Media and Sport sector

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EXECUTIVE SUMMARY



1 The Department for Culture, Media and Sport and the wide range of organisations it sponsors spend some £575 million a year buying goods and services. The Department has initiated a project to identify and deliver efficiencies from procurement across the sector and our review is a direct contribution to that project.

2 We looked at the procurement practices and capabilities of the sector and focused on the 25 largest organisations, those spending over £3 million each in 2004-05 – or £560 million in total, some 97 per cent of the sector's procurement spend (**Figure 1 overleaf**).¹ We worked closely with the Department in designing the scope and methods for our work which are set out in Appendix 1.

Our main findings

3 The Government's Efficiency Review is giving added impetus to the Culture, Media and Sport sector's work to strengthen its procurement. In particular we found that:

- Over the last two years organisations in the sector have identified scope to save £5 million a year. Savings have been achieved by a wide range of methods such as renegotiating existing contracts, looking for new suppliers, aggregating demand and greater use of procurement cards.
- In response to the Efficiency Review further savings of over £26 million (an average £8.7 million a year) are being aimed for over the three years up to and including 2007-08.

- Organisations' estimates of future savings range up to 4.1 per cent of annual procurement spend by 2007-08. Those organisations seeking to achieve the highest targets are conducting a thorough overhaul of their procurement arrangements including their expertise, systems, strategies and supplier base.

4 While there is much organisations can do on their own, collaborative procurement provides opportunities to share expertise, reduce costs and achieve better value for money. Combining the demand for goods and services between organisations can improve value for money by producing a certainty and level of business that is often attractive to suppliers. In this regard we found:

- There is only limited aggregation of demand with other organisations, in 2004-05 collaborative methods accounted for less than four per cent of the sector's procurement expenditure.
- The commonest form of collaborative procurement by the sector is the use of framework agreements established by OGCbuying.solutions but there is significant scope to expand their use.
- Other forms of collaboration also offer value for money savings, usually of ten per cent or more, including greater use of framework agreements set up by others, joint procurement and consortia and the establishment of new framework agreements.
- The Department for Culture, Media and Sport has taken a lead by establishing, in 2005, framework agreements for website design and quality assurance of internal audit and making these deals available to its sponsored organisations.

¹ In this report procurement spend refers to payments to third parties for goods, services and works excluding rent.

1 Organisations covered by this report and their procurement spend in 2004-05

		£ million
English Heritage	Statutory adviser on historic environment and distributor of non-lottery grants	64
British Library	National library of the United Kingdom	51
VisitBritain	National tourism organisation marketing Britain and England as tourist destinations	44
National Museum of Science and Industry	Comprising Science Museum (London), National Railway Museum (York) and the National Museum of Photography (Bradford)	32
Arts Council England	Development agency for the arts, and distributor of lottery and non-lottery grants	31
Victoria and Albert Museum	National museum of art and design at three sites in London	31
Big Lottery Fund	Lottery distributor for projects benefiting communities and the needy	28
Tate	National museum of modern and British art in London, St Ives and Liverpool	27
Imperial War Museum	National museum of modern conflict and its impact on society	26
National Gallery	National museum of European art	26
Royal Parks Agency	Manages the eight Royal Parks	24
Sport England	Provides strategic leadership for sport in England and distributes lottery funding	23
Historic Royal Palaces	Custodian of the historic royal palaces	23
Natural History Museum	National museum of the natural sciences	22
National Museums Liverpool	Eight museums with diverse collections	18
British Museum	National museum of the history of civilisation	17
Department for Culture, Media and Sport	Central Government department	17
National Maritime Museum	National museum of maritime history	12
National Heritage Memorial Fund	Distributor of lottery funding for projects relating to national and local heritage	11
National Endowment for Science, Technology and the Arts	Fund to support and promote talent, innovation and creativity in these fields	9
National Portrait Gallery	National museum of portraiture	6
Museum of London	Museum of urban history and archaeology	5
Museums, Libraries and Archives Council	Provides leadership, advocacy and advice in its fields	5
UK Film Council	Stimulates film industry through lottery and non-lottery funding	4
Royal Armouries	National museum of arms and armour at Leeds, Portsmouth and the Tower of London	4

Source: National Audit Office survey

- Better information sharing would help organisations to identify further opportunities to collaborate through, for example, the Department’s extranet. They need to know who is buying what and for how much and whether there are already arrangements in place that they could use. But information sharing within the sector is limited and lacks structure.

5 Transaction processing is the hidden cost of procurement and is significant. In particular we found that:

- Based on detailed analysis of process costs at four organisations, the average administrative cost of making a purchase is £44 per purchase order.

- In 2004-05 the 25 organisations we looked at processed almost 350,000 purchase orders, with 80 per cent under £1,000 in value. We estimate that organisations spent £12.3 million on administering the purchase of £59 million of goods and services valued at under £1,000.

- There are wide variations between organisations in the extent to which electronic systems are used, though the benefits of such systems include faster procurement, reduced errors, lower costs and better management information. Some organisations are deterred from introducing electronic systems due to uncertainty about the costs and benefits.

- Greater use of procurement cards would reduce transaction costs, typically by 60 per cent. But in 2004-05 only a quarter of all the sector's purchases under £1,000 were made with procurement cards.
- Eight of the organisations we examined did not use procurement cards and in those that did the percentage of transactions under £1,000 made using such cards ranged from 60 per cent to one per cent.

6 To deliver the improved value for money from procurement that it is looking for the sector needs to improve its procurement capabilities, and it is seeking to do that. In particular we noted that:

- A more strategic management approach would support the improvements being sought. Seven organisations do not have a designated individual at Executive Board level responsible for procurement, eight do not have a target for savings from procurement, and only three have a comprehensive written procurement strategy. Most organisations we examined saw their lack of co-ordination and centralised control over procurement as a barrier to improvement.
- Overall there are some 37 qualified and part-qualified procurement staff employed in 13 of the 25 organisations we examined with small organisations less likely to have qualified staff than large organisations. Ten organisations saw the lack of a fully resourced, expert procurement team as a barrier to improving procurement performance and almost half identified a need for better training of staff involved in buying.
- Most organisations had, in 2004-05, sought external advice, particularly from the Department itself, the Office of Government Commerce and consultants, though they tended not to consult professionals already working in the sector.
- Suppliers were generally positive about their relationships with the sector, although they commented on the need for better market knowledge in the sector, particularly on the range of firms that could supply their needs, and on the need for more open communications throughout the procurement process. Not all organisations held lists of approved suppliers and the lists held can contain an unmanageably large number of suppliers.
- Better management information would support improved procurement performance. While they knew where money was being spent, most of the organisations we examined did not have

performance indicators for procurement and had little information on the quality of service received. One organisation is considering using performance indicators developed by the Improvement and Development Agency (IDeA).

Concluding comments and recommendations

7 Whilst there are pockets of good practice, procurement capabilities and practices are on the whole underdeveloped across the sector, a fact recognised by the organisations themselves. This awareness has led a number of organisations to seek improvements but action in most cases has, so far, been limited. There is considerable scope to improve and this report and our recommendations below set out ways the Department's procurement project could be used to drive further efficiencies into procurement by the Culture, Media and Sport sector. The recommendations cover the main areas for improvement across the sector, however organisations will need to apply them in ways appropriate to their individual circumstances.

8 On top of savings already achieved, the sector is aiming for further savings of £26 million by 2007-08. But those savings represent only 1.5 per cent of the sector's annual procurement spend and they are not, on the whole, the result of each organisation conducting a fundamental review of its procurement.

9 As this report shows, there are many things individual organisations can do to get better value for money from their procurement spending, and to streamline their processes. Collectively they could achieve more by aggregating their demand and collaborating with other organisations buying similar goods and services.

10 We have illustrated a variety of ways in which the sector could save money without any loss of quality in terms of the goods and services received, in addition to the 1.5 per cent already planned. Making some of the required changes will take time and management effort and, as organisations implement other areas of their efficiency programmes, their total need for goods and services may change. However, we and the Department consider better procurement practice, in line with this report, could result in savings of 2.5 per cent a year (£14 million on current levels of spending) by 2008-09 and double this within five years, a period during which nearly all of the sector's current contractual arrangements will have come to an end.



RECOMMENDATIONS

1 To provide effective leadership in the area of procurement and a clear focus on improvement, each organisation should:

- assign responsibility for procurement to a member of the Executive Board who has relevant expertise;
- form procurement strategies drawing on the good practice featured in Figure 15 (page 28) of this report;
- establish sustainable procurement strategies to address how sustainable development should be integrated into procurement decision making.

2 Each organisation should set a procurement savings target and report the savings achieved to the Department annually.

3 For all organisations there should be an expert procurement team or individual to:

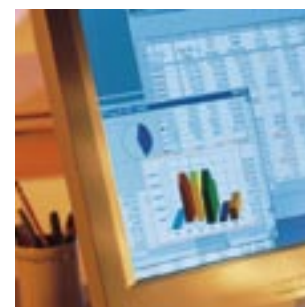
- provide input to the organisation's procurement strategy;
- give day to day advice and guidance at an early stage in the development of contract plans to staff involved in making procurement decisions; and
- monitor the organisation's procurement performance and report to the Executive Board member responsible for procurement.

4 To get the best deals organisations should seek to aggregate their demand for goods and services to make the most of their buying power. Each organisation should:

- review how it procures common goods and services, starting with areas of high spend;
- where appropriate develop centralised contracts; and
- identify the full range of options, including use of external framework agreements, before deciding their contracting route.

5 Organisations in the sector should work together to create a procurement 'hub', as suggested by some procurement staff (paragraph 2.15, page 18), as a means of sharing information and developing opportunities for collaborative procurement.

6 To avoid unnecessary duplication and risk, the Department, working with its sponsored organisations, should provide advice and guidance for use across the sector about the costs and benefits of electronic purchasing, ensuring that best practice lessons from elsewhere are learned.



7 To achieve the same level of use of procurement cards as government departments, the sector should aim to buy at least 50 per cent of purchases under £1,000 with procurement cards.

8 Each organisation should develop its management information so that:

- it can effectively monitor how money is being spent;
- it has key performance measures for evaluating and managing its performance. One approach the sector may find useful is to adopt from the Improvement and Development Agency list of indicators. This would also allow organisations to benchmark their performance against others;
- it has better knowledge of the prices paid for goods and services, and hence can more easily compare to prices achieved by others, including those available through OGCBuying.solutions frameworks; and
- it can better manage supplier performance.

9 The Department should initiate a review of the opportunities for organisations sharing procurement resources, such as purchasing systems, qualified professional staff, training courses and management information. This might be of particular benefit to smaller organisations without qualified professional staff and might also lead to greater aggregation of demand across the sector.

10 To achieve an efficient and co-ordinated approach to the implementation of these recommendations, which affect organisations individually and collectively, the Department should take the lead. The Department's procurement project (see page 7) is an ideal vehicle for taking forward the recommendations.

PART ONE

The Efficiency Review is giving added impetus to the Culture, Media and Sport sector's work to strengthen procurement



Our work on procurement is contributing to the Department for Culture, Media and Sport's Efficiency Programme

1.1 This report looks at the procurement practices and capabilities of the Department for Culture, Media and Sport (the Department) and the organisations it sponsors. Our work was undertaken against the background of the Government's Efficiency Review² which highlighted procurement as an area where public bodies can make efficiency savings and National Audit Office and Committee of Public Accounts reports on improving procurement.³ Our work is feeding into a project being led by the Department to identify and deliver savings from procurement across the sector.

The Department has established a procurement project to deliver procurement efficiency savings across the Culture, Media and Sport sector. The project will be a vehicle to develop greater networking and collaboration between organisations which the Department sees as key to the delivery of future savings and will take the recommendations from this report as a framework for action across the sector.

1.2 The main methods we used were a survey of the 25 largest organisations in the sector, focus groups of procurement staff and a web survey of internal customers working for these organisations, a detailed review of procurement processes and costs at four organisations, and a MORI telephone survey of businesses supplying the sector. Our methods are described in more detail in Appendix 1. Our approach was informed by the National Audit Office's 2004 report on procurement in central government which identified seven aspects of procurement capability (reproduced at Appendix 2) departments could improve.

The sector's procurement spend of £575 million a year is spread across a large number of organisations

1.3 The Department sponsors a wide range of organisations to achieve its aims in relation to the arts, sport, broadcasting, gambling, tourism and the historic environment. These organisations include the Royal Parks Agency (an Executive Agency of the Department), Historic Royal Palaces (a Public Corporation) and 45 executive non-departmental public bodies, including museums and galleries, distributors of lottery funding, licensing and regulatory bodies and organisations, such as Arts Council England, with a strategic development role.

² Sir Peter Gershon, *Releasing Resources to the Front Line: Independent Review of Public Sector Efficiency*, 2004.

³ National Audit Office, *Improving Procurement: Progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively*, HC 361-I, 2004. Committee of Public Accounts, *Improving departments' capability to procure cost-effectively*, 41st Report of Session 2003-04 (HC 541), 2004. National Audit Office, *Sustainable procurement in central government*, 2005.

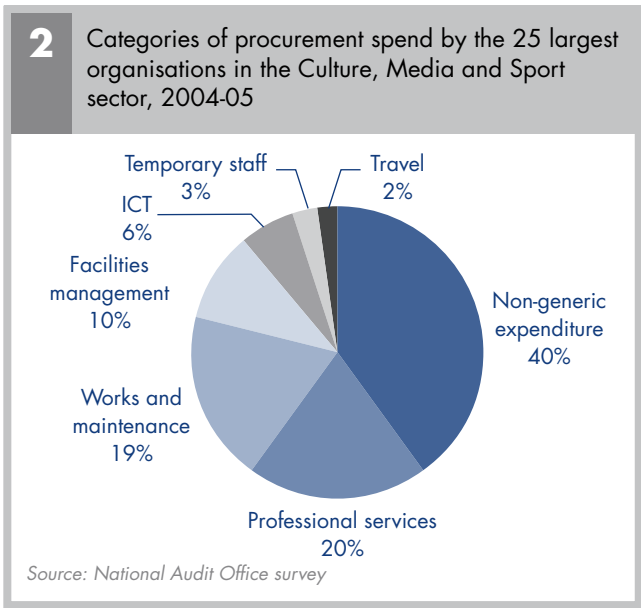
1.4 Sponsored organisations have a high degree of independence, each being responsible for undertaking its own procurement from within its own budget. The Department has a monitoring and advisory role, for example in recent years it has sought to promote better procurement practice amongst its sponsored bodies through hosting seminars, run in close co-operation with the Office of Government Commerce, and identifying areas where joint contracting might produce good deals for the sector.

Procurement is the whole life-cycle process of acquiring goods, services and works from third parties, beginning when a potential requirement is identified and ending with the conclusion of a service contract or ultimate disposal of an asset.

It includes identifying what is needed, specifying requirements, researching the market, awarding contracts, ordering products, processing invoices and monitoring the performance of suppliers. Procurement does not include the pay and pension costs of permanent staff, or grants or awards made by an organisation to outside bodies.

1.5 In 2004-05 the total procurement spend of the Culture, Media and Sport sector was some £575 million. This report covers the 25 largest organisations (those spending over £3 million on procurement annually) listed in Figure 1 on page 2. In 2004-05 these organisations spent a total of £560 million on goods, services and works (42 per cent of their total budgets and 97 per cent of the total procurement spend of the sector as a whole).

1.6 There is a high degree of commonality in what organisations buy. Most if not all organisations in the sector pay for facilities management, works and maintenance, and information and communication technology. Across the sector as a whole, what might be termed ‘generic’ goods and services account for 60 per cent (£338 million) of procurement spend, and there are also some individual needs (Figure 2). For example, over 80 per cent of VisitBritain’s annual procurement spend is on marketing activities to encourage tourism and almost a third of the British Library’s annual procurement spend goes on books and periodicals. Organisations such as Arts Council England and the UK Film Council spend a greater proportion of their procurement expenditure on professional services such as expert advisors, whilst museums and galleries spend a considerable amount on security.



Savings have already been made, and more are being sought in the light of the Government’s Efficiency Review

1.7 Our survey showed that over the last two years the organisations covered by our study have saved some £10 million, an average of £5 million a year or 0.8 per cent of their total procurement spend, by a wide range of methods. In some cases savings have come from renegotiating existing contracts. Other methods have included the aggregation of demand within an organisation, using framework contracts set-up by OGCBuying.solutions (Figure 5 on page 14), greater use of procurement cards (paragraph 3.10, page 24), and the use of on-line ordering. For example, the British Library reports savings of £1.8 million through competitive tendering and negotiation on specific contracts and extending the use of procurement cards. Further examples of the approaches used by organisations are given in Figure 3.

3 Examples of savings achieved in the last two years through better contracting

Arts Council England Saving: £500,000

Arts Council England has used the opportunity provided by its merger with the Regional Arts Boards in 2002 to progressively replace multiple contracts for the same goods and services with single, centralised contracts, for example:

- a single insurance policy for all Arts Council interests;
- centralised stationery procurement generating economies of scale and greater buying power;
- a framework agreement for external legal advice, through which all such requirements must be bought;
- a single payroll service replacing eleven separate providers and contracts; and
- centralised procurement of information and communication technology equipment.

Museum of London Saving: £176,000

The Museum of London has made savings from improved stationery purchasing, rationalising its telephone system, standardising the personal computers used throughout the organisation and reorganising its IT helpdesk service.

National Gallery Saving: £345,000

The National Gallery has saved through a variety of methods including:

- re-letting major fire and security contracts with significant savings;
- negotiating reduced charges for photocopying equipment and services;
- negotiating reduced charges for legal advice; and
- negotiating reduced charges for wine for Gallery events.

National Museums Liverpool Saving: £600,000

National Museums Liverpool has made savings in the areas of security (by replacing manned beats with camera surveillance), hotel booking, waste disposal and energy management.

Source: National Audit Office survey

1.8 In response to the Efficiency Review, the Department is now aiming to make efficiency savings from amongst its non-departmental public bodies⁴ of £227 million over the three years to 2007-08, of which £26 million (11.5 per cent) is planned to come specifically from better procurement. All the organisations which submitted plans to the Department intend to make savings from procurement ranging from 0.2 to 4.1 per cent of their annual procurement spend by 2007-08 and averaging 1.8 per cent. Several organisations, including those which have set the highest targets, are conducting a thorough overhaul of their procurement arrangements, including their expertise, procurement systems, strategies and supplier base (**Figure 4 overleaf**).

1.9 In support of the Department's aim to make savings through better procurement we have examined:

- the scope for more collaborative approaches to procurement to get better value from the Culture, Media and Sport sector's buying power (Part 2);
- the scope to reduce transaction costs through electronic purchasing and the use of procurement cards (Part 3); and
- the scope to strengthen the procurement management capacity of organisations in the sector (Part 4).

⁴ Excluding non-grant aided bodies: Big Lottery Fund, National Heritage Memorial Fund, Historic Royal Palaces and the National Endowment for Science, Technology and the Arts.

4 Examples of action being taken to achieve savings estimates

Arts Council England Savings estimate: 3.8% by 2007-08¹

In addition to the expenditure areas shown in Figure 3, the Council is examining other areas where it can benefit from centralising demand, such as mobile telephones, utilities and travel contracts.

By Autumn 2005 the Council will have appointed its first Head of Procurement, with a remit to: develop and deliver a training programme for staff; develop and implement a procurement strategy; and monitor compliance with the procurement arrangements.

The Council is also developing a single electronic finance and procurement system that will enable it to process purchases more efficiently and produce a range of management information to monitor procurement performance.

British Museum Savings estimate: 3.5% by 2007-08

In 2004 the British Museum undertook an extensive review of purchasing, which recommended:

- reducing the cost of purchases by:
 - rationalising the supplier base for low value, high volume items and setting up contracts with a few suppliers which buyers will be required to use;
 - making use of existing framework agreements set up by OGCBuying.solutions and other public sector bodies where possible; and
 - working with other museums and galleries to identify opportunities for collaborative buying;
- reducing the cost of administering routine low value purchases through the use of procurement cards; and
- increasing the value that the procurement team makes to the Museum by working more closely with buyers, especially those with special requirements.

The review has been formally approved by the Museum's Management Board and a steering group has been established to implement it.

English Heritage Savings estimate: 1.5% a year

English Heritage engaged procurement consultants in 2004 to review its procurement practice. The consultants concluded that it operates with too many suppliers (5,142 in 2003-04) and too many transactions (40,384 invoices processed in 2003-04) and that there was scope to consolidate expenditure and reduce purchasing and processing costs and effort.

English Heritage set up the 'Buy Smarter' project which is seeking to reduce the number of suppliers and invoices within a range of categories of goods and services by:

- identifying the total spend with key suppliers to ensure that the prices paid are competitive and fully reflect English Heritage's weight of demand;
- working with existing suppliers to identify potential modifications to specifications and work practices that would result in lower prices;
- extending the use of framework agreements to encompass all related spend within the organisation for the goods and services covered;
- establishing future demand for particular services so that fewer, larger contracts can be awarded; and
- identifying partners amongst other government bodies for particular goods and services in order to maximise buying power.

Source: National Audit Office survey and casework

NOTE

¹ Includes savings from measures described in Figure 3.

PART TWO

Collaborative procurement provides opportunities to share expertise, reduce costs and achieve better value for money



2.1 As shown by the illustrations in Part 1 there are many ways in which individual organisations can achieve more efficient procurement. This Part looks at the potential for more collaborative approaches to procurement which is one of the themes from our 2004 report on procurement in central government (Appendix 2).

2.2 Combining the contracting for goods and services within individual organisations can improve value for money. Opportunities to increase the value from procurement can also come from combining the needs of a number of organisations. This can produce a certainty and level of business that is often attractive to suppliers and can provide considerable potential for organisations to secure better deals. Suppliers told us that long-term arrangements and volume purchases should lead to cost savings and improved service provision.

There are several ways of achieving more collaborative procurement

2.3 There are several ways organisations can combine their own needs with those of others. Through the work of OGCbuying.solutions and other organisations there are a variety of framework agreements available to organisations in the sector to take advantage of.

Framework agreement: an agreement, covering a particular type of good or service, with one or more pre-approved suppliers over a fixed period of time. The agreement sets the terms and conditions under which it is to be used, and prices are usually negotiable.

Call-off contract: a contract with a supplier to provide goods and services at a fixed price over a fixed period of time, which the purchaser is not obliged to use. The contract creates both the terms and conditions, and the rights and obligations, under which it is to be used.

Another approach which also combines organisations' buying power through consolidating requirements is to work directly with one or more partner organisations to develop a joint contract which meets each organisation's needs. **Figure 5** summarises these approaches and gives examples of how they have been used already within the Culture, Media and Sport sector.

5 Collaborative approaches to procurement

Method

OGCbuying.solutions is an Executive Agency of the Office of Government Commerce, an independent Office of HM Treasury whose responsibilities include supporting the public sector in achieving efficiency gains and improving procurement. OGCbuying.solutions provides public sector purchasing staff with both advisory and procurement arrangement services. It manages a number of framework agreements covering management consultancy, IT consultancy and service provision, IT and telecommunications products, financial services, human resource services, facilities support and business information and research.

Other organisations' framework agreements – negotiated framework agreements with suppliers that are open for other bodies to take advantage of.

A **procurement consortium** is an independent organisation that provides its members with advice on procurement issues and maximises their purchasing power through the aggregation of demand.

Joint procurement is where two or more organisations make arrangements to negotiate jointly with suppliers for the supply of goods and services.

Example

English Heritage uses OGCbuying.solutions utility framework agreement for the purchase of electricity and saves around £20,000 (about four per cent) a year.

The Victoria and Albert Museum buys its stationery through an HM Revenue and Customs framework agreement and saves around £9,000 (about ten per cent) a year.

The Natural History Museum is a member of the London Universities Purchasing Consortium through which it buys laboratory supplies and gases, stationery, courier services, recruitment advertising, books and periodicals, international mail and travel. The consortium is a non-profit making body, funded by member subscriptions, that arranges contracts between a wide range of supply companies and its member institutions. The cost of the Museum's membership (currently £5,500) is more than covered by commodity and process cost savings. Although the saving on some commodities has been as high as 70 per cent, the Museum estimates that it saves on average between ten and 20 per cent.

In 2000 the Victoria and Albert Museum and the Natural History Museum entered into a partnership arrangement when tendering for recruitment advertising. The museums conducted a joint tender exercise which almost halved the administrative costs of running two separate exercises. They developed a single set of tender documents, placed a joint advertisement in the Official Journal of the European Union and evaluated tenders as a team. This culminated in the award of contract to the same advertising agency.

Source: National Audit Office survey and casework

Collaboration is being used to a limited extent and there is scope to expand

2.4 While Figure 5 above illustrates the benefits already derived by use of these methods within the Culture, Media and Sport sector, in 2004-05 these methods accounted for less than four per cent (£21.3 million) of the sector's procurement spend (Figure 6). Put another way, 96 per cent of the sector's procurement spend relied on the buying power of organisations acting individually.

2.5 Procurement staff told us that while they recognised the benefits of collaboration, they were concerned that organisations' individual needs would not be met and that there could be culture clashes between partners. Framework agreements and call-off contracts, however, are forms of contracting which generally lend themselves well to combining organisations' buying power because they provide the flexibility to accommodate individual needs and unlike joint procurement they do not require organisations to synchronise their contracting. Eighteen organisations in the sector have already established their own framework agreements or call-off contracts and have a high opinion of their benefits despite the sometimes high initial set up costs.

6 Use of collaborative methods in 2004-05

Collaborative method	Number of organisations using method	Expenditure in 2004-05 £ million	As a percentage of total annual procurement spend
OGCbuying.solutions	20	16.7	3.0
Other Department's framework agreements	5	0.6	0.1
Procurement consortia	6	0.4	0.1
Joint Procurement	12	3.6	0.6
Total for all methods	22	21.3	3.8

Source: National Audit Office survey

Comments by organisations within the Culture, Media and Sport sector on the benefits of their framework agreements

"The ability to quickly respond to need without requiring the time for a selection process as this has been done up front and in anticipation of need".

"The main benefits are the ability to place contracts with quality and price tested suppliers with the minimum of effort against previously agreed terms and conditions".

"They are excellent for providing services when the likely requirement is not known, providing the flexibility that we need".

"It helps develop a long term relationship with the supplier, resulting in better work".

2.6 A number of factors point to there being significant potential for more collaborative procurement by the sector:

- a Some 60 per cent (£338 million) of the sector's spending is on generic goods and services used by all 25 organisations in the sector (see Figure 2 on Page 8).
- b Within the sector there are six types of service for which two or more organisations have set up separate framework agreements for fairly generic services required by a number of organisations (**Figure 7 overleaf**). Currently, none of the organisations which set up the agreements, with the exception of the Department (see (c) below) has sought to open them up to other organisations in the sector or elsewhere. One of these generic services is travel, which we looked at in more detail. We found that while two organisations have separate framework agreements for travel, with a total annual value of £600,000, the total spend on travel by the 25 organisations we examined is over £9 million.

- c The Department for Culture, Media and Sport itself has, from April 2005, established framework agreements for the design of small scale websites and quality assurance of internal audit. Both agreements are open to its sponsor organisations to take advantage of, and the Department is looking to establish framework agreements in other areas of expenditure.
- d OGCbuying.solutions has established a wide range of framework agreements for generic products and services, and while 20 organisations in the sector have used the agreements, their spending accounted for only three per cent of the sector's procurement spend in 2004-05 (Figure 6 above).
- e Five of the organisations in the sector are using framework agreements established by other government departments for generic items such as office equipment, IT consumables, travel, temporary staff and recruitment. Use of these agreements accounts for less than one per cent of the sector's procurement expenditure in 2004-05 (Figure 6 above).

7 Overlapping framework agreements

Type of expenditure	Number of organisations with their own framework agreements	Spend through frameworks in 2004-05 £ million
Building maintenance	6	3.1
Printing	4	1.5
Stationery	4	0.5
Legal advice	3	0.1 ¹
Art packing and transportation	2	1.4
Travel services	2	0.6

Source: National Audit Office survey

NOTE

¹ Data available for two of the three organisations.

2.7 OGCBuying.solutions framework agreements are used by most organisations in the sector, and there is good awareness of these arrangements as a route to procuring certain types of goods and services. Organisations see this as a quick and relatively simple and efficient procurement method. The main advantage is that suppliers are already vetted and pre-qualified under European Union procedures, which saves time and effort. Some organisations have also been able to achieve significantly cheaper prices through OGCBuying.solutions framework agreements although others have not found this and a few organisations have found the system for navigating the electronic catalogues difficult. The main area of improvement, however, which organisations say would encourage them to use this route more, would be more small and medium-sized suppliers to choose from who would be better able to meet the requirements of relatively small organisations. OGCBuying.solutions has informed us that there is an ongoing programme to make navigation of its website easier, and that it has had extensive discussions with the supply community to ensure that small and medium-sized enterprises are fairly represented in its framework agreements.

2.8 There was much less awareness of and confidence in using procurement consortia than other approaches to collaboration. However, both consortia and joint procurement are seen by surveyed organisations as giving cheaper and better quality goods, better market knowledge and improved value for money but also as more complicated and time-consuming to set up than other procurement methods.

Comments on OGCBuying.solutions framework agreements

“Very fast access to market, very good value”.

“Procurement timescales are considerably reduced with suppliers already vetted and terms and conditions in place”.

“Some problems accessing the website and with navigation; it tends to apply to larger firms, more smaller suppliers would be helpful”.

“The selection of companies on the list was not ideal for an organisation of our size”.

2.9 There is not a ‘one size fits all’ approach to when collaborative procurement is appropriate and the right course will depend on the circumstances of individual cases including organisations’ judgements about the value for money achieved under existing contracting arrangements and their ability to identify other options in a timely way before contracts come up for renewal. This underlines the need for professional expertise to be applied to procurement decisions and the availability of good quality information, themes developed in paragraphs 4.6 and 4.13 of this report.

The potential savings from collaboration are significant

2.10 It is difficult to put a figure on the potential for savings from more collaborative procurement. But as part of its Efficiency Review Procurement Workstream in 2005 the Office of Government Commerce examined how Departments and the wider public sector might get best value from a range of ‘commodity’ goods and services.⁵ This pointed to the sort of savings that might be achieved by consolidating requirements. For example, it found that:

- use of existing framework agreements for clerical and temporary labour could give savings of between ten per cent and 17 per cent;
- more strategic sourcing of print needs could produce savings of between five per cent and 22 per cent; and
- extra large users enjoyed a 53 per cent improvement in electricity prices over small users.

2.11 With total procurement spend of about £575 million a year in the Culture, Media and Sport sector, if even 20 per cent could be bought by collaborative methods, there would be scope for over £100 million a year more to be spent this way. If savings of ten per cent were achieved, the sector would save around £11 million a year.

Better information sharing would help identify further opportunities for collaborative procurement

2.12 To ensure that collaborative procurement happens wherever appropriate, organisations need to know certain basic information about what and how much each is buying, who from, at what price and when existing contracts are due to end. They also need to know what frameworks, consortia and other deals exist that might be available to them. Such information needs to be available for reference by all organisations and the Department. However, none of this information is available across the sector and shared on a regular or consistent basis.

2.13 We found that two thirds of organisations collaborate with others to identify potential suppliers but mostly within traditional groupings, for example: the lottery distribution bodies and the museums and galleries (**Figure 8**). One supplier said that:

“The cultural sector is such a self-referencing sector. They talk amongst each other... have a lot of contacts... go to a lot of conferences and... participate in a lot of forums etc. so they know generally what is happening at the different organisations”.

Little of this leads to collaborative procurement. Only a third of organisations maintain lists of approved suppliers, none of which is shared formally with other organisations.

2.14 Some organisations are networking more widely, for example:

- the Historic Royal Palaces, which is beginning to work with a charity procurement consortium to identify suppliers;
- the National Museum of Science and Industry, which collaborates with a range of organisations through personal and professional networks; and
- the Victoria and Albert Museum, which not only shares information with other museums but also the Department and other government departments.

However, such information sharing is limited both in its extent, its regularity and its formality and much is based on personal contacts and networks. Without formal and regular information sharing there is the risk that opportunities for collaborative procurement and their associated potential savings will be missed.

8 Museums and Galleries Procurement Group

In November 2004, procurement staff from a number of London-based museums and galleries set up a formal Procurement Group. It now has eight members and meets quarterly to share ideas and information about specific and broader procurement issues that are of current interest to its members. Whilst still at an early stage of development, the Group is already sharing documentation such as sample agreements to avoid unnecessary duplication of effort, and is beginning to identify areas where they can work together, for example on transporting objects.

Source: National Audit Office survey and casework

5 <http://www.cp.ogc.gov.uk/>

2.15 At the focus groups we held for procurement staff, the idea was mooted of a procurement ‘hub’ into which sponsored organisations could feed information about suppliers, supply opportunities and procurement needs and get advice. The thought was that the foundation for such a hub might be formed by the larger organisations in the sector: they have the procurement spend and resources to both assist and gain most. Smaller organisations, including those that were too small for inclusion in this study, would be able to gain from use of the ‘hub’ once established. Such a ‘hub’ could, if the participants wished, be developed into a procurement consortium, such as the Research Councils’ Procurement Organisation (Figure 9) or provide a gateway to other, wider government developments such as the Zanzibar managed service (see paragraph 2.17 below).

The sector’s extranet could be a useful tool to support greater collaboration

2.16 The Department, in March 2001, launched an electronic network (extranet) called AGORA to enable it and the organisations it sponsors to communicate, to work together, and to share experience and best practice. With further development AGORA could provide a useful means of sharing procurement information, providing information to suppliers about opportunities to supply the sector, and supporting a procurement ‘hub’ for the sector such as described in paragraph 2.15.

2.17 The development of AGORA may help the sector take advantage of a new initiative by the Office of Government Commerce, the Zanzibar managed service, which will go live in the last quarter of 2005. Zanzibar is a managed service for the provision of an internet based electronic marketplace in which suppliers can publish their catalogues. Government bodies will be encouraged to publish the bespoke catalogues they have negotiated on their own behalf with suppliers but which are open to others so that all government bodies can benefit. It is expected to offer highly competitive terms and conditions. An objective of the project is to spark collaborative procurement opportunities.

2.18 AGORA may also provide a basis for eAuctions – or electronic reverse auctions – a procurement technique that uses secure Internet-based technology in which potential suppliers make successively lower bids against the clock until the lowest overall price is achieved. By increasing competitive pressure on suppliers and reducing the time needed to carry out competitive negotiations, the value for money efficiencies can be high – the Office of Government Commerce says that efficiency improvements in public sector contracts of 20-25 per cent are not uncommon. As yet none of the 25 organisations has used this technique but the Department and the Office of Government Commerce hosted a demonstration of an eAuction at a recent seminar.

9 The Research Councils’ Procurement Organisation – an example of collaborative procurement

The Research Councils’ Procurement Organisation (RCPO) has been created through a merger of the corporate purchasing organisations of six research councils:

- Biotechnology and Biological Sciences Research Council;
- Engineering and Physical Sciences Research Council;
- Economic and Social Research Council;
- Medical Research Council;
- Natural Environment Research Council; and
- Particle Physics and Astronomy Research Council.

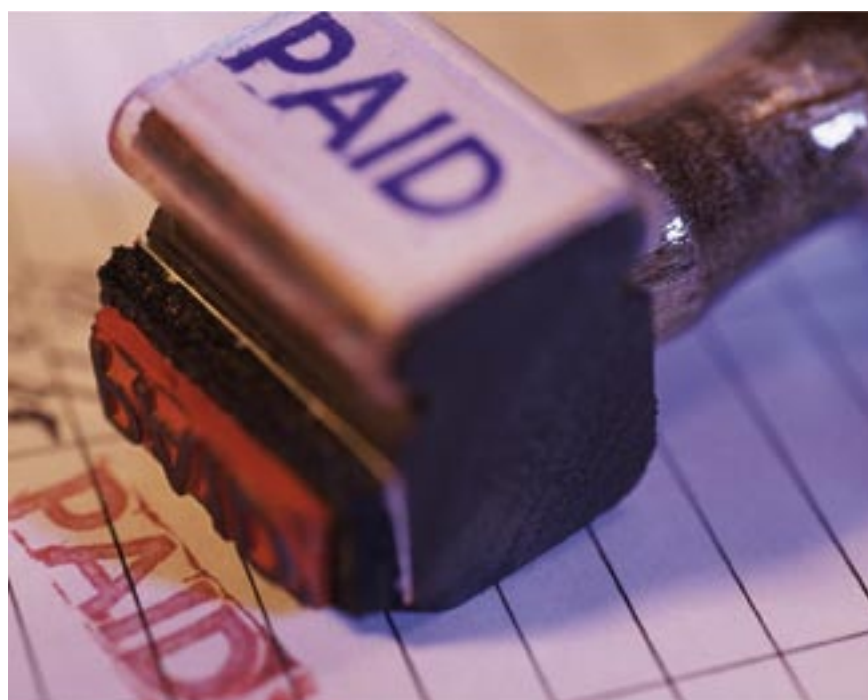
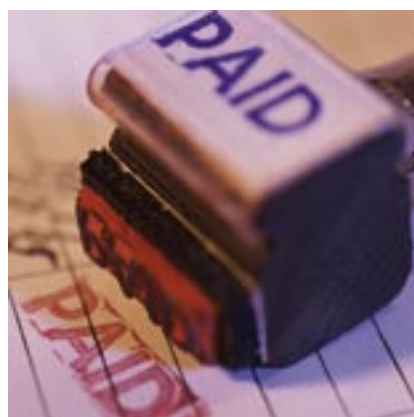
The Council for the Central Laboratory of the Research Councils is a member of the RCPO, but maintains its own purchasing unit.

The RCPO is a professional procurement unit, which provides the Research Councils and their Institutes with specialist purchasing and supply services. The organisation focuses its effort on increasing purchasing professionalism and improving value for money within Councils’ supply chains. The Strategic Procurement Team specialises in negotiating framework agreements and there are now over 110 purchasing agreements for use by the Research Councils covering a wide range of goods and services. These can all be accessed through the RCPO website by Research Council members of staff. The site also enables direct ordering from those suppliers which have developed suitable websites and by those staff who have purchasing cards.

Source: Research Councils’ Procurement Organisation

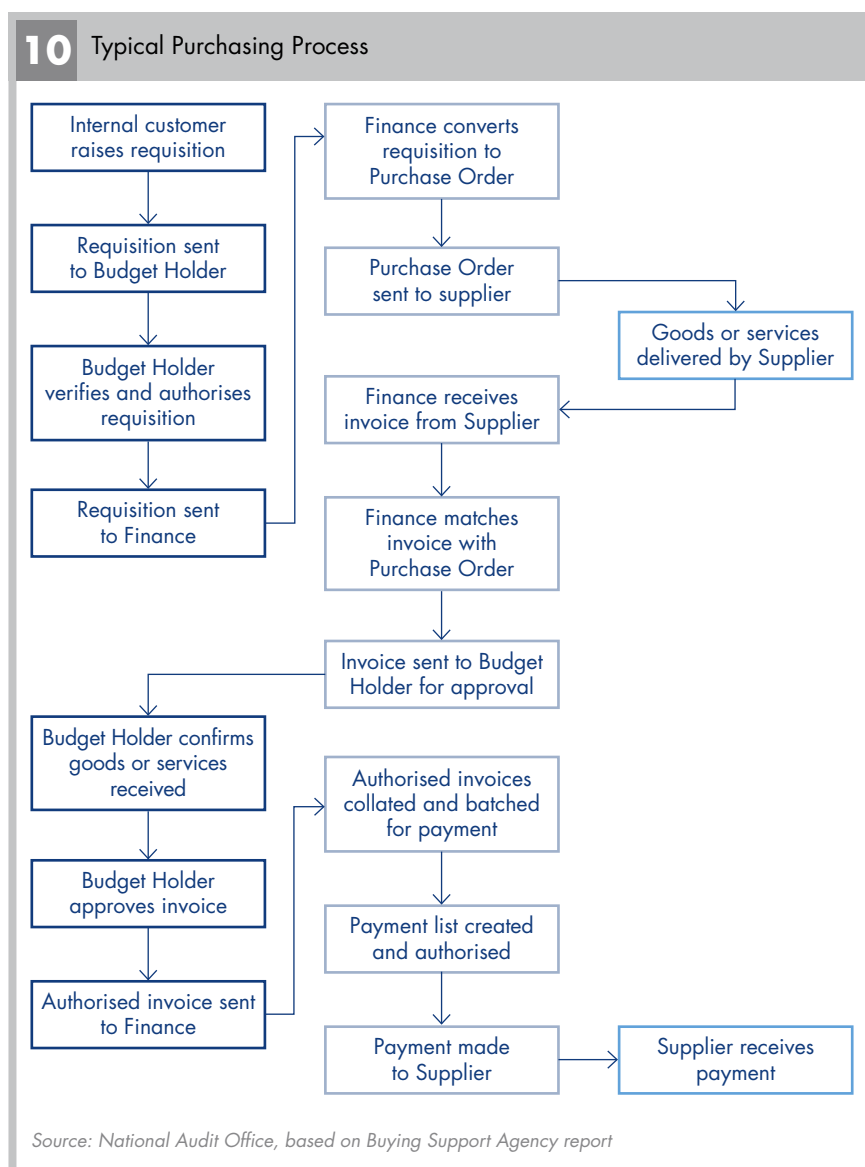
PART THREE

Transaction processing is the hidden cost of procurement and is significant



The cost of processing a purchase order is around £44 on average

3.1 The £575 million a year the Culture, Media and Sport sector spends on procurement is the amount paid to suppliers. It is important, however, to keep sight of the in-house transaction costs. We asked independent consultants the Buying Support Agency to map and cost the procurement process at four organisations from the time that an internal customer raises a requisition to the supplier being paid. **Figure 10** shows the typical stages, 17 in all, involved in processing a purchase order.



3.2 As shown in **Figure 11**, at the four organisations examined by the Buying Support Agency the direct staff cost⁶ of processing a purchase order varied between £13 and £30 and averaged £24 to which £20 needs to be added to cover other costs such as accommodation, support from central services and materials,⁷ making a total of £44 on average. The lower direct staff cost at the National Maritime Museum appears to be due to the fact that it has partly computerised its processes, whereas the others use manual systems for processing orders. Five other organisations in the sector have calculated their own process cost, using different methods and bases, resulting in estimates varying between £15 and £80, and also averaging £44.

3.3 In 2004-05 the 25 organisations we looked at processed almost 350,000 purchase orders (an average 14,000 orders each) at an estimated administrative cost of £15.4 million. Eighty per cent of these purchases (280,000 orders) were for goods and services under £1,000 in value and a total value of £59 million. The administrative cost across the sector to make these relatively low value purchases was an estimated £12.3 million (including overheads), or 21 per cent of the value of the goods and services themselves. Action to improve the efficiency of the purchasing process and reduce the number of transactions going through purchase systems, particularly for low value items, would reduce the processing costs.

Electronic methods reduce processing costs and can increase the efficiency of the procurement process

3.4 One way of making procurement more efficient is by using electronic systems.

Electronic procurement can be used to enhance any of the main ways that organisations procure goods and services by using electronic networks to simplify and speed up all stages of the procurement process, including tendering, ordering, requisitioning, stock management, monitoring delivery and supplier performance. Benefits include that it:

- can speed up the procurement process;
- has the potential to reduce administration costs and staff required to administer invoices and requisitions;
- provides better management information about what has been ordered and received, by whom and from which suppliers, what has been spent and how it was approved.

Source: National Audit Office, *Improving Procurement* (HC 361-I, 2004)

11 Average costs for processing a purchase order

Organisation	Type of purchase order processing system	Average direct staff cost	Estimated total cost (including overheads)
Arts Council England	Manual	£24.02	£44.02
Big Lottery Fund	Manual	£26.91	£46.91
National Maritime Museum	Combined manual and computerised	£13.00	£33.00
Victoria and Albert Museum	Manual	£30.40	£50.40

Source: National Audit Office, based on Buying Support Agency report

⁶ Costs were calculated based on the time needed to complete each stage of the process multiplied by the average rate of pay for the grade of staff that carried out the task (including 22 per cent to cover employer's National Insurance and pension contributions).

⁷ Based on an indicative estimate from 'Costs of using requisitions/purchase orders', Chartered Institute of Purchasing and Supply, 2001.

3.5 Those organisations that use electronic systems have benefited from faster procurement, reduced errors, lower costs and better management information. A number of benefits for the Imperial War Museum from its use of electronic procurement are shown in **Figure 12**.

3.6 Some aspect of the procurement process is handled electronically in 18 of the 25 organisations we examined, though there were variations in the approaches adopted. Six of the 25 organisations use electronic systems to process purchase orders, and as shown in Figure 11 above the direct staff cost of processing a purchase order at the National Maritime Museum (which has electronic systems) was half that of other organisations we looked at. If computerisation were to reduce the direct staff costs of processing a purchase order by 50 per cent, savings in excess of £3.7 million could be achieved across the sector when processing purchases, or £2.2 million if use of procurement cards were to increase on the scale discussed in paragraph 3.10 (our calculations are shown in Appendix 1). Further savings through reduction of overheads might follow over time. Clearly, any savings and other benefits would need to be balanced against the costs of introducing such a system.

3.7 Other elements of electronic procurement are also used by 17 of the 25 surveyed organisations in their buying activities, including:

- placing orders electronically, either via online catalogues or supplier websites (eleven organisations); and
- as part of the tender process, such as advertising supply opportunities and issuing tender documentation (seven organisations).

3.8 Eighteen organisations are examining ways to implement or enhance their electronic procurement capabilities over the next two years. Factors some felt were potentially constraining included a lack of skilled staff and financial resources, and uncertainty in some organisations over whether the benefits would outweigh the costs given their level of spend or the types of items bought. To manage the risks involved effectively and avoid unnecessary duplication, the Committee of Public Accounts have recommended that organisations learn from experience elsewhere in Government.⁸

12 Electronic procurement at the Imperial War Museum

The Imperial War Museum uses a software package to place and authorise orders and to monitor spending levels. This was introduced in April 2004 at an initial cost of £42,000, with annual charges of £7,500.

The new system provides reports to all users, whether at local level for departmental budgets, or at administrative levels for overall management controls. The Museum is considering how to use this information to develop indicators and benchmarks to manage procurement performance. The system has also streamlined the processing of purchase orders, and the Museum calculates that it costs £15 to process each one.

The Museum also uses electronic methods to order from suppliers. Many departments order products directly via the Internet on an 'as required' basis. For example, the Facilities Management office, which is responsible for ordering stationery and office supplies, uses suppliers' web-based ordering systems to order products. The Museum has identified a number of benefits from ordering in this way:

- the speed of receipt of products has increased;
- some price savings have been achieved;
- fewer errors are now made ordering supplies, so reducing costs; and
- the Museum can access its own ordering profile and records, rather than relying on suppliers forwarding this information.

Source: National Audit Office survey and casework

Greater use of procurement cards would reduce process costs

3.9 Procurement cards, a payment method supported by the Committee of Public Accounts⁹ and widely accepted by suppliers, are similar to corporate credit cards, and are predominantly used to make low value purchases. Cards are issued to specific employees within an organisation who use them to make purchases on its behalf without having to create the paperwork required by traditional procurement processes, thereby removing the need for the organisation to process a large number of low value purchase orders. Instead, each month the organisation receives a statement and consolidated invoice from the card provider.

⁸ Committee of Public Accounts, *Improving departments' capability to procure cost-effectively*, 41st Report of Session 2003-04 (HC 541), 2004, page 6.
⁹ *Ibid*, page 5.

Procurement cards are a quick and easy payment method for low value goods and services.

Benefits include:

- simplified purchasing and payment of low value transactions;
- reduced purchasing costs: cardholders buy directly from the supplier, reducing form-filling by staff;
- speedier delivery and reduced stockholding;
- improved efficiency: less time spent on administration, checking and authorising purchases;
- minimised risk of fraud and impropriety through appropriate controls and safeguards and a simplified audit trail.

Source: National Audit Office, *Improving Procurement* (HC 361-I, 2004)

13 The use of procurement cards by Historic Royal Palaces

Historic Royal Palaces has issued Government Procurement Cards to 107 staff, and their use has resulted in a number of benefits:

- there has been a significant reduction in the number of purchase orders that require processing;
- staff have the freedom and flexibility to place urgent orders;
- the organisation is able to take advantage of offers available via the Internet that require payment by card; and
- the number of conventional petty cash and expense claims has been greatly reduced.

Cards can be used for all types of expenditure under £1,000 and, in 2004-05, 6,000 purchases were made using them (56 per cent of all purchases under £1,000) with a total value of £900,000 (four per cent of total procurement expenditure for the year).

Source: National Audit Office survey and casework

3.10 Of the 25 organisations we examined 17 currently use procurement cards. In 2004-05 these 17 organisations used cards for 90,500 purchases with a total value of £7.6 million (virtually all of them under £1,000 and representing 24 per cent of all the sector’s purchases under £1,000¹⁰). This represents just over one per cent of all procurement expenditure, compared to the average for government departments of six per cent of procurement expenditure being made with cards.¹¹ To match this level of use, the sector would have to pay for 51 per cent of its purchases under £1,000 in this way. Some organisations are already at or near this level (**Figure 13**), and if it were achieved across the board it could result in an annual saving of £2.8 million.¹² Our calculations are shown in Appendix 1.

3.11 A number of other factors point to there being scope for the sector to increase the use of procurement cards:

- the eight organisations that do not use cards accounted for 25 per cent of total procurement spend in 2004-05 and between them made 70,000 purchases under £1,000;
- nearly 60 per cent of the 1,700 cards used have been issued by just two organisations, English Heritage and the British Library, which together account for only 20 per cent of total procurement expenditure;
- the use made of procurement cards by the 17 organisations that already use them varies significantly. In 2004-05 the percentage of transactions under £1,000 made using procurement cards ranged from 60 per cent to one per cent, with an average of 30 per cent; and
- cards were used predominantly to pay for travel, stationery and books although they can be used for a much wider range of purchases, as the National Museum of Science and Industry shows (**Figure 14**).

10 These 90,500 purchases are in addition to the 350,000 purchase orders referred to in paragraph 3.3.

11 National Audit Office, *Improving Procurement: Progress by the Office of Government Commerce in improving departments’ capability to procure cost-effectively* (HC 361-I, 2004), p.13.

12 Based on a £28 efficiency saving figure established by KPMG in 1998 from averaging savings figures across 12 central government departments, comparing a Procurement Card transaction to a traditional paper-based one: National Audit Office, *Improving Procurement* (HC 361-I, 2004), p.38.

14 The use of procurement cards by the National Museum of Science and Industry

The National Museum of Science and Industry has used procurement cards to pay for a wide range of items, including:

- **Services:** cleaning, estate and garden, financial, mail and courier, medical supply, professional, telecommunication, catering, freight storage, computer equipment servicing, print and advertising, training and education and temporary staff;
- **Goods:** books and periodicals, building materials, business clothing and footwear, office equipment and supplies, and utilities and non-automotive fuel;
- **Fees** for clubs, associations and organisations;
- **Travel and accommodation**, including hotels, tickets, car rental, vehicle fuel, servicing and spares.

Source: National Audit Office survey

3.12 Users and non-users of procurement cards had divergent views about their benefits. Some of the eight non-users appeared to be unconvinced that they would benefit from using cards:

- four think that cards are unlikely to reduce staff or administration costs;
- five thought that cards were not appropriate for the items that they buy;
- three thought that using cards was too complicated; and
- three thought that using cards was too time-consuming.

In contrast, the 17 organisations that use procurement cards were very positive about their benefits:

- 14 thought that cards speeded up the procurement process;
- 16 thought that they reduce staff and administration costs;
- 16 did not think that using cards was too complicated; and
- 16 did not think that using cards was too time-consuming.

3.13 Four organisations raised concerns about the risk of employees or third parties misusing cards. However organisations reported few instances to us, one or two a year across the sector none of which involved staff. The risk of misuse can be minimised by controls such as issuing staff with clear guidance regarding the use and safekeeping of cards, regularly reviewing card spend limits, monitoring monthly statements and following up any unusual transactions. Provided appropriate controls and safeguards are in place, card providers indemnify organisations against fraudulent use.

PART FOUR

There is scope for organisations in the Culture, Media and Sport sector to strengthen their procurement capability



4.1 In response to our survey, nearly all organisations in the sector said they are looking to improve their procurement capabilities over the coming 12 months. This Part of the report looks at the key areas of organisational performance that affect the effectiveness of organisations' procurement functions and which could help the sector deliver the improved value for money from procurement that it is looking for. This aspect of our work was again informed by our 2004 report on procurement in central government, in particular those themes identified in Appendix 2 – namely commercial awareness, procurement expertise, supplier management and management information.

A more strategic management approach would support the improvements being sought

4.2 From our survey of the 25 organisations we noted a number of ways in which performance might be improved by a stronger management focus:

a **Establishing clear Board level responsibility**

Seven of the 25 organisations do not have a designated individual at Executive Board level responsible for procurement. These seven organisations accounted for £111 million (20 per cent) of the sector's procurement spend in 2004-05.

b **Setting clear and consistent targets**

Eight of the 25 organisations (responsible for procurement spending of £140 million) do not have a savings target for procurement. And the targets that do exist range from the organisation-wide (such as save £1 million across all types of procurement spend) to an individual item (such as save £7,500 on information technology improvement).

c **Learning from experience**

Seven of the 25 organisations, with a combined procurement expenditure of £157 million in 2004-05, saw a need for better regular review of procurement performance to promote value for money.

d **Forming clear strategies**

Only three organisations have a written procurement strategy which includes all or most of the key features of a good strategy (**Figure 15 overleaf**).

Only four organisations, one of which is the Department, have sustainable procurement policies in place, a fact consistent with wider concerns about how far sustainable procurement is embedded in the procurement processes of central government organisations.¹³ Greater use of whole life costing techniques would help organisations weigh up the long term value for money benefit of more sustainable options.

¹³ National Audit Office, *Sustainable procurement in central government*, 2005.

15 Key features of a good procurement strategy

A comprehensive procurement strategy should include:

- an analysis of the key goods and services, and their cost and their priority, which the organisation needs to deliver its objectives and services;
- an assessment of the way in which these are purchased;
- the performance of key suppliers; and
- the scope to improve value for money and quality of service.

The strategy should also consider:

- the performance of the purchasing unit and the potential to reduce processing costs;
- the scope to adopt innovative approaches to improve procurement while reliably managing associated risks; and
- the extent to which professional procurement staff are involved in the purchase of all goods and services, the awareness of end users of the input procurement staff can make and how to involve them, and the need to further develop purchasing expertise.

Source: National Audit Office and Office of Government Commerce, *Getting value for money from procurement: how auditors can help* (2001)

Comments from the organisations we surveyed:

"Delays in procurement staff learning of potential contracts and therefore too late to influence the procurement route, leading to an unacceptable level of single tender actions and 'quick' tenders to known suppliers rather than open competition".

"Lack of control over budget holders to reduce their use of unvetted suppliers".

Comments from staff:

"There are clearly financial gains to be made at the Museum by centralising the sourcing of a wide variety of services and materials: this is currently undertaken in a very fragmented manner".

"Procurement is devolved which is good, but perhaps is not always the most efficient way to gain good prices. Similar items may be bought by divisions when a centralised order would be more cost effective. Devolvement dilutes procurement knowledge".

"The Museum does not have an induction programme to familiarise new staff with financial and procurement procedures. Financial accountability is therefore a bit of a mystery".

"The manual and guidelines are lengthy and not user friendly at all. Newcomers often ignore them which may bring risks to our organisation".

The lack of co-ordination within organisations presents risks to value for money

4.3 Where authority to award contracts is delegated to approved individuals it is important to ensure overall procurement activity is effectively co-ordinated and controlled. A lack of procurement expertise among staff involved in negotiations, and failure to use buying power effectively by aggregating demand and seeking opportunities for collaborative purchasing as discussed in Part 2, will almost certainly result in organisations paying more than necessary.

4.4 In all 25 organisations we examined procurement is a largely devolved function, with the number of individuals authorised to award contracts ranging between ten and 750: and the number involved in negotiating contracts is generally larger still. This may be why eleven organisations (with total procurement expenditure of £327 million in 2004-05) saw the lack of co-ordination and control over procurement as a barrier to improvement. A related finding is that a minority of staff (14 per cent, from nine organisations) who responded to our web survey did not have a clear understanding of the stages of the procurement process, and seven per cent (from seven organisations) said they did not always follow the correct steps.

4.5 Consultants, the Buying Support Agency, who we asked to carry out a review of procurement at four organisations, found:

- a lack of co-ordination of procurement and the risk of duplication of effort across departments within those organisations;
- a lack of involvement of the central purchasing team, where there was one, before commitments to suppliers were made;
- little or no consideration of whole life costs when issuing tenders; and
- a lack of third party review, for example by procurement specialists, of budget holders' decisions or scrutiny of contract risks and results.

Procurement specialists can make a difference but expertise is limited across the sector

4.6 Although authority to negotiate and award contracts is largely devolved in the organisations we examined, there is a centralised procurement function at 15 of the 25, which accounted for £381 million (68 per cent) of the sector's procurement spend in 2004-05. At the time of our survey 13 of these 15 organisations employed qualified or part-qualified staff (37 in total).¹⁴ Of the ten organisations without a centralised procurement function, three were in the process of recruiting qualified staff, and the remainder were mainly smaller organisations, six having a procurement spend of under £20 million a year.

4.7 Ten of the 25 organisations (mostly but not exclusively without qualified staff) saw the lack of a fully resourced, expert procurement team as a barrier to improving their procurement performance. Eight organisations identified the lack of procurement expertise available to staff conducting negotiations with suppliers as a problem, and one in seven respondents to our web survey of staff considered they did not have sufficient access to procurement expertise to obtain good value for money.

4.8 Action to improve skills has been patchy. Within the last three years, 20 of the 25 organisations have reviewed the level of procurement knowledge and skills within their organisation leading to improved training in twelve cases and new staff appointments and action to improve the status and role of procurement in three cases. For example, since 2004 Historic Royal Palaces has run a two day course for key staff responsible for letting or managing contracts. Eleven organisations, however, identified a need for better training and other learning opportunities to improve their procurement performance.

4.9 But even when procurement expertise is available it is not, according to procurement staff, always fully utilised:

- in only seven of the 15 organisations with a central procurement function does that central function have influence over the whole range of goods and services bought by the organisation;

- while 12 of the 15 procurement teams are involved in drafting tender and contract documents, less than half are involved in managing contracts once let; and
- the advice of procurement staff is often sought too late, for example after needs and procurement methods have been fixed.

4.10 There was evidence, however, of organisations looking outside for advice, and of efforts to share lessons within the sector. Twenty-three of the organisations in the sector had turned to others for advice within the previous 12 months, particularly to the Office of Government Commerce and consultants. And the Department for Culture, Media and Sport runs procurement seminars every six months, provides assistance with the review of procurement functions and gives advice on specific procurements. Organisations were less inclined to seek advice from procurement professionals within the sector, with the result that on the whole the expertise of these people tends to be confined to the organisations they work in.

Suppliers were positive about relationships with the sector but saw scope for improvement

4.11 We asked the market research firm MORI to conduct telephone interviews with a selection of the sector's suppliers. Although there was some reluctance amongst suppliers to talk about specific clients they were generally positive about the relationships they have with the sector. Suppliers did comment, however, on the need for more open communications throughout the procurement cycle – feedback on tenders, the contract delivery stage and post contract debriefing. And they thought buyers within the sector did not always have sufficient knowledge of the market place to know who can supply their needs. Only eight of the 25 organisations we examined hold lists of approved suppliers, and with almost 3,000 suppliers listed the manageability of the lists is questionable – a concern also identified by the Buying Support Agency at the four organisations it examined. As seen in Figure 4 above, some organisations had already identified the need to rationalise their lists.

¹⁴ Staff who hold or are studying for a procurement qualification administered by the Chartered Institute of Purchasing and Supply or Government Procurement Service.

4.12 Qualified procurement staff are involved in the management of contracts at only eight of the 25 organisations we examined, and five organisations (two without qualified procurement staff) identified their ability to take quick and effective action to address poor supplier performance as a problem. The Buying Support Agency noted that contract management in the organisations they examined was sometimes the responsibility of staff inexperienced in this role, and suppliers also commented that projects may be managed by staff who did not have the necessary expertise.

Comment from supplier

“The problem is they have project managers who haven’t had experience in managing a project like the one they are involved in. Generally it is a general staff member who is the project manager”.

Better management information would support improved procurement performance

4.13 Most of the organisations we examined rely on their finance systems for procurement information. This means they know who has been paid, how much and under which expenditure heading, but, for example, what has been bought is more difficult to extract. As a consequence, organisations are not well-placed to evaluate their procurement performance:

- seven of the 25 organisations we examined felt they lacked easily accessible information on the type of contract under which goods and services are purchased and the amount that takes place outside organised arrangements (‘maverick spend’) and ten were concerned about the information available on the quality of what is bought and supplier performance;

- eleven organisations considered that their current management information system was hindering their development and use of performance indicators and targets;
- only seven organisations have any indicators of their procurement performance, and these are quite limited in scope being either measurement of savings or aspects of the efficiency of the process, such as order creation turnaround. The Improvement and Development Agency (IDeA), in collaboration with the Audit Commission and the Society of Procurement Officers in Local Government, has developed a comprehensive and detailed set of performance indicators for procurement covering strategy, major projects, purchasing and equalities and competition. Although developed for use by local authorities the generic nature of procurement means they could be equally useful to other public sector organisations. One organisation is considering adopting indicators from the IDeA list;¹⁵
- only five organisations benchmark their procurement performance in any way;
- only eight organisations monitor ‘maverick spend’; and
- only five organisations have calculated the average cost to process a purchase order through to payment.

15 IDeA, *Modernising Procurement Practice in Local Government, local performance indicators for procurement* (2004).

APPENDIX 1

The methods we used

The main strands of our approach are:

- a survey of the 25 organisations in the sector which, in 2004-05, each spent over £3 million on the procurement of goods, services and works;
- focus groups of procurement staff working for the surveyed organisations sponsored by the Department;
- a web-based survey of internal customers working in the surveyed organisations;
- a detailed review of the procurement processes and costs at four organisations; and
- a telephone survey of businesses supplying the sector.

These are described in more detail in the paragraphs following.

Survey of the 25 largest organisations in the sector

We sent a questionnaire to the Accounting Officers of the 25 organisations in the sector with an annual procurement spend in 2004-05 of over £3 million. They were asked to provide information on the following topics:

- the procurement arrangements and the availability, level and use of procurement skills in their organisation;
- the procurement methods they used in place of traditional approaches to procurement, when these are used and any particular benefits and problems they give;
- the identification and management of suppliers;

- their procurement performance measurement systems; and
- their views on what would best help to improve procurement and what the barriers to this were.

Organisations were asked to provide financial data on their procurement spend in 2004-05, including a breakdown of spend by category and the number of purchase orders that were processed.

All 25 organisations returned a completed questionnaire. We used evidence from other sources, in particular data from our annual audit of organisations' financial statements, detailed work carried out by our consultants at four organisations, and follow up enquiries and visits, to gain broad assurance about the questionnaire responses.

Focus group of procurement staff

We held two focus groups to discuss how best use could be made of procurement staff and their expertise, and how collaboration between organisations might deliver better value; 14 staff from 13 organisations attended.¹⁶

Web-survey of internal customers

We asked the Accounting Officers at the 25 organisations included in our main survey to encourage internal customers of procurement services (i.e. the people within their organisation that have identified a need and will use the items or services being procured) to complete a short online questionnaire examining their views of the procurement arrangements that they use. Completed questionnaires were received from 156 staff at 17 organisations.¹⁷

16 Big Lottery Fund, British Library, English Heritage, National Heritage Memorial Fund, Historic Royal Palaces, Museums, Libraries and Archives Council, National Gallery, National Museum of Science and Industry, National Portrait Gallery, Natural History Museum, Sport England, Tate Gallery and Victoria and Albert Museum.

17 Arts Council England, Big Lottery Fund, British Library, British Museum, Department for Culture, Media and Sport, Historic Royal Palaces, Imperial War Museum, National Gallery, National Maritime Museum, National Museums Liverpool, National Portrait Gallery, Natural History Museum, Royal Armouries, Royal Parks Agency, Sport England, Victoria and Albert Museum and VisitBritain.

Review of procurement processes and costs

We commissioned the Buying Support Agency, purchasing consultants, to carry out a review and costing of the procurement processes at four organisations and to assess:

- whether there was scope to reduce the cost involved;
- how the process in each organisation compares to best practice; and
- what potential exists for aggregating procurement needs for common goods and services across the sector.

We chose Arts Council England, Big Lottery Fund, National Maritime Museum and Victoria and Albert Museum to represent the range of size and type of organisations in the sector. The Buying Support Agency issued them with its own questionnaire, which built upon our main survey, undertook process mapping and timings at each organisation and conducted a number of semi-structured interviews.

Telephone survey of suppliers

We commissioned the market research firm MORI to undertake 21 half hour interviews with the most appropriate senior contact at suppliers to find out their views about procurement processes in the Culture, Media and Sport sector. The sample was selected from lists of main suppliers provided by the 25 organisations in their questionnaires, and MORI undertook a cross sample of interviews to cover the type of supplier, the nature of the contract, the size of purchase and the organisations they supplied.

Background research

We interviewed a wide range of stakeholders to collect information and views on the issues and practicalities of getting better value from procurement in the Culture, Media and Sport sector, including the Chartered Institute of Purchasing and Supply and the Office of Government Commerce. Two members of the study team attended a purchasing course run by the Chartered Institute of Purchasing and Supply. We also reviewed relevant reports and evaluations. We drew upon the reports *Local Authority Procurement: a research report* (Joint Department for the Environment, Transport and the Regions/Local Government Association-sponsored Taskforce, 2001), *Improving Procurement: progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively* (National Audit Office, HC 361-I, March 2004) and *Procurement in the Higher Education Sector in Wales* (Auditor General for Wales, November 2004) in our questionnaire design.

Calculation of financial impacts

1 Potential savings from computerising the purchase order process

We commissioned the Buying Support Agency to review and cost the purchase order process at four organisations. Three of these (Arts Council England, Big Lottery Fund and Victoria and Albert Museum) process purchase orders manually, and the average staff cost of processing each purchase order is £27. The National Maritime Museum has computerised those parts of the purchase order process administered by its Finance Department, resulting in staff costs of £13 to process each purchase order.

We established that 19 of the 25 organisations covered by this report have manual purchase order processing systems, and that in 2004-05 they processed 267,000 purchase orders. We estimate that had these purchase orders been processed using a computerised system, at a saving of £14 per purchase order, the overall saving to the sector would have been £3.7 million.

2 Potential savings from increased use of procurement cards

The National Audit Office report *Improving Procurement* (HC 361-I Session 2003-04: 12 March 2004) found that Departments spent, on average, six per cent of their annual procurement expenditure using procurement cards, and it recommended that Government as a whole should aim to reach this level of expenditure using procurement cards. The 25 organisations that we examined would need to spend £35.2 million of their combined annual procurement expenditure using procurement cards to reach this target, compared to the £7.2 million actually spent in this way in 2004-05.

As procurement cards are generally used for purchases of less than £1,000, we calculated that 51 per cent of purchases under £1,000 (total value £66.1 million) would need to be made in this way to meet the target. We established that:

- Organisations which currently use procurement cards made 30 per cent of their 300,000 purchases of under £1,000 in 2004-05 using them; and
- Organisations that do not use procurement cards made 70,000 purchases of under £1,000 in that year.

For 51 per cent of purchases to be made with procurement cards, current users would have had to make a further 21 per cent of purchases with them (63,000 purchases), and non-users would need to make 51 per cent (35,700 purchases). The total of additional purchases needed, therefore, is 98,700 which, at a saving of £28 per transaction, would result in total savings of £2.8 million.

3 The impact of increased use of procurement cards on potential savings from computerising the purchase order process

If organisations increase their use of procurement cards, they will produce fewer purchase orders and so the potential saving from computerising the purchase order process will reduce.

Of the 267,000 purchase orders processed by organisations with manual systems in 2004-05, 216,000 (81 per cent) were for purchases of under £1,000. If 51 per cent of these low value purchases were made using procurement cards, this would leave 158,000 purchase orders to be processed, and the cost of processing these would be reduced by £2.2 million.

APPENDIX 2

Seven aspects of procurement capability

The National Audit Office report *Improving Procurement: Progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively* (HC 361-I Session 2003-04: 12 March 2004) identified the following seven aspects of procurement capability which departments should seek to enhance.

A Raising commercial awareness

- Having board level representation of the procurement function and regular discussion at board level of how procurement decisions feature in the delivery of major projects and programmes;
- Having a suitably qualified senior official in place with a remit across the whole of the department's commercial activities;
- Developing a strategy for procurement that identifies links between procurement and other departmental-wide objectives and strategies; and
- Assessing whether the mechanisms for developing and implementing programmes involve procurement staff at a sufficiently early stage.

B Having better management information

- How much is spent, with whom, and on what goods and services;
- The number of suppliers and the profile of expenditure with them;
- Information about the supply chain;
- Transaction costs for different type and size of items;
- Estimates of maverick spend that fall outside organised arrangements;
- The potential value for money options of different procurement routes (for example OGCBuying.solutions framework agreements, Government Procurement Card); and
- The likely future demand for products and services in particular markets and how much will be spent.

C More joint purchasing between departments

- Increasing the take-up of framework agreements, such as those provided by OGCBuying.solutions;
- Better communication between departments to identify opportunities for collaborative purchasing; and
- Sharing of information on supplier performance.

D More proactive management of suppliers

- Clearer communication between departments' procurement staff, suppliers and the end users of the goods and services required;
- More consistent performance across departments in reducing the time it takes to tender for goods and services so as to minimise the burden on suppliers and to encourage them to bid;
- A single source of access to all invitations to tender, for example, through an internet portal;
- Changing the perception that contracts are awarded primarily on price by communicating more clearly the weighting given to other criteria, such as quality of service, on which procurement decisions are made; and
- Earlier engagement with suppliers before and during the earliest stages of a procurement.

E Better management of the risk of dependency on too small a number of suppliers

- Departments seek opportunities to promote competition;
- Opportunities to have a wider range of sources of supply for key goods and services are realised; and
- Departments actively promote the use of small and medium-sized enterprises.

F More progress in developing procurement expertise

- All staff involved in a significant procurement role, either taking decisions or giving advice, have recognised professional procurement qualifications or recognised training;
- There is a well developed network for sharing good practice and procurement expertise in departments; and
- Development of skills to take account of the use of procurement to support wider policy objectives involving sustainability, environmental concerns and small and medium-sized enterprises.

G Better targeting of value for money improvements

- Procurement information systems are sufficiently comprehensive and robust to benchmark prices to identify scope for better value for money;
- All procurement activity is regularly monitored and reviewed to identify potential to deliver better value for money and the achievement of targeted improvements; and
- Departmental, agency and non-departmental public body management boards review procurement performance to obtain assurance about the achievement of value for money, including seeking advice from internal and external auditors.