



National Audit Office

Assessing the value for money of OGCbuying.solutions

LONDON: The Stationery Office
£13.50

Ordered by the
House of Commons
to be printed on 12 December 2006



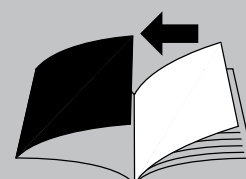
SUMMARY

1 OGBuying.solutions was established in April 2001. Its primary role is to maximise the value for money obtained by government departments, and other public bodies, through the procurement and supply of goods and services. Its operations break down into three areas:

- framework agreements – agreements with providers which set out terms and conditions under which specific purchases can be made throughout the term of the agreement;
- managed services – an on-going service managed by OGBuying.solutions on behalf of public bodies, for example, the Government Secure Intranet (GSI); and
- memoranda of understanding – which offer public bodies guaranteed lowest prices for software and telecommunications.

2 This portfolio of products is designed to offer public sector organisations better value for money than they could achieve elsewhere. The aim is to give organisations access to lower prices than they could achieve and enable them to reduce their process costs by avoiding the need for them to let and manage their own procurement contracts.

3 This report assesses whether OGBuying.solutions is providing value for money.



Key Facts and Terms overleaf

Key facts



Status

OGCbuying.solutions is an executive agency of the Office of Government Commerce.

OGCbuying.solutions is also a trading fund and supports the delivery of the Office of Government Commerce's Public Service Agreement targets which are:

- to improve public services by working with departments to help them meet their efficiency targets amounting to £21 billion a year by 2007-08; and
- to deliver a £3 billion saving by 2007-08 in central government civil procurement through improvements in the success of programmes and projects and through other commercial activities.

OGCbuying.solutions employs 283 people who are primarily based at its two sites in Liverpool (head office) and Norwich.



Revenue and costs

OGCbuying.solutions raises revenue by charging suppliers a small commission (averaging less than one per cent) for each

sale they make under its framework agreements. For managed services, the business model ranges from commission to purchase and sale at a small margin. In 2005-06, OGCbuying.solutions' turnover was £70 million with a surplus after costs of £4 million. This represents a return on capital employed of 16.6 per cent.



Customers

Over 6,600 customers registered spend through OGCbuying.solutions in 2005-06 ranging from major government departments to

individual schools. OGCbuying.solutions' remit extends across both central government and the wider public sector comprising central government, local government, health, education, devolved administrations, emergency services, defence, utilities and not for profit sectors. It also extends to devolved administrations and the local government, health, education and emergency services in Scotland, Wales and Northern Ireland.



Customer spend and market share

In 2005-06 public sector organisations spent £2,795 million through OGCbuying.solutions'

range of products. Central government accounted for 54 per cent of total spend with the wider public sector accounting for the remainder. Customer spend has grown by 150 per cent since 2001-02. Spend through OGCbuying.solutions accounts for five per cent of total central government procurement spend and less than one per cent of wider public sector procurement spend.



Products

OGCbuying.solutions' operations break down into three areas – framework agreements, managed services and memoranda of

understanding. In 2005-06 it operated approximately 180 framework agreements, five managed services and five memoranda of understanding. Framework agreements accounted for 78 per cent of customer spend, managed services 12 per cent and memoranda of understanding 10 per cent. Its operations cover a wide range of products including information technology (IT) equipment, telecommunications, professional services, facilities management, payment cards and energy.



Suppliers

There are 621 suppliers (292 small and medium sized enterprises [SMEs]) across OGCbuying.solutions' three product areas

ranging from major companies to very small firms. They cover over 500,000 individual products and services.



Savings

OGCbuying.solutions reported value for money savings of £412 million in 2005-06. Savings due to customers paying lower

prices than public sector average prices accounted for 52 per cent of savings. Savings due to customers avoiding the process costs of letting and managing contracts accounted for the remaining 48 per cent. Savings have grown by 71 per cent since 2003-04.

Terms used in this report

Body Shop

Body Shop is a framework agreement for information technology (IT) specialists and administrative personnel.

Catalist

Catalist is the brand name for OGCbuying.solutions' framework agreements.

Central civil government

Central civil government excludes the National Health Service and defence military procurement.

eAuction

An eAuction is a dynamic online negotiation process between pre-selected suppliers for a specific piece of business. Suppliers compete online and in real-time using the internet to communicate offers.

Framework agreement

A framework agreement is a general term for agreements with providers which set out terms and conditions under which specific purchases (call-offs) can be made throughout the term of the agreement.

Managed service

Managed services are a range of on-going services managed by OGCbuying.solutions on behalf of public sector customers. Contractual arrangements between OGCbuying.solutions and suppliers are generally through a set of framework agreements.

Memoranda of understanding (MoU)

OGCbuying.solutions manages several memoranda of understanding which provide public sector organisations with general lowest price guarantees.

Mini-competition

Suppliers from a framework agreement are invited to tender for a specific customer contract. It can also be referred to as 'further competition'.

Public sector procurement landscape

A phrase referring to the range of public sector organisations that undertake procurement, how they are structured and interact with one another.

Quick Win products

In 2003, the Government implemented a range of measures to encourage departments to apply minimum environmental standards across a wide range of commonly purchased products. The Sustainable Procurement Group responded to this by identifying a number of 'Quick Wins' which could help government departments meet these standards. These were enhanced in 2005.

Trading fund

A trading fund is a financing mechanism for government trading activities. The objective is to set up autonomous operations with their own capital base; thereby enabling more effective financial and business management along conventional commercial lines. In particular, it would not be necessary to seek funding from Parliament each year (through the Parliamentary Supply process) for operations vested in the trading fund. Instead, the trading fund's financial resources would be managed within the framework established by the Government Trading Funds Act 1973 (as amended by the Government Trading Act 1990). In basic terms, a trading fund may keep cash received, may borrow (only from its authorised public sector lender), and may invest surplus funds (only in the public sector), but may also pay dividends to the Exchequer.

Volume commitment

Volume commitment is an estimate by an organisation of its likely spend through a framework agreement if the framework agreement meets its requirements. It does not necessarily mean a legal commitment, but may be in the form of a letter of intent, meeting note, or simply a verbal indication that is conveyed to suppliers.

What has been achieved?

4 OGCBuying.solutions operates within an unco-ordinated public sector procurement landscape and is in competition with other procurement organisations and department-led framework agreements. Whilst operating within this landscape, OGCBuying.solutions reported value for money savings of £412 million in 2005-06, an increase of 71 per cent since 2003-04.¹ These savings have been achieved in a number of ways:

- the majority of prices paid by OGCBuying.solutions' customers are more competitive than the equivalent public sector market average price;²
- using OGCBuying.solutions saves public sector organisations significant procurement process costs by avoiding the need to let and manage individual procurement contracts; and
- customer sales have increased by 150 per cent since 2001-02 with over 6,600 customers across the wider public sector using OGCBuying.solutions in 2005-06. Guaranteed compliance with European Union procurement legislation and reduced process costs are identified by customers as the key drivers behind this growth. There is no formal mandate that organisations should use OGCBuying.solutions.

What is the potential to achieve more?

5 Whilst the value for money savings reported by OGCBuying.solutions are significant, our examination identified considerable potential to increase value for money still further. OGCBuying.solutions has the potential to improve its own performance and further value for money savings could be achieved if the public sector procurement landscape were better co-ordinated:

- Despite strong sales growth, OGCBuying.solutions' market penetration is low. A realistic medium term objective would be to double market penetration which could increase savings by up to £400 million per annum.
- Given the potential for OGCBuying.solutions to exploit significant buying power, it should aim for the prices paid by its customers to be consistently in the lowest 25 per cent of public sector market prices. Based on the three professional services framework agreements examined in this report, and assuming a doubling of sales volume, this could increase savings by up to £120 million per annum. Across the top 25 per cent of framework agreements, savings could increase by up to £260 million per annum.

1 Part 2 of this report indicates that the reported savings in 2005-06 would have been lower if OGCBuying.solutions had fully taken into account negative savings when prices paid by its customers were higher than the public sector market average price.

2 This analysis is based on OGCBuying.solutions' price benchmarking data which covered approximately 50 per cent of customer sales in 2005-06.

3 When OGCBuying.solutions' prices are more expensive than the market average.



Recommendations

6 To achieve the potential outlined above, OGCBuying.solutions will need to improve performance significantly in a number of areas (see **Key Findings box, overleaf**):

Recommendation 1: OGCBuying.solutions should improve the prices paid by customers through its framework agreements and managed services by (paragraphs 2.6–2.10):

- benchmarking its prices against the lowest 25 per cent of prices paid by public sector organisations, as well as the average prices paid, and including all negative price savings³ when calculating value for money savings (paragraph 2.4 and paragraphs 2.8–2.9);
- securing greater volume commitment from customers through consulting customers more when letting new framework agreements (paragraphs 2.12–2.14);
- reviewing framework agreement and managed services prices regularly to ensure they stay competitive compared to market prices (paragraphs 2.15–2.17);
- increasing the use of eAuctions, where applicable, for letting new framework agreements (paragraphs 2.18–2.20); and
- minimising suppliers' costs of dealing with OGCBuying.solutions (paragraph 2.21).

KEY FINDINGS

Supporting our recommendations

On price competitiveness we found that:

- the majority of prices paid by OGCBuying.solutions' customers were cheaper than the equivalent public sector market average price;
- but, we examined three large professional services framework agreements and found the prices paid by OGCBuying.solutions' customers are under performing against the lowest 25 per cent of public sector market prices, given OGCBuying.solutions' potential to exert significant buying power; and
- most smaller organisations surveyed, in terms of procurement spend, considered that using OGCBuying.solutions offered their organisation cheaper prices most of the time. Larger organisations' spend through OGCBuying.solutions is considerable, although it makes up a small proportion of their total procurement spend. Most large organisations, with more buying power, considered OGCBuying.solutions' prices less competitive than they could achieve elsewhere.

On supplier management we found that:

- only 33 per cent of central government organisations surveyed rated the range of suppliers as either excellent or good;
- around half of the organisations surveyed rated the quality of service as either excellent or good; and
- customers were not consulted enough about supplier performance and suppliers considered OGCBuying.solutions' current supplier rating system did not provide them with enough information to enable them to improve performance.

On market penetration we found that:

- despite strong growth in sales in recent years, OGCBuying.solutions' market penetration remains low compared to international comparisons;
- customers view reduced process costs as a key benefit of using OGCBuying.solutions and that OGCBuying.solutions could increase take up by demonstrating, through promotion of its research on the costs of letting and managing contracts, how much customers and non-customers could save;
- in addition to cheaper prices, more consultation with customers and an improved website were identified by customers as key improvements that would increase take up;
- clearer information on how to use OGCBuying.solutions and improved marketing were identified by non-customers as key improvements that would increase customers; and
- the majority of customers are not using the service provided by OGCBuying.solutions which identifies Quick Win products on its framework agreements.

On staff skills we found that:

- OGCBuying.solutions has skill gaps in key areas including commercial skills and staff with private sector knowledge of individual product markets.

On OGCBuying.solutions' product portfolio we found that:

- Ninety one per cent of framework agreement sales are undertaken through only 25 per cent of framework agreements.

Recommendation 2: OGCBuying.solutions should improve the range of suppliers and the quality of service these suppliers offer to customers by (paragraphs 2.22–2.26):

- consulting with customers to ensure the range of suppliers across its framework agreements and managed services meet customer requirements (paragraphs 2.27–2.29); and
- developing its supplier performance monitoring to ensure customers are consulted regularly on the performance of suppliers and suppliers are provided with relevant feedback to enable them to make improvements to their quality of service (paragraph 2.30).

Recommendation 3: OGCBuying.solutions should increase market penetration by (paragraphs 2.31–2.35):

- disseminating the results of its research on the cost of letting and managing contracts to enable public sector organisations to make informed decisions about when to use collaborative procurement methods (paragraphs 2.36–2.37);
- consulting more widely with customers to understand their requirements, for example, when letting new framework agreements (paragraphs 2.38–2.40);
- improving its website to meet customer requirements (paragraph 2.41);
- communicating more effectively with non-customers (paragraphs 2.42–2.43); and
- facilitating the achievement of sustainability policy objectives through raising customer awareness of the range of Quick Win products available on its framework agreements (paragraphs 2.44–2.47).

Recommendation 4: In order to realise its value for money potential, OGCBuying.solutions will need staff that have the right range of abilities including: commercial skills, marketing and communication skills and private sector knowledge of individual product markets. OGCBuying.solutions should undertake a staff skills audit to ensure staff skills match future planned activity (paragraphs 2.53–2.54).

Recommendation 5: The Office of Government Commerce and OGCBuying.solutions should work together to determine the portfolio of framework agreements and managed services to maximise OGCBuying.solutions' value for money (paragraphs 2.49–2.52 and paragraphs 3.16–3.17).

Recommendation 6: The Office of Government Commerce should ensure that OGCBuying.solutions' targets provide OGCBuying.solutions with the right incentives to drive performance across all of its activities (paragraphs 3.12–3.13).

Value for money potential – summary

7 OGCBuying.solutions reported value for money savings of £412 million in 2005-06. Our recommendations provide a route for OGCBuying.solutions to improve its performance. This, combined with a more co-ordinated public sector procurement landscape, would, in our judgement, offer potential for further savings of £520 million to £660 million. The changes required to implement these recommendations involve a more effective use of existing resources, although there will also be some costs incurred. A description of these additional savings is outlined below:

Increased market penetration: £400 million per annum

8 Currently OGCBuying.solutions has a market share of five per cent of central civil government procurement spend and less than one per cent of wider public sector procurement spend. A realistic medium term objective for OGCBuying.solutions would be to double the level of customer sales and bring its market penetration to 10 per cent of central civil government procurement spend and to two per cent of wider public sector procurement spend. This would be equivalent to sales of £5,000 million per annum and should result in additional value for money savings in the region of £400 million per annum, based on current percentages of savings achieved per unit of customer spend.

Improved price performance: £120 million to £260 million per annum

9 In addition, a further objective for OGCBuying.solutions would be, given its potential purchasing strength, for prices in the top quarter of its framework agreements (by volume) to be in the lowest 25 per cent of public sector prices. Our analysis of three high volume professional services framework agreements, for example, indicates that, for prices across all staff categories to be in the lowest 25 per cent of public sector prices, would require a reduction in prices of between four and 19 percentage points. If this price reduction is applied to the sales through these three framework agreements alone it would result in savings in the region of £60 million per annum, based on 2005-06 sales. If sales in these three framework agreements were to double, as outlined above, savings would increase to £120 million per annum. Applying similar price reductions to the total sales volume across the top quarter of framework agreements, the savings would rise to £130 million per annum, based on 2005-06 sales. If sales across the top quarter of framework agreements were to double, then the savings would increase further to £260 million per annum (see Appendix 1 for more detail).