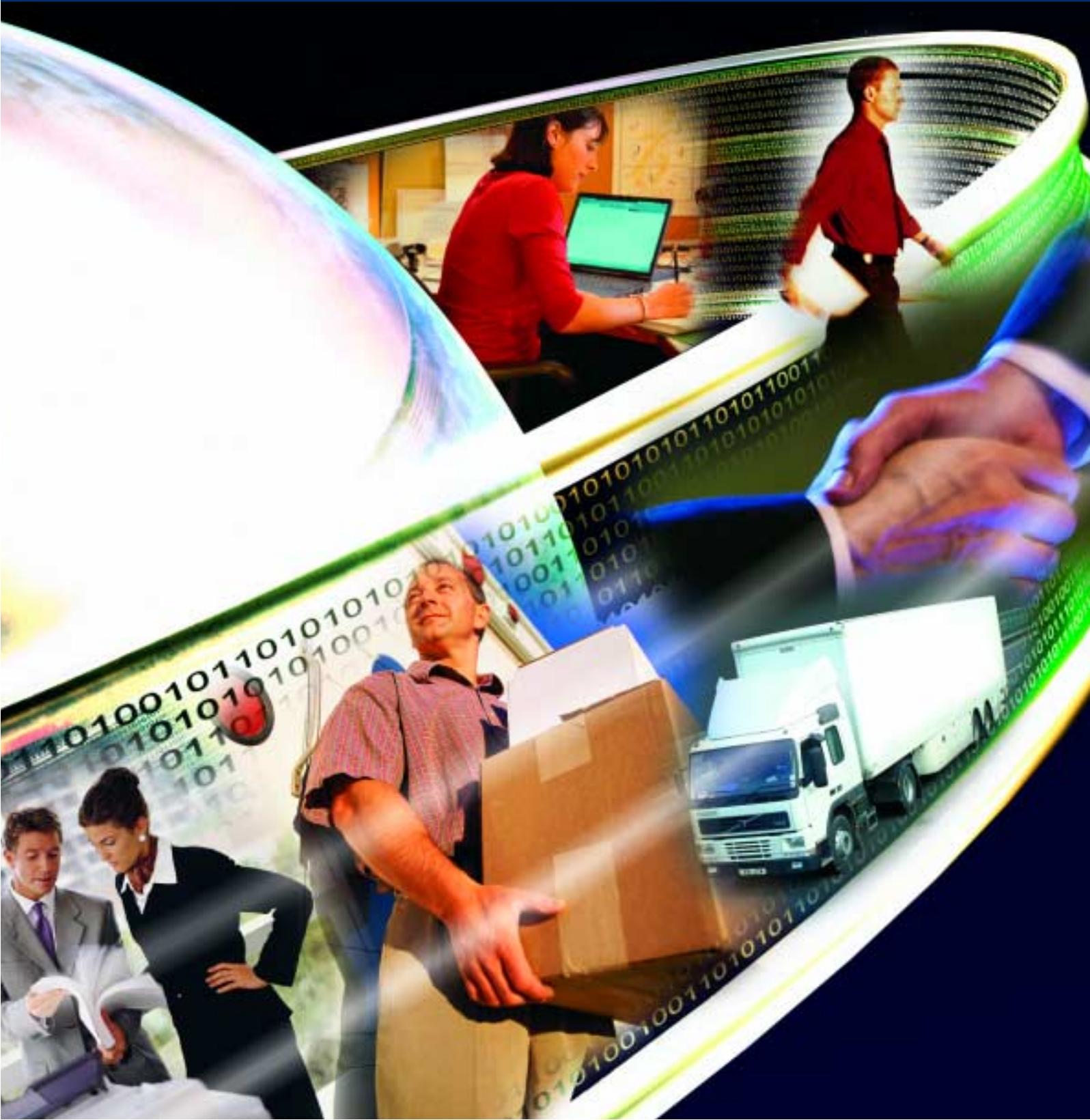
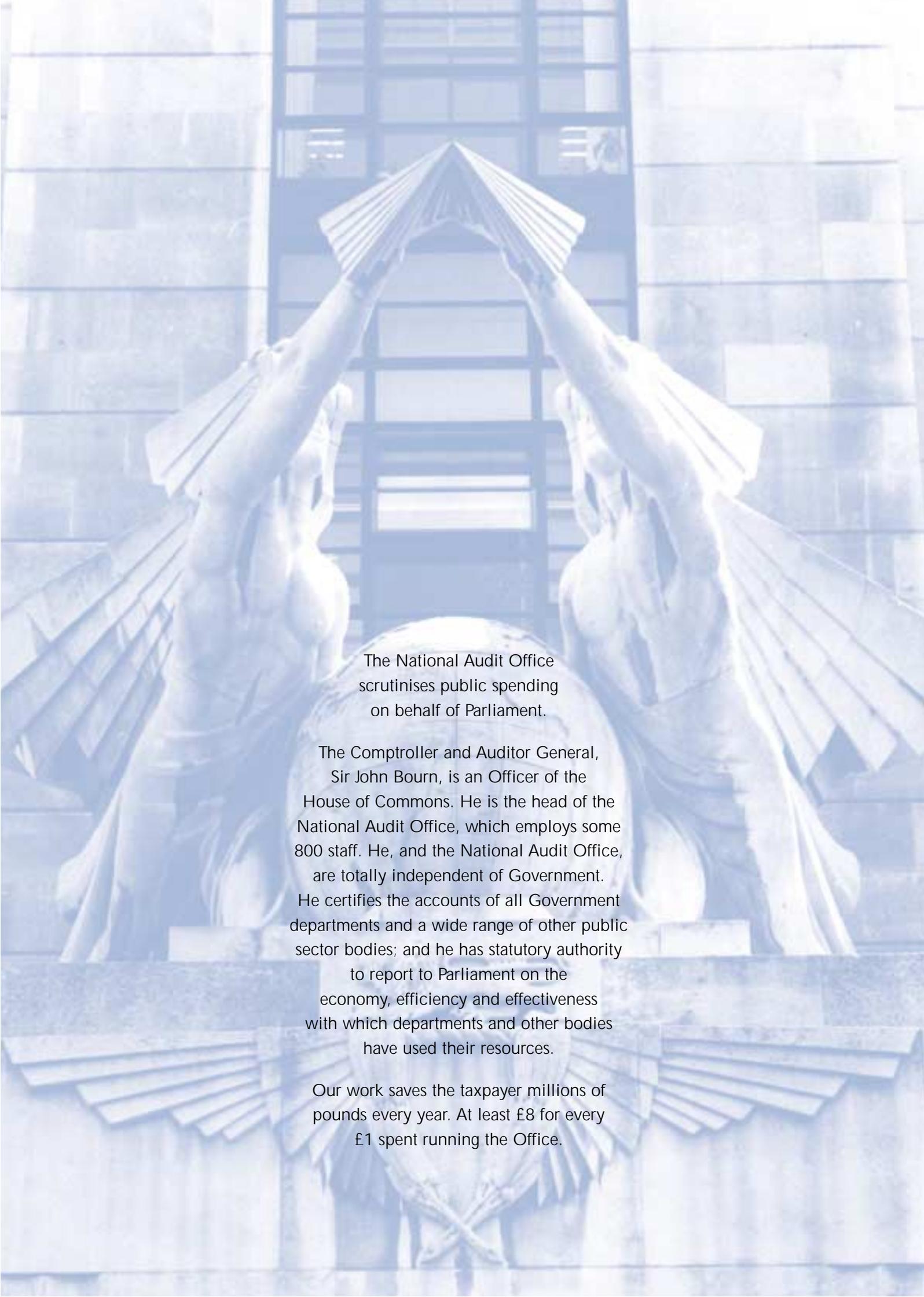


Improving Procurement

Progress by the Office of Government Commerce
in improving departments' capability to procure cost-effectively

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 361-I Session 2003-2004: 12 March 2004





The National Audit Office
scrutinises public spending
on behalf of Parliament.

The Comptroller and Auditor General,
Sir John Bourn, is an Officer of the
House of Commons. He is the head of the
National Audit Office, which employs some
800 staff. He, and the National Audit Office,
are totally independent of Government.
He certifies the accounts of all Government
departments and a wide range of other public
sector bodies; and he has statutory authority
to report to Parliament on the
economy, efficiency and effectiveness
with which departments and other bodies
have used their resources.

Our work saves the taxpayer millions of
pounds every year. At least £8 for every
£1 spent running the Office.

Improving Procurement

Progress by the Office of Government Commerce
in improving departments' capability to procure cost-effectively



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 361-I Session 2003-2004: 12 March 2004

LONDON: The Stationery Office
£15.50
Two volumes not to be sold separately

Ordered by the
House of Commons
to be printed on 9 March 2004

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

John Bourn National Audit Office
Comptroller and Auditor General 9 March 2004

The National Audit Office study team consisted of:

Chris Groom, Theresa Crowley, Alastair Evans,
Barbara Rodgers and Ben Jacklin under the
direction of Mark Davies

This report can be found on the National Audit Office
web site at www.nao.org.uk

**For further information about the National Audit Office
please contact:**

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

© National Audit Office



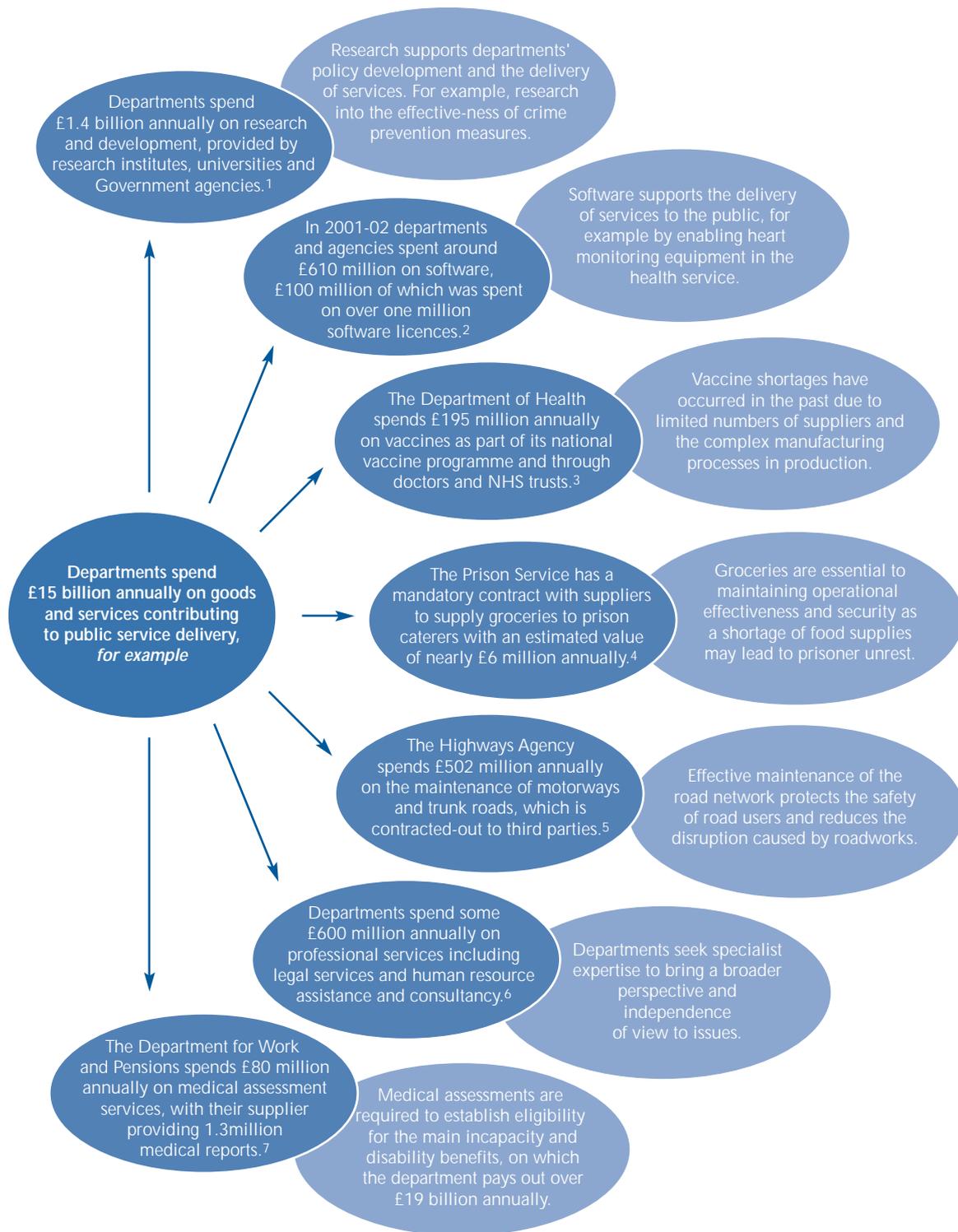
Contents

Preface	1	Part 3	
Executive summary	3	What more departments should do to improve their procurement	47
Annex		Raising commercial awareness	47
Seven aspects of procurement capability which departments should seek to enhance	14	Having better management information	51
		More joint purchasing between departments	52
		More proactive management of suppliers	54
		Better management of the risk of dependency on too small a number of suppliers	56
		More progress in developing procurement expertise	58
		Better targeting of value for money improvements	60
Part 1		Appendix	
Why procurement is important and the role of the Office of Government Commerce	19	Methodology	61
Why procurement is important	19	Glossary	63
The Office of Government Commerce	20	Case Studies and International Comparisons (published in separate volume)	
Value for money gains	24	1 Department for Work and Pensions	
		2 Office of the Deputy Prime Minister	
		3 Vehicle & Operator Services Agency	
		International Comparisons	
Part 2			
Departments' progress in improving their procurement capabilities	31		
(i) Procurement decisions need to be closely linked to the delivery of departments' core services and functions	31		
(ii) A well developed procurement strategy should be in place and regularly reviewed	32		
(iii) Departments need sound commercial and knowledge of suppliers and the market	32		
(iv) Buying arrangements should reflect the risk inherent in different types of procurement	35		
(v) Procurement staff should have the appropriate professional skills	41		
(vi) Procurement performance should be measured and regularly reviewed	43		

Preface

- 1 Departments and their agencies spend some £15 billion each year on procurement, much of which is essential to the delivery of high quality public services. In 2000, the Office of Government Commerce (OGC) was established to work with departments to improve their procurement capability. This report, covering 86 departments, agencies and non-departmental public bodies - collectively referred to hereafter as "departments" - assesses OGC's achievements over the last three years. It is one of a series of National Audit Office reports examining procurement, with two further reports to be published over the coming year covering procurement of information technology and construction (consequently this report does not focus on these areas).
- 2 We conclude that OGC has had a real impact in improving departments' procurement and has reported value for money improvements of some £1.6 billion. Over three years, this represents some 3.6 per cent of total procurement spend and for the period to 31 March 2006 OGC has a more ambitious target to secure further improvements to the value of £3 billion. To ensure that this target is achieved, OGC should secure wider application of good procurement practice by agencies and non-departmental public bodies. Departments need to build on the progress made so far and enhance seven key aspects of their procurement:
 - 1 **Raise their commercial awareness** to realise the potential to influence suppliers' pricing strategies and the quality of services delivered.
 - 2 **Have better management information** to identify and tackle poor procurement performance.
 - 3 **Work more closely with other departments and agencies** to maximise their collective buying power to secure better deals.
 - 4 **Be more proactive in their management of suppliers** so that purchasing requirements are clearly understood and communicated.
 - 5 **Manage the risk of dependency on too small a number of suppliers by opening up the marketplace** and by making it easier for smaller and medium-sized companies to compete for government business.
 - 6 **Make more progress in developing procurement expertise** so that all those involved in taking procurement decisions have access to recognised professional skills.
 - 7 **Better targeting of value for money improvements** so they are much more widely based.

1 Some form of procurement is essential for most public services



NOTES

- 1 NAO Report: Getting the Evidence: Using research in policy making (HC 586-1, 2002-03, 16 April 2003)
- 2 NAO Report: Purchasing and Managing Software Licences (HC 579, 2002-03, 1 May 2003)
- 3 NAO Report: Procurement of Vaccines by the Department of Health (HC 625, 2002-03, 3 April 2003)
- 4 NAO Report: Modernising Procurement in the Prison Service (HC 562, 2002-03, 4 April 2003)
- 5 NAO Report: Highways Agency: Maintaining England's Motorways and Trunk Roads (HC 431, 2002-03, 5 March 2003)
- 6 NAO Report: Purchasing Professional Services (HC 400, 2000-01, 25 April 2001)
- 7 NAO Report: The Medical Assessment of Incapacity and Disability Benefit (HC 280, 2000-01, 9 March 2001)

executive summary

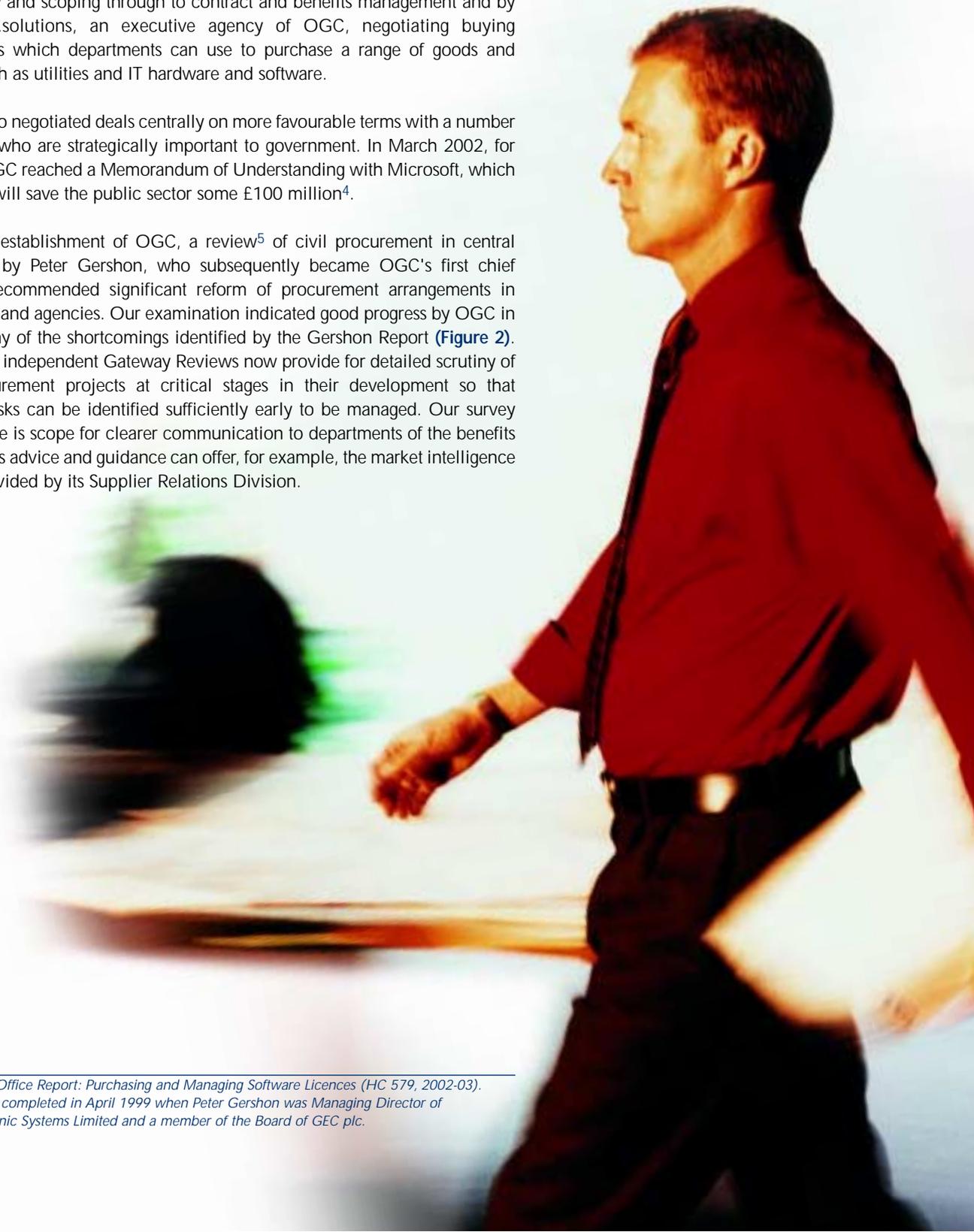
- 1 Central civil government spends some £15 billion¹ annually on goods and services, ranging from equipment, information technology, research, and consultancy advice to postal services, travel and stationery. Public services can be at considerable risk if procurement is not cost-effective. Essential goods not being available in sufficient quantities when required may result, for example, in a service being delayed or of poor quality, and goods and services may cost more if they are procured at short notice to cover shortfalls. If the prices paid do not represent value for money, resources may be mis-directed and not achieve their full potential to deliver high quality public services.
- 2 Procurement² increasingly involves complex decisions. Having too large a number of key suppliers may mean that departments cannot take advantage of their often considerable buying power to secure better deals. Relying on too few suppliers can, however, result in limited competition with departments having little scope to influence prices. The latter may also make it more difficult for smaller firms, which are often a source of innovation, to compete for business. An important development in public procurement has been its use to support wider policy objectives involving sustainability, environmental concerns and small and medium-sized enterprises. Taking account of these dimensions increases the complexity of procurement. Whilst this development presents challenges for procurement professionals it also emphasises the need for a strategic view which takes account of such concerns.
- 3 Having a well developed professional procurement capability with the expertise and commercial acumen to deal with these and other issues is, therefore, a key requirement for most departments. Until recently, however, procurement expertise has not been well represented in departments and has not usually been a competency required of senior managers.
- 4 In April 2000, the Office of Government Commerce (OGC) was established to work with departments to improve their procurement capability and to secure better value for money. This report assesses the impact which OGC has had and follows up an earlier report³ which we published in October 1999.
- 5 Our examination was based on a comprehensive survey of 86 departments, agencies and the largest non-departmental public bodies responsible for just over £15 billion of total procurement spend; in-depth case studies of two departments - the Department for Work and Pensions and the Office of the Deputy Prime Minister and one agency - the Vehicle & Operator Services Agency; an assessment of the impact of OGC's initiatives to promote good practice; international comparisons; and consultation with suppliers, the Chartered Institute of Purchasing and Supply and the Small Business Service. We are also preparing a report on procurement of information technology, which will be published separately.

¹ Central civil government excludes the National Health Service and defence military procurement.
² Procurement is defined as being the whole-life cycle process of acquisition of 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.
³ National Audit Office Report: Modernising Procurement (HC 808, 1998-99).

Findings

On the role of the Office of Government Commerce

- 6 OGC has no authority to direct departments. It seeks, therefore, to promote best value for money by working closely with departments including issuing guidance, providing advice and promulgating good practice; by developing the government's market place so that it is attractive for both suppliers and their customers; and by delivering services directly to departments. Services directly to departments are delivered by OGC Consultancy which offers assistance from experienced practitioners at all stages of the programme and project lifecycle, from strategy and scoping through to contract and benefits management and by OGCbuying.solutions, an executive agency of OGC, negotiating buying arrangements which departments can use to purchase a range of goods and services, such as utilities and IT hardware and software.
- 7 OGC has also negotiated deals centrally on more favourable terms with a number of suppliers who are strategically important to government. In March 2002, for example, OGC reached a Memorandum of Understanding with Microsoft, which it estimates will save the public sector some £100 million⁴.
- 8 Prior to the establishment of OGC, a review⁵ of civil procurement in central government by Peter Gershon, who subsequently became OGC's first chief executive, recommended significant reform of procurement arrangements in departments and agencies. Our examination indicated good progress by OGC in tackling many of the shortcomings identified by the Gershon Report (Figure 2). In particular, independent Gateway Reviews now provide for detailed scrutiny of major procurement projects at critical stages in their development so that significant risks can be identified sufficiently early to be managed. Our survey suggests there is scope for clearer communication to departments of the benefits which OGC's advice and guidance can offer, for example, the market intelligence function provided by its Supplier Relations Division.



⁴ National Audit Office Report: Purchasing and Managing Software Licences (HC 579, 2002-03).

⁵ The review was completed in April 1999 when Peter Gershon was Managing Director of Marconi Electronic Systems Limited and a member of the Board of GEC plc.

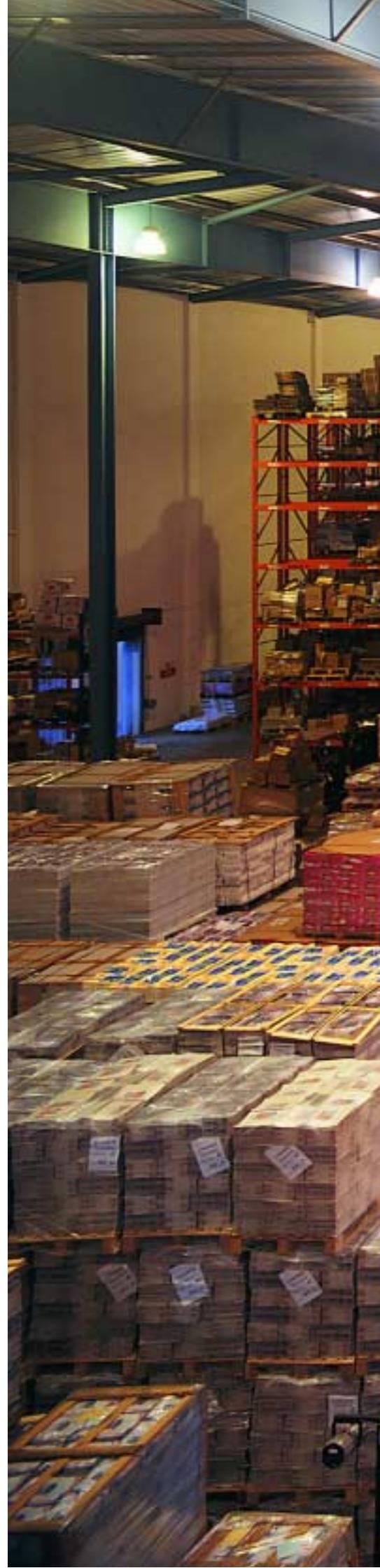
2 Progress in meeting recommendations of the 1999 Gershon review of civil procurement relevant to NAO's report

Recommendation	Achievement
<p>Organisation and structure The creation of a new central organisation, the Office of Government Commerce with a Supervisory Board to provide top-level support and strategic direction to ensure best overall procurement performance by Government.</p>	<p>The Office of Government Commerce came into operation in April 2000 with a Supervisory Board, chaired by the Chief Secretary to the Treasury and consisting of permanent secretaries, senior external representatives, and including, as an observer, the Comptroller and Auditor General.</p>
<p>Process Implementation of a common process for the strategic management of large, complex or novel procurements with distinct phases in their life cycle with associated deliverables to be assessed by OGC before projects can progress. OGC to develop a common process for the management of the supplier base.</p>	<p>The OGC Gateway Review process was introduced in February 2001 and is mandatory for large, complex and novel procurements. Between February 2001 and January 2004 over 600 reviews had taken place across 45 central civil government departments and agencies. Framework agreements negotiated by OGC provide rationalisation of suppliers and prices in many sectors. OGC has also made a number of strategic agreements covering the entire public sector, including Memoranda with Oracle and Microsoft for IT purchases.</p>
<p>Measurement OGC should, with departments:</p> <ul style="list-style-type: none"> ■ define common ways of recording what is bought, the associated prices and sources of supply; and ■ identify certain common types of transaction which have a high cost, and work with departments to reduce these costs through techniques such as e-commerce and procurement cards. 	<p>An annual exercise to collect expenditure data from departments achieves a view of approximately 80 per cent of central civil government spend with suppliers. Departments often still lack the data to measure transaction costs and assess suppliers. Only half (51 per cent) maintain a database of suppliers and only a quarter (26 per cent) know how much of individual suppliers' turnover they account for. Take-up and use of the Government Procurement Card has risen steadily. By 2002 there were over 39,000 cardholders covering transactions valued at £415 million, equating to £72 million savings. On average only 20 per cent of procurement spend is carried out electronically. In June 2003, a study by OGC found that only 32 per cent of departments spending over £100 million annually had mature e-procurement programmes.</p>
<p>People In departments with large procurement expenditure the Head of Procurement should be a Grade 3 Civil Servant or equivalent. The need to raise professional knowledge, skills and seniority of procurement staff, including the percentage having a graduate level procurement qualification.</p>	<p>Just under 80 per cent of departments have a head of procurement. One third (32 per cent) are senior civil servants or equivalent; almost all of whom are below the Band 2 (formerly grade 3) level recommended by the Gershon Report. A quarter (23 per cent) of designated procurement staff have a CIPS (Chartered Institute of Purchasing and Supply) or other professional procurement qualification, while there are a further 11 per cent in training.</p>
<p>Supply Base Departments need to be more sensitive to the burdens which they place on suppliers. In some sectors OGC need to determine whether the base of suppliers is broad enough to maintain competition and innovation, and to take appropriate action to stimulate the interest of potential suppliers.</p>	<p>Examples of OGC-led activity to address these recommendations: effective engagement with key suppliers to central civil government, e.g. through Senior IT Forum; Code of Practice for customers and suppliers; barriers to entry to the government marketplace identified; and a range of measures taken in conjunction with DTI's Small Business Service to address the problems, for example developing a "Supplier Route to Government" website and more flexible guidance on assessing the financial viability of suppliers. Revised Standardisation of PFI Contract Terms (SOPC) were negotiated with suppliers to remove unnecessary cost and time overruns from the bidding process. Suppliers can find invitations to tender overly prescriptive, burdensome and restricting of innovation. Focus groups saw government procurement as fair but felt that tenders were secured on the basis of the size of the company, track record and experience, the supplier's capacity to take on risk, and price, rather than wider considerations of value.</p>
<p>Financial savings An overall value for money improvement target of £1 billion set for achievement by the end of 2002-03.</p>	<p>Departments reported value for money gains of £1.6 billion at 31 March 2003, exceeding the OGC target.</p>

- 9 To place progress made by OGC and departments in a European context, we reviewed the main features of procurement in four other European countries - Denmark, Germany, The Netherlands, and the Czech Republic. We conclude that procurement practice is more developed in the United Kingdom; for example, through a higher profile for procurement generally by OGC's activities with departments, the existence of specific units or teams in departments with responsibility for providing procurement advice, and the range and quality of guidance available to help procurement staff in departments. A description of the European comparison appears in **Volume 2** of this report.
- 10 A key measure of OGC's success is the achievement of its value for money improvement targets. Departments reported value for money gains of £1.6 billion at 31 March 2003, exceeding OGC's target of £1 billion (**Figure 3**). We examined seven departments' processes for identifying and reporting value for money improvements to assess their reliability⁶. Our examination indicated that £1.6 billion was a reasonable assessment of the improvements achieved. With 85 per cent of improvements coming from just nine departments covering three quarters of total procurement spend, there is, however, scope for more departments and agencies to contribute to the target. We also recommend that departments should introduce more routine independent validation of their value for money improvements. For the three years to March 2006, OGC has a target to achieve, through working with departments, further improvements to the value of £3 billion. OGC estimates that gains on Gateway projects will account for approximately half of the £3 billion through potential whole life costs avoided by application of key recommendations from the OGC Gateway Review process.

On improving the procurement capability of departments

- 11 There are six key basic requirements which need to be met if departments are to have confidence that their procurement capability is likely to deliver value for money. We assessed the extent to which departments meet these requirements and the impact which OGC has had in promoting their development.
- 12 **Procurement decisions need to be closely linked to the delivery of departments' core services and functions.** The majority of public services depend on some form of procurement. In some cases this may involve the complete outsourcing of an activity such as catering or maintenance or a key service such as carrying out medical assessments, or the more straightforward procurement of recurrent items such as standard equipment. Changes in policies or the demand for services can have an impact on the levels and type of procurement needed. Advance notice is therefore important where more fundamental changes in services are planned because suppliers often require time to develop their capacity to respond to changing requirements.



⁶ Collectively these departments accounted for 70 per cent of the total gains claimed in 2002-03.

3 Departments have reported some £1.6 billion value for money procurement improvements



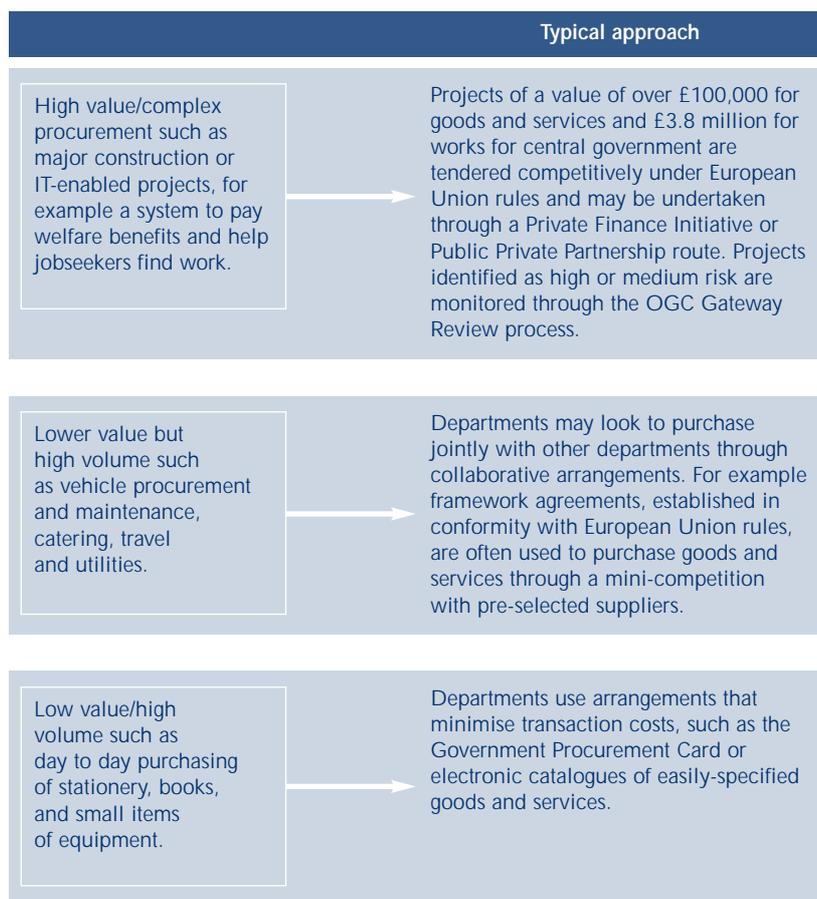
Source: Office of Government Commerce

- 13** As many strategic decisions taken by departments have procurement implications, it is essential that procurement expertise is involved at the outset. In the private sector some companies recognise the value of this senior involvement by having procurement or commercial expertise represented on management Boards, for example Nissan's senior vice president has responsibility for global purchasing decisions at the company's Executive Committee. Our survey of departments found that just under 80 per cent had a head of procurement but this post had board status in only 13 per cent of cases. Many departments had appointed a champion to lead on procurement and relied on an intermediary to represent procurement at board level. *This suggests that while the importance of procurement is now more widely recognised in departments, more progress is needed to ensure that sufficient consideration is given at board level to the procurement implications of key decisions affecting the delivery of public services.*
- 14** **A well developed procurement strategy covering all commercial activity should be in place and regularly reviewed.** The increasing complexity of procurement, the need to avoid over reliance on too small a number of suppliers and the importance of ensuring value for money all emphasise the need for a well thought through procurement strategy for all commercial activity. This should determine the best buying arrangements depending on the scale and value of a department's procurement expenditure. The strategy should consider, for example, the balance between the use of collaborative purchasing arrangements, electronic procurement and longer term partnerships; the reasonableness of terms secured for larger procurements; and a commitment to developing professional skills. Departments also need to benchmark and keep under review the cost of their procurement function to ensure that it represents value for money. Some 83 per cent of departments, agencies and non-departmental public bodies in our survey had a procurement policy or strategy. More departments (94 per cent) than agencies (74 per cent) had a policy or strategy, possibly reflecting that OGC's good practice has so far been more successful at reaching departments than agencies and non-departmental public bodies. *Without a reliable procurement strategy there is a risk that buying arrangements are not fit for purpose and opportunities to secure better prices and improved quality of service are missed.*
- 15** **Departments need sound commercial awareness.** Nearly two thirds of departments and agencies rely on more than 250 suppliers. Some have considerably more than this: the Prison Service, for example, has around 23,000 suppliers. Getting the best out of suppliers is a two way process. Departments should have sufficient knowledge of how supply markets for specific goods and services such as IT, consultancy and telecommunications are organised. They need this to assess the level of competition they can reasonably expect to attract for their business and to adjust their contract strategy accordingly. Departments also need to have good information on the relative performance of existing and potential suppliers and the resilience of their supply chains which might impact on the quality of service that they provide. Companies are, however, unlikely to want to compete for government business if departments' procedures are bureaucratic, unnecessarily time consuming and wasteful.
- 16** Our focus groups of suppliers considered that departments' communication with existing and potential suppliers needed to improve. Suppliers found departments often difficult to access and invitations to tender formulated without market sounding and therefore generally over-prescriptive and not receptive to innovation. Companies which were not successful were generally given no or little explanation as to why their tender had failed. Only half of

departments maintain a database of suppliers and only a quarter assess the extent of suppliers' dependency on them. Some 30 per cent of departments used OGC's Supply Intelligence Service. *Departments' commercial awareness is weakened when they lack routine information on suppliers increasing, for example, the risk of over reliance on too small a number of contractors and not having sufficient notice of changes in market conditions which could have an impact on the price of goods and services or their availability. Reliable market intelligence should make it easier for departments to identify new innovation being developed by small, medium and large-scale enterprises which can benefit public service delivery.*

- 17 **Buying arrangements should reflect the risk inherent in different types of procurement.** Departments need to determine which buying arrangements are likely to deliver the best value for money (Figure 4). This will depend on the nature of the goods and services; for example, if they are high value single items a full separate competition will be required to select the best supplier and to comply with European Union procurement law. For low value routine procurement, a framework agreement which has itself been awarded in conformity with European Union rules and which minimises administrative costs but enables departments to secure the price advantages of high volume procurement, may be more appropriate.

4 Purchasing arrangements are influenced by the type, value and risk inherent in the goods and services required



Source: National Audit Office

- 18 OGC has taken a number of important initiatives to promote the use of the best buying arrangements. For high value complex procurements which are most likely to involve a higher level of risk, OGC Gateway Reviews intended to improve project performance by identifying and managing risks were used by 76 per cent of the departments we surveyed. OGC Gateway Reviews were, however, more likely to be applied to IT and construction projects than other major procurements such as refurbishment of departments' premises. Other OGC tools, while gaining greater acceptance, were as yet less widely used. For example, 45 per cent used the Successful Delivery Toolkit⁷.
- 19 Framework agreements and the Government Procurement Card were used regularly by some 50 per cent of departments but cover relatively small amounts of government expenditure (ranging from 6 per cent for expenditure using the Government Procurement Card⁸ to 18 per cent for framework agreements). Electronic procurement, which makes it possible to speed up the procurement process and reduce processing costs, accounted for 20 per cent of departments' procurement spend in 2002-03. *Departments are making greater use of a wider range of procurement approaches promoted by OGC which take account of the risk inherent in different types of procurement and how best to manage them. These approaches have helped achieve the value for money gains which departments have so far reported. There is, however, clear potential for the different buying arrangements to be more widely applied to deliver significantly greater value for money improvements.*
- 20 **Procurement staff should have the appropriate professional skills.** Procurement requires a mix of skills ranging from understanding pricing strategies, interpreting market intelligence and an ability to negotiate terms and conditions, to competencies in electronic procurement, risk and contract management. To promote these skills, the Government Procurement Service was established in April 1999 to include the 1,500 staff in key procurement posts⁹. To strengthen skills required to manage major projects and programmes, the Programme and Project Management Specialism (PPM), a joint initiative between OGC and the Cabinet Office Corporate Development Group, was set up in 2003 to provide career support to civil servants, including procurement staff. All Government Procurement Service staff are encouraged to train for the CIPS (Chartered Institute of Purchasing and Supply) qualification and, in addition, OGC has issued a range of guidance and advice to assist their development. Some 23 per cent of all designated procurement staff have CIPS or other procurement qualifications and a further 11 per cent are training for qualifications. Agencies have a much lower proportion of qualified staff (16 per cent compared to departments' 46 per cent). We found that in many cases, procurement decisions were made by staff without the advice of those with some proven procurement expertise or experience. *Procurement expertise is one of the key competencies needed to improve the delivery of public services. Establishing a fully professional procurement service is therefore an important initiative. The rate of progress remains relatively slow however with less than a quarter of staff being fully qualified. A critical consideration of*

7 *The Successful Delivery Toolkit is an electronic repository of OGC policy, best practice advice and guidance published on the OGC website and sent to departments on CD-ROM.*

8 *The Government Procurement Card, introduced in 1997, is a quick and easy payment method using a VISA purchasing card for low value goods and services.*

9 *A designated procurement post is one where the post holder, as a substantial part of his or her responsibilities (50 per cent or more), is involved in a range of procurement activities.*

departments' procurement strategies should be how to increase the number of qualified staff. For example, more staff might be encouraged to join the Government Procurement Service or to train for the qualification if procurement and project management expertise was a more widely recognised competency required to progress to senior posts.

- 21 Procurement performance should be measured and regularly reviewed.** The targets to deliver value for money improvements have focused departments' attention on the cost-effectiveness of their procurement. Some 60 per cent of departments had reviewed their procurement function, processes or strategy but many lacked complete management information to do so. For example, only 48 per cent monitored the internal cost of processing low value, high volume transactions and just 60 per cent said they routinely benchmarked the cost of routine items with current market prices to assess whether they were getting value for money. *Departments require reliable information on whole life costs of procurement covering all costs associated with the acquisition of goods and services and doing business with suppliers, the costs of maintenance and operation over the whole life of the asset or service, ending with the conclusion of a service contract or ultimate disposal of an asset. This will include purchase prices - the cost initially paid for the goods and services, and transaction costs - the cost of administering and managing the procurement process. While departments to varying degrees now more routinely review one or more of these elements, their evaluation systems are not in many cases sufficiently sophisticated and integrated to cover all aspects of procurement performance.*



RECOMMENDATIONS

- 22 OGC has had a positive impact in improving departments' procurement capability. The quality of advice and dissemination of good practice is much better. OGC has given a clear lead where opportunities have arisen for departments to exercise their collective buying power to secure better deals. A framework is also in place to develop the skills and expertise of procurement staff. Much depends now, however, on how departments and agencies build on these initiatives and firmly embed good procurement practice so that it is more widely applied across all of government. To help do this, we make the following recommendations.

For the Office of Government Commerce

- 1 **Secure wider acceptance and application of its advice and good practice by agencies and non-departmental public bodies.** While there is evidence that departments are adopting the advice and good practice promoted by OGC there is less take-up by agencies and non-departmental public bodies. To address this, OGC needs to (i) brand and package its advice and guidance in a way which is more likely to support and be of relevance and appeal to agencies and non-departmental public bodies; and (ii) work with sponsoring departments to develop further their networks for communicating with their agencies and non-departmental public bodies and to monitor the procurement of their sponsored bodies to secure improvements where there is evidence of under-performance.

For departments, agencies and non-departmental public bodies

- 2 **Give particular attention to enhancing seven aspects of procurement capability.** These are raising commercial awareness, having better more up to date management information particularly on current market prices, more joint purchasing between departments, more proactive management of suppliers, managing the risk of relying on too small a number of suppliers for key commodities, developing procurement expertise and better targeting of value for money improvements. More detail on each of these is provided in the annex to this summary.
- 3 **Establish regular consideration of procurement performance at board level.** Further improvements in procurement capability will not be firmly embedded in departments unless they have sufficient senior management leadership and support. This can be most easily achieved by having procurement represented on departments' boards by an appropriately qualified senior member of staff. Larger departments should have a director of commerce responsible for all aspects of involvement with the private sector.
- 4 **Work to ensure that value for money gains are more widely based across all procurement activity.** The majority of improvements achieved so far come from a relatively small number of large departments and, of the current £3 billion target, OGC anticipate that half of this will arise from OGC Gateway Reviews. To realise the full potential to achieve better value for money, departments need to examine all of their procurement, working with sponsored agencies and non-departmental public bodies to monitor their procurement and to secure improvements where there is evidence of under-performance. Obtaining assurance about the achievement of value for money should include seeking advice from internal and external auditors. Our fieldwork and analysis has suggested areas which offer a number of quick wins for further potential value for money gains to be achieved by departments if they act on the good practice guidance and other initiatives put in place by OGC. The following examples illustrate the potential for further gains:

- **Achieving more consistent value for money gains across all departments.** In 2002-03, eight departments achieved value for money gains of 5 per cent of their total annual procurement spend. We calculate that if all departments had achieved this level of improvement, a further £150 million gains would have been achieved.
 - **More widespread use of framework agreements.** Only half of departments registered to purchase through S-Cat actually do so. This may be because they have made alternative procurement arrangements that deliver similar value, but if not we calculate that if only half of those registered but not using S-Cat had done so in 2002-03, a further £18 million value for money gains could have been realised. Likewise, our calculations indicate that if a similar proportion of those central government users who do not use GCat but are registered to do so had purchased through the agreement, a further £5 million value for money gains could have been realised.
 - **Bringing maverick spend under control.** Maverick spend is expenditure outside authorised buying arrangements. As such it is difficult activity to estimate with any certainty. In one of our case studies, however, we found that some 2 per cent of annual procurement expenditure was estimated to be this type of spend. Extrapolating this figure across all central civil government procurement expenditure would indicate that maverick spend may amount to at least £300 million annually. If this spending was brought within departments' formal procurement processes so that the most appropriate buying arrangements were applied, further value for money gains of £11 million could be achieved.
 - **Wider use of the Government Procurement Card.** Non-departmental public bodies make just 3 per cent of their expenditure using the Procurement Card compared to 6 per cent for departments. An improvement so that more transactions were made using the Card, bringing the proportion of spend to the same level as that of departments would result in additional value for money gains of £3 million. This could be achieved by wider promotion by departments of the benefits of the Card to their non-departmental public bodies.
 - **Reducing procurement processing costs further.** Typically, the internal overhead cost of managing and administering procurement is around 10 per cent of the total price of goods and services¹⁰ - in terms of annual procurement spend, around £1.5 billion - although for large, complex and innovative procurements, greater value for money may be achieved by increasing the share of costs on project management or specialist advice. In 2002-03, departments achieved improvements to the value of £40 million by reducing processing and administration costs, some 2.7 per cent of the total overhead cost. An overall improvement of 10 per cent would generate a further £110 million gains. This could be achieved by greater take up of electronic procurement, greater use of framework and catalogue arrangements, streamlining and re-engineering of internal procurement processes, and involving more professional procurement expertise.
- 5 **Look for ways to open up the marketplace to make it easier for suppliers to compete for government business.** Smaller suppliers can often be a source of innovation which public services can benefit from. Many, however, often find it difficult to compete for government contracts. In developing and reviewing their procurement strategies, departments should (i) ensure that procurement processes and policies do not discriminate against small and medium-sized enterprises that may be able to offer better value for money; and (ii) identify and address any barriers that prevent smaller firms from serving government business including the subcontracting policies of larger suppliers. In drawing up tender specifications, departments should do so in a way which does not deter smaller firms from competing.

¹⁰ NAO's report *Modernising Procurement (HC 808, 1998-99)* indicated procurement overheads of 10 per cent or more.

Annex

Seven aspects of procurement capability which departments should seek to enhance

Enhancement needed	Why needed	Example of good practice
<p>A Raising commercial awareness</p> <ul style="list-style-type: none"> ■ 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. 	<p>Nearly all public services depend on some form of procurement. In developing new services and enhancing existing ones, departments must give sufficient consideration to the likely impact on their procurement needs. This should include awareness of potential suppliers, their capacity to meet departments' requirements, the reliability of suppliers' chain of subcontractors and other procurement risks which need to be managed.</p>	<p>The Department for Work and Pensions has developed a detailed commercial strategy which is linked to the delivery of its core services. The strategy also covers, for example, how the Department works with OGC to secure better deals, its relationships with key suppliers and their reliability, managing procurement risks, and minimising the complexity and cost of the Department's internal procurement processes.</p>
<p>B Having better management information</p> <ul style="list-style-type: none"> ■ 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; and, ■ The potential value for money options of different procurement routes (for example, GCat, S-Cat, Government Procurement Card); and ■ The likely future demand for products and services in particular markets and how much will be spent. 	<p>Departments require reliable information on both procurement spend and supplier performance. The latter is important for monitoring and benchmarking the prices paid for key items and whether they represent value for money. Departments also need to keep under review the volume of procurement so that they can take advantage of their buying power where they represent a significant source of business to a supplier. Departments should also be able to identify quickly "maverick" spend - i.e. where goods are purchased through buying arrangements which may not represent value for money.</p>	<p>Reliable management information used strategically is an important tool that can identify inappropriate buying arrangements that are unlikely to secure value for money. While procurement management information is used primarily for control of particular functions and activities, some departments are introducing systems that will better enable them to collect, analyse and use such data. For example, the Department for Constitutional Affairs has developed and implemented an electronic reconciliation process for the Government Procurement Card which automatically checks purchases made using the card to requisitions and orders appearing on the Department's financial records. The process was developed primarily to reduce the costs of manual reconciliation, and formed part of the Department's Resource Accounting solution. The Department uses the management information generated by the card to ensure that contractual arrangements deliver best value for money, that its buying power is fully utilised, and to manage and monitor instances of maverick buying.</p>

Enhancement needed	Why needed	Example of good practice
<p>C More joint purchasing between departments</p> <ul style="list-style-type: none"> ■ Increasing the take-up of framework agreements such as S-Cat and GCat; ■ Better communication between departments to identify opportunities for collaborative purchasing; and ■ Sharing of information on supplier performance. 	<p>Many departments and agencies purchase a range of similar goods and services. This commonality provides opportunities to purchase goods and services collectively. In so doing, the certainty and level of business that departments can offer is often attractive to suppliers and provides considerable potential for departments to secure better deals. To do so, however, departments must work together. There are often a number of agencies and non-departmental public bodies with which departments work and these provide considerable opportunity to coordinate purchasing. Where OGC has negotiated framework agreements, departments need to ensure they make full use of these to realise the full benefits of better prices.</p>	<p>In 2001, the purchasing arms of the seven Research Councils formed the Research Councils' Procurement Organisation (RCPO). The Councils spend some £220 million each year on research and the RCPO focuses on increasing purchasing professionalism and improving value for money in the procurement of this research. Its corporate procurement role includes developing framework agreements for use by the institutes, creating a specialist team to handle the contracting of major projects, and provision of advice and guidance.</p>
<p>D More proactive management of suppliers</p> <ul style="list-style-type: none"> ■ 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. 	<p>The quality of goods and services purchased and their fitness for purpose depends partly on the clarity with which requirements are specified. This requires good communication and trust between those who ultimately use the services procured, those managing the procurement process, and suppliers. Competition, which is a reliable means of ensuring value for money, will be stifled if procurement processes are so bureaucratic and time consuming that smaller firms are discouraged from bidding.</p>	<p>The Highways Agency has developed and implemented a supplier Capability Assessment Toolkit (CAT) that is used in major procurement exercises. The CAT measures the potential effectiveness of prospective suppliers by considering the approach of companies in critical areas such as leadership, planning and partnering. Validated CAT information is used to ensure that the best and most appropriate suppliers receive the most tendering opportunities. In addition to reducing the time and cost of determining tender lists, the CAT will help to improve the consistency, transparency and robustness of the selection of tenderers and will be used to take forward a programme of supplier development.</p>

Enhancement needed	Why needed	Example of good practice
<p>E Better management of the risk of dependency on too small a number of suppliers</p> <ul style="list-style-type: none"> ■ 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. 	<p>Departments' information about their dependency on suppliers is variable and this increases the risk that they can come to rely on one or two firms to provide key goods and services. Such a situation can reduce the leverage which departments have to influence prices. For example, whereas more than 50 per cent of the UK private sector workforce are employed in small and medium-sized enterprises (SMEs), twenty suppliers account for a quarter of departments' civil procurement spend. SMEs find it difficult to compete for public sector business, which can mean that government organisations lose the benefits that can be gained from SMEs, including better levels of service, more innovative solutions and increased competitiveness.</p>	<p>OGC is testing ways to involve small and medium-sized enterprises in procurement following the publication of the Better Regulation Taskforce/Small Business Council Report <i>Government: Supporter and Customer?</i> Two pilot projects are being implemented in Haringey and the West Midlands. OGC is leading the project in the West Midlands which aims to make it simpler for SMEs to find out about and bid for government opportunities and to streamline the procurement process to provide a simpler and more cost-effective approach. The pilot aims to create a West Midlands buyer and seller marketplace involving central, regional and local procurement partners and 500 SMEs. The pilot will run for twelve months from July 2003. Lessons learned from the pilot will be applied to the national roll-out of the Better Regulation Task Force recommendations.</p>
<p>F More progress in developing procurement expertise</p> <ul style="list-style-type: none"> ■ 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. 	<p>OGC has promoted the development of better procurement and project/programme management skills across departments through: the establishment of the Government Procurement Service defining a set of core competencies which all procurement staff should demonstrate; the Successful Delivery Toolkit; programme and project management Centres of Excellence to integrate the essential functions which underpin the successful delivery of all types of programmes and projects, by embedding best practice and improving skills and capabilities; and promulgation of advice and good practice. While these are all important initiatives, considerably more progress is needed before all those working in departments on procurement have sufficient qualifications and training, and the community of practitioners which makes up the Government Procurement Service needs to be exploited further as an embedding mechanism for sharing good practice and expertise through networking events and its website.</p>	<p>In the Department for Work and Pensions around 37 per cent of designated procurement staff have Chartered Institute of Purchasing and Supply qualifications and all procurement staff are encouraged to obtain the qualifications. The Department has an agreement with the Institute to provide training in contract management and it is aiming to achieve annual increases in the proportion of qualified procurement staff. A review by internal audit has assessed where such skills can be best deployed and developed across the Department.</p>

Enhancement needed	Why needed	Example of good practice
<p>G Better targeting of value for money improvements</p> <ul style="list-style-type: none"> ■ 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 risk and performance to obtain assurance about the achievement of value for money, including seeking advice from internal and external auditors.¹ <p>NOTE</p> <p>1 A joint NAO-OGC guide <i>Getting value for money from procurement: how auditors can help</i> sets out the role auditors can play in promoting improvements in procurement.</p>	<p>Procurement is rarely a static activity. Changes in the market and the impact of competition, developments in technology, changing demand for goods and services and alternative ways of delivering services all mean that procurement that initially represents good value for money can quickly change. Departments need to keep their procurement under regular review and continue to look for different and better ways of purchasing goods and services. This requires procurement and commercial expertise, market intelligence and the confidence to challenge long established methods of purchasing.</p>	<p>The Department for Education and Skills made savings of £3.7 million, 19 per cent of its annual publicity expenditure, through: pre-negotiating discounts on print and design framework agreements, negotiating prices for publicity projects on a job by job basis, celebrity endorsement to gain free media coverage, partnership with a magazine publishing firm to enable the Department to reach larger target audiences at a reduced cost.</p> <p>The Strategic Rail Authority holds regular procurement best practice forums. Internal project managers were invited to share common problems and potential solutions designed to drive forward best business practice, and the meetings were used as an opportunity to provide procurement and contract management training.</p> <p>The Department for Work and Pensions works proactively with internal auditors as a diagnostic discipline to highlight weaknesses in the procurement approach, and suggest ways that savings could be increased.</p> <p>The Highways Agency has pursued initiatives to improve its contract and asset management. Measures such as the earlier involvement of contractors in projects, closer involvement in the management of the supply chain, and improved forms of contracts led to savings. For example, the savings made by switching from separate contractors to a single supplier for certain types of network maintenance were valued at £25 million spread over four years, representing a value for money gain of 23 per cent.</p>

Part 1

Why procurement is important and the role of the Office of Government Commerce

1.1 Central civil government¹¹ spends some £15 billion annually¹² on goods and services, ranging from travel, stationery and postal services, to research, consultancy advice and information technology on major projects. Half of expenditure is on accommodation (19 per cent), IT (14 per cent), professional services such as management consultancy (11 per cent), and financial services (5 per cent)¹³. Of the £15 billion spent annually, departments account for 67 per cent of overall spend, agencies for 24 per cent and non-departmental public bodies for 9 per cent. Twenty departments, agencies and non-departmental public bodies account for 89 per cent of procurement expenditure (Figure 5). The five top spending departments and agencies account for 54 per cent of procurement expenditure.

Why procurement is important

1.2 All public services depend on government departments, agencies and non-departmental public bodies purchasing goods and services. When conducted efficiently, procurement can make a vital contribution to delivery by helping departments achieve their objectives; for example, the procurement of equipment and training needed to implement a major programme to raise educational standards. If departments do not ensure that they have the right goods and services in place when needed, the public can suffer from poor quality services and goods and services may cost more if they are procured at short notice to cover shortfalls. If departments pay too much or obtain poor quality when purchasing goods and services, resources will be tied up and will not be directed to where they can make most contribution to delivery.

1.3 Departments are responsible for identifying and managing their own procurement requirements and for the expenditure they incur in meeting those requirements. As purchasers, departments must obtain value for money, but they must also take account of

economic and social considerations that may be of less importance for private sector organisations. Collaboration between departments, for instance, can create economies of scale that reduce the prices they pay for goods and services, but as major spenders they have a wider responsibility to ensure that they do not inadvertently concentrate their purchasing power with too few suppliers and risk distorting the market through domination by a single firm (monopoly) or by a small group of firms (oligopoly). Systematic tendering processes ensure propriety and fair and open competition, but must not be so onerous for smaller and medium-sized firms that they create barriers to their bidding for departments' business.

1.4 Procuring goods and services presents risks to value for money for departments. The main risks to value for money are:

- **Price:** If goods and services are not purchased through competition and regular benchmarking of prices, prices paid may not be the most competitive. If departments do not take into account all the costs through the life of a project, the benefits of a procurement will be over-stated;
- **Quality:** If quality and service requirements are not clearly defined up front and the performance of suppliers is not monitored, reduced standards of goods and services received may feed through to failures in service delivery;
- **Impropriety or fraud:** If appropriate procurement procedures are not followed and internal control systems are not in place, contracts may not be awarded fairly and standards expected of public servants may not be upheld; and
- **Poor market knowledge:** If the goods and services needed are not available, departments may pay a premium, whereas they could act to ensure that a competitive market is in place. If departments are

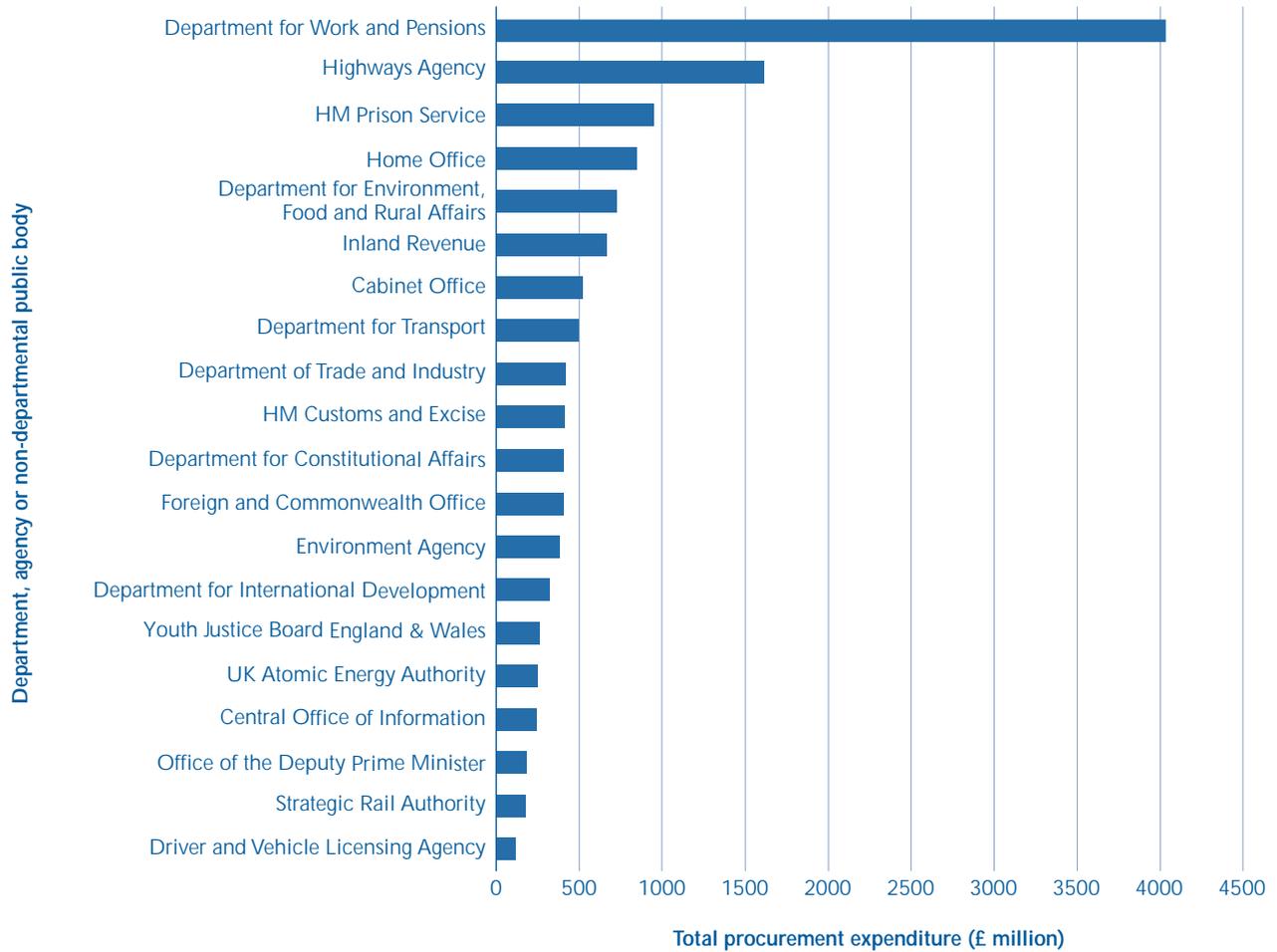
¹¹ Excluding procurement in the National Health Service and Defence procurement.

¹² Source: National Audit Office survey, June 2003. (Based on 86 departments. Excludes departments that could not provide the value of the procurement spend for 2002-03: one department - the Department for Education and Skills; one executive agency - the Veterinary Medicines Directorate; and one non-departmental public body - the Office for Standards in Education).

¹³ Calculated by the National Audit Office, based on data gathered by OGC from accounts payable information.

5 The top 20 civil government spenders on procurement accounted for £13.4 billion of expenditure in 2002-03

Procurement spend by department, agency or non-departmental public body 2002-03.



Source: National Audit Office survey

not alive to the possibility of new goods and services being available which may provide better value to them, they may miss opportunities to deliver services more efficiently.

Telecommunications Agency (CCTA) into the OGC to provide a more unified organisation, and to the creation of the OGCbuying.solutions trading fund, based on The Buying Agency (TBA), together with the managed services activities of the CCTA.

The Office of Government Commerce

1.5 In 1998, the Government commissioned Peter Gershon to examine central civil government procurement. The Gershon Report resulted in the establishment in April 2000 of the Office of Government Commerce from executive agencies and other central entities previously responsible for some aspects of government purchasing¹⁴. OGC undertook a review aimed at delivering an organisational structure which matched its vision and strategies. The review led to the integration on 1 April 2001 of the Property Advisers to the Civil Estate (PACE) and parts of the Central Computer and

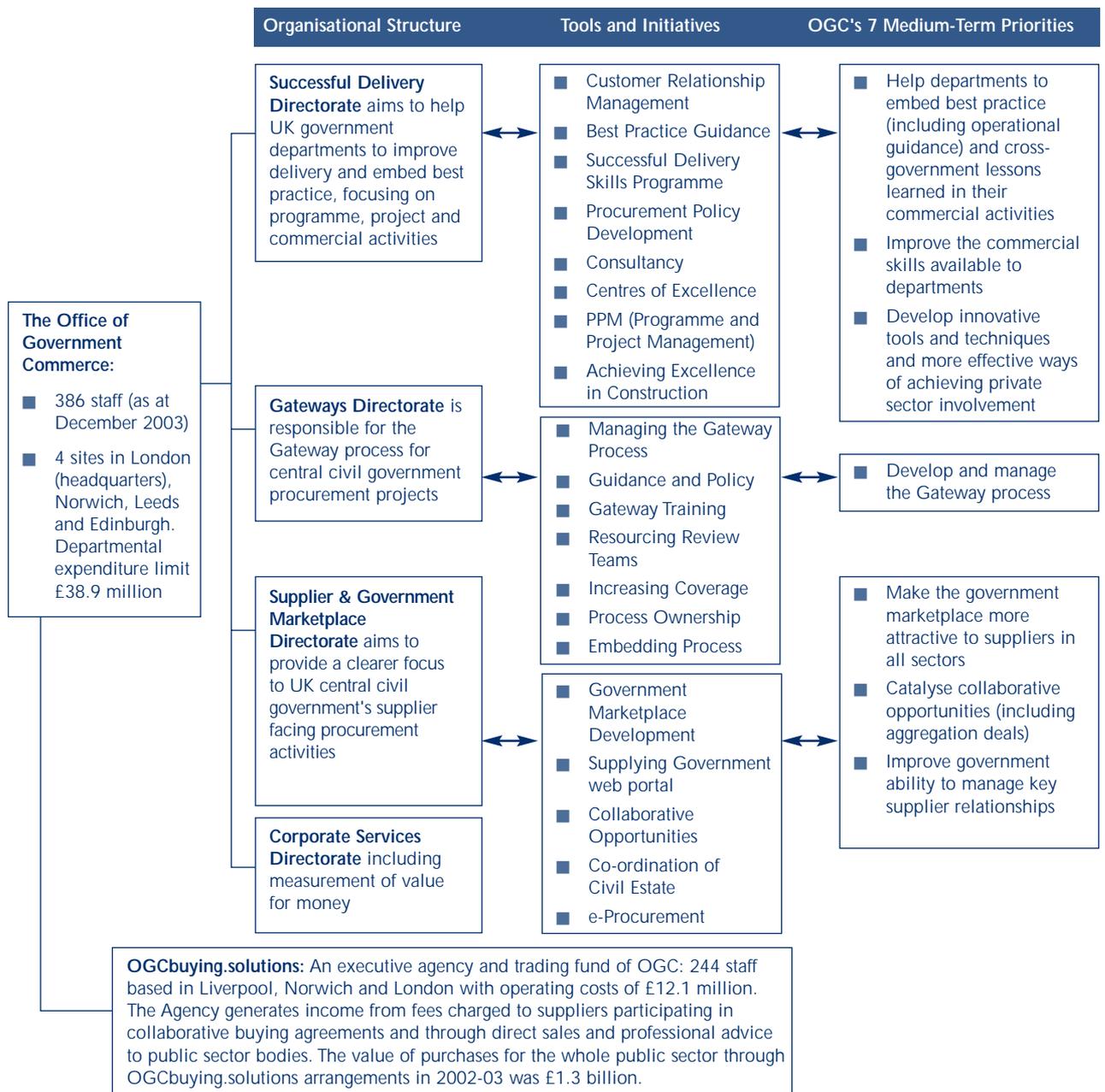
1.6 OGC is an independent office of the Treasury reporting to the Chief Secretary with a Chief Executive, Sir Peter Gershon, appointed at Permanent Secretary level. OGC has a Supervisory Board chaired by the Chief Secretary to the Treasury and made up of Permanent Secretaries, including the OGC Chief Executive, the Head of the National Audit Office and senior external representatives. OGC has no authority to direct departments to secure better value for money from procurement. Departments are responsible for how they manage their procurement spend and OGC has to encourage them through its activities to achieve best value for money in their commercial activities. To do this, it has a wide-ranging programme that focuses on

¹⁴ The Treasury Procurement Group, Private Finance Initiative Policy Group, Central Computer and Telecommunications Agency (CCTA), The Buying Agency (TBA) and Property Advisers to the Civil Estate (PACE). The Private Finance Initiative Policy Group was subsequently transferred back to HM Treasury on 1 April 2003.

improving the efficiency and effectiveness of central civil government procurement. Since 2001, the shared aspirations of OGC and departments in driving forward OGC's key strategies and priorities have been set out in a Joint Action Plan (JAP). The first JAP covered the period 2001-02 to 2002-03, and the second, which has been endorsed by the OGC Supervisory Board, covers the period 2003-04 to 2005-06. The OGC also has an important role in developing and promoting private sector involvement across the public sector. From April 2003, OGC has also assumed a key role in assisting departments to set up programme and project management Centres of Excellence to help them better manage the projects and programmes they are responsible for delivering¹⁵.

1.7 OGC has launched a range of initiatives to help departments make practical progress in improving their approach to procurement. It seeks to promote best value for money by issuing guidance, providing advice and promulgating good practice; by developing the government market place so that it is attractive for both suppliers and their customers; and through delivering services directly to departments (principally through OGCBuying.solutions, an executive agency of OGC). During 2002, OGC agreed revised medium-term priorities for the Spending Review 2002 period with its Supervisory Board and in April 2003 was reorganised to align more closely to these priorities (Figure 6). OGC agrees its performance targets with the Treasury. Achievement against targets set for 2002-03 is set out in Figure 7.

6 How the Office of Government Commerce is organised to deliver its priorities from April 2003



15 A Centre of Excellence integrates the essential functions which underpin the successful delivery of programmes and projects by embedding the delivery of best practice and improving capability and skills.

7 The performance of the Office of Government Commerce against its 2002-03 targets

Target	Progress
1 In order to maintain and enhance the quality of OGC Gateway Reviews, to continuously evaluate OGC Gateway Review processes and procedures (including their scope and coverage) in the light of PAC/National Audit Office recommendations, changing demands, and value for money (vfm) audit. The initial evaluation review to be completed by September 2002.	The initial evaluation of September 2002 concluded that a review of OGC Gateway Review documentation was appropriate. Quarterly "lessons learned" updates incorporating National Audit Office/PAC recommendations are now disseminated to teams undertaking OGC Gateway Reviews.
2 By September 2002 to put in place a benchmark framework of successful delivery skills supported by a development programme to enable departments to improve the competence of their commercial practitioners and others to successfully deliver complex and major projects.	The Successful Delivery Skills Programme was launched in September 2002. The Programme provides training and development to address skills gaps in departments. The number of people attending from central government has been less than anticipated.
3 Establish a common view, in consultation with the Chief Executive's Advisory Group (CEAG), Supervisory Board and Ministers as appropriate, on the Government's strategy towards each of the key suppliers to central civil government by March 2003.	The Supervisory Board accepted the key principles at their March meeting. These include working with suppliers to ensure their public sector strategies and business models align with government objectives, seeking innovative business models, and the avoidance of market dominance by suppliers.
4 By July 2002 to make recommendations to Ministers for taking significant time out of major procurements and, if accepted, to agree an action plan by 30 September.	Report accepted by the Chief Secretary to the Treasury in July. Recommendations are being implemented with the Cabinet Office as part of the delivery reform agenda. The recommendations include improving departments' client capability, ensuring senior management leadership in procurement projects, promoting skills, and strengthening advice on the use of procurement advisors.
5 Agree a revised e-procurement strategy with CEAG, Supervisory Board and Ministers by October 2002 which will generate at least £250 million of value for money improvements across central civil government in the Spending Review 2002 period.	The e-procurement strategy was agreed by the OGC Supervisory Board in October 2002. The strategy involves OGC investigating the feasibility of an "e-Hub" data storage and information exchange system, framework agreements for consistent e-procurement systems, and the provision of advice and guidance to departments.
6 Following the pilot phase in the first quarter of 2002-03, OGC to roll out to departments by September 2002 a Capability Maturity Assessment model. In providing evidence for self-assessment under this model, departments will be able to utilise capability tools for IT and construction projects developed under the Successful Projects in an IT Environment (SPRITE) Programme and Achieving Excellence respectively.	The Capability Maturity Assessment model, an electronic tool enabling departments to self-assess, plan and improve their capability to deliver major IT-enabled projects was made available to departments in September 2003 via the Successful Delivery Toolkit, following pilots in 2002 in departments.
7 By March 2003 to deliver a toolkit to help departments assess the capability of suppliers to deliver on long-term contracts.	A summary document and workbook for the assessment of supplier capability in the tender evaluation phase was completed in March 2003. The scope of this target was extended to look at supplier capability throughout the whole procurement cycle and this aspect has been carried forward into 2003-04 with new targets set.
8 To provide a high quality web-based Private Finance Initiative (PFI) knowledge management system (made available to the entire public sector) comprising a database of information about PFI projects and market participants, and an interactive forum for the exchange of information throughout central and local government PFI communities, by the end of September 2002.	A web-based PFI knowledge management system has been launched, comprising a database of information about PFI projects. Revised PFI contract guidance was launched in July 2002.

7 The performance of the Office of Government Commerce against its 2002-03 targets *(Continued)*

Target	Progress
9 By March 2003 to deliver up to five new and updated OGC Best Practice products to the requirements set out by departmental top management via OGC's Chief Executive Officer and the OGC Supervisory Board, and 11 new and updated OGC guidance within programmes prioritised by OGC's customer departments.	Five guides have been published on: private sector partnerships, risk allocation in long-term contracts, faster procurement, procurement in grant-aided bodies, and a revised guide on the OGC Gateway Review process. Twelve OGC guidance documents have also been published, including contract management guidelines and guidance on dealing with smaller suppliers.
10 Six or more collaborative projects to go live by 31 March 2003 to deliver estimated value for money improvements for the wider public sector for the three year period starting April 2003 of £250 million or more.	The following projects are expected to deliver £250 million value for money improvements: L-Cat for Legal Services and GTM2 for Mobile Telephones (OGCbuying.solutions), Vehicle Hire (Department for Work and Pensions), Executive Search (Cabinet Office), Hotels (Inland Revenue), Payroll (HM Treasury), Recruitment (HM Prison Service) plus the Government Procurement Card, Estates Collaboration and Oracle.
11 Develop a Customer Focus Action Plan in response to the first CARE survey by September 2002 and complete remaining customer management tasks by January 2003 in order to achieve and maintain a satisfaction rating of 85 per cent using the CARE criteria by March 2003.	OGC's 2002-03 CARE survey of 650 key customers in departments shows that OGC's satisfaction target has not been achieved - the CARE survey result for 2002-03 showed 75 per cent satisfaction with OGC's performance.

Source: Office of Government Commerce, National Audit Office

8 Examples of coverage of procurement in reports by other audit offices

A recent report by the US General Accounting Office (GAO) highlighted the \$235 billion spent on goods and services by **federal agencies in the United States of America** in 2001-02.¹⁶ The report examined developments in procurement practice, including collaborative purchasing and the use of purchasing cards for low-value items. It also identified that the increased complexity of procurement required the recruitment and retention of staff with the necessary skills base and market knowledge.

Further GAO Reports have examined procurement practice in individual ministries. One report found that the **US Immigration and Naturalization Service (INS)**, a ministry responsible for \$1.7 billion (£1 billion) annual procurement spending, did not have the basic infrastructure to ensure effective contracting.¹⁷ Procurement staff were not senior enough to enforce compliance with procurement policies, a lack of management information hindered effective decision-making, and gaps in the ministry's workforce had led to ineffective management of mission-critical procurement projects. The GAO also examined the implementation of legislation directing the **Department of Defence (DOD)** to manage the \$100 billion (£60 billion) it spends annually on the procurement of services more effectively.¹⁸ It found that the department had not undertaken a strategic assessment of spending on services, set performance and savings targets, or undertaken adequate analysis of spending patterns to improve effectiveness.

In **Canada** the Office of the Auditor General of British Columbia examined the propriety and value for money in the procurement of management consultancy services by **government ministries in British Columbia**, on which over \$15 million (£7 million) is spent annually.¹⁹ It found that four of the five ministries examined award their contracts directly in a majority of cases, rather than through open and fair procedures as required by government regulations. The report concluded that value for money was being achieved in around three-quarters (74 per cent) of management consultancy contracts.

In addition audit offices often issue guidance to departments on procurement. **The Australian National Audit Office** has published a Better Practice Guide on contract management²⁰ to help departments ensure the reliable delivery and value for money of goods or services purchased on small to medium contracts covering contract implementation, ongoing management, and evaluation and succession planning. In particular the report focuses on the business risks associated with contract management. **The Office of the Controller and Auditor-General of New Zealand** has also issued a report outlining the basic principles which apply to the procurement process, including legal, ethical, economic, and risk management considerations.²¹ It also sets out benchmarks against which organisations can measure their performance in areas such as e-procurement, outsourcing, and the engagement of consultants.

Source: National Audit Office

16 Report of the United States General Accounting Office: *Federal Procurement: Spending and Workforce Trends (GAO-03-443)* April 2003.

17 Report of the United States General Accounting Office: *INS Contracting Weaknesses Need Attention from the Department of Homeland Security (GAO-03-799)* July 2003.

18 Report of the United States General Accounting Office: *High-Level Attention Needed to Transform DOD Services Acquisition (GAO-03-935)* September 2003-11-13.

19 Report of the Office of the Auditor General of British Columbia: *Management Consulting Engagements in Government (2000-01 Report 4)* March 2001.

20 Report of the Australian National Audit Office: *Contract Management: Better Practice Guide* February 2001.

21 Report of the Controller and Auditor-General of New Zealand: *Procurement: A Statement of Good Practice* July 2002.

1.8 To place progress made by OGC and departments in a European context, we reviewed the main features of procurement in four other European countries - Denmark, Germany, The Netherlands, and the Czech Republic. We conclude that procurement practice is more developed in the United Kingdom; for example, through a higher profile for procurement generally due to OGC's activities with departments, the existence of specific units or teams in departments with responsibility for providing procurement advice, and the range and quality of guidance available to help procurement staff in departments. There are some areas, however, where other countries have more developed procurement practice; for example in Denmark departments offer the opportunity for suppliers to complete and submit tenders online when bidding for work. A description of the European comparison appears in **Volume 2** of this report. In addition, other supreme audit institutions have produced reports on procurement (**Figure 8**).

Value for money gains

1.9 The Office of Government Commerce had responsibility, set out as part of the Treasury's Public Service Agreement, for delivering £1 billion value for money savings in the three years ended March 2003. For the subsequent three years, from 2003-04 to 2005-06, OGC has a new target to achieve £3 billion value for money gains. The key difference between the previous and current targets is that the £3 billion target includes gains on projects going through the OGC Gateway Review process. OGC estimates that gains on OGC Gateway Review projects will account for approximately half of the £3 billion target through potential whole life costs avoided by application of key recommendations from the OGC Gateway Review process.

1.10 Departments are required to compile and report their value for money gains annually to OGC. Gains can be claimed under four categories (**Figure 9**). By March 2003, £1.6 billion value for money gains had been announced²², surpassing the £1 billion target (**Figure 10**). Half of these gains (51 per cent) were reported in the third year (2002-03). One of the reasons for the significant increase in 2002-03 was that a number of larger departments had improved their systems for collecting data on the gains. Of the four categories (**Figure 11**) into which OGC groups claimed value for money gains, for the year 2002-03, 69 per cent of the gains reported were derived from direct negotiations with suppliers, for example by obtaining reduced prices for the same goods and services or by securing better quality goods and services for the same price.

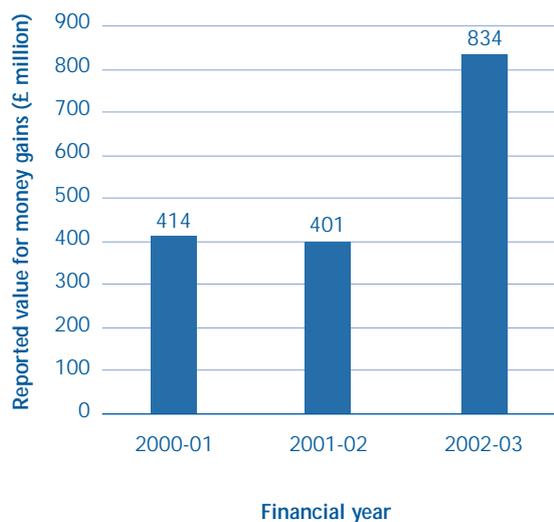
9 How departments can achieve value for money gains

A value for money improvement may arise from

- **Direct negotiation with suppliers** (includes reduced prices, price avoidance, and better terms, such as an improved service for the same price);
- **Aggregation** (for example departments acting together to procure jointly through central contracts);
- **Project, contract and asset management** (for example reduced lifetime operating costs); or,
- **Reduced processing and transactional gains** (for example, more efficient procurement, resulting in less staff time devoted to procurement, use of procurement cards).

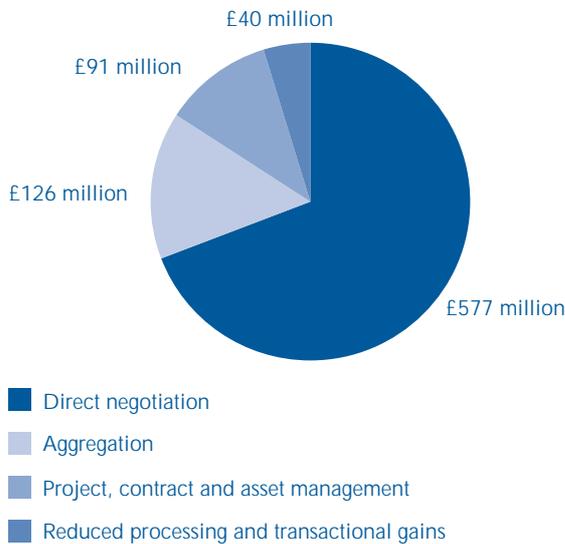
Source: Office of Government Commerce

10 £1.6 billion value for money gains were achieved by departments in the three years to March 2003



Source: Office of Government Commerce

11 Of the £834 million value for money gains reported in 2002-03, 69 per cent resulted from direct negotiation with suppliers

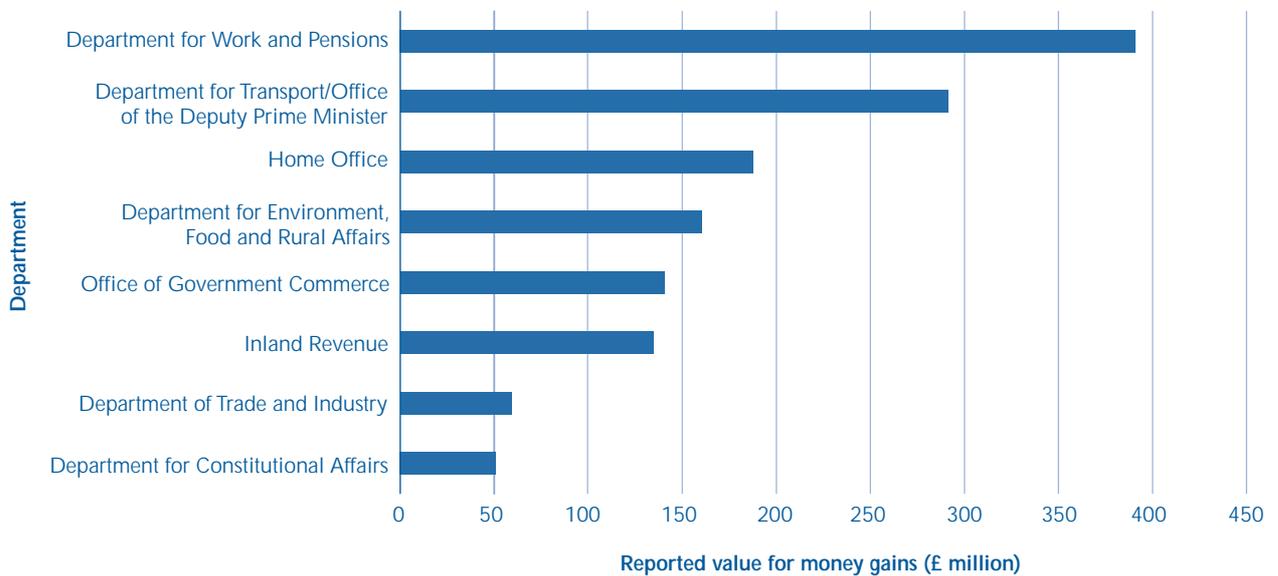


Source: Office of Government Commerce

1.11 Of the £1.65 billion gains reported by March 2003, some £1.41 billion (85 per cent) was attributable to nine departments and their agencies and non-departmental public bodies (Figure 12). Departments with the highest expenditure have the potential to secure the largest value for money gains. Examining value for money gains as a percentage of departments' procurement expenditure shows that:

- In 2002-03, eight departments reported value for money gains that covered more than 5 per cent of their procurement expenditure (Figure 13);
- The total procurement expenditure of these eight departments was £8.5 billion, representing 57 per cent of the £15 billion spent on procurement across central civil government;
- These eight departments together made procurement savings of £600 million in 2002-03, representing 72 per cent of the £834 million total for 2002-03; and

12 Nine departments accounted for £1.41 billion (85 per cent) of the £1.65 billion value for money gains reported in the three years ended March 2003

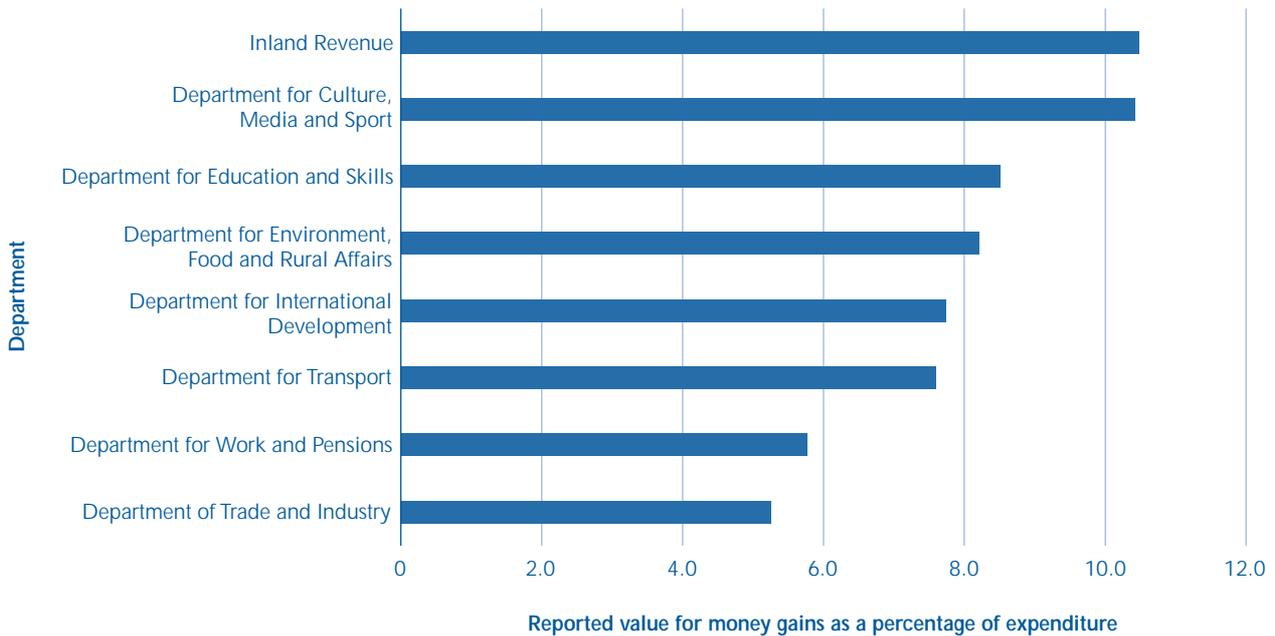


NOTE

Where executive agencies and non-departmental public bodies have reported gains, these are included in the figure for their sponsoring department. OGC's data reflect value for money gains generated through collaborative buying arrangements set up by OGCbuying.solutions. The Department for Environment, Food and Rural Affairs (DEFRA) figure does not include core DEFRA savings in the first two years as effort was concentrated on developing Foot and Mouth Disease countermeasures during this period. Gains reported by the Department for Transport and the Office of the Deputy Prime Minister have been amalgamated as, until May 2002, they formed the Department for Transport, Local Government and the Regions. Department for Work and Pensions data exclude the Health and Safety Executive.

Source: National Audit Office, Office of Government Commerce

13 In 2002-03, eight departments reported value for money gains of five per cent or more of their procurement expenditure



NOTE

Analysis excludes the Office of Government Commerce (OGC) as OGC data reflect gains generated through departments' use of collaborative buying arrangements set up by OGCBuying.solutions. Department for Work and Pensions' data exclude the Health and Safety Executive.

Source: National Audit Office, Office of Government Commerce

■ Nine departments reported savings to OGC of less than five per cent, ranging from 4.6 per cent to less than one per cent of their procurement expenditure²³. These data reflect improvements in performance in 2002-03 and do not represent absolute measures of departments' procurement efficiency. Nevertheless, if all departments had achieved savings of 5 per cent, the total saving to government in this year would have increased by a further £150 million²⁴.

1.12 In order to verify value for money gains, we looked at seven major departments, which together account for £577 million of the £834 million value for money gains reported in 2002-03, 70 per cent of the total. We assessed departments against four criteria, which are set out in **Figure 14**. On the basis of our review, we conclude that the gains claimed are reasonable, and have been confirmed at Principal Finance Officer level. There are two areas where scope exists to improve the rigour with

which value for money claims are scored. Firstly, departments should make use of independent checks of value for money gains prior to their submission to OGC, most obviously by use of their internal auditors. Secondly, departments should review the quality and completeness of their records in support of claimed gains.

1.13 The long term sustainability of improvements in value for money depends on improving the procurement capability of departments. The remainder of this report assesses the impact which the Office of Government Commerce has had in working with departments to develop this. It follows an earlier report which we published in 1999²⁵. **Figure 16** provides a summary of the key developments since 1999.

1.14 The examination and sources of evidence we used are set out in **Figure 15**. Further detail of our methodology is provided in the **Appendix**.

²³ The nine departments were HM Treasury, Office of Standards in Education, Department for Constitutional Affairs, Home Office, HM Customs and Excise, Crown Prosecution Service, Office of the Deputy Prime Minister, Foreign and Commonwealth Office and Cabinet Office. HM Customs and Excise submitted revised data to OGC in February 2004 showing that they had achieved gains of 5.8 per cent of their procurement expenditure.

²⁴ National Audit Office estimate.

²⁵ Modernising Procurement (HC 808, 1998-99).

14 Review of seven departments' claimed value for money gains

Criteria Department	Claimed savings as a percentage of total (central government) VFM savings 2002-03	OGC guidance on calculation of claims is used and complied with	Claims are signed off by a senior official (Principal Finance Officer)	Claims are checked by internal audit prior to submission to OGC	Sample claims are legitimate - they conform to OGC criteria for scoring VFM gains (see note 1)
Department for Work and Pensions	29.4	●	●	●	●
Department for Environment, Food and Rural Affairs	13.8	●	●	○	■
Department for Transport	12.8	●	●	●	●
Home Office	7.4	●	●	○ ²	●
Department of Trade and Industry	4.1	●	●	○	○
Department for Education and Skills	1.2	●	●	○	●
Office of the Deputy Prime Minister	0.5	●	●	○	■
Overall Assessment	70 per cent of the claimed gains covering the year 2002-03	OGC guidance is applied	Claimed gains are signed off by a senior official	Internal audit do not generally have a role in checking overall claims	Claims accord with the categories of potential gains set out by OGC

● sufficient evidence ■ partial evidence ○ no evidence

NOTES

- 1 We checked evidence about whether two of the largest claims submitted by each department for 2002-03 fitted into the four categories for potential value for money gains set out by OGC, and whether supporting documentation and calculations were available to support these claims.
- 2 Home Office Internal Audit provided advice and guidance on the process used for collecting data, but did not review or validate the actual figures produced.

Source: National Audit Office

15 Our sources of evidence

Our examination consisted of:

- A survey of 86 departments, executive agencies and the largest non-departmental public bodies;
- Focus groups drawn from the departments, executive agencies and non-departmental public bodies surveyed;
- Focus groups of suppliers facilitated by MORI;
- Examination of the range of initiatives and good practice developed by OGC, and the extent of take-up;
- Examination and analysis of the value for money gains claimed by seven major departments, representing 70 per cent of the total claims for 2002-03;
- A consultancy exercise to analyse challenges presented to suppliers and departments through current approaches to procurement;
- Three in depth case studies of the Department for Work and Pensions, the Office of the Deputy Prime Minister and the Vehicle & Operator Services Agency (published in a separate volume);
- Reviewing developments in procurement in the three private sector companies consulted as part of the NAO's 1999 report - TNT, British Airports Authority, and Nissan UK;
- Comparative analyses of how procurement is organised in four European countries: Denmark, Germany, the Czech Republic and The Netherlands (published in a separate volume); and,
- Consultation with the Chartered Institute of Purchasing and Supply and the Small Business Service.

16 Key events influencing the development of procurement since 1999

March 1999	Achieving Excellence in Construction launched. The initiative seeks to achieve value for money in construction projects through the best balance of quality and whole life cost to meet user requirements, by improving the performance of central government departments, their executive agencies and non-departmental public bodies as clients of the construction industry for construction projects, including those involving maintenance and refurbishment. A future strategy Building on Success (including strategic targets) was announced by the Chief Secretary to the Treasury in February 2003.
April 1999	Tackling the Improvement of Public Sector Procurement (the Gershon Report) ²⁶ published. Peter Gershon was commissioned by the Prime Minister to identify efficiency, modernisation and competitiveness gains in central government procurement. Central civil government was relying on traditional approaches to procurement such as competitive tendering, bulk buying and large stock holdings, with little collaboration between departments and agencies other than through use of some central buying agencies.
October 1999	National Audit Office report Modernising Procurement published.
April 2000	Office of Government Commerce established with Peter Gershon as Chief Executive to lead the modernisation of procurement in government and "to work with central civil Government as a catalyst to achieve best value for money in commercial activities". OGC combines the activities of five organisations - the Treasury Procurement Group, Private Finance Initiative Policy Group, The Buying Agency (TBA), Property Advisers to the Civil Estate (PACE), and the Central Computer and Telecommunications Agency (CCTA).
May 2000	Successful IT: Modernising Government in Action report published.
June 2000	Inaugural meeting of OGC Supervisory Board (which has met subsequently three times a year).
November 2000	OGC complete alignment review to ensure its resources and structure support its objectives.
January 2001	National Audit Office report Modernising Construction found there was a need for widespread implementation of good practice in how government departments and agencies procure and manage new construction projects. The report identified a potential £2 billion in total efficiency gains could be delivered if such good practice were extended across the whole of central government.
February 2001	OGC Gateway Reviews established to ensure all major central civil government projects are subject to rigorous tests and pass through a series of gates at critical points in the project lifecycle.
April 2001	OGCbuying.solutions , an executive agency and a trading fund of OGC, established from a merger of The Buying Agency (TBA) and the Managed Services Division of Central Computer and Telecommunications Agency (CCTA) to identify and deliver initiatives that produce value for money purchasing and offer measurable cost savings. Procurement services available to public sector purchasers include utilities provision, IT products and services, IT-related consultancy, energy, fuel and water services, and specialist procurement packages tailored to specific needs.
April 2001	National Audit Office report Purchasing Professional Services identified £610 million expenditure on professional services in 1999-2000, including management consultancy, legal services, financial consultancy, and Human Resource advice and assistance, and £60 million potential value for money savings that could be obtained through more astute negotiation with suppliers, more collaboration between departments and the use of the appropriate forms of procurement, for example competitive tendering. OGC developed an action plan for departments to achieve price and efficiency gains of £65 million and departments were urged to put strategies in place to achieve the target.
March 2002	OGC announces its Medium Term Strategy setting out its priorities from 2003-04 to 2005-06, setting out three principles and seven priorities for OGC over the period.
March 2002	OGC announced a Memorandum of Understanding setting out the principles under which Microsoft will conduct business with the UK public sector for the three years to March 2005. This includes the pricing arrangements and the discounts which Microsoft will offer.
March 2002	A Committee of Public Accounts report Better Value for Money from Professional Services concluded that where it is cost-effective to do so, departments should adopt the initiatives that OGC has taken to help them improve their purchasing of professional services. Attention was drawn to the potential of framework agreements to generate savings, the over-use of single tender contracting and the under-use of procurement specialists in negotiating and managing contracts.
September 2002	Successful Delivery Skills programme launched by Sir Andrew Turnbull to help departments enhance skills in key areas, such as programme and project management, and to produce long-term improvements in delivery skills of those working on major government projects.
November 2002	National Audit Office report PFI refinancing update found that new arrangements for sharing refinancing gains negotiated by OGC with the private sector had increased the prospect of departments' securing a bigger share of the gains arising from the refinancing of PFI projects.
December 2002	Cabinet Ministers agreed a set of actions to target areas of weakness in IT programme and project delivery, with the aim to improve delivery capability across all programmes and projects and, in particular, to strengthen the delivery of government IT-enabled projects by learning lessons from past successes and failures and ensuring new major projects take these into account.

16 Key events influencing the development of procurement since 1999 *continued*

March 2003	250 projects with a combined cost of £36 billion reviewed through OGC Gateway Reviews.
March 2003	L-Cat , a new series of framework agreements for the provision of legal services to government, is launched.
April 2003	OGC's new structure under its Medium Term Strategy is implemented to align more closely its activities to meet its medium term objectives. Public Service Agreement introduced for the delivery of £3 billion of value for money gains in civil procurement through OGC by 2005-06 (announced after results of the Comprehensive Spending Review of July 2002).
May 2003	National Audit Office report <i>Purchasing and Managing Software Licences</i> identified that departments spent £100 million annually on over one million software licences and that the Office of Government Commerce had successfully secured savings for the taxpayer through the negotiation of software licensing agreements with IT suppliers.
June 2003	Programme and project management Centres of Excellence set up in all core departments with a remit extending to their executive agencies and non-departmental public bodies.
June 2003	S-Cat - expanded business, professional and IT services framework agreements launched, with over 170 companies offering services.
July 2003	Announcement of PFI: Meeting the Investment Challenge which stated that for future IT-related projects there would be a strong presumption against the use of PFI.
October 2003	Programme and Project Management Specialism is launched by OGC to support and advise individuals who are working in a programme and project environment to develop their skills and careers; increasing the capability and capacity of government departments through developing a cadre of suitably qualified and experienced people.
December 2003	OGC announced that central civil government has achieved a total of £1.6 billion value for money gains over the period 2000-01 to 2002-03, exceeding its target of £1 billion.
December 2003	OGC published <i>Increasing competition and improving longer-term planning in the Government market place</i> and associated action plan which identifies measures to improve the way the public sector engages with potential suppliers.
December 2003	Joint Cabinet Office and OGC report <i>Making a difference: reducing bureaucracy in central civil government procurement</i> to make improvements to the government market place.

Source: National Audit Office, Office of Government Commerce

Part 2

Departments' progress in improving their procurement capabilities

- 2.1 Our examination of departments and consultation with suppliers and external experts identified six key basic requirements which need to be met if departments are to have confidence that their procurement capability is likely to deliver value for money. These are:
- Procurement decisions need to be closely linked to the delivery of departments' core services and functions;
 - A well developed procurement strategy should be in place and regularly reviewed;
 - Departments need sound commercial awareness and knowledge of suppliers and the market;
 - Buying arrangements should reflect the risks inherent in different types of procurement;
 - Procurement staff should have the appropriate professional skills; and
 - Procurement performance should be measured and regularly reviewed.
- 2.2 Most public services depend on some form of procurement. It is important that strategic decisions affecting the delivery of services or other key departmental activities give sufficient consideration to procurement implications and actively involve procurement expertise in board decisions. Our survey found that while just under 80 per cent of all departments, agencies and non-departmental public bodies have a head of procurement, few (13 per cent) are board members (**Figure 17**). Most rely on a representative or champion to lead on procurement issues at board meetings and some 17 per cent have no procurement representation at board level. The position is better in agencies, with 27 per cent having a head of procurement who is also a board member.
- 2.3 We explored this issue at our departmental focus groups. They considered that the link between procurement and the achievement of organisational objectives is insufficiently understood or recognised and further action is needed if procurement is to become central to departments' business planning systems, culture and decision-making.

(i) Procurement decisions need to be closely linked to the delivery of departments' core services and functions

Changes in policies or the demand for services can have an impact on the levels and type of procurement needed. As many strategic decisions taken by departments have procurement implications, it is essential that procurement expertise is involved at the outset. In the private sector some companies recognise the value of this senior involvement by having procurement or commercial expertise represented on management boards.

"The delivery agenda today requires a wide range of specialist commercial skills that the procurement profession has. The absence of board level presence by procurement confirms that these skills are not yet adequately recognised."

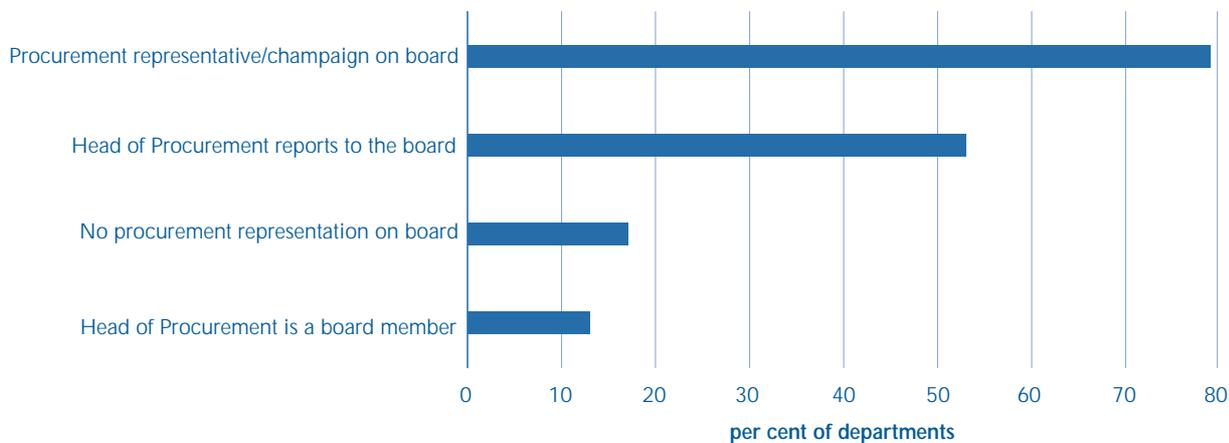
"Procurement spend is not adequately recognised as critical to Government's business and adequate pre-planning of expenditure is not in-built. Procurement has a contribution to make by being involved at Business Case approval and Investment Strategy phases and to be represented as a matter of course in the corporate/project governance regime."

Source: Departmental focus groups

17 Procurement representation on boards

Few heads of procurement are board members

n=86



Source: National Audit Office survey

(ii) A well developed procurement strategy should be in place and regularly reviewed

Without a well developed strategy covering all commercial activity the risks of uncoordinated procurement, inappropriate buying arrangements and poor value for money are significantly increased. As a minimum, strategies should:

- i be informed by comprehensive information on annual procurement spend across the department;
- ii consider the characteristics of procurement spend such as size, complexity and inherent risk and the buying arrangements (framework agreements, partnerships, electronic tendering) best suited to their procurement profile;
- iii review the supplier base and consider whether this is too large or too small and how resilient it is likely to be to changes in demand or market developments, taking account of departmental and wider government demands; and
- iv consider the potential for better value for money and how this will be achieved.

2.4 Eighty-three per cent of departments have procurement policies or strategies in place, but boards are more likely to consider procurement for specific business critical projects (81 per cent) than overall strategy. Just over half (55 per cent) of departments consider procurement strategy at board meetings.

(iii) Departments need sound commercial awareness and knowledge of suppliers and the market

Departments should have sufficient knowledge of how supply markets for specific goods and services are organised. They need this to assess the level of competition they can reasonably expect to attract for their business and to adjust their contract strategy accordingly. They also need good information on the relative performance of existing and potential suppliers and the resilience of their supply chains which might impact on the quality of service they provide.

2.5 Getting the best out of suppliers is a two-way process. The ability of departments to get the best from suppliers and the supply market generally depends upon:

- what they know about their existing suppliers and the market;
- how they communicate with suppliers and establish new sources of supply;
- how they select suppliers; and
- how they seek to promote improvements in supplier quality.

What departments know about their suppliers

- 2.6 Nearly two thirds of departments use more than 250 suppliers; with the Prison Service, an executive agency of the Home Office, having the highest number - around 23,000. To manage relationships with large numbers of suppliers effectively, departments need to be able to access information about them quickly (Figure 18). Three quarters (78 per cent) of departments in our survey monitor spend with individual suppliers, but only two thirds of agencies (67 per cent) have this information. Only half of departments (51 per cent) maintain a database of suppliers. Eleven per cent of departments do not know how many suppliers they have.
- 2.7 To ensure continuity of supply, departments need oversight of the extent of suppliers' dependency on them, such as an indication of the percentage that the department's procurement spend forms of individual suppliers' turnover. One quarter (26 per cent) of departments hold such information, with departments more likely to have it (41 per cent) than agencies (18 per cent) and non-departmental public bodies (13 per cent).

How departments communicate with suppliers and establish new sources of supply

- 2.8 To obtain the best value goods and services, departments need to be in a position to understand what suppliers can offer, to be open to new sources of supply, and to communicate their requirements clearly to potential

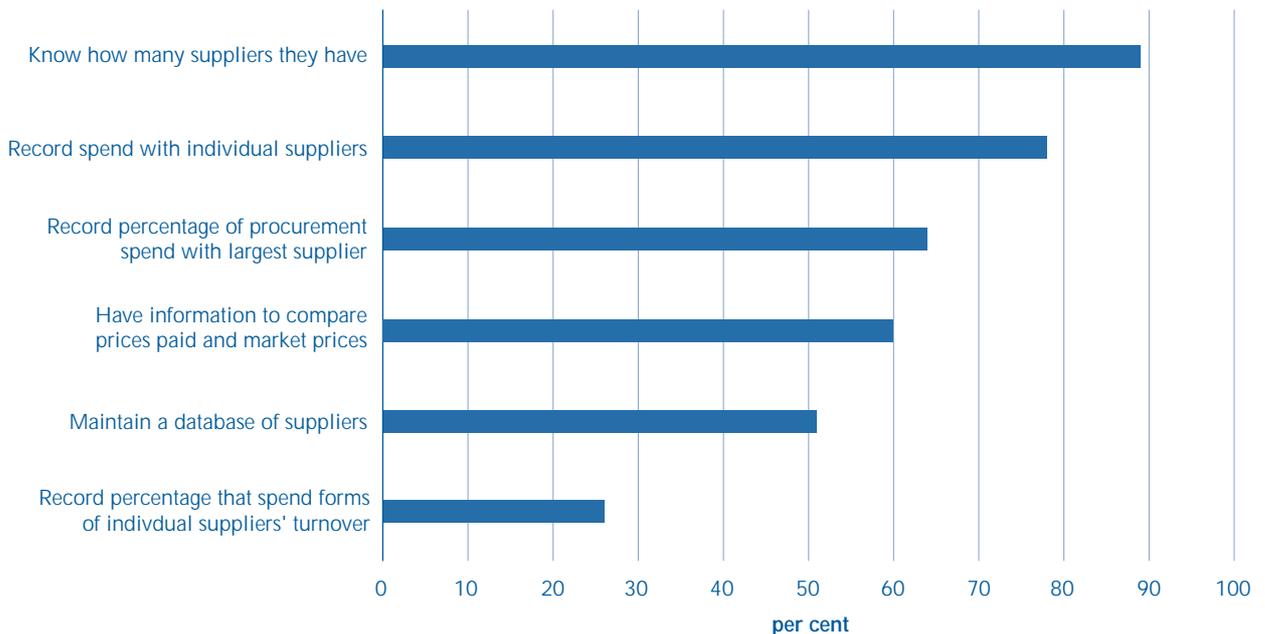
suppliers. They also need to attract suppliers offering the best combination of quality and price. Companies are, however, unlikely to want to compete for government business if departments' procedures are bureaucratic, unnecessarily time consuming and wasteful.

- 2.9 Departments use traditional means of communicating their requirements to suppliers, through advertised invitations to tender (83 per cent) and providing information on request (71 per cent). Eight per cent advertise invitations to become approved suppliers.
- 2.10 Suppliers use a range of sources, such as the *Official Journal of the European Union (OJEU)*, to find customers (Figures 19 and 20). Sixteen per cent of departments surveyed stated that they place all their procurement information for suppliers on their websites, for example, how suppliers might approach the department if they wish to sell goods and services or to obtain details of forthcoming opportunities to tender. When we examined the standard and content of this information in July 2003 only one department, the Department for Trade and Industry, provided a direct link from its homepage for suppliers seeking opportunities to do business with it. Six departments' websites provided specific telephone or e-mail contact details for procurement staff. Four provided details about forthcoming opportunities for suppliers and how tenders would be evaluated. Just one department, the Inland Revenue, provided a link to the OGC/Small Business Service "Supplying Government" joint web portal.

18 Information departments hold about suppliers

89 per cent of departments know how many suppliers they have; just half maintain a database of suppliers.

n=86



Source: National Audit Office survey

19 Ways in which suppliers find out about opportunities to do business with central civil government

OJEU - the *Official Journal of the European Union* (formerly OJEC) where all government opportunities with a contract value of over £100,000 must be advertised; updated daily.

BiP Tracker - weekly bulletin produced by private sector company BiP (Business Information Publications Ltd), which sets out all high and low value public sector contracts and matches them to suitable organisations. Suppliers pay an annual subscription of £980 plus VAT for the service.

Departments' websites - some departments list procurement contacts for suppliers; for example the Department for Trade and Industry
http://www.dti.gov.uk/about_dti_procurement.html

Government Opportunities - a public sector circular published monthly by BiP which includes contracts being let and forthcoming opportunities, plus news and information about the sector.

Source: National Audit Office examination

20 Official Journal of the European Union (OJEU)

OJEU - the *Official Journal of the European Union* (formerly OJEC), contains a supplement in which, under EU law, all central government opportunities for goods and services with a contract value over £100,000 must be advertised. All contracts must be submitted via a standardised form and the collated information is available via subscription as a paper document or CD-ROM, or free of charge online at <http://ted.publications.eu.int>; updated daily. The supplement is published in 11 different languages and covers contracts for tender in all the EU member states.

Source: National Audit Office examination

How suppliers are selected

2.11 Departments apply a range of criteria when selecting suppliers, including suppliers' ability to meet the technical specification of the invitation to tender and suppliers' track record on similar contracts (**Figure 21**). Other common criteria relate to references from other customers; legal and financial propriety, such as scrutiny of audited accounts and credit records; as well as evidence of quality standards and environment management systems and standards. The perception from our focus groups of suppliers, however, is that to be successful in selection and awarded a contract, four criteria feature most strongly: the size of the company, the track record and experience of the company with central government bodies, the capacity for suppliers to take on risk from the contracting body, and price.

2.12 Although over half of departments (54 per cent) usually or always use market intelligence to select suppliers, just 30 per cent had used OGC's Supply Intelligence Service. This suggests scope for development and promotion of OGC's market intelligence function and clearer communication of the benefits it can offer to departments. Departments do take account of their overall supplier portfolio when selecting suppliers and awarding contracts as over a quarter of departments (28 per cent) seek to reduce the numbers of suppliers they deal with, but more departments (39 per cent) select suppliers to ensure a spread and limit over-dependence. Just 17 per cent analyse suppliers' supply chains as part of their supplier selection criteria. OGC has also taken action to encourage departments to consider criteria in their purchasing decisions which will contribute to sustainable procurement, such as energy efficiency, recycling and biodegradability (**Figure 22**).

How departments seek to promote improvements in supplier quality

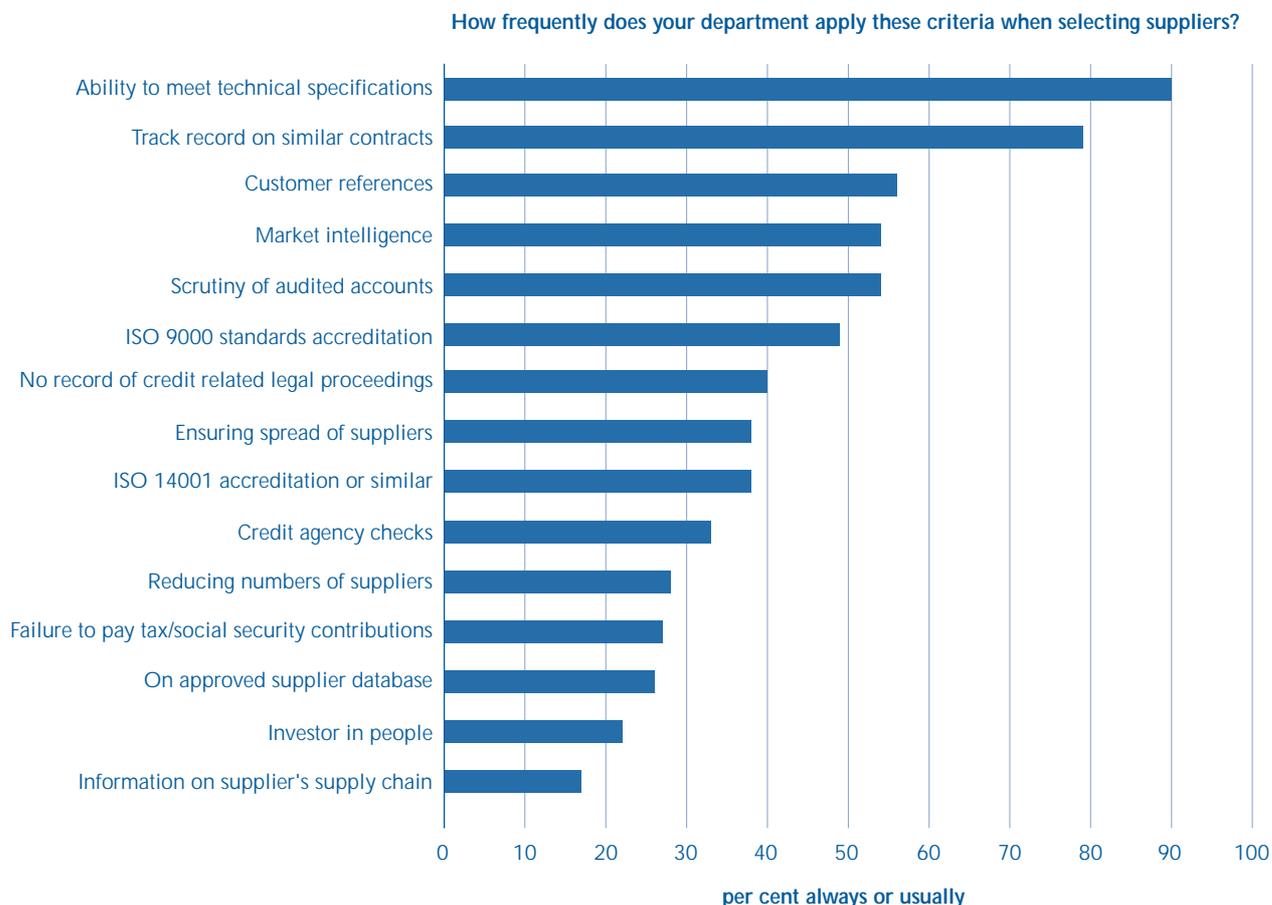
2.13 Departments use a range of approaches to promote improvements in supplier quality (**Figure 23**); for example, providing feedback to suppliers on their bids can influence the quality of future bids and make it easier for suppliers to tailor their bids to meet departments' needs. Automatic debriefing for suppliers whose bids have been unsuccessful is provided by 40 per cent of departments. Two thirds provide suppliers with regular feedback on their performance, and half (51 per cent) use management information systems to monitor suppliers' performance. Much less common were techniques used by private sector companies, such as convening supplier network meetings (used by 20 per cent) or providing training courses for suppliers (5 per cent).

2.14 Just under half of departments we surveyed were using contractual financial incentives for suppliers to meet or exceed targets as a means of improving performance. Participants in our supplier focus groups saw the use of contractual incentives and penalties as a positive way to improve performance, providing the original specification was realistic, particularly in terms of timetable.

21 Criteria used to select suppliers

Important criteria used to select suppliers include ability to meet technical specification of invitations to tender and track record. Suppliers are rarely questioned about supply chains.

n=86



NOTE

Departments may use a number of approaches.

Source: National Audit Office survey

(iv) Buying arrangements should reflect the risk inherent in different types of procurement

Departments need to determine which buying arrangements are most likely to deliver value for money. This will depend on the nature of goods and services; for example, if they are high value single items a full separate competition will be required to select the best supplier and to comply with European Union law. For low value routine procurement, a framework agreement, established in conformity with the EU rules, which minimises administrative costs but enables departments to secure the price advantages of high volume procurement may be more appropriate.

2.15 The main ways in which departments can procure goods and services are set out in **Figure 24**.

22 Sustainable procurement

In line with the UK Strategy for Sustainable Development, OGC produces guidance encouraging departments to consider environmental criteria such as energy efficiency, recycled content and biodegradability in their purchasing decisions. Sustainability can be built into the procurement process at the tender specification stage and is not incompatible with value for money assessments. Goods where environmental criteria have been specified at this stage include timber, paper, energy efficient light bulbs and computers.

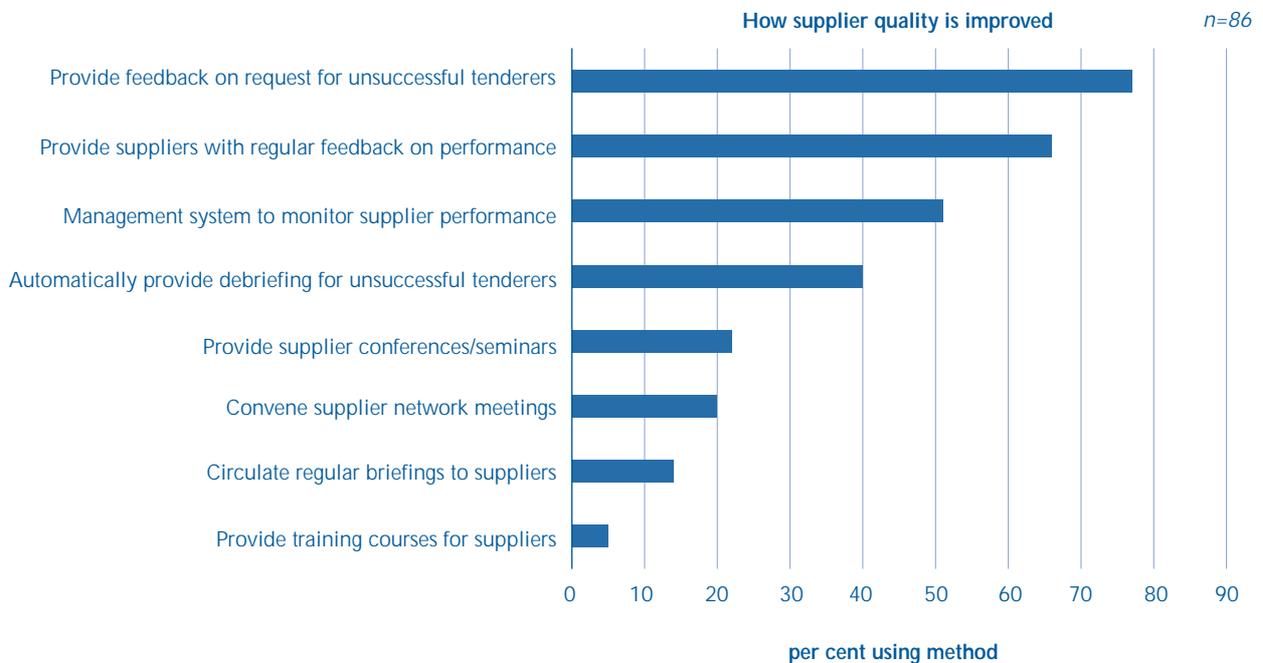
Developments include:

- In June 2000, OGC published the *Achieving Sustainability in Construction Procurement Action Plan* which set out how government clients should take forward the sustainable development agenda through better procurement of new works, maintenance and refurbishment. OGC is currently reviewing and developing the action plan;
- On the recommendation of the interdepartmental Sustainable Procurement Group (SPG), OGC and the Department for Environment, Food and Rural Affairs published a revised *Joint Note on Environmental Issues in Purchasing* in October 2003, which sets out good practice for integrating environmental concerns into procurement decisions;
- From November 2003 departments have been required to apply specified environmental standards in the letting of all new contracts for certain products; for example, photocopier paper must have 100 per cent recycled content and a minimum of 75 per cent post-consumer waste;
- OGC identifies products where quick wins can be made in environmental purchasing and OGCbuying.solutions identifies for buyers where products with high environmental specifications are included within its frameworks; and
- Since August 2003 the Sustainable Food Procurement Initiative has required departments to formulate action plans for the procurement of food which address issues of sustainability and consider small and local food and catering suppliers.

Source: National Audit Office

23 How departments seek to improve supplier quality

Suppliers can usually obtain feedback when they fail to win a tender, but not automatically.



NOTE

Departments may use a number of approaches.

Source: National Audit Office survey

24 The main ways departments can procure goods and services

The following approaches are not mutually exclusive, for example the Government Procurement Card can be used when purchasing on GCat. There are additional OGCBuying.solutions products which can be used such as Portfolio (buildings and interiors products and services), PCS (professional services covering design, construction and maintenance of properties and estates) and Broadband Solutions (for broadband services).

Approach	Application	Benefits	Take-up
Competitive tender	Competitive tender may range from major complex procurement of IT and Private Finance Initiative deals through to lower value items such as research and consultancy.	<ul style="list-style-type: none"> ■ Widest possible choice of suppliers ■ Ability to make decisions about the best combination of costs and quality ■ Present scope for encouraging innovation ■ Allows new suppliers access to the market 	Under EU law, all central government opportunities for goods and services with a contract value of over £100,000 must be advertised and conducted under competitive tender. Projects identified as medium or high risk are monitored through the mandatory OGC Gateway Review process introduced in February 2001.
Framework agreements	Frameworks are awarded competitively, in conformity with EU rules, for fixed periods. Frameworks enable departments to collaborate and combine their collective buying power to achieve better value for money. They may cover a range of low and high volume goods and services; for example consultancy skills, recruitment of temporary staff, legal advice, stationery, etc.	<ul style="list-style-type: none"> ■ Rapid access to regularly required goods, professional skills and expertise ■ Reduce administration and transaction costs across participating departments ■ Aggregate demand and can result in more competitive prices for users than if they negotiate individually ■ Use standard terms and conditions and so help ensure best practice is applied ■ Little or no need for customers to hold stocks ■ Avoids the need to go through the full European Union procurement process for individual service specific requirements 	A wide range of framework agreements is in place across central government although there is scope for more use of them - our survey showed that 49 per cent of all departments frequently used frameworks other than those run by OGCBuying.solutions, and that on average 18 per cent of their procurement spend was carried out using them. However, access to frameworks can be difficult for departments as frameworks are not all brought together in one place, for example on a single website. OGC does not monitor take-up of framework agreements which are not run by OGCBuying.solutions (such as S-Cat and GCat) so is not in a position to assess take-up through them.
S-Cat	A framework agreement which provides government customers with access to services - management consultancy, IT consultancy and service provision, financial services, human resource services, and business information and research. Managed by OGCBuying.solutions and includes firms that bid successfully to be included after responding to advertisements in OJEU. OGC revised the agreement in June 2003 to cover 170 firms offering a wider range of services and disciplines.	<ul style="list-style-type: none"> ■ Provide access to professional skills not available internally ■ Avoids the need to go through the full European Union procurement process for individual service specific requirements ■ Mini competitions within S-Cat can help to ensure that best value for money is obtained for the particular requirement 	Take-up of S-Cat has been steadily increasing since its introduction in 1997, although full use is not made of the catalogue by all those registered to use it. Our survey showed that on average departments made 13 per cent of their expenditure through S-Cat. The value of purchases made through S-Cat has increased from £18 million in 1998-99 to £315 million in 2002-03, although the proportion of total registered users making a purchase is around 50 per cent. 82 per cent of expenditure through S-Cat is accounted for by departments, executive agencies and non-departmental public bodies. Benchmarking indicates that S-Cat prices paid by public sector customers are around 7 per cent below market rates paid outside of S-Cat.

24 The main ways departments can procure goods and services (continued)

Approach	Application	Benefits	Take-up
GCat	A framework agreement which provides access to a wide range of IT and telecommunications products (hardware, software and infrastructure) and associated services, for example, systems installation, maintenance and management.	<ul style="list-style-type: none"> ■ Reduced processing costs as orders can be placed via an electronic catalogue ■ Prices benchmarked by OGCbuying.solutions against market prices to ensure they remain competitive ■ Customers, especially smaller departments, benefit from bigger buying power and additional discounts for bulk purchases ■ Comprehensive and reliable management information about purchases 	Take-up of GCat has been steady although there is scope for further take-up as not all registered users make full use of GCat - around two thirds of registered users make a purchase - and our survey suggests that just half of departments frequently used GCat. The number of registered users of GCat had increased to 3,938 by the end of 2002-03 and the value of purchases increased from £65 million in 1997-98 to £404 million in 2002-03. Central government accounts for 42 per cent of expenditure through GCat. Our survey showed that on average 7 per cent of departments' procurement expenditure is made through GCat. Benchmarking indicates that GCat prices are on average 8-10 per cent below average market rates.
Government Procurement Card	A quick and easy payment method using a Visa purchasing card for low value goods and services.	<ul style="list-style-type: none"> ■ Simplifies 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 ■ Minimises risk of fraud and impropriety through appropriate controls and safeguards and a simplified audit trail 	Take-up and use of the Card has risen steadily since it was introduced in 1997 although our survey indicates it is less likely to be used by non-departmental public bodies than agencies and departments and it is also used for a lower proportion of their expenditure. By the end of 1999, some 7,000 cards were in use for 194,000 transactions valued at £23 million. By the end of 2002 ²⁷ , there were over 39,000 cardholders who had completed 2.7 million transactions valued at £413 million, equating to £70 million in process efficiency savings. ²⁸
Electronic procurement	e-procurement can be used to enhance any of the main ways departments procure goods and services by using electronic networks to simplify and to speed up all stages of the procurement process, including tendering, design and production for development projects, ordering, requisitioning, stock management, monitoring delivery, and supplier performance.	<ul style="list-style-type: none"> ■ 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 	Take-up of e-procurement has been low. Our survey indicates that on average 20 per cent of procurement spend was carried out electronically, with agencies likely to make just 12 per cent of procurement spend electronically. OGC has a target to deliver £250 million value for money savings through e-procurement by 2006. OGC's e-Procurement Assessment Tool has shown that 32 per cent of high spending departments (with procurement spend of over £100 million) had mature e-procurement programmes ²⁹ . Less than one per cent of low-spending departments had mature e-procurement programmes. This represents a serious risk to the target to achieve £250 million value for money gains by 2006.

Source: National Audit Office, Office of Government Commerce

²⁷ Data for the Government Procurement Card is calculated on a calendar year basis.

²⁸ Based on a £28 efficiency saving figure established by KPMG, derived in 1998 by averaging the savings figures from 12 central government departments, comparing a Procurement Card transaction to a traditional paper based transaction.

²⁹ Defined as "being ready for and having experience of implementing e-procurement tools".

Use of buying arrangements promoted by OGC

2.16 Almost all departments in our survey use GCat, the Government Procurement Card, S-Cat and other framework agreements, although almost half of the non-departmental public bodies did not use the Government Procurement Card. When it comes to frequency of use (Figure 25), however, Government Procurement Cards, GCat, S-Cat and other framework agreements are used regularly in only half of departments and usually account for only a small percentage of expenditure (ranging from 6 per cent of expenditure for Government Procurement Cards, 7 per cent for GCat, 13 per cent for S-Cat, and 18 per cent for other frameworks). Departments use these methods primarily for advantages of speed and reduced transaction costs rather than cheaper goods and services (Figure 26). Only for other framework agreements do half of departments in our survey find that they offer cheaper goods and services. Only a minority believed the approaches offered better quality goods and services.

2.17 Departmental focus groups commented that a drawback of using GCat and S-Cat was that they did not necessarily offer the lowest prices and some departments were unclear about whether European Union rules permitted negotiation of prices within GCat and S-Cat. Other departments found that while prices quoted were intended by OGC to be maximum prices, in practice it was difficult to negotiate the prices down and better value could sometimes be obtained from smaller suppliers or other suppliers not on the framework. Departmental focus group participants' reservations about the Government Procurement Card centred on concerns about maverick spend and abuse of the card. Departments were also concerned about having to develop separate procedures to reconcile statements and the reluctance of customers in the department to complete paperwork.

Gateway™

2.18 The Gershon report identified a need for a well-defined process for managing large, complex and novel procurements. OGC Gateway Reviews were introduced to address this, and are mandatory in civil central

25 Half of departments frequently use OGC procurement methods such as GCat and S-Cat

Use methods always or usually	Departments %	Agencies %	Non-departmental public bodies %	n=86 All %
GPC	47	49	47	48
GCat	44	54	60	51
S-Cat	47	51	33	47
Other frameworks	50	51	40	49

Source: National Audit Office survey

26 OGC procurement arrangements offer speed and reduced transaction costs

Perceived benefits of procurement method or process	GPC %	GCat %	S-Cat %	n=86 Other frameworks %
Faster procurement	73	75	75	67
Reduced administration costs	73	65	65	65
Reduced staff costs	42	47	49	53
Cheaper goods and services	13	40	24	47
Fixed prices	5	40	39	48
Continuity of supply	6	32	24	41
Better market knowledge	2	29	34	33
Better quality goods and services	5	18	20	34

Source: National Audit Office survey

government at critical stages (gates) in a project's lifecycle to ensure all major projects are on track to realise their intended outputs and outcomes. The OGC Gateway Review process is applied to projects that procure services, construction and property, IT-enabled business change, and procurements through framework contracts. Reviews are conducted by a team of experienced people independent of the project team, who provide a confidential report to the project's Senior Responsible Owner, the individual responsible for the overall success of the project or programme. They offer the benefits of:

- deploying the best available skills and experience on the project;
- ensuring all stakeholders understand the project status and issues involved;
- providing assurance that the project can progress to the next stage of development or implementation;
- more realistic time and cost targets; and
- improving knowledge and skills of government staff through participation in review teams.

2.19 Since the OGC Gateway Review process was introduced in February 2001 (**Figure 28**), 600 reviews have taken place across 45 central civil government departments and agencies. Three quarters of these reviews have related to IT or IT-enabled projects. The process is popular with departments. Three quarters of those we surveyed had used the OGC Gateway Review process and all found it to be useful or very useful. The OGC Gateway Process was updated, effective from 15 January 2004, to ensure its continued value in the light of changing customer requirements. The OGC Gateway Process now supports programme level reviews throughout the lifecycle of acquisition-based programmes. A repeatable Gate 0 review is now applied over the lifecycle of a programme to check that the programme is on track for success. Gate 1 now includes the strategic and wider context elements drawn from Gate 0, and is the first review for procurement projects.

27 Electronic procurement

The OGC report *eProcurement: Cutting through the Hype* (2002)³⁰ concludes that: "e-Procurement implemented effectively, offers a Return on Investment case and supports delivery of core business through taking the costs and bureaucracy out of the purchasing process; enabling better value for money and improved commercial relations." The e-procurement agenda emerged from targets set for OGC to deliver 90 per cent of low value transactions and 50 per cent of tenders online by 2001, increasing to 100 per cent of tenders by 2002, with the aim of achieving £250 million value for money savings through e-procurement by 2005-06.

Progress has not met targets. In June 2003, OGC developed an e-Procurement Assessment Tool (ePAT) to assess and calculate departments' progress. OGC's ePAT returns showed that only 32 per cent of high spending departments (those with procurement spend over £100 million) were assessed as having mature e-procurement programmes³¹.

e-tendering is the use of electronic technology to hold online tendering for large contracts within central government. In 2001-02, ten government departments ran a £300,000 pilot project using the services of Royal Bank of Scotland and Trustmarque whereby invitations to tender were issued electronically. The lessons learned from the pilots were that e-tendering offers the potential to streamline the procurement process but issues of scalability of the model to the rest of government, the effectiveness of the technology available at the time, and department and supplier readiness to adopt would need to be resolved. However, as a result of the pilots a suppliers group meets regularly and a procurement user group meets three times a year as a forum for discussion and networking.

"e-auctions" or "reverse auction" are web-based online events that enable efficient and transparent bidding between pre-qualified suppliers competing either on lowest price or most economically advantageous tender. Private sector organisations have benefited from e-auction technology since 2000 and many are using e-auctions as their preferred option in procurement. There are four main questions to be answered in order to assess the suitability of a purchase for an e-auction:

- Is the contract suitably attractive to the supply base to attract competition?
- Is the purchaser prepared to change supplier?
- Can the product/service be easily defined and unambiguously described?

e-auctions represent good practice in procurement as they are fully open and transparent, encouraging quality preparation and providing immediate feedback for unsuccessful bidders. The first e-auction pilots were run at the Environment Agency and the Police IT organisation and achieved savings of around 25 per cent on the previous prices paid.

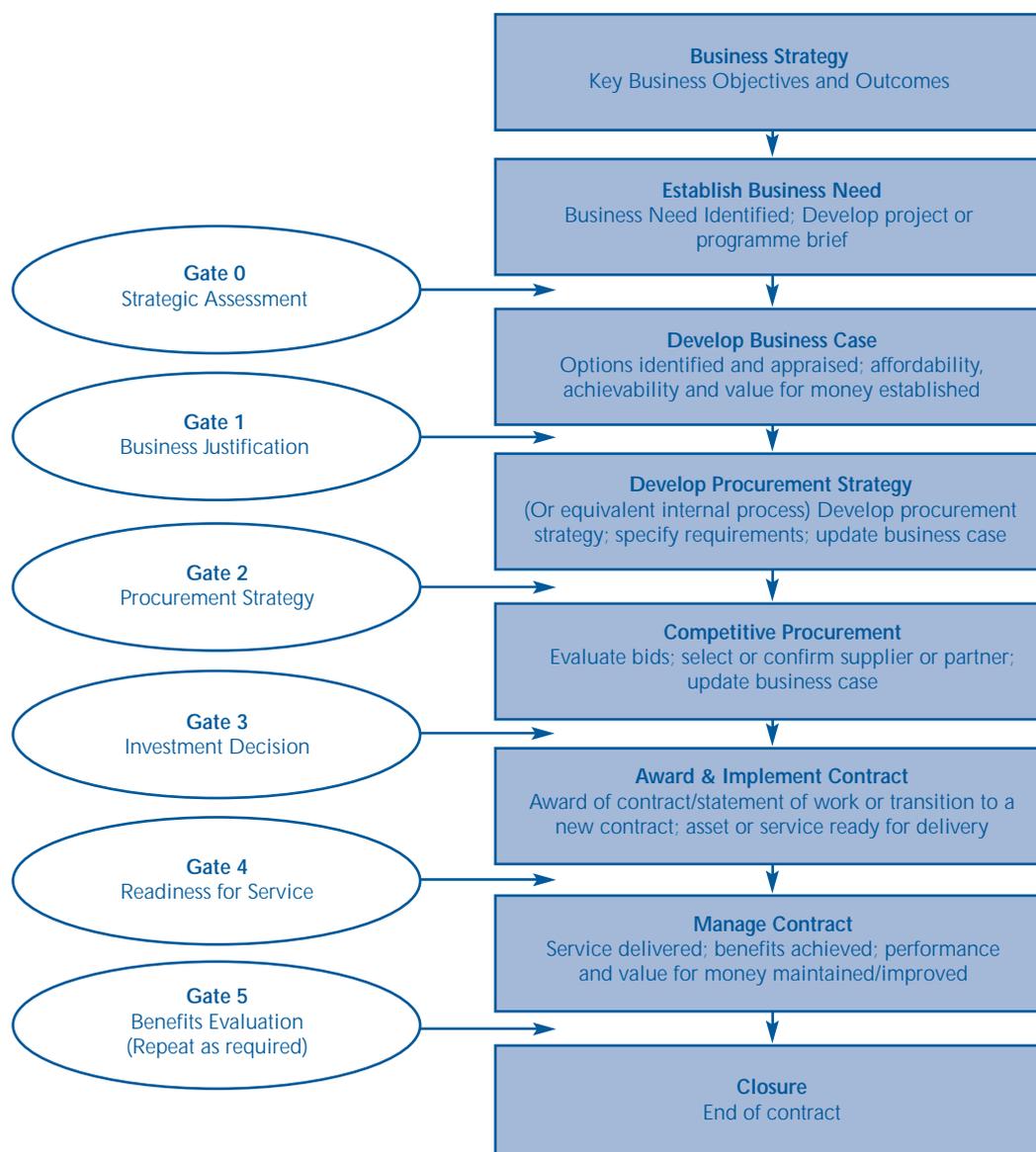
In December 2003, a joint OGC/OGCbuying.solutions initiative was launched which delivered a framework of "best of breed" e-auctions services and is being widely used in the public sector, helping to deliver £1.3m value for money improvements so far.

Source: Office of Government Commerce

³⁰ Office of Government Commerce (2002) *eProcurement: Cutting through the Hype*.

³¹ Defined as "being ready for and having experience of implementing e-procurement tools".

28 The Gateway™ Process



Source: Office of Government Commerce

2.20 Since June 2002, 415 reviews have been carried out on 301 central civil government projects/programmes covering in excess of £27 billion of procurement using the red-amber-green system (Figure 29). Thirty-nine projects have now had multiple red-amber-green reviews, of which 41 per cent have improved their rating, 38 per cent have remained the same, and 21 per cent have deteriorated - a net improvement of 20 per cent. An OGC pilot value for money assessment completed in April 2003 indicated that the OGC Gateway Review process had contributed a 5 per cent value for money gain³² through potential whole life costs avoided by application of key recommendations from the OGC Gateway Review process.

(v) Procurement staff should have the appropriate professional skills

Procurement requires a mix of skills ranging from understanding pricing strategies, interpreting market intelligence, and an ability to negotiate terms and conditions, to competencies in electronic procurement, risk and contract management.

32 Source: Office of Government Commerce.

29 Gateway™: Red, amber, green system for assessing projects

In June 2002, a new red, amber, green system was introduced to assess projects at critical stages to provide assurance that they are ready to move onto the next stage in their lifecycle: red: urgent action is required to achieve success in the project; amber: the project should proceed, with actions on recommendations to be carried out before the next OGC review; and green: the project is on target to succeed but may benefit from taking up OGC recommendations.

2.21 Procurement staff in departments need to develop and apply a range of skills and competencies in order to be able to deliver value for money in the procurement of goods and services (Figure 30). In general such skills are in short supply and it takes time for staff to build up skills that they may not have. OGC seeks to help departments develop procurement skills in two ways; (i) by promoting professionalism, for example through the Government Procurement Service, and (ii) by issuing tools and guidance aimed at raising the skills of procurement staff.

Promoting professional procurement skills and the Government Procurement Service

2.22 OGC is responsible for managing the Government Procurement Service, which was created on 1 April 1999, when all staff occupying the 1,500 key procurement posts³³ identified by heads of procurement in central government departments and agencies were brought together with the aim of creating a professional discipline through a set of competencies, training and skills development, and a career path.

2.23 We asked in our survey about the numbers and qualifications of staff engaged in procurement (Figure 31). Most procurements are carried out not by designated procurement staff, but by budget holders and others with delegated authority to purchase.

2.24 OGC encourages departments to train their procurement staff to Chartered Institute of Purchasing and Supply standards, but the majority of designated procurement staff are unqualified. However, with staff working towards qualification, the skill base will increase as more staff become qualified (Figure 31). A much greater percentage of departmental and non-departmental public body staff are trained compared with agencies, indicating that messages about the importance of training have yet to be fully taken on board by agencies.

30 Skills and competencies required by procurement staff

Management and personal skills - staff need the ability to:

- Develop relationships with customers and other professional groups in departments;
- Apply and encourage others to apply best practice; and
- Negotiate with customers and suppliers.

Technical skills - staff need the ability to:

- Apply public procurement principles and legal requirements for example UK and European law;
- Prepare tender and contract documents;
- Secure best performance from contractors for example through contractual incentives;
- Understand how prices are arrived at, estimate cost, and the ability to identify and manage risk; and
- Understand markets.

Source: National Audit Office examination

2.25 OGC has been keen to encourage procurement staff to join the Government Procurement Service, but only a minority of procurement staff do so, and take-up of membership is higher in departments than in agencies and non-departmental public bodies. However, those departments that have produced the largest value for money gains (paragraph 1.11 and Figure 12) are more likely than other departments to encourage their procurement staff to join the Government Procurement Service. While overall, 38 per cent of departments encourage some or all grades of procurement staff to join the Government Procurement Service, 78 per cent of those producing the highest value for money savings do so, and 88 per cent of those that reported value for money gains of five per cent or more of their procurement expenditure do so (paragraph 1.11 and Figures 12 and 13).

2.26 Our departmental focus groups considered that procurement staff needed a body to provide a forum on standards, general improvement of procurement skills, access to professionals outside the civil service, a way of sharing and developing best practice, and access to toolkits, but they were not convinced that the Government Procurement Service in its present form met their needs. Its relevance was unclear particularly to agencies and non-departmental public bodies.

³³ A key designated procurement post is one where a jobholder spends 50% or more of his or her time carrying out procurement responsibilities, for example managing and leading a procurement team or contract management team, or working within a strategy/policy team to develop and promote strategy/policy in consultation with others. A designated procurement post is one where the jobholder, as 50 per cent or more of his or her responsibilities, manages the procurement process leading to the negotiation and award of non-strategic contracts with external organisations; and/or manages non-strategic contracts with external organisations delivering goods and services; or supports those providing the expertise, support, advice and guidance on procurement policy, including contract management. Figure 31 includes both categories of designated staff.

31 Procurement staff

Most procurement is carried out by budget holders

n=86

Average ratio of staff with delegated authority to designated staff	Departments	Agencies	Non-departmental public bodies	All
Ratio	5:1	2:1	5:1	4:1

Professionally recognised skills are increasing but most designated staff lack professional procurement qualifications

n=86

% of designated staff	Departments %	Agencies %	Non-departmental public bodies %	All %
With CIPS or other procurement qualification	33	8	44	23
Working towards CIPS or other procurement qualification	13	8	19	11
Total	46	16	63	34

Membership of the Government Procurement Service (GPS) covers a minority of designated procurement staff

n=86

Membership of GPS among designated procurement staff	Departments %	Agencies %	Non-departmental public bodies %	All %
2001-02	22	6	4	12
2002-03	25	10	4	16

Source: National Audit Office survey

Tools and guidance aimed at raising the skills of procurement staff

2.27 OGC has developed a wide range of tools and guidance to help departments (Figure 32). These are issued through OGC's website, on CD-ROM sent to departments or through training courses. Our survey indicates that OGC's Best Practice Guides, which set out best practice across the range of procurement activity, were the most widely used (Figure 33) and most highly rated by departments in terms of usefulness, with 83 per cent of departments (97 per cent of those who had used them) finding them useful or very useful.

2.28 In our survey, the least helpful tools and guidance were "the 90 per cent measurement tool" (half of those that had used it did not find it useful), the e-pilots project (36 per cent of those that had used it did not find it useful), and the Supply Intelligence Service (23 per cent of those that had used it did not find it useful). This suggests there is scope for sharpening the usefulness of these sources of guidance and tools aimed at assisting departments

develop their procurement practice. There is scope for more take-up of other OGC tools, such as the Successful Delivery Toolkit (used by 45 per cent), the e-pilots project (used by 45 per cent), and the Supply Intelligence Service (used by 30 per cent).

(vi) Procurement performance should be measured and regularly reviewed

To assess procurement performance departments require reliable information on the quality of the goods and services purchased and whole life costs of procurement covering all costs associated with the acquisition of goods and services and doing business with suppliers, the costs of maintenance and operation over the whole life of the asset or service, ending with the conclusion of a service contract or ultimate disposal of an asset. Departments that do not monitor and measure their procurement performance with reliable up to date information on these elements will not obtain best value from the market.

32 Examples of OGC guidance and briefing that offer practical help to departments

Successful Delivery Toolkit	An electronic repository of OGC policy, best practice advice and guidance published on OGC's website and sent to departments on CD-ROM. Sections of the toolkit are updated on a rolling basis. The target audience for the toolkit is those responsible for corporate standards in departments, such as Centres of Excellence, and OGC consultants.
Best Practice Guides	Two page briefs, which form part of the Toolkit, setting out key issues for senior management in departments, commissioned by the OGC Supervisory Board taking account of significant developments, for example issues arising from National Audit Office reports and hearings by the Committee of Public Accounts. Nine guides have been published and are available on OGC's website covering: <ul style="list-style-type: none"> ■ Why IT projects fail; ■ How major service contracts can go wrong; ■ Managing partnering relationships; ■ Risk allocation; ■ Achieving value for money in complex procurements; ■ Forming relationships in a complex world; ■ Ensuring grant aided bodies deliver value for money on procurement; ■ Faster procurement; and ■ Gateway to success.
Successful Delivery Pocketbook	Covering a summary of OGC guidance and advice.
Successful Delivery Skills Programme	The programme aims to foster the skills of staff responsible for procurement project delivery through: <ul style="list-style-type: none"> ■ A skills framework that sets out the essential skills needed for effective project delivery; and ■ A maturity matrix enabling staff to benchmark their skills against what is needed for key roles on projects.
Supply Intelligence Service	A team of analysts who monitor suppliers and markets, gathering information from a wide range of sources, including press reports, commercial databases, direct supplier contact and data on suppliers' business with government. They can provide financial and commercial information to departments on specific suppliers and markets, with the goal of increasing competition and helping departments manage suppliers strategically.
SPRITE	Established in January 2001, the Successful Projects in an IT Environment Programme has an overall aim of improving the management, success and benefits of government IT-enabled business change. Through SPRITE "The Implementers Network" has been set up, a group of representatives from across government who meet regularly to discuss IT-enabled business change. The SPRITE programme was completed in April 2003. Further work is subsumed in OGC's Centres of Excellence programme. SPRITE included development of the Capability Assessment Tool, an electronic tool that enables departments to self-assess, plan and improve their capability to deliver IT-enabled projects.
Capability Maturity Assessment	Provides high level, informal self-assessment of capability to deliver projects and programmes. Can be used by senior management or other interested parties within departments, agencies and non-departmental public bodies.

Source: National Audit Office examination

2.29 The targets to deliver value for money improvements have focused departments' attention on the cost-effectiveness of their procurement. Over half of departments surveyed (60 per cent) had reviewed their procurement function, processes or strategy.

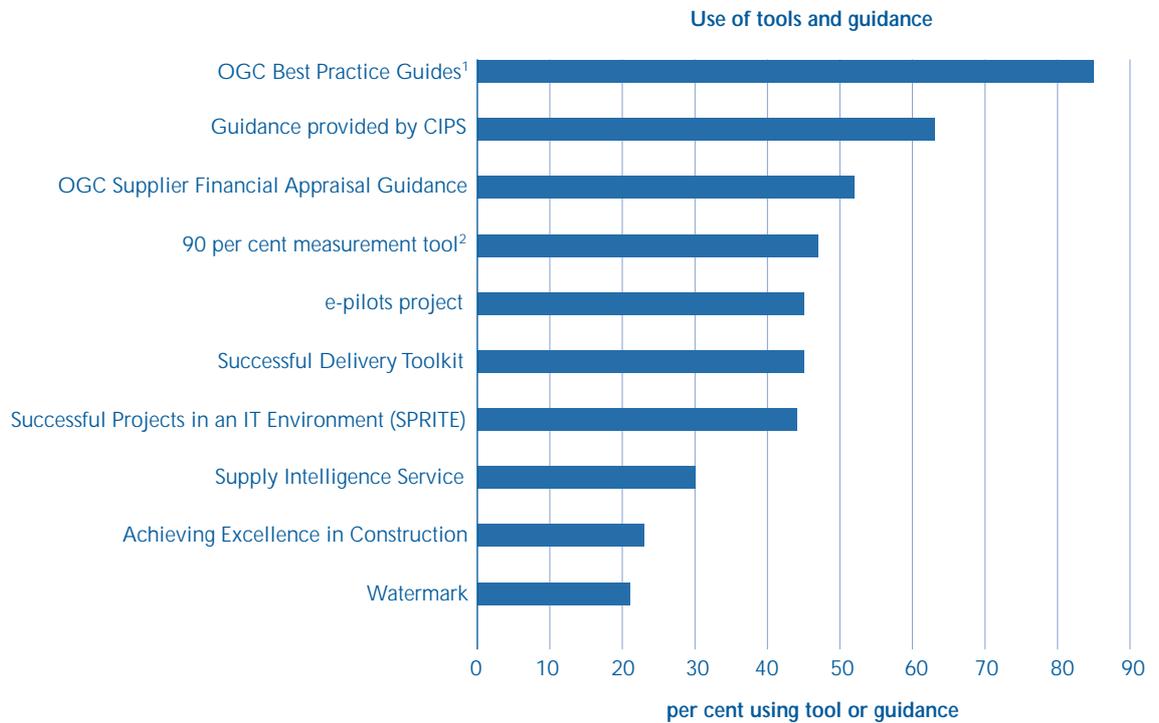
2.30 Departments need information about what they spend, who they spend it with and what goods and services are bought across the range of the department's activities so that they can review whether they are gaining the keenest prices and whether there are opportunities to get a better deal by grouping together requirements either internally ("bundling") or with other departments through collaborative opportunities such as framework

agreements. Departments also need to understand what the future demand is for goods and services. Departments need data on prices and transaction costs in order to make decisions about the cost-effectiveness of the goods and services they procure. Price alone is not indicative of best value, in that transaction costs add considerably to the real cost of procurement, but if departments are unaware of market prices, they are unlikely to secure the most competitive deals. Compared with departments, where 78 per cent had mechanisms to compare the prices they paid with market prices, just 44 per cent of agencies had the means to compare prices (Figure 34).

33 Take-up of OGC tools and guidance

OGC Best Practice Guides were widely used

n=86



NOTES

- 1 OGC Best Practice Guides are also found in the Successful Delivery Toolkit.
- 2 90 per cent measurement tool discontinued at the end of March 2003.

Source: National Audit Office survey

2.31 Half of all departments, agencies and non-departmental bodies (48 per cent) estimate transaction costs of low-value high-volume purchasing. This was nearly three quarters of departments but only a third of agencies and non-departmental public bodies. Less than a quarter (23 per cent) of respondents estimate transaction costs for major items. Nearly half of agencies (46 per cent) and 40 per cent of non-departmental public bodies did not indicate that they measured any transactions costs (Figure 35).

2.32 The lack of focus on collecting and using management information about the size of departments' procurement spend and the costs of that spend³⁴ were seen by departmental focus group participants as symptomatic of a failure to understand the commercial contribution that procurement can make.

³⁴ Three quarters of departments surveyed require a business case for a defined level of procurement spend (on average for purchases over about £40,000). This normally covers just over half (52 per cent) of their procurement spend.

34 Departments are most likely to be in touch with market prices

		<i>n=86</i>
Have mechanisms to compare the prices they pay with market prices		%
Departments		78
Agencies		44
Non-departmental public bodies		67
All		60

Source: National Audit Office survey

35 Only half of departments estimate transaction costs for low value items

					<i>n=86</i>
Areas where departments estimate transaction costs	Departments %	Agencies %	Non-departmental public bodies %	All %	
Low value items	72	33	33	48	
Major items	31	15	27	23	
Other	6	8	7	7	
None stated	16	46	40	34	

Source: National Audit Office survey

Part 3

What more departments should do to improve their procurement

3.1 While there is growing understanding of the importance of good procurement practice there remains scope for it to be more widely applied. Our examination identified seven aspects that need particular attention. OGC is already addressing many of these through its medium term strategy developed in 2003 and agreed with departments. This part explores each of these aspects and the action needed. The seven aspects are:

- Raising commercial awareness;
- Having better management information;
- More joint purchasing between departments;
- More proactive management of suppliers;
- Better management of the risk of dependency on too small a number of suppliers;
- More progress in developing procurement expertise; and
- Better targeting of value for money improvements.

3.2 As part of our assessment, we reviewed the procurement practice of the three private sector companies examined as part of our 1999 report³⁵. **Figure 36** provides examples of approaches they have adopted to improve their procurement.

Raising commercial awareness

Key findings from Part 2

- While just under 80 per cent of departments have a head of procurement, few (13 per cent) are board members. Most procurement posts are held by middle managers suggesting a lack of high level procurement expertise in major decision-making.
- Eighty-three per cent of departments have a procurement policy or strategy.

3.3 To tackle commercial awareness at senior levels in departments, OGC has developed, with the Cabinet Office, training targeted at senior civil servants. OGC jointly delivers two of the six modules on "commercial awareness" and "Investment Decision-making". OGC Executive Directors also have direct contact with board members in departments to assess whether key principles of good commercial arrangements have been understood and applied. In addition, the OGC Chief Executive has a Chief Executive's Advisory Group (CEAG) which meets quarterly and is made up of a wide representative base of departments, executive agencies and non-departmental public bodies undertaking the full range of civil government commercial activities. CEAG facilitates an exchange of information and views.

"When teams realise procurement needs to be carried out or they have a problem, then we are contacted, but often only then. It doesn't seem to be a part of planning for a project."

"Too often procurement is seen as being about the procurement process from raising a requisition to raising an order and there is a lack of understanding of the wider commercial contribution that procurement can make."

"Procurement is seen as a back office, financial thing that has little priority - it is quite difficult for us to make ourselves visible."

Source: Departmental focus groups

3.4 One way of promoting the importance of procurement expertise is for departments to have a commercial director who is a member of or who reports to its management board. Of the twenty departments which spent the most on procurement in 2002-03, only three had commercial directors, whose role explicitly covers, for example, all engagement with the private sector and procurement strategy³⁶.

³⁵ National Audit Office report: *Modernising Procurement (HC 808 1998-99)*.

³⁶ The three departments are the Department for Work and Pensions, the Prison Service and the United Kingdom Atomic Energy Authority.

36 Examples of approaches adopted in the private sector to improve procurement

TNT UK Ltd

TNT is a global business to business express delivery service which delivers documents, parcels and freight worldwide. In December 2002 TNT UK plc was divisionalised into two sister companies - TNT UK Limited (primarily Express parcel movement) and TNT Logistics UK Limited (dedicated logistics service tailored to customer requirements).



Procurement expenditure: Group Purchasing expenditure by TNT Express UK in 2003 was some £62 million.

Typical goods and services: The main goods and services procured by TNT Express are fuel, commercial vehicles and cars, vehicle hire, engineering spares, handling equipment, office consumables, utilities, print and stationery, business travel and computer equipment.

How procurement is organised: TNT UK Limited has a centralised purchasing department employing 20 people supplying 101 locations, serving some 9000 staff in the UK and Ireland. The centralised purchasing department incorporates lead buyers with empowerment for the processing of requirements at local and national level through nominated sources of supply. The Purchasing Manager reports to the Director of Administration/Company Secretary, a main Board member.

Suppliers: Typically, TNT UK Limited and the TNT Express division form strategic alliances with suppliers, and develop framework contracts as well as agreements with manufacturers which enable them to buy goods and services achieving the "lowest cost of supply". TNT maintains a global database of suppliers and monitors what is spent with them and dependency on them. It seeks to maintain a choice of suppliers where possible for business units whilst ensuring common standards across the range of goods and services purchased.

Initiatives to improve procurement

- **Management information hub:** To bring together purchasing information from across the company globally TNT have developed a Global Purchasing Centre, incorporating an information centre for major items, a central database of global suppliers and prices, and research on central purchasing. It enables constituent parts of TNT, including TNT Express, to benchmark prices paid and suppliers used, providing transparency on purchases made across international boundaries.
- **Global e-back office programme:** This programme will record all purchasing activity undertaken by TNT globally, from the requisition of goods and services through to final payment for them, including all spend with subcontractors and maverick spend. The programme will be rolled out in the UK in January 2005.
- **Working groups:** TNT brings together working groups comprised of purchasing representatives from business units, for example equipment, vehicles or IT. These groups meet quarterly, which enables expertise and good practice to be continuously developed and shared, so that procurement features at the earliest possible stage in decision-making. Feedback from these groups is used to review continuously TNT's procurement strategy.
- **Environmental sustainability:** In 2003 TNT's Environmental and Sustainability policy was approved and published by its Board. The policy is embedded and integrated in all purchasing decisions. TNT expects suppliers to comply with the statement and negotiates discounts for their own contractors, for example on vehicles, so that environmental standards are integrated into their supply chain.
- **Containing cost increases and driving up quality:** TNT negotiates preferential rates with its suppliers. Some of these preferential rates are offered to TNT subcontractors through an Alliance Scheme. This enables TNT to improve the quality and reliability of its services by establishing consistent standards of infrastructure through its supply chains.
- **Maximising purchasing power:** TNT Express uses group and divisional purchasing to increase its leverage with suppliers. It purchases jointly with its sister company TNT Logistics Ltd, in particular where it is seeking to establish consistent standards in generic goods, for example forklift trucks and other vehicles.
- **Standardisation:** To reduce its number of suppliers, contain costs and improve reliability, TNT seeks to identify opportunities for the standardisation of goods purchased, for example in the procurement of uniforms. The Purchasing Department is also one of the 'guardians' of the TNT Express brand, ensuring that all goods, from TNT packaging and stationery, to uniforms, are consistent in their use and presentation of the TNT brand (for example through correct use of corporate logos).

36 Examples of approaches adopted in the private sector to improve procurement *continued*

Nissan UK

Nissan is a global vehicle producer with sales of nearly 5 million cars and Light Goods Vehicles annually. Since 2000 Nissan has been part of the Nissan-Renault Group which is currently the fifth largest company in the automotive industry. Nissan Motor Manufacturing UK is based in Sunderland where it employs 74 purchasing staff.



Procurement expenditure: Globally, Nissan's procurement spend is over £52 billion. £3.1 billion of this total is spent by Nissan Europe whose purchasing function is located in Sunderland, Paris and Barcelona.

Typical goods and services: Nissan purchases a wide variety of goods and services with the largest expenditure on parts (two-thirds of Nissan Europe's expenditure), services, capital equipment, and after sales parts and accessories.

How procurement is organised: The Renault Nissan Purchasing Organisation (RNPO) undertakes 64 per cent of Nissan purchasing in Europe, with the remainder purchased globally from Japan or purchased locally. Local procurement covers parts, materials, services, and consumables including lower cost items such as stationary. Nissan's purchasing department in Sunderland specifies its requirements to the RNPO where applicable, based on criteria of quality, cost and delivery. A 'sourcing panel' sits in Japan and makes final purchasing decisions. The Senior Vice President, a member of Nissan's Executive Committee, sits on this panel.

Suppliers: Supplier Account Managers (SAMs) are responsible for purchasing strategy, evaluating and selecting suppliers, and the negotiation of prices. Contracts are let by Nissan nationally, often as umbrella agreements across national boundaries. These contracts do not specify set volumes but rather expected levels of business. Nissan looks to standardise its requirements to achieve cost savings and to limit the number of suppliers to reduce buyers' workload. Nissan in the UK currently has 240 parts suppliers and nearly 900 suppliers of services and support functions.

Initiatives to improve procurement

- **Staff training:** Nissan's procurement unit recruits annually to a graduate training scheme with a combination of on-the-job training, global business training and specific purchasing training over a period of 2-3 years. Trainees are mentored within the unit and follow a set career path to develop capability in a specialist area of purchasing. This investment in staff has led to high personnel retention, with turnover of staff around 3 per cent annually.
- **Supplier management:** Nissan maintains a global database of suppliers. Its suppliers are also subject to local monitoring and an annual review to gauge Nissan's dependency on them. (Some of its suppliers are dedicated to the Sunderland facility and based on site.) Suppliers are required to generate savings in support of Nissan's targets and make a written commitment to achieving them. Nissan looks to suppliers to identify areas where savings can be made in their own production processes. Nissan is now looking to apply these principles to non-production purchasing areas such as catering and security.
- **Benchmarking:** As part of its programme of cost reduction activity Nissan benchmarks prices paid for goods and services within Nissan divisions, with Renault partners, and with competitors. Cross-functional teams with members from purchasing, development, and cost analysis units are convened who use 'cost-gap analysis' to examine production processes and establish the reasons for price variance. In following up on cost reduction opportunities Nissan have, for example, reduced the cost of parts for the new model Micra by 25 per cent.
- **Targeting:** Internal purchasing targets have been set within Nissan to reduce costs. Targets set in 2000 requiring a 28 per cent cost reduction in Europe and a 50 per cent reduction in the number of suppliers within three years were achieved in 2002, and the current targets require a further 15 per cent purchase cost reduction by the end of 2004. These targets are broken down at a detailed level, often as a result of benchmarking information.
- **Harnessing innovation:** Nissan maintains an ongoing dialogue with suppliers to develop the quality and value for money of goods and services they purchase and uses market surveys and audit visits to potential new suppliers to research innovation in the marketplace. Nissan's Design and Development Group, as well as buyers and users have an input into any changes to the specification of product requirements.
- **e-procurement:** Nissan currently operate a paperless scheduling and invoicing system. They will be introducing in 2004 a global e-procurement system which will incorporate quotations, which has been adopted worldwide by suppliers. This system will allow buyers across the organisation to view the current price of products and the status of orders.

36 Examples of approaches adopted in the private sector to improve procurement *continued*

British Airports Authority

British Airports Authority (BAA) is a leading airport company whose airports are at the heart of the global travel network. BAA serves almost 200 million passengers worldwide, including 128 million through its seven UK airports, Heathrow, Gatwick, Stansted, Edinburgh, Glasgow, Aberdeen and Southampton.



BAA has 12 international airport contracts with either a share-holding and management or retail management role. Subsidiaries include travel retail specialist World Duty Free and BAA Lynton, airport property specialists. BAA invests over £2 million daily in the UK's airport infrastructure, and has also made substantial investment to provide better access between its airports, for example the £500 million Heathrow Express.

Procurement expenditure: BAA has an overall annual procurement spend of some £1.4 billion, including expenditure on the construction of terminal five at Heathrow.

Typical goods and services: Almost half (45 per cent) of BAA's £1.4bn expenditure is on construction, engineering, and maintenance services. Other substantial purchasing areas include baggage, business services, utilities and consultancy.

How procurement is organised: BAA's Supply Chain Group, employing around 100 staff, facilitates over 99 per cent of the total value of goods and services purchased. This is provided through the use of on-line catalogues and agreements as well as direct involvement in high value, strategic acquisitions. The remaining expenditure is made up of low value transactions facilitated by Purchasing Cards. There is no direct representation of procurement at board level.

Suppliers: Some 4,000 staff across BAA have the ability to specify and requisition goods, works or services, supported by a delegated financial authorisation structure.

Initiatives to improve procurement

- **Strategy review:** A comprehensive review of purchasing strategy was undertaken in 2000, commencing with a rationalisation of the number of suppliers and improvements to systems used to procure goods and services, including better management information. BAA is seeking to develop further its procurement capability and buying power in the marketplace through supplier development, collaboration with other buyers globally, and innovation (for example through use of e-auctions). The strategy review has led to substantial savings, with the savings target of £50m for 2002-03 being exceeded.
- **Supplier management:** Procurement staff with specialist expertise in product areas (who are supported by a Supplier Development team) manage relationships with 75 key strategic suppliers. Their work includes looking for new supplier opportunities, sounding out suppliers on new products prior to tender, and designing an 'Induct and Integrate' process for new suppliers. The Supply Chain Group compiles a monthly 'Dashboard' document containing management information on the 75 key suppliers (such as spend with suppliers and the prices paid), and also provides an update of internal performance against corporate objectives and savings targets.
- **Risk management:** A small compliance management team supports BAA's procurement function. It produces a supply chain risk register profiling each area of supply. Risks to the company vary greatly between product groups, for example there is a greater risk presented by ineffective procurement of security equipment than cleaning materials.
- **e-procurement:** The Supply Chain Group is responsible for facilitating the buying requirements of the business through the most appropriate routing. This includes the provision of 450 catalogues and agreements (catering for over 70 per cent of the volume of all procurements) as well as getting directly involved in high value, one-off acquisitions (representing over 70 per cent of the value of all procurements). Currently 80 per cent of orders and 20 per cent of invoices (some 30,000) are transmitted electronically, and further increases are expected. In addition, significant cost savings have resulted from the use of e-auctions in areas such as temporary accommodation and retail space with other opportunities being investigated.
- **Sustainability:** BAA aims to integrate sustainability into all business processes. Materials policy requires that the environmental impact of the use of materials such as HFC refrigerants and timber is minimised by looking for alternatives in supply chain acquisitions and evaluating potential suppliers against their ability to meet environmental standards.

3.5 The experience of suppliers in our focus groups was that procurement staff often had too little direct contact with those in departments for whom they were undertaking the procurement. This meant that they had limited understanding of what the goods and services were needed for. As a result it was often difficult for suppliers to discuss with end users the scope for innovation or flexibility in the way goods and services were delivered. There are a number of ways by which departments' commercial awareness and understanding of procurement might be improved:

- Having board level representation of the procurement function and regular discussion at board level of how procurement decisions feature in delivery of major projects and programmes;
- Having a suitably qualified senior official in place with a remit across the whole of the organisation's commercial activities so that commercial thinking can be applied across the whole portfolio of the department's resourcing of activities involving purchasing;
- Developing a strategy for procurement which identifies links between procurement and other departmental-wide objectives and strategies, for example, roll out of a major programme, review of a policy, or relocation. This strategy should also set out how the organisation seeks to do business with potential and active suppliers; and,
- Assessing whether the mechanisms for developing and implementing programmes involve procurement staff at a sufficiently early stage.

3.6 The Department for Work and Pensions is a good example of an organisation using a commercial strategy to promote the importance of procurement and the application of good practice, and to target value for money improvements (Figure 37).

Having better management information

Key findings from Part 2

- One third of departments make no estimates of transaction costs. Only half estimate transaction costs for low value items, and less than a quarter estimate transaction costs for major items.
- Just half of departments (51 per cent) maintain a database of suppliers.

37 Good practice in the Department for Work and Pensions: Having a well developed commercial strategy

Procurement is the responsibility of the Commercial Director, who is head of the Department's Commercial and Estates Directorate. The Commercial Director reports to a member of the Department's Management Board and has regular briefing sessions with the Department's Permanent Secretary. The commercial strategy sets out corporate objectives for procurement and links these directly with the business outcomes that the Department is seeking to achieve. Key elements of the strategy are: the need to achieve the best deal in terms of cost, quality and service; demonstrating continuous improvement in customer service and performance by placing customer requirements first; developing staff; minimising complexity and cost of procurement processes; and the need to develop supplier relationships through a commitment to improving performance. A key part of the strategy is its "make or buy" approach to determine whether goods and services should be provided in-house or out-sourced.

Benefits:

The procurement strategy has established centres of expertise to target value for money improvements by determining the best buying arrangements. For example, the Department has decided to outsource its records storage, and is reviewing the integration of estates services, office service requirements, and the letting of new print and distribution arrangements.

The strategy has encouraged the collection of better information about suppliers used across the Department, enabling a more consistent, corporate approach to be taken to suppliers. For example, the Department's assessment of dependency on particular suppliers has informed the development of continuity plans and contingency plans in case of supplier failure. Endorsement of the strategy by the Department's business managers and its links to Departmental aims and objectives have brought greater clarity to the approach the Department should take to its commercial activities and have made the role of procurement more visible across its many constituent parts.

3.7 To ensure that they deliver value for money, departments require reliable information on whole life costs of procurement covering all costs associated with the acquisition of goods and services and doing business with suppliers, as well as the costs of maintenance and operation over the whole life of the asset or service ending with the conclusion of the service contract or ultimate disposal of the asset. This will include purchase prices - the cost initially paid for the goods and services, and transaction costs - the cost of administering and managing the procurement process.

3.8 Departments also need reliable data about how much they spend with each supplier and by type of buying arrangement such as framework agreements or procurement cards. This is important to avoid "maverick spending" where staff use unauthorised buying arrangements or suppliers who are not approved, increasing the risk of poor value for money and possibly

impropriety. OGC has already encouraged sharing of data and collaborative working to deliver a number of deals available to central civil government, and in some cases the wider public sector. Information is made available through a bespoke website and central civil government are working together through the Collaborative Opportunities Advisory Group (COAG).

"We know who we do business with, but often not what we buy from them."

"We rarely look beyond primary contractor - not enough resource."

Source: Departmental focus groups

3.9 Departments would be in a better position to negotiate with suppliers on the basis of recent information if there were more sharing of purchasing data between departments, in particular about deals achieved and prices paid for commodities. This would also allow price benchmarking against purchasers in the wider public sector, providing evidence as to whether suppliers were targeting parts of the public sector with different prices. The ability to compare procurement expenditure between departments and benchmark prices is made more difficult because there are some 250 accounting systems across central government. Our departmental focus groups also considered that smaller departments often lacked the resources to compile basic procurement information, such as how much is spent with individual suppliers.

3.10 Basic information should cover:

- How much is spent, with which suppliers, through which buying arrangements and by type of goods and services;

38 Good practice: How reliable management information can help improve procurement performance

Reliable management information used strategically is an important tool that can identify inappropriate buying arrangements that are unlikely to secure value for money. While procurement management information is used primarily for control of particular functions and activities, some departments are introducing systems that will better enable them to collect, analyse and use such data. For example, the **Department for Constitutional Affairs** has developed and implemented an electronic reconciliation process for the Government Procurement Card which automatically checks purchases made using the card to requisitions and orders appearing on the Department's financial records. The process was developed primarily to reduce the costs of manual reconciliation, and formed part of the Department's Resource Accounting solution. The Department uses the management information generated by the card to ensure that contractual arrangements deliver best value for money, that its buying power is fully utilised, and to manage and monitor instances of maverick buying.

- Cost of a department's procurement management function and the transaction costs of specific procurements;
- Estimates of maverick spend which fall outside authorised buying arrangements; and,
- Value for money gains and how they have been achieved.

More joint purchasing between departments

Key findings from Part 2

- Collaborative purchasing arrangements, such as Government Procurement Cards, GCat, S-Cat and other framework agreements, are used regularly in only half of departments and account for only a small percentage of expenditure.
- Departments considered that the key benefits of collaborative procurement arrangements are faster procurement and reduced staff and administration costs.

3.11 As well as providing opportunities for departments to work together to realise the benefits of their buying power, call-off agreements allow departments to develop partnerships with suppliers. Greater certainty of business, which partnerships help provide, should assist suppliers in developing their knowledge of departments' requirements and help to deliver continuous improvement in the quality and value of services provided. OGC has made considerable progress in broadening the scope of its framework agreements and other collective arrangements negotiated by its trading arm, OGCBuying.solutions (**Figure 39**).

3.12 There remains, however, scope for further value for money gains through better uptake of collaborative buying arrangements. Data for use of S-Cat and GCat show that, although the number of active and registered users has increased since the frameworks were established, the proportion of active users to total registered users has remained unchanged - at around 50 per cent (**Figure 40**). In 2002-03, half of the registered users of S-Cat did not use the arrangement; the equivalent figure for GCat was a third. Those who did procure through S-Cat made average savings of just over 13.5 per cent of total costs, whilst those who bought through GCat made average savings of around 10.5 per cent.

39 Some examples where OGC has expanded framework agreements and led deals with major suppliers

March 2002	<p>Announcement of a deal secured by OGC aggregating together the software needs of all the public sector (including central government departments, devolved administrations and local government), with three major suppliers of IT software, Microsoft, IBM/Lotus and Sun Microsystems for desktop applications affecting nearly two million desktop computers.</p> <p>Benefits: public sector avoids increases in Microsoft licensing fees and expected savings estimated at £100 million.</p>
September 2002	<p>OGC introduced a new 3-year framework agreement with Vodafone, Orange and PageOne.</p> <p>Benefits: allows government departments and public sector organisations to obtain mobile phones, pagers and related products at advantageous prices, without having to tender individually each time.</p>
January 2003	<p>OGC announced the signing of a new contract for the Government Procurement Card between OGC and Visa.</p> <p>Benefits: expected savings of over £200 million in central civil government over five years, with the potential for further savings for the wider public sector (including all UK local authorities and devolved administrations).</p>
February 2003	<p>OGC announced a strategic partnership agreement with Oracle Corporation, a major IT supplier to the UK public sector. The deal guarantees best prices and terms on Oracle technology (database) products to the UK public sector and provides pricing parity with the United States Government General Services Administration Schedule (a list of approved manufacturers and service providers supplying the US Government). The arrangement is based on a three year Memorandum of Understanding from February 2003 to March 2006.</p> <p>Benefits: expected 11 per cent average reduction in the cost of technology products directly and indirectly purchased from Oracle.</p>
March 2003	<p>In response to a National Audit Office Report Purchasing Professional Services³⁷, L-Cat is launched by OGC, the Department for Education and Skills (DfES) and the Treasury Solicitors Department. L-Cat covers a new series of framework agreements for the provision of legal services to government. Framework agreements were awarded to 33 law firms across seven categories of legal work covering: IT, Telecommunications and e-Commerce; Property and Estates; Human Resources; Construction; Company and Corporate Matters; Financial and Banking Matters; and General and Commercial Matters.</p> <p>Benefits: aims to improve value for money through process-cost savings and fee-rate reductions</p>
June 2003	<p>S-Cat revised, covering framework agreements for consultancy and business services. Framework agreements were awarded to 170 firms across five categories of work: IT Consultancy, Services and Related Products including Geographic Information Systems; Financial Services; Management and Business Consultancy; Human Resources Services; and Business Information and Research.</p> <p>Benefits: expected savings estimated at £30-35 million during 2003-04, with further potential savings in future years as more departments take advantage of S-Cat.</p>

Source: National Audit Office, Office of Government Commerce

"Frameworks are, overall, very useful, but they do need to be used judiciously. They are not always fitted to exact need and can distort the procurement process. In some cases, better value can be achieved by going to some suppliers, particularly small and medium enterprises, outside the arrangements. Once suppliers are approved, it can be difficult to negotiate on price and to link to new practices and innovative service provision. This is particularly important with regard to consultancy."

Source: Departmental focus groups

3.13 Departments consider, however, that framework agreements could be made easier to use. A potential drawback is that agreements tend to attract larger suppliers and some departments have found that this limited the scope for better value for money. For example, although the prices quoted in catalogues such as S-Cat are the maximum, departments have found it difficult to negotiate lower prices for smaller procurements³⁸.

3.14 OGCbuying.solutions framework agreements, such as GCat and S-Cat, are designed to be flexible and do allow customers to change suppliers, renew existing arrangements or opt out altogether if they wish. Suppliers recognised the benefits of these and other framework agreements, such as reduced administration costs and faster procurement. Some suppliers have a perception, however, that frameworks lack opt-out and renewal clauses, which can lead to both suppliers and departments being locked into poorly performing, inflexible framework agreements. Conversely, failure to win a framework agreement could lead to suppliers being "locked out" of the public sector market for up to five years³⁹ and some suppliers commented that they did not know how to find out about framework agreements due for renewal. This was an issue for small and medium-sized enterprises in particular, who commented that framework agreements may preclude departments from "testing out" new suppliers on low-value contracts.

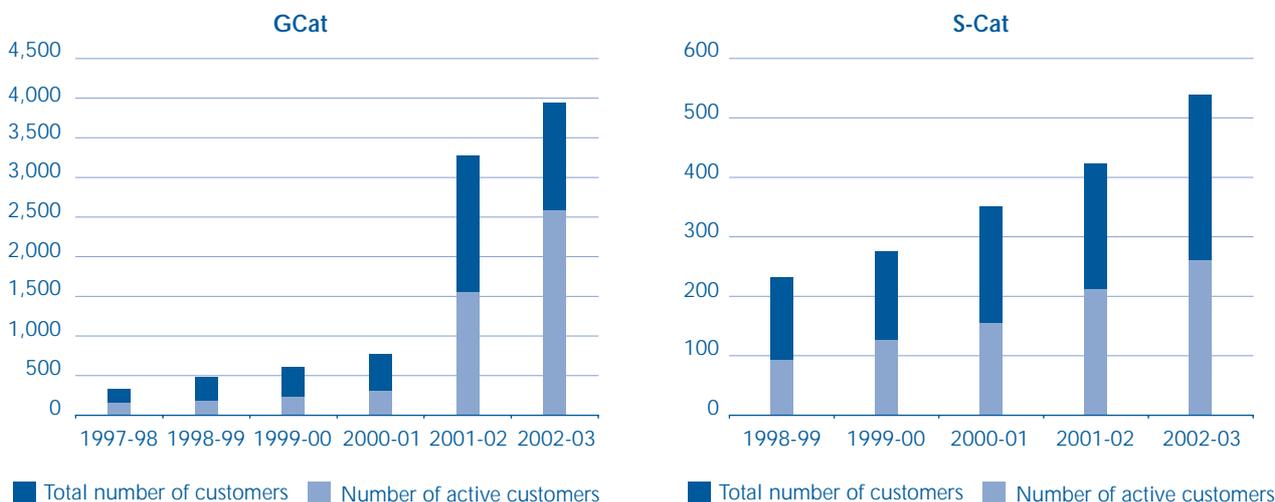
³⁷ National Audit Office report: Purchasing Professional Services (HC 400, 2000-01).

³⁸ In response to customer feedback, with the recompetition of S-Cat in 2003 consultancy rates are now expressed in a range minimum, typical and maximum.

³⁹ Most current frameworks run for three to five years. Under the new EU public sector procurement directive such agreements will be limited to four years, unless there are exceptional circumstances.

40 Registered and active users of GCat and S-Cat

Two thirds of GCat registered users actively buy goods and services through GCat, and half of S-Cat registered users actively use S-Cat. This may be because they have made alternative procurement arrangements that deliver similar value, but if not we calculate that if only half of those registered but not using S-Cat had done so in 2002-03, a further £18 million value for money gains could have been realised. Likewise, our calculations indicate that if a similar proportion of those central government users who do not use GCat but are registered to do so had purchased through the agreement, a further £5 million value for money gains could have been realised.



Source: National Audit Office, OGCBuying.solutions

"Umpteen times I have OJEC coming up and we go back to the people whose names are up the top ... and say why are you doing this? You could procure this through the catalogues and they say, "What catalogues?" Procurement people don't seem to understand that the catalogues exist and get this [the tender process] done much faster."

Source: MORI supplier focus groups

- Looking for further opportunities for departments or agencies which are co-located to negotiate local agreements; and
- Having information on all the frameworks which are applicable across government available in one place to make them more accessible; for example through a single website, with details of what can be purchased through the arrangements.

41 Good practice: An example of joint procurement

The Vehicle & Operator Services Agency is a member of the Office of the Deputy Prime Minister-Department for Transport Local Procurement Forum with the Planning Inspectorate and the Fire Services College, based respectively in Bristol and Moreton-in-the-Marsh. Quarterly liaison meetings provide procurement staff with a forum for exchanging information about framework agreements that may be of mutual benefit; for example contracts for temporary staff and for maps. The forum has raised awareness of common issues such as government e-procurement targets and the Government Procurement Card and has enabled VOSA procurement staff to discuss issues facing departments of similar size based in the local area which may be inappropriate for discussion at larger procurement forums organised by the Department for Transport covering strategic procurement issues.

3.15 Our findings suggest that wider use of collaborative opportunities and frameworks could be encouraged by:

- Greater promotion by OGC to encourage the use of its framework agreements and to assess barriers to further uptake;

More proactive management of suppliers

Key findings from Part 2

- Supplier management can be a considerable responsibility - two thirds of departments have over 250 suppliers.
- Departments often lack basic information about their suppliers. Twenty-two per cent do not have information about how much is spent with individual suppliers and 74 per cent do not have information about the percentage that their department's spend forms of individual suppliers' turnover.
- Seventeen per cent of departments ask for information about their suppliers' supply chains as part of their supplier selection criteria.
- Although three quarters (77 per cent) of departments provide feedback for unsuccessful tenderers on request, 40 per cent provide debriefing automatically.

3.16 Our survey of departments and consultation with suppliers indicate that the relationship between the two might be enhanced in a number of ways to mutual advantage. Departments can be suspicious of suppliers, particularly as to whether their prices are reasonable, whether they might seek to unduly exploit market advantages and whether, for more complex procurements, they can be relied on to deliver to time, cost and quality requirements. This suspicion or nervousness often arises from a lack of sufficient commercial expertise but it can manifest itself in a risk averse approach as a defence against anything going wrong. This can result in missed opportunities to identify ways of getting better value for money or innovation from closer engagement with suppliers. With well developed commercial expertise, departments should have the confidence to work more closely with suppliers while still ensuring standards of propriety and fair competition.

"A lot of staff are frightened of procurement, especially the legal aspects. They want to be sure they are doing things the right way."

Source: Departmental focus groups

3.17 Suppliers see considerable differences in the way procurement is carried out in the public compared to the private sector (Figure 42). In addition, suppliers had contrasting experiences of the feedback they received from departments following the award of a contract (Figure 43).

3.18 There is scope, therefore, for the supplier relationship to be improved by departments adopting more proactive management drawing on enhanced procurement capabilities. Our survey found that although for some departments supplier management was part of a wider

43 Suppliers' comments about the feedback they receive from departments

"The quality of feedback varies miserably."

"Feedback is non-existent. You can ring and they'll just say you've lost it on price."

"It can even go quiet on you. You might just then get a letter coming through saying thank you, you were unsuccessful, or converse you're successful, with nothing in between for maybe a couple of months."

"They held a full debrief meeting with the full panel. We went through our response part by part and based on that we've made improvements within our company. For example, they underlined for us, if you want to work for Government, you must have ISO, this is really fundamental. ...We got it and we're reaping the benefits, and that was down to the debrief."

Source: MORI focus groups of suppliers

regularly reviewed procurement strategy, assurance about the reliability and resilience of key suppliers' chain of subcontractors was less common. Departments also tended to be much less clear with suppliers about the standards of performance which they expected.

3.19 Suppliers identified the need in departments for:

- A close relationship between three groups - procurement staff, final user and supplier - at the outset of the procurement process;
- Greater clarity of the roles of procurement staff and end user and who suppliers should be dealing with;
- More consistency in the tender process and invitations to tender across departments in terms of access to staff and provision of information to enable the tendering process to be speeded up and encourage companies to bid for work;

42 Suppliers notice considerable differences in the way procurement is carried out in the public and private sectors

	Private Sector	Public Sector
Process	Suppliers sit down with end-users to discuss potential needs and details of tenders Number of people involved is limited and stable	Procurement staff lead the procurement process and potential suppliers lack information and insight from end-users, so cannot access information they require to submit a "best fit" tender Too many staff can be involved, causing a drawn out and inefficient process
Pre tender	Pre tender negotiation and input can be actively encouraged, helping formulate a final and more flexible tender document	Suppliers are rarely consulted pre-tender and Invitations to Tender are prescriptive and rigid as a result
Tender process	Open to innovative tenders and keen to hear about innovative ideas for providing the service Single/fewer points of contact make for a more efficient tender process	Innovation constrained by departmental bureaucracy. Lack of interest in innovative tenders works against small and medium sized enterprises Access to staff and reaching the right person is difficult; internal communications are bureaucratic; too many people involved in the process
Bidding criteria	Companies compete on what they are good at, how they do things, their corporate direction and examples of their work	Companies compete on the basis of their size and turnover; experience, specifically of central government clients; willingness to accept transfer of risk; and price

Source: MORI focus groups of suppliers

- Fewer people to be involved in the procurement process and single contact points for each invitation to tender;
- Examination of the scope for one definitive source of all invitations to tender issued to be brought together in one place, for example through a single website; and
- Redressing the negative understanding that contracts are awarded on price by stipulating more clearly the weighting of criteria against which procurement decisions are made.

3.20 OGC has responded to some of these concerns. It has developed with departments and industry a Government Procurement Code of Good Practice. It encourages public sector organisations and suppliers to uphold the four values of the code: fairness, honesty and openness, efficiency and effectiveness, and professionalism. The Government Procurement Code of Good Practice gives suppliers directly, or anonymously through trade associations, a means to raise issues of non-compliance with the code. There have been very few instances of suppliers or trade associations taking this action. OGC also seeks feedback from industry representatives such as the Confederation of British Industry, the Construction Industry Council and Intellect (an association representing information technology related businesses). It is, however, currently establishing contact with appropriate trade associations/bodies in other key market sectors with a view to assessing the performance being achieved across all industry sectors doing business with departments. Launched in December 2003 by OGC and Intellect, the Concept Viability service offered by Intellect will enable public sector organisations to use industry as a "sounding board". This will help them to effectively assess the potential technological risks associated with specific public sector IT projects, before progressing from concept to delivery. Such arrangements will place OGC in a better position to assess the attractiveness of the Government marketplace and the effectiveness with which government departments are harnessing opportunities in different sectors. As part of the 2003 Pre-Budget Report OGC published a report, *Increasing Competition and Improving Long-Term Capacity Planning in the Government Market Place*, and an associated action plan which identifies measures to improve the way the public sector engages with potential suppliers. The OGC/Cabinet Office report on *Reducing Red Tape* also identifies measures to improve the way the public sector engages with potential suppliers. With well developed commercial expertise, departments should have the confidence to work more closely with suppliers while still ensuring standards of propriety and fair competition.

44 Good practice: Examples of proactively managing suppliers

Department for Work and Pensions

The Department for Work and Pensions (DWP) has developed a strategy for communicating and improving working relationships with its core suppliers group. The Commercial and Estates Directorate has a dedicated Supplier Relationship team, which collects commercial information and communicates with local-level and large corporate-wide supplier managers, who are responsible for liaising with contractors. Meetings between members of the DWP Board and major suppliers provide a forum for discussion and improving understanding of the position between suppliers and the Department. This enables the Department to monitor supplier performance more closely across the spread of its businesses and locations and also encourages communication with suppliers about changes in policy, for example, changes in the benefits regime which may have an impact on the way that suppliers are required to deliver a particular service.

Highways Agency

The Highways Agency has developed and implemented a supplier Capability Assessment Toolkit (CAT) that is used in major procurement exercises. The CAT measures the potential effectiveness of prospective suppliers by considering the approach of companies in critical areas such as leadership, planning and partnering. Validated CAT information is used to ensure that the best and most appropriate suppliers receive the most tendering opportunities. In addition to reducing the time and cost of determining tender lists, the CAT will help to improve the consistency, transparency and robustness of the selection of tenderers and will be used to take forward a programme of supplier development.

Source: National Audit Office survey and case study examinations

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

Key findings from Part 2

- Over one third of departments do not know the percentage of their procurement spend with their largest supplier and just one quarter of departments record the percentage that their spend forms of individual suppliers' turnover - information about suppliers' dependency on them.
- Lack of provision of information to markets about forthcoming requirements coupled with a lack of market sounding risks government demand exceeding available industry capacity as it limits the ability of suppliers to plan their capacity.

3.21 Insufficient competition can present a range of risks for departments (**Figure 45**). If these risks are not identified and managed, departments will not obtain best value for money. Risks can be best handled by (i) departments keeping under regular review their dependency on suppliers and (ii) promoting a wider market for goods and services by encouraging more small and medium sized enterprises to compete for business.

3.22 Small and medium sized enterprises offer potentially significant value for money benefits (Figure 46), but they often encounter difficulties in competing for departments' business.

3.23 OGC has undertaken research with the Small Business Service examining the barriers which smaller firms face in seeking to do business with government⁴⁰ (Figure 47). Together they have sought to raise awareness across the public sector of the value for money which smaller firms can provide and promulgated good practice in dealing with them in the publication *Smaller supplier..better value?* Advice and workshops on how to tender for government business are available through some Business Links⁴¹ but coverage is not national. The Small Business Service and OGC are working with the procurement pilots in the West Midlands and Haringey to develop suitable training packages to improve the material and advice provided nationally.

45 The risks of insufficient competition

- Prices may rise
- Industry may be unable to meet government's needs
- Needs may not be met in a timely way
- Services and products may not be up to date
- Innovation may not be encouraged or developed
- Lack of security about supply and overdependence on a small number of providers
- Quality may be mediocre
- Suppliers may become complacent

Source: National Audit Office survey

3.24 Our supplier focus groups considered that restrictive invitations to tender, lack of market sounding and the length of the tender process discouraged smaller firms from competing and acted as a disincentive for innovative proposals. Suppliers suggested the need for advice centres targeted on smaller firms to help them understand government tender requirements.

46 Small and medium sized enterprises may offer better value for money



Source: National Audit Office, from OGC/SBS Smaller supplier..better value?

40 OGC and the Small Business Service, "Smaller supplier..better value?"

41 Business Link is a national business advice service, operating in 45 locations across England, providing advice to new businesses and small and medium-sized enterprises with up to 250 employees. The service is provided by the Small Business Service, an executive agency of the Department for Trade and Industry.

47 Addressing barriers to small and medium-sized enterprises participating in government procurement

There are around 3.75 million small and medium-sized enterprises in the UK, accounting for 99 per cent of all businesses and 50 per cent of UK turnover. In 2003, a review by the Better Regulation Taskforce/Small Business Council reinforced views from bodies such as the Ethnic Minority Business Forum (EMBF) and Prowess (Promoting Women's Enterprise and Support) and identified a number of barriers to be overcome to open up the government procurement market place for small and medium-sized enterprises, including:

- The perception that the bidding process is long, complicated and expensive;
- Lack of knowledge of the public sector market;
- Lack of knowledge of OJEU and the specialised language used;
- Lack of advertising of lower value contracts of interest to small and medium-sized enterprises;
- Limited marketing resources making it difficult for small suppliers to raise their profile in the public sector; and,
- Unsuccessful suppliers being discouraged from bidding for subsequent contracts.

In May 2003, the Better Regulation Task Force Review⁴² made recommendations to address obstacles to small and medium-sized enterprises' participation in the government market place. To address some of these issues, in June 2003 HM Treasury announced two pilot projects to be run in the West Midlands and Haringey. The West Midlands pilot is managed by OGC with Advantage West Midlands (the Regional Development Agency), together with local public sector bodies and the Ethnic Minority Business Forum. The Haringey pilot is being run primarily by the local authority together with the Small Business Service. The objectives of the West Midlands pilot project are to simplify the mechanisms for small and medium-sized enterprises to find out about and bid for government opportunities, and to streamline the procurement process to provide a simpler and more cost-effective approach. The project aims to create a buyer and seller marketplace involving 38 local authorities and 494 small and medium-sized enterprises in the West Midlands region. The West Midlands pilot is scheduled to run for twelve months from July 2003, with the aim of learning lessons that can be applied across the small business sector.

Source: National Audit Office, Office of Government Commerce, Better Regulation Task Force

3.25 As a means of reducing in-house procurement management costs and rationalising the number of suppliers, departments are increasingly appointing primary suppliers to manage a range of aggregated activities. Our supplier focus groups highlighted the risk that this can limit opportunities for smaller firms. There is also a risk that aggregation may increase overall costs because a prime contractor will need to add its profit margin to those of its subcontractors and the price to the department is likely to increase as a result. On the one hand reducing the number of contracts through a single supplier should reduce direct costs but the aggregated profit margins through having an extended supply chain may ultimately result in a more expensive service in the longer term. Departments need to monitor the cost implications of such arrangements carefully to ensure value for money is sustained.

3.26 The extent to which greater reliance on prime contractors is making it difficult for smaller firms to secure business is not known as few departments ask for detailed information of the supply chain beyond the prime contractor. One way to address this issue, however, would be for departments to publish details of their prime contracts on their websites, which would enable small and medium-sized enterprises to approach the prime contractors. This was also a recommendation of the Better Regulation Task Force/Small Business Council report, which the Government has accepted. OGC will be monitoring and reporting progress in due course.

48 Good practice: The Inland Revenue taking advantage of the flexibility offered by small and medium-sized enterprises

In seeking suppliers of office furniture the Inland Revenue set up a framework arrangement that included large and small enterprises. Large furniture suppliers were able to bring economy of scale savings for standard office furniture, and small and medium-sized enterprises were able to provide flexibility in meeting requirements for special items such as reception and conference room furniture and specialist seating. The latter items are typically specified to a higher standard and will vary from order to order. In doing this the Inland Revenue achieved value for money in both standard and specialist items of furniture.

Source: Office of Government Commerce "Smaller supplier... better value?"

More progress in developing procurement expertise

Key findings from Part 2

- There are four times as many staff in departments with authority to buy goods and services as there are designated procurement staff, and links between procurement staff and budget holders are often not strong, with procurement staff often being consulted too late in the process to have an influence on how goods and services are purchased.

- One quarter of procurement staff have a professional qualification and a further 11 per cent are training for a qualification.
- Overall, 38 per cent of departments encourage procurement staff to join the Government Procurement Service and membership is increasing.

3.27 In most departments, responsibility for procuring goods and services and managing contracts is usually delegated to managers, with a central procurement team providing specialist support and advice. Regular contact and good understanding between procurement specialists and budget holders is important at each stage of the procurement process, so that procurement staff can seek out the best deals and terms based on sound knowledge of the department's requirements.

3.28 OGC has worked with departments to improve their procurement expertise through:

- Issuing a range of guidance (paragraph 2.27);
- Helping establish Centres of Excellence in programme and project management intended to ensure the successful delivery of all projects critical to service delivery improvements and to embed good practice. Departments are required to establish improvement plans by March 2004. By June 2003, sixteen main departments in our survey required to establish a Centre of Excellence by OGC had done so and OGC plan to assess their impact in March 2004;
- Advice by OGC's Consultancy Service comprising a pool of around 150 consultants - departments pay a fee to the Service which gives them access to a range of expert advice; and
- The Project and Programme Management Specialism (PPM), a joint initiative between OGC and Cabinet Office Corporate Development Group, was set up in 2003 to strengthen skills required to manage major projects and programmes.

3.29 These are important developments but, in addition, based on our findings they could be enhanced by:

- The development of relationships between procurement staff and internal customers through, for example, procurement staff marketing the benefits of their work, providing training to end users about how to make more efficient use of their procurement budgets, backed by high level recognition of the importance of procurement for improving public service delivery, and through seeking regular feedback from users on the extent to which their requirements have been met.

- Enhancing procurement skills in agencies to a similar level of professionalism to that of staff in departments. Agencies account for one quarter of procurement spend yet just 8 per cent of these procurement staff have a relevant professional qualification, compared to departments who make up two thirds of procurement spend and where one third of staff have a relevant professional qualification (Figure 31, paragraph 2.23).

- Greater use of the networks available to procurement staff through the Government Procurement Service as a forum for development of standards, general improvement of procurement skills, access to procurement professionals outside the civil service, and as a way of sharing and developing good practice. Links between procurement professionals could also be developed locally as a means of sharing relevant local procurement experience.

3.30 The Vehicle & Operator Services Agency and the Department for Work and Pensions provide examples of departments where a strong relationship has been developed between procurement staff and customers in the department (Figure 49).

49 Good practice: Involving professional expertise in procurement decisions sufficiently early

The **Department for Work and Pensions** Customer Service and Change Team has set up a network of Commercial Relationship Managers who are responsible for establishing links with each individual business within the Department to provide advice; respond to any issues raised by end-users; and establish, manage and support the Commercial User Assurance Network providing management with assurance on commercial standards, quality of service and relevant issues across the Department as a whole.

Procurement staff of the **Vehicle & Operator Services Agency** are consulted at an early stage in the procurement process, and end users of goods and services are represented in the specification of requirements for the tender process. For example, in the purchasing of vehicles for a pilot project to investigate the feasibility of using Automatic Number Plate Recognition (ANPR) technology, a member of VOSA's Procurement Unit joined the project team and advised them about EU procurement regulations and possible contract options. The team decided to use a framework contract run by the Ministry of Defence which secured both a competitive price and high quality service from suppliers. In particular the supplier's response to their specialist requirements was a result of the buying power of the government-wide contract they joined. Early involvement of procurement expertise meant that the project team were able to minimise delays in the acquisition process and secure prompt delivery of vehicles needed for the pilot project.

Source: Office of Government Commerce "Smaller supplier... better value?"

Better targeting of value for money improvements

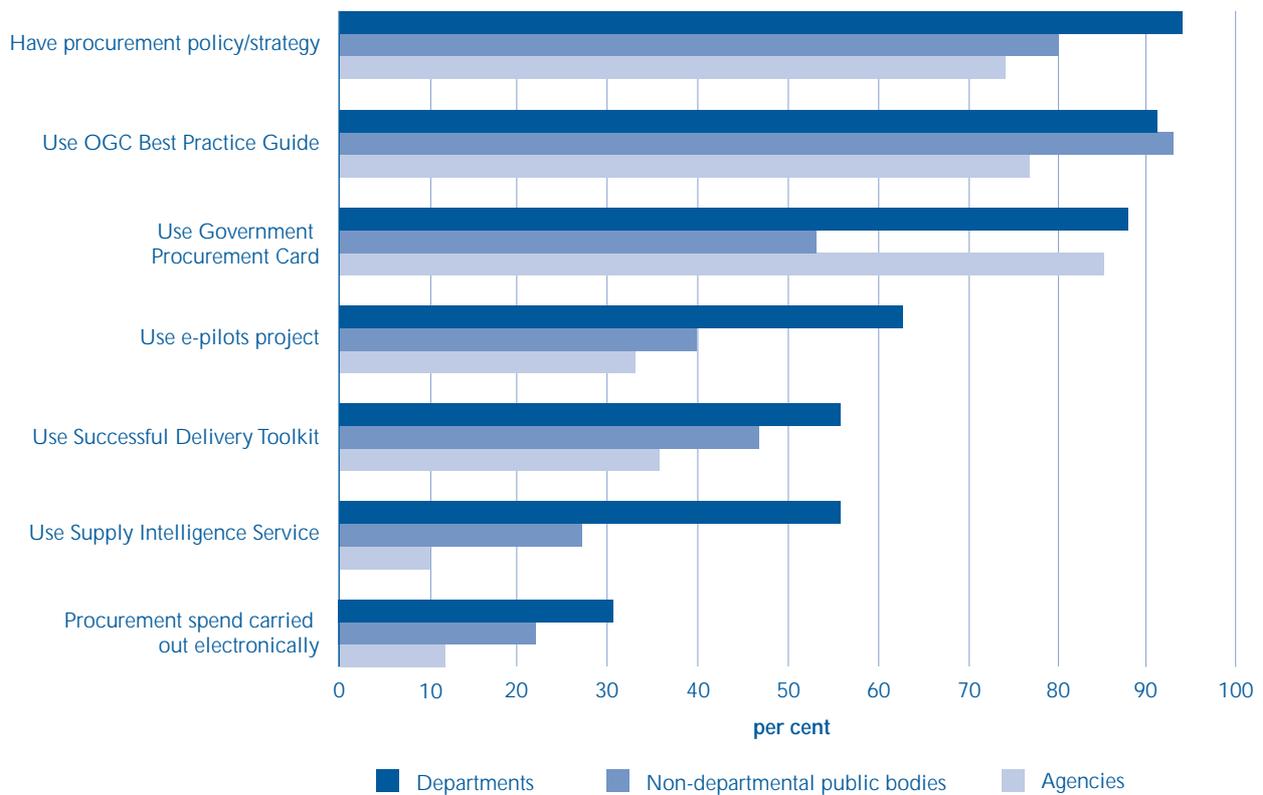
Key findings from Parts 1 and 2

- Departments have reported value for money gains of £1.6 billion at 31 March 2003.
- 85 per cent of these gains come from nine departments.
- 69 per cent of the gains arose from direct negotiations with suppliers.
- Relatively low take up of some framework agreements and the Government Procurement Card in non-departmental public bodies and use of e-procurement in agencies suggests their contribution to value for money improvements may be underrepresented in these areas.

3.31 Achieving the £3 billion value for money gains by 31 March 2006 which OGC is now committed to will require a much wider contribution from across government. Drawing on our examination and consultation with suppliers we make specific suggestions in the executive summary of this report to help achieve the target. There needs, however, to be much better use of management information by departments to identify potential for better value for money and to target their action on achieving it, seeking advice from internal and external auditors where appropriate. A major source of further savings should also be executive agencies and non-departmental bodies which generally demonstrate much less take-up of the good practice and initiatives promoted by OGC (Figure 50).

50 Application of a range of tools and good practice is lower in agencies than departments

n=86



Source: National Audit Office survey

Appendix

Methodology

Aspect	Methodology	Purpose
Departments as purchasers	<p>i A survey was sent to 95 departments, agencies and non-departmental public bodies in June 2003. 90 responses were received and 86 were selected for analysis⁴³ - 32 government departments, 39 executive agencies and 15 non-departmental public bodies, together accounting for £15 billion of annual central civil government procurement expenditure.</p>	<p>To examine:</p> <ul style="list-style-type: none"> ■ variations in how procurement is organised across departments; ■ staff, skills and training; ■ management information; ■ take-up of OGC good practice; ■ management of suppliers; and, ■ costs, expenditure and efficiency.
	<p>ii Case studies of two departments and one executive agency:</p> <ul style="list-style-type: none"> ■ The Department for Work and Pensions; ■ The Office of the Deputy Prime Minister; ■ The Vehicle & Operator Services Agency. 	<p>To examine in more depth procurement performance and good practice or lessons learned with the potential for wider application.</p>
	<p>iii We commissioned two focus groups of departmental procurement staff representing 30 departments, run using the Department for Trade and Industry's Future Focus facility and independently facilitated by Alister Wilson of Waverley Consultants on behalf of the National Audit Office.</p>	<p>To examine:</p> <ul style="list-style-type: none"> ■ the findings from our survey; ■ the experience of procurement staff in departments; and, ■ what needs to be improved for procurement to be more effective in departments.
	<p>iv We examined the value for money claims made by seven major departments which together claimed 70 per cent of total gains reported to OGC in 2002-03. We examined: (i) the controls in place to gain assurance about accuracy of claims; (ii) the level of seniority of staff signing off reported gains; and, (iii) the largest claims made.</p>	<p>To verify the claims made and identify approaches that contributed to departments' ability to make value for money gains.</p>

⁴³ Three departments failed to return questionnaires. The remainder included data in the returns of their parent department.

Aspect	Methodology	Purpose
Suppliers	v We commissioned MORI to facilitate five focus groups of 32 suppliers (four in London and one in Manchester), representative of the range of goods and services provided to central civil government and of the range of sizes of suppliers providing goods and services to departments. Included in the groups were suppliers who do not currently supply to departments. The participants were + Creative Output, Allbox UK Ltd., Antspire Ltd., Ashton Penny, Blue Group International, Care First, CDH Design, Cooper Rose, EDS, Excel Recruitment Ltd., Flexiform Business Furniture Ltd., Group 4 Securities, Hedra, Hitachi Capital Vehicle Solutions Ltd., Huxley Associates, Imagistics International, Matchtech Group Plc, Mosaic Management Services Ltd., MVP Search and Selection Ltd., Northern Sales & Services Ltd., NRG Group, PA Consulting, Pannone & Partners, Perimeter Security Group, Russam-gms, The Sammons Group, Screwfix, Sodexho Ltd., Symbia Ltd., Telephonetics, Watts and Partners, Xerox (UK) Ltd. - 11 larger businesses and 21 small and medium-sized enterprises (with less than 250 employees).	To determine suppliers' views on what more departments need to do to secure better value for money from civil procurement.
	vi We spoke to a procurement consultant, Mr Paddy FitzGerald.	To understand better the relationship between departments as customers, their suppliers and OGC.
Action taken by OGC to improve procurement	vii We assessed OGC initiatives to determine their take-up, how they were promoted, and how their impact was monitored and assessed.	To assess the completeness and appropriateness of OGC's management information and action to promote improvements in procurement.
	viii Comparison with approaches taken in four European countries: <ul style="list-style-type: none"> ■ Denmark ■ Germany ■ The Netherlands ■ The Czech Republic. 	To provide international context for how procurement is developing in the UK and in particular the relationship between any central procurement function and the roles and responsibilities of departments.
	ix Reviewing developments in procurement in the three private sector companies consulted as part of the NAO's 1999 report - TNT, British Airports Authority, and Nissan UK.	To provide a context for how UK central government procurement is developing in comparison with the UK private sector.

Glossary

Call-off contract	An agreement 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.
Collaboration	Joint procurement by more than one department, or by more than one unit within a department, in order to increase buyer power and economies of scale.
Contract management	The process of monitoring the performance of a supplier to ensure it complies with the terms of the contract.
Electronic procurement	The process of using electronic networks to transact with other departments, the private sector and customers.
Framework agreement	A series of contracts, covering a particular type of good or service, with a number of suppliers over a fixed period of time. The agreements may be open to other departments.
OGC Gateway Reviews	Reviews of central civil government procurement projects at key decision points by a team of experienced people, independent of the project team.
GCat	The Government catalogue of information technology and telecommunications products and associated services, run by OGCBuying.solutions.
Government Procurement Card	A corporate payment card operated by VISA available to all departments, agencies and non-departmental bodies.
Invitation to tender	The process whereby departments outline their requirements for particular goods and services so that potential suppliers can set out how they would meet those requirements.
L-Cat	The Government catalogue for legal services, run by OGCBuying.solutions.
Maverick spend	Where individuals buy goods and services in a way that has not been agreed between departments and suppliers, for example failure to use a framework agreement.
OGCBuying.solutions	A professional procurement service for central civil government and the wider public sector and an executive agency of the Office of Government Commerce (OGC).
Procurement	The process of purchasing goods and services, from identification of the need for the item to payment.
S-Cat	The Government catalogue for business, professional and IT services, run by OGCBuying.solutions.
Small and medium-sized enterprises	Any business employing under 250 staff.
Tendering	The process whereby potential suppliers set out how they could meet requirements outlined by departments for particular goods and services.
Transaction costs	The administrative costs incurred throughout the procurement process, for example the costs of processing orders, checking and authorising payments and holding stock.