

Improving Procurement

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



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
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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



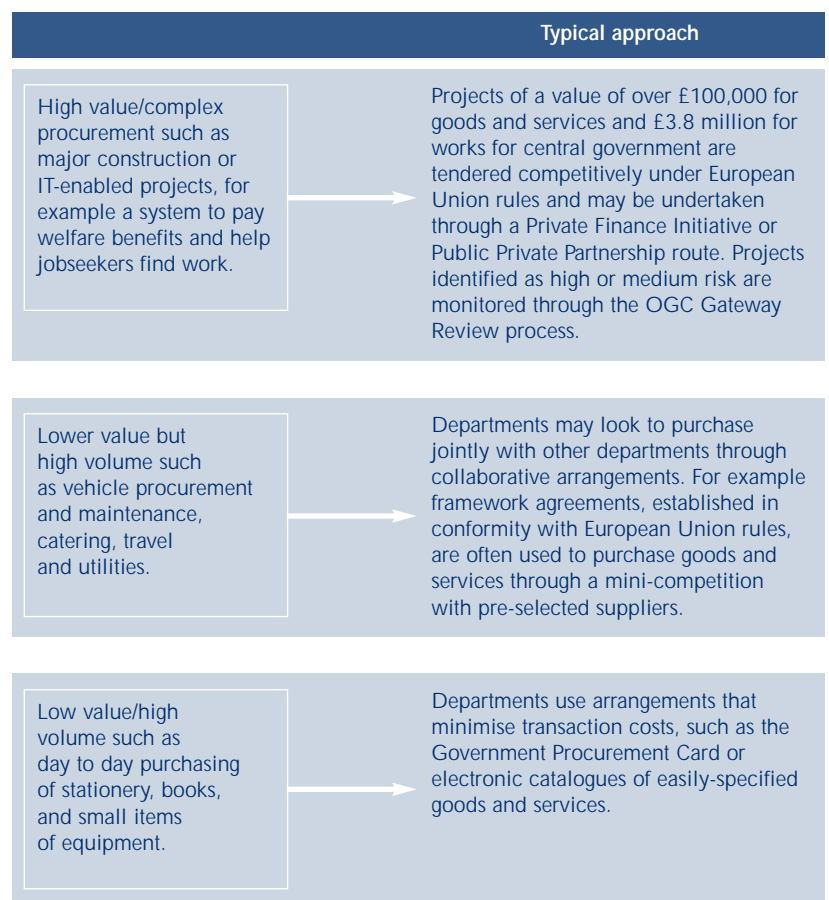
Source: Office of Government Commerce

- 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>