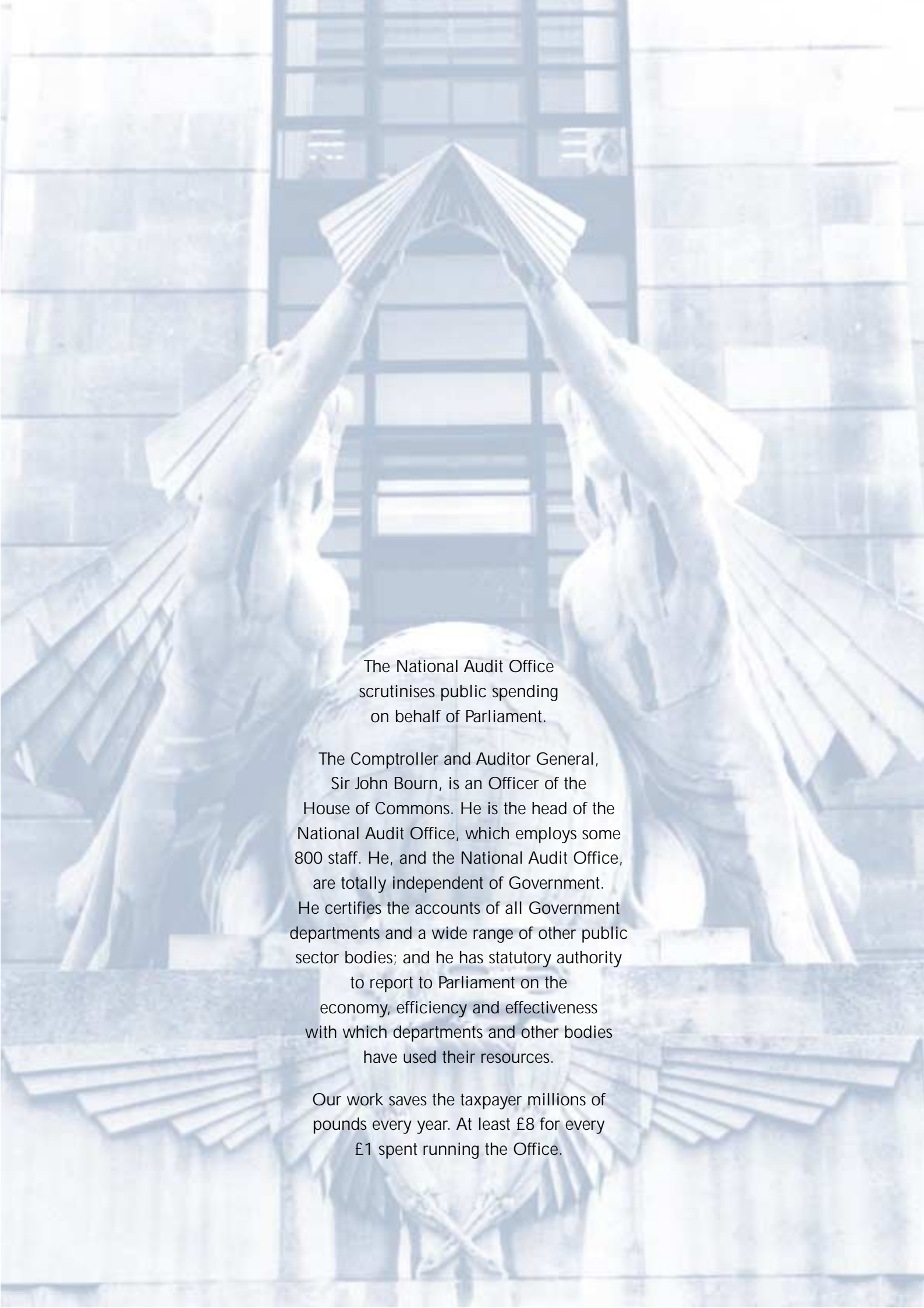


# Improving Procurement

Progress by the Office of Government Commerce  
in improving departments' capability to procure cost-effectively:  
Case Studies and International Comparisons

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





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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*

Comptroller and Auditor General

National Audit Office

9 March 2004

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# Introduction: Case studies

We undertook three case studies to provide a more detailed examination of the organisation of the procurement function in two departments and in one executive agency. They serve to illustrate several points highlighted in our questionnaire and discussed by participants in the departmental focus groups, as well as highlighting some areas of good practice for wider application.

- 1 All three organisations have been formed since 2001 and have inherited the procurement function from their legacy organisations. The Department for Work and Pensions (DWP) employs over 650 specialist procurement staff, including 202 procurement staff in its Commercial and Estates Directorate. Commercial supply arrangements for DWP are valued at around £4 billion per year. Procurement in the Office of the Deputy Prime Minister (ODPM) is undertaken through Centres of Financial Expertise (CFEs) with a procurement expenditure of £180 million annually. The Vehicle & Operator Services Agency (VOSA) has a procurement team of just five and is responsible for a procurement spend of some £50 million. As central government departments, the Department for Work and Pensions and the Office of the Deputy Prime Minister have reported efficiency gains directly to OGC.
- 2 The range and type of goods and services purchased by the case study organisations varies. To ensure their operational effectiveness and to support policy development and management, the Department for Work and Pensions and the Office of the Deputy Prime Minister procure goods and services, such as research, print and stationery, consultancy, and training. The Vehicle and Operator Services Agency, as an executive agency delivering services directly to the public, also requires specialist equipment.
- 3 The case study organisations take different approaches to managing both their customers and their suppliers. The Office of the Deputy Prime Minister, for example, has looked to e-procurement solutions for the procurement of routine items, and the Department for Work and Pensions makes extensive use of the Government Procurement Card and OGC frameworks.
- 4 In all three organisations there is evidence of effective procurement practice from which organisations facing similar challenges can learn. However, there are also areas where further efforts will be required to take forward the procurement agenda.

## Case study one: The Department for Work and Pensions

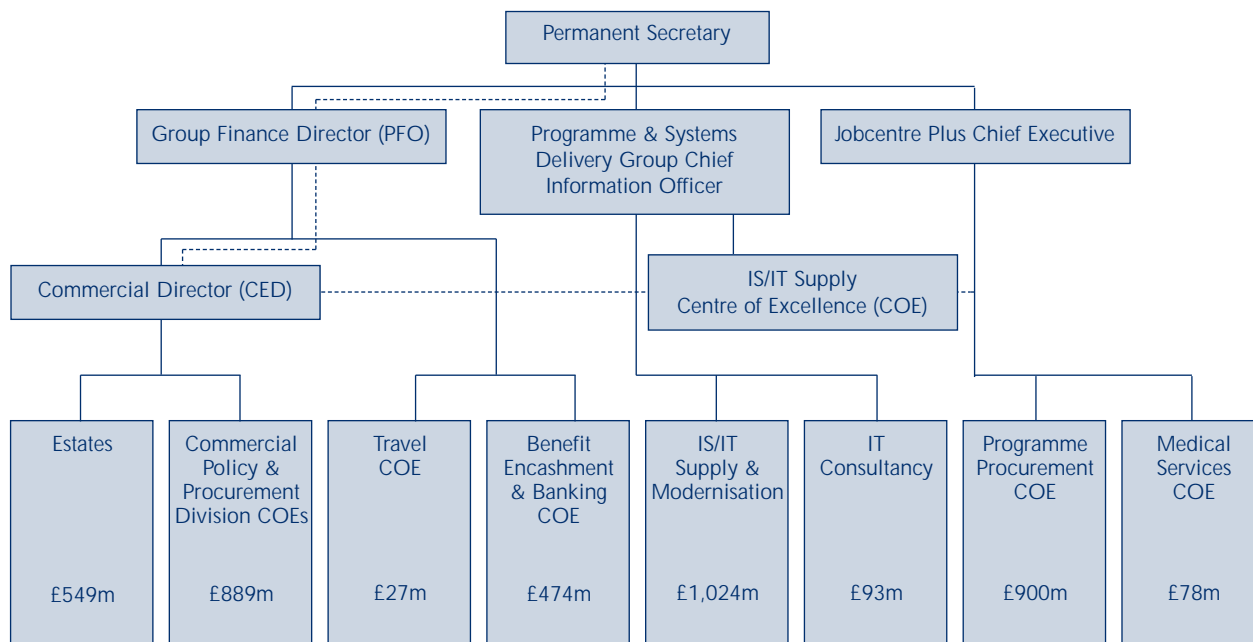
- 1.1 The Department for Work and Pensions (DWP) was formed in 2001 from the Department of Social Security and the employment-related responsibilities of the Department for Education and Employment. It is the largest government department and with its agencies employs 130,000 full-time equivalent staff, around a quarter of the Home Civil Service. The Department for Work and Pensions helps people to find jobs and employers to fill vacancies, and makes payments to job seekers, pensioners, people with disabilities, parents and carers.
- 1.4 Within its businesses, the Department has Centres of Commercial Expertise based around commodities and services. Centres of Commercial Expertise have trained and qualified procurement staff with "dotted line" relationships to the Commercial and Estates Director.

### How procurement is organised

- 1.2 The Department's procurement strategy and policy is the responsibility of the Commercial and Estates Directorate (CED) (Figure 1). The Commercial and Estates Directorate is headed by the Department for Work and Pensions Commercial Director, a senior civil servant reporting to the Group Finance Director, who is a Board member reporting to the Permanent Secretary. The Commercial and Estates Directorate has two Divisions - Estates and the Commercial Policy and Procurement Division (CPPD), employing around 550 full-time equivalent staff, including 63 project staff, located in London, Leeds, Sheffield, Norcross, Heywood, Washington and Long Benton.
- 1.3 The function of the Commercial and Estates Directorate is to deliver commercial services, including estates, consultancy, print and stationery, office services and other ad hoc requirements; to set and manage commercial strategy, policy and best practice, and provide commercial advice and guidance to ensure improving service quality and value for money from commercial deals; and to provide assurance for procurements across the Department. The Commercial Director sets the commercial strategy, policy and best practice and has a Department-wide commercial management framework led by the Commercial Strategy Supervisory Board.
- 1.5 Jobcentre Plus routine procurement is carried out through Departmental supply arrangements, but its programme procurement of client-facing services to help people into jobs, with a budget of £900 million, is headed by the Finance Director of Jobcentre Plus and Working Age and Children who reports to the Chief Executive of Jobcentre Plus. The Contracting Policy and Support Manager is responsible for running programme procurement reports to the Finance Director but has professional accountability to the Department's Commercial Director and regular liaison meetings with departmental colleagues. Programme contracts are managed at district level through Jobcentre Plus' District Programme Quality Management Teams, reporting to District Managers.
- 1.6 The Department is professionalising its procurement function. Designated staff are encouraged to gain Chartered Institute of Purchasing and Supply (CIPS) qualifications and are paid a recruitment and retention allowance. Currently around 200 staff are CIPS qualified, about 37 per cent of designated procurement staff. The Department has a contract with CIPS for contract management training. An internal audit review is being commissioned to assess skill levels within the procurement function and how these can best be deployed. The Department aims to invest in specifically tailored training to achieve year on year increases in the proportion of CIPS qualified staff in designated key posts. In total, around 2,000 staff throughout the organisation have delegated authority to purchase (Figure 2).

**1 Department for Work and Pensions procurement organisation and spend 2002-03**

DWP's total procurement spend for 2002-03 was £4 billion, around 29 per cent of total civil procurement. Major expenditure items are services to the public - programmes, benefit encashment, and medical assessment - that support its objectives as laid out in its Public Service Agreement. Other major expenditure items are support items - estates, IT and facilities expenditure. £1.4 billion is undertaken directly by the Commercial and Estates Directorate (CED).



— Line management    - - - - Commercial assurance accountability

Source: Department for Work and Pensions/National Audit Office

**2 Around 2,000 staff have authority to purchase, regulated through Delegated Purchasing Authority (DPA)**

Level	Type of customer need	Qualifications required
5	Low and high risk goods and/or services as part of a wider Departmental initiative.	Normally in a key designated post, i.e. specialist/quasi - specialist, or in a designated post with the relevant skills, experience and training. Led by a person with a minimum of 5 years procurement experience, supported by staff with a minimum of 3 years procurement experience. Preferably full MCIPS qualification, support may be provided by person with a CIPS Foundation qualification.
4	Low and high risk goods and/or services via a stand-alone procurement exercise above £50,000 (e.g. core business support commodities/services for which there is a specialist or restricted market, for example stationery, courier, accommodation and office services).	
3	Low risk goods and/or services (e.g. commonly bought office support commodities/services for which a competitive market is available) between £10,001-£50,000 and not available via an existing contract. A procurement exercise is required.	Normally in a designated post, i.e. specialist/quasi - specialist, with two years procurement experience, CIPS Foundation Stage qualification or part trained with management from a qualified member of staff.
2	Low risk, up to a maximum value of £10,000, and good and/or service is not available from a Departmental contract.	None.
1	Can be satisfied from existing contract.	

Source: Department for Work and Pensions

- 1.7 Neither of the Department's legacy departments had a commercial strategy. The Commercial and Estates Directorate has developed a strategy document (Figure 3) that gives its mission statement and objectives. The Department also has a commercial strategy for the procurement and contract management functions with a strategy vision and corporate objectives.
- 1.8 A key part of the Department's procurement strategy is its "make or buy" policy to determine whether goods and services should be provided in-house or outsourced. Large-scale projects going through the "make or buy" process are the Department's records storage project, which has led to a decision to outsource records storage, the Integration of Estates Services (TIES), the review of office service requirements, and the letting of new print and distribution arrangements. The Department uses guidance contained in the Cabinet Office *Better Quality Services* publication as an aid to decision-making.

**3 Mission statement and objectives and commercial strategy**

Commercial and Estates Directorate mission statement and objectives	Commercial strategy vision and objectives
<p><b>Mission statement</b></p> <p>To lead the development of commercial activities across DWP to support its values and business requirements and provide assurance of value for money and probity and minimise supply risk. In so doing deliver high quality, customer focused services that add value, are highly respected and perceived as an extension of the business.</p>	<p><b>Strategy vision</b></p> <p>To deliver best practice commercial services and solutions that support the required DWP business outcomes, provide best value for money and demonstrate continuous improvement in customer service and performance.</p>
<p><b>Objectives</b></p> <ol style="list-style-type: none"> <li>1. To manage the overall delivery of estates and other commercial services (and related activity), that are the direct responsibility of CED, to DWP that meet business requirements and achieve value for money;</li> <li>2. To set and implement DWP commercial policy and best practice and to provide assurance to Executive Team that procurements across the Department are in accordance with legislation and Government policy;</li> <li>3. To establish, build, lead and develop a professional commercial (and estates) function in DWP (as Head of Profession) and to provide OGC with evidence of standards;</li> <li>4. To develop, implement and then manage a DWP Estate Strategy to meet business requirements in accordance with the Departmental Plan; to develop and deliver the Integration of Estate Services project (TIES) to integrate the former Employment Service estate into DWP at overall best value for money; and</li> <li>5. To provide proactive and effective commercial and estates relationship management to support the delivery of customer focused services that meet business need.</li> </ol>	<p><b>Corporate Commercial management objectives</b></p> <ol style="list-style-type: none"> <li>1. Achieve the best deal, in terms of cost, quality, and service.</li> <li>2. Place the customer requirement first, increase levels of customer satisfaction.</li> <li>3. Release individual potential in terms of staff development.</li> <li>4. Minimise the complexity and cost of procurement processes.</li> <li>5. Risk Management - manage commercial and supply risks to support business continuity.</li> <li>6. Support Joined-up Government - co-operate within DWP and with OGC and across other government departments.</li> <li>7. Improve supplier relationships, understanding and commitment to performance.</li> <li>8. Legal and Ethical - provide increased assurance that procurement and contract/supply management is ethical and meets all UK and EU/International legal requirements.</li> <li>9. Support best value "make or buy" decisions for DWP and an optimum balance of in-house and outsourced providers.</li> </ol>

Source: Department for Work and Pensions



## Procurement performance

1.9 Value for money savings for the past three years (as agreed with the Department's internal auditors and OGC) were £47 million (2000-01), £91 million (2001-02), and £245 million (2002-03). The large increase in 2002-03 is due in part to implementation of the measurement recommendations of an internal audit report that found under-reporting of savings. The value for money savings

have met or exceeded targets. Other targets have been set for 2003 onwards in the Department's Service Delivery Agreement (Figure 4), the Commercial and Estates Directorate's key performance indicators (Figure 5), and the commercial strategy targets (Figure 6). These aim to reduce transaction costs and contract management costs, to improve service delivery and to increase capacity through training and development.

### 4 DWP Procurement targets: Service Delivery Agreement, April 2003

#### Value for money

With regard to corporate commercial management, the Department will seek to:

- Demonstrate continuous improvement in procurement value for money using the Office of Government Commerce value for money measurement methodology;
- Demonstrate continuous improvement in contract management using the European Foundation Quality Management excellence model or the Procurement Excellence Model; and
- Make e-commerce available to all DWP buyers and use e-commerce for all low value purchases by the end of 2005.

Source: Department for Work and Pensions

### 5 DWP Commercial and Estates Directorate (CED): Key performance indicators

1. Reduce contract management organisation cost as a percentage of total spend managed across CED measured year on year. Status baseline set at 1.63 per cent.
2. Reduce the size of the DWP estate in line with the anticipated reduction in staff.
3. Improve CED service levels and supplier performance, as measured through customers and suppliers, across CED year on year.
4. Continuous improvement in contract management across CED using European Foundation Quality Management (for Estates) and Procurement Excellence Model (for Commercial) (scores to be baselined).
5. Declare VFM savings as a percentage of total spend, with year on year improvement (Benchmark = 3 per cent from OGC statistics).
6. Improvement in OGC quality assessment of commercial and estates performance year on year (scores to be baselined).

Source: Department for Work and Pensions

### 6 Key DWP Commercial strategy targets from August 2003

1. Demonstrate continuous improvement in procurement value for money using OGC's value for money measurement technology (SR2002 Service Delivery Agreement (SDA)).
2. Declare VFM savings as a percentage of total spend, with year on year improvement (benchmark = 3 per cent from OGC statistics).
3. Demonstrate continuous improvement in contract management using the European Foundation Quality Management excellence model or OGC's Procurement Excellence Model (SR2002 SDA).
4. Improve service levels and supplier performance as measured through customers and suppliers year on year. To do this, DWP will measure customer satisfaction, particularly on customer focus, responsiveness to the business, commercial service levels and supplier performance.
5. Recruit and invest in specifically tailored training to achieve a year on year increase in the proportion of CIPS qualified staff in key designated posts.
6. Make e-commerce available to all DWP buyers and use e-commerce for all low value purchases by the end of 2005 (SR2002 SDA).
7. DWP will achieve year on year improvement in its business relationships with key suppliers.

Source: Department for Work and Pensions

1.10 The Department paid about 908,000 commercial invoices in 2002-03, just under half of which were under £100, amounting to less than 0.3 per cent of total commercial spend. This produces high transaction costs estimated to be around £70 a transaction. Part of the Department's strategy is to reduce costs by moving to purchasing a large a proportion of low value, high volume items electronically. Jobcentre Plus is undertaking a major review of its end to end employment programme procurement covering streamlining of processes, improved information on and analysis of provider base, greater emphasis on outcome performance in awarding contracts, approach to market segmentation, simplification and standardisation of paperwork, review of funding policy, professionalism of staff and greater use of Information and Communications Technology (ICT) including use of the Jobcentre Plus website for invitations to tender. Currently, within Jobcentre Plus programme procurement, there is no accurate measurement of transaction costs to provide a benchmark. Jobcentre Plus has reduced staff numbers in programme procurement as part of a corporate structure review and is now undertaking process mapping and costing to provide baseline costs of the function to enable benchmarking and ongoing changes to be mapped and impacted in terms of resource.

1.11 The Commercial and Estates Directorate has a proactive partnership with the Department's internal auditors. Reviews have been carried out of compliance with procurement manuals, commercial assurance, procurement processes and value for money returns. Reviews in 2003-04 will include engagement and management of external professional services, professional procurement, use of the Government Procurement Card, and commercial assurance mechanisms.

1.12 One of the Department for Work and Pensions' legacy departments, the Department of Social Security, was a pioneer in the use of government purchasing cards and used them since 1995. The number of Government Procurement Card (GPC) transactions and total spend has increased year on year since 1995. In 2002-03, the Department spent £12.2 million through the GPC. The Department uses S-Cat and leads in managing OGC frameworks (Figure 7) for stationery, hotels and conferences, rail travel and vehicle hire. The Department is also using OGC's arrangement with Oracle. For courier services, the Department has a joint framework agreement with the Inland Revenue and HM Customs and Excise, through which the Department spends around £7 million per year. The Department does not use GCat or OGCbuying.solutions. The Department procures much of what is covered by GCat and OGCbuying.solutions, for example furniture and utilities, as part of managed service arrangements such as the Private Sector Resource Initiative for the Management of the Estate (PRIME) PPP/PFI that

provides serviced accommodation to the entire Department. The Department's buying power means that it considers it can obtain better value for money and better meet the Department's specific requirements through its own contracts.

1.13 The Department's commercial strategy includes applying EC policy and processes to integrate social considerations into public procurement. The Department is leading a cross-government initiative to run lead funder pilots to facilitate charities' access to contracts. The Department is also participating in a pilot exercise with OGC on the use of low value procurement expenditure to address social exclusion by contracting with ethnic minority owned small and medium-sized suppliers.

## Managing customers

1.14 To maintain customer links, the Commercial and Estates Directorate has representatives for its contracts at regional and district level. Shared Service Agreements (SSAs) between the Commercial and Estates Directorate and end users (customers) specify the services to be delivered, service levels, the responsibilities of the parties, and the relationships with the Account Manager. Account Managers are responsible for ensuring that any issues raised by end users are resolved or responded to within agreed timescales. The Account Management team manage the Commercial User Assurance Network, which comprises end users from the corporate centre and from within each business area. The aim of the Commercial Users Assurance Network is to provide an end user perspective on commercial standards and customer service across all corporate commodity areas and to highlight areas of concern and opportunities for improvement. To benchmark customer satisfaction with procurement the Commercial Users Assurance Network issued in 2003 its first end user customer service survey, achieving a 41 per cent response rate. The Commercial and Estates Directorate aims to improve the response rate in future years by using wider means to distribute questionnaires.

### 7 DWP procurement spend through OGC frameworks (2002-03)

Framework	Spend £ million
Non-IT consultancy and professional services	198
Stationery	15
Hotels and conferences	30
Rail travel	13
Vehicle hire	3

Source: Department for Work and Pensions

## Managing suppliers

1.15 Over half the Department's spend is with ten suppliers (Figure 8), of which three supply services to the public - Remploy, Working Links and SchlumbergerSema, a medical assessment provider for benefit payments. The remaining suppliers provide estates and support services to the core businesses. However, the Department deals with over 12,000 suppliers, most of which are small local suppliers used by the Department's national network of local offices for low value, low risk goods and services orders.

### 8 Over half DWP's procurement spend is with ten suppliers (2002-03)

Rank	Supplier	Per cent of total spend	Cumulative per cent
1	Electronic Data Systems	18	18
2	Royal Mail	12	30
3	Land Securities Trillium	11	41
4	British Telecom	3	44
5	SchlumbergerSema	3	47
6	Remploy	3	50
7	Computacenter	2	52
8	W S Atkins	2	54
9	Drivers Jonas	1	55
10	Working Links	1	56

Source: Department for Work and Pensions

1.16 To improve service delivery, there is an increased focus on supplier relationship management and supplier performance. The Department's supplier relationship team collects commercial intelligence and deals with suppliers, with some local managers reacting to problems and others focusing on large corporate-wide suppliers. The team organises meetings between major suppliers and Departmental Board members to improve suppliers' understanding of Departmental programmes and plans. The Department is the largest customer of Royal Mail and heads up the government Royal Mail Users Group. The supplier relationship team is piloting benchmarking of the Department's relationships with suppliers using a questionnaire devised by the Centre for Research in Strategic Purchasing and Supply (CRISP).

1.17 Rationalising the supplier base is a major issue for the Department. A print contract is to be awarded to a primary supplier that will take over logistical management of printing and delivering of all print-based requirements to provide a holistic service as part of a movement towards broader-based contracts and open-book accounting. Jobcentre Plus has outsourced a contract to set up an approved supplier database for which suppliers can apply to join for a fee of £250, with fee exemption for voluntary sector organisations. Tender documentation will also be made more accessible by placing it on the internet.

### 9 Key Strengths

- Raising commercial awareness:** Procurement has a high profile within the Department. The Commercial Director reports to the Group Financial Director, a Board member, and has regular briefing sessions with the Permanent Secretary. The Department has devised a procurement strategy that sets out corporate objectives for procurement and links these directly with business outcomes. Endorsement of the procurement strategy by the Board and its link to the Department's aims and objectives has brought greater clarity to the approach the Department should take in its commercial activities and has made the role of procurement more visible across the organisation.
- Proactive management of suppliers:** Part of the Department's commercial strategy is to rationalise and simplify its supplier network; taking "make or buy" decisions whether services should be provided in-house or outsourced and whether to move to prime contractors that manage a supply chain on the Department's behalf. The Department is also participating in lead funder pilots and a social exclusion pilot to use small and medium-sized suppliers, including ethnic minority owned businesses, and is including small and medium-sized enterprises in its new consultancy framework agreement. Anticipated benefits include a better managed supplier network that also takes into account wider best value issues and ensures supplier diversity.
- Greater targeting of value for money improvements:** The Department's Commercial and Estates Directorate (CED) works proactively with its internal auditors to identify where procurement practice can be improved and to identify areas for further value for money gains. The Department's value for money gains are checked by its internal auditors, and CED and internal audit are working with Deloitte & Touche to produce a commercial assurance strategy. To facilitate this, a member of the internal ignore audit team is undertaking CIPS training. Use of internal audit to assess value for money gains has enabled the Department to identify under-reporting of gains and to increase its value for money gains from £91 million in 2001-02 to £245 million in 2002-03. Internal audit input can help departments identify further value for money improvements.

**10** Potential for future progress

- **Progress in developing procurement expertise:** The size and complexity of the Department creates a challenge for standardising and harmonising procurement practice. Although he has commercial accountability, most procurement spend is not directly under the control of the Commercial Director. Departments in this position need close liaison between senior managers and joint commitment to agreed procurement policies and practices to ensure a coherent strategy, to cascade awareness of procurement policy and procedures (for example delegated authority limits) to end users, and to prevent maverick spend.
- **Better management information:** The Department has two legacy financial systems that do not allow for measurement of transaction costs or benchmarking of costs. A new resource management system is being procured that should address these issues. Departments need accounting systems that measure costs and provide management information to target where further value for money gains can be obtained from reduced process or transaction costs.





## Case study two: The Office of the Deputy Prime Minister

- 2.1 The Office of the Deputy Prime Minister (ODPM) was created as a central government department in its own right in May 2002, taking responsibility for policy areas from both the former Department for Transport, Local Government and the Regions (DTLR) and the Cabinet Office. The Department is responsible for policy on local government, housing, planning, urban issues, fire, building regulations, neighbourhood renewal, devolution, social exclusion and the regions, including Government Offices. The Office of the Deputy Prime Minister sponsors four executive agencies and six non-departmental public bodies<sup>1</sup>.
- 2.2 The Department provides leadership and coordination across Whitehall to ensure that policies and programmes are delivered to specific places in a coordinated and effective way. It is also responsible for delivering a number of specific policy and spending programmes at a regional and local level. To achieve its objectives (Figure 11), it works with a wide range of stakeholders, including other government departments and the Local Government Association.
- 2.3 The Department has a PSA target to ensure continuous improvement in the economy, efficiency and effectiveness of local services. In November 2002, it set up, along with the Local Government Association, the Local Government Procurement Forum to take forward the recommendations of the 2001 Byatt Report (Figure 12) and produced a National Strategy for Local Government Procurement, which was launched in October 2003.
- 2.4 The Office of the Deputy Prime Minister employs 6,300 staff, including 1,700 in its executive agencies and 2,300 in the nine Government Offices across England. Most of the remaining 2,300 staff are based in London. Excluding the executive agencies and non-departmental public bodies, it spends around £200 million per year, of which £180 million (90 per cent) is procurement expenditure. Key items procured are research, training, IT and accommodation.

### 11 Office of the Deputy Prime Minister aims and objectives

**Aim: Thriving, inclusive and sustainable communities in all regions**

*Objective I:* Work with the full range of government departments and policies to raise the levels of social inclusion, neighbourhood renewal and regional prosperity.

*Objective II:* Provide for effective devolved decision making within a framework of national targets and policies.

*Objective III:* Deliver effective programmes to help raise the quality of life for all in urban areas and other communities.

Source: Office of the Deputy Prime Minister

### 12 Recommendations of the Byatt Report *Delivering Better Services for Citizens*

- Regional Centres of Excellence in procurement
- Development of sources of market intelligence
- Standard contract documentation
- Training programmes
- Councils to review procurement structures and set out clear policy on procurement management
- Councils to develop schedule of current contracts and contracts to be awarded over next three years
- Councils to improve information provided to suppliers
- Unitary and county councils to set up corporate procurement functions
- Training programmes in developing procurement skills
- Scrutiny of procurement processes and monitoring outcomes of procurement

Source: *Delivering Better Services for Citizens, Local Government Procurement Task Force (2001)*

<sup>1</sup> Fire Service College, Planning Inspectorate, Queen Elizabeth II Conference Centre, Rent Service, Audit Commission, English Partnerships, Housing Action Trusts, Housing Corporation, Local Government Commission and Standards Board for England.

## How procurement is organised

2.5 Almost all procurement is done through 40 CFEs (Centres of Financial Expertise). There are around thirty budget holders across the Department, who delegate varying levels of responsibility to some 350 purchasing staff. For transactions exceeding £25,000, budget holders must seek approval from the central procurement team (**Figure 13**) - unless a framework agreement is used, in which case approval need only be sought for procurements above £50,000. Twelve of the budget holders have authority to procure research up to a value of £250,000 without seeking approval from the procurement team. The exceptions are IT, accommodation and publicity, which are always purchased centrally. There are written rules on the requirements for quotes and tenders for all types of goods and services. The executive agencies and non-departmental public bodies are largely independent in their procurement activities, although the Department's procurement team awards a small number of contracts on their behalf. The procurement team has eight staff, six of whom hold a CIPS or other procurement qualification.

2.6 Procurement is carried out on a SAP accounting system, which the Department had to re-launch in 2003 after an internal audit review revealed problems with its implementation (**Figure 14**). Stationery and IT consumables can be ordered and invoiced electronically on BuyNet (**Figure 15**), which will eventually be extended to cover all low value items. The implementation of BuyNet was not as smooth as anticipated - although supplier readiness was recognised as a key risk to its success, difficulties with suppliers' IT capabilities have caused delays and under-utilisation of the system to date. BuyNet is the first system of its kind in central government and the benefits of BuyNet (**Figure 16**) will increase in line with transaction volumes, provided the Department redeploys saved resources elsewhere.

### 13 The responsibilities of ODPM's procurement team

- ODPM's procurement strategy and policies
- Advice on all procurement expenditure (excluding IT and publicity)
- Contract approval for expenditure above delegated authorities
- The electronic ordering project
- Procurement training

*Source: Office of the Deputy Prime Minister*

*"We are trying to take advantage of the greater activity coming out of OGC in the electronic procurement area, in terms of a more structured approach to what we want deliver."*

*Source: National Audit Office interview with the Office of the Deputy Prime Minister*

## Procurement performance

2.7 The Department has no specific targets on procurement, although its 2003-04 business plan states a commitment "to champion continuing improvement in value for money through modern and regulatory compliant purchasing procedures including e-procurement". There is, however, currently no reliable procurement data because of the difficulties with SAP outlined in Figure 14. Without knowing how much is spent, on what and with whom, it is difficult to measure procurement performance and assess whether it is improving.



## 14 The SAP accounting system

In April 2002, DTLR introduced a SAP accounting system to support the move from cash to resource accounting - on SAP purchases are recorded at the time orders are placed, rather than from the receipt of invoice as previously.

### What was the problem?

In June 2003, an internal audit report found that the new system was not being used properly. Staff were not raising orders and goods received notes on the system until invoices were received. In addition, invoices were often sent directly to the staff, rather than to the Centre of Financial Expertise (CFE). Apart from resource accounting requirements not being met, important controls in the procurement system were being over-ridden and procurement data was not of sufficient quality for management to monitor the procurement process effectively. The report lists two key reasons:

- Two months after SAP was introduced, DTLR split into two departments, the Office of the Deputy Prime Minister and the Department for Transport, and the system was divided into two "companies". This led to a lack of clarity over business process owners and a weak control environment; and
- Lack of guidance on procurement activities.

### What next?

The Office of the Deputy Prime Minister has put in place a detailed action plan to address the twenty recommendations in the report, which include more detailed guidance and better training for purchasing staff.

*Source: National Audit Office/Office of the Deputy Prime Minister*

## 15 BuyNet

### What is BuyNet?

BuyNet is a web-based system for procuring low value (under £1,000) items, such as stationery and IT consumables. BuyNet's key benefit is that orders are placed and invoices received electronically, resulting in significant savings in staff time, but there are many other benefits (**Figure 16**). BuyNet is the first system of its kind in Government, and supports the cross-departmental target to adopt e-business by 2005. It is fully integrated with the Office of the Deputy Prime Minister's SAP accounting system. The project was conceived by DTLR and has been implemented in the Office of the Deputy Prime Minister and the Department for Transport (its successor departments).

### Costs and benefits

DTLR estimated that savings of almost £2 million a year could be achieved if all low value procurement transactions - approximately 22,500 orders and 120,000 invoices a year - were carried out on BuyNet. Suppliers should also realise savings. The investment cost around £3 million and the business case concluded that BuyNet would break even by its fifth year, saving over £1.5 million (after running costs) each year thereafter.

### Implementation

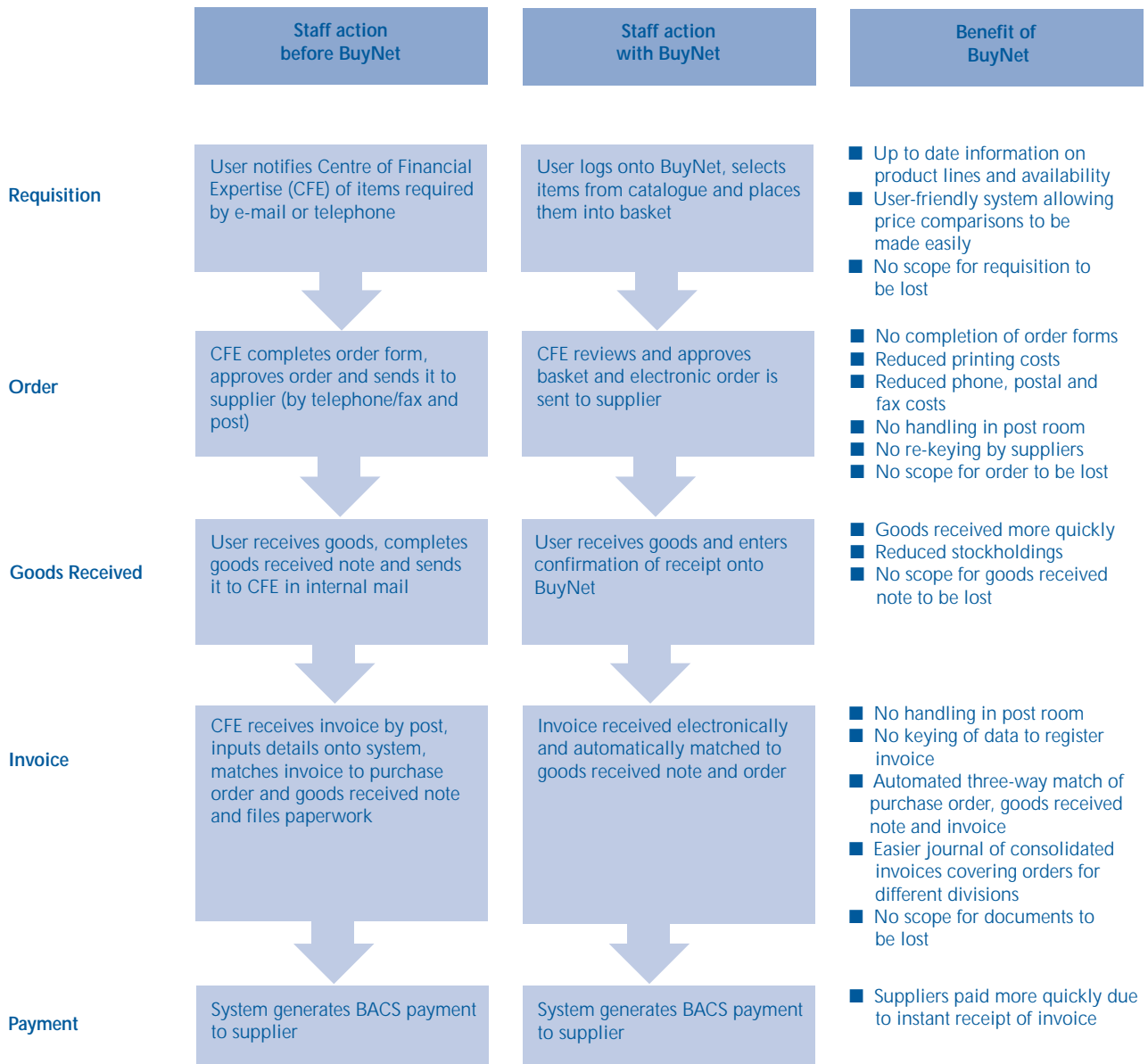
The Office of the Deputy Prime Minister and the Department for Transport carried out a three month prototype with four suppliers and fifty staff from August 2002. Suppliers were selected according to IT capability and the number of transactions they had with the departments. An evaluation during the prototype concluded that BuyNet was saving 3 to 23 minutes of staff time per purchase, with the average time saved towards the higher end of this range. BuyNet was rolled out to all 350 Office of the Deputy Prime Minister purchasing staff between April and July 2003, with a half-day training.

### What has been achieved?

By October 2003, only 1,400 orders and 1,300 invoices had been processed on BuyNet, compared to the business plan targets of 13,500 orders and 72,000 invoices. This was due largely to difficulties with suppliers' IT capabilities, which resulted in roll-out being six months behind schedule and with only four suppliers rather than the anticipated fourteen. An additional ten suppliers are expected to join the system by December 2004. This means that approximately 60 per cent of the Office of the Deputy Prime Minister's low value transactions will be carried out on BuyNet.

*Source: National Audit Office/Office of the Deputy Prime Minister*

16 The benefits of BuyNet



Source: National Audit Office/Office of the Deputy Prime Minister

2.8 In support of OGC's £1 billion value for money savings target, the Office of the Deputy Prime Minister reported £4.8 million value for money gains in 2002-03, of which over £850,000 (18 per cent) was reported by the executive agencies and non-departmental public bodies. Fifty-six per cent of the total was attributable to the low value calculator, with the majority of the remainder (23 per cent) due to joint procurement (Figure 17). These figures were not checked by internal audit.

2.9 The Office of the Deputy Prime Minister has a range of framework agreements in place across the Department for items such as car hire, travel, and printing. These resulted in estimated savings of almost £40,000 in 2002-03. Staff are encouraged to purchase through them, although their use can be restricted if very specialist types of goods or services are required.

2.10 The Office of the Deputy Prime Minister used the Government Procurement Card to make purchases of over £1.3 million in 2002-03, estimating that it saved over £250,000. The card is likely to become redundant when BuyNet is used for all low value transactions.



**17 Office of the Deputy Prime Minister value for money gains**

Type of value for money gain	Total (£000)	Total per cent
Direct negotiation	736	15
Joint procurement	1087	23
Reduced process or transaction costs	204	4
Improved contract or asset management	97	2
Low Value Calculator	2720	56
<b>Total</b>	<b>4844</b>	<b>100</b>

Source: National Audit Office/Office of the Deputy Prime Minister

2.11 S-Cat and GCat are also used regularly, with estimated savings of £50,000 in 2002-03 (although this was reported by executive agencies - the Office of the Deputy Prime Minister was unable to quantify the benefits). Although there is no doubt that they result in reduced staff costs and faster procurement, there are reservations that a better deal can often be found off the system, and that the smaller, very specialist suppliers which the Office of the Deputy Prime Minister often finds useful, are excluded.

*"There is a lot of interesting discussion at OGC but I have never seen them actually push back any barriers. You usually find your own ways to do that."*

Source: National Audit Office interview with the Office of the Deputy Prime Minister

2.12 Collaboration only occurs with the Department for Transport, which procures IT, accommodation and publicity on behalf of the Office of the Deputy Prime Minister. The Office of the Deputy Prime Minister has found it difficult to get access to framework agreements run by other departments, such as the Department for Work and Pensions.

2.13 OGC has been closely involved in some of the Office of the Deputy Prime Minister's high-value specialist projects, such as BuyNet. These aside, there is no regular relationship with OGC, and the Department is unsure as to what assistance OGC can provide. Advice is usually sought from the legal team and colleagues in the Department for Transport.

*"It is difficult to communicate to a big and diverse department when they should come to the centre for advice and approval on spending money. Staff have to understand that when they are given money, it's not just to achieve their objectives - they have also got to sign up to obtaining value for money."*

Source: National Audit Office interview with the Office of the Deputy Prime Minister

## Managing customers

2.14 The Department's procurement strategy is based on the principle of delegation from the centre: procurement decision-making and accountability is the responsibility of purchasing staff, and the central procurement team supports them in this role. It has developed a procurement manual, issues best practice notes and runs workshops for purchasing staff.

2.15 The procurement team has, however, found it difficult to develop a working relationship with purchasing staff. SAP and BuyNet have gone some way to bridging the gap, but procurement is often seen as a wholly financial issue, with purchasers focused more on achieving their own objectives than obtaining value for money for the Department as an organisation. The procurement team are often not consulted early enough in the procurement process, or not consulted at all. The procurement team's difficulty in raising its profile and engaging purchasing staff has resulted from three main factors:

- A lack of buy-in from senior management - unlike its predecessor, DTLR, which had a Commercial Director, the Office of the Deputy Prime Minister has no procurement "champion" at Board level. Procurement is not discussed at Board meetings, unless in relation to a specific large project, such as BuyNet;
- The absence of a formal, written procurement strategy with objectives - a document is currently being drafted and will be approved by the Board. It will only be implemented effectively, however, if it is supported by senior management; and, to a lesser extent,
- A high turnover of secondees in some areas.

*"We know that research staff are awarding much sounder contracts than they were five years ago because they've put a lot more strategic thinking into it."*

Source: National Audit Office interview with the Office of the Deputy Prime Minister

2.16 An area where the Office of the Deputy Prime Minister has taken a strategic approach is the procurement of research, a key service which underpins all its objectives. A dedicated team of five staff - the Strategic Research Team - provides advice to purchasing staff on issues such as tendering, contracts, managing suppliers and compliance with regulations. The aim is to help individual purchasers obtain value for money, but also to coordinate research procurement across the Department. The team's activities include maintaining a

supplier database, running a helpdesk, issuing guidance on the intranet and facilitating training events. A recent National Audit Office report<sup>2</sup> found that over 60 research providers to the Office of the Deputy Prime Minister rated the Department highly in terms of the quality of the tender documents and project briefs it issues, and its commitment to excellence.

## Managing suppliers

2.17 In general, supplier relationships are the responsibility of purchasing staff. The procurement team does not proactively seek to engage with suppliers, but provides advice and information if contacted directly. There are

occasional exceptions, for example when the need to create a new market arises, or for a large project like BuyNet. The Department's website contains comprehensive information for both current and potential future suppliers and includes details on its structure, procurement policy and procedures, quotation and tender requirements, public procurement regulations and electronic trading. Potential suppliers, including small and medium-sized enterprises, are encouraged to submit information about themselves to be kept on a database<sup>3</sup>.

2.18 Problems with its SAP accounting system mean that the Office of the Deputy Prime Minister is unable to identify the amounts spent with different suppliers and who its top suppliers are.

### 18 Key Strengths

- **Raising commercial awareness:** The Office of the Deputy Prime Minister has taken a strategic approach to the procurement of research, a key service that underpins all its objectives. A Strategic Research Team has been set up to provide advice to purchasers and to coordinate research across the Department. Advice is given on issues such as tendering, contracts, managing suppliers and compliance with regulations. The aim is to help individual purchasers obtain value for money, but also to ensure that the Department takes a joined-up approach to research procurement. Coordination and commercial expertise is essential when procuring research and consultancy.
- **Greater targeting of value for money improvements:** The Office of the Deputy Prime Minister and the Department for Transport have introduced BuyNet, one of the first e-procurement systems in central government. The key benefit is that goods and services can be ordered and invoiced electronically, creating the potential for significant savings in staff time, faster delivery and better product information. It also supports the Government's target for e-business by 2005.

### 19 Potential for future progress

- **Raising commercial awareness:** The Office of the Deputy Prime Minister does not have a written procurement strategy and procurement is not represented at Board level, although high value projects, such as BuyNet, are discussed at Board meetings. In its guidance and training, the procurement team has encouraged purchasers to focus on achieving value for money for the organisation as a whole rather than simply achieving their own objectives. There is still concern, however, that purchasers are not consulting the procurement team often enough and early enough. Introducing a procurement strategy will raise the profile of procurement and integrate it with departmental objectives and service delivery.
- **Better management information:** The Office of the Deputy Prime Minister currently has no reliable procurement data - how much it spends, with whom and on what - because of ineffective use of a new SAP accounting system. The Department is rectifying the situation - SAP has been re-launched with better training and guidance for purchasers. Until the Department can be confident that the system is being used as intended, it will lack the information required to measure and monitor its procurement performance. This illustrates the need for buy-in from staff when new systems are introduced. Detailed guidance and clear business process ownership are essential to establish such buy-in.
- **Proactive management of suppliers:** Difficulties with suppliers' IT capabilities have caused delays in the implementation of BuyNet and under-utilisation of the system to date. This illustrates the need for departments to establish strong working relationships with suppliers and communicate clearly on IT requirements from an early stage. Further, for departments to realise the benefits which e-procurement offers, the resources saved (mostly staff time) must be re-deployed elsewhere.

<sup>2</sup> *Getting the evidence: Using research in policy making (HC 586-1 2002-03).*

<sup>3</sup> [www.odpm.gov.uk](http://www.odpm.gov.uk) click on About ODPM then Working with us and Procurement.



## Case study three: The Vehicle & Operator Services Agency

- 3.1 The Vehicle & Operator Services Agency (VOSA) is an executive agency of the Department for Transport formed in April 2003. Its aim is to contribute to the management of road safety by promoting and enforcing compliance with commercial operator licensing requirements.
- 3.2 The Vehicle & Operator Services Agency provides Heavy Goods Vehicle (HGV) testing and bus regulation services to drivers of commercial and public vehicles. It also approves authorised examiners for MOT testing centres delivering services directly to the public. In addition the Agency enforces operator licensing for commercial and public vehicles, provides educational and advisory services to drivers, and plays a role in accident investigation through its Vehicle Safety Branch. There are several risks to the successful delivery of these services if procurement is not carried out efficiently and effectively (Figure 20).
- 3.3 The Agency has 2,600 staff, of which 300 are based at its headquarters in Bristol. It also has offices in Edinburgh, Leeds, Birmingham, Eastbourne, London, Cambridge, Swansea, and 23 Local Area Offices and 90 test centres for Heavy Goods Vehicles at sites across the country. The Vehicle & Operator Services Agency's expenditure in 2002-03 was £135 million, of which almost £50 million was procurement spend. All areas of Agency activity have a procurement requirement, ranging from a large contract to provide IT systems across the organisation over nine years to small contracts to maintain the quality of equipment at test centres (Figure 21).

### 20 Risks to the Vehicle & Operator Services Agency's service delivery if procurement is not effective

Risk	Impact
Requirements for goods and services not properly specified	Testing stations are not supplied with the goods and services that they need. Technical equipment is not compatible with agency systems.
Procurement process poorly managed	Delivery of goods and services to end users within the Agency is not timely and may result in delays to services delivered to the public.
VOSA staff undertake unauthorised procurement spending	Possibility of impropriety and fraud. No assurance of the legality of procurement practices, potential complaints against the organisation under EU regulations.
Poor evaluation of tenders	Contractor fails to meet performance standards for service delivery. Supplier cannot deliver goods and services to geographically dispersed VOSA test stations and level of service becomes variable across the UK.
Number of suppliers is too high	Goods and services are purchased in uneconomic quantities and potential economies of scale are lost. Administrative costs are disproportionately high.
Inadequate supplier marketplace information	Goods and services are purchased at prices above the prevailing market rate, inability to respond effectively to changes in the marketplace such as increased competition or innovative products. Small firms overlooked.

Source: National Audit Office

**21** How procurement contributes to achievement of the Agency's objectives

Objective	Associated activity	Example of goods and services required
1. To work with stakeholders, including the Traffic Commissioners, to ensure fair competition and to raise the compliance of the road haulage and passenger transport industries with licensing roadworthiness, road traffic and environmental standards.	Considering and processing licences for heavy goods vehicles and public service vehicles, registering of bus services.	Vehicle impounding services, storage and disposal of Heavy Goods Vehicles.
	Testing and certification of vehicles to safety and environmental standards.	Supply and maintenance of portable diesel smoke meters.
	Supporting the work of the seven independent Traffic Commissioners.	Stationery, photocopiers, temporary staff.
2. To improve the roadworthiness and environmental standards of private motor vehicles, and to contribute to the reduction of vehicle-related crime.	Approving MOT examiners and testers and monitoring standards at premises.	Uniforms for traffic examiners visiting operator premises.
	Enforcing compliance with vehicle registration requirements (for example roadworthiness requirements).	Testing equipment for Heavy Goods Vehicle/Public Service Vehicle MOT tests.
3. To work with Driver, Vehicle and Operator (DVO) group members and other partners to provide customers with a choice of modern, accessible and user-friendly services.	Investigating vehicle accident design defects and recalls.	Vehicles for use by Vehicle Safety Branch.
	Training and education to improve compliance of vehicle operators and drivers.	Educational videos for circulating to MOT garages.
4. To run an efficient, effective, continually developing and valued business, equipping staff to make the best use of available technology, skills and knowledge.	Maintenance of testing premises.	Supply and maintenance of gas analysers.
	Provision of integrated internal systems.	Human Resources' IT systems upgrade.

Source: Vehicle & Operator Services Agency

**22** Responsibilities of VOSA's procurement unit

- Developing procurement policy
- Securing value for money
- Delivering contracts that meet business needs
- Ensuring the legality of VOSA's procurement practices

Source: Vehicle & Operator Services Agency

**23** Vehicle & Operator Services Agency procurement policies

- To promote VOSA contracts and other pre-tendered compliant frameworks within VOSA
- To support pre-tendered Official Journal of the European Union compliant frameworks where appropriate
- To collaborate with other government departments and agencies to their mutual benefit wherever possible
- To work in partnership with suppliers wherever possible
- To support the ethical code of CIPS
- To seek 100 per cent professional qualification in the Procurement Unit (MCIPS)
- To move forward the 'e' agenda within VOSA's procurement function

Source: Vehicle & Operator Services Agency

How procurement is organised

- 3.4 The Vehicle & Operator Services Agency has a centralised Procurement Unit based in Bristol comprising five members of staff reporting to the Head of Estates, Facilities and Procurement, who in turn reports to the Process and Finance Director, a member of the Agency's Board (Figure 22).
- 3.5 Procurement supports the Agency's fourth business objective: "To run an efficient, effective, continually developing and valued business, equipping staff to make the best use of available technology, skills and knowledge." The Agency has no procurement strategy, since it was concerned that such a document might not be flexible enough to adapt to potential changes in business direction. The Procurement Unit follows a series of policies (Figure 23), although these are not codified, aligned with specific business objectives, or explicitly endorsed by the Agency's management board. The Agency has no specific value for money targets for procurement. Ongoing subjective assessments of value for money performance are made by the procurement team, but post-contract reviews are not routinely undertaken.
- 3.6 Local managers currently have a threshold of £3,000 for procurement spend. Below this threshold, local managers have authority for purchasing goods and

services. Any increase in the spend threshold is unlikely in order to limit the ongoing risk of non-compliant transactions (often referred to as *maverick spend*<sup>4</sup>).

3.7 Purchases over £2,000 must be referred to the Procurement Unit. Initial stages of procurements are overseen centrally to ensure EU procurement regulations are applied, and the contracts advertised in the Official Journal of the European Union (OJEU) where this is required (for contracts over £100,000). The Procurement Unit therefore has a direct role in some 75 per cent of the organisation's procurement spend (Figure 24). Where the purchasing requirements are detailed or recurring, for example for recording equipment or business stationery, the Procurement Unit will look to set up a contract, or use an existing framework operated within central government. The exceptions here are contracts for small works, which are dealt with by the Agency's Estates team for values up to £15,000. In 2002-03 the Procurement Unit awarded:

- 14 new OJEU contracts with a total value of £9.4 million, for example a three year contract for the printing and supply of business stationery, leaflets, posters, flyers and magazines worth an estimated £200,000 per annum; and
- 250 new non-OJEU contracts with a total value of some £10.7 million, for example a three year contract to supply occupational health services worth £20,000 per annum.

**24 A quarter of procurement spend in 2002-03 was made without reference to the central Procurement Unit**

Threshold	2002-03 Expenditure (£000)	per cent of spend
OJEU	26,900	54
Non-OJEU	10,430	21
Non-Influenced Spend*	12,625	25
<b>Total</b>	<b>49,955</b>	<b>100</b>

\* This category includes annual charges, expenditure under £2,000, contracts for small works through VOSA's Estates team, maverick spend, and expenditure on hotels and conferences.

Note: Figures include spend on contracts awarded in previous years.

Source: Vehicle & Operator Services Agency

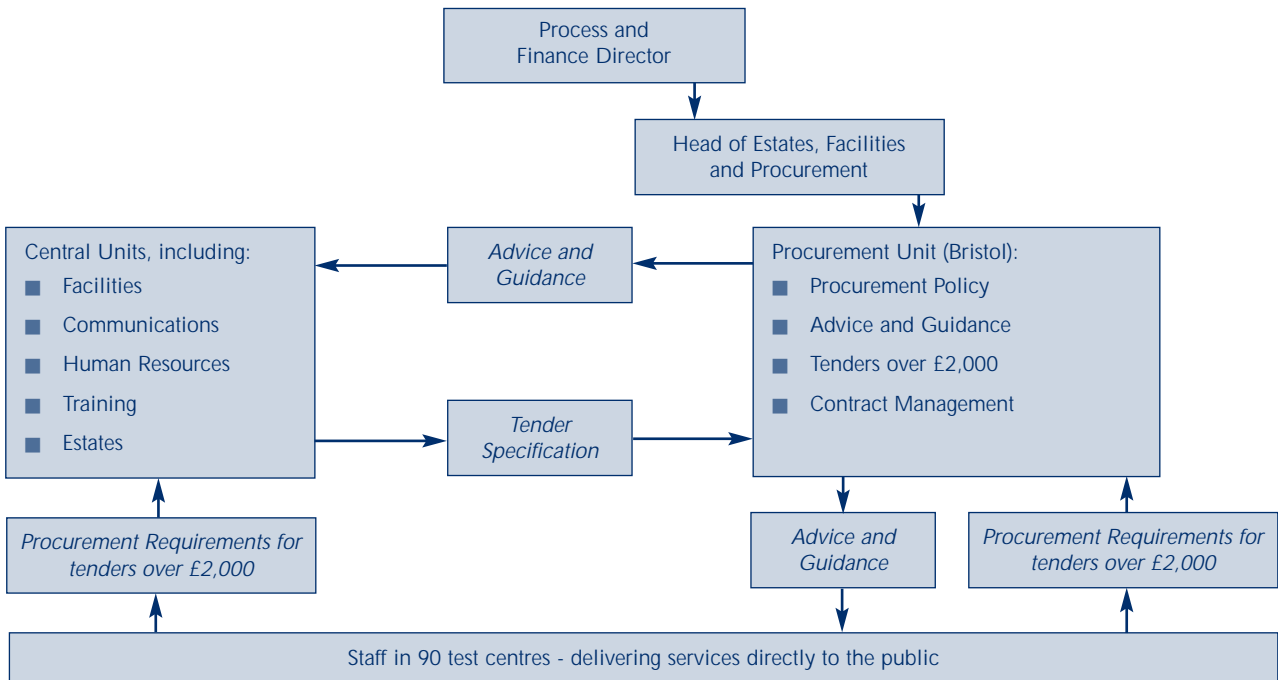
- 3.8 The Agency use of the Government Procurement Card now includes 300 card holders. Use of the card has risen from 2,742 transactions with a value of £293,455 in 2000-01, to 5,831 transactions with a value of £431,402 in 2002-03. The Agency estimates that this latest figure represents a saving in transaction costs of over £163,000.
- 3.9 Of the five members of the Procurement Unit, two are currently MCIPS qualified and the remaining three are studying towards MCIPS. None are members of the Government Procurement Service. In recruiting procurement staff, the Agency expects candidates to be CIPS part-qualified and experienced in working in government bodies. The Agency does not pay a recruitment and retention allowance to qualified or part-qualified designated procurement post-holders.

## Managing customers

- 3.10 Typical customers for the central procurement team include the Communications, Human Resources, Training and Facilities teams (Figure 25). All VOSA staff are potentially purchasers of goods and services and in enforcing guidance and monitoring spend in the 90 test centres, the Procurement Unit also works for customers across the organisation.
- 3.11 The Procurement Unit disseminates prepared guidance to staff who have a key role in the purchasing of goods and services. For example, the unit's *Easyguide* guidance explains processes for obtaining quotes, writing specifications, recording transactions and obtaining financial approval and is supported by guidance on the procurement of consultancy services.
- 3.12 Close working between the Procurement Unit and other central units in the Agency to provide advice at an early stage of the procurement process - often as these units consider their procurement requirements - has delivered a range of benefits (Figure 26). In the case of the Facilities Team, a shared Service Level Agreement (SLA) has been signed detailing the responsibilities of both parties and covering such areas as procurement advice, award of contracts and tender evaluation. The close relationship has been instrumental in ensuring that goods purchased are in line with often highly technical requirements. The Facilities Team's role in procurement includes visits to suppliers' manufacturing and assembly facilities and the coordination of equipment trials, and extends beyond the contract award to the reporting of any problems with testing equipment identified during the contract period.

4 VOSA's Procurement Unit define maverick spend as: VOSA staff not using the frameworks the Procurement Unit promote; staff undertaking procurement over £2,000 without reference to the Procurement Unit; and staff undertaking procurement under £2,000 which is not in compliance with the procurement Easyguide.

**25** The Procurement Unit provides services to customers throughout the Agency



Source: National Audit Office

**26** The Agency benefits from a close relationship between the Procurement Unit and its customers

Customer	Example Requirements	Relationship	Benefit
Communications Team	<ul style="list-style-type: none"> <li>Publications and leaflets</li> <li>High specification printers - customer uses a framework suggested by the Procurement Unit</li> </ul>	Procurement Unit has a good awareness of the needs of the team, and the two have an integrated approach to the procurement process which has included joint visits to potential suppliers.	Early contact and ongoing discussions about procurement requirements mean colleagues do not fall behind schedule in what is potentially a time-consuming process.
Training Team	<ul style="list-style-type: none"> <li>Hire of training facilities</li> <li>Projectors - customer uses a call-off contract suggested by the Procurement Unit</li> </ul>	Procurement Unit involved from start of purchasing process - advising on thresholds, contracts and the sequence of required stages.	Procurement Unit serves as a "middleman" - simplifying for colleagues what they see as a potentially bureaucratic and complex process.
Automatic Number Plate Recognition (ANPR) Project Team	<ul style="list-style-type: none"> <li>Vehicles - customer uses framework contract for vehicles suggested by the Procurement Unit</li> <li>Specialist equipment</li> <li>Vehicle Servicing</li> </ul>	A member of the Procurement Unit was involved as part of project team from the outset. Procurement Unit supplied comparison graph of prices and gave advice on methods of evaluation.	The chosen contract provided competitive prices and excellent service from suppliers. The information exchange in this procurement will have follow-on benefits for future requirements for vehicle servicing and checking.
Facilities Team	<ul style="list-style-type: none"> <li>Brake testing equipment</li> <li>Other Heavy Goods Vehicle testing equipment</li> </ul>	The Procurement Unit draw on the specialist advice of in-house technical experts in the facilities team who are responsible for setting out detailed technical specifications of what is required from equipment.	Specifications for equipment are accurate when going out to tender, and thus the Procurement Unit is able to meet the exact requirements of the end users of these products, balanced by commercial considerations.

Source: Vehicle & Operator Services Agency

3.13 A range of approaches has been employed to improve links with customers (Figure 27). Some parts of the Agency have undertaken maverick spend outside of agreements negotiated by the central Procurement Unit. The levels of maverick spend (Figure 28) are monitored by the Procurement Unit and internal auditors. They estimate maverick spend may total some £1.2 million annually, 2.4 per cent of the Agency's total annual procurement spend. Although significant, the level of maverick spend is not considered by internal auditors to be an "organisational risk" to the achievement of the Agency's objectives, as it typically covers areas such as stationery or computer supplies such as printer cartridges or floppy discs, rather than business-critical goods such as testing equipment.

3.14 The Procurement Unit issues a customer satisfaction questionnaire to internal customers on completion of a competitive tendering exercise, ensuring that they evaluate their own performance and identify areas where the team has not met the needs of the end users of goods and services. This exercise allows the Procurement Unit to benchmark their performance against the expectations of their customers and highlights where there may be requirements for staff training or customer relations work.

## Managing suppliers

3.15 The Agency records invoices paid to suppliers through its accounting system, but further management information such as supplier dependency and information about supply chains is limited. In 2002-03, the Agency purchased goods and services from 2,927 different suppliers, with a total spend of just under £50 million. £16 million (32 per cent) is spent with ten suppliers (Figure 29), and 10 per cent of suppliers account for 90 per cent of the Agency's procurement spend. Many of the remaining suppliers are small companies providing goods and services to local testing centres.

3.16 The Agency makes use of a variety of procurement routes, from accessing framework agreements run by the Department for Transport and the Department for Work and Pensions for photocopiers and recording equipment, to letting their own contracts for video production and mobile phones (Figure 30). The Agency contracts range from a nine year contract with SchlumbergerSema, for the provision of IT solutions, including business services and operational network management services, to three years with Midway Industrial Doors and HAG for provision and maintenance of roller shutter doors at testing stations.

### 27 Examples of approaches taken by the Agency's Procurement Unit to improve links with customers

- Convened a joint local procurement forum with the Fire Service College and the Planning Inspectorate to collaborate, learn and share procurement practice.
- Visited five testing stations in the South West to promote procurement awareness and practice.
- Identified a "Procurement Community" of 30 key customers across the business, who regularly contact the Procurement Unit for tender exercises and who have day to day contact with suppliers.
- Targeted the "Procurement Community" network with procurement advice and information, for example through e-mail updates detailing developments in sectors of interest, such as hiring temporary staff.
- Undertakes surveys of internal customers to test satisfaction with the procurement function. These surveys are issued by the Procurement Unit as contracts are let and are mainly used for larger procurements and where VOSA has let its own contract.

Source: National Audit Office

### 28 Maverick Spend

One example identified by VOSA's internal auditors was an £8,000 furniture purchase made without reference to the Procurement Unit. Here a budget holder at a local office had purchased from a local supplier and was convinced that good value for money had been achieved. However, although the price paid was favourable there was no assurance that the furniture in question had a warranty, was compatible with health and safety regulations, or complied with departmental environmental requirements. These elements would have been built into any contracts let centrally.

Source: Vehicle & Operator Services Agency

3.17 The Agency requires flexibility to deal with suppliers locally as many of its contracts are small - for instance for cleaning and grounds maintenance. Local suppliers can do some things more cheaply than a national contractor. Nevertheless, the Agency looks wherever possible to set up national contracts which reflect localised needs. For example, in letting its mobile phone contract with Orange, the Agency decided against the OGCBuying.solutions telecoms contract because the supplier did not offer the national geographical network coverage that the Agency's widely dispersed structure required. Where the Agency sets up its own contracts, it examines existing frameworks to benchmark prices and ensure it obtains a competitive market price.

**29** The Agency spent over £16 million with its top ten suppliers in 2002-03

Supplier	Business Sector	Typical Product	Spend (per cent)
Electronic Data Systems*	ICT	ICT services	34
BRITCON (Scunthorpe)	Construction	Construction	12
Computacenter	IT goods	Personal Computers	10
Unilock Special Projects Ltd.	Construction	Construction	10
Synchro Projects	Construction	Construction	9
Security Printing & Systems Ltd.	Print	Security forms	5
Axle Weight Technology Ltd.	Manufacturing/Maintenance	Weighing Equipment	5
British Telecom	Communications	Telephony services	5
SchlumbergerSema	ICT	ICT services	5
Royal Mail	Communications	Postal services	5
<b>Total spend with these suppliers</b>			<b>£16 million</b>

\* This contract for ICT services has subsequently been re-let. EDS no longer provide any services to VOSA.

Source: Vehicle & Operator Services Agency

**30** The Agency uses a variety of procurement contracts

Good/Service	Purchase Route	Contract Length	Value in 2002-03
IT Hardware	GCat	To end 2002-03	£1.6 million
Consultancy Services	S-Cat	Various	£10,000 to over £100,000
Triple Deck Recording Equipment	Department for Work and Pensions framework contract	December 2002 - March 2003	£22,000
Photocopiers	Department for Transport framework contract	3/5 years leases from June 2003	£225,000
Information Video Production	VOSA contract, open to departments and agencies	3 years to November 2004	£100,000
Mobile Phones and Mobile Network Services	VOSA contract, open to departments and agencies	3 years to June 2003 and extended for 12 months	£300,000
Business Stationery	VOSA contract, open to departments and agencies	3 years to November 2005	£450,000
Project Management Services	VOSA OJEU contract not open to other government departments and agencies.	3 years to April 2006	£500,000

Source: Vehicle & Operator Services Agency

3.18 The Procurement Unit aims to make the Agency as easy to trade with as possible for suppliers by:

- Publishing a list of future tender opportunities on its website, setting out contracts likely to be let in the year ahead;
- Using "Project Online" to publicise OJEU tenders and notifying key suppliers of these opportunities;
- Advertising non-OJEU contracts in *Government Opportunities* magazine;
- Sending out invitations to tender electronically;
- Keeping supporting materials, such as customer references, turnover and financial details, on file for key suppliers so that they do not have to resubmit these with each tender; and
- Setting up a voluntary partnership agreement with key suppliers setting out the principles of partnership working, what the Agency expects of suppliers, and what suppliers can expect of VOSA<sup>5</sup> (Figure 31).



**31** The Agency's voluntary partnership agreement with suppliers

Supplier commitments include:	VOSA commitments include:
To make the first offer the best offer except where, because of a negotiated procedure or where a final specification is partly dependent on the offers which are made, a Best and Final Offer (BAFO) is appropriate	To draft specifications which primarily reflect "needs" rather than "wishes" and which allow the widest possible degree of competition
To manage the supply chain efficiently and professionally to secure product or service delivery on time, every time	To provide opportunities for new products to be trialled in the field and to provide appraisals/reviews
No alterations to service availability/capability without first notifying VOSA, for example availability of spares or alteration of specification.	To be open-minded in its assessment of alternative products or methods of service delivery
To acknowledge VOSA's obligation to tender its requirements periodically - to show that it is achieving best value for money - but to accept that within these constraints, VOSA wishes to promote partnership in its procurement policy	To debrief unsuccessful tenderers as to the reasons why they have been unsuccessful with a view to increasing their chances of success next time
All requests for variation of price to be submitted with transparently costed justification	To award longer term contracts with an extension option wherever possible

Source: *Vehicle & Operator Services Agency*

**32** Key Strengths

- **Progress in developing procurement expertise:** By establishing close working relationships with its customers within the Agency, the Procurement Unit ensures that it becomes involved in the purchasing process at an early stage. For example, a member of the Agency's Procurement Unit joined the team of a project investigating the feasibility of using Automatic Number Plate Recognition (ANPR) technology. In this role, he was able to advise on EU regulations and suggested using a framework contract for vehicles run by the Ministry of Defence which secured both a competitive price and high quality service from suppliers. The end users of the goods and services required benefited in several ways from the input of the procurement team: the Project Team were able to minimise delays in the acquisition process; their specialist requirements were met as a result of the buying power of the government-wide contract; and timeliness in the delivery of the vehicles needed was achieved. By identifying key customers and working with them from an early stage in the procurement process, procurement specialists in departments and agencies can secure benefits for the end users of the goods and services they purchase.
- **More joint purchasing between departments:** The Agency's Procurement Unit has taken part in quarterly liaison meetings with procurement staff from the Fire Service College, based in Moreton-in-the-Marsh, and the Planning Inspectorate based in Bristol as part of the *Office of the Deputy Prime Minister-Department for Transport Local Procurement Forum*. The forum has considered issues of mutual interest, such as responding to government e-procurement targets, use of the Government Procurement Card, and frameworks that may be of mutual benefit; for example contracts for temporary staff and for maps. In discussing issues that are localised or low-level this forum also allows for participants to consider questions which are inappropriate for discussion at larger procurement forums organised by the Department for Transport to discuss more strategic procurement issues. By establishing and maintaining productive links with departments and agencies of a similar size or based in the same area, departments and agencies can exchange information on procurement practice, supplier performance, and developments in the procurement agenda.



**33** Potential for further progress





- **Raising commercial awareness:** The Agency delivers services directly to the public. As such, effective and efficient procurement has a central role to play in delivering the Agency's objectives, yet there is no procurement strategy and the policies followed by the Procurement Unit are not formalised or endorsed at senior management level. This illustrates the importance of using procurement strategy to raise the profile of commercial activity in departments.
- **Better management information:** The Agency has a high number of suppliers, which presents a substantial administrative burden on its ability to manage suppliers effectively and get the best from them. The Agency's management information about suppliers is limited to who its suppliers are and how much has been spent with them. The Agency is not easily able to analyse the transactions made under each contract, for example what transactions were made and the size of orders, and it holds no information on the supply chain below primary suppliers. Management information limitations hinder how proactive departments can be in managing purchasing.





# International comparisons

As part of our methodology we examined the main features of procurement in four other European countries to identify similarities and differences in approaches to procurement with the United Kingdom and to place progress made by OGC and departments in a European context. We also aimed to identify good practice and lessons learned which might be of relevance to the development of procurement practice in the UK.

- 4.1 We examined the Czech Republic, Denmark, Germany and the Netherlands. The countries examined had differing constitutional structures and legislative contexts, and as a result the organisation of the procurement function varied. However, the procurement function generally resides in individual ministries. There is an increasing acknowledgement of the role that can be played by specialist procurement organisations: in the Netherlands (PIA), and in Denmark (National Procurement) there are similar bodies to OGC, although their size and remit is smaller.
- 4.2 From our fieldwork, we found an increased recognition in these countries of the fiscal importance of public procurement spend, often as a result of budgetary constraints in ministries. Nevertheless, while the profile of procurement is being raised, for example by the Action Plan on procurement in the Netherlands, procurement is still seen as a support function, and the skills and capability of procurement staff reflect this. Full opportunities for collaboration and aggregation of demand in ministries are not fully developed, although Denmark has 60 or so framework agreements running across government with various bodies leading. As with the German BeschA procurement agency, the details of these are published together on one website. Supplier management is not generally well developed, and the participation of small and medium-sized enterprises in public procurement is increasingly becoming an issue in all four countries.
- 4.3 Features of good practice identified in each of the four countries are:
- Denmark and Germany have one-stop e-tendering systems which allow for real-time completion of tender documents on-line;
  - Denmark also runs the *Gatetrade* IT e-portal system for routine high volume items, which allows a comparison between a catalogue of goods, with purchasing tied to its accounting and authorisation systems;
  - The Netherlands has a clearly defined procurement strategy for government under its seven point Action Plan and is working to develop a "virtual library" of procurement knowledge for procurement staff; and
  - The Czech Republic benchmarks prices paid to suppliers against those collected by their National Statistical Service.

	 Czech Republic	 Denmark	 Germany	 Netherlands
<b>Annual central civil government procurement expenditure</b>	220 billion CZK (€4.8 billion).	30 billion DK (€3 billion).	Procurement expenditure not known due to federalised state structure.	€12-15 billion (€8-10 billion).
<b>Legislation</b>	In 1994, <i>Act 199</i> put in place a public procurement framework, stipulating that procurement officials must undertake competitive public tendering processes for letting Government contracts. A draft bill is currently being prepared to bring procurement regulations into line with those of the EU.	A Government directive requires all ministries to have a procurement policy as part of their strategy. The Ministry of Finance is responsible for e-commerce strategies legislative issues in procurement, including translating EU directives on tendering into national legislation.	Current procurement regulations under the "Law against Restriction on Competition" date from 2001. In addition there is delegated legislation covering procurement procedure and administrative regulations applicable only in departments which cannot be challenged legally.	In 1999, the Government's Ministry of Internal Affairs published its action plan "How to professionalise procurement" which set out seven key steps to stimulate improving the efficiency and effectiveness of civil procurement. Ministries report annually to Parliament on progress against the seven steps.
<b>Procurement arrangements</b>	Responsibility for procurement strategy falls to the Ministry for Regional Development. Each ministry is responsible for its own procurement, with goods typically purchased by central procurement teams and services by more specialised teams. Projects over 300 million CZK are overseen by Procurement Committees, comprising staff drawn from various ministries.	Responsibility for procurement lies within the 18 ministries of state. Within these, authority to purchase may be centralised or devolved. A division of the Ministry of Finance, Agency for Governmental Management (AGM), is responsible for developing guidelines and rules for the procurement strategy of each ministry.	The Ministry of Economics is responsible for the enforcement of procurement regulations, but individual federal ministries are responsible for their own procurement. German government is highly decentralised and there are some 35,000 public institutions with a procurement function.	Procurement is devolved across 13 ministries and their agencies. The Ministry of Finance has coordinating responsibility for the financial management of the Dutch state as a whole but each ministry has responsibility for its own financial management and has its own unit responsible for all procurement.
<b>Specialist procurement organisations</b>	None. The Czech Government has considered the feasibility of a centralised procurement office (for transactions over 100 million CZK), but believes that it would be difficult to establish a coherent role for a centralised procurement office because the range of goods and services varies so widely across Government. Ministries currently have their own procurement guidelines and internal staff guidance.	Both central and local government can use the services of National Procurement Ltd (NP), a procurement agency co-owned by the Government and a municipal organisation. NP provides voluntary and commercial services to Government, including frameworks and, increasingly, a system of "coordinated purchasing" whereby buyers commit to the purchase of a designated volume of goods and services in return for scaled discounts.	The Ministry for Interior has a dedicated Procurement Agency - BeschA - which procures goods and services over €8,000 on behalf of the Ministry and 26 other organisations across federal government. It employs 215 staff with procurement expertise. In 2002-03, the value of contracts let by BeschA was over €400 million. In addition, ministries are increasingly establishing companies to look after certain areas of procurement.	The Professional Purchasing and Procurement Agency (PIA) is funded by the government and hosted by the Minister of Economic Affairs, who bears the ministerial responsibility for the application of European procurement regulations. It acts as a facilitator and coordinator and a central point of knowledge to enable collaboration. In addition the Dutch Purchasing Council (NIC) is a private company providing purchasing, project management and facility management services on a fee basis to public and private sector clients. Less than 4 per cent of central and local government procurement is placed with NIC.

	 Czech Republic	 Denmark	 Germany	 Netherlands
<b>Collaboration</b>	<p>Apart from the Procurement Committees, there is no collaborative procurement undertaken across departments. While there are no legal obstacles to collaboration, departments believe their own requirements are too specific and do not overlap with those of other ministries.</p>	<p>NP runs 60 government-wide framework agreements. It has 8,000 subscribers who pay 1,000 DK (€100) a year. Around 4 billion DK (€400 million) is spent annually on these agreements with 800 suppliers. In addition, the Ministry of Finance runs three compulsory contracts for communications, fuel and advertising.</p>	<p>Collaboration between ministries in procuring goods and services is limited by legal constraints. The bundling of requirements is permitted for up to 10 per cent of the value of the government market for the product. BeschA are making increased use of framework contracts, with two thirds of contracts let in 2001-02 being under framework agreements.</p>	<p>There are cross-government framework agreements covering temporary staff hire, computers, post, security, energy and telecommunications. The PIA publishes guidance on setting up frameworks but there are no set criteria to determine which Ministry leads them. NIC manage frameworks for some departments and collate and publish details of contacts for these in a central database.</p>
<b>E-procurement</b>	<p>The Czech government announces all public procurements electronically and undertakes the electronic registering of procurement jobs. The Ministry of Informatics has instigated a pilot e-procurement module with projected savings of up to 1 million CZK, and has a target to conduct 100 per cent of public procurements on-line.</p>	<p>The <i>Gatetrade</i> e-procurement system has been developed for routine volume items. <i>Gatetrade</i> will soon allow for a paperless system through the use of digital signatures and for non-standardised requirements such as consultancy. In addition, National Procurement introduced <i>Ethics</i> in 2002 for the completion and management of EU tenders on-line.</p>	<p>E-procurement is a key focus of the work of BeschA in response to the requirement under Bund Online 2005 that they achieve €140 million savings through e-procurement. The central tenets of the e-procurement strategy are an email system for requisitions in place between BeschA and its customers, a virtual marketplace for calling off frameworks and an e-tendering module.</p>	<p>Development of e-procurement capability remains under consideration within ministries, although the PIA is required to publish all procurement announcements electronically. A pilot "purchase to pay" system has been introduced by the Ministry of Finance to provide simplified ordering and authorisation. Only one supplier (in the office supplies sector) is currently signed up to this system.</p>
<b>Savings targets</b>	<p>There are no savings targets assigned directly to the procurement function but a savings agenda across government prompted by increasingly tight budgets has served as a barrier to procurement spending.</p>	<p>No savings targets have been set centrally for procurement, although budget cuts have been used to achieve the same ends. It has been difficult to quantify savings achieved by National Procurement framework agreements.</p>	<p>No savings targets have been set but budgetary constraints are increasingly putting value for money in procurement on the agenda.</p>	<p>Savings targets have been set for government procurement in the period 2004-07, amounting to €150 million.</p> <p>They are:</p> <ul style="list-style-type: none"> <li>■ 2004 - €20 million</li> <li>■ 2005 - €30 million</li> <li>■ 2006 - €50 million</li> <li>■ 2007 - €50 million</li> </ul>

	 Czech Republic	 Denmark	 Germany	 Netherlands
<b>Professional expertise</b>	<p>The Ministry for Regional Development organises and finances some training courses, often as a response to developments in the procurement agenda such as the amendment of relevant legislation. However, capability varies across ministries. Advisory guidance and supporting training manuals for staff will be published and disseminated as an output to the "twinning" work done with Germany in preparation for EU accession.</p>	<p>Very few formal measures have been taken to ensure that staff have expertise in procurement. No formal training or institutional qualification packages are offered to procurement officers, and there is a resultant variation in capability across government areas.</p>	<p>There are few procurement specialists in central civil government and the procurement function is more likely to be one aspect of the work of ministerial officials. While no formal procurement qualification is available for public sector staff, the government Academy runs 4-day courses on procurement legislation.</p>	<p>An independent professional institute, NEVY, provides Purchasing Officer training comprising four competency levels, and the PIA encourages this as the recognised procurement qualification in Government. However, the number of procurement staff across Government and their level of procurement expertise is not known. NIC requires that all its staff are qualified to NEVY level 2.</p>
<b>Supplier management</b>	<p>Data is not collected on suppliers across Government and so there is no clear profile of who supplies to government or the reliance placed on them. While SMEs are often subcontractors to larger suppliers, there have been concerns expressed by SMEs at the perceived barriers to market entry caused by the number of large volume procurement projects. An active database of preferred government suppliers is to be set up in preparation for EU entry.</p>	<p>There is no complete picture of what goods and services are bought by ministries, nor who they are bought from. The increased centralisation and aggregation of Government contracts has meant that small companies often need to provide a wider range of products to compete for larger contracts, for example in the area of office supplies. The Ministry of Finance is at this point unclear how to proceed with regard to SMEs, who have registered complaints about centralisation and the costs of tendering</p>	<p>Information about suppliers to Government across ministries is patchy, although access to enhanced information on supplier activity will be established as part of the development of a virtual marketplace under the Bund 2005 initiatives. BeschA monitors the structure of its supplier base, the levels of new suppliers and spend in categories of goods and services.</p>	<p>Data is not collected on suppliers across Government. A 2002 Parliamentary Investigation into Construction Fraud found that potential suppliers were meeting in advance of submitting tenders to coordinate their bids. This allowed them to gain greater leverage over Government as a purchaser, for example by maintaining artificially high prices, and demanding bid costs for failed tenders. The investigation recommended ministries act to change this culture and greater safeguards are now built into Government contracts.</p>



Czech Republic



Denmark



Germany



Netherlands

**Key features**

- Ongoing twinning arrangement with Germany for the purpose of training and information exchange.
  - The Ministry for Regional Development undertakes the benchmarking of prices paid by public sector bodies against information collated by the Czech National Statistical Service on market prices.
  - Procurement Committees for high-spend procurement projects facilitate cross-government information exchange on good practice and supplier performance. Typically these committees comprise a member from the Ministry of Finance and two or three other relevant ministries.
  - As part of the tendering process, interested parties must submit a list of subcontractors and copies of any agreements with them, allowing supply chain considerations to be factored into tender assessments.
- Take-up of *Gatetrade* has been slow. There remains insecurity in sending e-orders from buyers, and difficulty in establishing a business case (i.e. of visualising process savings) has been a barrier to marketing its use.
  - The *Ethics* e-tendering portal aids suppliers by providing a secure system for completing and submitting OJEU tenders backed by digital signatures and mechanisms for time stamping bids. Features of the system include a contract archive, standard document library and a procurement planning module.
  - Where frameworks have been set up the lack of a committed volume requirement from Government has hindered the negotiation of satisfactory deals with suppliers. The compulsory frameworks have been more successful in areas where there is no large variation in available products and the major players in the marketplace are well-defined, for example communications.
- Partner organisations across the public sector can monitor all BeschA framework agreements on a designated Intranet site with details of goods and services available, designated suppliers, contacts in BeschA administering the contract, institutions that have used the framework and whether the framework is open to other public bodies.
  - The BeschA e-tendering module regulates the process of tender by suppliers from the specification of requirements through to electronic submission of tenders to notification of contract award. The system is designed to ensure the legality of tenders under EU regulations and reduce the processing costs to both parties and is facilitated by digital signatures. The system is supported by a document management system.
  - Federal legislation requires the participation of SMEs in industry sectors. Specification of performance levels at the tender stage must take into account the capability of SMEs and procurement projects are often divided into smaller "lots" which SMEs can bid for.
- The 1999 Government action plan has raised the profile of procurement in Government. It has sought to develop a new approach to procurement which emphasises the need for less focus on detailed technical specification of inputs in contracts and more focus on outputs and outcomes to be achieved. In particular this strategy has emphasised the need to take greater account of the overall supply chain, employ a greater focus on full life costs, and manage and allocate risk more effectively.
  - The PIA is acting to build and disseminate a base of knowledge and good practice information across Government. For example it is developing a "virtual library" through its website, accessible only to ministries, with an interactive facility that will enable staff in departments to ask questions of procurement colleagues elsewhere in central government.
  - Progress reports against the seven step Action Plan submitted by ministries indicate ministries have made progress in analysing their procurement profile, procedures and staffing structures, and that the culture of ministries in relation to procurement is seen to be changing. However, these reports indicate that ministries are still not making the most of opportunities to purchase jointly.