



National Audit Office

Procurement in the Culture, Media and Sport sector

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EXECUTIVE SUMMARY



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

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

Our main findings

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

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

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

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

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

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

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

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

Source: National Audit Office survey

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

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

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

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

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

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

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

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

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

Concluding comments and recommendations

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

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

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

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



RECOMMENDATIONS

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

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

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

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

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

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

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

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

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



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

8 Each organisation should develop its management information so that:

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

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

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