



National Audit Office

# Improving procurement in further education colleges in England

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 1632 Session 2005-2006 | 25 October 2006

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**11 October 2006**

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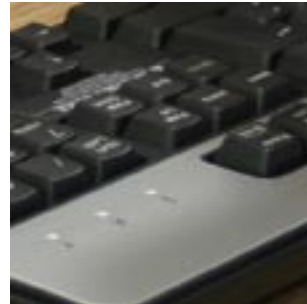
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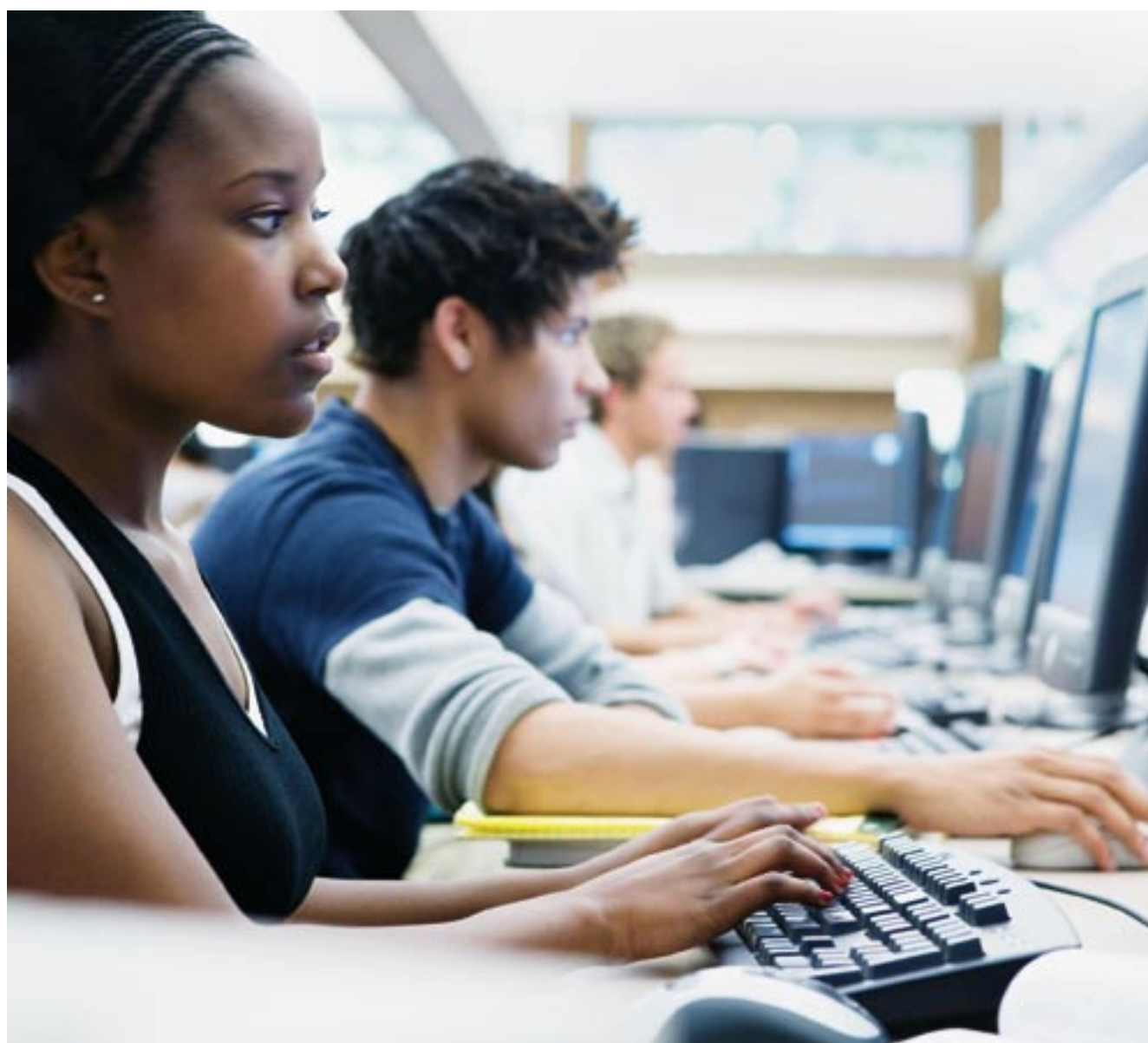
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## EXECUTIVE SUMMARY



**1** Procurement is the whole life cycle process of acquisition of goods, services and works from third parties, beginning when a potential requirement is identified and ending with the conclusion of a service contract or ultimate disposal of an asset. The 2004 Gershon Efficiency Review<sup>1</sup> proposed procurement as one of the main sources of efficiency savings in the public sector. The Learning and Skills Council, which funds England's 384 further education colleges, estimates that from an annual procurement expenditure of £1.6 billion<sup>2</sup>, colleges could make £75 million savings by March 2008, which would be available to be redeployed into front-line services for learners.<sup>3</sup>

**2** To achieve the £75 million, colleges need to save about five per cent of their annual procurement expenditure. Our previous reports on procurement in government departments<sup>4</sup> suggest that this level of savings is achievable; colleges with currently relatively under-developed procurement practices may be able to achieve more. But none will be able to realise savings on this scale unless they improve procurement by drawing on professional expertise and making better use of the opportunities for collaboration. This report draws on our previous work and the advice and guidance on good practice promulgated by the Office of Government Commerce. By setting out the key steps and highlighting examples of good practice, the report aims to help colleges to develop their capacity to manage procurement more effectively and improve processes so that they make

savings. **Figure 1 overleaf** summarises the arrangements that are commonly in place in colleges at present, and the improvements they should be aiming for. Appendix 1 sets out the methodology for our study.

## Value for money assessment

**3** While colleges' procurement systems are largely well established in terms of internal controls, most colleges' systems, processes and procedures have not kept up with modern procurement practice. Savings are clearly achievable: a minority of colleges are demonstrating considerable price and administrative savings through improved processes, greater access to and use of procurement expertise, and much better intelligence regarding the marketplace and the goods and services being purchased.

## Recommendations and related conclusions

**4** Many of our recommendations (pages 3-5) are very basic because most colleges are starting from a relatively low level of procurement practice. The Department for Education and Skills (the Department) and the Learning and Skills Council have embarked on work to help colleges make savings and improvements, but there is a lot still to be achieved. Appendix 3 provides the detailed benefits and costs of each of the recommendations.

<sup>1</sup> Releasing resources to the front line: independent review of public sector efficiency, Sir Peter Gershon CBE, July 2004. The Department's Gershon target for procurement-related expenditure was £1.4 billion for education and children's services, including savings on capital expenditure.

<sup>2</sup> This figure is based on an analysis of college account returns to the Learning and Skills Council for 2004-05. It includes administration and general costs, premises costs and non-pay teaching and support.

<sup>3</sup> These figures exclude expenditure on capital construction projects, which is outside the scope of this report. Such expenditure is controlled differently by the Learning and Skills Council, and there is a separate target for savings.

<sup>4</sup> Listed in Appendix 2.

## 1 Summary of current position and potential improvements

### Common approach to procurement

- Director of Finance responsible for procurement
  - Purchasing devolved to budget holders
  - Little procurement expertise in-house
  - Staff mostly learn from colleagues
- 
- Accounting systems used for management information
  - Systems hold relevant data but colleges do not routinely extract it in suitable formats
  - No or limited information on transaction costs
- 
- Often no procurement strategy
  - Sustainability a low priority
  - Monitoring concentrated on individual budgets
  - Little benchmarking, though some colleges subscribe to private benchmarking services
  - Limited measurement of value for money or use of targets for efficiency savings
- 
- Financial regulations that prescribe thresholds for tendering
  - Spend outside of contracts and agreements that can lead to "maverick buying"
  - Contracts running for a long time without review
  - Risk of breaching EU regulations
- 
- No tradition of collaboration in many areas, though a few with a history of collaboration
  - Little advantage taken of opportunities to share expertise, information and good practice, partly arising from culture of competition
- 
- Low level or non-existent supplier and contract management
  - Increasing use of consortia and framework agreements but in a piecemeal fashion
  - No strategic management and monitoring of benefits achieved from these arrangements
- 
- Increasing awareness but slow and patchy take-up of methods such as e-procurement and purchasing cards

### What colleges should be aiming for

- A procurement liaison officer, who may be an existing staff member given specific responsibilities, to oversee procurement across the college and provide access to expert advice and guidance whether in-house or from external sources
- 
- Regular analyses of procurement data to produce information on what colleges are buying, how and why they are buying it, who they are buying from and how much they are spending
  - Regular measurement and monitoring of transaction costs
- 
- A procurement strategy endorsed by the governing body incorporating spending policies and procurement plans for each spending category, and issues of corporate social responsibility including sustainability
  - A more formal process for frequent measurement of value for money and efficiencies achieved against targets
  - Reporting on efficiencies and value for money to the governing body
  - Use of Efficiency Measurement Model<sup>1</sup> to facilitate monitoring of improvements in efficiency
- 
- Strategies and policies requiring spending within properly approved and appropriately tendered contracts and agreements; management information that supports straightforward procedures to check compliance
- 
- Active participation in local, regional and national networks to draw on experience and expertise of other colleges and other organisations
  - Culture of sharing information or contracts with other public sector bodies in the college's area
- 
- Active management of suppliers, including consortia and framework providers, regularly challenging them on prices, service levels and risk management
  - Strategic use of consortia and framework agreements for the categories of spend for which they are most appropriate
- 
- An up-to-date understanding of the uses and limitations, risks and effectiveness of these techniques
  - Use of e-procurement and purchasing cards for those categories of spend for which they are most appropriate

Source: National Audit Office

#### NOTE

<sup>1</sup> The Efficiency Measurement Model provides a standardised format for identifying, recording and reporting efficiencies. The Department launched it across the sector in August 2006.





## RECOMMENDATIONS

**Recommendation 1: College governors and senior managers should raise the priority of improvements to procurement. Managers should take advantage of the support being developed by the Department and the Learning and Skills Council to achieve savings to be re-invested in frontline learning.**

Colleges are rightly focused on the quality of services to learners. However, modern procurement practices offer opportunities for making efficiencies without compromising the required quality. Where colleges do not take those opportunities, they reduce the resources available to learners. Governors should challenge managers to justify procurement costs and demonstrate savings. The Department and the Learning and Skills Council should provide a lead, for example by setting up a benchmarking club for colleges to compare their performance on a regular structured basis.

**Recommendation 2: It is essential for the Learning and Skills Council to persuade all colleges to improve their procurement by providing examples of demonstrable, measurable savings and efficiencies. In addition to encouraging colleges that are demonstrating an enthusiasm for improving procurement and can deliver savings, the Council should be seeking to motivate all other colleges to follow their good example.**

Staff in many colleges are sceptical about whether savings through improved procurement will be worth the management effort required to achieve them. But as autonomous bodies, colleges are responsible for making the necessary improvements. The Learning and Skills Council's small team of experts therefore has to provide a catalyst for substantial cultural change across the college sector, so that colleges embrace the work they need to do.

To this end, the Council should promote rapid progress in those colleges which have already started to improve. It should assist them in identifying and measuring savings, and estimate the likely impact of similar savings in other colleges. It should disseminate the results as soon as there are measurable benefits that will encourage other colleges to follow.

**Recommendation 3: Colleges should develop a professional approach to procurement.**

Only a minority of colleges could justify employing a full-time procurement professional for their own college, but as a first step we recommend that all colleges identify one person who can take on the role of procurement liaison officer. This person would need to have an interest in procurement and the influencing skills – not necessarily seniority – needed for achieving change. The procurement liaison officer should be the focus for all staff involved in procurement activity and decision-making; provide a conduit for advice and guidance from the Learning and Skills Council and other sources; and help drive improvements within the college.

The procurement liaison officer should be supported by a named governor and senior manager, so that he or she feels able to ask challenging questions about out-of-date procurement practices. The liaison officer is likely to require senior management backing to persuade staff to accept changes, such as increased use of negotiated contracts across the college to replace single purchases with high transaction costs. The liaison officers should be encouraged to develop their skills by undertaking the National Vocational Qualification Procurement training funded by the Department.

## RECOMMENDATIONS (CONTINUED)

### **Recommendation 4: Colleges should review their data on procurement and how it can be better analysed to provide useful management information.**

One of the first tasks of the procurement liaison officer should be to arrange a thorough review of the data the college holds on procurement activities to identify: current contracts; when they are due for renewal; the number and range of different suppliers; numbers of transactions; and the amount spent under broad categories of spending. The review should explore and recommend ways of extracting and analysing key data on an ongoing basis.

The Learning and Skills Council should support these reviews by exploring the feasibility of extracting data from common systems used by colleges, and disseminating the results in a readily usable form, so that individual colleges do not each have to do this work separately. The Council should link its review of common systems with its work on the Efficiency Measurement Model, so that colleges can integrate the two activities.

### **Recommendation 5: The Learning and Skills Council should work with colleges to help them measure the efficiencies they achieve, and to promulgate the lessons to other colleges.**

The Efficiency Measurement Model is being developed to provide a key tool. It requires an element of judgement in valuing efficiencies that needs to be supported by real-life examples. There are currently few examples that are suitable for use in the model, and the Council should work with colleges which are already achieving

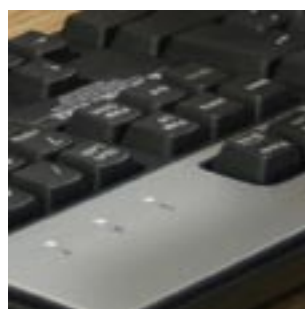
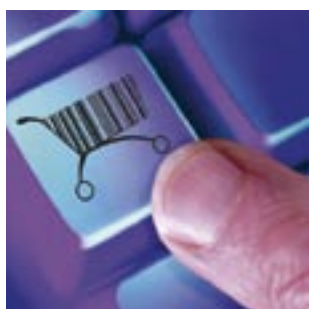
efficiencies, as proposed in recommendation 2, to fill this important gap. Once the model is sufficiently developed, colleges will still need to be persuaded to use it. Written guidance on using it is unlikely to be enough, and the Council should facilitate more active support such as workshops or a web-based forum to share and assist development of good practice in using the model.

### **Recommendation 6: Colleges should review their existing mix of procurement methods against good practice benchmarks.**

Colleges' general awareness of methods such as e-procurement is reasonably high, but awareness of the possible extent of use, and actual use of the methods, is low. Colleges need to analyse expenditure by type, value and procurement method used, and use the results to assess what savings can be made by changing to more modern methods that can help reduce prices and transaction costs.

### **Recommendation 7: Colleges should improve their management of suppliers.**

Few colleges analyse data they could use to manage their suppliers proactively. They should periodically review the performance of suppliers, using college or consortia data and external benchmarks. They should communicate requirements clearly to suppliers and provide timely feedback, so that good suppliers can propose alternative products and services and improvements in procurement methods.



**Recommendation 8: Colleges should take up opportunities for collaboration with other organisations and through consortia where they can offer procurement expertise, reduced transaction costs and better quality and/or price.**

With 384 colleges, many of them providing similar services for learners, and therefore needing to purchase similar items and services, there are opportunities for substantial savings from collaboration. Many colleges are also close to other public sector sites such as schools, universities and local authorities, who may have similar needs. Colleges, through their procurement liaison officers, should investigate options for collaborating with colleges and other organisations locally, at regional level, or with similar types of colleges, to secure better deals and share expertise. One option would be to adopt a shared services approach for groups of colleges, whereby qualified procurement staff organise purchasing on behalf of members of the network.

Colleges should take advantage of the many opportunities to draw on external procurement expertise and avoid reinventing the wheel, for example by drawing on the work of the Office of Government Commerce. They should take full advantage of the services and support offered by the Learning and Skills Council's procurement development team, and any service that the Department may set up as the result of a feasibility study it has commissioned on providing more proactive support to colleges on procurement.

Colleges should explore and take up beneficial arrangements through consortia and framework agreements. These types of arrangements do not have to be used for every purchase, and may match some goods and services better than others. They should also not result in the college losing control over its procurement. On the contrary, a good purchasing consortium will provide spend data and benchmarks to help the college improve control. The Learning and Skills Council should support colleges, for example through practical guidance on how to use consortia and framework agreements effectively.

## PART ONE

# Introduction

### Responsibility for procurement in the further education sector

**1.1** England's 384 further education colleges receive about £5 billion from the Department for Education and Skills (the Department) via the Learning and Skills Council. They spend some £1.6 billion<sup>5</sup> on procurement, comprising administration and general costs, premises costs, and non-pay teaching and support. Annual spend per college ranges from £17.7 million to £564,000, with an average of £4.1 million. Procurement expenditure as a percentage of total income averages 25 per cent but varies widely across colleges, with the greatest variation among small and medium sized colleges (**Figure 2**). The smallest 209 colleges collectively spend 28 per cent of the total (**Figure 3**), so to meet the £75 million savings target that the Learning and Skills Council has set for the sector's procurement, it is important that all colleges seek to make savings.<sup>6</sup>

**1.2** Accountability for college funds is shown in **Figure 4**. All colleges are autonomous, each with a governing body. All colleges sign a funding agreement in respect of the public funding received through the Learning and Skills Council.<sup>7</sup>

#### 2 Procurement expenditure as a proportion of college income

Size of college	Average (per cent)	Minimum (per cent)	Maximum (per cent)
Very large (income > £35 million a year)	25	18	34
Large (income of £25 million to £35 million a year)	25	17	35
Medium (income of £15 million to £25 million a year)	25	16	40
Small (income < £15 million a year)	24	14	41
All colleges	25	14	41

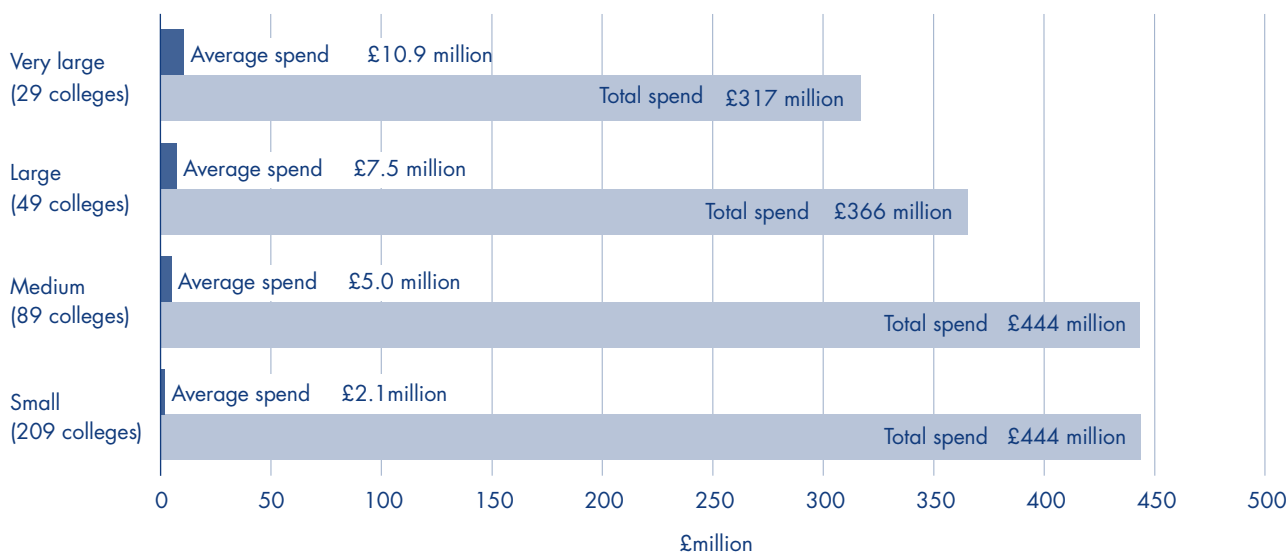
*Source: National Audit Office based on 376 colleges' financial account returns to the Learning and Skills Council for 2004-05; income comprises funding from the Learning and Skills Council, plus other income such as course fees*

<sup>5</sup> Based on analysis of college account returns to the Learning and Skills Council, 2004-05.

<sup>6</sup> These figures exclude expenditure on capital construction projects, which is outside the scope of this report. Such expenditure is controlled differently by the Learning and Skills Council, and there is a separate target for savings.

<sup>7</sup> The Learning and Skills Council enters into an annual funding agreement with each institution, which sets out the funds that the Council has agreed to pay for the provision of further education, and the education and training programmes that the institution has agreed to provide in return. Institutions are expected to provide the education and training programmes contained in their strategic plan. They are also expected to produce three-year financial plans and annual financial statements, to give the Council assurances over their financial health.

### 3 Analysis of procurement spend in colleges of further education

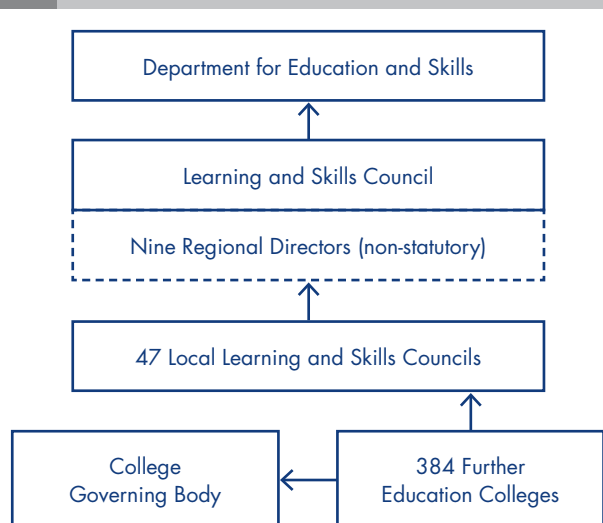


Source: National Audit Office based on 376 colleges' financial account returns to the Learning and Skills Council for 2004-05

**NOTE**

Size of college determined by annual income.

### 4 Accountability for college funds



Source: National Audit Office

**NOTE**

Colleges are autonomous organisations accountable to their governing bodies.

**1.3** Through its 'Agenda for Change' programme<sup>8</sup>, the Learning and Skills Council is helping colleges become better businesses and make efficiency savings, contributing to government efficiency targets, to be reinvested into services for learners. The Council estimated the scope for savings from procurement to be £75 million by the end of 2007-08 based on an estimate of £750 million<sup>9</sup> a year spend on 'administrative and operating' goods and services, and an assumed average saving of five per cent a year over two years. In the light of colleges' autonomy, the Department and the Learning and Skills Council are aiming to influence colleges to improve their procurement practices by promoting the advantages of better procurement and supporting colleges to improve. **Figure 5 overleaf** shows the numbers and location of colleges.

8 Learning and Skills – the agenda for change: The Prospectus, August 2005, sets out proposals for a programme of change to transform the further education sector. It is structured around six themes, one of which (Business Excellence) is helping colleges to become better businesses.

9 Early estimate by the Learning and Skills Council.

**5** Further education colleges in England



Source: National Audit Office

**NOTE**

This figure shows only the principal addresses – many colleges have a number of sites

**1.4** The Department set up the Centre for Procurement Performance<sup>10</sup> in 2005 to help identify and exploit procurement opportunities and deliver better value for money in procurement across the whole education sector. Appendix 4 outlines the Centre’s work and approach. The Learning and Skills Council has set up a small procurement development team to work directly with colleges and partners such as the Office of Government Commerce and purchasing consortia, to provide guidance and practical support to improve colleges’ procurement. For example, it is disseminating information on best procurement practices and facilitating adoption of tools and techniques through guidance and seminars. In addition it is working with consortia to develop contracts for use by colleges and facilitating links between colleges to encourage the sharing of ideas. The main responsibility for implementing improvements remains with the colleges.

**1.5** The Department has commissioned a feasibility study to determine whether the further education sector would benefit from a more proactive service to give direct support to college procurement. A report will make recommendations about the form such a service might take.

**Our study approach**

**1.6** Appendix 1 sets out the methodology for our study. It included: a survey of all further education colleges in England to obtain empirical data on the approach to procurement in the sector; visits to seven colleges; three focus groups with college heads of finance; and discussions with third parties including procurement specialists in other sectors, for example in higher education and health. We took full account of the wide-ranging work on procurement that we and the Auditor General for Wales have undertaken across government and in other sectors in recent years (Appendix 2). Procurement consultants, the Buying Support Agency<sup>11</sup>, which have experience of examining procurement in further education colleges, provided advice.

**1.7** Our work closely complemented ongoing work by the Department and the Learning and Skills Council, and we consulted with the Office of Government Commerce. As lack of data is a particular barrier to improvements, our survey to obtain information on capacity and processes for managing procurement, and on procurement spending, was a key element of our methodology. Our survey design drew on our experience of procurement surveys, and we consulted the Department, the Council, the Association of Colleges, the Office of Government Commerce and the Buying Support Agency before piloting the survey in two colleges.

<sup>10</sup> Headed by Ian Taylor, past president of the Chartered Institute of Purchasing and Supply, and comprising a staff of 19 people.

<sup>11</sup> [www.buyingsupportagency.com](http://www.buyingsupportagency.com).

**1.8** 158 colleges responded to the survey, a response rate of 41 per cent. The response rates to individual questions varied widely. Response rates to questions about organisation, strategy, and procedures were high – generally between 80 and 100 per cent. Response rates for questions asking for quantitative data on spend and volumes were much lower, ranging from three to 70 per cent of the responding colleges. In particular, only eight colleges felt able to provide a full breakdown of their procurement spend. Response rates to questions about prices paid for a number of common goods and services were higher. The responses were not, however, of sufficient quality to use for benchmarking, since too few were based on consistent specifications.

**1.9** We are publishing summarised results of the survey for the further education sector to use as a baseline from which to monitor improvements. We expect it may be helpful for the Learning and Skills Council to repeat parts of the survey at intervals to help assess what progress is being made.

## Five criteria for effective procurement

**1.10** Our report is structured around the following five key requirements for effective and efficient procurement:

- a clear lead from governors and senior managers in improving procurement;
- information to use to decide on the most appropriate methods of procurement;
- making the most of opportunities for collaboration;
- robust processes and good supplier management; and
- review of the value for money of procurement.

## PART TWO

# A clear lead from governors and senior management

**2.1** To create real, sustainable improvements in procurement within a college there must be a strong commitment from the governing body and the senior management team. Colleges need strong leadership from senior managers to change the procurement culture and challenge bad practice and inefficiencies where they exist. College governors should challenge management to make savings and report on them.

**2.2** The majority of colleges responding to our survey (69 per cent<sup>12</sup>) have a senior manager with responsibility for procurement. However, traditionally procurement has not been a priority for the majority of colleges. Few have procurement expertise – only 14 per cent<sup>13</sup> have any staff with, or working towards, a qualification in procurement. From summer 2006, the Department's Centre for Procurement Performance is funding 100 college staff to study for the National Vocational Qualifications in procurement and supply chain management, through a course delivered by the North Western Universities Purchasing Consortium and promoted and administered by the Learning and Skills Council and Crescent Purchasing Consortium.

**2.3** Even where colleges have a central procurement team, responsibility for procurement may be dispersed. On average, 13 members of staff in a college can award contracts to third parties for the ongoing supply of goods and services, with a very wide range of one to 65.<sup>14</sup> Devolved budgets place responsibility for managing expenditure with the budget holder and provide an incentive for economy in purchasing. But having every budget holder research and purchase each relevant item or service directly is not an efficient or effective use of their time, and many are unlikely to have the skills and commercial experience to negotiate good deals.

**2.4** We found little evidence of governor involvement in procurement; only 34 per cent of colleges report efficiency savings to their governing body.<sup>15</sup> Some senior managers in colleges are sceptical about making major savings from improving procurement. In 'votes' taken at two of our focus groups of college heads of finance, 15 of the 18 participants doubted the £75 million savings target could be reached. In small and medium-sized colleges in particular, managers consider that the likely savings would be outweighed by the cost and management time required to achieve them.

12 National Audit Office survey Q3: based on responses from 157 colleges.

13 National Audit Office survey Q8: based on responses from 126 colleges.

14 National Audit Office survey Q7: based on response from 131 colleges. Range varies from 1 to at least 50 for all sizes of college. One college reported 380 staff with procurement responsibilities and this has been excluded from the range.

15 National Audit Office survey Q28: based on responses from 63 colleges.



**2.5** Only 27 per cent<sup>16</sup> of colleges responding to our survey had a procurement strategy or policy that referred to issues of sustainable development.<sup>17</sup> And nearly 70 per cent<sup>18</sup> of those with no procurement policy or strategy did not include procurement in their Corporate Social Responsibility<sup>19</sup> agenda. The Learning and Skills Council is planning to issue a guide to sustainable procurement in October 2006. Nine colleges, together with 11 universities, are working as partners in the Environmental Association of Universities and Colleges' Sustainable Purchasing Project.

**2.6** To help raise the profile of procurement in colleges, the Learning and Skills Council's procurement development team are contacting every college in England. By July 2006 they had visited over 200 colleges and held group meetings with many more, meeting with college senior managers to discuss development work being undertaken to make procurement savings easier to achieve. They also supported the first national further education procurement conference in April 2006, which was sponsored by the Department and attended by delegates from 45 colleges.

## GOOD PRACTICE 1

### High level commitment to improving procurement

At Tameside College, procurement awareness is directed from the highest levels of the organisation. Budgets are delegated to over 30 different cost centres, but each of these hold quarterly review meetings with the Senior Management Team to review their progress against budget, and identify how more effective procurement could maximise utilisation of resources.

This approach has led to savings and innovative solutions to procurement problems. In 2005, the College's existing reprographics contract came to an end. Rather than retendering as before, as a small party to a much larger local authority requirement, the College opted to use an OGCbuying.solutions framework agreement. It presented a number of suppliers with details of demand levels and requirements, and asked them to design the most effective solution. The winning contractor was able to provide high volume machines of a much improved specification, together with more favourable contract terms for costing local copiers, all for the same price that the College was currently paying. The resulting savings in staff time waiting for high volume printing are significant, as is the increase in quality. It is also estimated that a saving of £10,000 a year has been generated through the ability to produce copying which previously had to be externally sourced.

Source: Tameside College

### Key action points for colleges

- Appoint a procurement liaison officer who, with support from senior management, promotes and monitors the changes required to improve procurement. Support this person in developing their procurement skills, for example by taking up a place on an appropriate procurement training programme.
- Keep in touch with developments promoted by the Learning and Skills Council's procurement development team and the Department's Centre for Procurement Performance. Use them as a source of advice.
- Identify the key risks to procurement efficiency, such as large numbers of staff authorised to make purchases.
- Identify possible solutions and develop a strategy for selecting and implementing the best solutions to suit the circumstances of the college.
- Set targets for improving procurement efficiency and report progress on meeting the targets to the governing body.

16 National Audit Office survey Q18: based on responses from 158 colleges.

17 Sustainable development is usually taken to mean the balancing of economic, social and environmental factors in policy and economic activity. National Audit Office: Sustainable Procurement in Central Government, September 2005.

18 National Audit Office survey Q20: based on responses from 29 colleges.

19 Business in the Community defines corporate social responsibility as management of "a company's positive impact on society and the environment through its operations, ...and through its interaction with key stakeholders ...".

## PART THREE

# Produce information and use it to decide the most appropriate methods of procurement

### What do colleges buy?

**3.1** Colleges vary widely in size. They also vary in the programmes of learning offered and some have very specialist requirements, such as procurement of functioning aircraft parts and supplies. However, all colleges procure a large range of similar items such as maintenance services, energy, insurance, cleaning services, IT hardware, books, stationery and examination fees.

**3.2** Little information exists nationally about volumes and methods of procurement, making it difficult for colleges to assess opportunities to collaborate and secure economies of scale. In June 2005 the Department commissioned a review to estimate the baseline procurement spend. The review planned to obtain financial information from a sample of 20 colleges; consultants based their results on a detailed analysis of raw accounts payable data from college systems but could only get usable data for their analysis from 15 colleges. We sought to use our survey to supplement the data by asking for financial information under the same category headings (Appendix 5). The results of the Department's review and our survey are summarised at [Figure 6](#).

**3.3** These figures can only provide a very rough estimate of the actual likely profile of expenditure in an individual college. They indicate high spending in certain common areas such as administrative supplies (stationery, printing, marketing and travel costs) and non-ICT learning resources (books, classroom equipment and furniture).

### Most colleges need better information on their spending

**3.4** Colleges we visited recognised that poor management information was a barrier to improving procurement. Three-quarters of colleges responding to our survey did not provide any information on their spending for the categories in our survey ([Figure 7 on page 14](#)). We had anticipated from our piloting of the survey that some colleges would have difficulty providing the information on spending and asked for reasons if this was the case. The main reason colleges gave was that, though the data was available, it would take too long to extract in the format required. The Buying Support Agency, which has undertaken work with procurement data in colleges, considered that such data could usually be obtained from colleges' financial systems, but that college staff were unused to undertaking the analysis necessary to support effective procurement.

## 6 Common procurement items

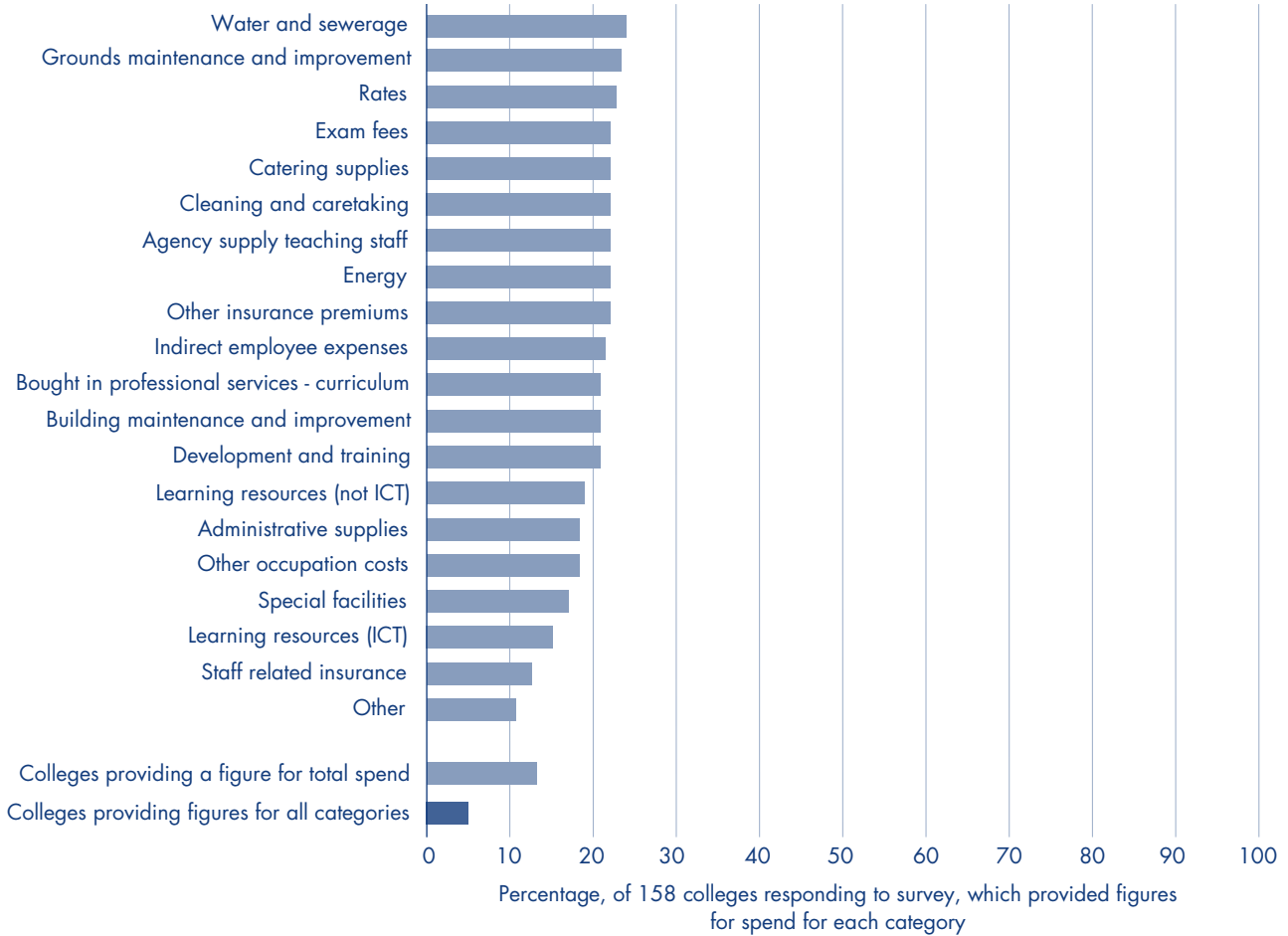
	Department's baseline (15 colleges) average spend per college £000	Total spend %	National Audit Office survey average spend per college <sup>1</sup> £000	Number of colleges responding to this category <sup>1</sup>
Administrative supplies	1,670	18.5	1,077	29
Learning resources (not ICT)	1,298	14.4	693	30
Bought in professional services – curriculum	877	9.7	107	33
Building maintenance and improvement	820	9.1	520	33
Exam fees	470	5.2	545	35
Learning resources (ICT)	395	4.4	291	24
Catering supplies	264	2.9	196	35
Cleaning and caretaking	246	2.7	224	35
Agency supply teaching staff	200	2.2	269	35
Energy	186	2.1	219	35
Other occupation costs	177	2.0	171	29
Special facilities	147	1.6	131	27
Indirect employee expenses	102	1.1	127	34
Development and training	95	1.0	79	33
Other insurance premiums	73	0.8	94	35
Rates	44	0.5	55	36
Grounds maintenance and improvement	40	0.4	18	37
Water and sewerage	20	0.2	38	38
Staff related insurance	6	0.1	11	20
Other	1,886	20.9	718	17
<b>Total</b>	<b>9,015</b>	<b>100.0</b>	<b>6,202</b>	<b>21</b>

Source: Department for Education and Skills and National Audit Office

### NOTE

1 National Audit Office figures for each category of expenditure may come from a different set of colleges. Therefore no percentage profile can be produced and the total does not relate to the individual entries but is the average of the totals for colleges that responded to that line of the survey. Only eight colleges provided figures for all categories of expenditure.

**7** Proportion of colleges that could provide information on their spending



Source: National Audit Office

**3.5** Many colleges reported that they could provide information on spending by supplier (83 per cent), but only 53 per cent had information on prices by supplier, and only 36 per cent had information on the volume of purchases by supplier.<sup>20</sup> **Good Practice 2** illustrates how a college can make savings by finding out more about their purchases and suppliers.

**3.6** We explored the benefits of improved information on procurement during visits to colleges, through focus groups with heads of finance and with procurement experts we consulted during our study. **Figure 8** outlines the main benefits that can accrue from having better information. The Department and the Learning and Skills Council have produced guidance to colleges on how to create spend and transaction analyses so that they can assess how well they are managing procurement.<sup>21</sup>

20 National Audit Office survey Q90, based on responses from 85 to 94 colleges.

21 Learning and Skills Council Management Guide – how to manage influencable spend within further education colleges, August 2006.

## GOOD PRACTICE 2

### Benefits of analysing procurement spending

In 2003 The Grimsby Institute of Further and Higher Education appointed a procurement officer under the line management of the Director of Finance. The Institute teaches a range of practical, vocational courses that require teachers and students to wear clothing to comply with industry safety standards (such as safety boots). The procurement officer analysed the Institute's spend on work wear: the Institute had been buying different brands of work wear from seven different suppliers, at a range of prices. The procurement officer worked with college staff to agree a standard list of items that she could negotiate to buy from one supplier at a lower price, achieving savings of between 10 per cent and over 40 per cent on previous prices, with an average of 26 per cent. Expenditure was £20,000 for 2005-06. All Institute clothing is now embroidered with its logo; the branding was accounted for in the savings. There were also unquantified savings from reductions in staff time and administrative costs in placing orders.

*Source: Grimsby Institute of Further and Higher Education*

## Deciding the most appropriate methods of procurement

**3.7** Having better information makes it easier for a college to move away from paper-based procurement processes and relying solely on its own procurement resources, and towards more efficient processes involving use of electronic methods and collaboration with other organisations. Changing to a more appropriate method can lead to better quality for the same or lower price, as well as reduce transaction costs by saving staff time and reducing use of paper and postage. Use of e-procurement and purchasing cards can also lead to improvements in management information by reducing or eliminating the need to re-input data. The method of procurement used should reflect the type, value and risk inherent in the goods and services required. **Figure 9 overleaf** indicates the main options open to colleges and how they may use them. Appendices 6 to 9 give more details of these methods, their benefits, and how colleges are currently using them.

## 8 Benefits of gathering information on procurement

### Financial

- Wider choice of suppliers
- Keener prices
- Aggregated demand leading to economies of scale
- Level and timing of demand better known
- Suppliers better able to plan supply and reduce risks and costs of under/over supply
- Better forecasting, resulting in better cost control
- Reductions in unnecessary spend

### Internal procedures

- Control of maverick spend
- Better stock control, reduced storage and lower risk of stock going out-of-date
- Assurance on compliance with legal requirements and contractual arrangements
- Compliance with tendering and procedures as set out in financial memoranda
- Better matching of items with most appropriate method of procurement
- Reduced processing costs

### User requirements

- Clearer match between individual user requirements and supply
- Improved customer service

### Sustainability

- More efficient delivery patterns leading to energy savings and reduced traffic pollution
- Reduced demand for paper from aggregating orders and use of e-procurement

*Source: National Audit Office*

**9** Identifying the right method of procurement

Method	Uses and limitations	Goods for which the method is applicable
Electronic procurement <sup>1</sup>	Independent parts of the procurement cycle can be implemented as part of a gradual process (i.e. contractual processes, transactional processes, payment processes)  Needs upfront investment and to be done as part of a procurement strategy	Routine and lower value items where there are high volumes of transactions and may be many suppliers, for example stationery, vehicle hire
Purchasing cards	Can be used by college staff to purchase direct from supplier  Not ideal for high value transactions and some small suppliers may not accept payment by card	Low value items where the cost of processing a paper order is high compared to the cost of the goods or services procured, for example books, subscriptions, small items of equipment
Purchasing consortia	Colleges buy from contracts negotiated and managed by consortia  Contracts may not be in place for specialist items	Routine items that are common between colleges, for example IT equipment, stationery and utilities
Framework agreements	Colleges can make contracts with suppliers under terms and conditions set out in agreements negotiated by procurement experts such as OGCBuying.solutions	Routine items that are common to other clients from the wider public sector served by OGCBuying.solutions, for example IT equipment, mobile phones
Tendering competitively under EU rules	Essential for goods and services over specified thresholds	Large value procurements where consortia or framework solutions are not available or appropriate to the college's needs – for example highly specialised requirements

Source: National Audit Office

**NOTE**

<sup>1</sup> e-procurement is the use of electronic methods in every stage of the purchasing process from identification of requirement through to payment, and potentially to contract management (<http://www.ogc.gov.uk/index.asp?id=2361>).

**3.8** Colleges have a fair level of awareness of these options. However, their use of them is patchy (Figure 10). And colleges that use different methods often do so as a result of ‘one off’ decisions rather than following a strategic review of all the relevant items they need to purchase. For example, 40 per cent of colleges consider they use e-procurement, but when we explored use of it during college visits, we found that in practice it might amount only to occasional purchases on the web, rather than regular, planned use of e-procurement. The Learning and Skills Council and the Department are trialling the Unity marketplace e-procurement system in 24 colleges, which the University of Salford originally developed for the higher education sector with funding from the Higher Education Funding Council for England.

## Reducing prices and transaction costs through paperless procurement

**3.9** College staff gave examples of where ‘shopping around’ had saved costs in individual procurements, but few appreciated the staff costs involved in independently researching a procurement. Only six colleges could provide any information on the average cost of a transaction. Transaction cost savings can be substantial, as illustrated in Good Practice 5.

## 10 Awareness and use of procurement options

	Percentage of colleges not aware of this option	Percentage of colleges not using this option
e-procurement	1	60
Purchasing consortia	2	24
Purchasing cards	3	82
Office of Government Commerce framework agreements	27	67
Other framework agreements	42	87

Source: National Audit Office survey Q58: based on responses from 142 to 156 colleges

### GOOD PRACTICE 3

#### Price savings from use of appropriate methods

##### Blackpool and The Fylde College made savings from the use of framework agreements:

Kitchen equipment purchased through OGCBuying.solutions

- £20,000 on price

Photocopier contract through Yorkshire Purchasing Organisation

- £68,000 annually for the duration of the five year contract
- Five new machines provided, which reduced copy charges
- Total efficiency gain of £389,000 (39% of previous cost)

##### St Helens College made savings from the use of e-procurement:

Purchase of stationery via Crescent Purchasing Consortium contract, starting with on-line ordering and moving to full e-procurement via the Unity marketplace system

- 15 per cent reduction in the cost of goods

Source: Blackpool and The Fylde College, St Helens College

### GOOD PRACTICE 4

#### More efficient processes through the use of technology

West Nottinghamshire College in Mansfield has arranged for all college-printed stationery to be stored at a local printers and "pulled" from an on-line e-business website as needed. This saves storage space and large daily deliveries.

Source: West Nottinghamshire College

**3.10** The Department and the Learning and Skills Council have been promoting use of e-procurement and purchasing cards. Like e-procurement, use of purchasing cards by colleges is limited and patchy, and we estimate considerable scope for cost savings through increasing their use for appropriate purchases (**Figure 11 overleaf**). To help improve knowledge and awareness, the Department and the Council held nine purchasing card seminars across England in January and February 2006, which were attended by 252 delegates representing 163 colleges. The seminars were followed up with implementation workshops in April 2006. By June 2006, 63 colleges were in the process of adopting cards and a further 71 were switching from commercial cards, which incur a fee, to the Government Procurement Card contract.

### GOOD PRACTICE 5

#### Transaction cost savings from use of appropriate methods

##### Blackpool and The Fylde College made the following savings:

Use of purchasing cards for various transactions

- £20,000 in transaction costs in first year

Electronic transmission of purchase orders

- £7,000 annually in reduced postage, administration and stationery costs

Use of an e-commerce stationery contract via Crescent Purchasing Consortium

- Introducing a central contract saved £10,000 (11%) annually on transaction costs
- 70% reduction in administrative costs for 1,900 on-line orders placed each year, giving annual efficiency gains of £13,300

**St Helens College** also uses an e-commerce stationery contract via Crescent Purchasing Consortium and estimates a 67 per cent reduction in transaction costs

Source: Blackpool and The Fylde College; St Helens College

## 11 Potential savings from use of purchasing cards

Colleges responding to our survey used purchasing cards for an average of only 266 purchases in 2004-05. Government departments use purchasing cards for an average of 6 per cent of their annual procurement expenditure. If colleges were to use the cards for this level of expenditure, it would amount to an average of £246,000 each, or on average one third of transactions under £1,000 (the transaction value below which use of purchasing cards is generally recommended). Increasing use of cards to this amount would lead to more than 2,000 transactions by procurement card.

Previous National Audit Office reports have estimated that in central government an average efficiency saving of £28<sup>1</sup> per transaction can be made from using purchasing cards rather than traditional paper-based methods. Using this figure as a rough guide, colleges adopting purchasing cards for just six per cent of their expenditure could realise average efficiency savings of £59,000 a year.

Source: National Audit Office

### NOTE

1 Improving Procurement, HC 361-1 Session 2003-04:12 March 2004, Figure 24. £28 saving figure established by KPMG, derived in 1998 by averaging savings from 12 central government departments, comparing a Procurement Card transaction to a traditional paper-based transaction.

## GOOD PRACTICE 6

### College use of purchasing cards

Loughborough College introduced purchasing cards for its main central purchasers in May 2001, and by 2004-05 there were 38 users. £266,000 of annual expenditure is made through the cards, representing 2,160 transactions. Each card has an individual transaction limit, with a monthly expenditure limit set by the College, and can only be used for specified categories of goods or services, reducing the risk of inappropriate spending by budget holders.

The successful implementation of the cards led to a large reduction in low value purchase orders and consequent reduction in individual supplier invoice processing. Card holders have benefited from a simplified purchasing process and also have better access to on-line goods and services, often at discounted prices. The College's central finance department has also benefited from implementation of the cards, saving at least one clerical post due to the reduction in orders to be processed.

Source: Loughborough College

### Key action points for colleges

- Extract procurement data – on nature and price of goods and services purchased, methods of procurement, suppliers – and collate to produce usable management information; many colleges may need to employ experts when they do this exercise for the first time.
- Identify specific areas of procurement inefficiency and/or weak control, such as inappropriate off-contract spending, lack of contracts, maverick spending.
- Establish current transaction costs and consider alternative procurement methods that would increase efficiency, reduce costs and improve management.



## PART FOUR

### Explore and use opportunities for collaboration

#### Benefits and extent of collaboration on procurement

**4.1** Colleges are located all around the country, but many are close to other colleges or other public sector sites such as schools, universities and local authority offices. Only a minority of colleges have the critical mass to justify, for example, employing specialist procurement staff, but they can draw on expertise by working together and sharing market intelligence with other organisations that need the same or similar items (**Figure 12 overleaf**). The main benefits of collaboration are:

- the ability to aggregate requirements into larger quantities in order to achieve a better unit price;
- lower transaction costs from sharing of tasks such as ordering, negotiations and design of specifications; and
- improved quality resulting from better procurement expertise and processes that systematically match requirements and the best available goods and services.

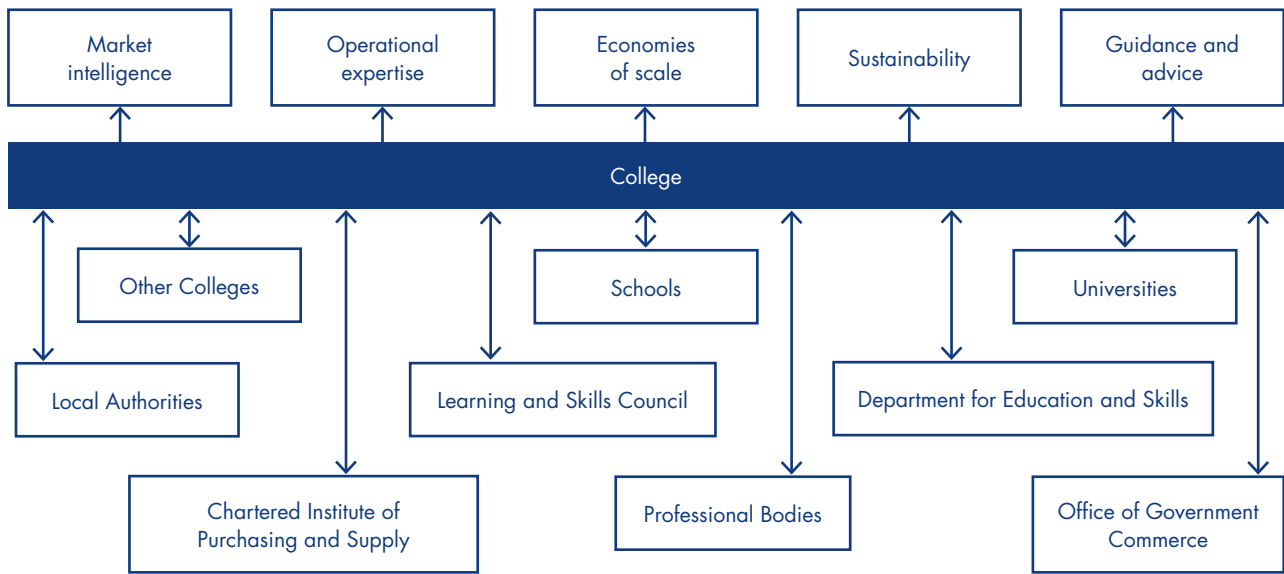
**4.2** However, we found little evidence of colleges collaborating with each other or other organisations on procurement, though more were likely to collaborate with a local authority than any other organisation (**Figure 13 overleaf**).

#### Awareness, availability and use of advice on procurement

**4.3** Colleges are not always aware of the sources of advice available to them and do not always use them. We found a lot of reliance on learning from colleagues, though only a minority of colleges felt they could consult procurement professionals in other colleges. Although consortia were the most widely used source of advice, 23 per cent of colleges lacked awareness of them (**Figure 14 on page 21**). Colleges told us that they would like guidance on contracts that are available to them and companies known to offer good value.

**4.4** Professional bodies can be a useful source of market intelligence on procurement. The British Institute of Facilities Management, for example, maintains an extensive database of facilities management contracts across the country, including details of the contracting parties, the size and length of the contract. When considering facilities management procurement, colleges could usefully liaise with the Institute which may be able to help identify potential contractors and/or possible partners seeking similar services.

## 12 Advantages and potential sources of collaboration



Source: National Audit Office

## 13 Extent of collaboration

- Under half of colleges share information with other colleges about contracts and prices<sup>1</sup>
- Less than one third discuss upcoming requirements with other colleges<sup>2</sup>
- Only 11 per cent engage in joint purchasing with other colleges<sup>3</sup>
- 40 per cent of colleges engage in joint purchasing or other forms of collaboration with local government<sup>4</sup>
- One fifth do so with higher education institutions<sup>5</sup>
- 'FE online' – a venture to improve collaboration in procurement – did not attract the necessary interest to succeed and many colleges are wary of apparently similar ventures.

### NOTES

- 1 National Audit Office survey Q22: based on responses from 101 and 88 colleges respectively.
- 2 National Audit Office survey Q22: based on responses from 70 colleges.
- 3 National Audit Office survey Q72: based on responses from 130 colleges.
- 4 National Audit Office survey Q72: based on responses from 125 colleges.
- 5 National Audit Office survey Q72: based on responses from 123 colleges.

## 14 The main sources of advice and how much they are used

Source	Percentage of colleges saying this source is available	Percentage of colleges saying this source is used
Purchasing consortium	77	68
Learning from colleagues	68	63
Procurement professionals in other colleges	38	28
Learning and Skills Council	46	26
Office of Government Commerce	37	30

Source: National Audit Office survey Q12: based on responses from 158 colleges

### NOTE

The Learning and Skills Council's procurement development team and the Department's Centre for Procurement Performance had only recently been established at the time of our survey.

**4.5** The following websites offer important resources for the college sector:

- **Centre for Procurement Performance**  
([www.dfes.gov.uk/cpp](http://www.dfes.gov.uk/cpp)) gives information on the Department's sourcing projects, current offers, and relevant upcoming events;
- **Office of Government Commerce**  
([www.ogc.gov.uk](http://www.ogc.gov.uk)) gives general, high-level guidance on matters such as efficiency, supplier relations, sustainability and e-procurement;
- **OGCbuying.solutions**  
([www.ogcbuyingsolutions.gov.uk](http://www.ogcbuyingsolutions.gov.uk)) offers a variety of framework agreements to the whole public sector as well as information on purchasing cards and e-procurement.

## Procurement through a purchasing consortium

**4.6** As for other types of collaboration, procuring through a consortium can help reduce prices, administration and tender costs (consortia available to colleges are listed in Appendix 6). Colleges' use of consortia is, however, limited. Even for the most widely used consortium, The Crescent Purchasing Consortium, total spending was just £14 million in 2004-05 (63 per cent on two spend areas: IT hardware and stationery). To share costs further, produce better contracts based on larger spending power, and increase the number of available contracts, Crescent signed a memorandum of understanding with the North Western Universities Purchasing Consortium in April 2006 to carry out joint contracting.

**4.7** The Learning and Skills Council is promoting the use of purchasing consortia offering goods and services across the range of colleges' spending. Colleges using consortia need to achieve a balance between relying on the consortium for day-to-day procurement and reviewing periodically whether the consortium is giving value for money. They need help to get the balance right. For example, colleges which undertake unplanned procurement themselves, can undermine consortium buying power and increase (hidden) transaction costs for the college. On the other hand, there are risks from complacency if the user of a consortium does not test its value for money from time to time.

## Procurement through framework agreements

**4.8** Framework agreements, where one or more suppliers agree terms and conditions under which contracts can be awarded throughout the term of the agreement, can also reduce prices and administrative costs. Framework agreements are available from OGCBuying.solutions or consortia (**Good Practice 7**); these are templates which need to be adapted to the specific needs of the deal being made. Colleges can collaborate with each other or other public sector bodies to set up framework agreements.

**4.9** The Learning and Skills Council is working with the Crescent Purchasing and the North Western Universities Purchasing Consortium to extend the range of contracts available for goods and services commonly bought by colleges (example at **Good Practice 8**).

### GOOD PRACTICE 7

#### Framework agreements through OGCBuying.solutions

Doncaster College procured their IT infrastructure through a mini-tender competition between suppliers from OGCBuying.solutions' Catalyst framework agreements. They did not incur the time and costs of a full Official Journal of the European Union procurement and achieved delivery dates to meet a tight timescale. They also benefited from Buying Solutions' advice and support throughout the process, to supplement limited in-house procurement resources.

Buying Solutions are working with the College to help them quantify the benefits they have achieved from this process.

Source: OGCBuying.solutions

### GOOD PRACTICE 8

#### Savings from a framework agreement for insurance provision

Research by the Crescent Purchasing Consortium found demand for a collaborative approach to procuring insurance. Our survey showed that on average colleges spend £94,000 a year on insurance (very close to the £92,000 found in Crescent's research).

In response the consortium, supported by the Department and the Learning and Skills Council, negotiated a framework agreement with three major insurance providers, which became available to the sector in spring 2006. The agreement includes discounts for increased volumes of business with each provider and discounts for organisations that carry out risk management reviews.

The consortium has estimated that savings of up to £12.9 million could be generated over a four year period if all eligible institutions<sup>1</sup> use the new framework.

Source: Crescent Purchasing Consortium

#### NOTE

<sup>1</sup> A total of approximately 600 institutions are eligible for the framework agreement, including all further education colleges, academies and special needs establishments.

#### Key action points for colleges

- Identify and consult sources of advice and guidance on good procurement practice.
- Explore options for collaborating locally, regionally and nationally with other colleges and organisations and draw up collaboration agreements setting out terms and conditions.
- Join a purchasing consortium and make consistent use of available contracts where they offer value for money and fit with the college's procurement strategy.
- Periodically test the value for money of college and consortium contracts against those on offer elsewhere, for example through OGCBuying.solutions framework agreements.

## PART FIVE

# Apply robust processes and practise good supplier management

### Maintaining the integrity of procurement processes

**5.1** Even where an organisation is making the best possible use of opportunities for collaboration, it is still likely to have to purchase some goods and services directly. Colleges need to maintain the integrity of their own processes for procurement, both in terms of rules set within the college and external legal and regulatory requirements.

**5.2** EU public sector tendering rules are complex, and a breach could lead to a supplier taking legal action against a college. For example, EU thresholds for advertising contracts in the Official Journal of the European Union apply to repeat purchases of the same goods which may be aggregated and treated as one contract. Uncoordinated procurement, carried out by staff across a college, increases the risk of non-compliance.

**5.3** Colleges also need to set and comply with clear internal rules that protect integrity and seek value for money through appropriate competition. The key requirements are set out in **Figure 15 overleaf**. All colleges have financial regulations which specify threshold values for transactions above which three quotations must be obtained and a full tender is required, though the

thresholds set vary widely.<sup>22</sup> They also have delegated authorities for incurring expenditure and 81 per cent<sup>23</sup> of colleges have in-house guidance for staff involved in procurement decisions. But colleges do not always make effective use of the contracts they have. Our survey found evidence of: contracts not being reviewed for long periods; some contracts being let without tendering; and allowing budget holders to buy outside of bulk purchasing arrangements (**Figure 16 on page 25**). **Good Practice 9 on page 25** illustrates the savings that can accrue from timely retendering, and **Good Practice 10 on page 25** is an example of cost savings from eliminating maverick spending.

**5.4** The Learning and Skills Council published a procurement guide for colleges in December 2005 covering delegated authorities, preparation of specifications, tendering and contracting and EU public procurement rules. In September and October 2006, the Council expects to add guidance on sustainable procurement, and provide a procurement toolkit, with template documents that colleges may adapt to suit their own requirements. The Department and the Council will make all the guidance available on-line in a Further Education Library of Purchasing.

<sup>22</sup> National Audit Office survey Q31: based on responses from 154 and 70 colleges respectively.

<sup>23</sup> National Audit Office survey Q13: based on responses from 156 colleges.

## 15 Internal control and management of procurement

Key requirement	Benefits	Findings
Clear delegated authorities for ordering and rules on routes to be taken for transactions within specified value thresholds	<p>Compliance with EU public sector tendering rules</p> <p>Compliance with specified routes to achieve integrity and value for money</p>	All colleges have financial regulations which cover the authorities delegated to budget holders. All colleges specify threshold values for transactions above which three quotations must be obtained or a full tender is required. However, off-contract spend can undermine regulations.
Standard approach to tender evaluation and supplier selection	<p>Value for money from competition and systematic matching of supplier offer with requirement</p> <p>Transparent and fair process reducing risk of fraud, dishonesty and legal action</p>	<p>82 per cent of colleges seek to balance cost and quality by providing clear specifications.<sup>1</sup></p> <p>72 per cent of colleges set criteria for assessing bids prior to tender action.<sup>2</sup></p>
Standard approach to contracts and contract management, including standard contracts produced using relevant legal expertise	<p>Improved control and effective risk management</p> <p>Savings in time spent drawing up contracts</p> <p>Fewer/no poor quality contracts</p> <p>Sustainability can be built into contracts</p>	Consortia offer model contract documentation that colleges may adapt for their own use.
Central contracts with approved suppliers. Spend monitored to check they are used for all relevant purchases	<p>Savings in contracting and other transaction costs</p> <p>Improved price and quality</p> <p>In 2004 we estimated that bringing 'maverick' spending into formal procurement processes would achieve savings of 3.7 per cent<sup>3</sup></p>	<p>53 per cent<sup>4</sup> of colleges allow budget holders to purchase outside of bulk purchasing arrangements, where they exist.</p> <p>37 per cent of colleges do not make it mandatory to use approved suppliers where available<sup>5</sup>, and only 16 per cent monitor spend on suppliers not on the approved list.<sup>6</sup></p>
Contracts should be tendered and/or market tested regularly, at appropriate intervals	Contracts not left to run when they are no longer competitive	59 per cent <sup>7</sup> of colleges have had a contract run for five years or more without tender or review.
Clear guidance on ethics and the proper conduct of relationships with contractors	Protects integrity and value for money	For example, Peterborough Regional College's financial regulations mandate proper handling of financial interests in supply of goods or services and disallow gifts, hospitality or benefits from a third party that could be seen to compromise integrity.

Source: National Audit Office

### NOTES

- 1 National Audit Office survey Q56: based on responses from 148 colleges.
- 2 National Audit Office survey Q56: based on responses from 148 colleges.
- 3 Improving Procurement: progress by the OGC in improving departments' capability to procure cost-effectively (HC 361, 2003-04).
- 4 National Audit Office survey Q36: based on responses from 144 colleges.
- 5 National Audit Office survey Q47: based on responses from 83 colleges (out of 88 with an approved supplier list).
- 6 National Audit Office survey Q48: based on responses from 81 colleges (out of 88 with an approved supplier list).
- 7 National Audit Office survey Q39: based on responses from 124 colleges.

## 16 Contracts let without tendering

- 40 per cent of colleges had let contracts for over £50,000 without tendering, 10 per cent had let contracts of over £250,000 without tendering (some were capital construction and outside the scope of our study).<sup>1</sup>
- The value of the largest contract awarded without tendering averaged £128,798 across colleges.<sup>2</sup>
- 28 per cent of colleges consider over half of their spend is outside of contracts and agreements.<sup>3</sup> Average spend outside of contracts is 37 per cent.<sup>4</sup>

We asked for colleges' reasons for letting contracts without tendering.<sup>5</sup> There were a variety of reasons, the most common responses were that:

- the transaction value was below the limit requiring tender action (45 colleges);
- an existing contract or relationship with a supplier was used (33 colleges);
- there was no other supplier of these goods/services (27 colleges);
- made use of a consortium (26 colleges).

Source: National Audit Office Survey

### NOTES

1 National Audit Office survey Q34: based on responses from 107 colleges.

2 National Audit Office survey Q34: based on responses from 107 colleges.

3 National Audit Office survey Q40: based on responses from 90 colleges.

4 National Audit Office survey Q40: based on responses from 90 colleges.

5 National Audit Office survey Q35.

## Managing suppliers and monitoring contracts

**5.5** Organisations should manage suppliers and monitor contracts to ensure that suppliers are delivering what they contracted to deliver on both quality and price. Supplier management should include open, timely communication with suppliers so that they can give the best possible service by managing and safeguarding of contract documents, responding to any changes in requirements or complaints, and proposing innovative ways of meeting demand. Suppliers' performance should be measured using internal data on other procurements and by sharing information with other organisations. The results of monitoring should be used as market intelligence to inform future supplier selection.

### GOOD PRACTICE 9

#### Re-tendering of continuous contracts

Epping Forest College reported savings on its previous prices of 25 per cent for computers and 15 per cent on reprographic services when it re-tendered contracts and service level agreements.

Source: Epping Forest College

### GOOD PRACTICE 10

#### Elimination of maverick spending

At Grimsby Institute, some budget holders had ordered plastic plants to decorate workplaces, at a total annual cost of £14,500. Buying the plants outright for £400 saved the college £14,100 in the first year and saved staff time by eliminating 48 transactions a year.

Source: Grimsby Institute of Further and Higher Education

**5.6** Many colleges' supplier management is at a basic level (**Figure 17**). Finance staff and budget holders are generally left to manage suppliers, with limited sharing of information across the college, and still less with other organisations. Opportunities are missed to make procurement more efficient and economic through aggregation of demand and price competition. **Good Practices 11 and 12** illustrate benefits of aggregation and reviewing suppliers.

## 17 Contract and supplier management

- 97 per cent of colleges monitor spend by budget heading, but only 67 per cent monitor by supplier.<sup>1</sup>
- 32 per cent of colleges do not monitor and evaluate supplier performance.<sup>2</sup>
- 46 per cent of colleges do not give suppliers feedback on their performance.<sup>3</sup>
- 46 per cent of colleges use the results of performance reviews to inform supplier selection.<sup>4</sup>
- 73 per cent of colleges do not have any supplier partnership arrangements.<sup>5</sup>
- 57 per cent<sup>6</sup> have an approved supplier list; 63 per cent<sup>7</sup> of those with a list make its use compulsory; only 16 per cent<sup>8</sup> monitor spend on suppliers not on the list.

Source: National Audit Office

### NOTES

- 1 National Audit Office survey Q21: based on responses from 156 and 134 colleges respectively.
- 2 National Audit Office survey Q50: based on responses from 154 colleges.
- 3 National Audit Office survey Q51: based on responses from 154 colleges.
- 4 National Audit Office survey Q52: based on responses from 152 colleges.
- 5 National Audit Office survey Q57: based on responses from 150 colleges.
- 6 National Audit Office survey Q42: based on responses from 154 colleges – 88 said they had such a list.
- 7 National Audit Office survey Q47: based on responses from 83 colleges.
- 8 National Audit Office survey Q48: based on responses from 81 colleges.

## GOOD PRACTICE 11

### Savings from providing a central solution to college requirements

West Nottinghamshire College in Mansfield carried out a procurement-led investigation and tendering exercise for college printing and reprographics. This resulted in an innovative total print management solution which incorporates sophisticated monitoring and costing of usage and directs use to the most economical print source for individual jobs. The College estimates that the software which re-directs prints from desktops to multi-functional devices or the centralised area alone will save at least £64,000 a year.

Source: West Nottinghamshire College

## GOOD PRACTICE 12

### Savings from a review of suppliers

West Nottinghamshire College reviewed its large number of hardware and peripheral suppliers and changed to a single source via a consortium framework agreement. The College estimates cost savings of 10 per cent a year, and additional benefits from delivery efficiencies, e-procurement and good partnership working.

Source: West Nottinghamshire College

### Key action points for colleges

- Provide training and expert support for all staff involved in management of suppliers and contracts.
- Check compliance with EU regulations for large contracts and repeat procurements for like items.
- Gather data on supplier performance; where appropriate, explore with suppliers how they could supply relevant data as part of contract; share performance data with suppliers.
- Compare supplier performance using internal data and benchmarking information from other colleges and organisations.
- Use data to inform opportunities for further collaboration.



## PART SIX

# Review the value for money of procurement

**6.1** Only a minority of colleges have attempted to measure the value for money of procurement, or used techniques such as benchmarking or setting efficiency targets (**Figure 18**). Some colleges described efficiencies they had made but most had difficulty quantifying them.

**6.2** The Learning and Skills Council depends on colleges' savings to achieve its £75 million target, but has not passed targets down to individual colleges. It will ask colleges to supply procurement information in their annual returns from 2006-07, based on guidance from the Office of Government Commerce on measuring

procurement efficiency and value for money. To enable colleges to collect data on efficiencies, the Department has licensed a software package from the Higher Education Funding Council for England, the Efficiency Measurement Model (**Figure 19**), which it has adapted for further education and trialled in 11 colleges. The model aids understanding of efficiency gains by providing a structure for recording and reporting them, and will include guidance on how to measure efficiencies. The Department launched the model with a guide to using it in August 2006.

### 18 Measuring value for money from procurement

- 45 per cent of colleges attempted to measure the value for money of procurement methods.<sup>1</sup>
- 32 per cent of colleges benchmarked their procurement with that of similar bodies.<sup>2</sup>
- 22 per cent of colleges had targets for efficiency savings.<sup>3</sup>
- 30 colleges said they had made significant savings using consortia, but only 10 could quantify them.<sup>4</sup>

Source: National Audit Office

#### NOTES

1 National Audit Office survey Q24: based on responses from 153 colleges.

2 National Audit Office survey Q23: based on responses from 147 colleges.

3 National Audit Office survey Q25: based on responses from 153 colleges.

4 National Audit Office survey Q59: based on responses from 158 colleges.

### 19 The Efficiency Measurement Model

The Efficiency Measurement Model provides a standardised format for recognising the type and value of an efficiency, and whether the efficiency is cashable or not. It classifies efficiencies into five main types:

- price reduction;
- added value;
- risk reduction;
- process re-engineering; and
- sustainability.

The model requires examples of actual savings to help identify and value efficiencies.

It will produce reports in standard formats to enable collation of data.

**6.3** The model is intended as a key tool to enable the Department and the Learning and Skills Council to monitor progress towards achieving the target savings. However, there are still several big challenges to overcome. To help colleges use the model effectively and consistently, it needs to be illustrated by examples of efficiencies. Our study and the Department's piloting of the model has revealed a reluctance among colleges to share details of efficiency gains.

**6.4** The following further challenges must be met if colleges are to make full and effective use of the model:

- colleges will need to be convinced of the benefits of applying the model – staff and management time to learn a new process is likely to be considered a barrier in many colleges;
- economic and efficient arrangements for collating the data need to be designed and implemented as quickly as possible; and
- colleges' valuation of efficiencies will need to be validated – it may be acceptable to validate a sample of colleges only, but the validation must be robust, since colleges' valuations will require an element of judgement, and many colleges may wish to have support in making the judgements.

#### Key action points for colleges

- Plan frequent review of the value for money obtained from procurement, drawing on independent resources such as internal audit.
- Use the Efficiency Measurement Model to record improvements in efficiency and report them internally and externally.
- Communicate with the Learning and Skills Council and other colleges on the pros and cons of the model, to help develop its fitness-for-purpose.

# APPENDIX ONE

## Study methodology

- 1 This report is based on:
  - a survey of all further education colleges in England requesting information on procurement strategy, organisation, procedures and methods. The survey also asked for data on procurement spend at colleges;
  - quantitative analyses of the spend data from colleges' survey returns;
  - visits to seven further education colleges – a sixth-form college, a land-based college and five general further education colleges. The visits included interviews with heads of finance, staff with overall procurement responsibility and budget holders;
  - three regional focus groups with heads of finance from further education colleges;
  - high level comparisons with other sectors, made through interviews with bodies with knowledge of procurement; the Higher Education Funding Council for England, the Improvement and Development Agency, and the Department of Health;
  - discussions with staff of the Department for Education and Skills, the Learning and Skills Council, and the Office of Government Commerce;
  - consultation with a range of stakeholder groups including the Association of Colleges, Crescent Purchasing Consortium, the Chartered Institute for Purchasing and Supply and the Environmental Association of Universities and Colleges;
  - advice from procurement consultants on how best to structure college visits and meetings to explore ways in which best practice can be identified and shared between colleges;
  - analysis of existing research; and
  - consultation with a reference panel of experts.

## Survey of further education colleges

2 There is very little centrally held data on procurement practices or spend in colleges. Therefore we undertook an electronic survey of principals of all further education colleges in England. The aim of the survey was to establish: how the procurement function in colleges is organised and staffed; whether colleges take a strategic approach to procurement and how they measure and monitor performance; what methods of procurement are used in colleges; and to obtain data on procurement spend in colleges. We also invited comments on the incentives and barriers to improvement.

3 We piloted the survey with two colleges and invited comments from the Association of Colleges, the Department for Education and Skills, the Learning and Skills Council and the Office of Government Commerce. We conducted the survey on-line from December 2005 to January 2006. From the survey population of 384, we received 158 responses; a response rate of 41 per cent. Response rates to individual questions varied widely. The responses received are reasonably representative of the population of colleges, when considering the spread across different types and sizes of college:

**Sample and population by size of college**

	Sample per cent	All colleges per cent
Very large (income > £35 million a year)	10	8
Large (income of £25 million to £35 million a year)	17	13
Medium (income of £15 million to £25 million a year)	26	24
Small < £15 million a year)	48	55

Sample and population by type of college		
	Sample per cent	All colleges per cent
General further education	67	65
Sixth-form colleges	18	26
Land-based colleges	6	5
Other	9	4

4 We propose to put detailed summaries of responses on our website as a resource for the sector and a baseline for measuring improvement in the future.

## Visits to colleges

5 We visited five general further education colleges, one sixth-form college and one land-based college, to further explore key areas from our survey and collect examples of good practice. We selected colleges according to their size and geographic location so as to gain a good spread of colleges in England. We visited:

- Epping Forest College, Essex
- Moulton College, Northampton
- Newcastle College, Tyne & Wear
- Peterborough Regional College, Cambridgeshire
- St Brendan’s Sixth Form College, Bristol
- St Helens College, Merseyside
- The Grimsby Institute of Further and Higher Education, Lincolnshire.

6 During each visit, we held an interview with the member of staff responsible for finance and the member of staff with overall responsibility for procurement (where these were not the same person), at which we discussed the issues in the survey in greater depth. We also interviewed budget holders at each college. These were often the staff actually doing the procurement. In many cases we also interviewed the college principal, and two of each college’s main suppliers, either in person or by telephone.

7 During our scoping work we visited Lambeth College and Sir George Monoux College in London, Croydon College in Surrey and Otley College in Suffolk, to discuss how colleges procure, and to identify potential issues to focus on during the full study.

## Focus groups of college heads of finance

8 We ran three focus groups with heads of finance from colleges in the West Midlands, the North West and the South West. The main purpose of the groups was to identify:

- the extent to which procurement is viewed strategically in further education colleges;
- the extent of colleges’ commitment to the efficiency agenda and the procurement aspect of the Learning and Skills Council’s programme ‘Agenda for Change’;
- perceptions of the incentives to improve procurement; and
- barriers to improvement and how these can be overcome.

Running these focus groups also allowed us to raise the profile of the study and promote the benefits of completing the survey.

## High level comparison with other sectors

9 We met with senior staff involved in improving procurement at the Department of Health, the Higher Education Funding Council for England and the Improvement and Development Agency for local government. We discussed the different approaches that each sector has taken to improving procurement and achieving efficiency gains, with the aim of sharing relevant solutions with the further education sector.

## Department for Education and Skills, Learning and Skills Council and Office of Government Commerce

**10** We met with officials from the Department, the Learning and Skills Council and the Office of Government Commerce when scoping our study to help identify the key questions for the study, and to establish what actions they were taking and had planned.

**11** The Department and the Council were both involved in work programmes to address procurement, and we therefore held regular meetings with the Learning and Skills Council's further education procurement development team and the Department's Centre for Procurement Performance. We invited a representative from each team to join our reference panel (paragraph 14).

## Consultation with stakeholder groups

**12** In the course of the study we met with representatives of the following stakeholder groups:

- Association of Colleges
- Chartered Institute for Purchasing and Supply
- Crescent Purchasing Consortium
- Environmental Association of Universities and Colleges
- Forum for the Future
- Improvement and Development Agency
- OGCBuying.solutions.

## Use of consultants

**13** We engaged procurement consultants from the Buying Support Agency to advise on aspects of our methodology, participate in one of our case study visits and provide expert analysis of our emerging findings. They have experience of assessing value for money in public sector procurement and of auditing procurement in further education colleges.

## Reference Panel

**14** We convened a small panel of people with expertise relevant to our study to act as a sounding board for the development of the study methodology, and to comment on our emerging findings.

Shaun Anders	Head of Facilities Management (including procurement), St Helens College
Peter Brewer	Managing Director, Crescent Purchasing Consortium
Ray Corner	Director of Finance, Salford University and Chair of Crescent Purchasing Consortium
Alan Cross	Office of Government Commerce
Julian Gravatt	Director of Funding and Development, Association of Colleges
Melinda Johnson	Department for Education and Skills
Anthony Merrill	Buying Support Agency Ltd
Matthew Roper	Buying Support Agency Ltd
Ray Poxon	Learning and Skills Council

## APPENDIX TWO

### Recent National Audit Office reports on procurement

Smarter food procurement in the public sector,  
HC 963 2005-06

Improving the efficiency of postal services procurement in  
the public sector, HC 946 2005-06

Sustainable Procurement in Central Government,  
September 2005 [http://www.nao.org.uk/publications/nao\\_reports/05-06/sustainable\\_procurement.pdf](http://www.nao.org.uk/publications/nao_reports/05-06/sustainable_procurement.pdf)

Procurement in the Culture, Media and Sport sector,  
HC 596 2005-06

Procurement in the higher education sector in Wales,  
Report prepared for the Auditor General for Wales by the  
National Audit Office Wales, November 2004 [http://www.wao.gov.uk/assets/englishdocuments/Procurement\\_in\\_Higher\\_Education\\_Sector\\_2004\\_agw.pdf](http://www.wao.gov.uk/assets/englishdocuments/Procurement_in_Higher_Education_Sector_2004_agw.pdf)

Improving Procurement: Progress by the Office of  
Government Commerce in improving departments'  
capability to procure cost-effectively, HC 361 2003-04

Procurement in the further education sector in Wales,  
Report by the National Audit Office on behalf of the  
Auditor General for Wales, September 2001 [http://www.wao.gov.uk/assets/englishdocuments/Procurement\\_in\\_Further\\_Education\\_Sector\\_2001\\_agw.pdf](http://www.wao.gov.uk/assets/englishdocuments/Procurement_in_Further_Education_Sector_2001_agw.pdf)

# APPENDIX THREE

## Recommendations: costs and benefits

Recommendation	Benefits	Costs
<p>College governors and senior managers should raise the priority of improvements to procurement. Managers should take advantage of the support being developed by the Department and the Learning and Skills Council to achieve savings to be re-invested in frontline learning.</p>	<p>Monitoring by governing bodies should help ensure that actions are focused on areas of greatest potential benefit, and that firm action is taken.</p> <p>Managers can save time and effort by accepting support and learning from colleagues.</p> <p>Efficiency gains made will increase the resources available to learners.</p> <p>More efficient procurement will reduce workload, especially for budget holders.</p>	<p>Ongoing: time required by governing body to consider and regularly review an area that is not generally regarded as 'core business'.</p> <p>Short-term: more management time required to raise the standards of procurement.</p>
<p>It is essential for the Learning and Skills Council to persuade all colleges to improve their procurement by providing examples of demonstrable, measurable savings and efficiencies. In addition to encouraging colleges that are demonstrating an enthusiasm for improving procurement and can deliver savings, the Council should be seeking to motivate all other colleges to follow their good example.</p>	<p>Will make best use of limited resources.</p> <p>Motivation is a big issue – by encouraging and helping the most willing colleges to make efficiencies and declare them, the Learning and Skills Council is more likely to be successful in persuading other colleges to follow suit.</p>	<p>Short-term: should be cost free, but the Learning and Skills Council will risk losing opportunities for achieving efficiencies in other colleges if it does not achieve and capitalise on early successes quickly enough.</p>
<p>Colleges should develop a professional approach to procurement.</p>	<p>Procurement experts can help save costs and spot opportunities more confidently and quickly, thus saving management time. They have a better chance of success in challenging poor practice.</p>	<p>Short term: cost of consulting experts, though as procurement in the sector improves and good practice becomes more widely known and accepted, these are likely to reduce.</p> <p>Ongoing: it is not necessary for every college to employ its own procurement expert. If colleges allocate a procurement liaison responsibility, this could present an additional cost, but in the long-term may be offset by savings elsewhere, e.g. in reduced burdens on the heads of finance and budget holders.</p>

<b>Recommendation <i>continued</i></b>	<b>Benefits <i>continued</i></b>	<b>Costs <i>continued</i></b>
Colleges should review their data on procurement and how it can be better analysed to provide useful management information.	Good management information is an essential step towards improving procurement. Colleges are unlikely to make progress without it and could waste resources, for example by targeting areas least likely to result in savings.	Short-term: work by the Learning and Skills Council to identify best ways of interrogating college systems. Work by colleges to set up effective methods of extracting procurement data, which may require expert help.  Ongoing: costs of extracting data on a regular basis, monitoring and using it for management purposes; these activities are, however, likely to displace existing less effective activities.
The Learning and Skills Council should work with colleges to help them measure the efficiencies they achieve, and to promulgate the lessons to other colleges.	Will raise the currently very low level of comparative data and specific good practice examples in the further education sector.  Will help develop a culture where achievements are measured and shared.  Over time, should improve capacity to manage procurement more effectively.	Measuring efficiencies will initially require expert effort to raise existing low capacity, but direct involvement in this work should be a good use of the time of specialists in the Department and the Learning and Skills Council.
Colleges should review their existing mix of procurement methods against good practice benchmarks.	Moving to more appropriate procurement methods should reduce transaction costs and provide greater opportunities for competitive prices.	Short-term: where a college's existing methods fall well short of good practice, management time will be required to review them thoroughly.  Ongoing: regular review of whether procurement methods meet latest good practice – this should not be, however, an additional cost, since colleges should be doing it anyway.
Colleges should improve their management of suppliers.	Improved supplier performance.  Increased scope for innovation made possible where suppliers understand colleges' needs better.	Unlikely to increase costs – costs may be reduced where budget holders are spending less time managing suppliers independently.
Colleges should take up opportunities for collaboration with other organisations and through consortia where they can offer procurement expertise, reduced transaction costs and better quality and/or price.	Collaboration can lead to lower prices through aggregation of demand and better access to negotiating skills.  Sharing costs should mean reduced transaction costs where collaborations are well managed.	Developing collaborative networks will require some investment of staff time, which should be carefully managed to ensure it does not become excessive.



## APPENDIX FOUR

### The Centre for Procurement Performance

#### What it is and why it was set up

The Centre for Procurement Performance was set up by the Department for Education and Skills in 2005 to work across the whole of the education, skills and children and families system, to promote more effective procurement.

The Centre is responsible for delivering total efficiency savings of £1.5 billion by 2008. Of this, £75 million is expected to come from further education colleges. These savings are not to be clawed back by the Department, but will remain in the organisations making them, to be reinvested in front-line services as they see fit.

#### What it does and how it works with colleges

The Centre aims to use existing channels to promote procurement best practice and raise awareness of the best deals available to people making procurement decisions. For the further education sector, this means working closely with the Learning and Skills Council's procurement development team. The Centre has provided funding of £1.2 million for 2005-06 and 2006-07; £400,000 of this is for the costs of the team and the rest to support specific initiatives.

The Centre works with colleges as an enabler, rather than imposing targets and risking increases in bureaucracy. It hopes that promoting the benefits of improving procurement will encourage colleges to implement, measure, and report on improvements.

#### What the Centre has achieved

Following discussions with procurement experts from across all sectors, the Centre established seven sourcing groups in November 2005. These groups have a remit to establish how they can best organise effective sourcing across the whole system, and to help identify barriers and ways of overcoming them. These seven groups are:

- Professional services
- ICT
- Microsoft
- Transport
- Supply Chain
- Temporary Staff
- Energy.

The groups are progressing at different speeds with their work, and results and opportunities are promulgated as they become available using the Centre's website, newsletter and networks.

The Centre also supported the Learning and Skills Council in negotiating an enhanced implementation package for purchasing cards with OGCBuying.solutions and Barclays Bank. They delivered a programme of seminars promoting the government procurement card to further education colleges in early 2006.

The Centre is funding initiatives in the further education sector that are intended to contribute towards achieving the £75 million efficiency target. It has funded NVQ training in procurement for 100 college staff in an effort to upskill the sector, which should improve procurement practices. It has licensed the Efficiency Measurement Model from the Higher Education Funding Council for England. The model is now available to all colleges for recording and reporting efficiency gains.

The Centre was a sponsor of the first procurement conference for the further education sector, which took place in April 2006 and was attended by representatives from 45 colleges. It is funding the trial of the Unity marketplace e-procurement system in further education colleges.

The Centre is working with the Learning and Skills Council to develop and promulgate guidance, for example the management guide – how to manage influenceable spend published in August 2006 – which will all be made available online through the Further Education Library of Purchasing.

## APPENDIX FIVE

### Spend categories for analysis

We used these categories, defined for the Department’s baselining report in June 2005, in our survey in order to obtain comparable data (paragraph 3.2).

Category	Content
Administrative supplies	Administration Stationery, Printing and Reprographics, Postage, Bank Charges, Advertising (non-recruitment), Telephone, Medical/Domestic Supplies, Purchase/Lease of ICT Equipment Administration, Furniture/Equipment (Non-Teaching), Non-Curriculum Subscriptions, School Publications, Photocopier Paper, Computer Paper, Computer Disks, Computer Print Consumables, Protective Clothing, Consumable Equipment, Photocopying Internal Charges, External Copier Charges, Printing, Design Costs, Equipment Rental, Travel Costs, Subsistence, Events and Conferences, Marketing, Donations and Awards, Inspection Costs, Restructuring Costs.
Agency supply teaching staff	Services/Consultancy From Local Education Authority or Third Party, Curriculum IT Consultancy, Courses from External Providers, Peripatetic Teachers
Bought in professional services - curriculum	Services/Consultancy From Local Education Authority or Third Party, Curriculum IT Consultancy, Courses from External Providers, Peripatetic Teachers
Building maintenance and improvement	Contractors Repair/Maintenance Charges, Materials For Repair/Maintenance, Fixtures and Fittings, Lift Maintenance, Planned Maintenance, Fire Alarm Maintenance, External Building Maintenance, Refurbishment Maintenance, General Maintenance
Catering supplies	Non Capital Equipment, Provisions, Vending Machines, Service Contract, Repairs and Maintenance, Perishable and Non-Perishable Catering supplies, Drinking Water
Cleaning and caretaking	Cleaning Contract Charges, Equipment and Supplies
Development and training	All Staff Training and Inset Costs
Energy	Electricity, Gas and Oil
Indirect employee expenses	Recruitment Costs, Employee Travel, Caretaker Expenses, Health Insurance, Staff Meals
Learning resources (not ICT)	Library and Text Books, Library Charges, Classroom Equipment, Furniture for Teachers, Pupil Travel, Teaching Equipment Leased, Reprographic Resources, School Trips, Equipment Servicing, Subscriptions/Publications, Teaching Materials, Minibus Charges, Student Welfare, Flexistudy arrangements, Blank Video/Audio Tapes, Counselling Fees, Franchise Payments, Course Fees, Learning Packs, Youth Training
Other insurance premiums	Premises, Vehicle, Accident/Public Liability, School Trip Insurance
Other occupation costs	Hygiene Services, Security Services, Alarm Contracts, Security Equipment
Special facilities	Including Community Education, Sports Centres, Payments to Other Schools, Home-School Transport, Trading Items for Resale, Conference Facilities, Childminding Expenses

## APPENDIX SIX

### Procurement consortia

#### What is a procurement consortium?

A procurement consortium is a group of organisations coming together to carry out collective purchasing. It aims to provide members with professional, cost-effective purchasing and support services, and to deliver value for money across a range of products and services.

#### How a consortium works

Consortium managers negotiate and manage contracts with suppliers. Members buy from these contracts with supplies delivered directly to where they are required, with invoicing and payment between supplier and customer. Lists of products and suppliers available to members may be produced in catalogues and are usually available online. The consortium may be funded by membership fees or by rebates from the suppliers to the consortium. Members do not usually have to commit to buy from the consortium.

#### Advantages of a procurement consortium

- enables access to lower commodity prices through greater buying power (economies of scale);

##### Savings from using Consortia

- On joining The Crescent Purchasing Consortium in October 2002, Blackburn College<sup>24</sup> switched to Crescent's stationery contract and saved approximately £40,000 in the first six months.
- Salford College has saved £23,000 a year since 2003 on its photocopier contracts, compared to a baseline spend of £79,000 in 2002-03, by using the consortium's preferred suppliers.

- competitive tendering and contract management carried out by consortium managers not members, with consequent administrative cost savings.

##### Potential for administrative cost savings

- Crescent Purchasing Consortium estimates that undertaking a full EU tender exercise could cost a college £6,000, assuming the work was carried out by a manager paid £30,000 a year and involved tender responses of an average size and number. A formal tender not through EU processes might be approximately half the cost.

- access to professional procurement services and procedures. Not all colleges can afford to employ their own professional procurement staff;
- compliance with UK and EU legislation. For contracts worth over £144,371<sup>25</sup> a year all public sector organisations must follow EU procurement process of inviting tenders through the Official Journal of the European Union. This process can be complex and time consuming – consortia provide contracts that comply;
- good management information, including spend on contracts;
- time saved sourcing suppliers because the consortium has already secured good deals on wide range of items;
- pre-agreed service and delivery conditions;
- ongoing negotiations with new suppliers;
- can provide for effective sourcing of items in short supply.

<sup>24</sup> <http://www.cpc.salford.ac.uk/casestudies/casestudy.php?csID=4>.

<sup>25</sup> <http://www.ogc.gov.uk/index.asp?docid=397>.

## Possible disadvantages of using a consortium

- some charge a membership fee. Where a fee is charged it is usually a three or four figure sum (table below for details);
- specifications may not be exactly as required, though colleges should try to be flexible where possible to capitalise on the benefits;
- contracts may not be in place for specialist items;
- consortia can be undermined by members not using them in a strategic and systematic way.

## Current use of consortia

Procurement consortia are well worth considering for the following types of spend:

- routine items that are common between colleges, such as IT equipment, stationery, utilities;
- significant areas of spend where no contract currently exists;
- spend above the EU public procurement thresholds.

Consortia that further education colleges are likely to use include (see table below):

Name	Details	Membership Fees for colleges <sup>1</sup> (£)	Total spend in 2004-05	No. of contracts	No. of further education colleges using
Crescent <a href="http://www.cpc.salford.ac.uk">www.cpc.salford.ac.uk</a>	National further education consortium based at Salford University, established 2000	none	£14m	136	215
London Universities Purchasing Consortium <a href="http://www.lupc.procureweb.ac.uk">www.lupc.procureweb.ac.uk</a>	Consortium for public-funded educational and associated institutions in the London area	Tiered depending on non-salary costs (approx £2,200+VAT for up to £5m spend)	£150m <sup>2</sup>	45 <sup>3</sup>	15
North Eastern Universities Purchasing Group <a href="http://www.neupg.procureweb.ac.uk">www.neupg.procureweb.ac.uk</a>	Consortium for universities and colleges in the North East	£3,000 (approximately) for associate membership	£62.1m	48	3
North Western Universities Purchasing Consortium <a href="http://www.nwupc.man.ac.uk">www.nwupc.man.ac.uk</a>	Consortium for universities and colleges in the North West, works with other higher education consortia, OGCBuying.solutions and Crescent on joint contracting programmes	£1,750 for associate membership	£50m	46 EU tendered contracts and over 100 others	4
Southern Universities Purchasing Consortium	Consortium open to universities, university sector colleges and FE institutions in England that have charitable status.	Up to £1,000 for affiliated associated membership hosted by a full member	£130m	69	30

### NOTES

1 Procurement in colleges, Association of Colleges August 2005.

2 Based on the consortium's estimates of a 75 per cent take-up of agreements by members and a potential total spend of £200 million if members used all the consortium's agreements to the fullest extent possible.

3 Including endorsed agreements developed by, for example, other consortia.

There are also other consortia offering specialist goods and services<sup>26</sup>, including:

- The Energy Consortium<sup>27</sup>, a not-for-profit organisation providing a specialist service for the procurement of energy supplies to a large membership within the higher and further education sectors. Membership fees range from £250 to £750 a year dependent on energy consumption.
- Eduserv Chest, a not-for-profit organisation that negotiates and manages e-resource licences on behalf of UK universities and colleges. All publicly funded further education colleges can use its services.

- The benefits of membership are made clear to universities and the further education colleges that are members through consortium annual reports, which highlight added value services as well as financial savings made on contracts let in the year.

#### Promoting the benefits of consortium membership

The Southern Universities Purchasing Consortium's annual report for 2004-05 contains all the savings made on contracts let in the year, with details of how the savings are calculated. This allows members and potential members to see quantified financial benefits of membership across the range of contracts offered.

## Use of consortia in other public expenditure

### Higher Education

- The four English purchasing consortia in higher education are relatively mature and now actively include further education institutions. They negotiate and manage a mixture of regional, inter regional and national contracts. Spend using the contracts of the four consortia is approximately £400 million a year.
- The four consortia have recently formed an alliance to create the English National Purchasing Consortium, with the aim of creating closer working and gaining further efficiencies. The Learning and Skills Council and the Crescent Purchasing Consortium are working with the North Western University Purchasing Consortium to arrange national contracts for further education.

### Local Authorities

There are a number of local authority consortia and collaborative groups. Some have been in existence since the 1970s and are much larger than the further or higher education consortia.

- Local Authority consortia<sup>28</sup> include:
  - Central Buyers Consortium
  - Eastern Shires Purchasing Organisation
  - Yorkshire Purchasing Organisation.
- The Yorkshire Purchasing Organisation has 13 local authority members and an annual turnover in excess of £270 million.
- Further education colleges reported using a variety of local authority consortia and purchasing organisations, including Kent County Supplies, Yorkshire Purchasing Organisation and County Supplies (Hampshire County Council).<sup>29</sup> The most commonly used, the Eastern Shires Purchasing Organisation, is used by 58 colleges.

26 Procurement in colleges, Association of Colleges August 2005.

27 [www.tec.bham.ac.uk](http://www.tec.bham.ac.uk).

28 Listed at [http://www.sopo.org.uk/about\\_sopo/consortia.htm](http://www.sopo.org.uk/about_sopo/consortia.htm) by the Society of Procurement Officers in local government.

29 National Audit Office survey Q69.

# APPENDIX SEVEN

## Purchasing cards

### What is a purchasing card?

A purchasing card is a charge card that college staff can use to make purchases directly from suppliers. Colleges can use purchasing cards provided by commercial banks, or they can use the Government Procurement Card, a purchasing card provided to the UK public sector through a framework agreement between OGC buying.solutions, VISA and seven VISA-issuing banks.

### How a purchasing card works

A purchasing card works in much the same way as a credit card, except the outstanding balance has to be paid in full every month. Rather than raising purchase orders and sending them for approval and processing by the finance department, budget holders can place orders under contracts directly with suppliers, using the card to pay.

### Benefits of using purchasing cards

- Reduced time and cost of processing orders and invoices – an efficient method of purchasing low-cost high-volume items.

**Reduced transaction costs from using the Government Procurement Card**

Blackpool and The Fylde College reported savings of £20,000 a year in transaction costs through the introduction of the Government Procurement Card.<sup>30</sup>

- Improved control due to:
  - transaction and monthly spend limits;
  - restrictions on which suppliers and merchant categories can be used;
  - expenditure associated with an individual member of staff is visible on cost centre reports;

- monthly statements that can be analysed centrally and used to identify maverick spend;
- improved audit trail for all transactions;
- reduced need for petty cash.
- Under the Government Procurement Card scheme, it is possible to reclaim losses through employee fraud under insurance with the bank, and all Visa banks offer insurance against employee abuse free of charge.
- Better prices as enhanced control ensures compliance with contracts – a valuable bargaining tool that can be used to drive down prices.
- Savings can be made from the reduction in cheques, envelopes and postage associated with payment of invoices.
- Reduction in use of paper through switching to a purchasing card from a paper-based system for purchasing low-cost high-volume items.
- Improved relationships with suppliers, since they receive prompt payment for purchasing card transactions. Prompt payment is a major benefit for small and medium-sized enterprises, for which cash flow is often very important. Also helps colleges meet prompt payment targets.
- More and better management information, which can be readily analysed to improve management understanding of purchasing activities at the college. It can also be linked into the colleges' financial systems, which can save a lot of staff time inputting invoice details onto a system.

"School kitchen staff were given the Government Procurement Card for ordering catering supplies. As the invoice comes through monthly, whereas catering was invoiced per order, we've taken 35,500 invoices out of the system."

*Bristol City Council*<sup>31</sup>

<sup>30</sup> National Audit Office survey Q59.

<sup>31</sup> OGC: 'e-procurement in action' (blue frog 2) [http://www.ogc.gov.uk/embedded\\_object.asp?docid=1003723](http://www.ogc.gov.uk/embedded_object.asp?docid=1003723).

## Possible disadvantages of using purchasing cards

- Purchasing cards are not ideal for high-value transactions and are best used for low-value high-volume items, where the cost of processing a paper order is high compared to the cost of the goods or services procured.
- Some small suppliers may not accept payment by purchasing card. However, colleges should encourage their suppliers to accept cards as it will open them up to more business and the prompt payment can help improve their cash flow.

## Current use of purchasing cards

Our survey showed that purchasing cards were not widely used in further education colleges. The Department and the Learning and Skills Council ran a series of nine national seminars on the Government Procurement Card in January and February 2006. 252 delegates representing 163 colleges attended. A further series of nine implementation workshops were organised in April 2006. By June 2006, 63 colleges were adopting cards and a further 71 were switching from commercial cards, which bear a fee, to the Government Procurement Card contract.

## Extent to which purchasing cards are used in other sectors

The Government Procurement Card is widely used throughout the public sector. There are over 420 programmes in operation, with more than 62,000 users. The cumulative spend on the Government Procurement Card is over £1.1 billion.<sup>32</sup>

### Use of purchasing cards in higher education

The Higher Education Funding Council for England estimates that in 2004-05 about 600,000 transactions using procurement cards were made by higher education institutions.<sup>33</sup>

<sup>32</sup> [http://www.ogcbuyingsolutions.gov.uk/payment\\_cards/gpc.asp](http://www.ogcbuyingsolutions.gov.uk/payment_cards/gpc.asp).

<sup>33</sup> This estimate is based on a survey of the sector to which 47 institutions responded.

# APPENDIX EIGHT

## e-procurement

### What is e-procurement?

E-procurement is the use of electronic methods in every stage of the purchasing process from identification of requirement through to payment, and potentially to contract management.<sup>34</sup>

E-procurement is not making occasional or ad-hoc purchases from the internet. It is about having automated, electronic systems embedded in an organisation for regular use across the full range of contracts.

### How e-procurement works

In practice it is highly unusual for all parts of the purchasing process to be electronically enabled in a college. However independent parts of the procurement cycle can be carried out electronically, as part of a more gradual implementation:<sup>35</sup>

- eSourcing – for contractual processes. Tools include eTendering, eRFQs (Request for Quotations/evaluations) and eAuctions;
- ePurchasing – for transactional processes. Tools include marketplaces using techniques such as eCatalogues;
- ePayment – for payment processes. Tools include virtual or embedded GPC (Government Procurement Card), eInvoicing and self-billing.

### What are the benefits of using e-procurement?

- Improves efficiency and frees up staff time to focus on core activities. And because electronic orders can be placed instantly, goods can be received more quickly.
- Reduces the time and cost of sourcing supplies as purchasers are directed to goods and services provided by approved suppliers through negotiated contracts.

- Improves compliance with contracts by eliminating maverick spending and provides assurance that best value is being attained. Being able to guarantee to suppliers that all spend in one area will go through them can enable organisations to achieve price discounts.
- Saves money on overheads as reduces the need for printing, copying, paper, postage and stationery.

#### Savings from e-enabling parts of the procurement process

Blackpool and The Fylde College reported saving £7,000 a year just by reducing postage, administration and stationery costs using electronic purchase orders.<sup>36</sup>

- Better for the environment as can greatly reduce the use of paper.
- High quality, detailed management information from successfully implemented e-procurement systems, enabling effective management of the procurement process. The transparency of decision making can also be improved, and the potential for disputes reduced.

### Possible disadvantages of e-procurement/challenges to overcome

- An up-front investment of time and money is needed to implement an effective e-procurement system (the Department is funding an e-procurement trial at some colleges).
- E-procurement can only deliver benefits if it is part of wider good procurement practice. It must be used in the context of strategic sourcing, effective collaboration and a culture of compliance with contracts.

34 <http://www.ogc.gov.uk/index.asp?id=2361>.

35 <http://www.ogc.gov.uk/index.asp?id=2361>.

36 National Audit Office survey Q59.



- Some suppliers may not be e-enabled, fearing the costs are too high. However colleges should look to persuade their suppliers of the benefits to them from e-procurement – reduced ordering and processing costs, reduction in paperwork, improved cash flow from prompt payment, and reduced cost of credit control.

## Current use of e-procurement

E-procurement is not widely used by further education colleges, though there is a growing interest in its capabilities for reducing costs.

### E-procurement in further education colleges

The most commonly electronically enabled part of the procurement process in colleges is order placing, with 38 per cent of colleges using e-procurement for this purpose.

However, many of these colleges do not use electronic methods for all relevant order placing. More commonly purchases under a small number of contracts are made over the internet, and other items are procured using a manual requisition system.

The Department is funding the trial of a fully integrated e-procurement system, assisted by Crescent Purchasing Consortium. The Unity marketplace was developed initially by Salford University and is being taken forward by E-Government Solutions Ltd. It will be piloted at 24 colleges in an attempt to prove the technology, before being marketed to the whole further education sector. It will provide a mechanism for colleges to make electronic purchasing transactions with approved suppliers through a single integration point.

## Is e-procurement used in other sectors?

### Across Government – the Office of Government Commerce

The Office of Government Commerce has established a Cross Sector e-procurement Team charged with assisting the public sector to realise the benefits of e-procurement. In support, OGCBuying.solutions is operating Zanzibar, a web enabled 'purchase to pay' system and e-marketplace available to all UK public sector organisations. In February 2006 the Department for Work and Pensions was the first government department to announce it was using Zanzibar.

37 <http://www.idea-knowledge.gov.uk/idk/aio/70780>.

## Higher Education

E-procurement is not yet widely used in the higher education sector. Only a few Higher Education Institutions have implemented e-procurement systems, but benefits are starting to be achieved.

### E-procurement at Imperial College

In 2001, Imperial College in London had a fully implemented e-procurement system and calculated that 50,000 hours of staff time were released by automating the purchase order process. Processing times have been reduced from 67 minutes using manual systems to a few minutes using e-procurement. Imperial College processed 50,000 transactions through its e-procurement system in 2005-06.

## Local Authorities

Local authorities are running a National e-procurement Project to give support and advice on e-procurement to local authorities in England. It has been in existence for over four years and aims to encourage and support all local authorities to take up e-procurement and realise the financial, efficiency and other benefits.

### Savings in local government

The Improvement and Development Agency for local government has calculated that savings from implementing e-procurement in local authorities would average 2.8 per cent of non-pay expenditure.<sup>37</sup>

## Health

£600 million of annual NHS expenditure is handled by a single electronic system operated by the NHS Logistics Authority, which automates everything from ordering to payment, and offers an eBilling facility.

The NHS Purchasing and Supply Agency introduced an electronic tendering system on 1 July 2005. All its procurements covering invitations to tender and suppliers' tender submissions are conducted through this system. The system provides a means for managing tendering activity and contract negotiations with suppliers over the Internet. It reduces the time, effort and cost involved in the purchasing lifecycle for both buyers and suppliers. The Agency also regularly operates e-auctions.

## APPENDIX NINE

### Framework agreements

#### What is a framework agreement?

A framework agreement is an agreement with one or more suppliers which sets out terms and conditions under which contracts can be awarded throughout the term of the agreement.

Framework agreements can be a beneficial procurement method for colleges, but they should be used as part of a strategic approach to procurement that includes collaboration.

#### How a framework agreement works

Once a framework agreement is set up specific purchases, or call-offs, can be made throughout the term of the agreement. Framework agreements can incorporate a contractual commitment to purchase a particular volume or value of goods or services, but this is not always the case.

Colleges do not have to set up their own framework agreements. There are many frameworks available that colleges can draw on and colleges should consider these before setting up their own. They are available from OGCBuying.solutions and consortia, or colleges can collaborate with each other or other public sector bodies in the area to set them up.

#### OGCBuying.solutions

- OGCBuying.solutions, an Executive Agency of the Office of Government Commerce, provides over 500,000 products and services to the public sector through its 'Catalist' brand fully managed services and a series of framework contracts.
- OGCBuying.solutions offers access to negotiated deals with approved suppliers and therefore eliminates a lot of the administrative effort that can go into procurement activity.

- OGCBuying.solutions creates savings by providing public sector customers with a range of solutions to improve the efficiency and effectiveness of their procurement activities. In 2004-05 it managed purchasing arrangements through which over £2 billion public funds were spent, generating over £300 million savings.

#### Advantages of framework agreements

- Better prices can be negotiated if a guarantee to purchase a certain volume or value of goods can be offered.
- Agreements that do not incorporate contractual commitments to purchases enable colleges to use them when they provide value for money but go elsewhere if they do not.
- Administrative costs can be reduced as only one tendering exercise is required over the life of the agreement.
- A mutually beneficial longer term working relationship can be established with suppliers, which can lead to better service and therefore better value for money.
- By drawing on the frameworks offered by other bodies, such as OGCBuying.solutions and consortia, legal compliance can be ensured.

#### Possible disadvantages of framework agreements

- Framework agreements can still be subject to EU procurement rules, so colleges letting their own may incur the extra costs associated with this.
- Colleges need to be certain that the procurement requirement exists before committing to purchases under framework agreements.

## Current use of framework agreements

- Colleges are making increased use of consortia (Appendix 6) whose services include framework agreements. Other framework agreements are not widely used in further education colleges, despite the value for money that many offer.

### Framework agreements in further education

Of colleges responding to our survey, 33 per cent reported using framework agreements set up by OGCBuying.solutions and 13 per cent reported using other framework agreements.

## Use of frameworks in other sectors

### Across Government – OGCBuying.solutions

- Spend through the OGCBuying.solutions framework contracts, open to all public sector organisations, was £1.2 billion in 2004-05;
- OGCBuying.solutions is updating its arrangements, and has initiated a major programme of framework agreements that the whole public sector can draw on for a wide range of goods and services.