



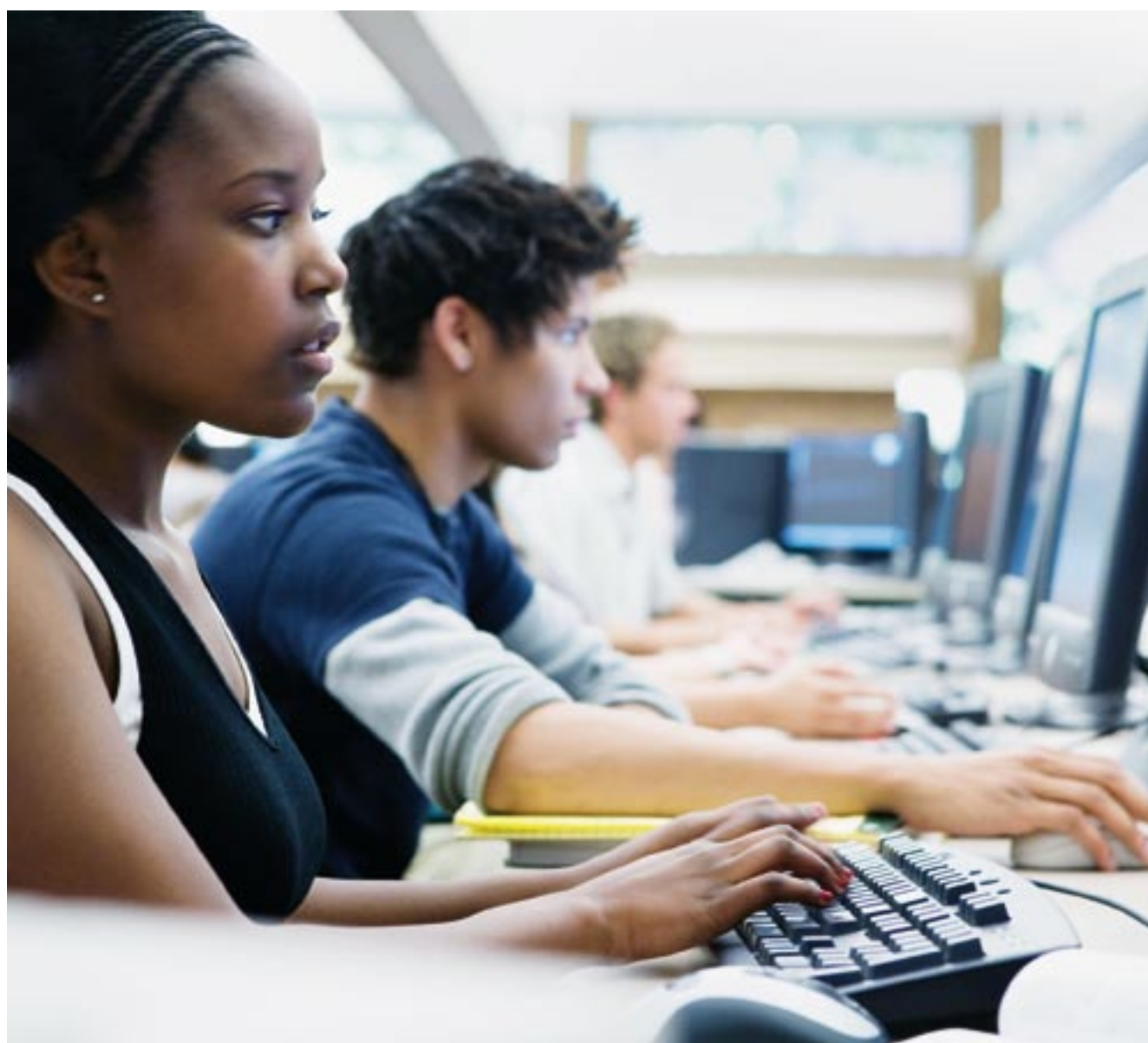
National Audit Office

Improving procurement in further education colleges in England

LONDON: The Stationery Office
£13.50

Ordered by the
House of Commons
to be printed on 23 October 2006

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 Review¹ 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 billion², colleges could make £75 million savings by March 2008, which would be available to be redeployed into front-line services for learners.³

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 departments⁴ 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.

¹ 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.

² 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.

³ 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.

⁴ 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 Model¹ 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

¹ 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

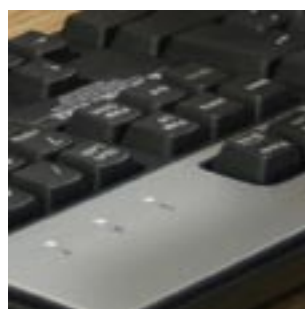
efficiencies, as proposed in recommendation 2, to fill this important gap. Once the model is sufficiently developed, colleges will still need to be persuaded to use it. Written guidance on using it is unlikely to be enough, and the Council should facilitate more active support such as workshops or a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