



BBC Procurement

Review by the Comptroller and Auditor General presented to the BBC Trust's Finance and Strategy Committee

BBC Procurement

BBC Trust response to the National Audit Office Value for Money study

It is the responsibility of the BBC Trust, under the Royal Charter, to ensure that value for money is achieved by the BBC through its spending of the licence fee.

In order to fulfil this responsibility, the Trust commissions and publishes a series of independent value for money reviews each year after discussing its programme with the Comptroller and Auditor General – the head of the National Audit Office (NAO). The reviews are undertaken by the NAO or other external agencies.

This study, commissioned by the Trust's Finance & Strategy Committee on behalf of the Trust and undertaken by NAO, looks at how the BBC manages spending on goods and services and whether it is organised and equipped to deliver best value from its procurement. It also looks at whether there is scope for the BBC to make further savings from its procurement arrangements.

The Trust thanks the NAO for undertaking this review and fully accepts the report's conclusions and recommendations.

The Trust welcomes the NAO's very encouraging findings. We note the report's conclusion that in recent years the BBC has significantly improved the way it buys goods and services and is delivering better value for money from procurement to licence fee payers. We are pleased to note that the BBC's procurement processes reflect good practice and is on course to deliver efficiency savings of £75 million in the three years to 2008. Notwithstanding this the Trust is aware that there are still ways in which the BBC could enhance its approach and make further savings.

The Trust has discussed the NAO's findings and recommendations with the BBC Executive and considered their response, which is published in this document. The Trust is satisfied that the proposed Executive's actions are an appropriate response to the NAO's findings.

The Trust will continue to strive to ensure that BBC Management's approach to procurement delivers the best value for the licence fee payer.

BBC Trust
November 2007

BBC Procurement

BBC Executive Response to the National Audit Office Value for Money study

The BBC Executive welcomes this review by the NAO that looked at the BBC's central procurement function. In 2006-07 BBC Procurement managed an annual spend of £1.3bn, including strategic contracts and goods and services but excluding staff costs, spend on freelance staff and spend on broadcast markets (e.g. payments to independent production companies, royalties or programme acquisitions). The NAO review focussed on £531m of the £1.3bn spend which was the BBC's spend on goods and services not covered by outsourced contracts with strategic partners (examples of some of the BBC's strategic contracts include TV Licence collection, transmission and facilities management).

The BBC is currently in the last year of a three year value for money programme. As part of this programme BBC Procurement has been targeted with delivering £75m efficiency savings over three years. This is the second target that the department has been tasked with and is in addition to £65m delivered under the previous three year programme which ran from 2001 to 2004.

The NAO has concluded that the BBC has a well developed approach to procurement. The Executive is pleased that the NAO has recognised the strength of the BBC's procurement strategy and that the approach reflects good practice. This finding is also confirmed by the Chartered Institute of Purchasing and Supply gold accreditation of BBC Procurement and a recent procurement benchmarking study commissioned by the BBC.

Whilst the Executive acknowledges that there are always improvements to practices and processes that management should be following, it does not believe that there are significant ways in which the BBC could enhance its approach and make further savings from procurement. The Executive believes that the BBC's approach is in line with best practice and it will continue to look for ways to improve further as industry best practice moves forward.

Response to NAO recommendations

The Executive is pleased to note that most of the recommendations made are to continue to develop work that is already in progress.

The BBC should have a written policy on sustainable procurement

As acknowledged by the NAO, the BBC does consider sustainability in its procurement related activities. The Executive will now undertake to develop a written policy on sustainable procurement which it will communicate to BBC staff and BBC suppliers. Once the policy has been agreed it will be published on the BBC's external website under the section 'Supplying the BBC'.

Plan for the loss of key staff and provide development opportunities

The NAO acknowledges that the BBC is operating in a competitive market where qualified procurement staff are in short supply. BBC management are already addressing this by bringing people into the department from core BBC production areas to assist on specific procurement projects. This helps to develop the industry knowledge of procurement staff whilst sharing key procurement skills with production people coming into the department. BBC management clarified the career progression structure within Procurement in 2005 and it is supported by development and training plans. Succession plans are in place for the senior positions and these will be extended to cover a wider range of purchasing roles. The BBC has also introduced a procurement graduate placement scheme.

Strengthen its current set of performance indicators

As recognised by the NAO, the BBC has a strong set of performance indicators. In order to effectively measure the transformation that procurement has undergone to date, the most appropriate set of performance indicators have been those measuring the efficiency of the process and compliance with policies and procedures. The Executive now believe it is the right time to broaden these measures and it intends to bring in other indicators recommended by the NAO, for example, customer satisfaction. However, the over-riding objective should always be for the BBC to deliver value for money to the licence fee

payer and to act as an effective challenge to the buying decisions being made throughout the organisation.

Look to reduce the number of suppliers used and to increase the number of central contracts

Whilst the overall objective for the BBC is to reduce the number of suppliers used, this has to be done in the context of the unique and diverse nature of the organisation and the need to encourage innovation and creativity. The Executive will continue to look to increase the number of central contracts moving forward, as recommended by the NAO. In 2006-07, 78% of the spend managed by BBC Procurement (including spend with strategic partners) was via central contracts. However, as the NAO acknowledges, the Executive will also ensure that the supplier base remains open and that the BBC encourages local and smaller suppliers. To this end, BBC Procurement has been involved in running events to meet with local suppliers and to help them understand the BBC's procurement strategy.

Continue to develop use of e-procurement and reduce transaction costs

The Executive is pleased that the NAO report recognises the work that the BBC has already done in using e-procurement tools and low cost purchasing routes. It will continue to look for ways to develop these further. BBC Procurement is already working on ways to improve the user interface of the catalogue purchasing system to make it more intuitive and less dependent upon user training. It will continue to identify circumstances for the use of purchasing cards in controlled environments and to drive up the % of electronic invoices received by the BBC, including self-billing where the BBC raises the invoice on behalf of the supplier.

Plan to reduce the cost of licences

The new purchasing system being used in the BBC is still in a transition period and was only fully rolled out to all users in February 2007. As soon as the transition to the new system is complete, and BBC Procurement has 12 months of data to identify non-regular users, then steps will be taken to withdraw licences from those people who are, for example, making less than one purchasing request per month.

Regularly review transaction costs

The Executive welcomes the NAO's analysis on transaction costing which will be helpful in the future. BBC Procurement intends to use it as a benchmark for monitoring the cost of the purchasing process across the BBC with the overall aim of reducing the cost of the end to end purchasing process.

Make wider use of management information to plan spending

The BBC does not generally commit to a level of spend with its framework suppliers. This is to encourage competition and therefore value for money, and also to ensure that the BBC is not exposed unduly to commercial risk by guaranteeing volumes that may not be met. However, the Executive acknowledge the importance of using available management information to better inform buying decisions and it believes that this takes place through the budgeting, planning and demand forecasting cycles. Nevertheless, it believes that there will always be scope for this to be improved.

BBC Procurement



This report has been prepared under clause 79(3) of the Agreement between the Secretary of State for Culture, Media and Sport and the BBC dated July 2006.

John Bourn
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National Audit Office

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CONTENTS

SUMMARY	4
MAIN REPORT	
This report examines how the BBC manages expenditure of over £500 million a year on a wide range of goods and services	6
The BBC is delivering savings from its procurement activities	7
The BBC has a clear procurement strategy	9
The BBC has centralised its procurement and is developing its procurement capacity and skills	10
There is scope for the BBC to reduce the number of suppliers it uses	11
The BBC has increased spending through central contracts	12
The BBC is advanced in its use of eProcurement	13
The BBC is using management information to support its procurement performance	16
APPENDIX	
The methods we used	18

SUMMARY

In 2006-07 the BBC spent £531 million on goods and services, ranging from broadcast specific products, including props, costume, locations, lighting, studios, production equipment, recording and storage media, to more generic items such as travel, office supplies and consultancy advice. This report looks at how the BBC manages spending on such goods and services. In examining whether the BBC is organised and equipped to deliver best value from its procurement and whether there is scope for the BBC to make further savings from its procurement arrangements, our main findings are as follows:

- The BBC has a well developed approach to procurement and has been awarded Gold accreditation by the Chartered Institute of Purchasing and Supply for its strategic procurement capability. It is on course to deliver its efficiency savings target of £75 million from its procurement in the three years to March 2008. The BBC's central procurement function of 79 staff manages the BBC's spending along category lines, enabling the BBC to control its spending more effectively than in the past, with the support of good management information. The BBC has yet to develop a formal written policy on sustainable procurement, although its procurement activities do address sustainability in a number of ways.
- As part of its strategy the BBC is working to aggregate the majority of its spending and reduce the number of suppliers it uses to make use of its buying power and reduce its administrative burden. Some 80 per cent of its spending is with four per cent of suppliers, but with 14,000 of its 17,000 suppliers accounting for just five per cent of its spending there is further scope to reduce the number of suppliers it uses. There is, however, a balance to strike between reducing supplier numbers and keeping the supply base open, competitive and innovative and the BBC recognises the need to attract smaller businesses.

- The BBC has increased the number of central contracts for goods and services it has in place to 999 by March 2007. The proportion of the BBC's spending through these central contracts rose from 40 per cent in 2005-06 to 61 per cent in 2006-07, and with £207 million of spending through local or individual contracts the BBC is planning to let more central contracts.
- The BBC is making good use of technology across all aspects of its procurement. Over 90 per cent of the BBC's tenders were issued electronically in 2006-07 and it is using eAuctions more often with 25 planned during 2007-08. A new electronic system for procuring goods and services is helping the BBC to reduce transaction costs and making it easier for BBC staff to buy goods and services, although there are opportunities to reduce the costs further by shifting transactions to lower cost procurement routes and by reducing the cost of licences to use the system. Almost 40 per cent of the invoices the BBC received in 2006-07 were submitted by suppliers electronically, and whilst there is further scope to reduce the number of manual invoices the BBC is also looking forward and piloting self-billing.

Our overall conclusion is that in recent years the BBC has adopted good procurement practices to significantly improve the way it buys goods and services to deliver better value for money from procurement. Going forwards there are still some important ways the BBC could enhance its approach and make further savings, and the following recommendations are designed to support this.

Recommendations

Paragraph

On the way the BBC organises its procurement

To build on what is already a strong strategy the BBC should:

- Have a written policy on sustainable procurement. Paragraph 11
- Plan for the loss of key procurement staff through further developing its succession planning, and by providing more development opportunities for staff such as internal and external secondments. Paragraphs 18, 19
- Strengthen its current set of performance indicators to include the views of users and the value of retrospective purchase orders. Paragraphs 36, 51

On the scope for the BBC to make further savings

To drive further efficiency savings from procurement the BBC should:

- Look to reduce the number of suppliers it uses by critically reviewing the need for those suppliers where spending is of low value, although not at the expense of discouraging smaller organisations from supplying the BBC. Paragraphs 22, 23
- Take forward plans for increasing the number of central contracts and promote the benefits of central contracts among BBC staff to increase spending through them. Paragraph 30
- Continue to develop its use of eProcurement focussing on the use of more eAuctions, eInvoicing and self-billing. Paragraphs 34, 42, 43
- Plan to reduce transaction costs by seeking opportunities to shift spending to lower cost procurement routes such as fixed price catalogues and procurement cards. Paragraph 38
- Seek to reduce the cost of licenses for the Purchase to Pay system by withdrawing them from staff who do not use them regularly. Paragraph 39
- Regularly review the costs of transactions for buying goods and services using the data in this report as a baseline. Paragraph 37, Figure 10
- Make wider use of its management information to plan spending and get better deals from suppliers. Paragraph 49

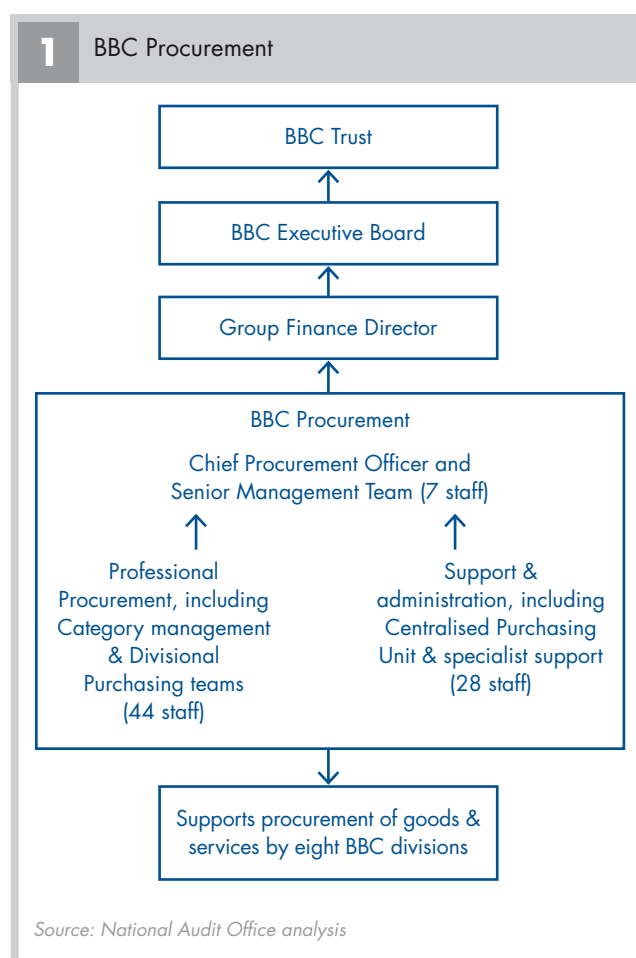
MAIN REPORT

This report examines how the BBC manages expenditure of over £500 million a year on a wide range of goods and services

1 Each year the BBC procures a range of goods and services from broadcast specific products, including props, costume, locations, lighting, studios, production equipment, recording and storage media, to more generic items such as travel, office supplies and consultancy advice. This report examines whether the BBC's central procurement function (BBC Procurement) is organised and equipped to deliver best value from the BBC's procurement of these goods and services, on which it spent £531 million in 2006-07, and whether there is scope for the BBC to make further savings. The report does not cover the BBC's long term outsourcing of discrete activities to strategic partners, which operate and are managed differently to short term contracts for goods and services.¹ It also does not cover spending which BBC Procurement does not influence, such as on broadcast markets, including programme acquisition, independent commissions, copyright and royalties, and on freelance staff. The methods for our work are set out in the Appendix.

2 BBC Procurement is part of the BBC's Finance Division. **Figure 1** shows that the Head of BBC Procurement (the Chief Procurement Officer) reports to the Group Finance Director who sits on the BBC's Executive Board. The Board reports to the BBC Trust. BBC Procurement's role is to facilitate the procurement process and to influence buyers to make informed buying decisions. It aims to provide buyers within the BBC with a range of contracts that meet their buying needs and which make use of the organisation's collective purchasing power, supported by a procurement process that is simple to use. The decision what to buy, however, rests with individual budget holders across the business, not BBC Procurement.

3 **Figure 2** shows how BBC Procurement has divided expenditure into seven categories, and how much was spent on each in 2006-07.



1 The BBC's key strategic contracts provide the following activities: technology, property, transmission, playout, finance, licence fee collection, information services, human resources.

2 Categories of BBC procurement expenditure, 2006-07

Category	Expenditure (£ million)	Examples of type of spending
Production Resources	128.6	Post production; studios, scenery and lighting; outside broadcast and locations; props, costume and make-up.
Technology and Broadcast Equipment	103.0	Production equipment; audio visual equipment; recording and storage media.
Logistics	76.1	Hotels and conferences; travel; couriers.
Property and Workplace	69.9	Utilities; facilities management; stationery and office supplies; catering; security contracts.
People and Resources	52.8	Recruitment agencies; training and development.
Marketing Services	51.1	Market research; advertising; promotional merchandise.
Corporate Services	48.3	Advisory services and consultancy; insurance; legal services; banking and financial services.

Source: National Audit Office analysis

NOTE

Other spending of £1.6 million did not fit within the existing category structure.

4 Over the three years from April 2004 to March 2007 the BBC's annual spending on goods and services rose from £500 million to £531 million, a six per cent increase in cash terms during a period in which the Retail Price Index increased by nine per cent. However, this simple year on year comparison does not provide a full picture of how the BBC's spending has changed over the period. The volume and mix of spending on goods and services within individual categories has also varied to meet the BBC's changing needs. For example, **Figure 3 overleaf**, which details spending by category over these three years, shows:

- Expenditure on People and Resources doubled from £26.3 million to £52.8 million over the period. This reflects increased spending by the BBC with recruitment agencies on temporary staff, mostly by the BBC's Future Media and Technology Division to support the delivery of major one-off technology projects such as the BBC iPlayer. To improve control over spending in this market, from September 2007 BBC Procurement appointed a company to manage a panel of preferred suppliers for the recruitment of all temporary staff. The BBC's aim is to aggregate demand by concentrating recruitment through fewer suppliers and reduce the administrative burden for the BBC of managing and paying a large number of suppliers itself.

- Expenditure on Property and Workplace increased from £47.3 million to £69.8 million, mostly because of increased utilities' prices and the costs of fitting out new buildings.

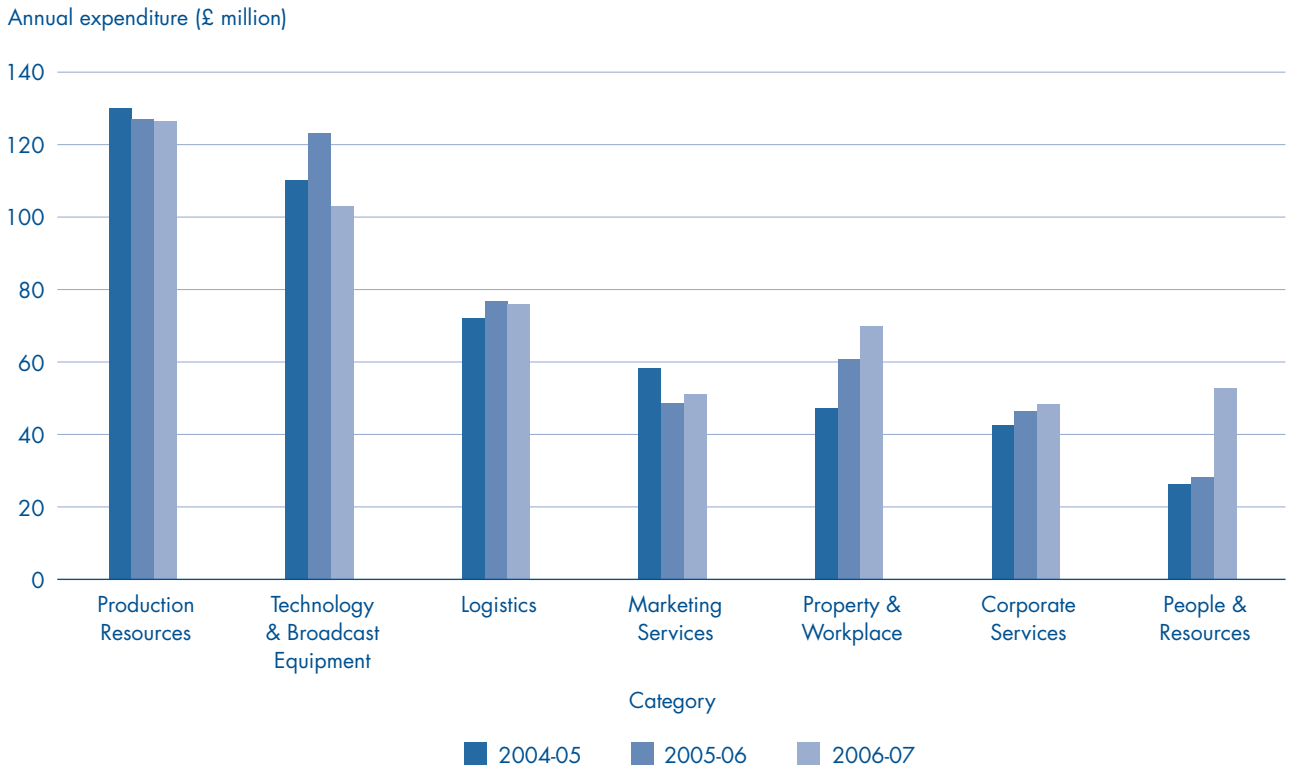
The BBC is delivering savings from its procurement activities

5 BBC Procurement's key annual measure of performance, as reported to the Executive Board and BBC Trust, is efficiency savings delivered. The BBC's Executive Board sets savings targets on the basis that they are an important tool for making sure that increased investment in the BBC is used as productively as possible.

6 As part of the BBC's wider value for money programme, which runs between April 2005 and March 2008, BBC Procurement has a target to deliver cumulative savings of £75 million against a baseline of 2003-04.² **Figure 4 on page 9** shows that in 2005-06 BBC Procurement reported savings of £10 million and in 2006-07 savings of £27 million, exceeding its annual target in both years.

2 As part of an earlier savings programme BBC Procurement reported savings of £65 million between April 2001 and March 2004.

3 The BBC's annual expenditure on goods and services by category, 2004-05 to 2006-07



Source: National Audit Office analysis

NOTE

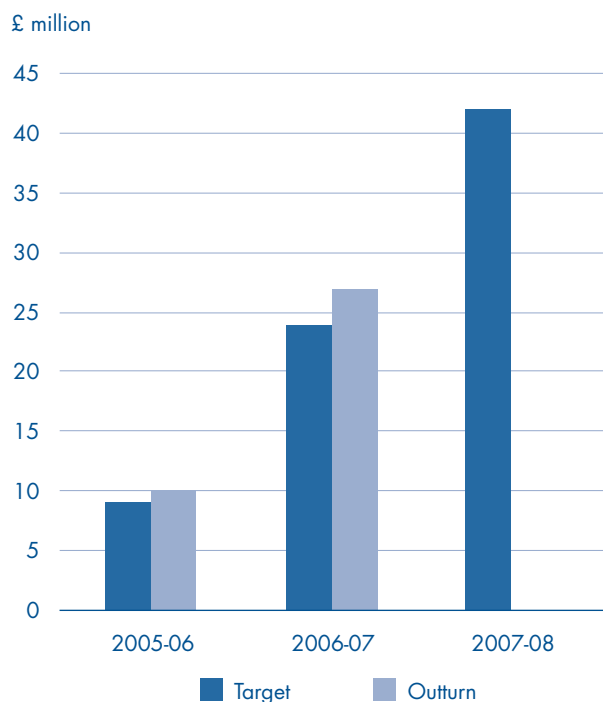
Other spending that did not fit within the existing category structure was £13.6 million in 2004-05, £5.2 million in 2005-06 and £1.6 million in 2006-07.

7 We confirmed that the savings reported by BBC Procurement are supported by a clearly documented audit trail, on a contract by contract basis, reviewed by a member of BBC Finance and signed off by the Chief Procurement Officer. **Figure 5** illustrates the way savings have been made.

8 **Figure 6 on page 10** provides a breakdown by category of the £27 million of savings reported in 2006-07, and the proportion of expenditure in each category the savings represented. Overall savings were five per cent of annual procurement expenditure, ranging from 12.1 per cent in the Corporate Services category to 2.9 per cent in the Broadcast Equipment and Technology category.

9 Many factors influence the potential for savings in each category, including the different terms and conditions of contracts, the timing of contract renewals and the varying levels of competition within markets. (Examples of different types of market are shown below in **Figure 7 on page 10**). To promote savings BBC Procurement encourages a degree of competition between its Category managers and the sharing of good practice on generating savings through monthly operational management meetings, and more focussed team events.

4 Savings from the BBC's procurement against target



Source: National Audit Office analysis

The BBC has a clear procurement strategy

10 In line with good practice, the BBC has a high level procurement strategy, supported by specific plans for individual categories of expenditure, which sets out: an analysis of goods and services; an assessment of the way in which these are purchased; the performance of key suppliers; and the scope to improve value for money and quality of service. The individual category plans analyse both the market and BBC requirements, identify opportunities to improve value for money and include plans to achieve this. In 2005 the BBC was awarded Gold accreditation by the Chartered Institute of Purchasing and Supply, the Institute's highest award for an organisation's strategic procurement capability.³

11 The BBC does not have a written policy setting out its objectives for sustainable procurement and targets to achieve these as was recommended in a recent Government report.⁴ In practice though, the BBC's procurement activities do address sustainability in a number of ways. For example, as part of the tender process BBC Procurement evaluates potential suppliers on their approach to environmental, social and ethical responsibility, diversity and equal opportunities, and also works with suppliers to offer 'greener' products. The BBC stationery catalogue also highlights environmentally friendly options to meet users' requirements.

5 Examples of procurement savings

Type of saving

Price savings

Saving on the price paid by the BBC for goods or services, e.g. compared to previous contracts.

Inflationary price savings

Saving on the price paid by the BBC if contracts avoid annual inflationary increase.

Demand control

Saving through reduced consumption.

Specification control

Saving through standardising product specifications before going to the market.

Other approaches

Example of saving

BBC Procurement negotiated reduced prices when it re-tendered its stationery contract, saving 29 per cent in 2006-07, its first full year of operation.

BBC Procurement negotiated with some training and development suppliers not to apply annual increases in line with RPI, saving some £200,000 in 2005-06.

BBC Procurement changed the policy on taking taxi journeys from home to work. By making the cost of journeys for staff between 6.30am and 10.45pm deductible from salary the average number of journeys each quarter has fallen from 48,470 in 2003-04 to 38,651 in 2005-06 and 31,350 in 2006-07, resulting in savings of £1.15 million in 2005-06 and £2.32 million in 2006-07.

BBC Procurement reduced the choice of vehicles available for leased fleet cars to BBC staff resulting in savings of £252,000 in 2005-06 and £273,000 in 2006-07.

Allowing productions to take advantage of 'free' prop provision (where approved by BBC Editorial Policy), saving £600,000 in 2006-07.

Source: BBC

³ Information about the Chartered Institute of Purchasing and Supply's Certification Excellence in Strategic Procurement Capabilities scheme is available on its website at <http://www.cips.org/>.

⁴ HM Government, *UK Government Sustainable Procurement Action Plan: incorporating the Government response to the report of the Sustainable Procurement Task Force*, January 2007.

6 Analysis of the BBC's annual savings from procurement by category in 2006-07

Category	Savings as a percentage of category spending (%)	Savings (£ million)
Corporate Services	12.1	5.9
Logistics	8.2	6.3
People and Resources	4.8	2.5
Property and Workplace	4.7	3.3
Marketing Services	3.3	1.7
Production Resources	3.2	4.1
Technology and Broadcast Equipment	2.9	2.9
Total	5.0	26.7

Source: National Audit Office analysis

7 Examples of different markets in which the BBC operates

Props

In 2006-07 the BBC spent some £6.5 million on props with 995 suppliers with each purchase order averaging £533. Sitting within the Production Resources category, the props market is relatively specialist, makes little use of technology and often caters for niche requirements. This means that BBC Procurement faces challenges in managing and influencing the market and creating competition.

Insurance

In 2006-07 the BBC spent £8.3 million on insurance premiums, broking and fees with 30 suppliers with each purchase order averaging £44,000. Sitting within the Corporate Services category, there are some generic elements to the BBC's insurance spend, such as for buildings, motor and healthcare insurance, as well as niche risk elements, such as defamation, hostile environment and production specific risks. Although only a handful of suppliers are able to underwrite niche risks the BBC has achieved cost reductions through encouraging new market entrants to tender. Some 55 per cent of the savings of £5.9 million from the Corporate Services category in 2006-07 came from the BBC negotiating lower premiums.

Source: National Audit Office

12 We identified that the key themes of the BBC's approach to procurement to meet its business needs and deliver value for money through tighter controls over its expenditure were:

- centralising procurement and managing expenditure by categories;
- reducing the number of suppliers;
- increasing spending through central contracts;
- increasing and making better use of technology in procurement, including rolling out its new Purchase to Pay system; and
- using information to manage performance.

13 The remainder of this report looks at the progress that the BBC is making in these areas and as the BBC is currently reviewing this strategy the results of our work are available to be fed into its review.

The BBC has centralised its procurement and is developing its procurement capacity and skills

14 In recent years the BBC has taken steps to organise its procurement function to help it better understand and meet business needs. As shown above (Figures 1 and 2), in line with good practice the BBC has centralised procurement and manages procurement expenditure along category lines. While buying decisions rest with individual divisions, this approach provides BBC Procurement with greater control as it has a central overview of spending.

15 Key features of the BBC's centralised procurement are:

- BBC Procurement sits within the Finance Division and the Group Finance Director represents the procurement function at Board level;
- the professional procurement staff within BBC Procurement include **Category management teams** which develop plans for and manage the BBC's categories of expenditure. They are responsible for identifying potential suppliers of goods and services, supplier relationships and market intelligence and engaging with BBC users to understand and meet their needs. For example, BBC Procurement recently seconded to its team a specialist prop buyer to inform the development of contracts to supply props; and

- within the eight BBC divisions BBC Procurement has appointed **Divisional purchasing managers** responsible for managing requirements and encouraging the use of preferred procurement routes, and for working with Category managers to meet these requirements. In some divisions, managers run buyers' forums on a regular basis to inform their work.

16 In terms of direct staff cost, BBC Procurement cost £3.4 million to run in 2006-07, an increase of £1.2 million (37 per cent) in cash terms since 2004-05. The increase reflects the increasing number of procurement staff, from 46 in 2004-05 to 79 in 2006-07. Of the 79 staff:

- seven (nine per cent) are senior managers;
- forty-four (56 per cent) are in professional procurement roles; and
- twenty-eight (35 per cent) are in administration or support roles, including 19 in the Centralised Purchasing Unit and six specialist support staff.

17 BBC Procurement is staffed in line with good practice, as the majority of staff have professional procurement roles, in that they are engaged in activities such as negotiating better deals with suppliers and managing supplier relationships. Fourteen BBC Procurement staff are qualified and ten are part-qualified with the Chartered Institute of Purchasing and Supply.

18 Across the procurement sector qualified staff are in short supply, so a challenge for the BBC is managing the risks from losing key procurement staff. Such a loss of skilled staff could affect the BBC's ability to develop its category expertise or weaken supplier relationships. Between April 2005 and March 2007, 17 staff left BBC Procurement, representing annual staff turnover of around 11 per cent. The BBC has taken steps to manage the risk of losing key staff, for example through:

- having a management structure that provides a clear career progression path and opportunities for promotion; and
- providing opportunities for both professional and business training and development, such as enabling staff to work in other parts of the business for short periods to give them a better understanding of the BBC's activities and requirements.

19 There is further scope for the BBC to develop its succession planning for the procurement function, so that a sufficient number of individuals with the appropriate skills are available to step into vacancies when required. BBC Procurement, however, has identified that its current reward structure and a competitive employment market are barriers to reducing staff turnover. Matching performance and pay is a problem identified elsewhere within public sector procurement.⁵

There is scope for the BBC to reduce the number of suppliers it uses

20 The BBC is aiming to aggregate the majority of its spending with fewer suppliers to get competitive deals from them. There is a risk that spreading spending across an extended supply base makes supplier relationship management time-consuming and creates unnecessary administrative costs. In seeking to manage its supplier base more effectively, however, the BBC recognises there is a balance to strike between reducing supplier numbers and channelling spending through small and medium sized organisations to help keep the supply base open, competitive and innovative. Given the BBC's wider corporate social responsibility agenda it considers that there is also an imperative for it to develop opportunities with local and regional organisations.

21 The number of suppliers used by the BBC has not changed in the past two years, with over 17,000 used in both 2005-06 and 2006-07. To support its aim to aggregate its spending and reduce its supplier base the BBC is working to improve its information on how much it spends and what it buys.

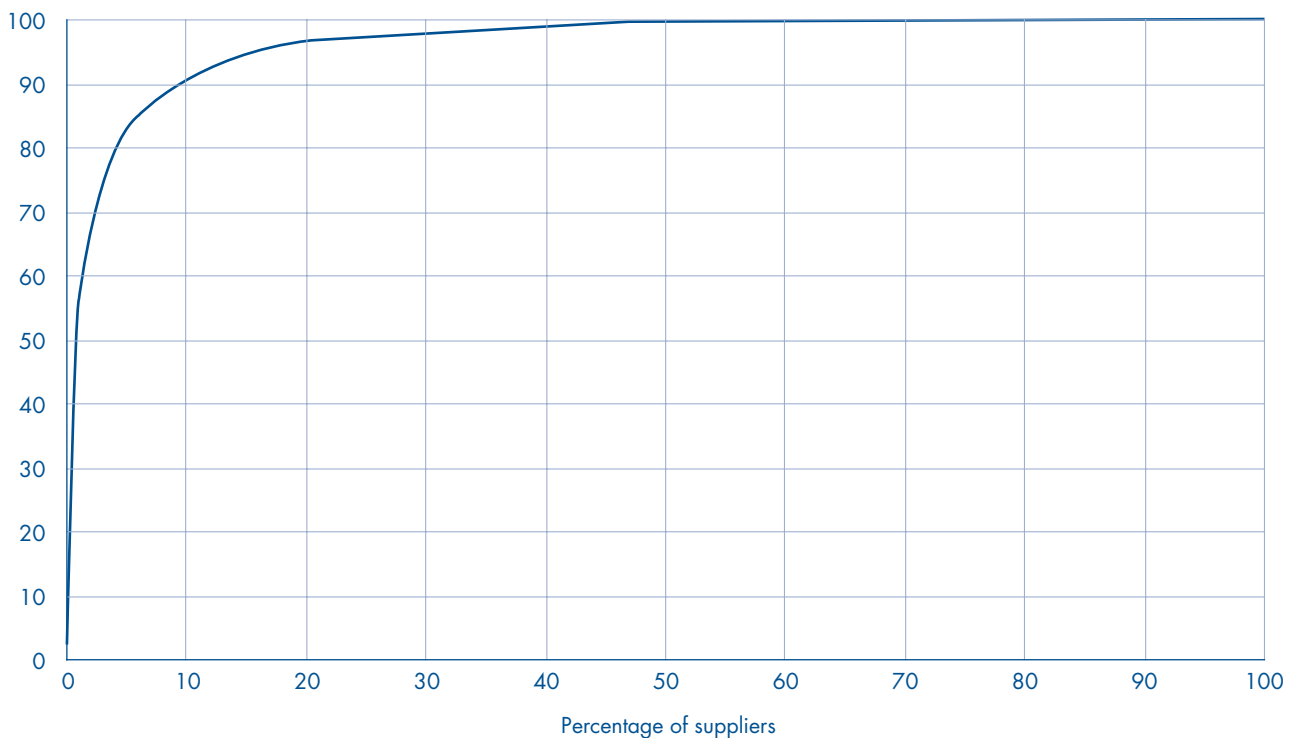
22 **Figure 8 overleaf** shows that in 2006-07 some 80 per cent of the BBC's spending (£424 million) was with four per cent of its suppliers (747 suppliers) indicating that the BBC has aggregated much of its spending. However, there was a long 'tail' of low spending with suppliers, as five per cent of the BBC's spending (£26.5 million) was with 80 per cent of its suppliers (14,052 suppliers). Although the BBC needs to make some one-off low value purchases, such as props for productions, the long tail suggests there is scope for the BBC to reduce the number of suppliers it uses.

⁵ See for example, Committee of Public Accounts, *Assessing the value for money of OGCBuying.solutions*, 33rd Report of Session 2006-07, page 5, paragraph 4.

8

Supply base analysis of the BBC's expenditure in 2006-07

Percentage of spending



Source: National Audit Office analysis

23 As mentioned above, the BBC needs to keep the supply of goods and services competitive and promote a wider market, for example by encouraging more small and medium sized businesses to compete for business, as these are seen as a source of innovation and competition particularly in fast-developing markets.⁶ However, our interviews with BBC Procurement staff and BBC suppliers indicated that there is a perception that the tendering process is complicated and takes a long time, and that there is a lack of awareness among smaller businesses of the opportunities available at the BBC. To address these barriers the BBC is seeking to make it easier for smaller and medium sized businesses to compete for its business by:

- targeting potential suppliers directly or through trade bodies as well as advertising opportunities more widely; and
- raising regional awareness of opportunities to supply the BBC. For example, BBC Procurement recently ran an open day for potential suppliers at a Chamber of Commerce event in Wales.

24 The BBC is also working at building relationships with existing suppliers, for example through holding induction days and supplier forums.

The BBC has increased spending through central contracts

25 Generally an organisation can maximise the benefits of a well managed supply base and of aggregating spending with fewer suppliers by establishing pre-agreements, or central contracts, with suppliers.⁷ For BBC Procurement, putting in place such agreements and getting staff to use them is important because it means that the BBC will benefit from:

- better prices, rates and service levels;
- better legal, health and safety and risk coverage as contracts will include a standard set of terms and conditions; and
- having BBC staff in Divisions spending less time on procuring goods and services and more time on core business activities.

⁶ National Audit Office, *Improving Procurement: progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively*, HC 361, March 2004. Office of Government Commerce, *Aggregation: is bigger always better?*

⁷ National Audit Office, *Improving Procurement: progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively*, HC 361, March 2004.

26 In the past the BBC has faced challenges in getting BBC staff to use central contracts. In its procurement strategy the BBC set out key challenges in this area including:

- a perception among some staff that central contracts do not always provide the best prices;
- staff not taking into account the costs of processing orders outside central contracts and the cost of time spent sourcing goods and services locally;
- a lack of awareness of central contracts, for example due to the significant number of temporary and freelance staff working at the BBC; and
- a perception that deals negotiated by BBC Procurement do not meet local needs. (Although, as set out in Paragraph 15, the role of Category managers and Divisional purchasing managers is to involve local users in this process).

27 The BBC has made progress in terms of setting up central contracts and channelling more spending through them. For many products and services, BBC Procurement has set up competitive agreements (frameworks) at prices and levels of service which reflect aggregated BBC demand and in some cases these contracts are for committed levels of spending by the BBC.

28 In 2005-06 the BBC had 497 central contracts in place, and by March 2007 the number had doubled to 999. Expenditure through central contracts has also risen. In 2005-06 some 40 per cent of the procurement expenditure covered by this report went through central contracts, and in 2006-07 this figure rose to 61 per cent. Production staff we met on our visits to the BBC productions – *EastEnders* and *Doctors* – found having access to a range of central contracts was helpful, especially in areas where no contracts had previously existed. They said that using the contracts saved time and provided assurance that contractors complied with health and safety legislation.

29 Although a central contract is not always appropriate to meet business needs and provide best value, there is scope for BBC Procurement to put more in place and to route expenditure through them. In 2006-07 of the £531 million spending on goods and services BBC staff spent £207 million with suppliers through individual and local contracts rather than central deals. Analysis of this spending shows that the BBC did not have central contracts in place with:

- sixteen of the 93 suppliers where spending was more than £1 million with each one; and

- fifty-seven of the 201 suppliers where spending was more than £0.5 million with each one.

30 In Paragraph 22 we showed that 80 per cent (£424 million) of the BBC’s spending in 2006-07 was with 747 suppliers. Of these 747, the BBC did not have central contracts with 412. As **Figure 9** shows, the BBC spent £129 million with these 412 suppliers, of which:

- 161 supplied the Production Resources category; and
- 112 supplied the Technology and Broadcast Equipment category.

The BBC has confirmed that it will continue to review its spending category by category to identify opportunities to establish further central contracts where appropriate.

The BBC is advanced in its use of eProcurement

31 Electronic procurement (eProcurement) is the use of electronic methods to conduct procurement transactions. eProcurement can improve the overall efficiency and effectiveness of procurement, in particular through process savings and enabling organisations to get better deals with suppliers.⁸ A key theme of the BBC’s procurement strategy is to increase and make better use of technology, including implementing a new Purchase to Pay system. We examined the progress the BBC is making in automating its procurement processes.

9 Analysis of the number of suppliers in the top 80 per cent of BBC expenditure without central contracts (by category)

Category	Number of suppliers used without central contracts	Spending outside central contracts (£ million)
Production Resources	161	54
Technology and Broadcast Equipment	112	37
Property and Workplace	46	13
Marketing Services	43	10
Corporate Services	20	6
Logistics	20	7
People and Resources	10	2
Totals	412	129

Source: National Audit Office analysis

8 Office of Government Commerce, *eProcurement in action: a guide to eProcurement for the public sector*, Spring 2005.

Sourcing suppliers

32 Much of the BBC's tendering process is now conducted electronically. For example:

- during 2006-07, 93 per cent of the BBC's tenders were issued electronically;
- since April 2006, BBC Procurement has allowed potential suppliers to submit paper (that is non-electronic) tenders only by exception; and
- in 2007-08, the BBC is planning to enable teams of BBC staff in different locations to assess and evaluate tenders electronically.

33 Getting suppliers to bid for tenders using reverse electronic auctions (known as eAuctions) is a recognised process for improving value for money. A reverse eAuction is conducted on-line with pre-qualified suppliers being invited to compete on predetermined and published award criteria. OGCBuying.solutions has reported average savings from eAuctions at around 22 per cent against historic baselines.⁹

34 The BBC first used eAuctions in 2004, and ran a total of 19 between April 2005 and March 2007 across a range of categories, making estimated annual savings of over £3 million (14 per cent). eAuctions are not always the best way to generate competition, as they work best when an organisation is sourcing goods with homogeneous characteristics. In some categories of BBC expenditure, for example props, the BBC is sourcing niche products and suppliers may make little use of technology in their businesses. In these cases the use of eAuctions may actually reduce competition for a tender. But given the wide range of goods and services the BBC is sourcing, there maybe scope for the BBC to get better prices through the use of targeted eAuctions. BBC Procurement is planning to run a further 25 eAuctions through the course of 2007-08.

Purchase to Pay system

35 In line with good practice the BBC has an accessible and easy to use buying system. Each year the BBC makes some 1.1 million requisitions through six buying channels. This volume of activity highlights the importance of having an efficient and effective buying process – from a user identifying a need and raising a requisition, through to payment of the invoice. The BBC has had an electronic purchasing system since 2002, and between July 2006 and February 2007 introduced an upgraded system which allows staff to order goods and services from their computers through fixed price catalogues, access

preferred supplier lists, and request to use non-preferred suppliers. For some services such as the booking of transport and travel including taxis, rental cars, couriers, trains, flights and hotels, BBC staff can make online bookings directly through supplier websites.

36 Having an effective buying system in place helps BBC Procurement to control spending as exceptional requests from BBC staff for goods and services, orders which are not through central contracts or with preferred suppliers, are directed to the procurement team for review before a commitment is made with a supplier. Having these controls in place, however, depends on BBC staff using the system in the first place, in other words raising a purchase order for goods and services up-front and not after receiving the invoice. At the BBC 14 per cent of purchase orders in 2006-07 were retrospective, compared to 33 per cent in 2004-05. The BBC, however, does not routinely monitor the value of retrospective purchase orders.

37 To examine the overall efficiency and effectiveness of the BBC's procurement processes in more detail and identify any scope for improvements, we commissioned PricewaterhouseCoopers to map and cost all stages of the BBC's Purchase to Pay processes across its six buying channels from the time an internal user raises a requisition to the supplier being paid.¹⁰ The overall cost of the Purchase to Pay process to the BBC is some £6.5 million a year, and depending on which channel is used, the average time taken to process these transactions varies from six minutes for direct bookings to 68 minutes for exceptional requests. Overall the BBC's processes are effective and well embedded across the organisation, with a high degree of automation. Specific findings, with reference to **Figure 10** are:

- the average cost to the BBC of each transaction (that is, the total processing cost divided by number of transactions) is £6.04, ranging between just over £2 in the cheapest channel (direct bookings) to just under £40 in the most expensive (exceptional requests);
- some 71 per cent of transactions are processed through the lowest cost channel (direct bookings), while only three per cent of transactions go through the most expensive channel (exceptional requests); and
- the majority of spending, over £290 million, is directed through the preferred supplier lists, at a cost of £1.4 million to the BBC.

38 The analysis shown in Figure 10 suggests that the BBC could make cost efficiency improvements by shifting transactions between channels. As an illustration, the BBC could reduce the costs of its Purchase to Pay process by one per cent (£65,000) if it were able to reduce

⁹ National Audit Office, *Assessing the value for money of OGCBuying.solutions*, HC 103, December 2006.

¹⁰ Costs were calculated based on direct salary costs for each pay band (uplifted by 30 per cent to take account of National Insurance, pension and other contributions), Accounts Payable contract costs and user licence costs. The Appendix provides an overview of PricewaterhouseCoopers's methodology.

10 Analysis of the BBC's Purchase to Pay procurement processes

Buying channel	Description	Type of good or service	Transaction volume	Average transaction value (£)	Average transaction cost (£)	Total processing cost (£)
Fixed price catalogue	Online catalogue of fixed price goods and services	Regular, low value goods e.g. stationery, office supplies	52,807	356.01	11.81	623,547
Preferred supplier lists	Online lists of preferred suppliers	Higher value, variable price at times more specialist e.g. lighting, camera hire	64,820	4,517.12	22.25	1,442,463
Exceptional requests	Goods or services not available through other routes	High value, specialist products e.g. props, costumes	37,740	4,183.89	38.77	1,452,608
Direct bookings	Links directly to supplier websites to make bookings	Regular, low value services e.g. train, hotel and flight bookings	752,699	80.24	2.21	1,664,128
Expenses	Staff expenses		165,848	139.89	7.90	1,310,511
Purchasing cards	Corporate credit cards	Low value regular goods	5,000	260.00	4.77	23,873
Total			1,078,643	513.98	6.04	6,517,129

Source: PricewaterhouseCoopers analysis for the National Audit Office

NOTE

Totals are subject to rounding.

exceptional request transactions by around 3,200 in favour of 2,000 more preferred supplier transactions and 1,200 more fixed price catalogue transactions.

39 Another way the BBC could save money is through reducing the number of staff licensed to use its electronic purchasing system. Licences cost £150 each and in June 2007 the BBC had 4,549 licensed users of its purchasing system at an annual cost of £682,350. However, of these users:

- 2,126 users did not raise a purchase order from April to June 2007; and
- 1,230 users raised less than ten purchase orders over the same period.

There is therefore scope for the BBC to review the number of users granted a licence. Reducing the number of software licences by 2,000, for example, would save the BBC £300,000 a year in licence costs, while having fewer users would also reduce the cost of training staff to use the purchasing system.

40 Previous National Audit Office reports have highlighted that organisations could make greater use of purchasing cards to reduce transaction costs, particularly

for low value purchases.¹¹ At the BBC the scope for purchasing cards is reduced because many of the types of transactions appropriate for them are processed through the direct bookings channel, which is less expensive. There may be scope, however, for the BBC to make more use of purchasing cards where manual purchase orders are being raised, and our workshop with Category managers also identified opportunities for greater use of cards.

41 From our interviews with BBC staff and the work by PricewaterhouseCoopers other ways the BBC could strengthen its ordering system include improving user training, making the system more user-friendly and reducing elements of manual data input. In response to user needs, the BBC is already trialling technology which will allow staff to search more effectively for products available through online catalogues.

Electronic invoicing

42 It is cheaper for the BBC to process electronic invoices than paper invoices and improvements have been made. In 2004-05 only ten per cent of invoices submitted to the BBC were electronic compared with 38 per cent in 2006-07.¹² Nine of the top ten suppliers to the BBC (in terms of volume of invoices) submitted their

¹¹ For example National Audit Office, *Improving Procurement: progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively*, HC 361, March 2004; National Audit Office, *Procurement in the Culture, Media and Sport sector*, HC 596, November 2005.

¹² According to *Hackett Perspective: end to end accountability delivers improved costs and better performance in purchase to pay* (12 July 2005), receiving 36 per cent of invoices electronically represents a high performance.

invoices electronically in 2006-07. While recognising that not all suppliers have the technology to submit electronic invoices, and that others are unwilling to do so, there may be opportunities to increase the percentage of electronic invoices by targeting individual suppliers. Of the 338 suppliers who issued more than 100 invoices in 2006-07, 85 per cent (288 suppliers) issued paper invoices.

43 A further process improvement is to remove invoices altogether. The BBC is currently piloting self-billing with its main stationery supplier, which submitted some 45,000 invoices in 2006-07. Instead of the supplier submitting an invoice, self-billing allows the BBC to raise an invoice on behalf of the supplier. Early results indicate that self-billing has delivered some process efficiency benefits to the BBC (for example by reducing the BBC staff cost of querying invoice and purchase order mis-matches for very minor amounts), while the supplier benefits from a more streamlined process. There may therefore be scope for the BBC to extend self-billing to, for example, the other 35 suppliers with which it has fixed price catalogues.

44 In terms of payment, BACS¹³ (rather than cheque) is the most efficient means. During 2006-07, some 91 per cent of suppliers were paid electronically (via BACS), up from 84 per cent in 2005-06, and this is likely to continue to increase as the BBC's policy for all new contracts is that they will be paid electronically. The BBC's standard payment terms are to pay invoices on the 28th day of the month following the date of the invoice.

The BBC is using management information to support its procurement performance

45 To support the delivery of savings from procurement the BBC needs to measure and review regularly its procurement performance. We looked at BBC Procurement's management information, its use of performance indicators and its benchmarking of its activities.

The BBC has good management information available

46 To support, manage and measure the performance of procurement expenditure, the BBC needs to have reliable information on its procurement spending and supplier performance. Good practice is to hold information on:¹⁴

- how much is spent with suppliers and on what goods and services;
- the number of suppliers and its profile of expenditure with them;
- information about the supply chain;
- transaction costs; and
- estimates of maverick spending, such as the level of retrospective purchase orders raised.

47 The BBC holds this information, except for the levels of transaction costs. The analysis included in this report, however, now provides the BBC with baseline information on the costs of its Purchase to Pay procurement processes.

48 In line with good practice the BBC's management information is derived from a single accounting system, which means that all purchasing information is held in a single location to make it easier to extract reporting information on spending patterns and the value and volume of expenditure. In recent years the quality of the BBC's information has improved. For example, the BBC told us that in 2001 it had 140,000 suppliers recorded on its supplier database. Since then BBC Procurement has introduced tighter controls on the setting-up of new suppliers on the database, rationalised its supplier base when retendering contracts and carried out a data cleansing exercise which has, for example, removed duplicate entries. There are now 8,000 approved suppliers on the database.

49 Availability of good management information allows BBC Procurement to negotiate prices with suppliers on its framework contracts as it can forecast spending across the BBC. However, evidence from our interviews and workshops with BBC staff indicated there was scope for the BBC to achieve better prices by ordering in advance, especially at a local level, as last minute purchasing can incur a price premium. The BBC, for example, knows in advance it will be covering events, such as major sporting occasions or music festivals, and by using information on spending at previous events the BBC could forecast what was needed and when. Suppliers told us that better demand forecasting would help them manage their stock levels, resulting in savings that could be passed on to the BBC.

¹³ Bankers Automated Clearing System. This enables payment to be transferred electronically between bank accounts.

¹⁴ National Audit Office, *Improving Procurement: progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively*, HC 361, March 2004.

BBC Procurement could do more to measure its performance

50 In addition to its overall savings target, the BBC has nine other key performance indicators, shown in **Figure 11**, measuring those aspects of its performance where it is seeking improvement. While the scope of this review is the procurement of goods and services, as the measures cover all of BBC Procurement's work, most also cover the BBC's strategic contracts (see Paragraph 1). However, in examining the indicators we noted some cover spending on broadcast markets, even though this is not managed by BBC Procurement (see Paragraph 1). Figure 11 sets out the different areas of spending measured by each performance indicator.

51 The BBC recognises that its performance indicators should change over time so as to remain relevant. We noted that currently BBC Procurement measures the number of suppliers on the BBC's supplier database but not the number of suppliers it actually uses each year. Measuring the number of suppliers on its database, relative to the number of suppliers it actually used each year, however, could help the BBC to target a reduction in the number of suppliers (Paragraphs 20 to 22). Another

measure the BBC could add to its current set of indicators is a measure of user satisfaction with the procurement function by carrying out a regular staff survey.

52 As well as monitoring performance through internal measures it is good practice for organisations to benchmark their performance externally. In spring 2007, the BBC commissioned Accenture to benchmark its procurement capabilities against eight private sector organisations, from a range of industries, with established procurement departments. The benchmarking covered a number of areas: procurement strategy; sourcing and category management; requisition to pay; supplier management; internal stakeholder management; people; organisation; and technology. Accenture concluded that BBC Procurement performed well in absolute terms in all the areas covered, especially its strategy, requisition to pay and category management. The BBC compared favourably with the other organisations throughout, and was assessed to be one of the top two performers in four of the eight areas benchmarked. In response to specific recommendations made by Accenture, the BBC is looking to further simplify and automate the purchase to pay system and extend its suite of eProcurement tools to include an online contract management tool.

11 BBC Procurement Key Performance Indicators

Performance Indicator	Definition	Spending included in the measure		
		Goods and services	Strategic contracts	Broadcast markets
Savings	Millions (£) of savings	Yes	No	No
On contract compliance	The percentage of spending with contracted suppliers	Yes	Yes	No
Retrospective purchase orders	The percentage of orders raised after invoice receipt (quarterly)	Yes	Yes	Yes
Number of suppliers	The number of suppliers on the BBC's database	Yes	Yes	No
Volume of invoices	Number of invoices	Yes	Yes	Yes
Electronic invoices	The percentage of invoices received electronically (quarterly)	Yes	Yes	No
Transactions via BACS	The percentage of payments to suppliers made via BACS	Yes	Yes	Yes
Number of eAuctions	The number of eAuctions conducted during the year	Yes	Yes	n/a
E-tenders	The percentage of tenders initiated electronically during the year	Yes	Yes	No
PCs connected to procurement pages	The number of BBC staff accessing procurement pages on the BBC's intranet	Yes	n/a	n/a

Source: National Audit Office analysis

NOTE

Savings from strategic contracts are measured at the time that the contract is let and are reported by the BBC Division that manages the contract.

APPENDIX

1 This review is part of a programme of value for money work agreed with the BBC Trust by the Comptroller and Auditor General, head of the National Audit Office, under an agreement between the Secretary of State for Culture, Media and Sport and the BBC.

2 The aim of our study was to assess whether the BBC is organised and equipped to deliver best value from its procurement activities and whether there is scope for it to make further savings. Our fieldwork took place between March and July 2007. The main elements of our work are set out below.

Review of key BBC documents

3 We reviewed key documents relating to BBC Procurement's strategy and activities, including its strategic planning documents and the action plans for all categories of spending. We reviewed details of BBC Procurement staff in post in 2005-06 and 2006-07 and in June 2007 including their grade, position and whether or not they had a professional procurement qualification.

Quantitative analysis

4 We analysed data from the BBC's accounting system detailing spending on goods and services in 2004-05, 2005-06 and 2006-07 to establish the:

- profile of expenditure by category;
- number of suppliers used and profile of expenditure with each;
- use of contracted suppliers;
- profile of purchase orders raised; and
- profile of invoices received.

The methods we used

5 We used Pareto Analysis to profile the BBC's expenditure in 2006-07 to examine the extent to which it had aggregated spending with its largest suppliers.

6 We reviewed the underlying data and methods used by BBC Procurement to produce its key performance indicators for 2005-06 and 2006-07.

Review of BBC Procurement savings

7 We interviewed staff about the process for identifying and verifying savings and examined documentation for all savings reported by BBC Procurement for 2005-06 and 2006-07 to establish:

- the rationale behind claiming the saving; and
- how the saving had been calculated.

Interviews and workshops with BBC Procurement

8 We interviewed members of the BBC Procurement management team and other senior BBC managers. Our interviews covered the following areas:

- the BBC's procurement strategy;
- staffing of BBC Procurement;
- meeting user needs;
- procurement processes;
- supplier management; and
- management information and performance measurement.

We interviewed staff at the BBC including:

- Group Finance Director;
- Chief Procurement Officer;
- the Heads of Sourcing, Goods and Services and Production Resources;
- Head of Purchase to Pay Solutions;
- Head of Delivery Solutions;
- Controller of Production Resources; and
- Finance Partner for Procurement.

9 We held workshops with BBC Category managers and Divisional purchasing managers to examine the scope for getting better value from suppliers, meeting user needs more effectively and for increasing levels of on-contract compliance.

Site visits

10 We visited the sets of *EastEnders* and *Doctors* to discuss with production staff how procurement works in practice at the local level and how well procurement arrangements meet local users' needs.

Process mapping and costing of the BBC's Purchase to Pay system

11 We commissioned PricewaterhouseCoopers to review the BBC's Purchase to Pay system. This review covered:

- mapping all of the buying processes taking place across the BBC;
- producing a reliable estimate of the costs arising at each stage of these processes; and
- identifying opportunities for process improvement.

12 PricewaterhouseCoopers produced process maps for each of the six procurement routes operating across the BBC and a financial model to estimate the costs of each route based on evidence obtained from a combination of interviews, data analysis and workshops with BBC Procurement staff and buyers.

Telephone interviews with BBC suppliers

13 Based on their size, the type of goods and services supplied, the volume of business with the BBC and the length of time that they have supplied the BBC, we selected ten BBC suppliers to interview:

Supplier	Category
American Express Travel	Logistics
Arena Aviation Ltd	Production Resources
Argosy Components Ltd	Technology and Broadcast Equipment
Canford Audio plc	Technology and Broadcast Equipment
GfK NOP Media	Marketing Services
Judy Fisher Associates	People and Resources
Lyreco	Property and Workplace
Media Planning Group	Marketing Services
One Transport	Logistics
Pinewood Shepperton plc	Production Resources

14 We conducted telephone interviews with each supplier. The interviews covered their awareness of opportunities to supply the BBC, the tendering process and the BBC's management of supplier relationships.

Review of good practice

15 We used the National Audit Office's Procurement toolkit, developed with consultants – The Buying Support Agency – to support our assessment of the BBC's procurement function. We also drew on wider good procurement practice covered in guidance from the Office of Government Commerce, including *Government procurement code of good practice*; *eProcurement in action*; *Aggregation – is bigger always better* and *Small supplier – better value* and from the National Audit Office including *Improving Procurement* (HC 361 Session 2003-04) and *Procurement in the Culture, Media and Sport sector* (HC 596 Session 2005-06).

16 We met with representatives of the Chartered Institute of Purchasing and Supply and interviewed senior procurement staff at Zurich Financial Services, PricewaterhouseCoopers LLP and Essex County Council, all recipients of certification gold under the Institute's Certification Excellence in Strategic Procurement Capabilities scheme, to inform our understanding of good procurement practice.

