



National Audit Office



MAY 2010

A review of collaborative procurement across the public sector

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Review

Aim and scope

The National Audit Office and the Audit Commission have jointly produced this review. It describes the landscape of collaborative procurement across the public sector. The review draws on our research in central government, local government and the National Health Service (NHS) carried out during the summer and autumn of 2009. The research focused on spending on eight standard commodities¹ that are common throughout the whole public sector, though the findings have wider applicability. It builds on other recent work on public sector procurement, including the Operational Efficiency Programme (April 2009) and the Roots Review (February 2009).

Introduction

Public bodies bought goods and services worth £220 billion in 2008-09, which is about one third of all public sector spending. Of this amount, central government organisations spent 30 per cent, while local public bodies including NHS trusts accounted for the rest².

Collaborative procurement has long been seen as a way to save money. Standardising specifications allows public bodies to aggregate demand and compare unit costs. Lower prices should result either from economies of scale, or from using pricing information to challenge suppliers. Collaboration should result in fewer tendering exercises, leading to lower administrative costs, and allow public bodies to concentrate on more specialised purchases that are unique to them. National, regional or local approaches to procurement may be most appropriate, depending on the good or service. This differentiation also enables other important local objectives, such as support for local sourcing, small and medium-sized enterprises and environmental sustainability, to be met.

Collaborative procurement across the public sector

Ninety-three per cent of the public bodies we surveyed had used a framework agreement³ during 2008-09. Most felt that this had always, or often, resulted in better value for money and that greater collaboration had the potential to further improve value for money. However, there was wide variation in the volumes and proportions of spending that individual organisations were channelling through these existing arrangements.

1 Energy, vehicle fleet, travel, office solutions, information and communications technology, professional services, food, construction. These make up eight of the nine categories covered by the OGC's Collaborative Procurement Programme. Facilities management was not included as this category was added to the programme after our fieldwork commenced.

2 *Public Expenditure Statistical Analyses 2009*, HM Treasury (April 2009).

3 Framework agreement: covers the procurement of a particular type of good or service from pre-approved supplier(s) over a fixed period of time. The agreement usually sets some of the terms and conditions under which the supplier will enter into contracts with customers.

Category management⁴ is generally agreed to support value for money, but its use is limited in many public bodies. Over half of the bodies surveyed used it in only four of the eight standard commodity categories (energy, vehicle fleet, information and communications technology and office solutions).⁵ A quarter of all bodies had a documented category strategy for most key spend categories. Implementing category management has been hindered by a lack of:

- good quality procurement management information;
- an understanding of end-user requirements;
- knowledge of the supply market, including collaborative options; and
- documented evaluations of the cost and benefits of different procurement options.

As a result, many public bodies do not make evidence-based decisions when choosing their supply option.

The public sector procurement landscape is fragmented, with no overall governance. There are nearly 50 professional buying organisations, as well as individual public bodies running commercial and procurement functions. Many of these organisations manage framework agreements for similar goods and services, for example, stationery. There have been recent moves by some professional buying organisations to coordinate their activity. For example, five of the largest local authority consortia have formed the PRO5 group⁶. The funding models of some professional buying organisations require them to produce revenue by charging suppliers a fee based on customer spend. This reduces the incentive to collaborate with other professional buying organisations and to limit brand choice.

The Office of Government Commerce's (OGC) Collaborative Procurement Programme, set up in 2007, is managing over £18 billion of spend under nine categories of goods and services. It has led to some real improvements to the way public bodies are buying goods and services. In energy, for example, the programme has increased the use of best practice contracts. It is also developing a strategy to buy power directly from generators⁷. However, the Programme was not designed to drive the step change required to restructure current procurement activities across all public bodies.

4 A category in procurement terms is a group of goods or services bought by an organisation that share similar properties. There are a number of key elements involved in category management: scoping the category and sub-categories; understanding internal requirements and stakeholders for each category; understanding the market and suppliers for each category; developing category strategies and plans; evaluating and selecting a supply option and contracting route for each procurement exercise in the category; supplier selection; implementing contracts; and contract and supplier management.

5 This only includes organisations that purchase goods and services in this category.

6 The Eastern Shires Purchasing Organisation, Central Buying Consortium, West Mercia Supplies, North Eastern Purchasing Organisation and Yorkshire Purchasing Organisation.

7 For more information on the energy example see the case study online at <http://www.nao.org.uk/Collaborative-Procurement-2010>.

The consequences for value for money

Public bodies are incurring unnecessary administration costs by duplicating procurement activity. Many public bodies continue to undertake expensive procurement exercises rather than using existing framework agreements to buy standard commodities, such as stationery, computer equipment and travel services. Eighty per cent of bodies surveyed did not measure the cost of letting a contract. An existing compliant framework agreement could probably have covered 20 per cent of our sample of 300 Official Journal of the European Union (OJEU) contract notices^{8,9}. Applying this finding to all notices issued in the United Kingdom in 2008, we estimate that more than 2,500 public sector OJEU tendering exercises were unnecessary. Even when using framework agreements, public bodies typically undertake mini-competitions on their own.

Public bodies are paying a wide range of prices for the same commodities, even within the existing collaborative arrangements. There was a 116 per cent variation between the lowest and highest prices paid for the same broad specification of paper. The difference was 169 per cent for LCD computer monitors and 745 per cent for black toner cartridges¹⁰. In addition, there was significant variation within individual framework agreements, for example, 60 per cent across one framework agreement for the same brand of paper. Occasionally, prices paid for items bought through non-collaborative contracts were lower than those bought through collaborative arrangements.

The public sector is not maximising its significant buying power. The reasons for this are:

- the large number of framework agreements. Twenty-seven of the 33 major suppliers surveyed stated that some of the framework agreements they were currently a supplier on covered the same or very similar goods or services. Most of these claim that this was the case in 50 per cent or more instances.
- organisations are not exploiting the potential benefits of volume. When setting up framework agreements, they do not commit volume, and when using these agreements they do not aggregate volume when carrying out mini-competitions. Suppliers highlighted the benefits of greater aggregation with 27 of the 33 suppliers surveyed confirming that they always or often provide lower prices for contracts involving a greater volume of goods or services.
- few constraints on brand or specification choice. The public bodies surveyed in our price benchmarking exercise bought 19 different models of 17 inch LCD monitor.

8 Public sector procurements that fall within the scope of the EU regulations require that the intention to contract is advertised in the Official Journal of the European Union.

9 The OGC has developed the concept of 'compliant' contracts. To qualify, a contract has to meet a standard determined by each collaborative category board within the Collaborative Procurement Programme.

10 Figure 4 sets out the detail. For toner cartridges a pence per sheet comparison was made to cater for the range of volume capacities across different cartridges.

Using framework agreements and running mini-competitions does not necessarily represent effective collaboration, or efficient use of resources. For example, almost three-quarters of the major suppliers surveyed stated that, if public bodies coordinated procurement more effectively, it would reduce their tendering costs. Most of these suppliers thought that they would be able to pass on savings to the public bodies.

Conclusion

Given the size of public sector procurement spend, value for money would be improved if:

- public bodies worked together much more effectively than they currently do to maximise savings for the entire public sector; and
- there was a clear framework to coordinate public sector procurement activity.

This indicates that:

- a The OGC, in consultation with all major departments and key wider public sector stakeholders, including representatives from local government, should pursue a consistent pan-government approach for all procurement spending.** This would need to clarify:
 - which categories of procurement should be managed at a national, regional or local level;
 - which organisations should develop category strategies and run procurement activities;
 - the governance of the structure and how organisations within it are funded and managed;
 - the procurement management information standards that all public bodies and professional buying organisations need to meet; and
 - how the approach will deliver wider policy objectives, including how to accommodate environmental sustainability and local sourcing.
- b All public bodies should support the development and implementation of a pan-government procurement approach,** in particular making procurement management information available for the consultation.

c All public bodies should adopt a more strategic approach to procurement, including:

- ensuring their procurement management information meets the specified standards;
- identifying areas of strategic spend that are unique and focusing in-house procurement on category management in these areas;
- delegating category management and procurement for all other areas of spending to the most suitable place, and using the contracts and approaches, such as aggregation, as specified;
- actively managing end-user specifications and brand choice to bring greater standardisation on common goods and services across the public sector; and
- measuring the savings achieved.

The NAO and Audit Commission are well placed to assess the value for money of procurement and will continue to do so through their respective audit and assessment programmes.

Appendix One

Principles for setting up a pan-government approach

A pan-government approach should be a framework that can cater for the market characteristics of the different goods and services, and deliver local requirements effectively.

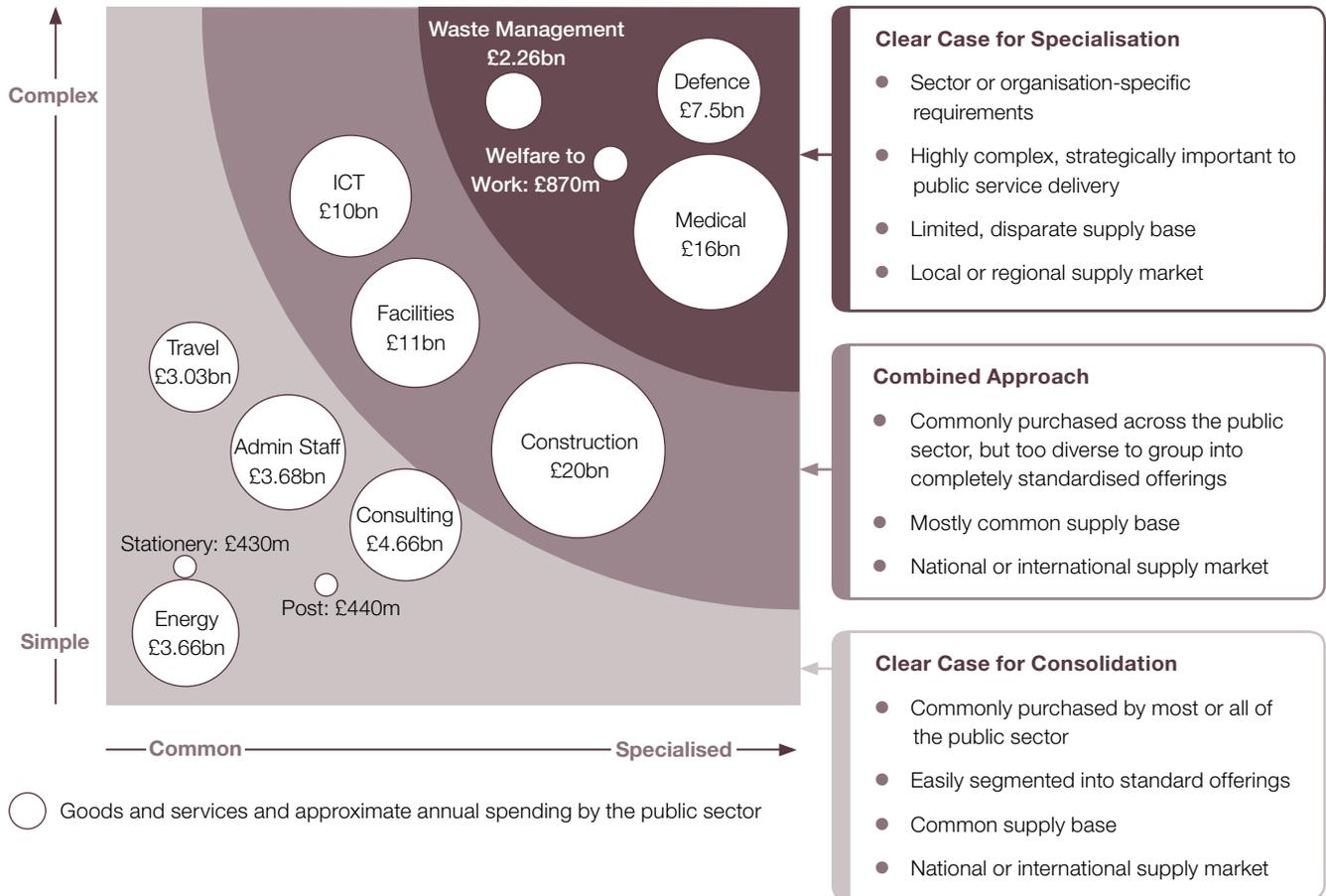
Our research suggests that uniqueness and complexity are the two key determinants when segmenting the diverse range of goods and services bought by public bodies. Goods and services will range from common to specialised, as well as from simple to complex. For a commonly bought, simple commodity such as stationery, there should be harmonised specifications, with category management ceded to an existing organisation that acts as the national centre of category expertise. This organisation would decide the level of aggregation required to get the best prices and value for the public sector as a whole. For specialist or complex goods or services such as military equipment, the relevant individual public body would act as the centre of category expertise. **Figure 1** summarises analysis by the OGC and shows the differentiation for a small range of goods and services.

We envisage the centres of category expertise should undertake activities like market research and analysis; financial and supply chain risk analysis; providing a strategic approach to the supply base; and undertaking procurement. Individual bodies with significant or critical contracts would also need to preserve a relationship with suppliers. All customers will require clear reports on performance and benefits received, whether it is from the centres of category expertise or professional buying organisations that run the public sector contracts.

Using Information and Communications Technology as an example **Figure 2** on page 11 shows practicable ways to develop the principle that public bodies require different contracting models for discrete areas of spending.

Figure 1

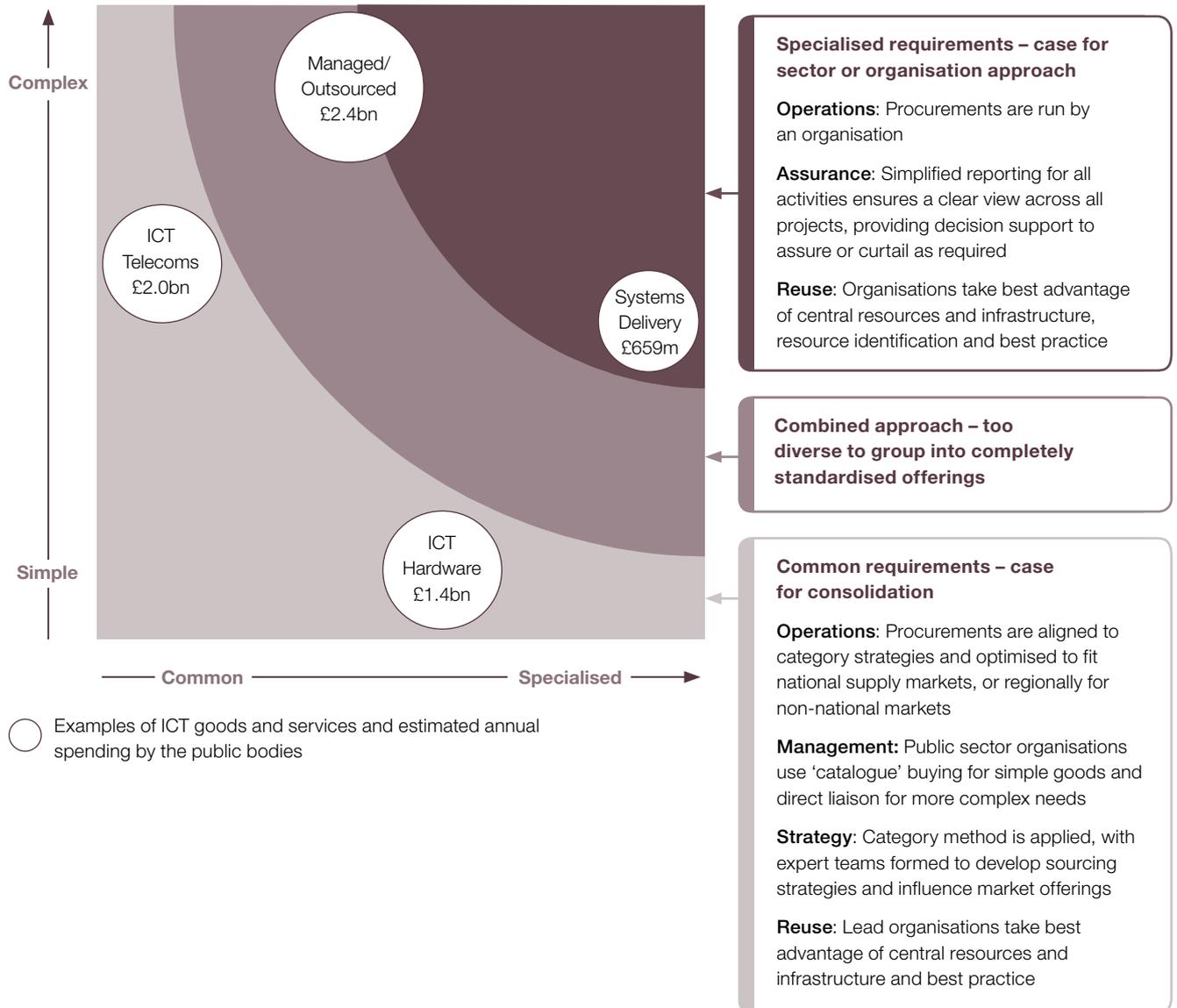
Illustrative model for the structure of public sector category management



Source: Office of Government Commerce

Figure 2

Illustrative model for the different contracting strategies for the ICT category



Source: Office of Government Commerce

NOTE

This is not the entirety of spend on ICT.

Individual public bodies need to have greater clarity about the extent of their spending and direct resources to procurement exercises that are critical to their unique objectives, not standard commodities used in day-to-day operations.

If procurement of standard goods and services is pooled, commercial staff in individual bodies will be able to focus on unique activities, such as:

- buying specialist goods and services;
- challenging existing demand; and
- managing contracts and service level agreements.

Where public bodies delegate procurement for specific categories to other organisations, individual public bodies should get assurance on cash savings from these contracts from robust benchmarking data and performance metrics.

More detailed work is needed to understand issues including, but not limited to, the markets, supply bases, distribution systems, product specifications and risks. A pan-government approach would also need to consider a range of issues in addition to those outlined in the conclusion including:

- how to undertake performance management of the supply base;
- how to manage the transition from existing contractual arrangements;
- what best practice category management looks like; and
- how to calculate cash benefits.

Some organisations in the private sector have taken similar approaches. Vodafone is one example of a multinational company that has rationalised procurement so the most suitable business units undertake buying. This has reduced duplication of activity and delivered efficiencies.¹¹

¹¹ For more information on the Vodafone example, see the case study online at <http://www.nao.org.uk/Collaborative-Procurement-2010>.

Appendix Two

Supporting evidence

This statement is the result of a detailed examination of collaborative procurement across the public sector undertaken by the NAO, working with the Audit Commission in local government bodies. **Figure 3** below provides a brief description of the methods used in the investigation.

Figure 3 Our methods

- On-line survey of 291 heads of procurement across central government bodies, health trusts and local authorities. IPSOS MORI managed the survey and we received 82 central government, 57 health trust and 48 local authority responses (64 per cent). The survey questions focused on eight standard commodity categories of spend (energy, vehicle fleet, travel, office solutions¹, information and communications technology, professional services, food, and construction)². Separate collection of price data from local authorities. The Audit Commission surveyed 50 local authorities, and received responses from 34.
- Specialist price benchmarking consultants, 4C Associates, analysed the price information collected as part of the survey.
- Survey of 92 major suppliers to public bodies. We received 33 responses, a response rate of 36 per cent.
- Analysis of 300 Official Journal of the European Union contract notices.
- Detailed interviews with seven public bodies: four central government; one health trust; and two local authorities (jointly with the Audit Commission) to understand how individual public bodies make procurement decisions.
- Assessing the OGC's overall programme management of the Collaborative Procurement Programme using the *Managing Successful Programmes*³ framework.
- Interviews with:
 - key OGC staff involved in the Collaborative Procurement Programme.
 - members of the Energy and Office Solutions Collaborative Category Boards.
 - members of the OGC's Landscape Governance Group.
 - professional buying organisations in local government and health.
 - key stakeholders in central government departments.
 - multinational companies.

NOTES

- 1 The office solutions category comprises stationery, paper, photocopiers (including Multi Functional Devices), post, courier and print services.
- 2 Facilities management was not included as this category was added to the OGC Programme after the analysis was completed.
- 3 OGC's *Managing Successful Programmes* provides standard approaches to the "what and how" of good programme management. They are designed for senior managers, business managers and practitioners at all levels from teams, through to board-level.

Source: National Audit Office

The following sections provide a summary of the key evidence. The NAO website presents the results to specific questions in the surveys and more detailed analyses (<http://www.nao.org.uk/Collaborative-Procurement-2010>).

Price benchmarking

After a data cleansing exercise, we compared the remaining unit prices on ten standard commodities. **Figure 4** shows the significant variation in the prices paid by public bodies through collaborative arrangements, such as framework agreements open to other public bodies and joint tendering. We also found that brand choice contributed to price variation. One example is a box of 5 reams of A4 paper of the same broad specification. Fifty-three bodies were buying one brand through collaborative arrangements at an average price of £10.48, while 15 bodies were buying another brand at an average price of £7.93.

Figure 4
Prices paid across existing collaborative arrangements

Good/service	Average (mean) (£)	Low price (£)	High price (£)	Percentage variation [(high-low)/low] x 100 (%)
Laser printer black toner cartridge ¹ – £/sheet	0.0098	0.0022	0.0186	745
Manila envelopes (C5 size, box of 500 envelopes) – £/box	5.25	2.04	9.13	348
Online travel agency rail booking fee – £/booking	3.73	1.50	6.16	311
17-inch LCD flat screen monitor – £/monitor	105.50	65.00	175.00	169
Medium-sized car hire (single day/uninsured) – £/day	23.44	12.50	31.34	151
A4 photocopier paper (100 per cent recycled, box of 5 reams) – £/box	9.65	6.84	14.79	116

NOTES

- 1 Laser printer toner cartridge price is £ per sheet as cartridges have different volume capacities.
- 2 These prices exclude data points that we judged were incomplete or not robust.
- 3 The goods were bought on different dates, and the prices are likely to be subject to some variation because of, for example, changes in underlying commodity market prices or exchange rate variations. In addition, there may also be some variation in the supplier services associated with the goods/ services.
- 4 We have not included data on the other four products:
 - the survey returns for Microsoft Office licenses and car leasing APR rates did not provide enough observations to report the results with enough confidence.
 - for electricity and gas prices, the volatility of prices in the wholesale market make it difficult to distinguish between this effect and any effect of the lack of coordination across the public sector procurement landscape.

Source: National Audit Office survey

Official Journal of the European Union (OJEU) contract notice analysis

The number of OJEU contract notices posted in the United Kingdom has been steadily rising over the last four years (11,961 in 2005; 11,996 in 2006; 12,276 in 2007; and 12,662 in 2008). Following a sift to identify which of our sample of 300 OJEU notices¹² covered goods and services in one of the eight collaborative categories, OGC category experts assessed whether an existing 'compliant' framework agreement covered the products¹³.

An existing compliant framework agreement could probably have covered 20 per cent of the 300 notices. Applying this finding to the 12,662 notices issued in the United Kingdom in 2008, we estimate that public bodies could have avoided more than 2,500 OJEU tendering exercises. In addition we found, despite the existence of framework agreements covering stationery signposted on the OGC's contracts database, that at least 14 new framework agreements covering stationery products were awarded during 2008 and 2009 across the United Kingdom.

Survey of major suppliers to the public sector

The Confederation of British Industry, Intellect and the OGC provided contact details. Information and Communications Technology and Travel companies made the most returns.

Altogether the 33 companies were suppliers on more than 250 public sector framework agreements. In addition, they undertook more than 1,500 OJEU tendering exercises in 2008-09. Based on ten responses, the average cost to suppliers of undertaking a full OJEU tendering exercise was around £36,000 (range £5,000 to £100,000).

Survey of heads of procurement across the public sector

Ninety-three per cent of the public bodies had used a framework agreement during 2008-09. However, there was a wide variation in the amount of spending that individual bodies were channelling through these existing arrangements. In 84 per cent of those bodies that had used framework arrangements in 2008-09, heads of procurement believed that these arrangements had always or often resulted in better value for money than they could have achieved by acting alone. And, 83 per cent of them also thought there was potential to improve value for money by increasing collaboration.

¹² Our sample size of 300 provides a level of precision of +/- 5 per cent at a 90 per cent confidence level.

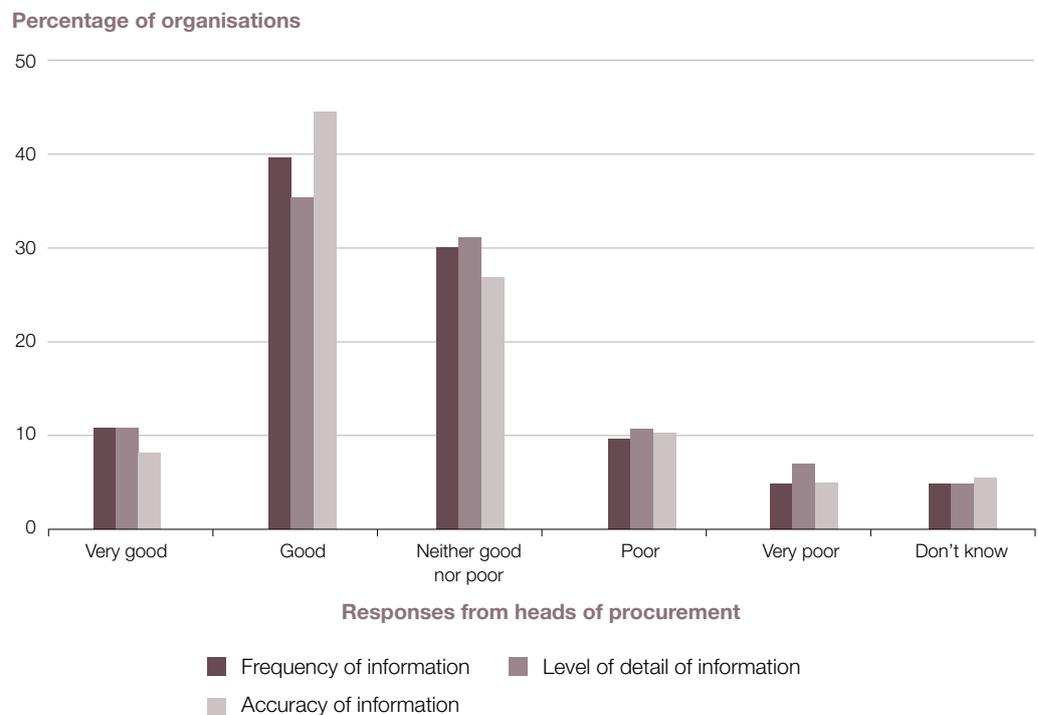
¹³ As determined by the Category Boards in the OGC's Collaborative Procurement Programme.

Figure 5 shows there were a significant number of heads of procurement who felt the quality of procurement management information available to their body was poor or very poor. Around 5 per cent did not know how to rate the quality of their procurement management information. Although 79 per cent of bodies often compared product specifications to those in existing collaborative arrangements, there was a significant number that did not regularly make comparisons.

A quarter of heads of procurement stated that they held poor, very poor or no information on both the overall supply market and their current suppliers' performance. Although more than half of them believed there was sufficient information available about collaborative arrangements across six of the eight categories, there remains a significant number that thought there was not sufficient or did not know.

More than half of the bodies did not produce, for all their significant procurement exercises, the key evaluation documents of a business case, supply option analysis and evaluation of existing collaborative arrangements. Across the eight bodies that did measure the costs of undertaking individual OJEU tendering exercises, estimates ranged from £5,000 to £150,000.

Figure 5
The quality of procurement management information held by public bodies



Source: National Audit Office survey

Detailed interviews with seven public bodies

In each public body we had detailed discussions with the Head of Procurement and relevant Procurement Officers who had recently led a specific procurement exercise for a standard commodity good or service. We used this information to gain a deeper understanding of how the organisation structured its procurement – making use of demand and market information – and the resulting decision on whether to use existing collaborative procurement options.

We found examples of positive practice about category management:

- HM Revenue & Customs has an enterprise resource planning system covering all procurement spending. This allows it to identify spending by cost centre at individual product level in the month following purchase.
- University Hospitals of Leicester NHS Trust uses a project board approach for all major procurement exercises, with key stakeholders consulted.
- In the Environment Agency, each new procurement exercise involves a sponsoring manager from the relevant business unit. The sponsor agrees the procurement approach, and if collaborative arrangements are determined to be the best choice, influences staff to use them.
- Leicestershire County Council introduced a category management approach in 2008 with its procurement spend covered by 16 categories. It reports the cost of goods and services bought has reduced by more than £9 million by 2009-10 through carrying out this strategic approach.

The role of the OGC

The OGC's initiatives to improve collaboration across central government procurement began in 2004. This work was extended following the publication of the *Transforming Government Procurement* report by HM Treasury in 2007, and became the current Collaborative Procurement Programme. Most of the key elements you would expect to find in a well managed programme were in place, and the programme includes the following key work strands:

- Improving the quality of procurement management information.
- Nine collaborative categories.
- Improving the current collaborative procurement landscape.
- Supplier relationship and performance management.
- eAuction Centre of Excellence.

As the OGC has no powers to mandate change and relies on influence and persuasion, it has taken a pragmatic approach to the Programme by working within the current procurement structure. Within this environment the Programme has resulted in real improvements to public sector procurement, for example, in understanding and classifying spend and in the way public sector bodies are buying common commodities such as energy. Progress has been slower in the office solutions category with, for example, no overall strategy for the category. In January 2010, the OGC took over the category lead role from Buying Solutions for both the Office Solutions and Travel categories to ensure greater alignment with the other categories. While the pragmatic approach is understandable, the Programme has not been designed to drive the step change required to restructure current procurement activities across the public sector.

