



National Audit Office

Assessing the value for money of OGCbuying.solutions

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LONDON: The Stationery Office
£13.50

Ordered by the
House of Commons
to be printed on 12 December 2006

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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11 December 2006

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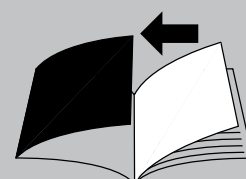
SUMMARY

1 OGBuying.solutions was established in April 2001. Its primary role is to maximise the value for money obtained by government departments, and other public bodies, through the procurement and supply of goods and services. Its operations break down into three areas:

- framework agreements – agreements with providers which set out terms and conditions under which specific purchases can be made throughout the term of the agreement;
- managed services – an on-going service managed by OGBuying.solutions on behalf of public bodies, for example, the Government Secure Intranet (GSI); and
- memoranda of understanding – which offer public bodies guaranteed lowest prices for software and telecommunications.

2 This portfolio of products is designed to offer public sector organisations better value for money than they could achieve elsewhere. The aim is to give organisations access to lower prices than they could achieve and enable them to reduce their process costs by avoiding the need for them to let and manage their own procurement contracts.

3 This report assesses whether OGBuying.solutions is providing value for money.



Key Facts and Terms overleaf

Key facts



Status

OGCbuying.solutions is an executive agency of the Office of Government Commerce.

OGCbuying.solutions is also a trading fund and supports the delivery of the Office of Government Commerce's Public Service Agreement targets which are:

- to improve public services by working with departments to help them meet their efficiency targets amounting to £21 billion a year by 2007-08; and
- to deliver a £3 billion saving by 2007-08 in central government civil procurement through improvements in the success of programmes and projects and through other commercial activities.

OGCbuying.solutions employs 283 people who are primarily based at its two sites in Liverpool (head office) and Norwich.



Revenue and costs

OGCbuying.solutions raises revenue by charging suppliers a small commission (averaging less than one per cent) for each

sale they make under its framework agreements. For managed services, the business model ranges from commission to purchase and sale at a small margin. In 2005-06, OGCbuying.solutions' turnover was £70 million with a surplus after costs of £4 million. This represents a return on capital employed of 16.6 per cent.



Customers

Over 6,600 customers registered spend through OGCbuying.solutions in 2005-06 ranging from major government departments to

individual schools. OGCbuying.solutions' remit extends across both central government and the wider public sector comprising central government, local government, health, education, devolved administrations, emergency services, defence, utilities and not for profit sectors. It also extends to devolved administrations and the local government, health, education and emergency services in Scotland, Wales and Northern Ireland.



Customer spend and market share

In 2005-06 public sector organisations spent £2,795 million through OGCbuying.solutions'

range of products. Central government accounted for 54 per cent of total spend with the wider public sector accounting for the remainder. Customer spend has grown by 150 per cent since 2001-02. Spend through OGCbuying.solutions accounts for five per cent of total central government procurement spend and less than one per cent of wider public sector procurement spend.



Products

OGCbuying.solutions' operations break down into three areas – framework agreements, managed services and memoranda of

understanding. In 2005-06 it operated approximately 180 framework agreements, five managed services and five memoranda of understanding. Framework agreements accounted for 78 per cent of customer spend, managed services 12 per cent and memoranda of understanding 10 per cent. Its operations cover a wide range of products including information technology (IT) equipment, telecommunications, professional services, facilities management, payment cards and energy.



Suppliers

There are 621 suppliers (292 small and medium sized enterprises [SMEs]) across OGCbuying.solutions' three product areas

ranging from major companies to very small firms. They cover over 500,000 individual products and services.



Savings

OGCbuying.solutions reported value for money savings of £412 million in 2005-06. Savings due to customers paying lower

prices than public sector average prices accounted for 52 per cent of savings. Savings due to customers avoiding the process costs of letting and managing contracts accounted for the remaining 48 per cent. Savings have grown by 71 per cent since 2003-04.

Terms used in this report

Body Shop

Body Shop is a framework agreement for information technology (IT) specialists and administrative personnel.

Catalist

Catalist is the brand name for OGCbuying.solutions' framework agreements.

Central civil government

Central civil government excludes the National Health Service and defence military procurement.

eAuction

An eAuction is a dynamic online negotiation process between pre-selected suppliers for a specific piece of business. Suppliers compete online and in real-time using the internet to communicate offers.

Framework agreement

A framework agreement is a general term for agreements with providers which set out terms and conditions under which specific purchases (call-offs) can be made throughout the term of the agreement.

Managed service

Managed services are a range of on-going services managed by OGCbuying.solutions on behalf of public sector customers. Contractual arrangements between OGCbuying.solutions and suppliers are generally through a set of framework agreements.

Memoranda of understanding (MoU)

OGCbuying.solutions manages several memoranda of understanding which provide public sector organisations with general lowest price guarantees.

Mini-competition

Suppliers from a framework agreement are invited to tender for a specific customer contract. It can also be referred to as 'further competition'.

Public sector procurement landscape

A phrase referring to the range of public sector organisations that undertake procurement, how they are structured and interact with one another.

Quick Win products

In 2003, the Government implemented a range of measures to encourage departments to apply minimum environmental standards across a wide range of commonly purchased products. The Sustainable Procurement Group responded to this by identifying a number of 'Quick Wins' which could help government departments meet these standards. These were enhanced in 2005.

Trading fund

A trading fund is a financing mechanism for government trading activities. The objective is to set up autonomous operations with their own capital base; thereby enabling more effective financial and business management along conventional commercial lines. In particular, it would not be necessary to seek funding from Parliament each year (through the Parliamentary Supply process) for operations vested in the trading fund. Instead, the trading fund's financial resources would be managed within the framework established by the Government Trading Funds Act 1973 (as amended by the Government Trading Act 1990). In basic terms, a trading fund may keep cash received, may borrow (only from its authorised public sector lender), and may invest surplus funds (only in the public sector), but may also pay dividends to the Exchequer.

Volume commitment

Volume commitment is an estimate by an organisation of its likely spend through a framework agreement if the framework agreement meets its requirements. It does not necessarily mean a legal commitment, but may be in the form of a letter of intent, meeting note, or simply a verbal indication that is conveyed to suppliers.

What has been achieved?

4 OGBuying.solutions operates within an unco-ordinated public sector procurement landscape and is in competition with other procurement organisations and department-led framework agreements. Whilst operating within this landscape, OGBuying.solutions reported value for money savings of £412 million in 2005-06, an increase of 71 per cent since 2003-04.¹ These savings have been achieved in a number of ways:

- the majority of prices paid by OGBuying.solutions' customers are more competitive than the equivalent public sector market average price;²
- using OGBuying.solutions saves public sector organisations significant procurement process costs by avoiding the need to let and manage individual procurement contracts; and
- customer sales have increased by 150 per cent since 2001-02 with over 6,600 customers across the wider public sector using OGBuying.solutions in 2005-06. Guaranteed compliance with European Union procurement legislation and reduced process costs are identified by customers as the key drivers behind this growth. There is no formal mandate that organisations should use OGBuying.solutions.

What is the potential to achieve more?

5 Whilst the value for money savings reported by OGBuying.solutions are significant, our examination identified considerable potential to increase value for money still further. OGBuying.solutions has the potential to improve its own performance and further value for money savings could be achieved if the public sector procurement landscape were better co-ordinated:

- Despite strong sales growth, OGBuying.solutions' market penetration is low. A realistic medium term objective would be to double market penetration which could increase savings by up to £400 million per annum.
- Given the potential for OGBuying.solutions to exploit significant buying power, it should aim for the prices paid by its customers to be consistently in the lowest 25 per cent of public sector market prices. Based on the three professional services framework agreements examined in this report, and assuming a doubling of sales volume, this could increase savings by up to £120 million per annum. Across the top 25 per cent of framework agreements, savings could increase by up to £260 million per annum.

1 Part 2 of this report indicates that the reported savings in 2005-06 would have been lower if OGBuying.solutions had fully taken into account negative savings when prices paid by its customers were higher than the public sector market average price.

2 This analysis is based on OGBuying.solutions' price benchmarking data which covered approximately 50 per cent of customer sales in 2005-06.

3 When OGBuying.solutions' prices are more expensive than the market average.



Recommendations

6 To achieve the potential outlined above, OGBuying.solutions will need to improve performance significantly in a number of areas (see **Key Findings box, overleaf**):

Recommendation 1: OGBuying.solutions should improve the prices paid by customers through its framework agreements and managed services by (paragraphs 2.6–2.10):

- benchmarking its prices against the lowest 25 per cent of prices paid by public sector organisations, as well as the average prices paid, and including all negative price savings³ when calculating value for money savings (paragraph 2.4 and paragraphs 2.8–2.9);
- securing greater volume commitment from customers through consulting customers more when letting new framework agreements (paragraphs 2.12–2.14);
- reviewing framework agreement and managed services prices regularly to ensure they stay competitive compared to market prices (paragraphs 2.15–2.17);
- increasing the use of eAuctions, where applicable, for letting new framework agreements (paragraphs 2.18–2.20); and
- minimising suppliers' costs of dealing with OGBuying.solutions (paragraph 2.21).

KEY FINDINGS

Supporting our recommendations

On price competitiveness we found that:

- the majority of prices paid by OGCBuying.solutions' customers were cheaper than the equivalent public sector market average price;
- but, we examined three large professional services framework agreements and found the prices paid by OGCBuying.solutions' customers are under performing against the lowest 25 per cent of public sector market prices, given OGCBuying.solutions' potential to exert significant buying power; and
- most smaller organisations surveyed, in terms of procurement spend, considered that using OGCBuying.solutions offered their organisation cheaper prices most of the time. Larger organisations' spend through OGCBuying.solutions is considerable, although it makes up a small proportion of their total procurement spend. Most large organisations, with more buying power, considered OGCBuying.solutions' prices less competitive than they could achieve elsewhere.

On supplier management we found that:

- only 33 per cent of central government organisations surveyed rated the range of suppliers as either excellent or good;
- around half of the organisations surveyed rated the quality of service as either excellent or good; and
- customers were not consulted enough about supplier performance and suppliers considered OGCBuying.solutions' current supplier rating system did not provide them with enough information to enable them to improve performance.

On market penetration we found that:

- despite strong growth in sales in recent years, OGCBuying.solutions' market penetration remains low compared to international comparisons;
- customers view reduced process costs as a key benefit of using OGCBuying.solutions and that OGCBuying.solutions could increase take up by demonstrating, through promotion of its research on the costs of letting and managing contracts, how much customers and non-customers could save;
- in addition to cheaper prices, more consultation with customers and an improved website were identified by customers as key improvements that would increase take up;
- clearer information on how to use OGCBuying.solutions and improved marketing were identified by non-customers as key improvements that would increase customers; and
- the majority of customers are not using the service provided by OGCBuying.solutions which identifies Quick Win products on its framework agreements.

On staff skills we found that:

- OGCBuying.solutions has skill gaps in key areas including commercial skills and staff with private sector knowledge of individual product markets.

On OGCBuying.solutions' product portfolio we found that:

- Ninety one per cent of framework agreement sales are undertaken through only 25 per cent of framework agreements.

Recommendation 2: OGCBuying.solutions should improve the range of suppliers and the quality of service these suppliers offer to customers by (paragraphs 2.22–2.26):

- consulting with customers to ensure the range of suppliers across its framework agreements and managed services meet customer requirements (paragraphs 2.27–2.29); and
- developing its supplier performance monitoring to ensure customers are consulted regularly on the performance of suppliers and suppliers are provided with relevant feedback to enable them to make improvements to their quality of service (paragraph 2.30).

Recommendation 3: OGCBuying.solutions should increase market penetration by (paragraphs 2.31–2.35):

- disseminating the results of its research on the cost of letting and managing contracts to enable public sector organisations to make informed decisions about when to use collaborative procurement methods (paragraphs 2.36–2.37);
- consulting more widely with customers to understand their requirements, for example, when letting new framework agreements (paragraphs 2.38–2.40);
- improving its website to meet customer requirements (paragraph 2.41);
- communicating more effectively with non-customers (paragraphs 2.42–2.43); and
- facilitating the achievement of sustainability policy objectives through raising customer awareness of the range of Quick Win products available on its framework agreements (paragraphs 2.44–2.47).

Recommendation 4: In order to realise its value for money potential, OGCBuying.solutions will need staff that have the right range of abilities including: commercial skills, marketing and communication skills and private sector knowledge of individual product markets. OGCBuying.solutions should undertake a staff skills audit to ensure staff skills match future planned activity (paragraphs 2.53–2.54).

Recommendation 5: The Office of Government Commerce and OGCBuying.solutions should work together to determine the portfolio of framework agreements and managed services to maximise OGCBuying.solutions' value for money (paragraphs 2.49–2.52 and paragraphs 3.16–3.17).

Recommendation 6: The Office of Government Commerce should ensure that OGCBuying.solutions' targets provide OGCBuying.solutions with the right incentives to drive performance across all of its activities (paragraphs 3.12–3.13).

Value for money potential – summary

7 OGCBuying.solutions reported value for money savings of £412 million in 2005-06. Our recommendations provide a route for OGCBuying.solutions to improve its performance. This, combined with a more co-ordinated public sector procurement landscape, would, in our judgement, offer potential for further savings of £520 million to £660 million. The changes required to implement these recommendations involve a more effective use of existing resources, although there will also be some costs incurred. A description of these additional savings is outlined below:

Increased market penetration: £400 million per annum

8 Currently OGCBuying.solutions has a market share of five per cent of central civil government procurement spend and less than one per cent of wider public sector procurement spend. A realistic medium term objective for OGCBuying.solutions would be to double the level of customer sales and bring its market penetration to 10 per cent of central civil government procurement spend and to two per cent of wider public sector procurement spend. This would be equivalent to sales of £5,000 million per annum and should result in additional value for money savings in the region of £400 million per annum, based on current percentages of savings achieved per unit of customer spend.

Improved price performance: £120 million to £260 million per annum

9 In addition, a further objective for OGCBuying.solutions would be, given its potential purchasing strength, for prices in the top quarter of its framework agreements (by volume) to be in the lowest 25 per cent of public sector prices. Our analysis of three high volume professional services framework agreements, for example, indicates that, for prices across all staff categories to be in the lowest 25 per cent of public sector prices, would require a reduction in prices of between four and 19 percentage points. If this price reduction is applied to the sales through these three framework agreements alone it would result in savings in the region of £60 million per annum, based on 2005-06 sales. If sales in these three framework agreements were to double, as outlined above, savings would increase to £120 million per annum. Applying similar price reductions to the total sales volume across the top quarter of framework agreements, the savings would rise to £130 million per annum, based on 2005-06 sales. If sales across the top quarter of framework agreements were to double, then the savings would increase further to £260 million per annum (see Appendix 1 for more detail).



PART ONE

The role of OGCbuying.solutions

1.1 The profile of public sector procurement has increased in recent years. In 2004, the Government accepted the recommendations of a report on public sector efficiency by Sir Peter Gershon. As a result, each department was set a series of efficiency targets to be achieved by March 2008 totalling £21.5 billion in efficiency gains. Procurement makes up the largest percentage of these targets, accounting for approximately £8 billion in efficiency gains across the whole public sector.

1.2 OGCbuying.solutions was established as an executive agency of the Office of Government Commerce, an Office of HM Treasury, on 3 April 2001. It is also a trading fund. It inherited the functions of The Buying Agency (TBA) and the managed services division of the Central Communications and Telecommunications Agency (CCTA), both of which were transferred to the Office of Government Commerce on 1 April 2000.

1.3 The primary role of OGCbuying.solutions is to maximise the value for money obtained by government departments, and other public bodies, through the procurement and supply of goods and services under arrangements that provide quality assurance and comply with public purchasing policy and regulations, including those of the European Union. It supports the delivery of the Office of Government Commerce's Public Service Agreement targets which are:

- to improve public services by working with departments to help them meet their efficiency targets amounting to £21 billion a year by 2007-08; and
- to deliver a £3 billion saving by 2007-08 in central government civil procurement through improvements in the success of programmes and projects and through other commercial initiatives.

1.4 In 2005-06 OGCbuying.solutions' customer spend totalled £2,795 million⁴ with associated value for money savings of £412 million.

OGCbuying.solutions' products and services

1.5 OGCbuying.solutions' operations cover three main areas: framework agreements, managed services and memoranda of understanding (**Figure 1**).

1.6 In 2005-06, framework agreements accounted for 78 per cent of customer spend, with managed services accounting for 12 per cent and memoranda of understanding accounting for the remaining 10 per cent (**Figure 2**).

1.7 OGCbuying.solutions' management information divides OGCbuying.solutions' 180 framework agreements into 105 broader categories. Our analysis of this management information shows that, in 2005-06, the top 25 per cent of framework agreements accounted for 91 per cent of framework sales.⁵

OGCbuying.solutions' customer profile

1.8 OGCbuying.solutions' remit extends across both central government and the wider public sector. As outlined in **Figure 3**, this comprises central civil government, local government, health, education, devolved administrations, emergency services, defence, utilities and not for profit sectors. It also extends to devolved administrations and the local government, health, education and emergency services in Scotland, Wales and Northern Ireland. Central civil government makes up

⁴ This figure is slightly higher than the figure quoted in OGCbuying.solutions' annual report for 2005-06 of £2,671 million. This is due to including information on customer spend through memoranda of understanding that was not available at the time the annual report was published.

⁵ This assumes that the 180 framework agreements are spread evenly across the 105 management information categories.

54 per cent of total customer spend. Of this, 55 per cent is undertaken by central government departments (excluding their agencies and NDPBs), equating to approximately 30 per cent of total customer spend.

OGCbuying.solutions' position within the wider public sector procurement landscape

1.9 There are a large number of other procurement organisations across the wider public sector. Many of these procurement organisations cover specialist goods and services not covered by OGCbuying.solutions' framework agreements and managed services. However, there is also considerable duplication of framework agreements in more standard product areas. Whilst there is some co-ordination between the different procurement organisations, there is also direct competition for customers in many product areas. Furthermore, government departments, their executive agencies and NDPBs and wider public sector organisations also operate framework agreements, some of which cover similar product areas to OGCbuying.solutions' framework agreements.

1 OGCbuying.solutions' areas of operation

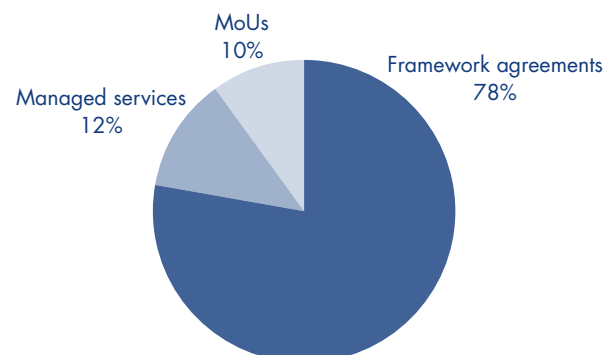
Framework agreements: a general term for agreements with providers which set out terms and conditions under which specific purchases (call-offs) can be made throughout the term of the agreement. Contracts for individual purchases are made directly between customers and suppliers. A commission (averaging less than 1 per cent) is collected from suppliers for each sale made under an OGCbuying.solutions framework agreement. The framework agreements are grouped together under the Catalist umbrella brand and cover information technology (IT), consultancy services, resourcing services, business solutions, facilities support and payment cards. Catalist comprises approximately 180 framework agreements with over 600 framework contracts with individual suppliers covering 500,000 products.

Managed services: a range of on-going services managed by OGCbuying.solutions on behalf of public sector customers. Contractual arrangements between OGCbuying.solutions and suppliers are through a set of framework agreements. Customers are charged for the managed services in a variety of ways ranging from commission to traditional purchase and sale at a small margin. The managed services cover five specific services: Managed Telecommunications Service, Energy, Government Secure Intranet (GSi), eProcurement Solutions and the recently introduced Travel Service.

Memoranda of understanding: The memoranda of understanding provide public sector customers with lowest price guarantees. OGCbuying.solutions manages five memoranda of understanding covering four software companies (Microsoft, Oracle, IBM and Sun Microsystems) together with the BT Premier Value memorandum of understanding.

2 Framework agreements made up 78 per cent of OGCbuying.solutions' sales in 2005-06

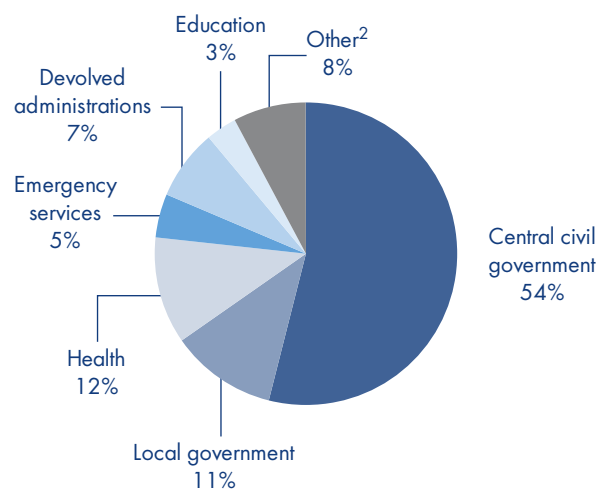
Breakdown of customer spend 2005-06



Source: OGCbuying.solutions' management information

3 OGCbuying.solutions' remit extends across the wider public sector

Breakdown of customer spend across public sector organisations (2005-06)¹



Source: OGCbuying.solutions' management information

NOTES

1 Excludes MoU sales.

2 Other includes: defence, not for profit, private sector, utility and uncategorised.

1.10 As already highlighted, OGCBuying.solutions' remit extends to Scotland, Wales and Northern Ireland. OGCBuying.solutions works closely with the Scottish Executive and Value Wales⁶ to ensure activity is co-ordinated. For example, it has a memorandum of understanding with the Scottish Executive and one is planned with Value Wales.

Previous Committee of Public Accounts (PAC) recommendations

1.11 The PAC has made three previous recommendations specifically aimed at OGCBuying.solutions. The progress against these recommendations is shown in **Figure 4**.

The scope of the study

1.12 This report addresses the issue of whether OGCBuying.solutions is providing value for money for its customers and whether there is potential to do more. The study is divided into two main areas:

- assessing whether OGCBuying.solutions' products and services are providing value for money and whether there is potential to do more (Part 2); and
- examining OGCBuying.solutions' role within the wider public sector procurement landscape and whether this is providing optimal value for money (Part 3).

Our findings are based on:

- analysis of data from a survey of 132 central government organisations (including central government departments, non-ministerial government departments, executive agencies and non-departmental public bodies);
- analysis of data from a telephone survey of wider public sector customers of OGCBuying.solutions. This covered 222 customer organisations (91 from the health sector, 80 from the local government sector and 51 from the emergency services sector);
- analysis of data from a telephone survey of non-customers of OGCBuying.solutions. This covered 104 non-customer organisations (48 from central government and 56 from the wider public sector);
- case study examinations of six public sector procurement organisations in the UK and overseas involving interviews with key staff and document reviews;
- analysis of the results of five focus groups with suppliers on OGCBuying.solutions' framework agreements and managed services. The focus groups involved 42 suppliers from a cross section of product areas;
- detailed analysis of OGCBuying.solutions' management information;
- semi-structured interviews with key staff from OGCBuying.solutions; and
- analysis of procurement notices published in the Official Journal of the European Union.

(See Appendix 1 for a full description of the methodology, including an explanation of the survey sample numbers shown in a number of the figures throughout the report.)

⁶ Value Wales is part of the Welsh assembly and has been established to act as a major catalyst for change across the Welsh public sector, to help organisations achieve real and sustainable improvements and realise value for money opportunities. It works with Welsh public sector organisations looking to improve co-operation between them on the provision of services to the public, the achievement of efficiency and other gains through smarter procurement and delivering a fit for purpose and sustainable capital infrastructure estate.

4 Previous PAC recommendations relating to OGCBuying.solutions

PAC report

Purchasing and managing software licences

(HC 306) February 2004

PAC recommendation

In the light of their increased knowledge of the marketplace, their greater experience gained from successive deals, and the opening of discussions with Microsoft, OGC should see whether an improved Memorandum offering further savings is possible.

Progress

A new memorandum of understanding was agreed with Microsoft in October 2004 which incorporates all of the existing discount structures, as well as a reduced renewal licence price for organisations that choose to renew their licence agreement immediately on its expiry. The new memorandum also includes a payments gap feature which enables organisations to delay investing in new software on expiry of its existing agreement if, for example, there is no immediate business case for it. There is also a new entry-level package for smaller organisations. In addition, the new memorandum offers a tiered level of discount which is based on the number of qualifying desktop computers within the public sector. The maximum discount threshold of 1.5 million was reached in July 2006.

Purchasing and managing software licences

(HC 306) February 2004

OGC is focusing its publicity and awareness campaigns on those who are not procuring software through the memoranda. OGC should track the progress of these campaigns and take further action if awareness and take up of the deal remain lower than expected.

To improve publicity and awareness amongst public sector customers the memoranda of understanding have been given a dedicated area on OGCBuying.solutions' website. They also feature regularly in OGCBuying.solutions' public sector procurement magazine as well as targeted marketing campaigns.

Sales through the Microsoft and Oracle software licence memoranda have increased by 42 per cent between 2004-05 and 2005-06.¹ Whilst growth has been strong, there appears to be significant potential for improvement. For example, our survey asked whether organisations were using the Microsoft memorandum of understanding. In central government, 47 per cent of organisations and in the wider public sector 51 per cent of organisations did not use the memorandum. Of the organisations that did not use the memorandum, 25 per cent of central government organisations and 37 per cent of wider public sector organisations had not heard of the memorandum.

Improving departments' capability to procure cost-effectively

(HC 541) October 2004

Greater use should be made of the Government Procurement Card

Transactions using the Government Procurement Card have increased from £305 million in 2003 to £528 million in 2005, a growth of 73 per cent. The number of cards has increased from 40,000 at the start of 2003 to 84,000 in June 2006, a growth of 111 per cent. Whilst this shows good progress, our survey indicates that there is significant potential to increase use of the Government Procurement Card further. For example, 22 per cent of central government customers and 73 per cent of wider public sector customers that were surveyed are not currently using the Government Procurement Card. Our survey also indicated that a number of organisations were using an alternative payment card.

Source: Committee of Public Accounts (2004); National Audit Office

NOTE

¹ No sales data is available for the memoranda of understanding with IBM and Sun Microsystems. No sales data is available for any of the memoranda of understanding before 2004-05. The 42 per cent growth rate is based on financial year data provided by Oracle and Microsoft. The Oracle year end is May whilst the Microsoft year end is June.

PART TWO

The value for money achieved by OGCBuying.solutions

2.1 This part of the report considers the value for money being achieved by OGCBuying.solutions and the potential to improve this performance, concentrating on:

- A) the competitiveness of OGCBuying.solutions' prices;
- B) OGCBuying.solutions' role in improving the range of suppliers and the quality of service these suppliers offer to customers;
- C) OGCBuying.solutions' market penetration; and
- D) the potential for OGCBuying.solutions to bring about a step change in performance by focusing on a core set of products and aligning staff skills.

2.2 OGCBuying.solutions is a financially well managed trading fund and has met its target to achieve 6.5 per cent return on capital employed in each of the last three years. It has a clear vision of its purpose to provide value for money for the public sector, encapsulated in OGCBuying.solutions' vision statement 'Savings for the nation'. It is set an annual target for value for money savings and has met this target in each of the last three years.⁷ In 2005-06, OGCBuying.solutions reported value for money savings of £412 million, exceeding its target by £12 million. As shown in **Figure 5**, this represents a growth of 71 per cent since 2003-04.⁸

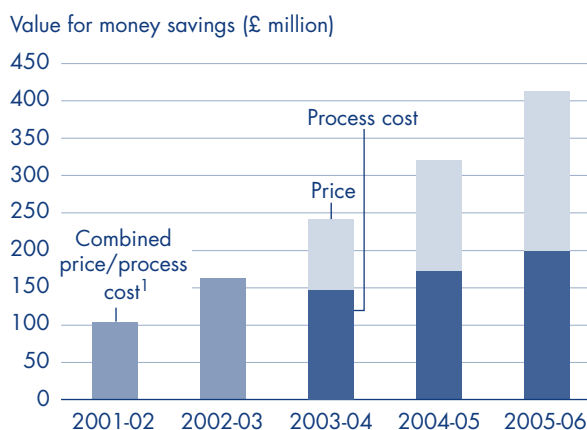
2.3 OGCBuying.solutions measures value for money savings in two ways:

- price savings: value for money savings associated with paying a lower price for goods/services as a result of using OGCBuying.solutions compared to the public sector market average price (see **Figure 6**); and
- process cost savings: value for money savings associated with the avoided cost of letting and managing contracts as a result of using OGCBuying.solutions (see **Figure 6**).

⁷ OGCBuying.solutions' performance targets are recommended by the Chief Executive of the Office of Government Commerce, agreed by the Financial Secretary to the Treasury and are laid before Parliament.

⁸ The growth in value for money savings since 2001-02 has been 300%. However, measurement of value for money savings in 2001-02 covered a narrower set of products. Therefore, some of the growth in savings over this period is due to improved measurement techniques rather than improved performance.

5 OGCBuying.solutions has achieved value for money savings growth of 71 per cent over the last two years



Source: OGCBuying.solutions' management information

NOTE

¹ No split in price and process cost is available before 2003-04.

2.4 In overall terms, our examination of this methodology concluded that it provides a reasonable assessment of the savings being provided by OGCBuying.solutions. Historically, OGCBuying.solutions has not taken account of negative price savings (when its prices are more expensive than the market average). Recognising the principle, it has started to incorporate negative savings in its 2005-06 value for money calculations. Our analysis has identified further areas where negative savings can be incorporated. For example, for its telecommunications framework agreements, we estimated that negative price savings were approximately £5 million in 2005-06. In addition, using its own costs of letting and managing

contracts to calculate process cost savings may not reflect the costs actually incurred by customers. OGCBuying.solutions is currently working with five central government organisations to determine the costs involved in letting and managing contracts.

2.5 Our examination identified significant potential to improve its value for money performance. The remainder of this section looks at three key aspects of OGCBuying.solutions' value for money performance: the competitiveness of prices; supplier management; and the degree of market penetration. It concludes by looking at the potential for OGCBuying.solutions to achieve a step change in performance by concentrating on a core set of products and aligning staff skills to this more focused approach.

A) The competitiveness of OGCBuying.solutions' prices

2.6 The price customers pay for goods and services through OGCBuying.solutions' framework agreements and managed services is a key part of assessing whether OGCBuying.solutions is providing customers with better value for money than they could achieve elsewhere.⁹ Here we found that:

- the majority of prices paid by OGCBuying.solutions' customers were cheaper than the equivalent public sector market average price;
- but, we examined three large professional services framework agreements and found the prices paid by OGCBuying.solutions' customers are underperforming against the lowest 25 per cent of public sector market prices given OGCBuying.solutions' potential to exert significant buying power; and
- most smaller organisations surveyed, in terms of procurement spend, considered that using OGCBuying.solutions offered their organisation cheaper prices most of the time. Larger organisations' spend through OGCBuying.solutions is considerable, although it makes up a small proportion of their total procurement spend. Most large organisations, that could exert more buying power, considered OGCBuying.solutions' prices less competitive than they could achieve elsewhere.

⁹ There are three different types of price that can be paid by customers: the framework agreement catalogue price/managed service charge; the price on application; and the price determined following a mini-competition involving suppliers from a framework agreement. The framework agreement catalogue price is the price agreed with the suppliers when the contract is let. This may be revised over time according to the terms and conditions of the framework agreement, for example, through regular price reviews with the supplier. The price on application is used where, due to frequent raw material price and product specification changes, it is not possible to provide product specific pricing. A mini-competition is where a customer invites suppliers from a framework agreement to tender for a specific contract. Under the recently adopted new European Procurement Directive this is referred to as further competition and requires that all capable suppliers are invited to tender. This may result in a price lower than the original framework catalogue price.

6 Methodology for calculating value for money savings

Price savings

OGCBuying.solutions uses independent benchmarking organisations to compare the prices paid through its framework agreements and managed services to those paid for the same or comparable products/services, at the same unit of quantity, from the same or comparable suppliers, within the same time period, by public sector organisations not using OGCBuying.solutions. In some product categories OGCBuying.solutions benchmarks all products/services sold over a specified time period. In others, due to the high number of products available (and occasionally low sales volumes) a shopping basket of high volume items is produced. The frequency of benchmarking is driven by the level of price volatility in a given market; for example computer prices are benchmarked every 12 weeks, whereas the price of legal services is benchmarked once a year.

For framework agreements, price savings are calculated by benchmarking the average prices paid by OGCBuying.solutions' customers with the public sector market average prices across a range of products and services. The average prices paid by OGCBuying.solutions' customers are derived using returns from suppliers on OGCBuying.solutions' framework agreements and represent the actual price paid by customers whether using the framework agreement catalogue price or the price paid following a mini-competition. The public sector market average price is derived using a survey of 150 public sector organisations which asks for the prices paid for a range of products and services including IT, Telecommunications, Professional Services and Facilities Management. The profile of the 150 organisations is designed to match the profile of OGCBuying.solutions' customer base. The benchmarking results for each product category are applied to the total customer spend in that category and these are totalled to provide an overall estimate of the price savings figure.

For managed services, prices paid by OGCBuying.solutions' customers are compared with an estimate of the cost of purchasing a similar service through a sample of other suppliers.

For memoranda of understanding, the individual suppliers provide OGCBuying.solutions with data on customer sales and the discount received compared with their standard prices.

Process cost savings

Process cost savings are derived using the estimated cost of letting and managing a contract based on OGCBuying.solutions' own costs of letting and managing contracts. An estimate of the number of contracts avoided by customers is made by OGCBuying.solutions based on the quarterly spend data provided by suppliers. These are combined to produce an overall estimate of the process cost savings figure.

Source: OGCBuying.solutions/National Audit Office

OGCbuying.solutions' prices perform well against public sector market average prices

2.7 Figure 7 shows that across the range of framework agreements and managed services benchmarked by OGCbuying.solutions in 2005-06, prices paid by OGCbuying.solutions' customers were below the public sector market average price for the majority of categories. These categories account for approximately 95 per cent of the sales covered by the benchmarking exercise.¹⁰ The categories where prices were uncompetitive were generally in markets where prices are fast moving (for example, broadband).

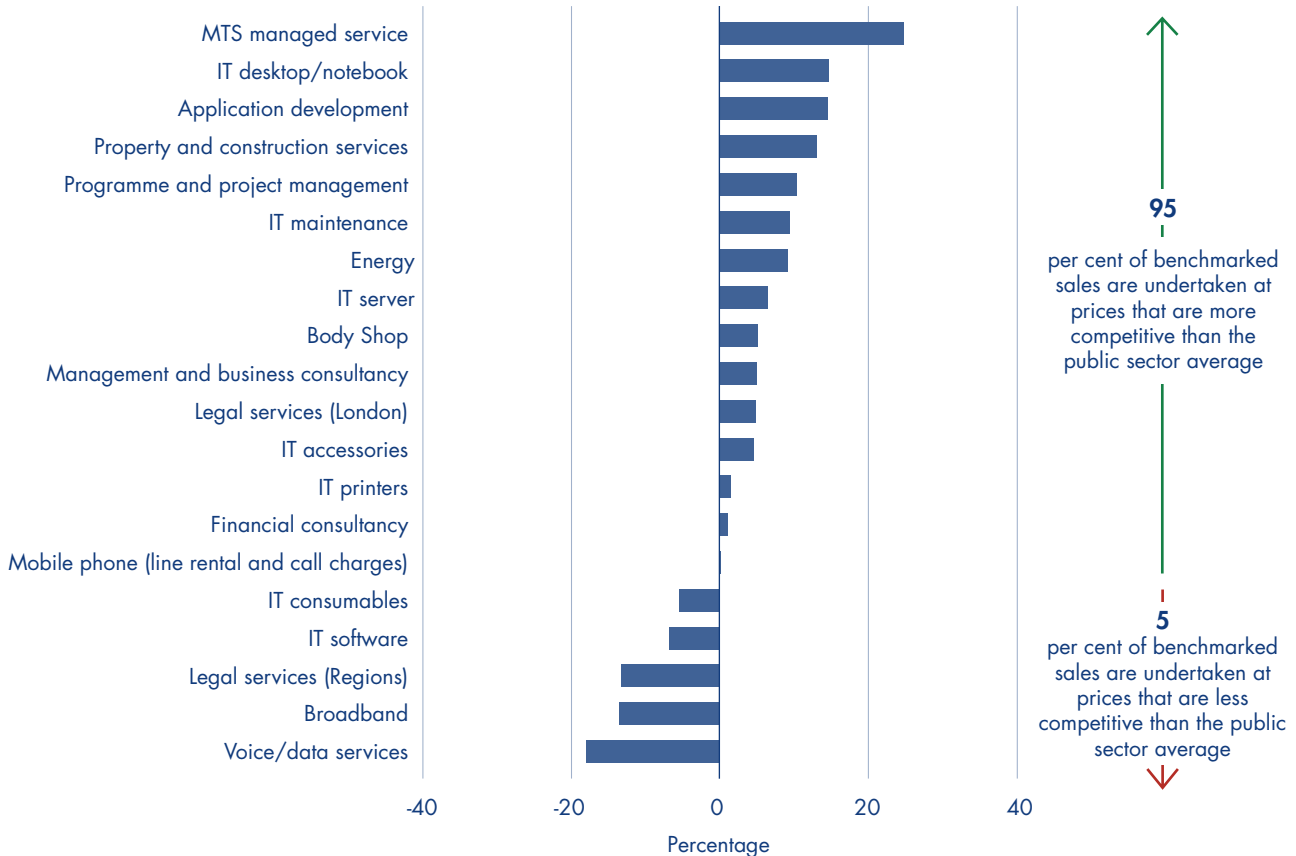
OGCbuying.solutions' prices are underperforming given their advantaged position

2.8 OGCbuying.solutions is, however, in a position to exert significant buying power and could be expected to secure prices below the average public sector market price. Therefore, a more challenging comparison is against the lower quartile of public sector market prices (the lowest 25 per cent of prices paid by the public sector).

7 The majority of prices paid by OGCbuying.solutions' customers are lower than the public sector market average prices

OGCbuying.solutions price vs public sector market average 2005-06 (positive percentage indicates discount to market average)

Product category



Source: OGCbuying.solutions' management information

NOTE

1 Does not include facilities management data as this was not available at publication.

10 The benchmarked categories account for approximately 50 per cent of all customer sales through OGCbuying.solutions' framework agreements and managed services. There was no 2005-06 price benchmarking data available for Facilities Management framework agreements at the time of publication.

2.9 For example, we took three of OGCBuying.solutions' higher spend professional services framework agreements (Body Shop¹¹, Application Development and Management and Business Consultancy¹²), which had a combined customer spend of £647 million in 2005-06, and compared prices (day rates) paid by OGCBuying.solutions' customers against the lower quartile of public sector market prices.

Figure 8 shows that, for Body Shop, while prices paid by OGCBuying.solutions' customers were below the public sector market average in four out of six staff categories, only one out of six (Application Programmer) was below the lower quartile. Over the three framework agreements, prices paid by OGCBuying.solutions' customers were below the public sector market average price in 13 out of 16 staff categories, but only seven out of 16 were in the bottom 25 per cent of prices paid by the public sector.

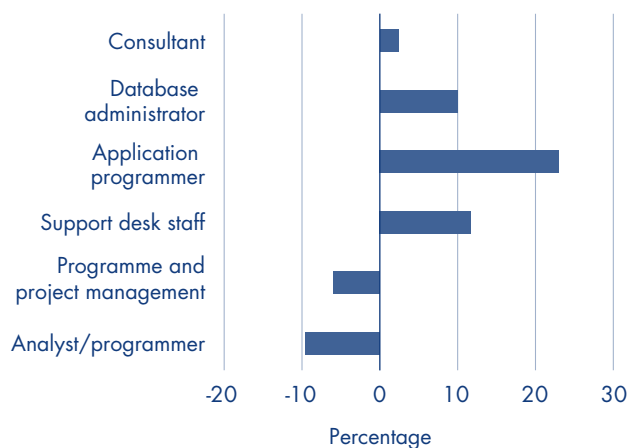
Larger organisations consider they can secure cheaper prices than those offered through using OGCBuying.solutions

2.10 Our survey results also indicated that OGCBuying.solutions is not exploiting its potential to exert significant buying power. Central government customers were

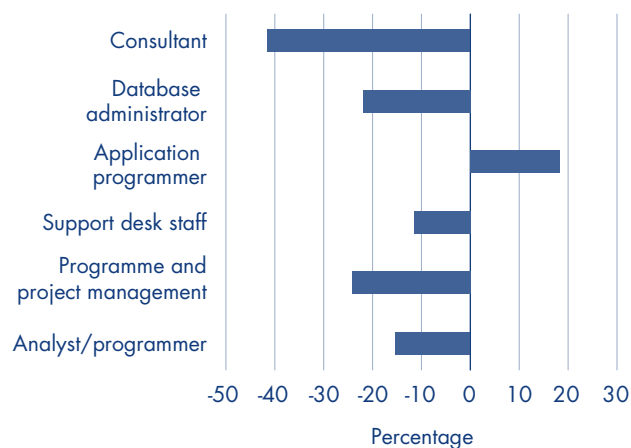
asked whether procuring through OGCBuying.solutions enabled their organisation to obtain lower prices than they could achieve elsewhere.¹³ **Figure 9 overleaf** shows that most organisations in the lower quartile of procurement spend consider OGCBuying.solutions' goods/services offered cheaper prices in the majority of cases. Larger organisations' spend through OGCBuying.solutions is considerable, but it makes up a small proportion of their total procurement spend (approximately four per cent for the upper quartile organisations whose total procurement spend is over £120 million a year). Most large organisations consider they can achieve cheaper prices than OGCBuying.solutions in the majority of cases. Our survey highlighted, however, that the majority (66 per cent) of the central government organisations surveyed used OGCBuying.solutions' framework agreement catalogue prices to compare against prices they could achieve in the market. This can be misleading. The catalogue price is generally the price for a single item whilst an organisation may be gauging the price they can achieve elsewhere using a larger product quantity. This highlights the need for OGCBuying.solutions to provide customers with better information on actual prices paid by customers using its framework agreements.

8 OGCBuying.solutions' is underperforming against the lower quartile of public sector market prices

OGCBuying.solutions' Body Shop prices vs public sector market average (positive percentage indicates discount to market average)



OGCBuying.solutions' Body Shop prices vs lower quartile of public sector prices (positive percentage indicates discount to lower quartile)



Source: OGCBuying.solutions' management information

11 Body Shop is a framework agreement for IT specialists and IT administrative personnel.

12 For Applications Development and Management and Business Consultancy the comparison is made for Global Management Consultancy firms.

13 35 per cent of central government organisations were unable to answer. The data shown in Figure 9 are the percentages across those organisations that were able to answer the question.

9

Larger organisations do not consider OGCBuying.solutions' goods/services offer them cheaper prices

Central government organisations' procurement spend
– 2005-06 (quartiles)The majority of OGCBuying.solutions' goods/services
offer cheaper prices% of central government organisations in each quartile
that agree with above statement

Up to £9 million	73
£9 million to £41 million	43
£41 million to £120 million	39
£120 million plus	29

Source: National Audit Office (NAO) central government survey (current customers)

NOTE

n = 103.

There are four key areas where OGCBuying.solutions can improve the competitiveness of its prices

2.11 Our examination identified four areas where there is potential to improve the competitiveness of OGCBuying.solutions' prices:

- obtaining customer volume commitment when letting new contracts will provide suppliers with an incentive to offer lower prices;
- reviewing prices regularly throughout the duration of the contract will ensure OGCBuying.solutions' prices keep pace with market prices;
- increasing the use of eAuctions will introduce real-time competition between suppliers; and
- minimising supplier costs of dealing with OGCBuying.solutions will result in the potential for suppliers to offer lower prices without affecting their profit margins.

Securing volume commitment would increase leverage with suppliers when letting new contracts

2.12 Our case study visits showed that securing customer volume commitment is an important method used by comparable procurement organisations to OGCBuying.solutions as a way of securing lower prices. **Case Example 1**

shows how SKI, the Danish national procurement organisation, has been successful in securing volume commitment through the use of customer advisory boards.

2.13 Participants in our supplier focus groups acknowledged that providing suppliers with volume commitment from customers would allow them to offer lower catalogue prices when framework agreements are let. (Lower catalogue prices would reduce the prices for products purchased using the framework agreement catalogue price, but would also provide a lower base price to start negotiations under a mini-competition.) Whilst there are some examples where OGCBuying.solutions has obtained volume commitment, the vast majority of new framework agreements go to market without volume commitment from customers.¹⁴ Focus group participants also highlight that, in the past, indications of likely customer volume provided by OGCBuying.solutions had not been realised. This has led to some scepticism about such commitments. OGCBuying.solutions would have to regain supplier confidence to realise the full potential of providing suppliers with volume commitment. This would, in turn, require more commitment from individual public sector organisations. In addition to obtaining volume commitment, framework agreements could be constructed so that prices vary depending on the level of spend through the specific framework agreement.

¹⁴ For example, £190 million of committed customer spend was secured by OGCBuying.solutions prior to awarding the contract for the new Travel managed service.

2.14 Our fieldwork identified that the key to securing volume commitment prior to letting new framework agreements is to consult fully with customers to ensure their requirements are met. Our survey asked both central and wider public sector organisations about the extent to which OGCBuying.solutions consults their organisation before letting new framework agreements and managed services, and whether more consultation

CASE EXAMPLE 1

SKI – volume commitment for audio visual and surveillance equipment framework agreement

In September 2006, a new framework agreement for audio visual and surveillance equipment was established by SKI. SKI was successful in securing volume commitment from a number of public sector organisations in advance of tendering the framework agreement.

The framework agreement process started at the end of 2005 with the establishment of a customer advisory board, comprising some of the largest customers from a previous framework agreement covering a similar product range. Advisory boards are used extensively by SKI when setting up new framework agreements. The advisory board for the audio visual framework agreement attended three central tendering meetings and provided SKI with information on customer preferences. The advisory board members comprised:

- Technical Education Centre Copenhagen
- Copenhagen Technical Academy
- University of Copenhagen
- University of Aalborg
- Education centre CPH West
- Ministry of Food, Agriculture and Fisheries
- University of Aarhus

The seven advisory board members, along with four other organisations that were not able to join the advisory board due to limited resources, committed a volume of £1.7 million (18.5 million DKK). This represented 20 per cent of the estimated annual turnover of the contract of £9 million (100 million DKK). Whilst the commitment was not legally binding, it was shared with suppliers during the tendering process.

SKI considers that the advisory board approach has helped them to secure volume commitment on a number of framework agreements.

Source: SKI

would lead them to give volume commitment. In central government, 63 per cent of organisations consider that OGCBuying.solutions did not consult their organisation enough when letting new framework agreements and managed services. In the wider public sector the figure was higher at 73 per cent. Of the organisations that considered there was inadequate consultation, 49 per cent in central government thought they would provide volume commitment if they were consulted more. In the wider public sector, the figure was 76 per cent. We discuss the issue of customer consultation in more detail under the section on OGCBuying.solutions' market penetration.

Regular price reviews would ensure OGCBuying.solutions' prices remain competitive in volatile markets

2.15 In order to maintain price competitiveness, framework agreement prices need to be reviewed frequently, as shown in **Figure 10 overleaf**. We analysed all framework agreements operated by OGCBuying.solutions and the last time prices had been formally reviewed with suppliers. A third of framework agreements have not had a price review in the past 12 months, with 26 per cent not having a price review in the last two years.

2.16 In more volatile markets the frequency of price reviews becomes even more important. As shown in Figure 7, the majority of cases where OGCBuying.solutions' customers were paying higher prices than the market average were in markets where prices are moving particularly quickly (for example, broadband, IT and voice/data services). For example, **Figure 11 overleaf** shows where prices (call charges) on one of OGCBuying.solutions' telecommunications framework agreements have not kept pace with public sector market prices in a particularly fast moving market.

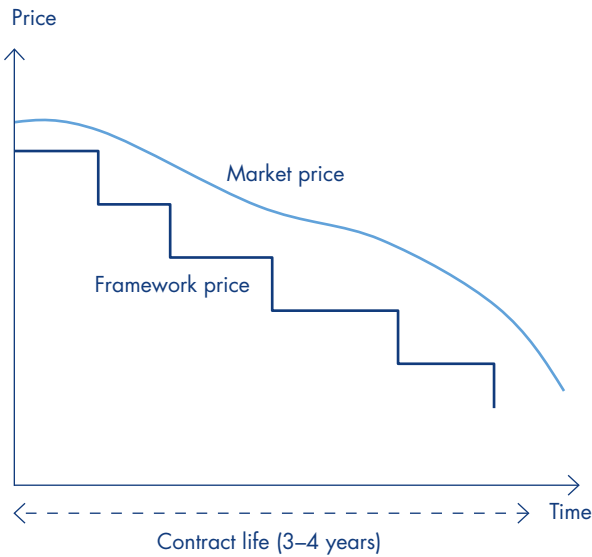
2.17 There are examples where OGCBuying.solutions has kept pace with market prices. As shown in **Figure 12 on page 19**, the mobile phone line rental price has kept pace with public sector market prices as a result of a price review in March 2005 and contract renegotiations following the expiry of the GTM mobile phone contract. The new 'Mobile Solutions' framework agreement went live in April 2006.¹⁵

15 Prices for 2004-05 and 2005-06 refer to the GTM mobile phone contract with suppliers Vodafone and Orange. The prices for the new OGCBuying.solutions mobile phone contract 'Mobile Solutions' are the average across four suppliers Vodafone, Orange, T-Mobile and O2. This contract went live in May 2006.

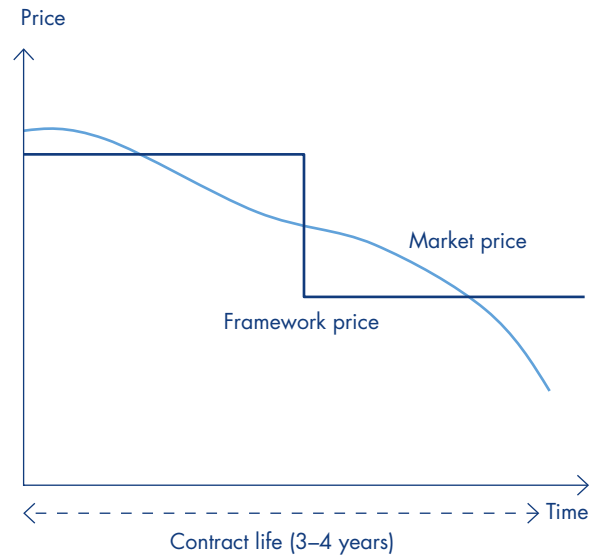
10 For framework agreements to remain competitive, prices must be reviewed frequently

When a framework agreement is let a set of catalogue prices are established. The framework contract will outline the terms and conditions under which these catalogue prices can be reviewed. These terms and conditions need to reflect the specific market and allow for regular price reviews. In product areas where prices are changing rapidly, catalogue prices need to be kept up to date with the market. (Even in markets where prices are not volatile, prices should be reviewed once a year). Therefore, good practice requires regular price reviews with suppliers. Under good practice, catalogue prices should remain below market prices and continue to provide customers with value for money. Where prices are not reviewed frequently there is a danger that prices will remain above the market price for long periods, during which time, they are not offering customers value for money.

Good practice – frequent review



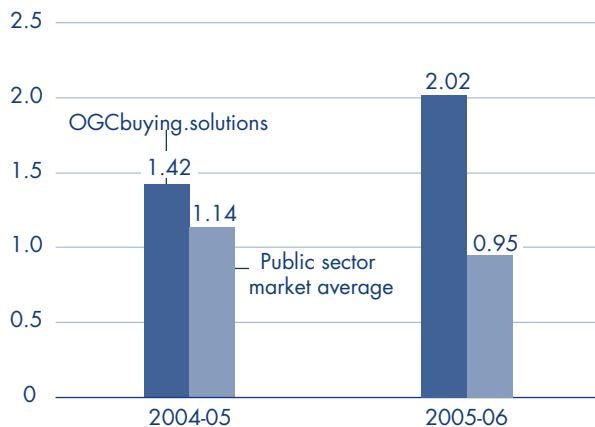
Bad practice – infrequent review



Source: National Audit Office

11 Some of OGCBuying.solutions' prices are not keeping pace with changing market prices

Fixed line to fixed line call charges (pence per minute)



Source: OGCBuying.solutions' management information

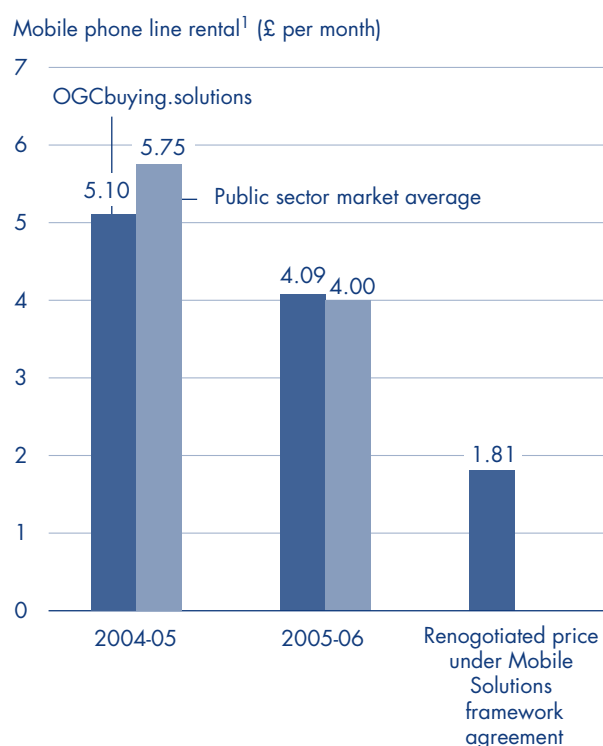
Increasing the use of eAuctions could reduce prices significantly

2.18 eAuctions can deliver price savings when compared with more traditional procurement mechanisms. OGCBuying.solutions operates a framework agreement for eAuction services containing four specialist suppliers. eAuction services can also be sourced as part of OGCBuying.solutions' managed eSourcing service.¹⁶ Data provided by the suppliers on this framework agreement show that between December 2003 and March 2006, 138 eAuctions were undertaken using the framework agreement, involving 73 public sector organisations across 34 generic categories of goods and services. Total price savings, compared to the historic baseline, are reported at £95 million against a total baseline spend of £421 million. This represents an average saving of 22 per cent across all eAuctions. The cost of running an eAuction averaged £8,500 with an average saving of £688,000 per eAuction.¹⁷

¹⁶ eSourcing is the use of secure web-based collaborative tools to conduct the strategic activities of the procurement lifecycle online.

¹⁷ The savings figures quoted are derived by comparing the final price established during the eAuction with the historic price paid by the organisations for the same equipment.

12 Keeping pace with market prices in volatile markets requires regular price reviews



NOTE

1 For 2004-05 and 2005-06 OGCBuying.solutions price represents the volume weighted average across Orange and Vodafone on the GTM framework agreement. The Mobile Solutions price is the average across O2, Orange, T-Mobile and Vodafone.

2.19 eAuctions require a clear and unambiguous specification of the buyers requirements, in general, the use of eAuctions is therefore most suitable for goods with fairly homogeneous characteristics (for example, IT equipment) and possibly less suitable for services such as professional services. However, as illustrated in **Case Example 2**, NHS Purchasing and Supply Agency recently used an eAuction to let a framework agreement for temporary staff with estimated savings of 12 per cent compared to historic prices. At present OGCBuying.solutions does not use eAuctions when letting its own framework agreements.

CASE EXAMPLE 2

NHS Purchasing and Supply Agency - eAuction for temporary labour

In 2006 NHS Purchasing and Supply Agency held an eAuction for the letting of a framework agreement for temporary staff. The eAuction involved 8 lots covering the following categories of temporary staff:

- Admin Services
- Procurement
- Human Resources/PR
- Allied Health Professionals and Associated Staff
- Finance
- Organisation Services and Business Administration
- Patient Services/Information
- Health Science Service Staff

The eAuction led to an average reduction in prices (day rates) across all categories of temporary labour of 12 per cent against historic prices. This represented an estimated potential saving over the 3 year framework agreement of approximately £121 million based on historic levels of spend through this framework agreement.

Source: NHS Purchasing and Supply Agency

2.20 In addition to OGCBuying.solutions' use of eAuctions to let its framework agreements, there is significant potential for customers to increase their own use of eAuctions. Our survey found that, on average, 42 per cent of purchases by central government organisations through OGCBuying.solutions' framework agreements were undertaken using mini-competitions.¹⁸ Many of these mini-competitions could be undertaken using an eAuction. Despite significant marketing efforts by both OGCBuying.solutions and the Office of Government Commerce (including covering the cost of the eAuction), take up remains low. According to our survey, 82 per cent of central government organisations, and 79 per cent of wider public sector organisations, had not used the eAuction framework agreement, and although some (nine per cent of central government and 23 per cent of wider public sector organisations) had used an alternative eAuction service, the vast majority of central government and wider public sector organisations have used neither, despite the potential for significant price reductions.

18 46 per cent of central government organisations could not answer this question.

Minimising supplier costs would help lower prices to customers

2.21 Results from our supplier focus groups identified three key areas where the costs of doing business with OGCBuying.solutions could be reduced:

- **Pre-qualification questionnaire:**¹⁹ Suppliers found that the questionnaires used by OGCBuying.solutions during the tendering process vary for different framework agreements. For suppliers tendering for multiple framework agreements, this added significant time and cost to the tendering process. In addition, certain information was asked for across every tender rather than only being asked for once.
- **Management information:** Suppliers said that OGCBuying.solutions' frequent requests for management information were burdensome. In particular, they were uncertain about the reasons why the information was required and were not shown any results.
- **Mini-competitions:** Suppliers reported that public bodies running mini-competitions often asked for similar information as OGCBuying.solutions had done during the original framework agreement tender, which suppliers felt was unnecessary duplication. Customers also tended to use their own terms and conditions rather than those in the standard OGCBuying.solutions' framework agreement which added significantly to legal costs for suppliers.

B) OGCBuying.solutions' role in improving the range of suppliers and the quality of service these suppliers offer to customers

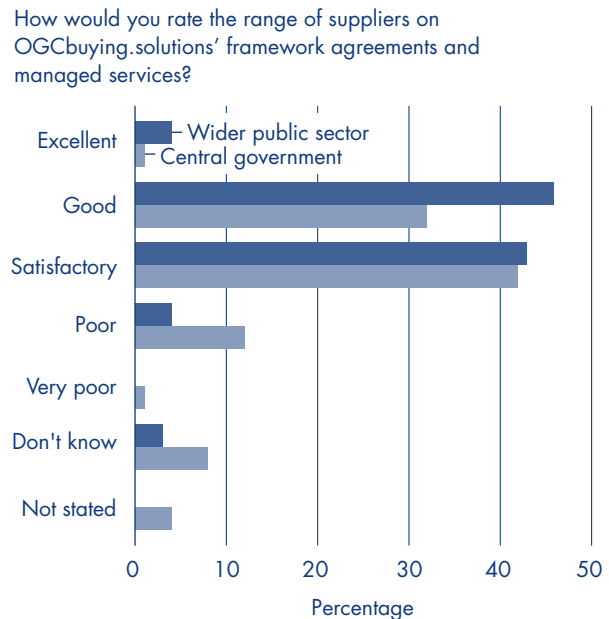
2.22 Having a range of suppliers that meets customer requirements with a track record of providing a good quality of service is important for any framework agreement.²⁰ Without these two elements, customer take up will reduce. This could result in an increase in process costs, as customers let and manage their own framework agreements, or tender for contracts on an ad hoc basis. In addition, poor quality of service can affect the delivery of policy objectives. Here we found:

- only 33 per cent of central government organisations surveyed rated the range of suppliers as excellent or good;
- around half of the organisations surveyed rated the quality of service as either excellent or good; and
- customers were not consulted enough about supplier performance and suppliers considered OGCBuying.solutions' current supplier rating system did not provide them with enough information to enable them to improve performance.

Only 33 per cent of central government organisations rate the range of suppliers on OGCBuying.solutions' framework agreements and managed services as excellent or good

2.23 Our surveys asked customers to rate the range of suppliers available on OGCBuying.solutions' framework agreements and managed services (**Figure 13**).

13 Only 33 per cent of central government organisations rate the range of suppliers as excellent or good



Source: National Audit Office survey results

NOTE

n = 325 (central government current customers = 103, wider public sector = 222).

¹⁹ A pre-qualification questionnaire enables customers to identify the most suitable suppliers to invite to tender for contracts.
²⁰ The range of suppliers refers to the capability of suppliers, whether the suppliers are local to the organisations and whether there is the right mix of large and SME suppliers on framework agreements. OGCBuying.solutions currently has 292 SME suppliers out of a total of 621 suppliers. OGCBuying.solutions' policy on SMEs is as follows "OGCBuying.solutions' policy is that SMEs participating in competitive procurements should be considered on an equal footing with larger supplier organisations, with all selection criteria being clearly defined in the relevant evaluation methodology and model." OGCBuying.solutions also now builds in a comprehensive non-discrimination clause to its framework agreements with suppliers and their sub-contractors.

2.24 Whilst 33 per cent of central government organisations and 50 per cent of wider public sector organisations considered that the range of suppliers was either excellent or good, there is clear potential for OGCBuying.solutions to improve on this performance, and also to understand why central government views are consistently less favourable than the wider public sector.

2.25 From a suppliers' perspective, our focus groups identified significant concerns about the selection criteria used to select suppliers for framework agreements. The greatest concerns came from suppliers that had recently been through the major tendering of professional services framework agreements under the Catalist umbrella. They considered that the selection criteria were too heavily weighted towards price rather than experience and capability, with the potential risk of customers setting up their own framework agreements where their requirements were not met.

Half of the organisations surveyed rated the quality of service provided by suppliers as either excellent or good

2.26 Our surveys asked central government and wider public sector organisations to rate the quality of service provided by suppliers on OGCBuying.solutions' framework agreements and managed services. **Figure 14** outlines the results and shows that 49 per cent of central government organisations and 57 per cent of wider public sector organisations rate the quality of service as either excellent or good. Again, this indicates that there is significant potential for improvement by reducing the number of organisations that rate the performance of suppliers as satisfactory or poor.

OGCBuying.solutions needs to ask customers more frequently about supplier performance and provide suppliers with more information to enable them to improve performance

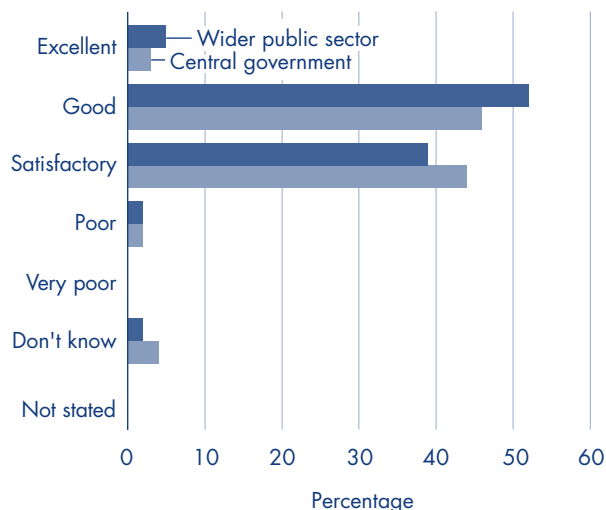
2.27 Our case study visits and supplier focus groups identified two key aspects of supplier performance management:

- obtaining customer feedback on the performance of suppliers; and
- providing suppliers with regular feedback on performance.

2.28 The primary method by which OGCBuying.solutions monitors the performance of suppliers is through a red, amber, green rating system, outlined in **Figure 15**.

14 Half of organisations rate the quality of service provided by suppliers as either excellent or good

How would you rate the overall quality of service received from OGCBuying.solutions' suppliers?



Source: National Audit Office survey results

NOTE

n = 325 (central government current customers = 103, wider public sector = 222).

15 OGCBuying.solutions' supplier groupings and rating system

OGCBuying.solutions groups its suppliers into three tiers. Tier 1 suppliers account for over 70 per cent of sales on a specific framework agreement and/or are of strategic importance to OGCBuying.solutions. Tier 2 suppliers account for over 25 per cent of sales on a specific framework agreement. Tier 3 suppliers make up the balance of suppliers.

The supplier rating system is made up of four categories:

Quality of customer service: 40 points

Responsiveness to OGCBuying.solutions: 20 points

Delivery of consistent low prices: 20 points

Provision of accurate and timely management information: 20 points

Review meetings are held twice a year with Tier 1 suppliers and once a year with the other two tiers. Prior to a review meeting approximately 10 per cent of customers are contacted via a questionnaire to determine the performance of the particular supplier. Responses are marked out of 40. These are added to the other three categories, which are determined internally by OGCBuying.solutions, to provide a score out of 100. Suppliers are then rated green (90-100 points), amber (70-89 points) or red (69 points or less).

Source: OGCBuying.solutions

2.29 Despite the supplier rating system, there are significant gaps in the way OGCBuying.solutions monitors the performance of suppliers. **Figure 16** shows that in central government, 57 per cent of organisations surveyed had never been asked about the performance of suppliers. In the wider public sector, the figure was higher at 68 per cent. The survey also asked customers whether they considered they were consulted enough by OGCBuying.solutions about the performance of suppliers. Four fifths (81 per cent) of central government organisations, 83 per cent in the wider public sector, considered consultation to be insufficient.

2.30 In respect of feedback to suppliers, our focus groups indicated that suppliers were either unaware of OGCBuying.solutions’ rating system or did not consider the red, amber and green rating helped them understand their performance and how to improve it. This included a number of the key ‘Tier 1’ suppliers. Compared with OGCBuying.solutions, some framework agreement operators, following collation and analysis of monthly management information provided by suppliers, provide feedback to those suppliers. This assists in improved performance and uptake of the framework agreement. This is the approach adopted by NHS Purchasing and Supply Agency (**Case Example 3**).

CASE EXAMPLE 3

NHS Purchasing and Supply Agency – supplier performance monitoring

NHS Purchasing and Supply Agency monitors the performance of suppliers against specific performance indicators built into the terms and conditions of its framework agreements, for example, delivery times. These are combined with customer surveys on supplier performance to form a set of key performance indicators. These key performance indicators are monitored on a quarterly basis with the results shared with suppliers.

The key performance indicators, together with sales volume data, are used to produce league tables to compare performance across suppliers on the same framework agreement. The league tables are discussed with suppliers to identify reasons for good/poor performance. Where poor performance is identified, NHS Purchasing and Supply Agency and the specific supplier will discuss ways to improve performance.

Source: NHS Purchasing and Supply Agency

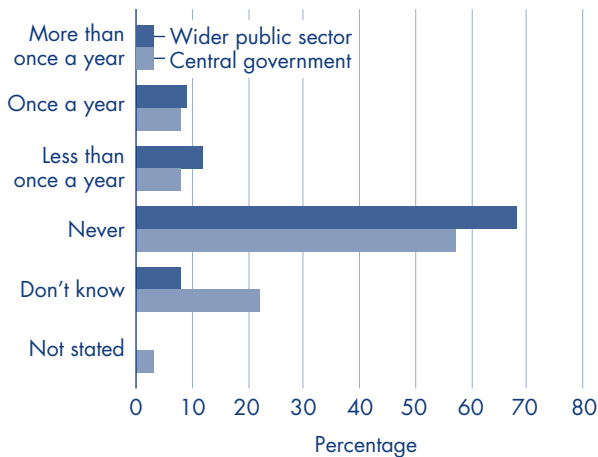
C) OGCBuying.solutions’ market penetration

2.31 Increasing the take up of OGCBuying.solutions’ products and services will improve value for money. By using OGCBuying.solutions, organisations avoid the need to let and manage their own framework agreements or tender for individual procurement contracts, resulting in reduced process costs. In addition, where OGCBuying.solutions’ prices are better than organisations can achieve elsewhere, this will reduce procurement spend. Our main findings here were:

- despite strong growth in sales in recent years, OGCBuying.solutions’ market penetration remains low compared to international comparisons;
- customers view reduced process costs as a key benefit of using OGCBuying.solutions and that OGCBuying.solutions could increase take up by demonstrating, through promotion of its research on the costs of letting and managing contracts, how much customers and non-customers could save;
- that, in addition to cheaper prices, more consultation with customers and an improved website were key improvements that would increase take up;
- clearer information on how to use OGCBuying.solutions and improved marketing is key to converting non-customers to customers; and
- the majority of customers are not using the service provided by OGCBuying.solutions which identifies Quick Win products on its framework agreements.

16 The majority of customers have not been asked about the performance of suppliers

How often does OGCBuying.solutions ask your organisation for feedback on the performance of suppliers on its framework agreements and managed services?



Source: National Audit Office survey results

NOTE

n = 325 (central government current customers = 103, wider public sector = 222).

OGCbuying.solutions has seen significant sales growth since 2001-02

2.32 As shown in **Figure 17**, OGCbuying.solutions' customer spend grew from £1,008 million²¹ in 2001-02 to £2,795 million in 2005-06. In 2005-06, over 6,600 organisations registered spend through OGCbuying.solutions. Of these, the top 200 organisations accounted for approximately 70 per cent of customer spend.

Despite the strong growth in sales, market penetration remains low

2.33 Based on our survey evidence, central civil government spend through OGCbuying.solutions represents approximately five per cent of total central civil government procurement spend.²² If spend not covered by OGCbuying.solutions' product range, such as major capital projects (for example, road building), is excluded, OGCbuying.solutions' share of central civil government spend is still only 10 per cent.²³ For the wider public sector²⁴ we estimate that spend through OGCbuying.solutions accounts for under one per cent of total

procurement spend, although there is greater competition for the wider public sector market and OGCbuying.solutions is not the only channel in this sector.²⁵

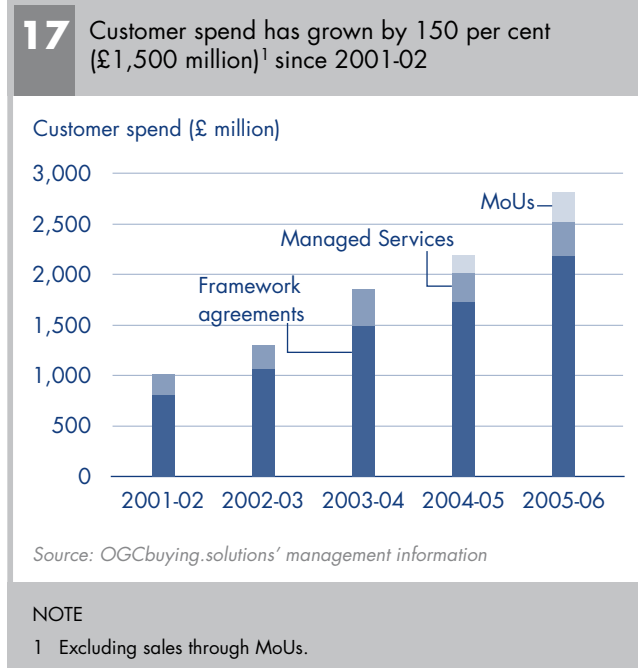
2.34 Compared to OGCbuying.solutions, examples from elsewhere in Europe show a higher market penetration. SKI in Denmark has achieved a market penetration across the whole public sector of approximately 15 per cent, while CONSIP in Italy, whose use by some Italian public sector organisations has been mandated until recently, has achieved market penetration of approximately 30 per cent.²⁶

2.35 Suppliers who attended our focus groups also considered that there was significant potential to increase sales by, for example, increasing OGCbuying.solutions' consultation with customers.

Most central government organisations are not making informed decisions about the value of using OGCbuying.solutions since they do not know their costs of letting and managing contracts

2.36 Our survey asked both central government and wider public sector organisations what benefits they had identified through using OGCbuying.solutions' framework agreements and managed services (**Figure 18 overleaf**).²⁷

2.37 While process cost saving, through faster procurement and reduced administration costs, were identified by customers as a key benefit of using OGCbuying.solutions, our survey identified that 87 per cent of central government organisations surveyed had not made an assessment of the costs of letting and managing contracts. OGCbuying.solutions is currently undertaking detailed analysis with five central government organisations to determine the cost of letting and managing contracts. The results of this analysis would provide public sector organisations with valuable information and help them make informed decisions about when to undertake their own procurements and when to use collaborative methods, such as OGCbuying.solutions.



²¹ This excludes sales through MoU as no data is available for years before 2004-05.

²² OGCbuying.solutions' management information showed that the central government organisations surveyed spent £1,035 million through OGCbuying.solutions in 2005-06, representing approximately 80 per cent of total central civil government spend through OGCbuying.solutions. Our survey showed that the total procurement spend of these organisations was approximately £20,200 million in 2005-06.

²³ Our survey showed that the total procurement spend in areas covered by OGCbuying.solutions' framework agreements and managed services was approximately £10,700 million in 2005-06.

²⁴ Local government, health, education and emergency services.

²⁵ We did not collect data on the procurement spend in the wider public sector, but total procurement spend has been estimated by the Office of Government Commerce at approximately £100,000 million. Total wider public sector spend through OGCbuying.solutions in 2005-06 was £720 million.

²⁶ Figures for both SKI and CONSIP are for market penetration in areas covered by their product range.

²⁷ Respondents were given a list of nine benefits with an option to add additional benefits if the nine benefits listed did not match their experience. They were asked to choose all options that were applicable.

More consultation is vital to increase take up by existing customers

2.38 Our survey asked both central government and wider public sector organisations to identify three key improvements that OGCBuying.solutions could make which would have the greatest impact on their use of OGCBuying.solutions.²⁸ **Figure 19** shows the most commonly expressed views of where most improvement could be secured.

2.39 Beyond competitive prices, covered earlier in this section, customer consultation was seen as the next most critical element to increasing take up of OGCBuying.solutions' products. This was also a key issue raised at our supplier focus groups. In addition, all of our case study organisations highlighted the importance of customer consultation as a key way of ensuring customer buy-in to new framework agreements (**Case Example 4**).

2.40 While 41 per cent of the central government departments surveyed considered that they were consulted enough on new framework agreements and managed services, only 15 to 20 per cent of the other categories of organisation felt they were consulted enough (**Figure 20 on page 26**). When asked whether more consultation would make them use OGCBuying.solutions more, 62 per cent of central government organisations and 70 per cent of wider public sector organisations thought they would use OGCBuying.solutions more frequently than now if consulted more. OGCBuying.solutions has recently established a Customer Steering Group to increase consultation with customers. However, the representation on the group is primarily from central government departments. In addition, OGCBuying.solutions has recently introduced a new customer value survey which provides detailed information about customer concerns, but this does not cover customer consultation on requirements for specific framework agreements.

OGCBuying.solutions' website requires urgent improvement

2.41 In discussions with OGCBuying.solutions, it was clear that it recognised the problems with its website and had received feedback from customers that the website needs to be more intuitive. Making the website user friendly should be relatively straight forward (a 'quick win') and should be seen as a priority as it appears to be a significant barrier to increasing take up. OGCBuying.solutions has a website improvement programme which is currently in its third phase of website enhancement. Customer feedback on why they find it difficult to use the website should form a central part of this programme.

²⁸ Respondents were asked to choose three options from a list of 18 possible improvements and they also had the opportunity to specify their own options if none of the 18 options were relevant to their experiences.

18 Top three benefits of using OGCBuying.solutions

Benefit	Percentage of organisations ¹ that selected the option as a benefit of using OGCBuying.solutions %
Compliance with European Union/ public procurement legislation	93
Faster procurement	82
Reduced admin costs	75

Source: National Audit Office central government (current customers) and wider public sector surveys

NOTES

¹ Combined percentage across central government and wider public sector organisations.
n = 325 (central government = 103, wider public sector = 222).

19 Key improvements that would increase sales with existing customers

	Percentage of organisations ¹ that selected the option as one of their three key improvements %
More competitive prices	54
More consultation on new framework agreements and managed services	29
Easier to use website	29

Source: National Audit Office central government (current customers) and wider public sector surveys

NOTES

¹ Combined percentage across central government and wider public sector organisations.
n = 325 (central government = 103, wider public sector = 222).

To attract new customers requires better communication from OGCBuying.solutions

2.42 Our survey asked non-customers (both central government and the wider public sector) what actions OGCBuying.solutions could take to make them use OGCBuying.solutions. The top two categories of responses made up 40 per cent of responses. They are outlined in **Figure 21 on page 26**.

CASE EXAMPLE 4

Examples of customer consultation from case study organisations

NHS Purchasing and Supply Agency: NHS Purchasing and Supply Agency holds regular Commodity Advisory Group meetings with end users of specific framework agreements. The level and type of consultation differs depending on the specific commodity area. For example, in some clinical categories, end users are frequently representatives of patient groups such as the Limbless Association. For more general product areas such as cleaning equipment, nominated representatives from individual NHS Trusts may sit on the advisory group on an ad hoc basis for a specific purpose (for example, product testing). NHS Purchasing and Supply Agency considers high levels of consultation as key to enabling it to secure volume commitment when tendering new framework agreements and increase customer take up.

Inter Agency Procurement Services Office: The United Nations Development Programme's procurement organisation, Inter Agency Procurement Services Office, undertakes consultation with customers and stakeholders (such as donor countries or the European Commission) prior to setting up new framework agreements. In particular, it regularly visits the United Nations Development Programme's country offices, to discuss procurement needs with those managing specific programmes and projects. The Inter Agency Procurement Services Office has found that this level of engagement enables it to build relationships, and develop framework agreements and procurement strategies that customers will be more likely to use.

SKI: SKI, the Danish national procurement organisation, uses Customer Advisory Boards to consult with customers when setting up new framework agreements. The advisory boards typically meet on three occasions prior to SKI letting a new framework agreement. SKI

considers that this approach has allowed it to develop framework agreements to meet customer requirements and secure customer volume commitment on a number of new framework agreements.

Yorkshire Purchasing Organisation: Yorkshire Purchasing Organisation, a local government buying consortium, establishes Expert Panels when setting up new framework agreements. The panels are made up of product specialists. The panels meet frequently during the development and early years of a framework agreement providing Yorkshire Purchasing Organisation with customer input on the design and management of its framework agreements.

Research Councils' Procurement Organisation: The Research Councils' Procurement Organisation plays a leading role on a number of National Working Groups in the higher education sector. The working groups are made up of commercial and technical representatives from the regional higher education procurement consortia together with representation from the Research Councils' Procurement Organisation. The working groups determine the procurement strategy for a range of commodities and services including laboratory supplies, IT, electronics and photocopiers. They also provide an opportunity for benchmarking and consultation across the sector to determine user requirements for framework agreements.

CONSP: CONSP, the Italian national procurement organisation, has trained a number of CONSP experts to act as a permanent point of contact on-site with its major customers. These on-site experts enable customers to use CONSP more effectively. CONSP considers that the use of on-site experts allows it to consult with customers and understand their requirements.

See Appendix 2 for a full case study of each of the organisations.

2.43 These are customer communication issues, some of which could be addressed through better website design and others through marketing strategy. The wider challenge for OGCBuying.solutions is to break down established procurement practices by demonstrating its value to non-customers through, for example, continuing to target non-customers with its 'Great Deals' marketing campaign and highlighting the process cost savings available through using OGCBuying.solutions.²⁹

Facilitating the achievement of sustainability policy objectives is an opportunity for OGCBuying.solutions to increase take up

2.44 The publication of the Sustainable Procurement National Action Plan³⁰ has raised the profile of sustainable procurement and is likely to lead to an increased demand for products that meet minimum sustainability criteria such as Quick Win products.

2.45 The Environmental Audit Committee recommended in its report³¹, published in March 2006, that OGCBuying.solutions' sustainable solutions website should be up and running as soon as possible. This followed a recommendation in the National Audit Office's report on sustainable procurement³² that OGCBuying.solutions should make it easier for departments to procure products meeting the Quick Win specification through its website.

2.46 The sustainable solutions website is now up and running and covers OGCBuying.solutions' work in this area such as the new memorandum of understanding signed between OGCBuying.solutions and the Disposals Services Agency, case study examples of sustainable procurement, environmental legislation and an information service on products on its framework agreements that meet the Quick Win sustainability criteria.

29 'Great Deals' is a marketing campaign which began in the summer of 2006 and outlines 10 deals provided by OGCBuying.solutions that are considered to be particularly good value for money. It continued with a second phase in the autumn of 2006 with plans for a further campaign each quarter highlighting current deals available from OGCBuying.solutions.

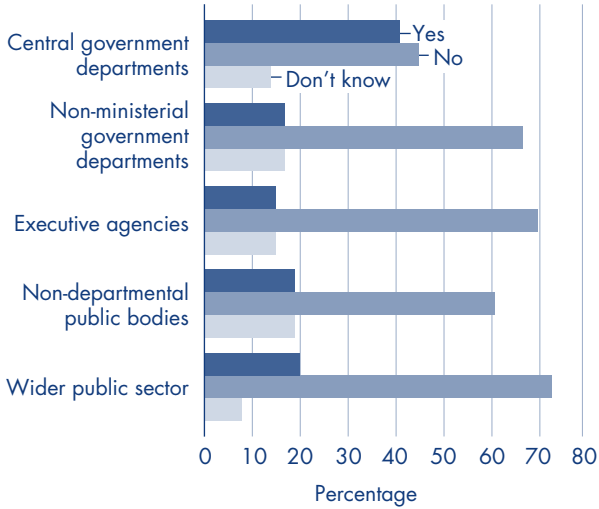
30 Sustainable Procurement Task Force (2006) *Procuring the Future, Sustainable Procurement National Action Plan: Recommendations from the Sustainable Procurement Task Force*. Department for Environment, Food and Rural Affairs.

31 Environmental Audit Committee (2006) *Sustainable Procurement: The Way Forward*, HC 740 Session 2005-2006, 8 March 2006. London: The Stationery Office.

32 National Audit Office (2005) *Sustainable Procurement in Central Government*, September 2005.

20 Consultation is skewed towards central government departments

Does OGCBuying.solutions consult your organisation enough when letting new framework agreements and managed services?



Source: National Audit Office survey results

NOTE

n = 325 (central government current customers = 103, wider public sector = 222).

21 What one action could OGCBuying.solutions take to make you use it?

Action	%
Provide clearer information on how to contact and use OGCBuying.solutions – names, email addresses, reference points, easier to use online catalogues	21
Provide more marketing information. For example, on new contracts/special offers	19

Source: National Audit Office non-customer survey

NOTE

n = 104.

2.47 Our survey asked central government and wider public sector organisations to what extent they used the OGCBuying.solutions Quick Win service (Figure 22). Whilst 50 per cent of central government departments use the service, the percentage is less across other organisation categories with, for example, only five per cent of wider public sector organisations using the service. In central government, 41 per cent of organisations that were not using the service had not heard of the Quick Win service provided by OGCBuying.solutions. In the wider public sector, the figure was higher at 71 per cent.

D) The potential for OGCBuying.solutions to bring about a step change in performance by focusing on a core set of products and aligning staff skills

2.48 Our examination of three key areas of OGCBuying.solutions’ value for money performance (price competitiveness, supplier management and market penetration) indicates that there is significant potential for improvement.

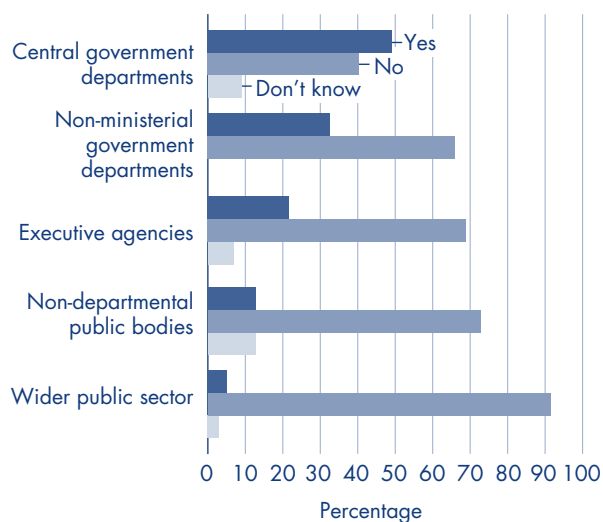
A more focused approach would improve the performance of a core set of products

2.49 As already discussed, 91 per cent of sales are undertaken through only 25 per cent of framework agreements. The other 75 per cent of framework agreements are contributing very little in terms of sales and value for money. Indeed, up to 40 per cent of framework agreements, with the lowest volume, appear to be not covering their letting and managing costs based on sales figures for 2005-06 and OGCBuying.solutions’ internal costs of letting and managing contracts.³³ In addition, there is an opportunity cost of continuing to operate this large number of low volume framework agreements with resources being directed away from letting and managing the top 25 per cent of framework agreements effectively.

³³ Based on OGCBuying.solutions’ cost of letting an SCat and GCat contract of £65,000, a four year framework contract period and an average commission rate of one per cent. SCat and GCat are old brand names used by OGCBuying.solutions for its framework agreements covering goods and services.

22 The majority of organisations are not using OGCBuying.solutions' Quick Win service

Does your organisation use the following OGCBuying.solutions services – environmental Quick Win products?



Source: National Audit Office survey results

NOTE

n = 325 (central government current customers = 103, wider public sector = 222).

2.50 OGCBuying.solutions established a Product Development Gatekeeper Group in April 2004 to determine the appropriate portfolio of products. The focus of the group has been on assessing the feasibility of new products and the availability of resources to take them forward. We consider that this group could be re-focused to make a strategic assessment of the overall portfolio of products offered by OGCBuying.solutions.

2.51 This report has highlighted four activities that are key to ensuring that framework agreements are let and managed effectively:

Contract letting/re-letting:

- consultation with customers to ensure framework agreements meet customer requirements and ensure customer buy-in, resulting in increased customer volume commitment and take up of the framework agreement post letting; and

- consultation with suppliers and supplier organisations such as Intellect³⁴ to ensure the costs of tendering are minimised and to understand supplier capabilities.

Contract management:

- regular price reviews to keep prices competitive with market prices; and
- continuous supplier monitoring and feedback to improve supplier performance.

2.52 A rationalisation of framework agreements would enable OGCBuying.solutions to undertake these activities effectively across a more focused portfolio of framework agreements, managed services and memoranda of understanding.

Staff skills would need to be aligned with a more focused approach

2.53 Our interviews with senior managers within OGCBuying.solutions and our supplier focus groups highlighted that staff skills in certain areas required augmenting. In particular, OGCBuying.solutions' senior managers considered that there is a need for more commercial skills (for example, the ability to negotiate contracts with senior management of multi-national supplier organisations), better marketing skills and individuals with private sector knowledge of individual product markets. Suppliers also identified these areas as skill shortages. However, they identified the lack of communication skills as the key skill shortage and this significantly hampered the development of an effective working relationship between OGCBuying.solutions and suppliers and made suppliers question the ability of OGCBuying.solutions to market suppliers' products effectively.

2.54 A more focused approach would make these skill shortages more acute, with workload moving away from standard procurement tasks across a wide range of framework agreements towards the management of a smaller number of strategically important framework agreements and managed services involving frequent engagement with supplier organisations at a senior management level; a detailed knowledge of each product market; and wider engagement with customers at both senior and working level.

34 Intellect is the trade sector body for UK high tech industry.



PART THREE

Is OGCBuying.solutions' position within the public sector procurement landscape providing value for money?

3.1 The wider public sector procurement landscape is complex with a large number of procurement organisations/buying consortia, and thousands of individual purchasers. This complexity is resulting in an erosion of value for money in two ways:

- Organisations are paying more than they should for goods and services. Competing framework agreements are diluting the potential for aggregation, resulting in higher framework agreement prices.³⁵ In addition, the lack of information about open framework agreements and price benchmarking is making it difficult for organisations to assess where the best deals are.
- Organisations are incurring unnecessary procurement process costs. The duplication of framework agreements, or organisations tendering for contracts when they could have accessed existing framework agreements to purchase goods/services, is increasing the process costs of procurement across the public sector.

3.2 Value for money will be enhanced through increasing co-ordination, reducing duplication of procurement effort and ensuring public sector organisations are aware of where to get the best deals. Positioning OGCBuying.solutions correctly within this landscape will be a key to improving value for money.

The public sector procurement landscape is unco-ordinated

3.3 In addition to OGCBuying.solutions, there are currently over 50 procurement organisations across the public sector procurement landscape (**Figure 23**). Many of these have particular expertise in certain product/service areas and purchase products/services that are unique to their customers (for example, medical supplies). However, there is also significant duplication both amongst themselves and, more specifically, with OGCBuying.solutions, with many operating framework agreements in the same product/service areas.

3.4 In addition to these procurement organisations, individual government departments, their executive agencies and non-departmental public bodies and organisations in the wider public sector also set up and operate their own framework agreements. Our survey found that around 2,300 framework agreements are currently operated by the central government organisations surveyed, 63 per cent of which are in the broad product/service areas covered by OGCBuying.solutions (**Figure 24**).³⁶ Suppliers who attended our focus groups also identified the duplication of framework agreements across the public sector as significant and that this is having an effect on their costs and, as a consequence, the prices they charge customers.

³⁵ Procurement strategy and sourcing decisions on whether to seek aggregated supply should be taken on a case-by-case basis. The advantages and disadvantages of each option should be assessed in the light of the individual requirement, the capability and capacity of the buyer organisation(s), the wider government agenda and the features of the commercial marketplace. It may be important, for example, to ensure that a competitive supply market is safeguarded for the future. Taken from, 'Aggregation – Is bigger always better?', Office of Government Commerce brochure.

³⁶ We asked respondents to break down the framework agreements they operate into six categories as outlined in Figure 24. The categories information technology, professional services, telecommunications, facilities management and energy are broadly the product/service areas covered by OGCBuying.solutions.

3.5 OGCBuying.solutions does co-ordinate some of its activities with other procurement organisations, government departments and wider public sector organisations (see Figure 25 for examples). However, the majority of its products and services are in competition with similar products and services provided by other procurement organisations, government departments and wider public sector organisations.

23 Types of procurement organisations

Local authority joint committee buying consortia: Local authorities pool their procurement activities in a joint committee under section 101 (5) of the Local Government Act 1972. The joint committee sets policy and oversees operations. Usually the staff are grouped in a single organisation, as employees of a servicing authority. For example, Yorkshire Purchasing Organisation's (YPO) servicing authority is Wakefield Metropolitan Borough Council.

Local authority buying consortia without joint committee: Authorities agree to collaborate according to agreed protocols covering the scope of collaboration and risk sharing.

Higher education regional purchasing consortia: UK universities have traditionally organised themselves into regional purchasing consortia to negotiate with suppliers, for supplies of commonly used goods and services.

NHS procurement organisations: Within the NHS there are a number of levels of collaborative procurement. NHS Purchasing and Supply Agency is responsible for operating framework agreements for national strategic contracts. Collaborative Procurement Hubs or Supply Management Confederations procure goods and services for groups of NHS Trusts and Primary Care Trusts at a regional and local level.

Defence procurement organisations: There are two organisations, The Defence Logistics Organisation (DLO) and the Defence Procurement Agency (DPA).

Other specialist procurement organisations: A number of procurement organisations have been set up to service specific sectors of the wider public sector. For example, Firebuy for the fire service, Procurement Excellence in the Police Service and the Research Councils' Procurement Organisation.

A list of organisations is contained in Appendix 3.

Source: National Audit Office

24 Central government departments, executive agencies and non-departmental public bodies are operating a large number of framework agreements

	Number of framework agreements
Information technology	129
Professional services	1,032
Telecommunications	50
Facilities management	209
Energy	37
Other	842
Total	2,299

Source: National Audit Office central government survey (current customers and non-customers)

NOTE

n = 121.

25 OGCBuying.solutions is co-ordinating with a number of other procurement organisations

Defence Logistic Organisation: OGCBuying.solutions has transferred its liquid fuels portfolio to the Defence Logistics Organisation who manages the supplier and procurement activity on behalf of OGCBuying.solutions' Energy Managed Services customers.

Yorkshire Purchasing Organisation: A number of OGCBuying.solutions' framework agreements/MoUs are listed in Yorkshire Purchasing Organisation's framework catalogues. These include: Software MoUs, BT Premier Value, the mobile phone framework agreement and the framework agreement for multi functional products.¹

NHS Purchasing and Supply Agency: NHS Purchasing and Supply Agency and OGCBuying.solutions co-ordinate activity in a number of areas. In addition, NHS Purchasing and Supply Agency will signpost users to OGCBuying.solutions' framework agreements via its catalogue when a NHS Purchasing and Supply Agency framework agreement does not exist. For example, NHS Purchasing and Supply Agency signposts NHS users to the OGCBuying.solutions' framework agreement for flooring. NHS Purchasing and Supply Agency and OGCBuying.solutions worked collaboratively on other joint framework agreements such as water coolers.

Research Councils' Procurement Organisation: The Research Councils' Procurement Organisation uses a number of OGCBuying.solutions' framework agreements and managed services.

Source: OGCBuying.solutions

NOTE

¹ Multi Function Products are, for example, photocopiers with printing and fax facilities.

There is a lack of information about where to find the best deals

3.6 A number of framework agreements operated by departments or procurement organisations are open to other public sector organisations to use. For example, the Department for Work and Pensions operates a framework agreement (Consultancy Interim Personnel Human Resources – CIPHER) which is open to, and used by, other public sector organisations. However, our surveys showed that more than half (55 per cent) of both central government and wider public sector organisations did not have a clear view of the full range of framework agreements they could access. Our survey also highlighted the importance of centrally available information to achieving value for money. Of five potential actions to increase value for money, organisations in our survey cited information on framework agreements open to public sector organisations, price benchmarking and where to obtain the best deals as the most important (**Figure 26**).

3.7 The Office of Government Commerce is currently working on a contracts database containing information on contracts and framework agreements open to organisations from around the public sector. A pilot site is currently available on the Office of Government Commerce website and a formal launch is planned for late 2006.

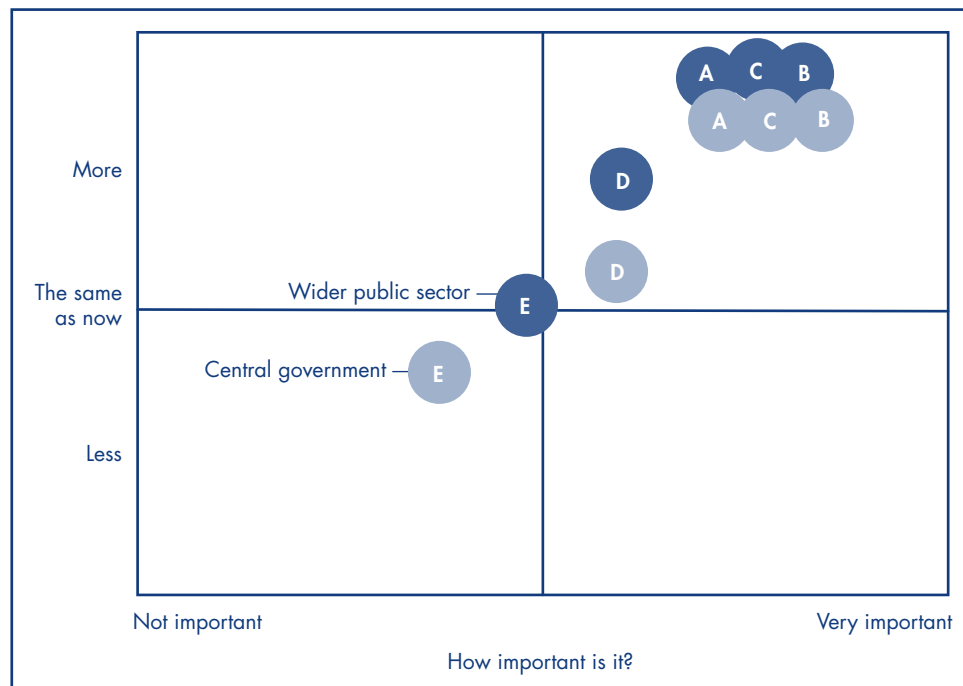
The lack of co-ordination and information is resulting in a wide variation in prices and unnecessary process costs

3.8 As already highlighted, the lack of co-ordination and information is increasing prices paid by public sector organisations and resulting in a duplication of effort leading to unnecessary process costs. To illustrate the price variations, our central government survey asked organisations for the prices they paid for a number of products in 2005-06 (**Figure 27**). Prices vary greatly.

26 Information on framework agreements open to public sector organisations and price benchmarking are important to improve value for money

Should there be more?

- A Centrally available data on price benchmarking
- B Centrally available information on frameworks agreements which are open to public sector organisations
- C Centrally available information on where the 'best deals' are
- D Central co-ordination of the different buying agencies in central and local government
- E Central mandating for the use of the 'best deals'



Source: National Audit Office survey results

NOTE

n = 343 (central government current customers and non-customers = 121, wider public sector = 222).

3.9 To illustrate the duplication of effort, we examined the Official Journal of the European Union procurement contract notices (OJEU)s³⁷ issued in the United Kingdom during 2005 and assessed what proportion of organisations could have used an OG buying.solutions' framework agreement rather than tendering their own contract. Of 22,000 notices issued in the United Kingdom during 2005, our analysis provides an indication that 29 per cent (6,380 OJEU)s could have used an OG buying.solutions' framework agreement³⁸ rather than going through the full European Union procurement tendering exercise. OG buying.solutions uses a figure of £65,000 (based on its own cost of letting a contract) as the cost of letting a contract under European Union procurement rules.³⁹ Using the results of our OJEU analysis and the figure of £65,000, this one element of duplication incurs an estimated £415 million per annum in unnecessary process costs across the public sector. Furthermore, there is an opportunity cost of procurement professionals running procurement tendering exercises rather than adding value through, for example, managing contracts more actively.

Any rationalisation of framework agreements would need to be managed to maximise value for money

3.10 Any programme of framework agreement rationalisation within OG buying.solutions and across the public sector would need to be managed carefully from both the customer and supplier perspectives. Customers using an existing OG buying.solutions' framework agreement that did not form part of the planned set of national framework agreement would need to be provided with alternative framework agreements so they did not unilaterally set up their own framework agreements or contracts on an ad hoc basis resulting in an increase in process costs and potentially less competitive prices. Similarly, suppliers would need sufficient time to manage the transition from OG buying.solutions to new framework agreement providers. The Yorkshire Purchasing Organisation helps its customers manage the transition when discontinuing a framework agreement (Case Example 5).

27 Prices paid for the same product show significant variation

	Price range ¹	Price variation (highest price above lowest price) %
Toner cartridge (per cartridge) ²	£41 to £89	117
Electricity (day rate p/kWh)	4.8p to 8.3p	73
Box of 5 x 500 sheet A4 (80g/m ²) 100% recycled white paper (per box)	£6.95 to £14.95	115
Post-it notes 76mm x 76mm yellow recycled (pack of 12) (£ per pack) ³	£4.41 to £10.55	139

Source: National Audit Office central government survey (current customers and non-customers)

NOTES

1 The price range excludes outliers. In addition, whilst we have tried to ensure a comparison of like-for-like products, some of the price variation may be due to differing product specifications.

2 For the toner cartridge, we specified a specific type of printer.

3 For the post-it notes we specified a specific manufacturer.

n = 121.

CASE EXAMPLE 5

Yorkshire Purchasing Organisation – managing the transition when discontinuing a framework agreement

Yorkshire Purchasing Organisation actively manages its portfolio of framework agreements using activity based costing. Where framework agreements are not covering the letting and managing costs, Yorkshire Purchasing Organisation may decide to discontinue the framework agreement.

When a framework agreement is discontinued, Yorkshire Purchasing Organisation consults with customers that use the framework agreement to manage the transition to alternative arrangements. This may involve holding the framework agreement open to allow customers the time to let their own framework agreement and providing procurement support to customers during the tendering process.

Source: Yorkshire Purchasing Organisation

37 Any contract for the procurement of goods and services over the value of £93,738 has to be advertised in the Official Journal of the European Union and accord with European Union procurement rules. For works the threshold is £3,611,319.

38 We took a sample of 290 OJEU notices which provides a level of precision of +/- 5 per cent with a confidence interval of 90 per cent.

39 The Office of Government Commerce estimates the administrative cost of tendering for a minor public sector catering contract via the Official Journal of the European Union to be £30,000 (while the cost of a complex contract is estimated as £165,000).

A co-ordinated landscape would need to be supported by improved information

3.11 Our analysis has highlighted the importance of information. A more co-ordinated landscape would need to be supported by an improved information structure, with organisations having easy access to a list of open framework agreements and price benchmarking information. Better information would make organisations less likely to set up their own framework agreements or to undertake unnecessary contract tendering. In addition, price benchmarking would ensure that when using a framework agreement, organisations would be aware of current prices being paid when negotiating with suppliers.

OGCbuying.solutions' targets should provide it with the incentive to drive performance across all of its activities

3.12 Our analysis of the public sector procurement landscape highlights a number of areas for improvement including better co-ordination of the landscape, more information on what deals are available and price benchmarking information. At present OGCbuying.solutions' targets are not designed to provide it with incentives to undertake these wider value for money activities. For example, OGCbuying.solutions has targets to make a return on capital employed of 6.5 per cent and to facilitate value for money savings for the wider public sector through the use of its services. Wider co-ordination activities would require additional resources and would not necessarily increase the value for money savings that could be claimed by OGCbuying.solutions.

3.13 In addition, there are a group of products that do not earn significant revenue for OGCbuying.solutions, but do have the potential to significantly increase value for money savings across the public sector, for example, the Government Procurement Card, memoranda of understanding and Zanzibar.⁴⁰ The Office of Government Commerce (in conjunction with OGCbuying.solutions, its customers and suppliers) should review the resourcing, marketing and pricing strategy of these products in order to maximise the take up and value for money savings secured across the public sector.

Positioning OGCbuying.solutions as the holder of a portfolio of nationally recognised framework agreements, managed services and memoranda of understanding

3.14 In October 2005, the Cabinet asked the Office of Government Commerce to:

- take a more planned and directive approach to public sector procurement; and
- embed this approach to provide sustainability for procurement into the Comprehensive Spending Review 2007.

3.15 On 6 December the Chancellor announced the following in his Pre Budget Report⁴¹: "To ensure high quality public service, value for money and spending in a sustainable way, the Government will need to maximise the opportunities that businesses can offer through their commercial expertise and ability to innovate. The Government has already made improvements in its procurement capability in recent years. To make the step-change required to further harness business expertise, the Government will shortly announce detailed plans to transform government procurement."

3.16 OGCbuying.solutions is well placed to take on the role as the holder of a portfolio of nationally recognised framework agreements, managed services and memoranda of understanding. The Office of Government Commerce and OGCbuying.solutions are already working closely together in a number of areas, for example, investigating the potential for strategic sourcing of energy across government.

3.17 Were OGCbuying.solutions to become the holder of nationally recognised framework agreements, managed services and memoranda of understanding, then our analysis indicates that it will need to enhance its skill base and target its resources to drive performance across this more focused portfolio.

⁴⁰ The Zanzibar Managed Service is the new purchase to pay system and e-marketplace available to the whole of the UK public sector, extending to any organisation subject to European Union procurement rules.

⁴¹ *Pre Budget Report: Investing in Britain's potential: building our long term future* (6 December 2006) page 141, chapter 6.

APPENDIX ONE

Methodology

Our methodology consisted of:

Survey of central government organisations

1 We surveyed 132 central government organisations. Of the 132 organisations surveyed, we received responses from 122 (92 per cent). Ten of the 122 organisations were covered by a number of consolidated responses where organisations shared procurement functions. One response of the 122 was received after the cut-off date for data entry and does not form part of the reported results. **Figure 28** shows how the organisations were classified.

2 Of the organisations surveyed, 103 (85 per cent) were customers of OGCBuying.solutions. The 103 customers were covered in 93 survey returns which included the ten consolidated responses. All central government percentage calculations are based on the 93 returns. For customers, the survey included fact-based questions about the organisation's overall procurement spend, the proportion spent on various product and service categories, the methods of procurement used, and the price paid for certain core goods such as energy and printer toner cartridges. It also included a number of questions asking for respondents' opinions about specific elements of the OGCBuying.solutions service such as the help-desk, the website, and the level of customer

28 Central government survey responses		
	Respondents	%
Central government department	22	18
Non-ministerial government department	8	7
Executive agency	40	33
Non-departmental public body	44	36
Other	7	6
Total	121	100

Source: National Audit Office central government survey

engagement, as well as a section asking for examples of improvements that OGCBuying.solutions could make to encourage respondents to use its services more.

3 Of the organisations surveyed, 18 (15 per cent) were non-customers of OGCBuying.solutions, as they had not used OGCBuying.solutions' products and services in the previous two years. These respondents were asked the same set of questions as customers about their overall procurement activity, together with a section which asked why they did not use OGCBuying.solutions.

4 A final section asked both sets of respondents about the availability of information across the wider public sector procurement landscape.

Survey of wider public sector organisations

5 The National Audit Office commissioned FDS International to conduct a telephone survey of customers of OGCBuying.solutions from the wider public sector (NHS trusts, emergency services and local government administrations). In total, representatives of 222 customers were interviewed. **Figure 29** shows the breakdown by respondent type.

29 Wider public sector survey responses		
	Respondents	%
Health	91	41
Local government	80	36
Emergency service	51	23
Total	222	100

Source: National Audit Office wider public sector survey

6 This survey did not ask respondents questions about their overall procurement activity, such as procurement spend, but restricted questions to their opinions of using OGCBuying.solutions. In order to be consistent, and to allow comparison across central government and the wider public sector, the questions in the telephone survey replicated those from the survey of central government departments.

Survey of non-customers of OGCBuying.solutions

7 The National Audit Office also commissioned FDS International to conduct a telephone survey of non-customers of OGCBuying.solutions across both central government and wider public sector organisations. A total of 104 interviews were conducted, 48 with central government organisations and 56 with wider public sector organisations. Respondents were asked to provide reasons why they do not use OGCBuying.solutions and what one action OGCBuying.solutions could take to encourage non-customers to use OGCBuying.solutions.

Case study examination

8 Six public sector procurement organisations from the UK and overseas were examined to produce case studies with examples of practice which had improved procurement performance. In five cases, face-to-face semi-structured interviews with senior management were recorded and reviewed, and corporate information and statistical evidence was analysed. In the sixth case (CONSIP), written answers to the case study questions were provided. Three case study organisations are based in the United Kingdom, two are the principal public sector procurement organisations in countries in the European Union, and the sixth provides procurement services to agencies of the United Nations.

Focus groups with suppliers

9 Ipsos MORI was asked to administer five focus groups with suppliers that provide products and services to the public sector through OGCBuying.solutions' framework agreements and managed services. The discussion topics for the groups were designed by the National Audit Office in consultation with Ipsos MORI. A total of 42 companies from sectors including legal services, information technology (IT) consultancy, business consultancy, banking and office supplies attended the five groups. The five focus groups comprised different categories of supplier:

Group 1 – Tier 1 suppliers: suppliers that account for over 70 per cent of sales on a specific framework agreement and/or are of strategic importance to OGCBuying.solutions.

Group 2 – Tier 2 suppliers: suppliers that account for over 25 per cent of sales on a specific framework agreement.

Group 3 – Tier 3 suppliers: suppliers that make up the balance of suppliers.

Group 4 – Small and medium sized organisations.

Group 5 – Suppliers based in the North West of England (from all tiers of suppliers and SMEs)

10 The discussion guide covered five specific topic areas:

- An overview of working with OGCBuying.solutions.
- What can be done to offer customers better prices.
- What can be done to increase customer take up of OGCBuying.solutions' products.
- How can OGCBuying.solutions work with suppliers to improve the suppliers' offer to customers.
- Supplier views on the wider public sector procurement landscape.

Detailed analysis of OGCBuying.solutions' management information

11 OGCBuying.solutions' management information, including customer sales data and price benchmarking data, was analysed by the National Audit Office. OGCBuying.solutions' 'data warehouse' was used to extract time series customer sales data. It was also used to provide a breakdown of customer spend across different customer groups and across OGCBuying.solutions' products. The National Audit Office met with the lead price benchmarking contractor to discuss the methodology used to undertake the annual price benchmarking exercise.

Semi-structured interviews with OGCBuying.solutions' staff

12 Semi-structured interviews with key members of OGCBuying.solutions' staff were conducted by the National Audit Office. In total, 15 interviews were held, each lasting approximately two hours. Interviews were held with the heads of each of OGCBuying.solutions' Directorates – Framework Agreements, Managed Services, Customer Relations and Corporate Services. Interviews were also held with team leaders across various product areas.

OJEU notices

13 OGCBuying.solutions reviewed a sample of 290 (of the 22,027) OJEU notices posted by public sector bodies in the United Kingdom during 2005. For each OJEU notice reviewed, OGCBuying.solutions made a judgement whether the organisation issuing the notice could have avoided undertaking the full OJEU process by using an OGCBuying.solutions' framework agreement. The sample size of 290 provides a level of precision of +/- 5 per cent with a confidence interval of 90 per cent. A sample of the OJEU notices reviewed by OGCBuying.solutions was checked by the National Audit Office.

Calculation of price savings potential

14 Our analysis of three professional services framework agreements indicated that the following average price reductions would result if the prices for all staff categories at least matched the lowest 25 per cent of prices.

- Applications development: four per cent.
- Business and management consultancy: 12 per cent.
- Body Shop: 19 per cent.

15 These percentages were used to calculate the resulting value for money savings for these three framework agreements based on sales in 2005-06.

16 For the remaining framework agreements in the top 25 per cent of framework agreements (by volume), the following percentages were used to calculate the price savings potential:

- All other IT framework agreements: four per cent.
- All other professional services framework agreements: 16 per cent (based on the average of the Management and Business Consultancy and Body Shop framework agreements).
- All telecommunications and facilities management framework agreements: 10 per cent (based on average between IT framework agreements [four per cent] and professional services [16 per cent]).

APPENDIX TWO



Purchasing and Supply Agency

NHS Purchasing and Supply Agency (PASA)

PASA was established in April 2000 as an executive agency of the Department of Health. PASA replaced NHS Supplies as the NHS' principal purchasing agency, with a remit to modernise and improve the performance of the NHS purchasing and supply system. PASA is funded directly by the Department of Health and had a budget of £28 million in 2005-06. Following the recent outsourcing of a large proportion of its activity (see below) it now employs approximately 250 staff. Since being established, PASA has seen sales grow from £2.3 billion in 2000-01 to £4.7 billion in 2004-05 with associated value for money savings of £340 million in 2004-05.

PASA had approximately 5,000 supplier agreements in place prior to outsourcing a large proportion of its staff and activity to NHS Supply Chain (DHL). There are 150 remaining PASA framework agreements, with 365 transferred to NHS Supply Chain. The framework agreements that have transferred span ten key categories (medical supplies, food, print and stationery, laundry and cleaning products, bedding and linen, dressings, uniforms, patient appliances, laboratory and other equipment, office furniture and office equipment) with telecommunications, transport, energy, facilities, agency and professional services plus pharmacy-related products and services remaining with PASA.

Examples of procurement practices

Organisational structure: PASA uses a matrix management structure to bring project teams together for all new procurements. Project teams consist of three key elements: category management experts who liaise with both customers and suppliers and have responsibility for developing the specification for each

Case studies

procurement; procurement enablement specialists who provide expertise on OJEU compliance, sourcing and the procurement process; and uptake management (teams that can hold representatives from all disciplines) who engage stakeholders (such as procurement managers of NHS trusts, suppliers and the Department of Health) throughout the procurement process, including identifying stakeholder requirements, delivering the marketing plan and collecting feedback from stakeholders once the framework agreement is in place.

Customer consultation: PASA holds regular commodity advisory groups with end users of goods and services. For example, in some clinical categories, end users may be representatives of patient groups such as the Limbless Association. PASA considers that this high level of consultation is a key to enabling it to secure 'buy in' and volume commitment when tendering new contracts and to increase customer take up. Customers are also consulted on the performance of individual suppliers which allows PASA to provide useful feedback to suppliers (see below).

Co-ordination of NHS procurement at national, regional and local levels: In March 2004, the NHS set up the three year Supply Chain Excellence Programme (SCEP) designed to gain best value from NHS spend. Two key elements of the SCEP were to establish PASA as a more strategic national procurement organisation and to develop a number of regional Collaborative Procurement Hubs. There is considerable engagement and co-ordination between PASA and the Collaborative Procurement Hubs. This engagement is formalised at Stakeholder Forums where procurement strategy is discussed and developed. This co-ordination allows PASA to concentrate its resources on high value and high volume national contracts to be used by the entire NHS. Collaborative Procurement Hubs co-ordinate spend between groups of NHS Trusts where it is more appropriate to purchase goods/services regionally. Co-ordination reduces duplication of effort and also allows PASA to secure better prices through national aggregation.

Volume commitment: PASA has been successful in securing volume commitment in certain product areas. For example, in the case of energy, between 80 and 90 per cent of what PASA purchases is committed volume. Guaranteed volumes enable PASA to deal in the wholesale energy markets and secure better prices. Where PASA cannot secure guaranteed demand, it will try to secure a certain level of informal commitment from customers to take into negotiations with suppliers, with the intention of improving the supplier offer.

Price reviews: PASA reviews framework agreement prices in different ways according to the character of the particular product or marketplace. For example, due to the competitiveness of the telecommunications market, PASA reviews prices on a quarterly basis. For food, contracts are kept very short due to the seasonal character of the market and its dependency on unpredictable variables like the weather.

Supplier monitoring and improvement: PASA uses performance indicators built into the terms and conditions of framework agreements to monitor supplier performance. In addition, customers are surveyed on the performance of suppliers. These form a set of Key Performance Indicators that are monitored and discussed with suppliers on a quarterly basis. Particular attention is given to suppliers that are on strategically important contracts, or those who supply products across a range of categories. The Key Performance Indicators are also used to produce league tables of suppliers on the same framework agreement allowing suppliers to monitor their own performance relative to competitors.

Supplier Information Database: PASA's Supplier Information Database holds up-to-date information on registered suppliers. This reduces the time and cost of doing business with PASA by avoiding the need for suppliers to duplicate the same information for new procurements.

eTendering: eTendering is mandated for use in all tendering exercises internally throughout PASA. eTendering has brought greater consistency to the procurement process, consequently generating time, cost and environmental savings. PASA also runs e-auctions, where appropriate, for letting its own framework agreements and has recently completed what is believed to be the world's largest public sector e-auction: a £1.26 billion contract for agency staff. This has generated estimated cost savings of 12 per cent over existing agency labour contract rates.



Inter-Agency Procurement Services Office (IAPSO)

IAPSO is an Office of the United Nations Development Programme (UNDP). It provides procurement and supply chain management services to UNDP, other UN agencies, non-governmental organisations, and governments. It also serves as the Secretariat for the Inter-Agency Procurement Working Group (IAPWG). IAPSO operates approximately 50 framework agreements for goods and services ranging from tuberculosis drugs and armoured vehicles to IT hardware. In addition, IAPSO provides customers with procurement capacity development in the form of training and consultancy services.

In 2005, procurements undertaken directly by IAPSO totalled US\$193.2 million, an increase of 36 per cent over 2004. These figures do not include the use of IAPSO framework agreements by other UN Agencies. IAPSO employs 60 people.

Examples of procurement practices

Market and supplier intelligence and analysis: Prior to initiating a piece of procurement work, IAPSO conducts detailed research and analysis of the market that it is buying from, as well as of the production and distribution arrangements of the suppliers that operate in that market. IAPSO considers that this market intelligence has enabled it to develop strategies to provide optimum value for money in areas such as IT hardware and treatments for tuberculosis.

UN Global Marketplace: IAPSO manages and maintains the United Nations Global Marketplace (UNGM), an online one-stop shop for UN procurement staff, and UN member states seeking information about UN procurement. The UNGM website contains searchable details of all suppliers to the 14 major spending UN organisations, allowing UN procurement staff to identify appropriate suppliers. In addition, the UNGM contains a directory of all framework agreements run by UN organisations that are available to all other UN organisations.

Stakeholder and customer engagement: Before establishing framework agreements with suppliers, IAPSO undertakes systematic analysis of demand and of the interests of customers and stakeholders (such as donor countries or organisations like the European Commission). In particular, IAPSO regularly visits UNDP country offices, to discuss procurement needs with those managing specific programmes and projects. This level of engagement enables IAPSO to build relationships, and develop framework agreements and procurement strategies that customers will be more likely to use. In addition, IAPSO has developed the UNDP Country Office Procurement Capacity Development Package. As part of this package, IAPSO staff conduct detailed analysis of a particular country office's operational imperatives and spend profile, and deliver training courses and advice to procurement professionals to improve the capability of the country office.

Resource management: Before developing each new framework agreement, IAPSO produces a business case. As part of this process, potential volume, demand patterns and likely required resource allocation is assessed. IAPSO uses a system of Activity Based Costing, which records the level of resource, including staff, financial and operating expenses allocated to each customer. IAPSO is able to use this information to assess the expenditure going through a particular framework agreement and whether more or less resource ought to be devoted to it in the future.

UN Web Buy: IAPSO uses and makes available to other UN agencies an e-procurement system called UN Web Buy. UN Web Buy allows customers of IAPSO to order goods and services online and it also supports the procurement of goods and services with complex supply chains. Recent developments now allow suppliers to enter and update all technical, product, availability and pricing data online.

Supplier support: As well as the services offered through the UN Global Marketplace (see above), IAPSO supports suppliers by offering business seminars and supplier development courses. Furthermore, an in-depth, bespoke, one or two day training course entitled 'How to do business with the UN system' is offered to meet the specific needs of the supplier community. This course introduces and familiarises participants with the concepts, processes and procedures of public procurement as carried out under UN rules and regulations.



Statens & Kommunernes Indkøbs Service A/S

SKI (Danish National Procurement Ltd)

SKI was set up in 1994 to contribute to greater efficiency in public sector procurement by establishing and managing framework agreements, and providing procurement advice, training and guidance to the public sector. SKI is a limited company, 55 per cent of which is owned by the Danish Ministry of Finance, and 45 per cent by the National Association of Local Authorities. SKI currently manages 55 framework agreements for a wide range of goods and services including energy, professional services and office stationery. In 2005, its turnover was approximately £700 million (7 billion DKK), an increase of 36 per cent on 2004. SKI currently employs 50 people.

In addition to SKI, there are two other Danish procurement organisations providing similar services to SKI. Amgros provides specialist procurement services on behalf of hospital pharmacies, whilst The Twelve Cities Corporation is a procurement organisation established by a number of local authorities. SKI's turnover represented approximately five per cent of Denmark's total public sector procurement spend in 2005. SKI's framework agreements cover products that make up approximately 30 per cent of this total procurement spend. Therefore, SKI's market share equates to approximately 15 per cent of spend in the product areas covered by its framework agreements.

Examples of procurement practices

Volume commitment and aggregation of demand: SKI establishes customer advisory boards when setting up new framework agreements. This allows it to consult closely with customers and establish customer requirements. This approach has enabled SKI to secure volume commitment from customers in advance of letting new framework agreements and this has been shared with suppliers during the tendering exercise. SKI also monitors purchasing patterns and when mini-competitions are being used by government departments. When a mini-competition for a particular product has been identified, SKI will approach other departments to see if they are planning to purchase similar products, with the intention of aggregating demand for a mini-competition. SKI also plays a central role in User Experience Groups which bring together public sector procurement professionals to develop greater collaboration.

Direct marketing: Once a framework agreement has been let, SKI's marketing and implementation team contact public procurement professionals directly in an attempt to increase take up and to learn about other needs that the organisation may have. This process is facilitated by a Customer Relationship Management System which is being developed to include a database of all procurement professionals in the Danish public sector. The management system is used to track customer interests registered on the SKI website enabling a more targeted marketing approach based on customer interests.

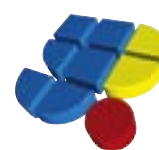
Supplier support: SKI has developed a Partnership Programme with suppliers of photocopiers and multi-functional products. An industry expert is employed by SKI to develop relationships with suppliers in this product area and train their staff in dealing with SKI and the public sector. SKI intends to roll out this programme across other product and service areas. In addition, SKI provides a service where suppliers can market their special offers to the public sector using the Customer Relationship Management System database of public sector procurement professionals.

Supplier monitoring: SKI earns revenue by charging suppliers a fee of 1 per cent on sales volume undertaken through SKI's framework agreements. In 2004, SKI reviewed the sales data provided by suppliers to calculate the fee. This included:

- purchasing detailed market statistics on supplier sales, particularly in the IT area;
- cross-checking supplier sales figures with customers; and
- asking suppliers tendering for a new framework agreement to provide details of all public sector customers they currently deal with in order that SKI can cross-check this against the spend reported by this supplier through other SKI framework agreements.

This approach uncovered underreported sales by suppliers of approximately £100 million (1 billion DKK) over the previous three years.

Resource management: SKI currently has 55 framework agreements and has strict criteria in place for establishing new agreements. It conducts detailed market research to establish the potential for growth, the suppliers who operate in that market and the potential for standardisation of the contract to make it attractive to multiple customers. If an existing framework agreement is not being used sufficiently, SKI will close the contract in order to concentrate resources on areas with greater growth potential. In 2002, SKI underwent a process of rationalisation, during which 25 framework agreements, at that time about a third of the total number of framework agreements, were closed.



Yorkshire Purchasing Organisation (YPO)

YPO was established in 1974 as a buying consortium under section 101 (5) of the Local Government Act 1972. Its customers include local government, schools, police forces and the wider public sector. Its main customer base is in Yorkshire and Lancashire, although it has customers throughout the United Kingdom. It is governed by a management committee consisting of elected representatives from the thirteen 'owner' local authorities. YPO is the largest joint committee local authority purchasing consortium in the UK, with a turnover in 2005 of approximately £270 million, an increase of 10.6 per cent on 2004.

YPO has three main service areas: it holds warehouse stock which can be purchased by customers via catalogues and delivered directly to customers; it sets up and manages framework agreements for a range of products and services; and it makes direct purchases on behalf of customers, for example, by running a mini-competition. It collects revenue in two ways. For framework agreements and direct purchases, it charges suppliers an agreed rebate percentage of the value purchased using its framework agreements. For warehouse stock, it earns a small margin through traditional purchase and sale. Any overall surplus is rebated to the owning member local authorities.

Examples of procurement practices

Price benchmarking: YPO benchmarks prices of goods held in stock against those of other public sector buying consortia and private sector competitors that operate in the same markets. This benchmarking data is distributed to customers, enabling them to make an informed purchasing choice. By the end of 2006, this benchmarking data will be on the YPO's website so that customers are well informed about available prices when ordering goods held in stock.

Strong working relationships with suppliers: YPO benefits from operating for over 30 years. It has a strong, recognisable brand, particularly in its core business region of Yorkshire and Lancashire and further across the UK. It provides suppliers with data on likely demand trends. In addition, it provides suppliers with market intelligence such as changes to the school curriculum which it gathers through consulting with teachers during teacher training days run by YPO (see below). This range of information allows suppliers to manage their production to meet demand, reducing supplier operating costs.

Demand management: For fixed periods during the year YPO offers customers a 'budget stretcher' opportunity to buy goods and services at prices below its stock catalogue prices for bulk purchases. This helps YPO to flatten the demand profile across the year and minimise its operating costs by reducing the staffing requirement during peak periods in the purchasing cycle.

Customer engagement: YPO engages and consults with customers in a number of ways:

- **Open days:** open days are held for those involved in the purchase of goods and services on behalf of their organisation, where the services of YPO are explained. These are often tailored to meet the needs of individual participants.
- **Teacher training:** teacher training courses ('INSET courses') are provided for school teachers. These are run by specialist educational trainers and cover all national curriculum topic areas. Approximately 3,000 teachers attend the courses every year. During the day teachers use a range of products supplied by YPO.

- **Panels of experts:** expert panels are the main point of formal customer contact. The panels comprise technical product specialists from member authorities; for example, for fleet vehicles the panel consists of fleet managers. These panels meet frequently during the development and early years of a framework agreement, and no less than once a year for the life of the contract. In this way, customers have considerable input into the design, letting and management of a contract.

YPO consider that this range of customer engagement allows it to gauge customer requirements and develop products to meet these requirements.

Efficient letting and re-letting of contracts: YPO currently has approximately 50 framework agreements. The letting and re-letting of these framework agreements is staggered to ensure adequate time is given to the full tendering process from customer consultation prior to letting the framework agreement to contract award.

Managed transition when framework agreements are discontinued: When a framework agreement is discontinued, due to lower than expected take up, YPO consults closely with customers that use the framework agreement to manage the transition to alternative arrangements. This has involved holding a framework agreement open to allow customers the time to let their own framework agreement and providing procurement support during the tendering process.



Research Councils' Procurement Organisation (RCPO)

RCPO was established in November 2001 through a merger of the procurement functions of the United Kingdom's Research Councils. It provides the eight Councils with specialist purchasing and supply chain management services. As well as operating framework agreements for products ranging from office stationery and furniture to specialist laboratory equipment, RCPO manages direct procurement projects on behalf of the Councils. It also provides consultancy and advice to the Councils and the wider higher education sector. Each Research Council has a service level agreement with RCPO defining the level of service that RCPO will provide.

In 2005, RCPO reported sales through its framework agreements of £183 million together with £67 million through direct procurements on behalf of Councils. RCPO operates approximately 60 framework agreements and employs 28 staff.

Examples of procurement practices

Encouraging sector-wide collaboration: RCPO supports and encourages collaboration of procurement activity in the wider higher education sector through its proactive involvement in collaborative groups. RCPO plays a central role in the Research Equipment Affinity Group (REAG), which works towards increasing integration in the purchase of specialist research equipment across the Research Councils and higher education sector. It also plays a leading role on a number of National Working Groups in the higher education sector. The working groups determine the procurement strategy for a range of commodities and services including laboratory supplies, IT, electronics and photocopiers. RCPO ran the tendering process and manages the framework agreement for photocopiers on behalf of the higher education sector.

Managing price variations in volatile markets: RCPO plays a central role on the National Working Group for Laboratory Supplies and Gases. Through that group it became apparent that demand for helium, a gas extracted from only a few oil wells and used extensively in the laboratory, was outstripping supply, leading to significant price increases. RCPO approached the contracted helium supplier and negotiated a deal which allowed the supplier to increase prices, but in a gradual fashion in line with the Research Councils' funding mechanisms. RCPO estimated that this saved the sector approximately £300,000.

Resource management and co-ordination with other procurement organisations: RCPO does not set up framework agreements in every product area for which there is a requirement within the Research Councils. Instead, RCPO chooses one of three approaches, depending on the value that it can add to the procurement process:

- For lower value requirements (below £25,000 per annum), RCPO will use an established framework agreement from another procurement organisation such as OGCBuying.solutions.
- For medium value requirements (for example, between £25,000 and £100,000 per annum), RCPO will formally benchmark a number of other framework agreements and direct customers to the best value existing contract provided by other procurement organisations (such as OGCBuying.solutions) or departments.
- For high value requirements (above £100,000 per annum), RCPO will look to negotiate its own framework agreements where it can add value.

RCPO considers this approach allows it to focus resources on the highest value added activities.

Customer volume commitment: Through its presence on the national working groups and the Research Equipment Affinity Group, and also its close relationship with the Research Councils, RCPO co-ordinates demand and achieves customer volume commitment to use in negotiations with suppliers. One example of this was for the photocopying services framework agreement, where it co-ordinated nationwide demand across the higher education sector and renegotiated the existing contract.

Monitoring and managing supplier performance: RCPO meets with each of the suppliers on its own framework agreements twice a year to discuss performance and resolve any issues. Prior to these meetings, customers are asked via an email whether they wish to raise any issues about the supplier. Any customer feedback received is discussed at the meeting. A monthly bulletin is published that includes a summary of supplier reviews and other supplier, product and health and safety information.

Using suppliers to market RCPO: RCPO provides suppliers with a copy of the RCPO logo which suppliers can use on documents and letters as a seal of approval, while simultaneously publicising RCPO. The electronic form of the logo also has a direct link to the RCPO website.

Website: RCPO's website, through which goods and services can be sourced, provides detailed information and advice on procurement issues and includes a comprehensive and intuitive catalogue of RCPO's framework agreements and direct links to individual members of staff. The website also acts as a portal to other websites including that of OGCBuying.solutions.



Concessionaria Servizi Informatici Pubblici (CONSIP)

CONSIP is a public sector organisation owned by Italy's Ministry of the Economy and Finance. It was established in 1997 to lead the modernisation of Italy's public sector, particularly in the field of information technology. In 2000, CONSIP's remit was extended to include responsibility for improving public sector procurement practice. CONSIP provides framework agreements across a wide range of goods and services including telecommunications, IT equipment and energy, as well as real estate services and products specific to the health sector such as drugs. It issues approximately 30 framework agreements each year with a single supplier on each. CONSIP has approximately 500 employees.

Before 2003, all public sector bodies were required by law to adopt CONSIP catalogues for their procurement requirements. However, since 2003 the Italian Government has moved away from the mandatory model, with public sector bodies able to choose their own procurement methods. There are now a wide range of procurement organisations serving public sector bodies at a regional and local level. In 2005, total Italian public sector procurement spend was £78 billion (€117 billion).⁴² Of this, approximately £27 billion (€40 billion) is covered by products and services provided by CONSIP. Total spend through CONSIP's products and services was approximately £9 billion (€14 billion) in 2005 equating to approximately 30 per cent of public sector procurement spend covered by its products and services.

Examples of procurement practices

Panel of experts advising on contract awards: CONSIP uses a panel of experts to recommend who should be awarded the contract following a tendering exercise. The Awarding Commission comprises representatives from the Ministry of Finance, the Presidential Council of Ministers and independent professionals from the private sector. All are selected based on their experience and technical skills. CONSIP is not bound by the decision of the Awarding Commission, and can ask it to re-evaluate a particular tender.

Supplier monitoring: CONSIP has a business unit specifically assigned to the task of monitoring and managing suppliers. It monitors them in three main ways:

- It runs a customer survey each month to assess customer satisfaction with a particular supplier or group of suppliers.
- It audits suppliers through an outsourcing agreement. Auditors visit customers to ask them about the performance of suppliers and independently assess this performance. The areas where suppliers are currently audited are computer printers, vehicles, computers and global building services. Suppliers in these areas are audited at least once every two years. If a supplier is performing particularly badly, it will be audited more frequently.
- It has a dedicated team which fields complaints from customers about both suppliers and CONSIP itself.

CONSIP uses results from these three methods to provide suppliers with feedback on their performance and rates each supplier (red, amber, green).

Supplier penalties for under performance: CONSIP includes penalty clauses in its contracts which are linked to the contract's service level agreements. The penalties can be imposed by either CONSIP or customers. If the service level agreements stipulated in the contract are not met, the customer can impose a financial penalty in line with the terms and conditions in the contract. This is limited to 10 per cent of the contract value. If a supplier fails a CONSIP audit (see above), CONSIP can impose a financial penalty of 0.1 per cent of the contract value.

Marketplace: In 2003, CONSIP expanded its offering to include an online marketplace where suppliers not on framework agreements can present their products to the public sector. Customers can either purchase goods and services directly from a supplier via the marketplace or can place an invitation for a supplier to offer a quotation for a particular good or service. There are currently 160,000 products on the marketplace and it is used by 800 public sector organisations. The marketplace is free to use for both customers and suppliers.

On site CONSIP consultant: To enhance its customer relationships, CONSIP has trained a number of CONSIP experts to act as a permanent point of contact on-site with its major customers. These on-site experts enable customers to use CONSIP more effectively. It also allows CONSIP to consult with customers and understand their requirements.

⁴² Assumes 1.5 euros to the £.

APPENDIX THREE

List of procurement organisations

There is no central list of procurement organisations. Therefore, this list may not be exhaustive

Local authority joint committee buying consortia:

Yorkshire Purchasing Organisation

Eastern Shires Purchasing Organisation

Wirral & North Wales Purchasing Organisation

West Mercia Supplies

North Eastern Purchasing Organisation

Authorities Buying Consortia (Scotland)

Local authority buying consortia without joint committee:

Central Buying Consortium

Kent Buying Consortium

Derbyshire Districts Purchasing Consortium

London Contracts and Suppliers Group

Black Country Purchasing Consortium

Local Authority Purchasing Partnership

The Welsh Purchasing Consortia

Higher education regional purchasing consortia:

Procurement Scotland and Northern Ireland

North Western Universities Purchasing Consortium

North Eastern Universities Purchasing Group

Southern Universities Purchasing Consortium

London Universities Purchasing Consortium

Higher Education Purchasing Consortium, Wales

NHS (as of 28 November 2006):

NHS Purchasing and Supply Agency

Avon, Gloucestershire and Wiltshire Supply Management Confederation

Bristol and Weston NHS Purchasing Consortium

Cheshire and Merseyside SMC

County Durham and Tees Valley Procurement Confederation Board

Cumbria and Lancashire SMC

Dorset and Somerset Procurement Confederation

East of England NHS Collaborative Procurement Hub

Gloucestershire Procurement Shared Service	Procurement North East
Greater Manchester Collaborative Procurement Hub	South Yorkshire Supply Management Confederation
Greater Manchester Purchasing Consortium	South West London Supply Management Confederation
Healthcare Purchasing Consortium	Staffordshire and Shropshire Collaborative Procurement Hub
Hertfordshire SMC	Surrey and Sussex Supply Management Confederation.
Kent & Medway SMC	West Yorkshire Supply Chain Confederation
Lifesource Collaborative Procurement Hub	West Midlands Alliance
North and East Yorkshire and Northern Lincolnshire Procurement Confederation Board	Defence:
North Central London NHS Procurement Confederation	Defence Logistics Organisation
North East London NHS Procurement Confederation	Defence Procurement Agency
North West London NHS Procurement Confederation	Other specialist procurement organisations:
Northumberland Tyne and Wear Procurement Confederation Board	Firebuy
Peninsula Purchasing and Supply Alliance	Procurement Excellence in the Police Service
Pro-cure Collaborative, serving Thames Valley, Hampshire and Isle of Wight	Research Councils' Procurement Organisation