

Operational Efficiency Programme: collaborative procurement

May 2009



HM TREASURY



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Operational Efficiency
Programme:
collaborative procurement

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Executive summary

Background

In July 2008 the Government asked Martin Jay, Chairman of Invensys, to lead the collaborative procurement strand of the operational efficiency programme (OEP). This review builds on much previous work, including Sir Peter Gershon's efficiency review of 2004 and the subsequent 'Transforming Government Procurement' report of 2007, which together led to the existing Strategic Stakeholder Forum¹ (SSF) led programme of work on collaborative procurement. There also exists a multitude of highly successful grassroots led collaborative procurement initiatives which have developed over recent years across the entire public sector.

This review has analysed collaborative procurement practices both within central government and in the wider public sector and has examined the work of the Office of Government Commerce (OGC) with government departments and the wider public sector on its programme of collaborative procurement over the CSR07 period. Specifically, the review assessed:

- the scale and ambition of the existing central work programme of collaborative procurement in the OGC, and whether this might be extended;
- how best to achieve the highest levels of uptake to collaborative strategies across the entire public sector; and
- how the Government should encourage and support further collaboration in the procurement of common goods and services to achieve greater value for money across the public sector.

Key Findings

The review found that collectively, the public sector has the potential to become an extremely powerful purchaser, with over £175 billion spent on external goods and services in 2007-08.² However, it is also clear that:

- the process of procuring common goods and services across the public sector is dispersed, resulting in a wide range of prices for similar goods and services;
- the majority of public sector procurement spend is undertaken by organisations in the wider public sector. £103 billion of the total £175 billion public sector procurement spend is spent by local authorities, schools and health organisations alone. In order to deliver true value for money, large public sector organisations need to procure in collaboration with small organisations so that the entire public sector can benefit from the full leverage that it can exert; and
- suppliers, including both large organisations and small and medium-sized enterprises (SMEs) are disadvantaged by a disjointed approach from government to supply markets.

¹ See definition in glossary of terms at Annex D.

² Derived from the Public Expenditure Statistical Analysis, Tables 2.2, 2.3 and 7.10; http://www.hm-treasury.gov.uk/pespub_index.htm

This review considered collaborative procurement practices both within central government, and in the wider public sector and examined the centrally driven programme of collaborative procurement, led by the Strategic Stakeholder Forum (SSF) and administered by the Office of Government Commerce (OGC). This programme currently targets six categories of expenditure on goods and services such as desktop computers and electricity, which are commonly bought across the public sector. It aims to bring all parts of the public sector into a single governance structure, where government can derive maximum value from its common spend by approaching the supply market in an appropriate and coordinated manner.

The review has found that it is realistic to achieve a total of around £6.1 billion of annual value for money savings³ by the end of 2013-14 *provided that the Government acts swiftly to implement the recommendations of this report*. This level of savings is compared to the 2007-08 baseline of the £89 billion government procurement spend that has been categorised to a commonly-procured commodity. A further £1.6 billion value for money savings could be achieved through the collaborative procurement of IT, and are included in the savings figures set out in the *Operational Efficiency Programme: back office operations and IT* report.⁴ This gives a total collaborative procurement savings figure of £7.7 billion by 2013-14.

Recommendations

The review's recommendations lie in four principle areas:

- **scope and ambition of the current SSF-led programme of collaborative procurement.** This programme should be extended to cover additional categories of common spend, thereby increasing the total coverage of the OGC's programme of work, by October 2009. In the first instance, this should include the additional categories of construction, facilities management and food;
- **improve the quality of management information on procurement spend across the public sector.** Of the total £175 billion UK public sector procurement spend, only £110 billion⁵ has been categorised to a basic common standard to date. What the Government does not measure, it cannot manage effectively. This report recommends that common standards and much increased transparency are implemented; and
- **improve access to better deals for local service providers across the wider public sector** by working with and through professional buying organisations⁶ (PBOs) in a more regulated manner. The complex 'landscape' of PBOs across the public sector is currently estimated to procure just £12 billion⁷ of the total estimated £175 billion of public sector procurement expenditure. Having invested in these delivery mechanisms, government must now maximise the value they deliver. This review recommends:

³ Value for money (VfM) savings defined according to HM Treasury VfM methodology and consistent with VfM savings achieved in the Comprehensive Spending Review 2007 period, accumulating against a 2007-08 baseline. All of these savings are cash-releasing and net of implementation costs. This review has not sought to distinguish the degree of overlap between collaborative procurement delivery and pre-existing CSR '07 departmental delivery plans.

⁴ See *Operational Efficiency: back office operations and IT* available on HM Treasury website.

⁵ *Public Sector Procurement Expenditure Survey*, Office of Government Commerce, 2008.

⁶ Full list of identified Professional Buying Organisations included at Annex C.

⁷ Office of Government Commerce, Markets and Collaborative Procurement Division, Procurement Efficiency Team.

- better sharing of management information across PBOs;
- better sharing of the best framework agreements, such that the best available deal is always offered to the local service provider customer;
- common transparent business models and governance, such that local service providers are offered assurance of value for money; and
- that any PBO who is not fully engaged in the collaborative programme is subject to audit of the value that they derive by the sponsoring central department.
- **increase uptake of collaborative strategies across the public sector.** This must focus upon better individual and organisational incentives, including:
 - mandatory participation in the collaborative programme for all central government departments, agencies and bodies, with a target of 80 per cent of all available spend channelled through PBOs or other collaborative strategies by the end of 2010-11;
 - stronger incentives to participate across the wider public sector, with a target of 50 per cent of all available spend channelled through PBOs or other collaborative strategies by 2010-11;
 - more focused, promotional marketing of available deals in central government and the wider public sector;
 - better use of existing investments in eProcurement systems;
 - ensuring value for money and collaboration form key components of skills and capability development of procurement professionals across government; and
 - increased scrutiny of the value for money that central government and wider public sector bodies derive, through regular reporting to Ministers and senior officials, assessment at the Public Services and Expenditure (PSX) Cabinet Committee, inclusion of collaborative procurement as a component of the value for money indicators within assessments of departmental performance, challenge by the Value for Money Review Group⁸, and as components of assessments of public sector organisations by the various audit bodies
 - ensuring public sector organisations can keep any collaborative procurement efficiency savings they deliver in excess of what they need to live within their budgets and incentivising good performance through not penalising departmental success against collaborative procurement targets.

1.1 Progress against implementation of these recommendations should be reviewed as part of the above process and also as part of the on-going NAO study on collaborative procurement, and as a normal part of the VfM assessment of other audit bodies, such as the Audit Commission.

⁸ See Operational Efficiency Programme recommendations on accountability and performance management.

1.2 The review has considered what role central mandation might play in the delivery of collaborative procurement. The recommendations of this report intend to deliver maximum value for money without resorting to strong central mandation for the wider public sector; however where the timescales stipulated within the recommendations are not met, this will seriously compromise the public sector's ability to deliver the potential identified for collaborative procurement. The government should therefore monitor progress accordingly and make an assessment of whether more stringent measures, including stronger central mandation are necessary to unlock the full potential value for money that collaborative procurement can deliver.

1

Introduction

Introduction to collaborative procurement

1.1 The public sector spent £175 billion on external goods and services in 2007-08;¹ the majority of this can be classified into 'common categories of expenditure,' i.e. commodities which are bought by more than one organisation across the public sector, such as energy or fleet vehicles. Here, there are significant opportunities for savings to be made through collaborative procurement. This means using the combined purchasing power and procurement infrastructure of the public sector to maximise value for money for taxpayers, whilst simultaneously maintaining or improving the delivery of public services.

1.2 Evidence gathered as part of this review from the private sector, where collaboration in procurement has taken place over many years, suggests that increasing the levels of collaboration in procurement decisions across business units releases significant savings. The public sector should also be able to achieve significant savings through increased collaboration in its procurement.

1.3 The potential of collaborative procurement in the public sector has also been long recognised. For example, in 2001, in his review of local government procurement in England, Sir Ian Byatt² identified the need for a step-change in outlook, to aggregate demand and work with others to share resources.

1.4 Sir Peter Gershon in his 2004 Review of Public Sector Efficiency³ identified collaborative procurement as a major potential contributor to greater efficiency in government. Subsequently, the 2004 Spending Review (SR04) programme enabled delivery of £650 million a year of efficiency gains from collaborative procurement. These savings were achieved through:

- the creation of the first pan-government strategic approaches to the procurement of goods and services in key commodity areas such as temporary labour and energy; and
- development of tactical approaches to many key markets, including enabling good value for money framework agreements negotiated by government departments and professional buying organisations (PBOs) to become more widely available across both central Whitehall and the wider public sector.

1.5 SR04 also saw the first attempts to conduct an analysis of government procurement expenditure in the largest departments and in common categories of expenditure and the first attempts to put in place common mechanisms for performing eAuctions and other types of eProcurement.

¹ Derived from the Public Expenditure Statistical Analysis, Tables 2.2, 2.3 and 7.10; http://www.hm-treasury.gov.uk/pespub_index.htm

² In July 2000, the DETR (Department for Environment, Transport and the Regions) and LGA (Local Government Association) invited Sir Ian Byatt to chair a taskforce charged with reviewing local government procurement in England. The taskforce presented its report, *Delivering Better Services for Citizens*, in June 2001. http://www.bipsolutions.com/briefings/briefings2001/byatt_report.pdf

³ http://www.hm-treasury.gov.uk/spending_sr04_efficiency.htm

1.6 During the same period, local service providers also began to develop grassroots collaboration. An example of this was the programme of work led by the local government Regional Centres of Excellence⁴ (RCoE), with which the OGC programme began to interface. RCoEs sought to deliver efficiency savings by addressing the large variations being paid by councils for identical items. The RCoEs programme concluded on 31 March 2008 when they merged into the nine Regional Improvement and Efficiency Partnerships (RIEPS), partnerships of councils and other local service providers supporting local efficiency savings, including through improved procurement.

1.7 Government recognised and built upon the value for money enabled over SR04 through increased collaboration in the *Transforming Government Procurement*⁵ report. This provided greater impetus behind the collaborative procurement agenda and gave the OGC strong powers through the procurement capability review function to set procurement standards, monitor departmental performance against them and to ensure remedial actions were taken where necessary.

Total public spending on external goods and services

1.8 Key to this programme of work was an increasing understanding of how much the public sector spends and on what. Since the 2004 Spending Review, OGC has continued to provide a central analysis of government procurement expenditure against a common, basic supply market categorisation.

1.9 The Treasury's annual 'Public Expenditure Statistical Analysis 2008',⁶ (which brings together recent outturn data on public expenditure, estimated outturns for the latest year and budgetary plans over the whole range of UK public expenditure) suggests that the public sector purchased around £175 billion of external goods and services in 2007-08.

1.10 OGC's latest annual Public Sector Procurement Expenditure Survey (PSPES) showed that £110 billion of this total £175 billion spend has been categorised to a basic common standard. Although, as the recommendations in this review make clear, much work remains to fully understand this expenditure, on the basis of this partial sample:

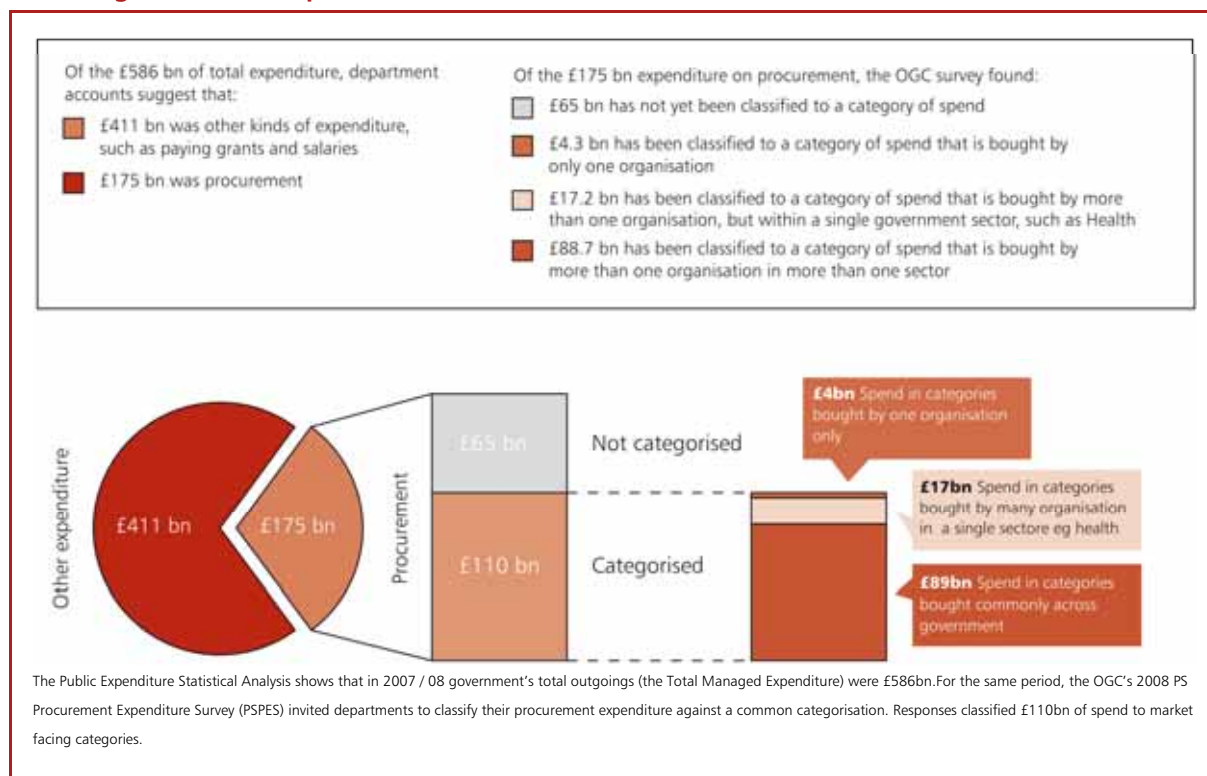
- over 80 per cent of categorised procurement expenditure is in categories that are procured by more than one government organisation, across more than one sector of government; and
- a minority is in categories bought by many organisations in a single sector (such as health); and a small minority is bought by only a single organisation (such as some Defence categories, where only the Ministry of Defence procures).

⁴ <http://www.rcoe.gov.uk/rce/core/page.do?pageld=1>

⁵ http://www.hm-treasury.gov.uk/ent_services_procurement.htm

⁶ http://www.hm-treasury.gov.uk/pespub_index.htm

Figure 1.A: Breakdown of total categorised procurement return (£110 billion) as a proportion of total government expenditure



Current procurement strategies:

1.11 In Transforming Government Procurement, the Government set out its strategy for procurement for the Comprehensive Spending Review 2007 (CSR07):

- a new strategy to embed collaborative procurement through a governance model that brings together key public sector buyers and policy groups into a single decision making group, where value for money strategies are developed and ratified for different categories of common public sector spend;
- a programme consisting of driving increased collaborative procurement in 'waves' of common expenditure. To date, two waves of category activity have been initiated, covering six categories of common spend, together targeting £49.8 billion of the total £89 billion spend in categories commonly bought across government, as shown in Figure 1A⁷. These categories are outlined below;

Table 1.A: Programme waves to date

Wave	Categories of Spend included	Start date
Wave 1	Energy, Fleet Vehicles, Office Solutions, Travel	March 2007
Wave 2	Professional Services, ICT	March 2008

⁷ Public Sector Procurement Expenditure Survey, Office of Government Commerce, 2008

- the selection criteria for incorporating these categories of common goods and services into the collaborative procurement programme were the size of spend (they represent over half of the £89 billion categorised spend on common commodities – as shown in figure 1A), complexity of the supply chain, degree of opportunity to standardise product and service specifications and relative fragmentation of consumer spend;
- for each of the six categories where work is currently underway, a Collaborative Category Board⁸ (CCB) has been established across Whitehall and the wider public sector (incorporating, for example, local government, a number of buying organisations, NHS and emergency services) with a common governance and reporting framework. Their role is to develop and adopt category strategies to drive collaborative procurement savings. Table 1.B below shows standard initiative groups that are currently being implemented within this framework;
- this governance also includes some groups that focus solely on the wider public sector. An example of this is the Local Government Professional Services Steering Group (LGPSSG), which includes representation from several county councils, the Audit Commission, Borough and City Councils, the OGC and Professional Buying Organisations;
- the review also found that small and medium-sized enterprises (SMEs) play an important role in the delivery of greater efficiency through collaborative procurement. Certain market sectors are dominated by SME organisations and successful collaborative procurement commercial strategies must consider approaches to all existing markets, including disaggregating government spend to capture the best SME expertise available. Existing examples of this include a framework arrangement in the professional services category, which has been awarded to a consortium of SMEs and is now available nationally to all government departments. Another example is the ‘Temporary Labour Toolkit,’ which encourages Local Authority buyers to consider the impact of their purchasing decisions in SME markets, and
- the Government has already recognised how important it is that SMEs win public sector contracts and in the 2008 Pre-Budget Report accepted all of the twelve recommendations in the Glover Committee's report *Accelerating the SME Economic Engine: through transparent, simple and strategic procurement*⁹. The recommendations set out ways of helping SMEs compete effectively for contracts through ensuring opportunities are transparent, the process is as simple as possible, and that strategic approach to procurement encourages innovation and gives SMEs a fair deal when they are sub-contractors.

1.12 Examples of collaborative procurement initiatives are set out in Table 1.B, with a more detailed worked example for the collaborative procurement of energy in Box 1.A.

⁸ see definition in glossary of terms at Annex D.

⁹ http://www.hm-treasury.gov.uk/d/pbr08_economicengine_2390.pdf

Collaborative procurement initiatives:

Initiative	What it means	Examples
Improving existing framework agreements	This is where an existing framework agreement is improved, or where a new arrangement is put in place to drive better value for money based on increased market knowledge or leverage.	The Energy Collaborative Category team have worked with organisations across the public sector to improve existing deals by bring them into line with best practice, flexible energy buying. By April 2009, around 80 per cent of central government energy will be bought in line with this best practice
Bringing new volumes into existing best practice	This is where a suitable solution already exists, increasing usage and uptake among consumers	Having worked with the DWP on their best-in-class vehicle purchase deal, the Fleet Collaborative Category Board has worked across the public sector to increase uptake of that deal. The professional services team drive new volumes through a best practice national temporary labour contract that disaggregates demand across regional and local SMEs.
New ways of buying and approaching the market	This is where, having brought together sufficient volumes, government is able to drive an entirely new approach to the supply market. The Government constitutes between 7 per cent and 14 per cent of major common markets. Leveraging this entire spend in innovative ways can drive significant efficiency.	Having brought large volumes of existing energy procurement into line with best practice, the Collaborative Energy Team are considering innovative ways to approach the market that apply the maximum leverage that government can exert, whilst balancing the risk of long- and short- term energy procurement, including long term purchase agreements, directly with generators.
Demand management	Significant efficiency savings can also be realised through demand management on a collaborative basis. This means buying less of something without incurring a negative impact to outcome service delivery, normally by spreading best in class practices and technologies across government; and using the scale of government volumes to eliminate inefficiency and reduce demand	The ICT category includes strategies to reduce the energy consumption of government IT. These include a cross-government software procurement that will enable government to switch off automatically any unused computers overnight. The Energy category is driving a pan-government deal for automated reading of energy meters that cut down on inaccurate bills and enable much closer management of Energy consumption.

Box 1.A: A worked example of collaborative procurement initiatives - energy

Improving existing framework agreements: The first stage of the work performed by the Collaborative Procurement Energy team was to understand how energy was bought right across the public sector – from Local Authorities to major, centralised departments such as the Ministry of Defence. There was a wide variety in the pricing achieved by different buying methods – often more than 50 per cent – and also of the associated risk profile associated with the volatile commodity market.

Through extensive research and benchmarking the team was able to demonstrate that taking a flexible approach to energy procurement was the best way to balance risks with attaining the best value for money. They began to work with major public sector buying organisations to incorporate a flexible approach into their buying practices in a collaborative manner, saving them money.

Bringing new volumes into existing best practice: Once major organisations were buying in the most effective way, the Energy team focused on bringing together buyers of Energy into the improved agreements, from Schools and Hospitals, the Ministry of Defence and from Professional Buying Organisations – to allow them to share the benefits of using the better deals – and at the same time increasing government's leverage in the supply market.

New ways of approaching the market: By bringing in new volumes to existing best practice deals, the Energy team are now able to access a large percentage of government's volumes – 82 per cent in Central government. This has enabled the team to think of radically new approaches for the future that maximise value for money achieved with the public purse – such as the setting up of long term contractual arrangements with generators ('power purchase agreements').

Demand management: Alongside this work, the team has derived strategies for improving demand management, such as Automated Meter Reading (where billing accuracy is dramatically improved and departments are provided with much better information as a basis for managing their energy demand); and software packages that automatically power down ICT overnight.

Collaborative Procurement in energy will deliver £115 million value for money savings in 2008-09 and aims to deliver £300 million by the end of this Spending Review period.

1.13 This work is also designed to complement and build on the recommendations of the Roots review¹⁰, commissioned in 2008 by the Department for Communities and Local Government (DCLG) to assess the scope for efficiencies from smarter procurement in local government. It too has identified collaborative procurement as having an increasing benefit to delivering efficiency savings in the wider public sector. Among the key recommendations to the Roots review are:

- 1 a national procurement champion should be put in place to give direction and coordination to the local government procurement agenda and lead specifically on greater collaboration;

¹⁰ <http://www.communities.gov.uk/publications/localgovernment/rootsreview>.

- 2 Regional Improvement and Efficiency Partnerships¹¹ (RIEPs) planned activity for 2009-10 and 2010-11 should be carefully reviewed to ensure that the right balance of attention and resources is given to efficiency issues, including procurement. RIEPs should meet regularly and rather than develop a separate programme of work they should map their activity into the OGC collaborative procurement programme;
- 3 there should be the development of a contracts database and a robust evidence base on the potential scope for procurement efficiency by sector. This will encourage stronger flows of information; and
- 4 the national procurement champion, in association with OGC, should coordinate and influence buying organisations and RIEPs to develop the delivery of national and regional solutions supporting the overall collaborative strategies in local government.

¹¹ <http://www.lga.gov.uk/lga/core/page.do?pageld=18437>

2

Process and methodology

Stakeholder engagement

2.1 Martin Jay and his team led detailed discussions with a wide range of stakeholders from across the public and private sectors, including suppliers and professional buying organisations (a summary list is contained in Annex C) to gain insight into collaborative procurement work already underway, discuss best practice, challenge existing practices and understand what further might be done in the pursuit of greater value for money from increased collaboration. A detailed list of stakeholders is included at Annex A and comprises:

- frontline service providers such as Local Authorities, hospitals, schools, private sector suppliers, management consultants;
- departmental Commercial Director Strategic Stakeholder Forum members;
- leaders of the existing programme of collaborative procurement in all categories of spend and enabling areas;
- OGC Senior leadership;
- leaders of professional buying organisations, e.g. OGC Buying Solutions and regional PBOs; and
- private sector organisations, including procurement specialists from leading management consulting firms.

Methodology

2.2 To assess the potential of collaborative procurement and to challenge government to go further, the findings and recommendations of this review are built upon an extensive assessment of:

- the quality of management information available to departments and at an aggregate level across the public sector;
- the opportunity offered in each of the six categories of common spend already targeted by the SSF-led Collaborative Programme;
- the assumptions used at a programme level to calculate an overall level of ambition; and of category specific delivery plans;
- the scope for driving greater levels of uptake to collaborative strategies;
- existing best practice in collaborative procurement across the private sectors, and grass roots led collaborative procurement in the public sector;
- a sample of collaborative contracts to assess whether these provide best value for money for the public sector as a whole;
- an assessment of the workings of collaborative category boards.

- an analysis of the procurement 'landscape' in the Wider Public Sector (WPS); and
- an assessment of the financial and organisational incentives necessary to drive greater uptake of collaborative strategies.

3

Key findings

Estimation of possible savings

3.1 This review has found approximately £6.1 billion of annual value for money savings are available from greater uptake of collaborative procurement by 2013-14, compared to the 2007-08 government procurement spend baseline of £89 billion that has been categorised to a commonly-procured commodity. Of these savings, £5.7 billion could be delivered by the end of 2011-12.

3.2 Increasing uptake of collaborative procurement beyond this date and further extending the programme to cover more categories of common goods and services has the potential to deliver at least an additional £2 billion per year by the end of 2013-14, i.e. giving a total collaborative procurement saving by 2013-14 of £7.7 billion. However, as £1.6 billion of this would be achieved through the collaborative procurement of IT, and is therefore included in the savings figures set out in the *Operational Efficiency Programme: back office operations and IT report*¹, the total collaborative procurement savings figure for 2013-14 is £6.1 billion. However, these savings will not be realised unless the key issues highlighted in the sections below are addressed swiftly.

3.3 The approximate £6.1 billion value for money savings by 2013-14, plus £1.6 billion value for money savings through the collaborative procurement of IT, will only be achieved if Government acts swiftly to:

- extend the existing pan-government programme of collaborative procurement from the current six categories of common spend to bring into scope additional categories covering more of the total £89 billion spend in categories bought commonly across government;
- deliver a step change in the availability of procurement management information across the public sector;
- optimise the procurement landscape in such a way that it acts in a more co-ordinated and collaborative way; and
- increase significantly the levels of uptake of collaborative strategies which provide best value for money for the public sector as a whole, whilst ensuring that public sector organisations can keep any additional efficiency savings they deliver through collaborative procurement in excess of what they need to live within their budgets.

3.4 The rest of this section is committed to giving more detail on the key findings of each of these key caveats to achieving significant value for money savings from collaborative procurement.

¹ This report is available at www.hm-treasury.gov.uk

Key challenges to achieving greater value for money through increased collaborative procurement

3.5 Government can achieve approximately £6.1 billion of annual value for money savings from improved collaborative procurement by 2013-14, plus £1.6 billion from improved collaborative procurement of IT, provided the following four key issues are addressed swiftly:

1. Limited scope of the current programme of work

3.6 The current programme of collaborative procurement seeks to achieve increased value for money from six categories of common goods and services: professional services, ICT, energy, fleet, travel and office solutions. These six categories collectively cover £49.8 billion of the £89 billion spend in categories bought commonly across government. Annex E presents an overview of some of the key initiatives and activities currently underway in each of these categories of spend to drive greater value for money through increased collaborative procurement.

3.7 However, there is also scope for expanding the programme to look at other categories of common spend and to bring into the scope of the programme existing work such as the Achieving Excellence in Construction work of the Public Sector Construction Clients Forum (PSCCF), described below in Box 3.A.

Box 3.A: Existing Construction work which could be brought into the scope of the programme

The Public Sector Construction Clients Forum (PSCCF) is a senior level group comprising chief executives and senior directors of key spending departments, local government and representatives from other stakeholders including BERR and suppliers.

A key element of the PSCCF's work in construction to date has been to embed Achieving Excellence in Construction (AEC), a set of standards and approaches that are proven to improve the value from construction procurement. As part of this, the OGC has been gathering data on construction forward look, demand and project and programme information from the key spending departments for four years, collating the information in a database, which is available both to departments and suppliers. This enables better procurement decisions and for the benefits delivered by AEC to be tracked. The OGC team supports this work further with scenario modelling to provide departments with a model of its forward programme, with associated sensitivity analysis.

The strength of the PSCCF comes from the individual authority, leadership and span of its members. To successfully guide the group the Chair must be seen as independent and have personal credibility with customers and suppliers as an experienced expert in public sector construction procurement.

Around 75 per cent of government's construction spend is in the wider public sector though at the same time construction procurement in that space is highly fragmented. Bringing this category into the scope of the collaborative programme is providing extra focus, significantly enhancing staff resources, and is allowing this category approach:

- to deliver a marked improvement in the management information available that can be shared across the procurement community;
- to embed AEC into the wider public sector including regional framework contracts, with very significant associated benefits; and
- to enhance significantly Strategic Supplier Management in construction, backed by information from across government on the actual implementation of policies that impact on construction delivery.

2. There is poor management information available on Government procurement spend

3.8 This review found that whilst there are some examples of good practice in respect of management information on procurement spend in the public sector overall the private sector² enjoys significantly more robust, assured and consistent data and management information on procurement spend.

3.9 This lack of assured, comparable data for the public sector constitutes a key blocker to making progress against a number of agendas and is the single biggest factor preventing the centre from quantifying the case for increased departmental and wider public sector collaboration. If the Government is to drive the maximum value from its procurement spend over this and subsequent spending review periods, it must address these issues more quickly than current plans allow.

² the review observed good practice examples of the benefits of strong management information at organisations including Shell and IBM

3.10 Central and local government accounts suggest that the Government spent £175 billion on procurement in 2007-08. Since 2005, OGC has run its Public Sector Procurement Expenditure Survey (PSPES), which has, for the first time, brought together the Government spend against a common categorisation. However, to date only £110 billion of the total £175 billion government procurement spend has been categorised to a basic common standard. This current common categorisation is comparatively high-level and falls short of being a comprehensive common classification schema for government that can be embedded into departmental enterprise resource planning (ERP) systems.³ If public sector organisations cannot articulate their spending effectively, they cannot manage their spending effectively. Improving the quality of the current management information will present significant opportunities in driving supplier performance and managing uptake levels and benefits flows.

Box 3.B: Good practice example: management information can be used as an opportunity to generate savings

Improved management information can be used as an opportunity to generate savings, as demonstrated by the work of the ICT collaborative category team in analysing supplier performance on major government ICT projects.

Every six months, a confidential assessment is made by government buying departments of their ICT providers on major projects, for top government suppliers. This judges the performance of those ICT Providers against standard groups of criteria. Results and trends are presented back to individual suppliers in a pan-government supplier management forum, which brings together key suppliers with their major government customers; and they form the basis for individual supplier plans that target specific performance improvement interventions. The programme covers around 160 programmes at any given time, and around £5 billion of annual spend.

3.11 Certain government departments (such as HM Revenue and Customs (HMRC) and the Home Office) have substantially improved management information systems over the last 18 months to enhance their understanding of how much they spend on particular commodities. However, in many parts of the public sector, management information remains of insufficient quality or detail to support quality procurement decisions. Where there are devolved services, there is usually no central point of responsibility for ensuring that procurement expenditure is subject to rigorous management information standards or controls. Key barriers to improving management information on procurement spend are:

- **accounting structures:** a key blocker to effective management information is the manner in which accounting structures and systems have developed in government which do not provide a common basis for categorising expenditure by supply market. Unlike the private sector, it is not common practice in the public sector to capture commodity codes at the point of data entry;
- **data quality:** it is often not possible to understand emergent trends in procurement data because departments do not maintain commercial management information in an accurate or consistent way;

³ Enterprise Resource Planning (ERP) is an organisation-wide computer software system used to manage and coordinate all the resources, information and functions of an organisation from shared data stores

- **data standards:** compared to private sector organisations, and with certain exceptions, the public sector has low uptake of commercially accepted data standards, such as Dunn & Bradstreet for supplier codification, or UNSPSC⁴ for supply market categorisation. There are no endorsed government standards for those considering applying them; and
- **technology:** the public sector does not implement consistent technologies such as enterprise resource planning (ERP) and other back office proprietary systems in a common manner.

3.12 The above barriers combine to prevent identification at an aggregate level of what the public sector spends by category and hold back the development of evidence-based decision-making in government procurement.

3.13 Addressing these issues and improving Government management information on procurement spend will be of significant benefit and will allow Government, at an aggregate level, to:

- focus upon suppliers and categories of spend where expenditure is significant;
- provide a baseline against which government can identify the value that has, or has not, been derived from a category spend through collaboration and other department specific routes;
- represent government's position to suppliers against an accurate view of government's leverage in spend with that supplier;
- deliver increased transparency in spend, and thereby increased accountability in how government spends its £175 billion of procurement each year; and
- corroborate its own data sources about spend with those of suppliers to judge uptake of contracts and identify off-contract spend that is not complying with the best deal.

3.14 Lastly, maintenance of these data is a basic 'hygiene' factor for good financial management; the taxpayer should expect government to be able to explain what it spends, and with whom.

3. The procurement landscape is complex and lacks a common strategic purpose and co-operation amongst buying organisations

3.15 The procurement landscape in the UK comprises around 44,000 public sector buyers, including approximately 20,000 schools, 388 English local authorities (which subdivide into many thousands of organisations such as housing associations and social care organisations), 43 police forces, around 500 NHS trusts (which subdivide into many thousands of organisations such as doctors' surgeries and hospitals), central government departments, agencies and non-departmental public bodies (NDPBs).

3.16 The landscape is inefficient, fragmented and uncoordinated, with at least 45 professional buying organisations (PBOs – see Annex C) that have evolved in an unplanned manner, over time, with varying business models, no clear common vision and no clear governance. Currently, approximately £12 billion of the £89 billion spend in categories of goods and services bought commonly across government is channelled through PBOs.⁵ The largest PBOs are OGC Buying

⁴United Nations Standard Products and Services Code. See online at www.unspsc.org

⁵ Figures sourced from the OGC markets and collaborative procurement efficiency team

Solutions, NHS Purchasing and Supply Agency (NHS PASA)⁶ and the PRO5 (the Local Authority buying consortia), which, between them, account for £9.3 billion of the £12 billion spend currently channelled through PBOs. The majority of PBOs have a regional or sectoral focus, for example concentrating on health or on a region of the UK; but the majority of supply markets in which they operate are common across sectors and not restricted to a particular region of the United Kingdom.

3.17 The fragmentation and lack of co-ordination in the procurement landscape presents a key barrier to driving greater value for money from collaborative procurement across the public sector. This is particularly apparent in the health, local government and education sectors where approximately £103 billion of the total £175 billion of government procurement expenditure lies.⁷ It is precisely where spend is most fragmented that increased collaboration has the most value to offer.

3.18 This review found the following key issues with the current procurement landscape which are limiting the scope for the achievement of greater value for money savings through collaborative procurement:

- there is no overall governance to coordinate activities of PBOs, resulting in duplication of effort and duplicated contracts offering varying degrees of value for money. For example, individual energy contracts with energy companies are part of the reason why there is over a 50 per cent cost variation in energy prices across the public sector. There is also a lack of co-operation; some PBOs compete with each other over similar geographies or service offerings;
- PBOs do not routinely share management information on the best deals available to the public sector and they rarely collaborate on purchasing or logistics opportunities. They do not therefore maximise on their potential value by providing shared offerings or price benchmarking to ensure they are offering the best deal available to public sector authorities;
- there are no common performance metrics or governance for PBO interactions. The review also found evidence of perverse incentives generated by commissioning where PBOs are not incentivised to collaborate and thereby drive down the prices of common goods and services for the public sector, but to simply to increase the value of throughput; and
- limited exploitation of electronic procurement (eProcurement) by PBOs. eProcurement solutions such as eMarketplaces and eAuctions offer significant opportunities in sharing information on the best available deals for common goods and services and providing management information on the take-up against those deals.

4. Uptake of collaborative strategies is limited

3.19 The potential for achieving value for money savings of about £6.1 billion by 2013-14 through increased collaborative procurement, plus £1.6 billion from the improved collaborative procurement of IT, is predicated upon levels of uptake of collaborative strategies in each of the six categories of common spend currently included within the programme and in any future categories of common spend which are incorporated into an extended programme.

⁶ NHS PASA's non-health specific core sourcing work will be integrated with OGC Buying Solutions as part of a forthcoming restructuring of PASA

⁷ Derived from the Public Expenditure Statistical Analysis, Tables 2.2, 2.3 and 7.10; http://www.hm-treasury.gov.uk/pespub_index.htm

3.20 The Government should target levels of uptake of 80 per cent in central government and approximately 50 per cent in the wider public sector. However, this review found that in some categories of common spend, current uptake levels are very low relative to these target levels, although in the case of more mature fleet and energy categories, uptake of the collaborative procurement value for money strategies developed over the past two years has already risen to between 80 and 90 per cent for central government.

3.21 Uptake of value for money collaborative strategies in the wider public sector has proven harder to achieve. In energy (the furthest advanced of the six categories currently underway), despite high uptake levels in central government, uptake levels remain below 50 per cent overall because of low uptake in the wider public sector. Promoting collaborative strategies in those areas of government with high levels of local autonomy is a key challenge in achieving the full potential of benefits available from collaborative procurement.

3.22 This review has found that although target levels of uptake in central government appear to be realistic, a 50 per cent uptake target in the wider public sector remains ambitious under current constraints.

3.23 Government therefore needs to be more radical in driving uptake to collaborative strategies through improving mechanisms whereby all parts of the public sector have access to and can comply with collaborative deals. This review would suggest that the benefits of collaborative procurement can be achieved while maintaining local flexibility in the delivery of front-line services to the public. The recommendations section of this report outlines how this should be achieved.

4

Recommendations

4.1 This review recommends four key actions to address the issues highlighted in Chapter 3 of this report. These recommendations build on the existing OGC work programme, previous reviews of government procurement and, more recently, the findings of the Roots review into Local Government. The implementation of these recommendations should be closely monitored by ministers, senior officials, and audit bodies; and progress should be revisited to assess where further action is necessary.

Recommendation 1: Government should extend its current programme of spend to cover new categories of common spend

4.2 By October 2009, the Strategic Stakeholder Forum¹ should extend the scope of the Government's current collaborative category programme to include three new categories of common spend: construction, facilities management and food. This will increase the total coverage of the collaborative procurement programme from £49.8 billion to £78.1 billion of the £89 billion spend in categories bought commonly across government.

Table 4.A: Breakdown of common spend in existing and proposed categories

Category of Common Spend	Current Government Spending
Energy	£3.6bn
Fleet	£1.5bn
Office solutions	£2.4bn
Travel	£2.3bn
Professional services	£26.1bn
ICT	£13.9bn ²
Subtotal of spend in common categories currently included in OGC Collaborative Procurement Programme	£49.8bn
Facilities management	£6.7bn
Food	£2.0bn
Construction	£19.6bn
Subtotal of spend in common categories proposed to be included in OGC Collaborative Procurement Programme	£28.3bn
Total spend in common categories in extended OGC Collaborative Procurement Programme	£78.1bn

Source: OGC Public Sector Procurement Expenditure Survey

¹ Defined in Glossary of Terms at Annex D.

² The ICT spend figure here differs to the total estimate of IT spend in the IT chapter of the OEP Final Report as the figure here is for ICT spend on external contracts only. The estimated IT spend in the IT chapter of the OEP Final Report incorporates all internal spend on the IT function as well as external IT spend. The IT report has used the term "IT" for consistency throughout but refers to the full range of ICT. The definition of "ICT" above refers to the full range of Information and Communication Technologies.

4.3 As the table above shows, under an extended government collaborative procurement programme, £78.1 billion of the total £89 billion of government procurement spend that has been categorised to a commonly procured commodity will be subject to a collaborative approach to procurement. The remaining £11 billion comprises categories, which may have potential for future collaboration, including social care, clinical and medical expenditure, operational goods and waste management.

4.4 Table 4.B shows the level of savings, which should be achievable by 2011-12 if the programme were extended along the lines described here and the other recommendations of this review are implemented.

Table 4.B: Estimation of possible savings by 2011-12

Category	Forecast Delivery by 2011-12
Energy	£320m
Fleet	£110m
Office solutions	£280m
Travel	£240m
Professional services	£1,120m
ICT	£1,570m ³
Facilities management	£540m
Food	£90m
Construction	£1,460m
Total	£5,730m

4.5 Annex E outlines some of the key collaborative procurement category initiatives, which are currently in place or being developed to support with achieving these savings. For example, OGC is working with the Department for Children, Schools and Families (DCSF) and schools to identify ways of reducing energy costs by aggregating demand through Local Government PBOs to realise efficiencies of scale. Some schools already purchase through PBOs, but many still have individual contracts with energy suppliers, which contributes to over 50 per cent variation in the rates paid for 1KwH of electricity across the public sector. Equally, to address a large cost variation in the prices paid for IT hardware such as laptops, desktops and servers, OGC's ICT category team have worked with over 450 public sector organisations including Government departments, local authorities and police forces to run a series of e-Auctions, which have so far delivered savings of over £33 million in the current Spending Review.

4.6 This review notes that in some of the more mature categories, additional savings are available if a more radical approach is taken to collaborative procurement. In the energy category this will include buying energy directly from generators on behalf of the public sector as a whole. In the fleet and energy categories, further savings of approximately £200m in the next Spending Review may be available if such radical approaches are undertaken. This review strongly supports such radical approaches being taken in order to achieve greater value for money for the public sector through collaborative procurement.

³ This £1.6 billion has been netted off the total collaborative procurement savings and included in the IT / Back Office total savings figure

4.7 Recommendation 4 outlines how savings can be achieved through increasing uptake of collaborative strategies across the public sector. Coupled with recommendation 1 on extending the programme, there is potential to deliver at least £2 billion of additional savings a year by the end of 2013-14, i.e. giving a total collaborative procurement saving by 2013-14 of £7.7 billion. However, as £1.6 billion of this would be achieved through the collaborative procurement of IT, and is therefore included in the savings figures set out in the *Operational Efficiency Programme: back office operations and IT* report, the total collaborative procurement savings figure for 2013-14 is £6.1 billion.

Recommendation 2: improve management information on government procurement spend

4.8 This report strongly endorses the importance of quality management information. What isn't measured well will not be managed well. All public sector organisations (including central government departments, their agencies and NDPBs and wider public sector organisations) have a responsibility to maintain detailed and consistent information on how public money is spent and should be able to categorise their procurement spend to an appropriate level of detail. Where departments and local Authorities have strong management information on procurement spend, the benefits they have received as a result are significant and compelling.

4.9 With immediate effect, OGC should take the lead role in defining government's approach to management information, in respect to third-party procurement spend, in consultation with central government departments, the wider public sector, HM Treasury and the Office of National Statistics. This should include:

- a mandate to agree by major government sector (e.g. Central Civil Government, Defence etc.):
 - a common classification schema for goods and services, such as UNSPSC;
 - a common classification schema for suppliers, such as Dunn and Bradstreet; and
 - a common information schema for supplier information / market category provided to government bodies.
- representing government's interests upon the boards and steering committees of agreed data standards and extending these standards where appropriate; and
- monitoring and publishing the performance of public sector bodies in classifying their data against agreed standards.

4.10 OGC should agree common standards for central government departments, their agencies and NDPBs and publish these by June 2009.

4.11 OGC should work with the following organisations to agree a similar common standard on management information for the wider public sector by April 2010:

- Department for Communities and Local Government (DCLG) and the Local Government Association (LGA) through the procurement champion identified by the Roots review;
- Department for Children, Schools and Families;
- Department of Health;
- Home Office; and
- Audit Commission.

4.12 OGC should expand the programme of public sector procurement expenditure analysis to

- provide more detailed procurement management information at individual NDPB and agency level;
- minimise the data gathering burden placed upon government organisations through increased automation; and
- provide a structured approach that can be adopted by public sector organisations that seek to improve their data

4.13 Central government departments, including their agencies and NDPBs, should implement the agreed standards within their financial systems, by April 2010, to a level of detail within the elected classification schema at least equivalent to UNSPSC level three, proportionately such that it covers 80 per cent or more of their procurement spend. By this time, departments, their agencies and NDPBs should:

- include a high level breakdown to UNSPSC level one, or equivalent, of their procurement spend against that agreed standard within their department accounts;
- provide quality assurance of the data, which has been agreed, both by financial and commercial directors;
- set aside funds within their accounts to implement spend analysis technologies such as those highlighted in the Home Office and HMRC examples, where they are unable to produce data to at least UNSPSC level three or equivalent; and
- provide OGC with this data at least annually.

4.14 On an ongoing basis, OGC should monitor progress against the quality of public sector management information and report progress back to commercial directors on a quarterly basis and permanent secretaries and secretaries of state on an annual basis.

4.15 Departments and the wider public sector should address performance gaps in management information identified in the annual PSPES Survey.

4.16 Central government departments, including their agencies and NDPBs should include within all new framework agreement standard conditions in respect of provision of detailed management information against the common, agreed schema for supplier management information by Budget 2010. They should provide, upon request, that data to the Office of Government Commerce. This will promote greater transparency of deals that have been negotiated with one part of the public sector and enable improved value for money.

4.17 OGC should publish and promote simple mechanisms that will support government departments delivering collaborative solutions, including:

- tender process documentation, that ensures framework agreements let are available, as standard, for use by any organisation in central or local government; and
- proposed terms and conditions that can be used within framework agreements to ensure that pricing information can be shared with all other public sector organisations.

4.18 Box 4.A provides a good practice example of a public sector organisation which is already realising the benefits of improved management information.

Box 4.A: Improving management information in HM Revenue and Customs

The Commercial Directorate in HM Revenue and Customs was formed in 2005 following the merger of Inland Revenue and HM Customs & Excise. At the time of the merger the organisation had made the decision to implement an ERP system (delivered April 2006) but had no eProcurement tools other than ad-hoc access to a reverse auctioning functionality.

A transformation programme was initiated in 2006 to introduce a fully integrated eProcurement system. However, it was clear that there was no existing capability in the use of standard coding and spend reports were wildly inaccurate, so the initial priority was to establish robust and flexible spend analysis capability built around the widely accepted UNSPSC coding system.

HMRC implemented the spend analysis component of the eProcurement software as the first stage of the overall eProcurement programme such that the organisation is now able to extract data only a month away from real-time.

From a starting position of “not knowing what we buy and not knowing who we spent our money with,” HMRC now have management information for all orders placed and all invoices paid – and the ability to drill down to individual transaction level at the very core of their spend data. The introduction of spend analysis has had a positive impact which allows the Department to easily:

- benchmark the data set against other organisations;
- identify rationalisation opportunities by UNSPSC & HMRC organisational structures;
- analyse the scale and characteristics of low value transactions;
- interrogate adherence to payment terms and attribute to individuals;
- measure uptake of contracts and identify methods to develop this measure and the associated controls in the future;
- run reports on duplicate payment issues;
- support the accurate measurement of saving targets; and
- track the Department’s spend over time and highlight seasonal skews.

Recommendation 3: the Government must make better use of the current PBO Landscape

4.19 Sections 3.15 to 3.18 detail how the current procurement landscape is fragmented, lacks co-ordination and a strategic vision. Approximately £12 billion of the total £175 billion government procurement spend is currently channelled through Professional Buying Organisations (PBOs). Most procurement expenditure lies outside of central government departments and occurs in local government and the wider public sector. For example, schools, local authorities and hospitals account for some £103 billion of the total £175 billion government procurement spend. PBOs have an important role to play in improving value for money provided by collaboration in these sectors of government. This review recommends that the level of common spend channelled through PBOs or other collaborative channels should be increased to 80 per cent of all available central government spend and 50 per cent of all available wider public sector spend, by 2010-11.

4.20 Central government cannot mandate compliance against collaborative strategies to the wider public sector. However, all public sector organisations have a duty of care to taxpayer funds. Once in place, the National Procurement Champion, recommended by the Roots review, should:

- work with Local Authorities and other wider public sector organisations to ensure that they are deriving the maximal value offered by collaborative strategies; and
- represent the wider public sector on the Strategic Stakeholder Forum to ensure that the actions from both the Strategic Stakeholder Forum.

4.21 By June 2009, OGC should create and chair a 'PBO governance group' that brings together central policy and local delivery representatives with PBOs with a view to driving greater coordination, consistency and transparency across this landscape.

4.22 By December 2009, this governance group should ratify a strategy for an operating framework that will allow PBOs to cooperate across categories, regions and the procurement process. This should:

- provide a framework within which PBOs can share management information on the best deals available to drive best practices. Sharing data and standards is a key enabler for effective co-ordination and management of the landscape. Sharing this information would be a fundamental change to the current way of working for most buying organisations;
- provide buyers with a clear list of available approved and accredited buying options, so that budget holders can choose from alternative product or service offerings which offer best value. This approach will also benefit suppliers, who will consequently spend less time tendering;
- provide a co-ordinated and efficient approach to procurement and to customer management by defining clear roles and governance models that can be shared across PBOs. This will ensure that PBOs are not competing for customers and are benefiting from the combined purchasing power of multiple PBO customer bases. It will eliminate unnecessary overlap and reduce duplication of geographies, market scope or service offerings in the procurement landscape; and
- provide renewed reward mechanisms for PBOs so that:
 - PBOs are incentivised to deliver the best value to their customers either through using the best deal already available elsewhere in the procurement landscape; or where such a deal does not already exist, by providing a framework that can be re-used elsewhere in the procurement landscape; and
 - PBOs are no longer subject to incentives, that might in certain circumstances mitigate against delivering best value to their customers: for example, increasing throughput only through their own contracts in order to increase the commission received from suppliers.

4.23 Professional buying organisations should be invited to attend the PBO governance group and sponsoring departments should strongly encourage this. Attendance should become contingent upon the PBO adopting the common and transparent business models agreed by this group, which allow PBOs to cooperate across categories, regions and the procurement process.

4.24 PBOs attending the group will be provided with management information on spend levels across local and central government, which will allow them to focus their marketing strategies more effectively.

4.25 Central government departments should require any existing or future private sector PBO providers, or any public sector PBO provider, operating anywhere within their core Department, agencies or NDPB or wider public sector family, that is not engaged in the collaborative process, to demonstrate that they provide VfM over and above public sector comparator organisations on at least an annual basis through clear benchmark comparisons.

Box 4.B: Value Wales: Channelling more spend through PBOs

Value Wales is a division of the Welsh Assembly Government, created in 2005 to help the Welsh public sector realise more value for money through smarter procurement – by collaborating to achieve savings; improving buying processes; and delivering more sustainable outcomes.

Across the public sector in Wales, approximately £4.5 billion is spent on goods and services each year. Value Wales frameworks have already saved the Welsh public sector £56.7m. For example, Dwr y Felin School in Neath has 1,264 pupils and spends approximately £500,000 every year on commodities. Since 2006 the school has started outsourcing its procurement and channelling its procurement spend through Value Wales for the majority of high usage stock. Three years ago the school spent some £7,000 a year on consumable office items such as paper. This has now reduced to about £4,000 a year as a result of using Value Wales agreements. Just on this element, this makes a saving of £3,000 a year, which has been spent on improving the school. In total, the school has saved around 20-30 per cent on these and other items when compared with a few years ago.

Value Wales framework deals are open to all public sector organisations based in Wales and deliver better arrangements than individual organisations can achieve on their own because of the economies of scale secured through collaboration across the entire Welsh public sector. For example:

- IT equipment and services, covering PCs, laptops, printers, handheld devices and servers – average savings of 39 per cent;
- stationery and paper – average savings of 30-35 per cent; and
- computer consumables, including printer cartridges – average savings of 26 per cent

Recommendation 4: improve awareness and uptake throughout the public sector to collaborative strategies.

4.26 As highlighted earlier in this report, a key factor in achieving value for money savings of approximately £6.1 billion by 2013-14, plus £1.6 billion from the improved collaborative procurement of IT is through driving uptake of collaborative category strategies. This report recommends that:

4.27 By March 2011 the level of common spend channelled through collaborative strategies including PBOs and other solutions ratified by Collaborative Category Boards should increase to 80 per cent of all available spend in Central Government departments and 50 per cent of all available spend in the wider public sector.

4.28 In central Whitehall departments, their agencies and NDPBs:

- the Government should mandate participation in all of the collaborative procurement categories for all central government departments with immediate effect;
- for the nine categories of common spend included in the extended collaborative procurement programme, 80 per cent of all “available” departmental spend (i.e. spend not locked into existing contracts (as determined by the relevant collaborative category board⁴)), including NDPBs and their agencies, should be channelled through collaborative strategies;
- OGC should publish quarterly performance metrics for Departments and their delivery chains, including where necessary the largest NDPBs and executive agencies;
- accounting officers in central government departments should hold commercial functions across department families to account for delivering value for money through increased collaboration, and should monitor progress towards achieving this across their departmental family;
- accounting officers should give Commercial Directors in central government departments increased powers to coordinate delivery of the collaborative agenda across departmental families, into those NDPBs and executive agencies that constitute together with the core department 80 per cent of the department’s spend (limited exclusions to this recommendation may be sanctioned by HM Treasury spending teams);
 - by June 2009, and thereafter at the start of every financial year, commercial directors should agree corporate targets for uptake of collaborative strategies for each NDPB and executive agency within their departmental family,
 - these targets should be included in the personal objectives of commercial directors in those NDPBs and executive agencies;
 - department Commercial Directors should agree with OGC the level of uptake achieved at the end of each financial year for each NDPB and Executive Agency within their departmental family; and
 - where Commercial Directors are not satisfied that an organisation within their departmental family is delivering the VfM they could achieve through greater collaboration, they should work with the Accounting Officer in consultation as appropriate with HMT Spending Teams to maximise VfM.
- where NDPBs or Executive Agencies are not able to provide data to a quality sufficient to judge uptake, as highlighted above, they should set aside funds within their accounts to implement spend management technologies.

4.28.1 Accountability and performance management: across all the strands of the OEP, government is seeking to develop a range of individual and departmental incentives that will provide increased scrutiny of the value for money that central government and wider public sector bodies derive. This will include regular reporting to Ministers and senior officials, such as assessment at the Public Services and Expenditure (PSX) Cabinet Committee, inclusion of collaborative procurement as a component of the value for money indicators within assessments of departmental performance, Permanent Secretary performance appraisals, and as a

⁴ Defined in Glossary of Terms at Annex D.

component of assessments of public sector organisations by the various audit bodies. The following recommendations outline how these apply to collaborative procurement:

4.28.2 Individual Incentives: senior leaders within departments for delivering should be rewarded for delivering against collaborative procurement value for money and efficiency targets. SCS commercial director performance agreements should include specific reference to collaborative procurement and collaboration should be cascaded through personal incentives, such that it forms part of all commercial officers' personal objectives;

4.28.3 Departmental incentives: the proposals below will build on the announcement in HM Government's 10 March publication, 'Working together: public services on your side'⁵ which announced:

"Simpler, more transparent department performance assessments. A new performance management framework for departments will be introduced from autumn 2009 to ensure stronger accountability for government departments. And to ensure that performance is visible to the public, we will develop and publish a new performance management scorecard to show how departments are performing against government priorities – including value for money."

- incorporating collaborative procurement within an overarching value for money indicator on the departmental performance scorecard: OGC should monitor and assess departmental performance against collaborative procurement targets;
- the Chancellor and Chief Secretary should continue to provide visible sponsorship for collaborative procurement at Cabinet level and this review strongly recommends that stronger Ministerial commitment should be given to increasing the value for money obtained by greater collaborative procurement in departments and the wider public sector, with progress and uptake of collaborative strategies regularly scrutinised by Ministers and senior officials. A dashboard of collaborative procurement indicators should be presented bi-annually to a Ministerial Committee on Public Services and Expenditure (PSX). The PSX Cabinet committee, chaired by the Chancellor, should use this opportunity to review uptake of the agreed collaborative category strategies every six months and to discuss poor performance directly with Ministers;
- a value for money Review Group should support and challenge departmental performance, as necessary. The Review Group could provide advice to feed into PSX and discussions with Ministers. These discussions should cover departmental performance in achieving value for money savings from greater collaborative procurement and would be informed by the collaborative procurement indicators on the value for money scorecards as highlighted above. Such meetings should also be informed by league tables that compare performance of public sector organisations against uptake targets;
- collaborative procurement performance indicators should form a key input into assessment of departmental and permanent secretary performance; and
- as the Government produces new departmental spending plans, it is expected that this process will set departmental budgets and value for money targets for each department and their respective delivery chains. Departments should be able to keep any additional efficiency savings they deliver in excess of what they need to live within their budgets, including any made through collaborative procurement. In setting departmental budgets, HM Treasury should seek to incentivise good

⁵ <http://www.hmg.gov.uk/workingtogether.aspx>

performance through not penalising departmental success against collaborative procurement targets.

4.29 In the wider public sector, the following organisations should actively promote greater compliance and uptake to collaborative strategies within their sectors:

- Department for Communities and Local Government (DCLG) and the Local Government Association (LGA), should actively promote uptake in local authorities in line with the findings of the Roots review
- Department for Children, Schools and Families, for schools;
- Department for Innovation, Universities and Skills for Universities and Further Education colleges;
- Department of Health, for the NHS and Health sector; and
- Home Office, for police forces in England.

4.30 This report recommends three further ways in which uptake of collaborative strategies can be achieved, both in central Whitehall departments and the wider public sector:

- ensuring more effective marketing and sharing of management information on the best central deals available, which offer improved value for money for the public sector as a whole;
- better use of strategic eProcurement tools for government, to support in driving greater uptake of collaborative category deals, (as demonstrated with “Open”⁶ to strong effect in schools already), and in providing rich management information; and;
- building on existing work of the Government Procurement Service to ensure that value for money and collaboration form key components of skills and capability development of procurement professionals across government.

4.31 The following section considers each of these areas in turn:

More effective marketing of collaborative strategies

4.32 This review recommends that the Government should ensure active promotion of approved and accredited collaborative strategies through strategic marketing in order to provide a compelling case for change and greater efficiency and to ensure that the best deals are promoted more widely across the public sector. Boxes 4.C and 4.D contain examples of good practice in the marketing of good collaborative deals, as observed during the course of this review.

4.33 OGC should provide central leadership in marketing collaborative deals across government. Departments should all formulate marketing strategies for their constituent central bodies, NDPBs, executive agencies and wider public sector organisations, i.e. DCLG in local authorities, DCSF in schools and DH for the National Health Service.

⁶ OPEN (Online Procurement for Educational Needs) is the national programme to improve procurement in schools. OPEN is managed by the Educational Procurement Centre (EPC) of the Department for Children, Schools and Families (DCSF).

4.34 By October 2009, departments should develop commercial, marketing and performance management approaches to maximise the available spend in their affiliated sectors, which is channelled through collaborative strategies. These organisations should also publish quarterly performance metrics, which will indicate the level of uptake of collaborative strategies.

Box 4.C: Good practice example: collaborative procurement – Improvement and Efficiency South East (IESE) construction framework agreement

IESE is a partnership of the 74 local authorities and 9 Fire & Rescue authorities in SE England, led by Hampshire County Council. In 2006, IESE launched a regional construction framework aimed at construction projects over £1m.

The framework operates at a regional and sub-regional level, and provides an environment where skills and knowledge and shared and performance is robustly measured. This increases efficiency by:

- providing services to local authorities throughout the procurement life cycle of construction projects;
- allowing similar projects from across the region to be linked as single programmes of work;
- sharing good practices and resources, and reducing duplicated effort; and
- leveraging consolidated buying power and supply chain efficiencies.

To date 72 projects have been placed with the ten framework contractors with a value of £900 million, with further expenditure of £400 million in the pipeline.

In the current financial year, all the IESE projects have been completed within 8 per cent of the contracted price (Compared with 9 to 25 per cent from other industry datasets), and within 5 per cent of the contracted timescale (Compared to 35 per cent from other datasets). KPI scores for contractors' performance are also 30 per cent better than traditionally-tendered projects.

Box 4.D: Good practice example – Value Wales – improved marketing of collaborative deals as a mechanism for driving improved value for money whilst ensuring local decision making

Value Wales, a division of the Welsh Assembly Government promoting improved VfM in public services across Wales undertook an innovative approach to fostering greater collaboration and best practice amongst schools in Wales.

The challenge was how to communicate and implement the best collaborative deals available to approximately 2000 schools in Wales, where head teachers ultimately have local autonomy over how budgets are spent. Value Wales therefore recruited a small number of head-teachers to attend school cluster group meetings and spread the message across Wales, working with Local Authority procurement officers to analyse the prices being paid for standard commodities, such as IT hardware and office solutions (stationery, photocopiers, whiteboards etc.) and highlight the significant savings available from moving to collaborative strategies.

At the start of the process, approximately 16 per cent of schools in Wales were using some of the centrally-negotiated collaborative deals which were in place, but within the space of a year, at least 88 per cent of the schools were using at least one of the collaborative agreements available to them, thereby saving considerable time and money. If the results of this one year long piece of work were extrapolated more widely, £20 million in value for money savings would be available across schools in Wales, which could then be re-invested into other front-line academic resources.

Strategic eProcurement tool for the Government

4.35 eProcurement or online marketplaces are essential to delivering the benefits of collaborative procurement to the wider public sector. They enable the collection of detailed management information on who buys what from whom, provide increased transparency and process efficiency, ensure that customers can access the best deals available to them online and provide a means of monitoring take-up of those deals and measuring procurement savings that result from them. Users would be able to see what deals are available and choose the best ones (not just on price), which drives competition between suppliers and, where appropriate, PBOs. All of these benefits from eProcurement help to drive improved value for money. However, this review has found that Government has not yet realised the full potential benefits of such technologies.

4.36 Government must act to maximise the return on existing eProcurement investments by exploiting them more fully in its programme of pan-government collaboration. This review recommends therefore that:

OGC should:

- develop and agree by October 2009 an eProcurement policy for Government, which can be made available immediately to all Government departments, that promotes appropriate use of a standard suite of tools that maximises on existing investments, such as Zanzibar (see box 4.E);
- agree common standards for relevant data as described above;
- expand the current contracts database such that by April 2010 it has become a central register of collaborative deals and the constituencies to which they apply.
- promote proactive sharing of information amongst eProcurement systems that are available on a regular basis and drive interoperability between existing systems; and

- by October 2009, perform an investment appraisal for a central eAuction Centre of Excellence to act as a catalyst for a significant increase in the frequency and scale of eAuctions across the public sector.

All central Government Departments should:

- align the central eProcurement policy with their commercial strategies, including setting explicit targets for eProcurement (for example, eAuctions, electronic transactions with suppliers, electronic tendering, eInvoicing or eSourcing) by March 2010; and
- incorporate all deals from the OGC maintained central database into their departmental eProcurement solutions by October 2009

Box 4.E: Zanzibar as an effective eProcurement tool for the Government

Zanzibar is a web-based purchase to pay (P2P) and electronic marketplace solution, providing a common hosted platform for ePurchasing and eInvoicing. It is available under a framework agreement to all English, Welsh and Northern Irish public sector organisations. Zanzibar promotes real collaboration in an eMarketplace and the benefits to be gained by Government using Zanzibar as a strategic eProcurement tool for Government are considerable. The tool supports the four key recommendations of this review by:

- providing a single repository of cross government management information;
- helping to drive uptake of collaborative strategies and incentivisation through organisation and role specific access to content, providing improved access to suppliers, reducing process time and creating a secure environment to work within;
- providing rich real-time management information (to line item detail with consistent classification) to enable Chief Financial Officers (CFOs) and Chief Procurement Officers (CPOs) to track and manage their spend. This will also support in performance management across Departments by facilitating comparisons in prices paid for common commodities within and between departments; and
- promoting and, if necessary, 'forcing' cross-government collaboration on procurement of common commodities from the collaborative contracts which are made available on the system.

Value for money and collaboration as key components of skills and capability development across government

4.37 The Government Procurement Service (GPS) represents and supports procurement professionals across government and has a vision to create a sustainable balance of appropriately skilled and suitably managed procurement professionals. It provides a framework to enable procurement professionals to develop the capability needed to deliver better public services and create savings from public procurement. This review supports the vision of the GPS and recommends building on the strong foundations it has developed to ensure that value for money and collaboration form key components of skills and capability development of procurement professionals across government.

The role of mandation in driving compliance/uptake of collaborative strategies

4.38 This review also considered the role of mandation (i.e. mandating public sector organisations to purchase common goods and services from specific collaborative strategies) as

a possible option for ensuring higher levels of compliance across the public sector to collaborative strategies. However, local councils and other local organisations are autonomous bodies with local democratic accountability, who are responsible for taking their own procurement decisions.

4.39 This review does not seek to impose mandation centrally from Whitehall, therefore, but rather increase the flexibility of organisations right across the public sector to obtain procurement efficiencies from a range of available best value deals. This should be attained through more effective marketing of central deals, the use of eProcurement and the implementation of the four key recommendations highlighted above. The review considered the option of a 'comply or explain' model to promote uptake of collaborative strategies. The likely result of this would be significant volumes of 'explanation' of why an organisation's procurement requirements were different to those provided by a collaborative strategy and very limited compliance.

4.40 However, there are many examples of credible alternatives to mandation and 'comply or explain' as methods for promoting compliance with pan-government strategies and providing greater value for money from increased collaboration in the wider public sector. Other positive examples observed as part of this review include joint commissioning, as with the South West One example (see box 4.F below), or through greater aggregation of demand regionally.

Box 4.F: South West One: good practice example of increased collaboration in local government

Positive evidence of local collaboration can be seen in the "SW1" example, a joint venture company between Somerset County Council, Taunton Deane Borough Council, Avon and Somerset Constabulary which has been set up to manage the provision of a range of corporate support services on behalf of the councils and police.

Southwest One's focus includes finance, human resources, procurement, information technology, customer contact and estate management. The new company's role seeks to go beyond the delivery of more cost effective corporate support services and providing better value for money for taxpayers, but also to improve operational effectiveness and productivity through:

- 1 redesigning business processes and the use of technology to underpin more flexible ways of working;
- 2 improving customer access to the services provided by enabling customer-facing staff to spend more time in the communities they serve; and
- 3 improving service delivery to the public through more effective integration of customer information and delivery.

4.41 Progress against implementation of these recommendations should be reviewed as part of the process outlined in 4.28.3 and also as part of the on-going NAO study on collaborative procurement, and as a normal part of the VfM assessment of other audit bodies, such as the Audit Commission.

4.42 Progress against the implementation of these recommendations should be assessed where further action is necessary; where strong progress has not been seen, this will compromise the Government's ability to deliver the potential value for money cited in this report. Where this is the case new, actionable recommendations should be made. These should include further consideration of strong central mandation, as a way of driving greater compliance to deals which offer best value for money for the public sector as a whole.

5

Summary of recommendations

5.1 This review has observed some excellent examples of real savings being delivered across the public sector from greater uptake of collaborative deals, such as the £650 million delivered through increased collaboration in the 2004 Spending Review. There is clearly a significant benefit to be obtained however those savings are subsequently deployed; for example, savings from schools in Wales buying collaboratively were recycled directly into improved front line services.

5.2 But the review has also witnessed the significant capacity for further savings to be achieved and the real step-change that is required if the full potential of collaborative procurement is to be realised. This review concludes that very large savings are available, but only if the recommendations outlined here are implemented swiftly.

5.3 Approximately £6.1 billion of annual value for money savings are available from greater uptake of collaborative procurement by 2013-14, compared to the 2007-08 government procurement spend baseline of £89 billion that has been categorised to a commonly-procured commodity. Of these savings, £5.7 billion could be delivered by the end of 2011-12. Increasing uptake of collaborative procurement beyond this date and further extending the programme to cover more categories of common goods and services has the potential to deliver at least an additional £2 billion per year by the end of 2013-14, i.e. giving a total collaborative procurement saving by 2013-14 of £7.7 billion. However, as £1.6 billion of this would be achieved through the collaborative procurement of IT, and is therefore included in the savings figures set out in the *Operational Efficiency Programme: back office operations and IT* report, the total collaborative procurement savings figure for 2013-14 is £6.1 billion. However, these value for money savings will only be achieved if the Government acts now to:

- extend the current programme of collaborative procurement to cover additional categories of common spend. In the first instance this should include facilities management, construction and food;
- improve management information on government procurement spend by ensuring all government departments provide a high-level breakdown of their procurement spend within department accounts to a common, agreed and consistent standard;
- make better use of the current landscape of professional buying organisations and ensure more (80 per cent of current categorised available spend in the existing collaborative procurement programme categories in central government and 50% in the wider public sector) common spend is channelled through buying organisations or other collaborative deals by the end of 2010-11; and
- drive greater uptake of collaborative strategies through greater incentivisation, improved marketing of central deals and adopting increased strategic eProcurement for government.

5.4 The above recommendations should be mandatory for all central government departments, and the major agencies and non-departmental public bodies (NDPBs) that they are responsible for. Furthermore, for the wider public sector, such as schools, hospitals and local government organisations, OGC and sponsor departments should work together to implement the above recommendations, whilst respecting local autonomies.

Table 5.A: Summary of Recommendations

Recommendation	Owner	Date to be Implemented by:
<p>1. Extend the Programme of Collaborative Procurement to Additional Categories</p>	OGC	October 2009
<p>Extend the scope of the existing programme of collaborative procurement to include construction, facilities management and food</p>	<p>2. Improve the quality of management information on procurement spend across the public sector</p>	With immediate effect
<p>Define Government's approach to management information for third party spend</p>	OGC, in consultation with Central Government Departments, wider public sector, HM Treasury and Office of National Statistics	With immediate effect
<p>Agree and publish common data standards for central government departments, their agencies and NDPBs</p>	OGC working with Central Government Departments	June 2009
<p>Agree common data standards on management information for wider public sector</p>	OGC working Central Government Departments and Audit Commission	April 2010
<p>Expand the programme of public sector procurement expenditure analysis to provide more detailed management information</p>	OGC	With immediate effect
<p>Implement agreed data standards within financial systems</p>	Central Government Departments, their Agencies and NDPBs	By March 2010
<p>Monitor progress against the quality of public sector management information and report progress back to Commercial Directors, Permanent Secretaries and Secretaries of State</p>	OGC	Ongoing
<p>Publish and promote simple mechanisms that will support government departments delivering collaborative solutions, including tender process documentation and proposed terms and conditions that can be used within framework agreements to ensure that pricing information can be shared with all other public sector organisations.</p>	OGC	With immediate effect

3. Make better use of the Current PBO Landscape

Create and chair a "PBO Governance Group" to drive greater coordination, consistency and transparency across the PBO landscape

OGC

June 2009

This Governance Group should ratify a strategy developed by OGC for an operating framework that will allow PBOs to cooperate across categories, regions and the procurement process

OGC / PBO Governance Group

December 2009

4. Improve awareness and uptake of collaborative strategies

Ensure 80% of "available" Central Whitehall spend and 50% of "available" wider public sector spend is channelled through collaborative strategies, PBOs and other solutions ratified by the Collaborative Category Boards

OGC, Whitehall Departments and wider public sector organisations

March 2011

Mandate participation in all of the Collaborative Procurement categories for all Central Government Departments

Government

With immediate effect

Ensure accounting officers in central government departments hold commercial functions across department families to account for delivering value for money through increased collaboration and monitor progress towards achieving this across their departmental family

Accounting Officers / Commercial Directors

With immediate effect

Ensure accounting officers give commercial directors in central government departments increased powers to coordinate delivery of the collaborative agenda across departmental families, into those NDPBs and executive agencies that constitute, together with the core department, 80 per cent of the department's spend

Accounting Officers / Commercial Directors

With immediate effect

Ensure more effective marketing and sharing of management information on the best central deals available. Central government departments should develop commercial, marketing and performance management approaches to maximise the available spend in their affiliated sectors, which is channelled through collaborative strategies

Central Whitehall departments

October 2009

Develop and agree an eProcurement policy for Government that promotes standard tools and maximises on existing investments and ensure Government departments align the central eProcurement policy with their commercial strategies.

OGC / Central Whitehall departments

October 2009

A

Stakeholder engagement

Many people have contributed to this review including a large range of Ministers, Permanent Secretaries, Finance Directors (from across the public sector) and Commercial Directors. The following is a list of other individuals who have contributed. The review apologises to any stakeholders who may have inadvertently been missed off this list.

Table A.A: List of interviewees and organisations consulted: private sector organisations

Stakeholder	Organisation
Rob Woodstock	Accenture
Mike Zealley	Atos Consulting
Eva Eisenschimmel	EdF
Ken Harvey	HSBC
David Pritchard	HSBC
Alan Thomas	HSBC
Mark Ellis	IBM
Robert Gisborne	IBM
Gary Freburger	Invensys plc
William Barry	KPMG
Bernard Brown	KPMG
Peter Chew	KPMG
Veera Johnson	PA Consulting / Procsolve
Dave Allen	PwC
Mike Cowan	PwC
David Padwick	PwC
Simon Godfrey	SAP
Tony Collins	Shell
Brian Woodford	Tata Consultancy Services

Table A.B: List of interviewees and organisations consulted: public sector organisations

David Bell	Department for Children, Schools and Families
Richard Handover	Department for Children, Schools and Families
Ian Taylor	Department for Children, Schools and Families
Andrew Culver	Department of Communities and Local Government
Peter Housden	Department of Communities and Local Government
Bill Roots	Department of Communities and Local Government
Peter Coates	Department of Health
David Lawson	Guy's and St Thomas' Hospital NHS Trust
Martin Shaw	Guy's and St Thomas' Hospital NHS Trust
Dave Thomas	Her Majesty's Revenue and Customs
John Collington	Home Office
Lord St John of Bletso	House of Lords
Rt Hon Yvette Cooper MP	HM Treasury
Amyas Morse	Ministry of Defence
Dr David Horne	National Police Improvement Agency
Andrea Tickner	North Eastern Purchasing Organisations
John Cooper	NHS Purchasing and Supply Agency
William Jordan	Office of Government Commerce (OGC)
Carl Meewezen	Office of Government Commerce
Stephen Duckworth	Office of Government Commerce
Mike Greatwich	Office of Government Commerce
David Shields	Office of Government Commerce
Nigel Smith	Office of Government Commerce
Sir Peter Gershon	Former Chief Executive of OGC
Alison Littlely	OGC Buying Solutions
Alison Standfast	Value Wales
Martin Sykes	Value Wales

B

Example criteria for Collaborative Category Board accreditation

Introduction

B.1 As part of the HM Treasury initiative Transforming Government Procurement (TGP)¹, a series of recommendations for energy procurement in the public sector have been developed. These recommendations form the basis for delivering a managed approach to procurement to provide better value for money for both central government and the wider public sector. These recommendations are designed to save public sector organisations money and carbon, thereby helping to meet CSR07 commitments and improve corporate social responsibility.

B.2 In order to deliver these recommendations a set of criteria have been developed that define the agreed best practice. These enable assessment of arrangements put in place by public sector organisations.

Recommended best practice principles for energy

5.5 Public sector departments and organisations are compliant with the Transforming Government Procurement initiative if they:

- meet Energy Strategy Team (EST) procurement recommendations, as endorsed by the Collaborative Category Board (CCB); and
- meet EST sustainability recommendations, as endorsed by CCB.

5.6 Organisations will be assessed against whether they:

- use a contract/framework with the ability to deliver wholesale energy sourced independently from the supply agreement, including where appropriate Renewable Obligation Certificates (ROCs) and Levy Exempt Certificates (LECs) (electricity only);
- use a contract/framework or contracting authority with transparent pricing mechanisms (i.e. those which allow visibility of raw energy price, all regulated charges, suppliers' margin, administration charges, and other supplier charges such as renewable energy premiums and ROC prices etc);
- use a contract/framework with the ability to fix volumes over a series of purchases in the wholesale market;
- apply a documented (robust) risk management strategy that supports the purchasing strategy, and meet recommended robust governance arrangements;
- use recommended tools and techniques for managing risk;
- apply the agreed savings methodology and sound performance measurement;

¹ For further information on the Transforming Government Procurement objectives see: www.hm-treasury.gov.uk and ISBN-13: 978-1-84532-240-3 PU147.

- ensure that the contract is OJEU compliant, meets the best practice criteria as agreed by the CCB and enabled for other public sector users where appropriate;
- deliver quarterly management information as required for reporting;
- ensure that all contracts will be for volumes of >500GWh electricity, or > 150GWh for contracts covering five or more separate customer organisations. Ensure that gas volumes will be >20 million therms, or >10 million therms for contracts covering 5 or more customer organisations; and
- ensure that OJEU/Procurement has been approved through a process agreed by the CCB to ensure it is a collaborative arrangement and consistent with the overall category strategy.



45 identified professional buying organisations

Table C.A: Table

Sector	Organisation name
Health	NHS Purchasing & Supply Agency (NHS PASA) ¹
	South East Coast Collaborative Procurement Hub
	East of England NHS Collaborative Procurement Hub
	East Midlands Resource Procurement Hub
	West Midlands Healthcare Purchasing Consortium
	North West Collaborative Procurement Hub
	Yorkshire and the Humber Collaborative Procurement Hub
	PRO-CURE Collaborative Procurement Hub
	PRO-NE (Procurement North East)
	London Procurement Programme
	Bristol and Weston Purchasing Consortium
	Dorset and Somerset Procurement Confederation
	Gloucestershire Shared Procurement Service
	Peninsula Purchasing and Supply Alliance
	Solent Supplies Team
Education	British Educational Communications & Technology Agency (Becta)
	Crescent Purchasing Consortium (CPC)
	Higher Education Funding Council for England (HEFCE)
	The Energy Consortium (TEC)
	Universities UK Strategic Procurement Group for HE
	London Universities Purchasing Consortium (LUPC)
	North Eastern Universities Purchasing Consortium (NEUPC Ltd)
	North West Universities Purchasing Consortium (NWUPC)
	Southern Universities Purchasing Consortium (SUPC)
Eduserve	
Local Government	Central Buying Consortium (CBC), Hampshire County Supplies
	Kent Buying Consortium (KBC), Kent County Supplies, Laser
	Local Authority Purchasing Partnership (LAPP)
	South West Local Authority IT Procurement Consortium
	Black Country Purchasing Consortium (BCPC)

¹ NHS PASA's non-health specific core sourcing work will be integrated with OGC Buying Solutions as part of a forthcoming restructuring of PASA

	Derbyshire District Purchasing Consortium (DDPC)
	Devon Procurement Partnership (DPP)
	Yorkshire Purchasing Organisation (YPO)
	North Eastern Purchasing Organisation (NEPO)
	Eastern Shires Purchasing Consortia (ESPO)
	London Contracts & Supply Group (LCSG)
	West Mercia Supplies (WMS)
Central Government	Buying Solutions
	Central Office of Information (COI)
Fire and Rescue	FiReBuy
Police	National Policing Improvement Agency (NPIA)
Construction	Birmingham Construction Partnership
Devolved Administrations	Procurement Scotland
	Central Procurement Directorate (N Ireland)
	Value Wales
<i>Source: Office of Government Commerce</i>	

D

Glossary of terms

D.1 The following table provides key definitions for terminology used within this document.

Table D.A: Glossary of terms

Terminology	Definition
Categories of Expenditure	Commodities such as energy, fleet vehicles or office solutions which are purchased by multiple public sector organisations and therefore lend themselves best to a collaborative approach to procurement
Collaborative Category Board	Forum that sits beneath the Strategic Stakeholder Forum and provides pan-government governance for collaborative category delivery across a category of expenditure
eAuction	eAuctions are a method of enabling suppliers to compete in real time for contracts and bidding lower as the auction unfolds. Criteria such as product quality and service are included in a quality ranking which is combined with the bid to elect the best supplier
eProcurement	The use of electronic channels to purchase goods or services which can also provide rich management information on procurement decisions
Framework contract	An agreement awarded to one or more suppliers that sets out the terms and conditions against which the suppliers will provide pre-defined goods and services
Office of Government Commerce (OGC)	An independent office of HM Treasury, established to help Government deliver best value from its spending. One of OGC's six key goals is to deliver value for money from third party spend.
Professional Buying Organisation (PBO)	An organisation within the public sector whose primary purpose is to buy goods and services, or put in place commercial arrangements, on behalf of, or for use by, other organisations created to provide outsourced procurement services for their "owning" public sector organisation. Public sector bodies that are PBOs are central purchasing bodies under the Public Contracts Regulations 2006
Strategic Stakeholder Forum	Forum of key Whitehall and local government Commercial Directors that meets quarterly and provides the overall governance for Government's collaborative procurement programme. It is chaired by the OGC Chief Sustainability and Operations Officer

E

Summary of key collaborative procurement category initiatives

Table E.A: Key activities being undertaken in each of the categories of common spend

Category	Key initiatives/activities	Example
Wave 1		
Energy and utilities	<p>New ways to buy: moving from existing ‘fixed price’ contracts to new ‘professionally traded’ contracts that represent best practice in risk management. Looking to source a significant part of Government’s energy requirements (around 50 per cent) direct from generators, rather than from wholesalers, in the future.</p> <p>Aggregating and leveraging: increasing volumes placed through accredited deals to increase purchasing leverage.</p>	<p>Energy Category Board has committed to developing pan Government long term direct purchase of electricity from generators (value £250m pa). Led by Buying Solutions on behalf of MOD, NHS PaSA and Wider Public Sector (forecast savings of £41m in 2010-11 with potential further growth beyond CSR07).</p> <p>NHS PaSA now buying energy beyond health sector. Portfolio now includes seven Local Authorities and DWP (value £50m).</p> <p>OGC working with DCSF and schools to identify ways of reducing energy costs by aggregating energy demand through Local Government Professional Buying Organisations (PBOs) to realise efficiencies of scale. Some schools already purchase through PBOs, but many still have individual contracts with energy suppliers, contributing to over 50% variation in the rates paid for 1KwH of electricity across the public sector.</p>
Fleet	<p>New volumes: Departments and Local Authorities to use pan-government contracts that offer lower prices</p> <p>Aggregating and leveraging accredited deals in order to deliver a unified government approach to suppliers</p> <p>Demand management particularly in reducing the use of privately owned vehicle mileage ‘grey’ fleet for public sector related activities</p>	<p>Fleet Management framework, previously owned by HMIRC, now to be taken forward as a full pan Government solution by Buying Solutions. Fleet Management (value £25m) will deliver a tier 1 supplier to front face deals such as Vehicle Purchase (led by DWP value £185m) and Leasing (led by PaSA value £100m) offering a fully integrated and managed solution.</p> <p>OGC working with National Police Improvement Agency (value £115m) and Firebuy (value £55m) to deliver collaborative vehicle purchase arrangements for the emergency services.</p>

<p>Office solutions</p> <p>Aggregating and leveraging: Identify existing contracts and frameworks and work with stakeholders to channel departmental spend through these existing arrangements</p> <p>New volumes: Work with suppliers and stakeholders to identify the current gaps and develop innovative solutions that address the needs and requirements of departments and bodies who currently spend via non-compliant agreements / deals / contracts.</p>	<p>The price that several public sector organisations pay for their office stationery, IT consumables, paper and magnetic media will be reduced by circa 60 per cent in a collaborative framework led by MOD.</p> <p>The price that several public sector organisations pay for their Multi-Functional Devices (copiers, printers and scanners) will be reduced by circa 10 per cent in two collaborative frameworks led by MOD.</p> <p>The price that several public sector organisations pay for their Postal Services will be reduced by circa 20 per cent via a collaborative agreement led by OGCbs.</p>
<p>Travel</p> <p>Demand management: Development of 'lowest common denominator' travel policy guidance to departments</p> <p>Aggregating/leveraging: Development of pan-government air travel deal</p>	<p>A "Generic Travel Policy" will provide guidance on best practice and best value for the public sector. This will allow departments to better manage demand and therefore spend for travel.</p> <p>The Government Air Programme (GAP) is a core element of the Travel Collaborative Category Strategy, led by buying.solutions. Many government departments currently procure air travel through a travel agency, which negotiates its own deal with airlines; these "second tier" deals between agencies and airlines are not always transparent to departments and can include payment mechanisms between the airline and the travel agency. It is not possible to determine where a deal represents best value to government. The Government Air Programme will create a pricing structure directly between key airlines and government; travel agencies will be able to access these prices, which will be available to any government department from 1 July 2009.</p> <p>£17m savings already achieved.</p>

Wave 2

Professional services

New ways to buy: Consultancy Value programme (CVP), switch to online advertising of recruitment opportunities.

Aggregation of spend: online advertising of recruitment opportunities.

New ways to buy: establishing a category strategy which examines total workforce management.

First ever pan-government category strategy for Professional Services, agreed by key Central Government and Local Government stakeholders.

CVP seeks to improve the management processes by which government organisations procure consulting services. For example, it sets standards on how to manage suppliers how to specify projects and how to constitute a business case. The same strategy is seeing supplier management being rolled out on a pan-Government basis. Improvements such as these in the governance by which consultancy is procured collaboratively across government will support delivery of £240m of benefit by the end of CSR07. It responds to recent NAO and PAC reports on government consulting procurement.

Switch to online advertising of recruitment opportunities saving £100m pa by end CSR07.

A new mobile telephony contract across public sector organisations has delivered £20m saving in 08/09.

OGC's ICT category team have worked with over 450 public sector organisations including Government departments, local authorities and police forces to run a series of e-Auctions for IT hardware such as laptops, desktops and servers which have so far delivered savings of over £33m in CSR07.

Structured supplier management processes have delivered over £50m in 2008-09 and are forecast to deliver savings of over £300m pa by the end of CSR07.

ICT

Aggregating and leveraging accredited deals through new contracts and the use of e-Auctions to increase purchasing leverage.

New ways to Buy: utilising frameworks and shared services to deliver increased value for money and greater leverage for Government on ICT procurements.

Demand management: Curbing new procurements through clear procurement roadmaps and increasing take up of best practice tools.

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