REDUCING THE COST
OF
LOCAL GOVERNMENT PURCHASES

A PROGRESS REVIEW

The Audit Commission for Local Authorities
in England and Wales

CON 8
REDUCING THE COSTS OF LOCAL GOVERNMENT PURCHASES
A Progress Review by the Audit Commission

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SUMMARY

Local authority purchases excluding utilities now approach £3 billion a year; and the Commission's survey suggests wide differences in the prices paid for the same items, which cannot be explained by quality, volume or distribution factors.

There is thus potential to secure better value for money in local government by bringing prices paid closer to those secured by the more successful authorities. If this can be achieved, a gain for local government of as much as £200 million may be possible. This potential is confirmed by leading purchasing organisations within local government - whose performance compares well with that of the private sector - and by the experience of many authorities.

In view of the scale of the opportunity, local authorities will want to take the following steps:

(i) Examine the results of the recent Audit Commission survey of prices paid for 47 representative items, to see whether higher prices can be explained by quality, service or other considerations.

(ii) Where no plausible explanation is available, obtain better terms of supply on all major items where excess prices are being paid now. Particular attention should be paid to fuel oil, building materials, education and office supplies.

(iii) Where prices appear generally high, undertake a brief (2-3 weeks) diagnostic review of the present arrangements for purchasing. This should seek to diagnose any major weaknesses in the present arrangements for

- reviewing specifications
- ensuring effective competition for authorities' business
- taking full advantage of purchasing scale
- managing central storage and distribution
- monitoring suppliers' performance

(iv) Review the total costs of purchasing operations (including buying, ordering, warehousing and distribution), where these exceed 10% of the value of goods supplied, or where staffing exceeds one person per £150,000 of goods supplied.

In parallel with this work, the Commission will be analysing further the mass of detailed information on purchasing arrangements obtained from each principal authority over the past few months, to define good purchasing practice for different commodities and types of authority.
By the end of the year, the results of the Commission's work and of authorities internal investigations will come together in the shape of specific suggestions as to sound purchasing practice within local government and local action programmes to realise as much as possible of the apparent potential for reducing costs.
# REDUCING THE COSTS OF LOCAL GOVERNMENT PURCHASES

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REDUCING THE COSTS OF LOCAL GOVERNMENT PURCHASES

A Progress Review by the Audit Commission

1. Local authorities are very significant buyers of goods and services from outside suppliers. Annual purchases almost certainly now approach £3 billion a year in England and Wales. A large county could easily be purchasing £70m of goods and services a year through its Supplies Department; a district could well purchase over £1m. Moreover the costs involved in managing the procurement function are not insubstantial: the GLC Central Supplies Department, which has an annual gross turnover of over £180m, employs a total of more than 900 people; Kent County Council Supplies Department has 275 people in purchasing, warehousing and distribution. Overall, over 15,000 people are probably employed in local government in buying, warehousing, distribution and purchasing administration.

2. The size of local government's procurement bill and the overhead costs associated with it would alone be sufficient to attract the attention of the Audit Commission. Paying more than is necessary for a particular item is a waste of resources that could be put to other uses. Moreover, the regularity of purchasing procedures is particularly important for auditors' continuing efforts to assure the integrity of local government finance. In addition to these general considerations, the experience of the District Audit Service (DAS) and of many local authorities suggests that improved purchasing arrangements can lead to significant savings, of the order of 5-10% - 5% alone would represent some £150 million a year. This is scarcely surprising. Numerous studies in the private sector have confirmed that more aggressive and systematic purchasing can reduce costs by similar amounts.

3. Effective purchasing is also a critical skill for another reason. Many authorities are having to examine painful decisions either to cancel planned improvements to services, or to cut existing services and reduce their staff. Reducing the cost of purchases represents a less painful form of economy, without necessarily affecting either services to the public or local employment levels.

4. It is also clear that securing better value for money in purchasing requires collaboration between different services within an authority, and between authorities. Securing the necessary change in attitudes can be a long term undertaking. The Audit Commission has therefore embarked in this its first year on a programme designed to help authorities upgrade their purchasing effectiveness.
This programme comprises three main steps:

(i) Surveying local authorities' purchasing practise, including both the way purchasing is organised and managed within each authority, and the prices actually paid for a sample of standard items, together with the quantities purchased.

(ii) Reviewing survey findings with authorities, to identify reasons for apparently different price levels, and to identify what forms of purchasing management appear to give the best results.

(iii) Preparing guidance on good purchasing practise, based on the results of the survey, the conclusions of auditors' review of these results with each authority, and on a special study to be undertaken by the Commission to draw these conclusions together.

5. The first of these steps has now been completed; 490 authorities participated in the survey, supplying general information about the way in which purchasing is managed in each of their main departments, and also detailed data on a sample of 47 standard items: the quantity purchased, the prices paid, the type of contract used and so on. The total value of the items included in this sample was around £500m or almost a fifth of local authorities' total purchases. The 45 items other than oil and derv in the survey represent total purchases of some £130 million a year.

6. The data about purchase prices and quantities has now been analysed and tabulated, and feedback has been supplied to each authority enabling it to compare its prices with those of other local authorities. The Commission's auditors will be reviewing the results of this survey with each authority. At the same time the Commission (and its consultants) will be analysing the more qualitative information included in the survey and matching this against authorities' actual purchasing results, to identify what kinds of purchasing practises appear to give the best results, for different sizes of authority and for different types of commodity.

7. It is already apparent that many authorities will want to take action quickly to correct the weaknesses shown by the survey results. The Commission has therefore decided to issue this interim report. Its purpose is first to present the preliminary results of this survey, and to highlight some of the questions it poses, and the conclusions it appears to support, and secondly to draw attention to some of the key aspects of purchasing management that appear to be critical for effective purchasing. It is designed both to set out the background for the review that will take place during the rest of this year and also to provide authorities with some suggestions to assist them to initiate action now.
8. Each authority will need to decide its own approach. In this, as in so many other aspects of Local Government, there can be no completely standard solutions. However two steps will usually be appropriate.

(i) Obtain keener prices immediately. When higher prices than necessary are being paid the most obvious opportunity open to authorities is to correct this situation. The evidence available to the Commission, set out in Chapter One, suggests that for almost all authorities there are opportunities to reduce costs significantly. The scale of the opportunities appears substantial - over £100 million and perhaps as much as £200 million nationwide. The scale of the opportunity reflects how well many authorities are buying and the benefits that some already derive from effective purchasing management, both compared to other authorities and the private sector. There can be no excuse for not seizing the available opportunities immediately.

(ii) Initiate a longer-term action programme. Once the immediate opportunities have been taken authorities where the prices now being paid are generally relatively high should initiate a comprehensive programme to secure better value for their purchases of goods and services. The second chapter of this review describes the steps to be taken over the next 12/18 months both by local authorities and the Commission and its auditors.

9. As well as the results of the Commission's survey, this report draws on the accumulated experiences of the District Audit Service, and of the Local Authority Management Services Advisory Committee and of Arthur Young McClelland Moores (AYMM) who drew up and collated the survey, and who have recently completed reviews of purchasing arrangements in a number of large authorities and in many private sector concerns. Finally, this work could not have been completed without the active support of local management. The Commission would like to take this opportunity to thank all those involved for their cooperation and assistance.
10. The following table provides a breakdown, of the purchases of a typical county, and illustrates the broad scope of the purchasing function within local government. The Kent County Council Supplies Department, for example, purchases more than 100,000 different products ranging from small consumable items (e.g. pencils, exercise books) to large and costly pieces of plant and equipment. All the numbers are very large, at the national level. For example plastic sacks for refuse collection alone cost over £30m a year nationwide - and cost many districts over £100,000 a year.

**TABLE 1: ESTIMATED PURCHASES BY CATEGORY - 1982-83**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads and Engineering</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Fuel</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Food</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Vehicles</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Computers, Scientific Equipment</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Stationery</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Cleaning Materials</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Books</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Furniture</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Others</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

11. Despite the overall scale of local government purchasing, obtaining value for money requires painstaking attention to detail. It depends on managing "small numbers" well. A large purchasing organisation could well have over 10,000 stock items. Table 2 below provides a breakdown by commodity group of the number of items in the supplies catalogue of a large county.

**TABLE 2: ANALYSIS OF CATALOGUE ITEMS FOR A SUCCESSFUL COUNTY SUPPLIES ORGANISATION - 1984**

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Catalogue Items</th>
<th>Direct Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In Stock</td>
<td>Delivery</td>
</tr>
<tr>
<td>Clothes, textiles</td>
<td>1,480</td>
<td>120</td>
</tr>
<tr>
<td>Home Economics, kitchen</td>
<td>1,400</td>
<td></td>
</tr>
<tr>
<td>Arts and Photography</td>
<td>1,400</td>
<td>500</td>
</tr>
<tr>
<td>Timber, hardware</td>
<td>1,100</td>
<td>650</td>
</tr>
<tr>
<td>Stationary</td>
<td>850</td>
<td></td>
</tr>
<tr>
<td>Laboratory Equipment</td>
<td>700</td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td></td>
<td>525</td>
</tr>
<tr>
<td>Sports Equipment</td>
<td>475</td>
<td>25</td>
</tr>
<tr>
<td>Musical Instruments</td>
<td></td>
<td>420</td>
</tr>
<tr>
<td>Cleaning Materials etc</td>
<td>400</td>
<td>100</td>
</tr>
<tr>
<td>Furniture</td>
<td>100</td>
<td>300</td>
</tr>
<tr>
<td>Electrical Equipment</td>
<td>280</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8,185</td>
<td>2,665 = 10,850</td>
</tr>
</tbody>
</table>
In an average week, the county supplies organisation meets 5,000 orders, for an average 5 items each.

12. The most obvious opportunity immediately open to local authorities is to secure keener prices from suppliers. The extent of the opportunities involved may well be considerable. The Commission's survey of purchasing arrangements suggests that if all authorities are able to buy at prices as keen as those obtained by the most successful 25% of authorities, and if the sample items are reasonably representative of all purchases, then the total costs of local government purchases could be reduced by perhaps as much as £200 million a year. The scale of the opportunity reflects how well the most successful authorities buy; the evidence available to the Commission suggests that many local authorities are buying some items at prices substantially below those being paid by private sector firms of comparable size. The rest of this section describes in turn how authorities can

(i) Use the survey results to determine whether there are worthwhile opportunities to be pursued locally

(ii) Realise the potential savings

USING THE SURVEY RESULTS

13. A detailed questionnaire was completed by auditors working with local management in each principal local authority. It comprised three main parts:

(i) General information covering for example the total value of purchases by the authority, its general approach to purchasing, and the way in which responsibility for different types of purchasing is assigned to individual departments.

(ii) Departmental information. Each significant purchasing department within the authority was asked to complete a more detailed questionnaire describing how it organises and manages purchasing, what types of contract it mainly uses, what mark-ups are applied to different categories of purchased items and so on.

(iii) Product Information. Finally, each purchasing department was asked to supply detailed data about the way in which it purchases a sample of specified standard items, including the quantity purchased, the purchase price, the supply price (including any mark-up), and details about the contract and delivery arrangements used for that product.
EXAMPLE:
ENVELOPES

Information obtained in purchasing survey.

PRICE BY NUMBER OF AUTHORITIES

![Bar chart showing price by number of authorities for Shire Districts and Major Authorities.]

PRICE BY QUANTITY PURCHASED

![Scatter plot showing price by quantity purchased.]

Packets of 100 pocket style DL (100 mm x 230 mm) Buff 90 g/m². Average bursting strength 1/5 k.p.a. Gummed across flap.

The Appendix lists the 47 specified items from which the products were to be selected and shows the range of prices paid.

14. The items included in this list were selected with two objectives in mind. First they had to be standard items, that could tightly be specified; for example one item was light bulbs, specified as Bayonet cap, 60 watts, pearl, to BS 161 (1976). A rigorous specification was essential to ensure reasonable comparability of the returns. Second they had to be reasonably representative of the overall spread of local authority purchases; thus the sample included both major items such as fuel oil and also a considerable number of minor items (for example envelopes, tennis balls or washing powder) chosen to represent larger classes of supplies – i.e. stationery and sports equipment. If authorities do not purchase such small items effectively they are not likely to be effective across a very wide range of their overall spending. In fact, experience suggests that the level of variation in prices among the host of other, generally less standardised, products that local authorities purchase would be wider than that observed in this sample of relatively standardised items. Thus, whatever scope for improvement appears from this sample should be at least representative of the potential improvement across the board, and is probably an understatement.

15. The survey was completed by auditors between December 1983 and April 1984, and almost 10,000 individual product purchases have been recorded and analysed. Following tabulation of each authority's return, the Commission has displayed the results of the survey for each product graphically, as illustrated by Exhibit 1, which covers envelopes – to the specification shown at the bottom of the sheet*. The top chart shows the number of authorities who purchased at different price levels, showing separately major authorities and shire districts (whose purchase volumes are in most cases very much lower). Thus 7 of the 300 authorities covered paid less than 45p per 100 envelopes, while almost 30 paid over 90p, with a wide spread of prices between these two levels. The chart also shows that major authorities tended to pay rather lower prices than shire districts, though with many exceptions.

16. The lower chart shows for each of the 300 recorded purchases of the specified envelopes, the price paid (on the vertical scale) compared to the annual volume purchased (on the horizontal scale). This shows the same spread of prices from over £1 to under 45p per 100, and also demonstrates the relationship between volume and prices. In fact the conclusion here is rather surprising at first sight: on the one hand many authorities with relatively low purchase volume

* To preserve confidentiality, the prices shown for items in the appendix are all indexed to a base of 100 – being the price paid by the lower quartile of major authorities.
**EXHIBIT 2**

**ENVELOPES PURCHASED BY SHIRE DISTRICTS**

**AUTUMN 1983**

*For 100 pocket style DL (100 x 220 mm) buff 90g/m² envelopes gummed across flap with a bursting strength of 175 kpa.*

**By groups of ten authorities, each buying in the same price-range; width of the bars represents volume purchased by each group.*
can obtain just as keen prices as those buying in much greater bulk; and at the same time there is a very wide spread of prices for a given level of volume - although, as would be expected, the spread is narrower among those buying in very high volumes than among low volume buyers. Part of the reason for the lack of a clear price-volume relationship is the use of purchasing consortia in local government and the reliance that some smaller districts place on buying through larger neighbouring authorities to secure the advantages of scale.

17. For each item, the Commission has also calculated what would be the theoretical reduction in cost if all authorities obtained as good prices as the best 25%, taking the two classes separately - i.e. if all 300 shire districts obtained as keen a price (or better) as the best 75 districts, and all large authorities matched the best 45. The concepts involved and the effect are illustrated in Exhibit 2. In the case of buff envelopes, the potential reduction in cost on this basis would be 11% for large authorities and 18% for shire districts.

18. Of course not all items show the same price spread. For instance, the results for heating oil - on which single commodity authorities spend about £250m a year, much the largest individual item purchased - show a much narrower spread of prices than is the case for envelopes. But even here, the prices paid vary from under 15p to 20p a litre. Table 3 below shows the number of authorities paying different prices and indicates that there may be important opportunities to reduce costs in this one item alone.

**TABLE 3: PRICES PAID FOR HEATING OIL**

<table>
<thead>
<tr>
<th>pence per litre</th>
<th>Number of Authorities</th>
<th>% Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 15</td>
<td>41</td>
<td>16.0</td>
</tr>
<tr>
<td>15.1 - 15.9</td>
<td>123</td>
<td>50.5</td>
</tr>
<tr>
<td>16 - 16.9</td>
<td>180</td>
<td>23.6</td>
</tr>
<tr>
<td>17 - 17.9</td>
<td>82</td>
<td>9.0</td>
</tr>
<tr>
<td>&gt; 18</td>
<td>41</td>
<td>.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>467</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

If every local authority had been able to buy heating oil at, say, 15p a litre last autumn (the GLC net price for loads of over 22,000 litres was 15.62p) the total cost to authorities of buying this one item could have been reduced by almost £10 million a year. The price of heating oil is affected by a number of special factors including the length of the contract (it will always be possible on occasion to obtain better prices on a 'spot' basis) the volume delivered, the location of the customer and the season of the year. These factors are the subject of continuing analysis by the Commission. However, the price variations shown above appear to exceed the level that can be explained by these factors alone. For example, the difference between a delivery of 4,000 litres and one for 20,000 last autumn was under 0.3p per litre.
<table>
<thead>
<tr>
<th>TABLE 4: SUMMARY OF SURVEY RESULTS</th>
</tr>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Cleaning Materials</td>
</tr>
<tr>
<td>a1 Washing Powder</td>
</tr>
<tr>
<td>a2 Scouring Powder</td>
</tr>
<tr>
<td>a3 Bleach</td>
</tr>
<tr>
<td>a4 Hand Cleanser</td>
</tr>
<tr>
<td>a5 Refuse Sacks 50 mi</td>
</tr>
<tr>
<td>a6 Refuse Sacks 25 mi</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Domestic Supplies</td>
</tr>
<tr>
<td>b1 Toilet Paper</td>
</tr>
<tr>
<td>b2 do - tissue</td>
</tr>
<tr>
<td>b3 Sheets</td>
</tr>
<tr>
<td>b4 Flourescent Tube</td>
</tr>
<tr>
<td>b5 Light Bulb</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Building Materials</td>
</tr>
<tr>
<td>c1 White Spirit</td>
</tr>
<tr>
<td>c2 Cistern</td>
</tr>
<tr>
<td>c3 Gloss Paint</td>
</tr>
<tr>
<td>c4 Emulsion Paint</td>
</tr>
<tr>
<td>c6 Glass</td>
</tr>
<tr>
<td>c7 Cement</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Highway Materials</td>
</tr>
<tr>
<td>d1 Road Base Course</td>
</tr>
<tr>
<td>d2 Paving Slab</td>
</tr>
<tr>
<td>d3 Kerbstone</td>
</tr>
<tr>
<td>d4 Grid</td>
</tr>
<tr>
<td>d5 Dry Battery</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Educational Supplies</td>
</tr>
<tr>
<td>e1 Duplicator Paper - ink</td>
</tr>
<tr>
<td>e2 do - Spirit</td>
</tr>
<tr>
<td>e3 Exercise Book 8 x 6</td>
</tr>
<tr>
<td>e4 do - 9 x 7</td>
</tr>
<tr>
<td>e5 Exercise Paper</td>
</tr>
<tr>
<td>e6 PVA Adhesive</td>
</tr>
<tr>
<td>e7 Powder Paint</td>
</tr>
<tr>
<td>e8 Tennis Balls</td>
</tr>
<tr>
<td>e9 Video Cassette</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Provisions</td>
</tr>
<tr>
<td>f1 Bread</td>
</tr>
<tr>
<td>f2 Baked Beans</td>
</tr>
<tr>
<td>f3 Eggs</td>
</tr>
<tr>
<td>f4 Frozen Chips</td>
</tr>
<tr>
<td>f5 Frozen Peas</td>
</tr>
<tr>
<td>f6 Margarine</td>
</tr>
<tr>
<td>f7 Cooking Oil</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Stationery</td>
</tr>
<tr>
<td>h1 Computer Paper</td>
</tr>
<tr>
<td>h2 Photocopy Paper</td>
</tr>
<tr>
<td>h3 Ballpoint Pen</td>
</tr>
<tr>
<td>h4 Pencil</td>
</tr>
<tr>
<td>h5 Sellotape</td>
</tr>
<tr>
<td>h6 Envelopes</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Total General Items</td>
</tr>
<tr>
<td>Oil</td>
</tr>
<tr>
<td>g1 Derv</td>
</tr>
<tr>
<td>g2 Fuel Oil</td>
</tr>
</tbody>
</table>
19. Similar charts for each of the 47 survey items are included in the Appendix. Table 4 opposite lists each of the items surveyed and shows approximately how much local authorities as a whole spend on the item and the potential reduction in cost if each authority could match the prices paid by the most successful 25% of authorities in their class. For example, the table shows that there could be a saving of 6% in the case of baked beans and 14% in the case of frozen chips. Overall, the total apparent saving potential on the items surveyed is of the order of £20 million, of which non-fuel items account for just over £12 million.

20. Table 5 summarises the results for the survey as a whole. It shows that if all authorities could buy at the prices achieved by the most successful 15% in their class, they could in theory reduce the cost of fuel oil and derv by 3% and all other items in the sample by 15%. If the 25th percentile is used, these figures would be 2% and 10% respectively — rather more in the case of shire districts, rather less for the larger authorities.

<table>
<thead>
<tr>
<th>TABLE 5: POTENTIAL SAVINGS SUGGESTED BY SURVEY RESULTS</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>15th</th>
<th>25th</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fuel</td>
<td>Non-Fuel</td>
</tr>
<tr>
<td>Large Authorities</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Shire Districts</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Combined</td>
<td>3</td>
<td>15</td>
</tr>
</tbody>
</table>

21. The prices quoted by authorities are those paid to outside suppliers, and thus exclude the administrative costs of purchasing — the only exceptions being where the item is purchased via another authority or consortium. In many cases too, the price will exclude the costs of financing, storage and distribution, which can amount to 20% of the purchase price. To this extent, the prices shown in the Appendix, and assumed in the analysis described above, will be lower than the full cost incurred. By the same token the potential savings that would result from meeting the quartile price would be correspondingly higher. Furthermore where, as is often the case the prices of the lower quartile of authorities are actually paid to consortia or to other authorities, and thus include purchasing costs, then the saving from switching to this type of purchasing would also include the avoidance of the authority’s own purchasing costs, and maybe also savings in storage, distribution and “shrinkage”. (It is estimated that the total warehousing, distribution and purchasing administration costs within local government exceed £250 million a year).
22. Finally, the bulk of the items involved are likely to show a similar range of price differences to that revealed in the non-oil items surveyed. Indeed, it is possible that the saving potential in the other items may be rather greater since the survey was confined to items that could be tightly specified and which tend to be traded more heavily on price than products (like typewriters, for example) that cannot be so closely specified. Thus, it seems that if all authorities could buy as keenly as the most successful 25%, the total savings to local government could exceed £200 million a year* - some 7% of the annual procurement bill excluding utilities.

23. These figures are confirmed by the experience of many local authorities and purchasing consortia. Several counties have shown that central purchasing has resulted in savings of 10% or more. One metropolitan district recently estimated that it was saving about £250,000 a year - some 5% of the authority's total annual procurement bill - by buying through the Yorkshire consortium (YPO); officers in Knowsley claim that savings from buying via YPO range from 4 to 10% (both figures ignore possible savings in storage, distribution and purchasing administration).

Nonetheless, it is clearly in order to question the general validity of the simple conclusions set out above. The apparent range of prices paid for the same item could of course be explained by factors such as the following:

(a) **Inaccurate Data.** The returns have already been subjected to some internal validation checks; but there will still be mistakes e.g. simply wrong figures, or prices referring to products that do not fully conform to the specification. This is to be expected in such a large survey, and the extent can only be accurately gauged after auditors have reviewed the findings with each authority.

(b) **Differences in Value.** Even though the product conforms to the specification, there could in some cases be good reasons for paying a higher price. The product could be of higher quality, or the supplier could be providing some extra service that adds sufficient value to justify paying the higher price. For example bulky items delivered in small lots as and where required can clearly save an authority money compared to holding and financing stock, and then redistributing to final users. However at least two questions need to be asked in such cases:

- does the extra quality or service genuinely compensate for all of the higher price? and,

* 10% (from Table 4) on say £2,000m of general items, plus 2% on say £1,000m of items more akin to oil equals £220 million
does the authority need to pay such a price premium to obtain this quality or service? (The average on-cost for a central supplies department in a county where all costs associated with ordering, storage and distribution are included is 27% of the supply price for items supplied from stock).

(c) Special Factors. There are also products, such as cement or heating oil, where normal terms of trade include built-in price differentials depending on location, or on drop size, or other factors not considered in this survey.

24. Despite these disclaimers, it would be unwise to seek to explain away the quoted differences as being insignificant. Many authorities have already taken action and gained worthwhile benefits as a result. Moreover, it should be remembered that potential savings in specifications and in warehousing and distribution have not been included; and, furthermore, that the savings potential as described above does not depend on the prices at either extreme, but on the bulk of the returns where auditors and authorities agree that costs are, if anything, understated.

25. In summary, the Commission's work so far suggests the following broad conclusions:

(a) There is a wide spread of prices paid by authorities for the same items, often wider than 2 to 1

(b) If all authorities could buy as well as the best 25% of authorities in their class, the potential saving could be over 10% on items other than oil, and if the sample is as representative as the Commission believes, the potential saving across the whole range of local authorities purchases could be as much as £200m.

(c) Annual purchasing volume appears to have relatively little impact on the level of prices that can be obtained. Best prices obtained by authorities reporting a low purchase volume are typically similar, or at most 5-10% higher than best prices obtained by those buying up to 100 times as much.

(d) On the other hand the observed spread of prices is generally narrower among authorities buying in bulk, and in items such as oil that are purchased in great volume, than where the individual purchase is smaller. This indicates that the key to successful purchasing is not simply high volume but rather the level of professional attention devoted to this function.
Suppliers economics influence prices.
26. The first step for each authority, therefore, will be to compare its prices with those paid by other authorities. Where there is no valid explanation for apparently high prices it should then take action to correct the situation.

REALISING THE POTENTIAL SAVINGS

27. As a first step, management should approach its supplier to seek an explanation for the price difference - having first of course identified an alternative supplier and a quotation from a neighbouring authority or consortium to confirm that the present price is indeed relatively high. Apart from obvious negotiating tactics, it will be probably be worth exploring two questions with the supplier:

(i) is the higher price due to the authority's low annual purchase volume. If so, and the suppliers will not change the terms, the solution may be to rationalise suppliers or purchase through a local consortium (or even forming one to buy particular items)

(ii) are average drop sizes considered uneconomic by the supplier - in which case, what additional price breaks would be available if minimum order quantities were increased; what extra costs (i.e. inventory carrying costs, storage and distribution expenditure) would be incurred by the authority in increasing order quantities. Exhibit 3 shows the impact of just one factor (drop size) on a dry grocery supplier's economics and on prices charged by fuel oil distributors

28. Since considerable amounts of money will be at stake, well organised authorities plan the campaign for reducing purchase costs with the kind of care normally associated with other important opportunities. Some fairly obvious guidelines based on the experience of the more successful local authority purchasing organisations are perhaps worth repeating.

(i) Be prepared, with all the relevant facts about total volume, drop sizes, competitive prices and the authority's costs as well as with a list of possible alternative suppliers and their likely terms and conditions of supply. Elementary though this will seem, the survey revealed, among other things, a disturbing lack of professionalism in the purchasing arrangements in many authorities. Too often, local management simply did not have the basic information about purchases readily to hand.
ILLUSTRATION OF CONTRACTING APPROACH OF A SUCCESSFUL COUNTY SUPPLIES ORGANISATION

1. Consultation with the principal users to establish any possible need for change to specification and possible effects of new suppliers on user departments.

2. Consultation with the existing supplier(s) to explain reason for and requirements of new contract and to give notice of possibility of losing business.

3. Discussions with other principal potential suppliers to explain new contract and requirements. [This also helps establish specification and conditions of contract].

4. Consultation if necessary with other potential customers e.g., District Councils, Health Authorities.

5. Confirmation that specification is to B.S.S. (Kite marked products) P.A.S. etc.

6. Determination that Health & Safety at Work aspects of goods/services have been taken into account.

7. Use of metric units and standard packs.

8. Negotiations of Special Conditions of Contract:
   • Price basis (nett prices, discounts from list, discounts from nett)
   • Period of contract
   • Technical Specification
   • Quantity and value per annum
   • Prices fixed for whole period/six months/three months
   • Order authorization
   • Delivery [to central depot, users]
   • Settlement terms
   • Tools and jigs [for special orders]
   • Pallets
   • Special packaging arrangements for damage/loss in transit
   • Alternatives acceptable
   • Termination arrangements
(ii) Understand the supplier's position. A sound understanding of the economics of the supplier and/or distributor is essential to effective negotiation. That is why the more effective organisations are structured along product group lines, so that buyers can specialise in particular markets and become expert e.g. in food, engineering, electronics, stationery and education supplies. In the long run, it is not in an authority's interest to drive suppliers out of the market. So an effective negotiator will understand how the supplier or distributor views the situation and how he is likely to react, by having answers to such questions as:

- what is the state of the market; how concerned will the supplier be at the potential loss of volume from the authority
- what are the supplier's price and capacity constraints; how low could he afford to go
- who will be negotiating; what competitive and other pressures is he or she likely to be under
- what incentive could the authority offer, so that the supplier's negotiators have something to "take back" - both sides will need to feel that they have gained something in the negotiations.

(iii) Be selective. It will be evident that effective price negotiation is not a simple matter of bluster - "if you do not drop the price, I will place the business somewhere else". It requires skill, patience and time. Since a number of items are likely to be involved, the more effective authorities are selective, concentrating initial efforts on relatively large items where the price difference is appreciable. Specifically, any authority paying significantly higher than the best 25% of authorities for major items such as fuel oil, heating oil, refuse sacks, frozen chips, photocopying paper, cement or paint should concentrate initial efforts here.

Exhibit 4 shows the basic information required before the renewal of existing contracts by one County Council.

29. Where the survey shows only isolated instances of high prices, such re-negotiation is all that may be necessary. Some authorities, however, may discover that they are paying more than necessary over a wide range of items. In such cases, a more detailed investigation will be required to determine the appropriate corrective action. The next section of this report describes how a comprehensive purchasing review can be carried out.
Exhibit 5
SUMMARY OF POSSIBLE INITIATIVES AND BENEFITS

Objective:
Lower delivered cost at comparable quality

Adjust specifications

- Reduce variety
  - Lower prices; reduced storage costs
- Change quality specification
  - Lower life-time costs

Assure competitive bidding

- Extend use of tenders
  - Higher achieved prices
- Review tender lists
  - Higher achieved prices
- Ensure that agreed prices are achieved
  - Higher achieved prices
- Monitor conformance with Standing Orders
  - Higher achieved prices

Exploit scale advantages

- Extend use of tenders
  - Lower achieved prices
- Review tender lists
  - Lower achieved prices
- Ensure that agreed prices are achieved
  - Lower achieved prices
- Monitor conformance with Standing Orders
  - Lower achieved prices

Consolidate Council purchases

- Use consortia or neighbouring authority
  - Lower achieved prices
- Ensure that negotiated prices are used
  - Lower achieved prices

Reduce storage/distribution costs

- Tailor stock levels to service standards
  - Lower on-costs: ‘Shrinkage’
- Keep on-costs competitive with commercial distributors
  - Lower on-costs: Interest, Storage, Transport, Administration/overhead

- Lower achieved prices
- Lower achieved prices
- Lower achieved prices
- Lower achieved prices
- Lower achieved prices
30. Where the survey suggests that an authority needs to examine the overall effectiveness of its purchasing arrangements, this can be done in two stages. First, a senior officer should carry out an brief diagnostic review to determine where the problem is most acute. Then, if no immediate and obvious solution can be suggested, a more detailed examination should be launched. This chapter discusses each of these steps in turn.

**CONDUCTING A DIAGNOSTIC REVIEW**

31. The experience of the most successful local authority purchasing organisations and of the District Audit Service suggests that in most authorities improvement opportunities in the purchasing function can be classified under one or more of the following headings, summarised in Exhibit 5.

(i) Adjusting specifications

(ii) Assuring effective competition for authorities' business.

(iii) Taking full advantage of purchasing scale.

(iv) Managing central storage and distribution more effectively.

(v) Monitoring suppliers' performance, to ensure that they meet their commitments in full.

Table 6 overleaf shows how these opportunities relate to the different stages of the purchasing cycle.

32. The first step in any review is to identify where responsibility for each of these activities lies now, to assess the level of effort (in terms of man years and seniority of the people concerned) that is devoted to each and to catalogue the principal results achieved over (say) the last two years. Such a diagnostic review need not take more than 2/3 weeks and should at least serve to identify those elements of the purchasing function where responsibility within the authority is not clear and/or insufficient resources - most likely professional staff, software, storage facilities - are available in light of the scale of the opportunities apparently available.

The rest of this section discusses each of these opportunities in turn.
TABLE 6: IMPROVEMENT POSSIBILITIES AT EACH PURCHASING STAGE

<table>
<thead>
<tr>
<th>Purchasing Stage</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of needs</td>
<td>Adjust Specifications</td>
</tr>
<tr>
<td>Identification of Suppliers</td>
<td>Change tender list</td>
</tr>
<tr>
<td></td>
<td>Seek non-local bids</td>
</tr>
<tr>
<td>Evaluate bids</td>
<td>Take advantage of scale: centralise purchasing; join consortium or rely on neighbouring LA</td>
</tr>
<tr>
<td>Negotiate terms, price and delivery</td>
<td>Compare storage and distribution costs with suppliers' price; buy out the service if more economic</td>
</tr>
<tr>
<td>arrangements</td>
<td>Alert managers to dangers e.g.</td>
</tr>
<tr>
<td></td>
<td>- Short measures</td>
</tr>
<tr>
<td></td>
<td>- Wrong prices</td>
</tr>
</tbody>
</table>

Adjusting Specifications

33. The costs of variety to manufacturers are very significant. As a result, many UK suppliers have pruned their product lines drastically over the past few years, as the direct profitability of each product has been examined; while the prices of slow moving items remaining in suppliers' catalogues have been increased sharply. On the other hand, suppliers are aware of the beneficial effects of marginal volume - making them ready to compete aggressively for a council's custom in faster-moving items when their markets are 'soft'. In a number of authorities opportunities have been taken to:

(i) Rationalise specifications, specifying items that suppliers can manufacture more economically. Simple and obvious though this concept may sound, it lies at the heart of Japan's industrial success. For instance, one leading education authority with a reputation for tight management recently examined its purchasing arrangements and found that it was routinely buying more than 100 different types of exercise book. This number has now been reduced to 7, with the active involvement and support of teachers - and with significant cost savings at a result, both directly (as a result of greater volume per catalogue item) and indirectly from lower inventories, less storage space and reduced administrative costs.
(ii) Changing quality specifications. Again this may sound obvious, but there are often substantial opportunities to be realised without unacceptable risk. For instance:

one small council saved £10,000 a year by changing a specification from low density 200 gauge plastic refuse sack to a thinner high density sack with sufficient durability for the local conditions

another authority was able to secure major savings by accepting lower quality paper without damaging printing or photocopying equipment.

Assuring Effective Competition

34. All local authorities have strict rules governing tendering procedures. These are designed to avoid irregularity and to ensure that suppliers compete aggressively for a council's custom. It goes without saying that auditors will need to continue to examine procurement arrangements in each authority, as part of their responsibility to assure the regularity of local government finance.

35. Over and above the regularity aspects of tendering, the experience of some authorities suggests that there are often opportunities to obtain keener prices for purchases by taking one or more of the following steps:

(i) Ensure that standing orders are complied with. Clearly, there is little point in having standing orders if they are ignored. Not infrequently, this appears to be the case. For example:

– in one district council eight suppliers received over £320,000 (all in small orders) even though no contract had been arranged centrally - despite standing orders

– in another district the tender specification for tyres, on which the authority spent over £40,000 a year, was out of date, so that only 30% of the tyres supplied were included in the schedule.

(ii) Review tender lists regularly, adding new bidders and removing those that regularly bid high. Officers responsible for purchasing should constantly look for potential new suppliers to add to the tender lists for major items, and also for suppliers that no longer
warrant their position on the list of approved suppliers. In view of the possibility of a local price 'ring', it is often worthwhile securing quotes from an out-of-area supplier or a consortium.

(iii) **Scrutinies for price variations.** Some authorities provide adequate control over the setting-up of contracts but do not provide similar control over subsequent price increases. Effective local authorities control both the initial contract price and arrangements for subsequent adjustments during the term of the contract.

(iv) **Install an exception system,** to allow tenders other than the lowest price to be accepted where quality and service considerations warrant. Value for money and cheapness are obviously not synonymous; and a regular procedure for authorising officers to accept tenders other than the lowest bid needs to be in place.

**Taking Advantage of Scale**

36. There are important scale advantages in purchasing, although the survey shows that high volume does not automatically produce lower prices, and that low volume is rarely a valid excuse for paying high prices. Rather, the evidence suggests that scale advantages come in several forms. Better terms can be negotiated by expert buyers, able to offer larger annual volumes or drop sizes to suppliers; distribution costs per unit are lower, and central distribution becomes an economic possibility (one county supplies department offers weekly delivery to over 5,000 dropping points on a named day each week, which would be hopelessly uneconomic for a smaller organisation); the latest labour-saving electronic equipment can be used for processing customers orders, placing requisitions on suppliers, arranging distribution, invoicing, payment and stock control. For this reason, some major authorities have directed that virtually all purchases should be through the central supplies organisation.

37. In addition to the administrative and professional scale economies, individual councils have found that the following opportunities are often worth examining in detail.

(i) **Consolidating council purchases on particular items.** There are many instances where different departments within an authority (or indeed different units within a single service such as education) are buying similar items at different prices, often from the same supplier. One borough council, also with a reputation for aggressive cost control, recently found that expenditure in excess of £250,000 a year was not subject to any central purchasing arrangement. The items concerned included cleaning materials,
uniform and clothing, printing and stationery. Subject to operational constraints, such as order lead times and quality specifications, there is much to be said for arranging central negotiation to ensure that the full advantages of scale are realised.

(ii) Ensure conformance with negotiated agreements. Some successful purchasing authorities do not allow any flexibility, without any apparent customer complaint*. Where there is local discretion, authorities can find that individual officers fail to take advantage of centrally negotiated prices. Table 7 below shows, for an Outer London Borough, the difference between the price actually paid by the council for the most recent purchase of a particular item and the delivered price of the nominated supplier.

<table>
<thead>
<tr>
<th>Item</th>
<th>Difference from Nominated Supplier Price (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>L/H Drainer Sink</td>
<td>+130%</td>
</tr>
<tr>
<td>Chubb mortice deadlock</td>
<td>95</td>
</tr>
<tr>
<td>Hacksaw blades</td>
<td>88</td>
</tr>
<tr>
<td>Hand cleanser</td>
<td>79</td>
</tr>
<tr>
<td>Typist chair</td>
<td>76</td>
</tr>
<tr>
<td>Turpentine substitute</td>
<td>75</td>
</tr>
<tr>
<td>4mm Plywood</td>
<td>51</td>
</tr>
<tr>
<td>Hardboard</td>
<td>40</td>
</tr>
<tr>
<td>Wallpaper paste</td>
<td>38</td>
</tr>
<tr>
<td>Tipp-Ex</td>
<td>26</td>
</tr>
<tr>
<td>Paving mortar</td>
<td>11</td>
</tr>
<tr>
<td>Wash hand basin</td>
<td>9</td>
</tr>
<tr>
<td>Eggshell paint</td>
<td>8</td>
</tr>
</tbody>
</table>

Of course, there may have been good operational reasons for the difference - if the goods are required immediately for instance. But investigation often reveals no such justification. The buyer simply did not think the item was important enough to worry about - the economy 'habit' was missing.

* Central purchasing does not of course imply central storage and distribution. Typically, a large central supplies organisation might supply around 20% of its turnover from stock; the balance would be delivered direct by the supplier to the customer, against a centrally negotiated contract.
(iii) Use other authorities or consortia. There may well be cases where it is better for an authority to purchase on its own account. Nonetheless, if a nearby authority or a consortium offers lower prices and/or lower costs of purchasing and distribution, it seems perverse (to say the least) for an authority not to take advantage of them. However, this is often the case: the table below illustrates the differences between the prices routinely paid by a London Borough and the GLC price for the same (or equivalent) item.

**TABLE 8: LONDON BOROUGH PRICES PAID:**

<table>
<thead>
<tr>
<th>Item</th>
<th>% Excess Over GLC Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typist chair</td>
<td>+106%</td>
</tr>
<tr>
<td>Paper Towels</td>
<td>62</td>
</tr>
<tr>
<td>Microphone</td>
<td>50</td>
</tr>
<tr>
<td>Cartridge paper</td>
<td>39</td>
</tr>
<tr>
<td>Springboard</td>
<td>36</td>
</tr>
<tr>
<td>Industrial gloves</td>
<td>31</td>
</tr>
<tr>
<td>17 inch stacking chairs</td>
<td>30</td>
</tr>
<tr>
<td>Table tennis table</td>
<td>20</td>
</tr>
<tr>
<td>Toilet rolls</td>
<td>19</td>
</tr>
<tr>
<td>Liquid bleach</td>
<td>13</td>
</tr>
</tbody>
</table>

Even where the costs are apparently comparable, it may well be that warehousing, distribution, purchasing administration costs have not been included - or have been allocated on an unrealistic basis.

**Central Storage and Distribution**

38. Imaginative specification of purchases and effective negotiation are necessary conditions for obtaining value for money from bought in goods and services. However they are not sufficient. Efficiency and effectiveness demand that the goods reach the place where they are needed on time, in good condition and at an appropriate all-in cost. Authorities will want to be satisfied that where goods are taken into and delivered from central stores - as opposed to delivered directly by the supplier to the ultimate consumer - the following conditions are met:

(a) The cost of storage and distribution is justified, i.e. more than covered by the lower price achieved. In this, as in many other cases, authorities must decide whether to perform a service internally or to pay someone else to do it for them (i.e. a distributor, neighbouring authority or consortium). In assessing the economics of in-house storage and distribution, it is necessary to take all relevant costs into account, e.g.
Exhibit 6

Survey suggests total purchase bill of approximately £2.8 billion, but does not cover internal storage, distribution and administrative costs

BUILD-UP OF SUPPLIES COSTS IN LOCAL GOVERNMENT

£m

* Includes Suppliers and Consortium costs as reflected in prices paid by customers.

Source: Audit Commission Analysis of Survey information
- inventory carrying costs including finance and "shrinkage"

- storage costs including the market rental of warehouse space which in central locations is often significantly above the book cost

- distribution costs including all transport costs such as depreciation and maintenance of the vehicles.

- administration and overheads e.g. the costs of ordering, invoicing and making payments, receiving, picking and despatching goods also need to be calculated in full

As Exhibit 6 shows, the total costs involved in administration, warehousing and distribution are large.

(b) Service standards are clearly defined, in terms of delivery lead time and probability of being out of stock for different items. Customer departments will need to know how much advanced warning they must give of requirements for particular items stored centrally. Obviously the lead time will need to take account of the nature of the item concerned and the consequences of the customer having to wait for it. Desired stock levels can then be calculated. Often it turns out that an authority is holding excessive stocks. An authority should expect to turn its stock over at least five times a year - as is being achieved in leading authorities today.

(c) Ordering rates are set correctly to reflect usage rates, lead times from suppliers and safety stock requirements. This is not the place to write a text book of the principles of inventory control, which are readily available from bookshops. However obvious anomalies need to be challenged particularly where possible frauds are indicated. For example the supplies officer in one authority observed that in the last twelve months of the life of a six wheeled refuse vehicle, sixteen remoulds were purchased; and in that the same authority a total of 50 new tyres were ordered for five (four-wheeled) vehicles in fifteen months. Further (audit) investigations were clearly warranted.
(d) **Vehicles are adequately utilised.** Many purchasing organisations are substantial users of transport. For example, one transport organisation recently examined by the parent authority was only achieving average utilisation (after allowing for maintenance time) of under 65%; and miles per vehicle were under 8,000 a year.

39. **Wholesale distribution is one of the most competitive businesses in Britain.** Margins are tight and service standards demanding. For example, there are builders merchants who will guarantee to deliver a gallon of gloss paint the same day to any site in their delivery area, provided that the order is received by 9 a.m.; some paint and wallpaper merchants offer 24 hour delivery nationwide. So to be competitive on standard items, local authority stores will need to be very low cost - particularly when the value of the stores site and hidden economies in "shrinkage", accounting and auditing costs and management overheads are taken into account.

**Monitoring Suppliers' Performance**

40. Whether an authority decides to take goods into its own depots and then distribute them to users or to rely on distributors or merchants, suppliers' performance needs to be monitored closely. One county reports* the following problems over the past few years, illustrating the risks that it seeks to guard against.

(a) **Short weight solid fuel.** Whole lorry loads were being diverted to unauthorised destinations outside the County, when all the existing clerical procedures and paperwork indicated correct delivery. Contractors delivered short weight fuel and obtained correct signatures. They later collected the fuel already accounted for and appropriated it for themselves.

(b) **Short measure liquid fuel and paraffin.** Deliveries were being made to unauthorised sites or fuel was retained on the vehicle when the paperwork indicated delivery was complete.

(c) **Short weight or measure road materials.** These included topsoil, beach material, hardcore, ballast, stone chippings, crushed stone, tarmacadam, etc., where overstated tare weights, uncalibrated lorries, false or duplicate tickets and forged weighbridge tickets were not uncommon.

* See, for example, Protecting the Public Purse, paper to the Society of County Trading Standards Officers by Jack Stokoe DFC May 1984.
(d) Short weight or measure on miscellaneous items, such as rock salt, (used in thousands of tons for salting the roads), bottled gas, antifreeze, creosote, adhesives, modelling clay, tallow, cellophane sheets, baling twine, china clay, scrap metal. Polythene bags were deficient both in weight and in gauge (thickness), wrapping paper was poorer quality than that specified, and price overcharging was taking place.

(e) Short weight or measure food. Meat, chickens, fish, bread and vegetables. Meat was also misdescribed by substitution of cheaper cuts. School milk was watered, and even cartons of yoghurt were short measure.

41. Another large local authority in the Midlands has uncovered similar frauds in public purchasing contracts. Hot water cylinders, ordered (and marked) to be B.S.I. approved were of thinner gauge than specified with smaller heating coils; loft insulation material was delaminated, or did not cover the loft area; fluorescent light bulbs for roadside signs were of foreign instead of the specified British make; plastic road safety cones were thinner and of less luminosity than laid down; cow beef was substituted for prime beef or heifer; sausages and beefburgers were deficient of the required meat standard.

42. Depressing as it may seem, the Society of County Trading Standards Officers and others involved in this field (such as the District Audit Service) counsel that these instances should not be regarded simply as isolated incidents that can safely be ignored by authorities. Sadly, effective preventive measures appear necessary.

* * *

43. The preliminary diagnostic review may also involve examining some of the other comparator items on which information is available but on which they did not submit returns via the Commission questionnaire. Do these show the same picture of relatively high purchase prices; do any special local circumstances justify the discrepancies found?

44. Staffing levels in relation to the total turnover of the supplies organisation will also need investigation. Table 9 below summarises staffing levels in one county supplies organisation with a well deserved reputation for securing good value for its customers. The organisation concerned has annual turnover of almost £65m, supplies 20% of its goods from stock and operates its own distribution fleet of 10 vehicles.
### TABLE 9  STAFFING LEVELS IN A SUCCESSFUL COUNTY SUPPLIES ORGANISATION

<table>
<thead>
<tr>
<th></th>
<th>Administration</th>
<th>Warehouse &amp; Distribution</th>
<th>Buying</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>AP and Above</td>
<td>.40</td>
<td>.13</td>
<td>.55</td>
<td>1.08</td>
</tr>
<tr>
<td>Clerical</td>
<td>.93</td>
<td>.28</td>
<td>.23</td>
<td>1.44</td>
</tr>
<tr>
<td>Manual</td>
<td>-</td>
<td>2.00</td>
<td>-</td>
<td>2.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1.33</td>
<td>2.41</td>
<td>.78</td>
<td>4.52</td>
</tr>
</tbody>
</table>

45. Finally the responsible officer will want to establish whether some of the other characteristics normally associated with poor purchasing are present, such as:

- (a) lack of available information; how easy was it to provide the auditor with the information necessary to complete the Commission questionnaire
- (b) lack of clarity and system; how easy was it to identify the people responsible for the various aspects of purchasing in each department
- (c) poor links between purchasing, stores and for monitoring suppliers’ performance; how far up the organisation do these two come together
- (d) absence of skilled staff; what is the grade of the highest level officer whose primary responsibility is for purchasing. Most successful purchasing authorities now expect new recruits to be members of the Institute of Purchasing and Supply and to have had relevant commercial experience, with suppliers or distributors for instance. In one successful supplies organisation, two thirds of the buyers had relevant commercial experience on which to build.

### IMPROVING LONGER-TERM PURCHASING EFFECTIVENESS

46. Where the diagnostic review reveals some fundamental weakness in local purchasing arrangements and where the solution is not fairly obvious, a more detailed and extensive effort will be required. Fortunately, local councils will be able to draw on the experience of others in local government to determine the appropriate action. In this, as in most other aspects of local government, the best is excellent and compares favourably to private sector and central government.
Top Ten Purchasing Authorities - 1983
Ranked in order of prices achieved

<table>
<thead>
<tr>
<th>LARGER AUTHORITIES</th>
<th>SMALLER AUTHORITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. GLC</td>
<td>1. Cannock Chase</td>
</tr>
<tr>
<td>2. Kent</td>
<td>2. Rhymney Valley</td>
</tr>
<tr>
<td>3. Manchester</td>
<td>3. Rhondda Valley</td>
</tr>
<tr>
<td>4. S. Glamorgan</td>
<td>4. Derwentside</td>
</tr>
<tr>
<td>5. Coventry</td>
<td>5. Merthyr Tydfil</td>
</tr>
<tr>
<td>7. Liverpool</td>
<td>7. Staffordshire Moorlands</td>
</tr>
<tr>
<td>8. Essex</td>
<td>8. Hambledon</td>
</tr>
</tbody>
</table>

Source: Audit Commission Analysis of prices paid for 47 items, Autumn 1983
The Commission's analysis suggests that many local authorities out-perform both central government and some leading industrial concerns buying-in similar volumes.

47. The Commission has therefore sought to identify from its review those authorities that appear to be doing particularly well - so that the appropriate lessons can be applied generally. At this stage, the Commission has not completed the analysis of all the data included in the survey, let alone been able to draw all the appropriate conclusions - this work will extend over the course of the next two years. However, comparison of each authority's overall results in its sample of items with national results for the same sample, permits an overall ranking of each authority in terms of prices reported. On this basis, it appears that the more effective authorities include those shown in Exhibit 7. The Exhibit was developed by analysing the prices paid by different authorities for each item, calculating the average rank order and comparing this average with that for other authorities in the same class. The authority with the lowest average price rank is taken to be the most effective purchaser of the survey items.

48. Since the survey only covered authorities' buying prices from outside suppliers, purchasing consortia were not included in the ranking exercise - though their clients were, of course. (The GLC position reflects prices paid by the GLC for use by the authority). Almost all the shire districts shown make extensive use of purchasing consortia or buy through a neighbouring authority.

49. As explained in the introduction to this progress review, the Commission will be taking three steps over the next few months:

(i) auditors will be reviewing the results of the survey presented here with each authority, in particular:

- establishing to what extent apparent price differences genuinely indicate potential for saving money

- determining where individual authorities appear to have particular scope for improvement and what aspects of their purchasing management appear to be in particular need of strengthening.

(ii) in parallel with these steps, the Commission will be analysing the rest of the survey data taking into account the findings of auditors' local discussions. For example once it is possible to identify clearly those authorities that buy more effectively than others, the next step is to examine in detail the way purchasing is managed by such authorities.
(iii) a detailed report on good practice in purchasing will be prepared, drawing on the experience of the more successful local authorities.

50. However, the main conclusions from this review suggest the general directions that should be followed:

(a) Members and Chief Executives must be directly and regularly involved. The potential savings apparently available and the size of the management task warrant more than occasional top management attention. Those authorities that do not review their purchasing effectiveness at least annually would be well advised to do so.

(b) There are scale advantages in warehousing and distribution, management systems and purchasing and stores management. There are clear benefits for authorities from adopting what might be termed a professional approach to purchasing.

(c) Most Counties, London Boroughs and Metropolitan Districts should be able to justify the necessary investment (in warehousing and systems especially); however many districts may find it more economic to buy through a neighbouring authority or a consortium.

(d) In evaluating purchasing options, the full costs need to be taken into account. As Exhibit 5 showed, buying administration and computer costs can easily amount to 3-5\% of the total costs of purchases; warehousing (including financing charges) and distribution can add a further 15-20\% to stock items.

(e) Performance needs to be monitored regularly. The Chief Executive might wish to scrutinise a random selection of 10 or so orders placed every month to probe directly such questions as the reason for the order, the specification (is it appropriate, necessary), how the price was determined, whether agreed tender procedures were followed and so forth. Evidence of top management interest is likely to reinforce attention to detail at the operating level.

51. The main characteristics of a successful county supplies organisation are summarised in Exhibit 8. What is required and is now planned is to expand on this summary description to cover smaller authorities lacking the potential scale advantages of a county. The Commission will be drawing on the more detailed findings of the survey that are now being validated in the field.

* * *
## OVERVIEW OF A SUCCESSFUL COUNTY SUPPLY ORGANIZATION – 1984

### VISION

Provide a central purchasing organization that will enable clients to achieve delivered costs 10% lower than they could secure by themselves.

### STRATEGY

Use available scale to negotiate better terms and achieve economics in ordering, storage and distribution:

- Large Range (100,000 catalogue items, 10,000 in stock)
- Wide Coverage - 5,400 dropping points, Districts and Health Authorities
- Mix of Channels:
  - weekly delivery, ex-stock (14%)
  - direct order, supplier delivers (45%)
  - cash off contracts (37%)
  - in-house production (4%)
- Enforceable Contracts — rejects under 1%
- High Share: Over 95% of County orders for bought-in goods and services.
- High Service Levels: 98% availability on stock items

### STRUCTURE

Organised by Product Groups

- Clearly defined levels of authority and responsibility for buyers
  - £5k Buyer
  - £5-£20k Securer Buyer
  - £20-30k Buying Manager
  - £30-50k Assistant Director
  - over £50k Director
- Close links with Trading Standards on Contracts and Supplier's performance
- Separate cost/contribution centres for buying groups, reprographics, maintenance

### SYSTEMS/STYLE

Run it like a wholesale distribution business:

- Item-by-item costing, to cover administration, warehousing, stockholding and distribution
- Mark-up, to cover costs (only)
- On-line computers, linked to suppliers and users for ordering and payment
- Batching of deliveries to smaller users
- Monthly statements of costs/contribution vs budget for all responsible managers

### SKILLS/STAFFING

Lean, professional staffing with close understanding of suppliers' economics as well as users' needs:

- Total staff 275*, 4.5 per £1m supplied
- 30 buyers, all with relevant professional qualifications
- 20 buyers with suppliers' or private sector experience

* administration, purchasing, warehousing and distribution
52. The potential gains to be secured by improving the performance of less effective authorities seem likely to be considerable—perhaps as much as £200 million a year if the items covered in our survey are as representative as the Commission believes. Given the scale of the opportunity and the resources to enable authorities to meet new needs and demands for services, the Commission plans to continue its work in this field in the months and years ahead. Around the turn of the year, in time for the next audit round, a further progress review will be issued setting out detailed recommendations on sound purchasing practice and drawing on the lessons learned from successful authorities in the course of the next few months. In addition, the Commission plans to monitor progress in grasping the opportunities identified in this report, by examining prices paid and costs incurred in warehousing and distribution for a small sample—of perhaps 30-40 items—in each authority every year.

July, 1984
1. The survey questionnaire was completed in all principal authorities audited by the Audit Commission in England and Wales during the period December 1983 to March 1984. The prices recorded were those in force at 1st September 1983. It was completed by the external auditors appointed by the Commission, using information supplied by local management. Responsibility for the accuracy for the information contained in the returns has been taken in each case by the local auditor.

2. The results from each authority were then collated and analysed by the Commission and its consultants (Arthur Young McClelland Moores). A number of checks were used to eliminate obvious errors in the data supplied, and clearly erroneous items were eliminated. However it is to be expected that there will still be a limited number of incorrect entries, for example use of the wrong product sizes or grades, particularly among the more extreme high and low prices, and the first task of the auditor receiving this feedback information will be to check whether such items are in fact correct.

3. After making these adjustments the price and quantity data was then presented in two ways:

   (i) for each authority, a printout was produced listing the items it had returned and showing how each price compared with the lower quartile price for authorities of its class, and how its prices rank within its class on a scale 1 (lowest) to 100 (highest).

   (ii) for each item the data was presented graphically as in the attached sheets. The upper graph shows the number of authorities paying prices within specified ranges, separating shire districts from the major authorities. The lower graph plots each recorded purchase showing the price on the vertical axis and the annual quantity purchased on the horizontal axis. Both refer to the same set of data except that the lower graph excludes transactions where the purchase quantity was entered as nil.

4. The sheets reproduced here are the same as those returned to auditors except that in, order to preserve commercial confidentiality, the prices have been indexed to a level of 100 - this being set at the price paid by the lower quartile of major authorities (or shire districts, where this was lower). The estimated purchase value entered on each sheet is a rough estimate of the amount spent by local authorities as a whole on this item - as specified - based on the information returned by authorities, grossed up to allow for those authorities who did not return that item. The potential reduction is the amount by which this would be reduced had each authority paying above the best quartile price for its class reduced its price down to that level.
Each sheet reproduces the exact product specification supplied to auditors for the purpose of completing the questionnaire.

5. The results of the price comparisons are arranged in the following order:

A - Cleaning Materials
B - Domestic Equipment
C - Building Construction and Maintenance Materials
D - Road Construction and Maintenance Materials
E - Educational Supplies
F - Provisions
G - Fuel
H - Printing, Stationery and Office Supplies
A.1 WASHING POWDER - Per E3 pack

Est Purchase Value £0.5m
Potential Reduction 6%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Low foaming detergent powder for automatic washing machines. A free flowing homogeneous powder of ready solubility, E3 size, 930 gms
A.2 Scouring Powder - Per 18oz canister

Est Purchase Value £0.3 m
Potential Reduction 9%

In accordance with PAS15:1974 containing bleach and synthetic detergent.
A3 BLEACH - Per 18 oz canister

Est Purchase Value £0.7 m
Potential Reduction 13%

Hypochlorite type for bleaching and disinfecting. Minimum of 6% available chlorine in plastic containers.
A4  HAND CLEANSER - Per 4.5 kg tins

Est Purchase Value £0.2 m
Potential Reduction 10%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Antiseptic Gel type hand cleanser (Swarfega or similar) to PAS16: 1974
A5 REFUSE SACKS - Per 100 sacks

Est Purchase Value £14 m
Potential Reduction 11%

Polythene refuse sacks, 13" x 29" x 39" 50 microns (virgin polymer) 225 gauge low density.

* Price of lower quartile of Shire Districts
A6 REFUSE SACKS - 25 micron, per 100 sacks

Est Purchase Value £25 m
Potential Reduction 14%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Polythene refuse sacks 18" x 29" x 39" (virgin polymer) 100 gauge high density.
B1 TOILET PAPER - sulphite, per dozen rolls

Est Purchase Value £1.4 m
Potential Reduction 15%

Paper rolls machine glazed. Minimum sheet size
(114 mm × 152 mm) 24g/m².

Bursting strength 50 k.p.a. 500 sheets per roll BS 3427.
B2 TOILET PAPER - tissue, per dozen rolls

Est Purchase Value £1.7m
Potential Reduction 18%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

White soft tissue rolls, two ply, 200 sheets per roll.
B3 SHEET - Per pair

Est Purchase Value £0.3 m
Potential Reduction 16%

**PRICE BY NUMBER OF AUTHORITIES**

**PRICE BY QUANTITY PURCHASED**

Bleached 100% cotton sheet, single 70" x 100" (180mm x 260 mm) white to P.A.S.17: 1974
B4 FLUORESCENT TUBE - per tube

Est Purchase Value £0.4 m
Potential Reduction 11%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Bi-pin warm white 75/85W 6ft to BS 1853 1979
B5 LIGHT BULB - Per bulb

Est Purchase Value £0.6 m
Potential Reduction 10%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Bayonet cap 60W pearl BS 161 1976
Cl  TURPENTINE SUBSTITUTE (WHITE SPIRIT) - Per 2½ litre container

Est Purchase Value  £0.4 m
Potential Reduction  12%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED
C2 COLD WATER STORAGE CISTERN - Each

Est Purchase Value £0.4 m
Potential Reduction 22%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Flextank Cistern to BS 4213 1975 25 gallon (actual capacity).
C3  GLOSS PAINT - Per 2½ litre tin

Est Purchase Value  £ 4 m
Potential Reduction  4%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

White premium quality (not trade).
C.4 EMULSION PAINT - Per 5 litre tin

Price by Number of Authorities

Price by Quantity Purchased

White matt premium quality
C.5 YORKSHIRE FITTING - Discount off list required

Est Purchase Value £
Potential Reduction

DISCOUNT BY NUMBER OF AUTHORITIES

DISCOUNT BY QUANTITY PURCHASED

BS 864 RF II - copper to copper straight coupling 15 mm
C6 GLASS - Per m2

Est Purchase Value £4 m
Potential Reduction 6%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

4mm plain English sheet glass to BS 952 1964 amendment 1971 8' x 4' sheet.
C.7 CEMENT - Per 50k bag

Est Purchase Value £4 m
Potential Reduction 4%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Portland cement to BS12
D1 ROAD BASE COURSE - Per tonne delivered

Est Purchase Value £19 m
Potential Reduction 6%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Dense granular base to BS 4987 - nominal size 28 mm.
D2 PAVING SLAB - Each

Est Purchase Value £1.7 m
Potential Reduction 8%

PRICE BY NUMBER OF AUTHORITIES

No of Authorities

PRICE BY QUANTITY PURCHASED

Quantity Purchased

Precast hydraulically pressed concrete flags to
BS 368 900 mm × 600 mm × 50 mm.
Concrete kerb stone fig 7 BS 340 half battered
125 mm x 255 mm x 914 mm.
D4 GRID - Each

Est Purchase Value £1.0 m
Potential Reduction 10%

**PRICE BY NUMBER OF AUTHORITIES**

- Major Authorities
- Shire Districts

**PRICE BY QUANTITY PURCHASED**

Gully grate and frame to BS 497, 450 mm square
heavy duty cast iron.
D5 BATTERY DRY - Each

Est Purchase Value £0.5 m
Potential Reduction 11%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

6 volt type 996 (67 mm × 67 mm × 100 mm)
BS 397 1976.
E1 DUPLICATOR PAPER - INK - Per ream

**Est Purchase Value**: £1.3 m

**Potential Reduction**: 7%

**PRICE BY NUMBER OF AUTHORITIES**

![Bar graph showing price by number of authorities]

- Major Authorities
- Shire Districts

**PRICE BY QUANTITY PURCHASED**

![Scatter plot showing price by quantity purchased]

Semi matt surface, white, A4 size, ie, 70g/m². Recommended for single sided use.
E.2 DUPLICATOR PAPER - SPIRIT - Per ream

Est Purchase Value £2 m
Potential Reduction 6%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

White, A4 size, 70g/m2
E3 EXERCISE BOOK - Per Pack of 100
8'' x 6.5''

Est Purchase Value £2 m
Potential Reduction 13%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

(203mm × 165mm) various rulings 48 pages, 75g/m2 Pressings Cover. BS4448 1975.
E4 EXERCISE BOOK - Per pack of 80
9'' by 7''

Est Purchase Value £1.8 m
Potential Reduction 7%

E.6 PVA ADHESIVE - Per 5 litre container

Est Purchase Value £0.4 m
Potential Reduction 12%

Polyvinyl acetate emulsion. Water washable
E5 EXERCISE PAPER - PUNCHED - Per ream

Est Purchase Value £1.4 m
Potential Reduction 5%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

A4 297 mm × 210 mm, 6 mm or 8 mm rulings 75 g/m².
BS4448 1975 - ream wrapped.
E7  POWDER PAINT - Per 5lbs tin

Est Purchase Value £0.2 m
Potential Reduction 13%

Price by Number of Authorities

Price by Quantity Purchased

Powder colour - white.
E.8 TENNIS BALLS - Per dozen

Est Purchase Value £0.1 m
Potential Reduction 13%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Practice quality - colour white
E9 VIDEO CASSETTE - Each

Est Purchase Value £0.9 m
Potential Reduction 3%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

VHS blank cassette. Individually boxed £180 - 3 hour.
F1 BREAD - Each loaf

Est Purchase Value £3 m
Potential Reduction 8%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

standard large white sliced loaf baked from best basic grade (bakers') flour 800mgs
F2 BAKED BEANS - Per 6 cans

Est Purchase Value £4 m
Potential Reduction 6%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

A10 can size (96 - 104 oz)
F.3 EGGS - Per 120 - Size 4

Est Purchase Value £3 m
Potential Reduction 10%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED
FROZEN CHIPS - Per 5 kg box

Est Purchase Value £8 m
Potential Reduction 14%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Straight cut.
F.5 FROZEN PEAS - Per 5lb bag

Est Purchase Value £0.4 m
Potential Reduction 11%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Catering quality 5lb bags
F.6 MARGARINE - Per 12½ kg

Est Purchase Value £2 m
Potential Reduction 8%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Standard quality
F.7 VEGETABLE COOKING OIL - Per 20 litres container

Est Purchase Value £4 m
Potential Reduction 10%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Edible quality in accordance with the Antioxidents in Food Regulations 1978, Amendment 1980 and the EROIC Acid in Food Regulations 1977 S1691
G.1 DERV - Per litre

Est Purchase Value £125 m
Potential Reduction 1%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

79
G2 HEATING OIL - Per litre

Est Purchase Value £ 247 m
Potential Reduction 3%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

35 second class D.
H.1 COMPUTER PAPER - Per pack 1000 sheets

Est Purchase Value £3 m
Potential Reduction 5%

 PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Continuous stationery, 1 part, ruled listing, 11" deep and 14\(\frac{1}{2}\)" wide 60 g/m2. Price per unit pack of 1000 sheets
H.2 PHOTOCOPY PAPER - Per ream

Est Purchase Value £4 m
Potential Reduction 9%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

A4 xerographic copier paper white 30g/m². Also suitable for offset litho machines to 10 ream pack
H3 BALLPOINT PEN - Each

Est Purchase Value £0.2 m
Potential Reduction 11%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Office quality, ball point pen. Non-refillable with cap and plastic pocket clip. Black ink
H.4 HB PENCIL - Per dozen

Est Purchase Value £0.3 m
Potential Reduction 10%

Length not less than 175mm conforms with Home Office Statutory Instrument 1974 no 226 hexagonal body. Coloured and polished

84
H.5 "SELLOTAPE" TAPE PAPER - Per roll

Est Purchase Value £0.2 m
Potential Reduction 17%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Self adhesive transparent tape. Cellulose base. BS 1133 Section 14 (B) 25mm × 66m rolls
H6 ENVELOPES - Per 100

Est Purchase Value £0.6 m
Potential Reduction 13%

PRICE BY NUMBER OF AUTHORITIES

PRICE BY QUANTITY PURCHASED

Pocket style DL (100 mm x 230 mm) Buff 90 g/m2.
Average bursting strength 175 k.p.s.
Gummed across flap.