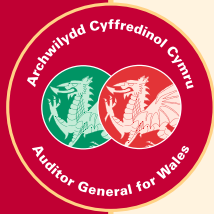




# **PROCUREMENT IN THE HIGHER EDUCATION SECTOR IN WALES**

Report prepared for the Auditor General for Wales by the National Audit Office Wales



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25 November 2004

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# Executive Summary

- 1 The higher education sector in Wales spent £269 million, equivalent to 36 per cent of its total income, on the procurement of goods and services in 2002-03. The sector comprises twelve institutions (thirteen until August 2004, when the University of Wales, College of Medicine merged with the University of Wales College, Cardiff to form Cardiff University), each of which is self-governing and responsible for its own procurement.
- 2 The National Audit Office's findings are delivered against the background of the Welsh Assembly Government's own procurement report, *Better Value Wales*, published in 2001, which sets out its policy on procurement. This is reinforced by its most recent paper *Making the Connections: Delivering Better Services for Wales*, published in October 2004. The aim is to achieve recurring savings of three per cent of total procurement expenditure (£120 million per year) across the Welsh public sector, through a series of improvements to procurement practice and resources. These include better management information, co-ordination of procurement activity, investment in training and the provision of skilled professionals, better performance management and the modernisation of procurement methods.
- 3 The Welsh Procurement Initiative was set up in April 2001 and will be funded by the Assembly until March 2005 to take forward the recommendations of *Better Value Wales*. The higher education sector in Wales, whilst not formally part of the public sector, received £325 million in grants from the Higher Education Funding Council for Wales in 2002-03<sup>1</sup> and is expected to demonstrate similar percentage savings to public sector bodies.
- 4 In September 2001 the National Audit Office reported on the scope for better value for money in procurement in the further education sector in Wales. This report assesses the current state of procurement practice in the higher education sector in Wales and considers the opportunities for improvement, including the scope for financial savings.

## Key findings

- 5 Each institution requires firm foundations to secure value for money from its procurement activity. Precise arrangements will vary depending on the size and nature of an institution, but certain fundamental aspects of good practice need to be in place. These are considered below, in the context of the sector's governance framework and guidance issued by the Welsh Procurement Initiative.

## Procurement strategies

- 6 Each institution needs a procurement strategy that sets objectives and priorities, provides a framework for allocating resources and assesses the procurement function's performance. In addition, the Welsh Procurement Initiative recommends that the strategy should set a target for financial savings of at least three per cent of procurement expenditure, in accordance with *Better Value Wales* and subsequently, *Making the Connections: Delivering Better Services for Wales*. At the time of our survey in 2003, six of the thirteen institutions had a procurement strategy, and few were sufficiently developed to provide a vision for the procurement function with areas and targets for improvement. Of the six strategies, just two had measurable targets and none had targets for savings.

## Procurement profile in each institution

- 7 Procurement needs a high profile throughout the institution, if good practice is to be firmly established and improvements made on an ongoing basis. We found that all institutions have a director at board level with responsibility for procurement, as recommended by *Better Value Wales*, but in some cases the head of procurement does not report directly to him. Also, many institutions have taken steps to raise the profile of procurement more widely among their staff, and those institutions with a central procurement unit were most likely to have been proactive in this area. There is, however, scope for improving reporting practices in institutions to ensure the Board is regularly informed of procurement performance.

<sup>1</sup> Academic years (ending on 31 July) are used throughout this report unless otherwise stated.

## Professional expertise

- 8 Only seven of the 13 institutions we surveyed have a dedicated procurement officer, who is a member of the Chartered Institute of Purchasing and Supply, supplemented in most cases by a small purchasing team with varying levels of skills and qualifications. Four of the six remaining institutions considered that they were too small to justify employing a procurement officer, while the other two believed that the purchasing consortium of which they were members obviated the need for a procurement officer.
- 9 Previous National Audit Office reports and *Better Value Wales* acknowledged that not every organisation could afford a dedicated procurement officer. In his report on procurement in the further education sector the Auditor General for Wales estimated that colleges with more than £3 million of non-pay expenditure would derive financial benefit from such a post. Four of the six higher education institutions in Wales without a procurement officer exceeded this level in 2002-03, some by a substantial margin.

## Management information

- 10 Institutions need appropriate information on procurement activity in order to determine whether they are securing good value for money. Managers need to know, for example, how much is spent, with whom and on what goods and services; the number of suppliers and the profile of expenditure with them; the type of contracts used and the cost of the purchasing process. Most institutions have limited management information and its use is often constrained by inadequate systems to collate and analyse data. This hinders strategic procurement activity, for example, monitoring prices, sharing information and identifying opportunities for savings. Most institutions still rely on paper-based ordering systems that provide very little information specifically on procurement, although some institutions have begun to automate their purchase ordering process, and one institution plans to implement full e-procurement capability by the end of 2006.

## Performance measurement systems

- 11 Few institutions in the higher education sector have a formal performance measurement system that encompasses clear objectives, comprehensive performance indicators and regular reporting to senior managers. Five institutions do not measure procurement performance at all, and the remainder use a variety of measures depending on the information available. Only three institutions are able to identify financial savings other than those delivered by their purchasing consortium, and none sets a formal target for savings. Procurement managers are unwilling to set targets as they believe that savings are difficult to measure, in the absence of reliable management information, and that targets could penalise those who have already made good progress and consequently have less scope for further improvement. The Welsh Procurement Initiative has now produced a model for measuring value for money gains that provides a consistent basis for measuring savings if the necessary information is collected.

## The role of the Higher Education Funding Council for Wales

- 12 Although the institutions are self-governing, the Council is accountable to the Assembly for the use of public funds provided to the sector by the Assembly. As part of its stewardship role, the Council's audit service reviews the management and governance of each institution every three years, with follow-up reviews in the intervening period. The Council limits its role on procurement matters to providing financial support for the Procurement Strategy Implementation Group for Higher Education (Proc HE)<sup>2</sup> and reviewing basic procurement practices at each institution as part of its periodic reviews. There is no monitoring of financial savings or other aspects of procurement performance, and hence a risk that the improvements required by *Better Value Wales* will not be achieved. Institutions reported savings of £1.65 million in 2001-02, compared with the £8 million that will need to be delivered if they are to meet the three per cent target set in *Better Value Wales* and *Making the Connections: Delivering Better Services for Wales*.

<sup>2</sup> This group advises on the collective procurement expenditure of universities and colleges in the United Kingdom.



## The potential to achieve further savings

### Collaborative working

- 13 Collaborative arrangements, especially purchasing consortia, are well established in the sector and have substantial potential benefits. Consortium contracts currently cover more straightforward goods, mainly consumable products, but there is considerable scope to extend the coverage of total procurement spend above the 9.2 per cent currently achieved. In addition there is scope to work more closely with other sectors, especially the further education sector, obtaining economies of scale in contracts and administration.

### Better management of suppliers and contracts

- 14 Supplier management is undeveloped, with some institutions not following basic good practice in making a list of approved suppliers, vetting new suppliers and formally recording supplier performance. However, most institutions have taken steps to rationalise suppliers and aggregate business to achieve better value for money, although more progress could be made. In particular, decentralised purchasing and limited management information made it difficult to control contract "leakage", where purchases are made outside the approved arrangements.

### Market testing

- 15 Most institutions have market tested at least some non-core services but several have not done so sometimes because a policy decision has been made to keep certain services in-house. Where market testing has been carried out the results have been mixed and in some cases the in-house option has proved cheaper or provided better quality.

## Sustainable procurement

- 16 "Sustainable procurement" is the contribution of procurement towards sustainable development: buyers need to balance economic, environmental and social objectives in decision making. In practical terms, this involves reducing the negative environmental impact of purchases, making contracts more accessible to small and medium-sized enterprises, and promoting social inclusion by rewarding ethical suppliers. Few institutions have formal sustainable procurement policies but there are examples of good practice in the sector, which can be extended, once the Welsh Procurement Initiative issues its guidance in late 2004. Sustainable procurement may result in short-term cost increases as different products are acquired, but this should be offset by long-term benefits, and there may also be financial savings from associated initiatives like energy conservation, waste reduction and recycling.

### Improving procurement processes

- 17 A potential area for savings is through a reduction in the administrative costs associated with the procurement of goods and services. The scope for greatest savings in administration is through the introduction of electronic processing as recommended by *Better Value Wales*. The use of electronic systems in higher education procurement is underdeveloped. Such systems would have significant benefits, including greater control over the purchasing function, reduced costs and better management information.



# Recommendations

The report makes a total of 19 recommendations, the majority of which are directed at the institutions and the remainder are in respect of the Council.

## To the Council

We recommend that the Council:

- (i) agree with the sector a strategy for achieving the savings targets set out in *Better Value Wales* and *Making the Connections: Delivering Better Services for Wales*;
- (ii) monitor the implementation of the strategy and hold the institutions to account for their procurement performance;
- (iii) work with the institutions to secure any improvements to procurement systems and practices necessary to achieve and record the target savings; and
- (iv) actively support the expansion of the purchasing consortia based on an agreed strategy for the sector that incorporates the main targets and recommendations of *Better Value Wales* and *Making the Connections: Delivering Better Services for Wales*. If necessary, the Council should consider providing financial assistance for consortia provided on the basis of agreed targets and effective working with other groups to ensure the most efficient distribution of administrative resources.

## To institutions

We recommend that:

- (v) all institutions revisit their procurement strategies, or, where none exists, develop one, in the light of existing guidance. The strategy should include time-related, measurable targets, including financial savings;
- (vi) senior management and the governing body at institutions regularly review the performance of their procurement function, through formal reporting arrangements, both to inform their strategic decisions and to ensure value for money is being achieved;
- (vii) senior management review their organisational structure to ensure that wherever practicable the procurement manager reports directly to the executive director responsible for procurement;
- (viii) all institutions consider, individually or collaboratively, the cost-effectiveness of appointing a dedicated procurement officer and ensure that their expertise is deployed across the range of capital and current expenditure;
- (ix) institutions ensure that their management information is sufficiently developed to provide basic information on suppliers, purchase transactions and process costs. This in turn will facilitate the setting, achievement and monitoring of savings over time within the higher education sector;
- (x) all institutions develop a robust and balanced performance management system with time-related, measurable targets, including explicit savings targets. Performance against objectives should be reported regularly to senior management;
- (xi) The Higher Education Purchasing Consortium, Wales enhance its efforts to expand the coverage of consortium contracts and to introduce new contracts, based on informed judgements of the potential for both financial savings and non-financial benefits. This should include closer working with other consortia to obtain economies of scale in contracting and contract administration;

- (xii) institutions continue to collaborate at local and UK level, and expand such collaboration where there is a clear case for doing so, for example by sharing expertise with smaller institutions, joint contracting and spreading best practice. This should include collaboration with other sectors where appropriate;
- (xiii) institutions maintain or develop a suitable supplier management system. This should include a database of approved suppliers, proper vetting of new suppliers and a formal system for monitoring the performance of suppliers;
- (xiv) institutions continue their efforts to rationalise suppliers, whilst ensuring that contracts are regularly reviewed to ensure that they remain value for money;
- (xv) institutions make best use of the discount structure they have negotiated for commodity contracts, taking practical measures to increase the use of core items;
- (xvi) where appropriate, institutions consider the benefits to be obtained from partnering and other long-term collaboration with key suppliers;
- (xvii) institutions develop a programme of best value reviews for non-core services, which may lead to full market testing, as part of their procurement strategies. This should be based on the evidence available on the likely benefits of market testing for the services considered;
- (xviii) institutions consider sustainable development in their procurement strategy and develop practical measures to advance sustainable procurement, based on available guidance and good practice; and
- (xix) institutions review their processing systems with a view to adopting greater automation of transactions where this proves cost-effective.



## THE BIG PICTURE

In September 2001 the National Audit Office published its findings on *Procurement in the Further Education Sector in Wales*, details of which were made available to the higher education sector. At that time we reported that greater progress was needed to ensure that all further education institutions had well developed strategies, access to the expertise needed to deliver improvement, and the management information systems to inform decisions and to monitor progress. Our findings on procurement in the higher education sector were that performance was mixed, with areas of good practice, particularly in some of the larger institutions and some well-established collaborative arrangements that have benefited the sector, as well as helping wider initiatives. Nevertheless, it is disappointing that more has not been done in the intervening period, as some of the institutions lack the foundations on which to build better procurement and many of our recommendations relating to weaknesses in performance are the same as those highlighted in 2001.

The institutions are self-governing bodies and ultimately responsible for ensuring value for money from their procurement arrangements. The Higher Education Funding Council for Wales, however, provided grants of some £325 million to the sector in 2002-03 and has a responsibility, through the financial memorandum with each institution, to ensure value for money from public funds is achieved. The Council must therefore be more proactive in promoting the improvements in procurement arrangements recommended by the Welsh Procurement Initiative. This is critical in relation to the target savings of three per cent per annum laid down by the Welsh Assembly Government in *Better Value Wales* and reinforced by *Making the Connections: Delivering Better Services for Wales*. Although some savings are being achieved, at present there is no ownership of this target in the higher education sector and consequently a serious risk that it will not be met.

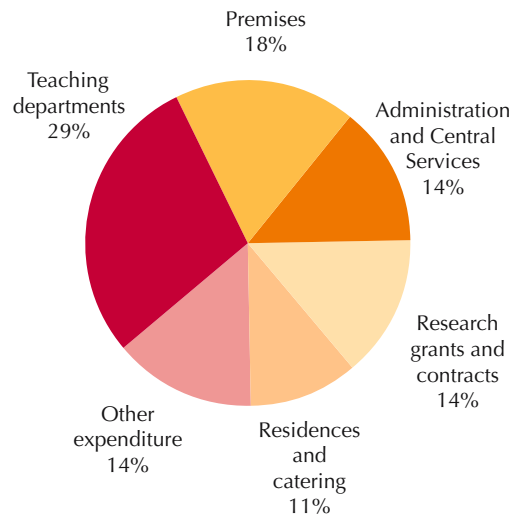
# 1 Background

## The higher education sector

- 1.1 There are twelve<sup>3</sup> higher education institutions in Wales, providing full and part-time courses to over 121,000 students. Their combined annual expenditure on goods and services was £269 million in the year 2002-2003 (**Figure 1**), ranging from £66.4 million at the University of Wales, Cardiff to £2.1 million at the Royal Welsh College of Music and Drama (**Figure 2**). The institutions are largely funded by the Higher Education Funding Council for Wales (the Council), an Assembly-Sponsored Public Body established in 1992 to administer the Welsh Assembly Government's funding of higher education. The Council is accountable to the Assembly for the use of this money, and a financial memorandum between the Council and each institution sets out the terms and conditions on which funding is provided. The Council reviews periodically the governance arrangements at each institution to ensure that it is following the memorandum and good practice in the conduct of its business. This includes an assessment of procurement practices.
- 1.2 The term 'procurement' covers the entire process of acquiring goods and services from third parties. It includes identifying what is needed, specifying requirements, researching the market, awarding contracts, ordering products, processing invoices and monitoring the performance of suppliers. Better value for money in procurement can be achieved by reducing the time and, therefore, cost of purchasing by streamlining processes, reducing the overall cost of goods and services or improving their quality without increasing their cost. A well managed procurement function can identify areas of potential savings in terms of better prices and processes, and can reduce the risk of poor performance through expert advice and assistance.

1 Expenditure by higher education institutions in Wales 2002-03		
	£000 (2002-03)	% of total
Staff costs (wages, salaries, pensions and social security contributions for directly employed staff)	418,860	57.2
<b>Non-pay expenditure</b>	<b>268,730</b>	<b>36.7</b>
Interest and depreciation charges	44,614	6.1
<b>Total</b>	<b>732,204</b>	<b>100</b>

Non-pay expenditure is spent on the following functions:



Source: The Council

<sup>3</sup> 12 institutions from August 2004 when the University of Wales, College of Medicine (UWCM) merged with the University of Wales, Cardiff to become Cardiff University.



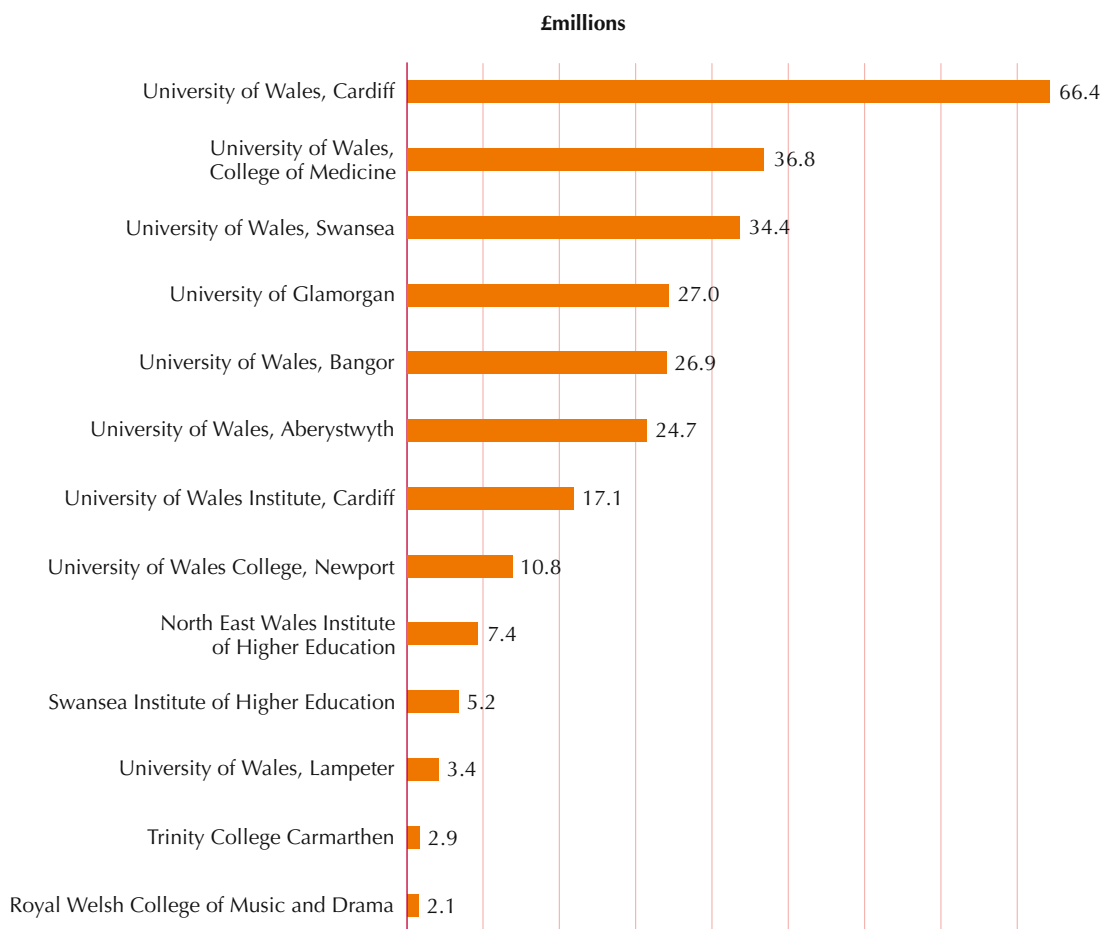
Each higher education institution is responsible for its own procurement but collaborative arrangements are in place to maximise resources and purchasing power

1.3 Each higher education institution is self-governing and responsible for its own procurement of goods and services, within a framework of financial regulations and

policies approved by the institution's governing body. Nevertheless, the institutions co-operate with each other on procurement matters in several ways, mainly through participation in:

- **purchasing consortia**, where institutions voluntarily pool their buying power and administrative resources to award contracts that can be used by all their members;

## 2 Non-pay expenditure by individual higher education institutions in Wales 2002-03



Source: The Council





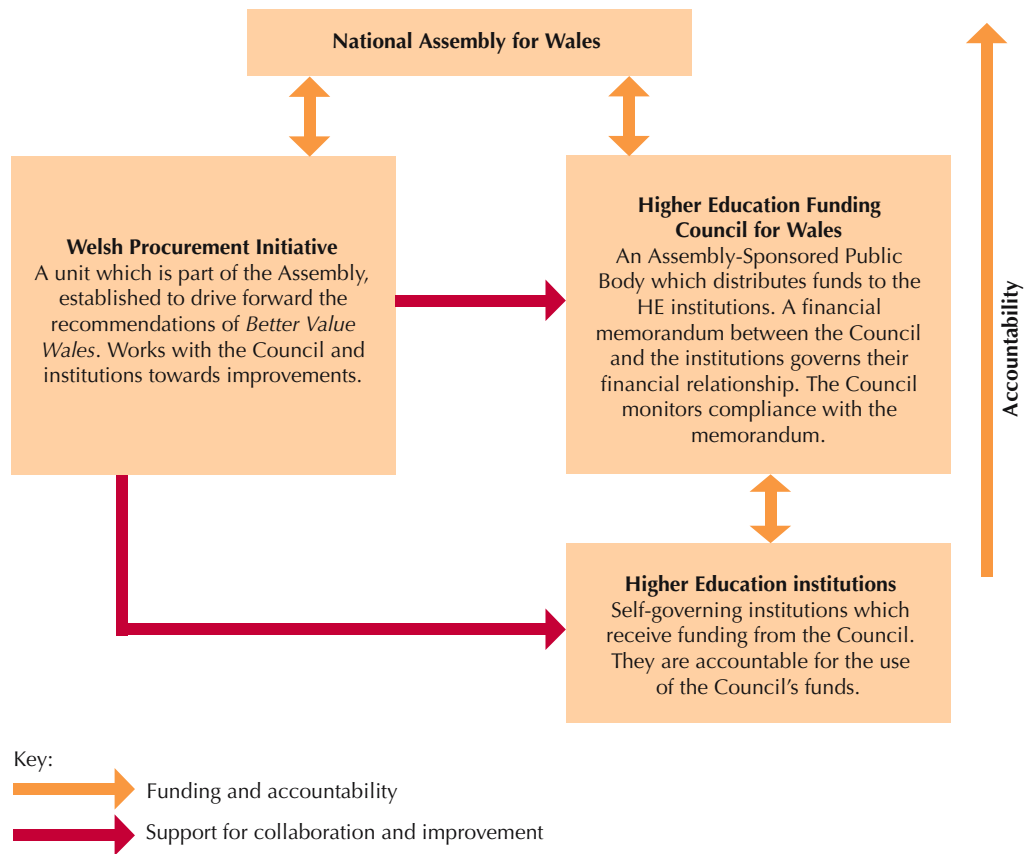
■ **the Procurement Strategy Implementation Group for Higher Education (Proc HE)**, which advises on the collective procurement expenditure of universities and colleges in the United Kingdom (more than £4 billion annually). This group is drawn from procurement officers and finance directors from institutions; and from representatives of the United Kingdom Higher Education Funding Councils, Research Councils and purchasing consortia. The Higher Education Funding Council for Wales will contribute a total of £150,000 for the three years to

31 July 2006, with the expectation that Proc HE will be self-financing thereafter; and

■ **the Welsh Procurement Initiative**, established in 2001 by the Welsh Assembly Government to drive improvements in procurement across the Welsh public sector. The Initiative is administered by a small team based in Swansea, assisted by procurement specialists throughout the public sector.

The key organisations responsible and accountable for procurement in the higher education sector are shown in **Figure 3**.

**3** Responsibility and accountability for procurement in the higher education sector in Wales



Source: The Council

## *Better Value Wales*, requires a minimum of three per cent annual savings in the public sector

1.4 The Welsh Assembly Government's policy on procurement is set out in *Better Value Wales*,<sup>4</sup> a report commissioned by the Finance Minister in April 2000 to examine procurement across the public sector in Wales. This wide-ranging review of procurement took account of the *Review of Civil Procurement in Central Government* (the Gershon Report, 1999) and *Efficiency in Civil Government Procurement* (the PX Report) published by the Treasury and Cabinet Office in 1998. The report, published in 2001, concluded that the Welsh public sector as a whole should aim to achieve recurring savings of three per cent, equivalent to £90 million per annum, by 2003-04. This was based on proven savings achieved by other UK public bodies such as the Northern Ireland Government Procurement Agency. It proposed also that savings should be retained for reinvestment in the public sector. The two key themes running through these recommendations were the scope for different elements of the public sector to work together on procurement, thereby increasing their purchasing power considerably, and the need for greater expertise among staff with procurement responsibilities. In addition, the Council's Regeneration and Collaboration Fund, which was launched to support the Welsh Assembly Government's strategy for the higher education sector, is encouraging institutions to collaborate on administrative as well as academic matters to achieve improvements that will help reduce the sector's administrative overheads.<sup>5</sup>

1.5 The Welsh Procurement Initiative team was set up in April 2001 and will be funded by the Assembly until March 2005 to take forward the recommendations of *Better Value Wales* (Figure 4). The team has identified to date potential savings of 19.6 million across the whole Welsh public sector.<sup>6</sup> They have carried out several pilot projects, including work on a savings measurement system and an all-Wales purchasing card. These projects have engaged the support of a number of the higher education institutions but the recommendations arising from the team's work are not mandatory.

4 <i>Better Value Wales</i> proposed major improvements in the way that the Welsh public sector should procure goods and services	
Key findings	Main Recommendations
<ul style="list-style-type: none"> <li>No common definition of procurement</li> </ul>	<ul style="list-style-type: none"> <li>Adopt a common definition of procurement to cover all aspects and stages of acquiring goods and services from third parties</li> </ul>
<ul style="list-style-type: none"> <li>Little management information on what is being spent and with whom</li> </ul>	<ul style="list-style-type: none"> <li>Establish a common methodology to provide management information on procurement performance</li> </ul>
<ul style="list-style-type: none"> <li>Procurement activity is, with some exceptions, unduly fragmented</li> </ul>	<ul style="list-style-type: none"> <li>Share information to identify the best contracts and commercial practices</li> <li>Identify and facilitate cross-sector contractual arrangements to maximise purchasing power while minimising environmental disruption</li> </ul>
<ul style="list-style-type: none"> <li>Too little investment in training and development of commercial skills</li> </ul>	<ul style="list-style-type: none"> <li>Invest in the training and development of people involved in commercial activities</li> </ul>
<ul style="list-style-type: none"> <li>The small number of trained professionals are too often engaged in work of low strategic importance</li> </ul>	<ul style="list-style-type: none"> <li>Establish a centre to provide high quality advice, guidance and specialist assistance</li> </ul>
<ul style="list-style-type: none"> <li>There is sometimes a reluctance to challenge the culture of directly employed labour, even for clearly non-core activity</li> </ul>	<ul style="list-style-type: none"> <li>Apply best value principles for non-core services by subjecting them to a process of "consult, compare, challenge and compete"</li> </ul>
<ul style="list-style-type: none"> <li>No agreed procurement performance measurement system and few examples of the benchmarking of procurement performance</li> </ul>	<ul style="list-style-type: none"> <li>Each body to have a procurement strategy to be reviewed annually by its Board</li> <li>Develop an auditable procurement performance measurement system</li> </ul>
<ul style="list-style-type: none"> <li>There is an urgent need to modernise procurement activity by developing e-commerce, sharing and adopting best procurement techniques</li> </ul>	<ul style="list-style-type: none"> <li>Develop a strategy to implement e-procurement and e-commerce</li> <li>Broaden routine use of procurement cards and automated payment systems</li> </ul>
<ul style="list-style-type: none"> <li>Better procurement practice could advance the progress of small and medium size enterprises and further the cause of sustainable development</li> </ul>	<ul style="list-style-type: none"> <li>Assist the development of a more competitive and diverse economy by helping SMEs to enter the market for public procurement</li> <li>Significantly reduce the impact on the environment through resource efficiency and encouraging the use of environmentally friendly goods and services</li> </ul>

Source: *Better Value Wales*

4 *Better Value Wales: The Review of Procurement in the Welsh Public Sector, report on behalf of the National Assembly for Wales, February 2001.*

5 *Reaching Higher - Higher Education and the Learning Country. A Strategy for the higher education sector in Wales, 2002.*

6 *Welsh Procurement Initiative Annual Report 2003.*

- 1.6 The higher education sector in Wales recorded £1.65 million of financial savings from its procurement activity in 2001-02, some 21 per cent of the £8 million that it needs to achieve to meet the three per cent target laid down in the *Better Value Wales* target and *Making the Connections: Delivering Better Services for Wales*.

### Previous work by the National Audit Office

- 1.7 This is the first report by the National Audit Office Wales on procurement in the higher education sector in Wales. In 2001, we reported on procurement in the further education sector<sup>7</sup>, details of which were also made available to the Welsh higher education sector. Our conclusion at that time was that some progress had been made since 1999, when we reported that procurement practices were poorly developed at most institutions. However, there remained considerable scope to secure further financial savings by raising the level of expertise in the sector, improving management information and through greater collaboration among colleges. Other areas for improvement included supplier management, market testing and energy management.
- 1.8 In addition, the Comptroller and Auditor General published a report in 1999 on procurement in the higher education sector in England<sup>8</sup>. This found that the sector had made substantial progress in improving procurement practices since 1993 but further financial savings could be achieved by extending good practice more widely across all institutions. The report recommended closer collaborative working between institutions and consortia, improving management information and performance management systems, developing the level of procurement expertise, and extending its influence more widely over the range of non-pay expenditure.

### Scope of the National Audit Office Wales' examination and methodology

- 1.9 The purpose of this report is to assess the current state of procurement practice in the higher education sector in Wales. We also consider the opportunities for further improvements, in particular the scope for financial savings, and make a number of recommendations on how this might be achieved.
- 1.10 Our methodology, set out at Appendix 1, included the following:
- reviewing the procurement practice of institutions by means of a sector-wide survey;
  - visiting six institutions in order to obtain or verify information, and to identify case studies;
  - interviewing the Higher Education Funding Council for Wales staff about their monitoring of institutions; and
  - engaging consultants to benchmark prices paid by institutions for a sample of routine items.



<sup>7</sup> *Procurement in the Further Education Sector in Wales, September 2001.*

<sup>8</sup> *Procurement in the English Higher Education Sector (HC 437), May 1999.*

## 2 The higher education sector needs firmer foundations on which to build good procurement practice

2.1 This part of the report considers whether the sector has established firm foundations for securing value for money from its procurement activity. The operation of systems and processes in accordance with recognised good practice is crucial to ensuring that best value is achieved in the procurement function. We therefore assessed the higher education sector's performance against the following criteria:

- Does each institution have a procurement strategy?
- Does procurement have a high enough profile in each institution?
- Do all institutions have sufficient professional expertise?
- Is there good management information in each institution?
- Does each institution have a sound performance measurement system?

### Does each institution have a procurement strategy?

2.2 A procurement strategy is an essential element of the procurement function. It provides the framework and direction within which resources can be prioritised and developed, and considers how the procurement function contributes to an institution's overall aims and objectives. It is also a useful tool for clarifying roles and responsibilities for procurement within an institution. The strategy should set objectives, and enable progress against them to be monitored so that an institution can assess its procurement performance. It should be reviewed regularly to take account of the institution's changing circumstances. Guidance on the preparation of a strategy is available from a number of sources; **Figure 5** sets out the model suggested by the Welsh Procurement Initiative for the public sector in Wales.

## 5 The Welsh Procurement Initiative's model strategy

The Welsh Procurement Initiative suggests the inclusion of the following:

<b>Expenditure profile</b>	Analyse expenditure to understand the scale and importance of procurement activity in terms of amount, nature of purchases, market risk and business risk.
<b>Contribution and influence</b>	Assess the degree of central influence over procurement, obtain senior management support for best practice and determine how procurement should be integrated with wider corporate policy such as sustainable development.
<b>Purchasing and process control framework</b>	Review process to ensure that appropriate controls, documents and procedures are in place for different types of procurement.
<b>Organisation and internal relationships and cross-sector collaboration</b>	Review the scope for internal and external collaboration so that procurement is organised in a way that best meets business need.
<b>Supplier relationship management</b>	Review the quality of supplier management and develop plans for enhancing relationships with suppliers to better meet the needs of the organisation.
<b>Effective use of available technology</b>	Assess the use and potential of existing technology for effectively supporting the procurement process, for example providing appropriate management information and minimising process costs.
<b>Staff capability and development</b>	Assess the qualifications, skills and experience of procurement staff and identify any improvements required.
<b>Structured approach to effective purchasing</b>	Identify the tools and techniques needed to understand markets and suppliers.
<b>Sustainable procurement</b>	Incorporate the organisation's (and Assembly's) sustainable development policy into procurement, identifying practical ways of creating environmental and social benefits without compromising value for money.
<b>Results</b>	Identify suitable performance indicators that provide a balanced assessment of the procurement function and are linked to the achievement of agreed business needs. This should include an overall procurement efficiency improvement target of not less than three per cent of total procurement expenditure per annum. Indicators should cover the quality of process and systems, business contributions, suppliers, internal relationships and external collaboration.

Source: Welsh Procurement Initiative

Institution	Non-pay expenditure 2002-03 £000	Procurement strategy
University of Wales, Cardiff	66,372	✓
University of Wales, College of Medicine	36,787	✓
University of Glamorgan	26,955	✓*
University of Wales, Aberystwyth	24,683	✓*
University of Wales Institute, Cardiff	17,128	✓
North East Wales Institute of Higher Education	7,420	✓
Swansea Institute of Higher Education	5,247	✓
University of Wales, Lampeter	3,433	✓
Royal Welsh College of Music and Drama	2,069	✓*
University of Wales, Swansea	34,426	×
University of Wales, Bangor	26,851	×
University of Wales College, Newport	10,791	×
Trinity College Carmarthen	2,910	×

\* Strategy was in development at the time we carried out our survey.

Source: National Audit Office Wales

## A

### Strategy preparation at University of Wales, Aberystwyth

The University of Wales, Aberystwyth decided to appoint a procurement manager in 2003 having previously had no central procurement resource and no procurement strategy. The new manager used the Office of Government Commerce's general guidance to prepare a strategy statement that was approved by the governing body in July 2004. The process involved:

- *business analysis*, to understand the way the university operates, including an initial high level review to categorise expenditure by product / service area, user department and supplier. This included analysing the basis of the contractual relationship with each supplier;
- *developing a future direction*, by identifying the main strategic themes to underpin a vision for procurement in the university. These were: people (development and training), modernisation

(processes and systems), collaboration (co-operation and communication), sustainability (resources and the environment), measurement (performance and benchmarking) and good practice; and

- *high level planning*, by selecting projects based on the strategic themes and a practical assessment of timescales, resources and risk.

The resulting strategy and implementation plan identified projects that would address the strategic themes over a five-year period, creating a procurement infrastructure that is currently lacking. The key elements include a complete review of procedures and systems, a supplier appraisal and rationalisation programme, the development of a procurement manual, and the instigation of links with neighbouring higher and further education institutions.

Source: Procurement Manager, University of Wales, Aberystwyth



2.3 At the time of our survey, only six of the thirteen<sup>9</sup> institutions had a procurement strategy (Figure 6). Of these, just two had measurable targets, and none contained targets for financial savings. We judged the overall quality of the documents using the guidelines laid down by the Welsh Procurement Initiative (Figure 5), which are consistent with similar guidance issued by the Office of Government Commerce, previous National Audit Office reports and *Better Value Wales*. The strategies varied in length, detail and format and few were sufficiently developed to provide a vision for the procurement function with areas and targets for improvement. In some cases they were little more than statements of intent. In addition to the identification of suitable performance measures, the main areas in which the strategies were deficient were:

- assessing the skills and experience of procurement staff to identify any improvement required;
- reviewing purchasing methods and means of reducing processing costs;
- incorporating a sustainable development policy into procurement; and
- assessing the potential of technology to support the provision of management information.

2.4 The preparation of a well-developed strategy requires considerable time and expertise (Case Study A), which may not be readily available in smaller institutions. However, all institutions need a formal procurement strategy that gives shape and direction to their efforts, and contributes to the wider objectives of the public sector, as set out in *Better Value Wales*. Accordingly, the Higher Education Funding Council for Wales might consider whether external assistance is needed to ensure that all institutions have the resources and expertise to develop their own strategy.

## KEY POINTS

### on procurement strategies

- Four of the 13 institutions have no strategy and most of the documents that do exist are not robust, often lacking clear objectives and substantial coverage of key issues.

### We recommend that:

- all institutions revisit their procurement strategies, or, where none exists, develop one, in the light of existing guidance. The strategy should include time-related, measurable targets, including financial savings.

## Does procurement have a high enough profile in each institution?

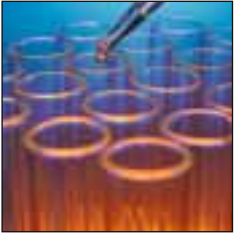
2.5 Procurement needs a high profile throughout an institution if good practice is to be firmly established and improvements made on an ongoing basis. In order to maintain such a profile, as well as developing a strategy, each institution should:

- appoint a director at board level to "champion" procurement issues, supported by regular and specific reporting on the performance of the procurement function and the achievement of its objectives. This was recommended by *Better Value Wales* and is consistent with other government reviews of procurement;
- produce regular reports for the Board and governing body on procurement matters that include progress against key performance indicators;
- establish clear policies and procedures for purchasing, which are reviewed and audited regularly; and
- take steps to maintain the profile of procurement among the users of goods and services, especially where responsibility for procurement is decentralised and the benefits of a central resource may not be fully appreciated.

2.6 We found that institutions were making progress in raising the profile of procurement, although levels of achievement varied across the sector:

- all the institutions had a director at Board level with responsibility for procurement, although in four institutions the procurement manager did not report directly to him or her but through an intermediate layer of management;
- only eight of the 13 institutions produced reports on procurement matters for the governing body, and institutions with procurement strategies (six of the eight) were more likely to produce such reports than those without. Three institutions did not report to the governing body but did send reports to a management committee or to senior managers. In two cases, however, there was no formal reporting on procurement matters;
- all institutions had procurement regulations setting appropriate thresholds for obtaining competitive quotations and formal tenders. Internal audit coverage was generally good, with ten institutions receiving at least one report a year on a procurement issue. However, at three institutions there was less coverage, and in one case there had been only one report in the previous ten years. Such a paucity of internal audit coverage raises the risk that policies and procedures will not be followed; and

<sup>9</sup> The University of Wales, College of Medicine (UWCM) had not yet merged with the University of Wales, Cardiff.



- many institutions had taken steps to raise the profile of procurement more widely among their staff, with the size and management culture of the institution being the main determinants of the measures taken. Those institutions with a central procurement unit were most likely to have been proactive in developing the profile of procurement, although this was not exclusively the case, as shown by the examples in **Case Study B**.

## B Raising the profile of procurement

Two examples cited by institutions that we visited:

**The University of Wales Institute, Cardiff (UWIC)** uses its integrated purchasing system as the key to raising the profile of procurement among staff. An on-line buyer's guide provides detailed guidance on all aspects of the procurement process and lists approved suppliers. Since the guide was introduced in 2001, the proportion of purchase orders placed with the suppliers named in the buyer's guide has risen from 30 per cent to 60 per cent. The procurement team maintains its profile externally by participating actively in the Higher Education Purchasing Consortium, Wales and the Welsh Procurement Initiative, with the procurement manager providing advice and leading the development of collaborative contracts.

**NEWI (North East Wales Institute of Higher Education)** is a smaller institution and does not have a specialist procurement manager or a central purchasing team. Procurement is the responsibility of line managers who are accountable for their purchasing decisions. There is no system of reporting, as the institution considers that it is too small to warrant this and in any case there is not enough management information to monitor purchasing performance. However, the Finance Director - who acts as head of procurement - ensures that procurement is represented at board level, and convenes a group of buyers from various departments such as IT and Estates to discuss procurement regularly and consider any important issues. NEWI participates in the North-West Universities Purchasing Consortium and makes extensive use of its services, although it has limited capacity to lead contracts on behalf of the consortium because of resource constraints. The consortium provides NVQ training in purchasing and several staff have taken advantage of this to develop their knowledge of procurement.

*Source: Heads of procurement at UWIC and NEWI*

## KEY POINTS

### on the profile of procurement

- Many institutions have taken steps to raise the profile of procurement more widely among their staff; those institutions with a central procurement unit were most likely to have been proactive in this area.
- All institutions have an executive director on the board to champion procurement issues but in some cases the procurement manager does not report directly to him or her.
- There is scope for improving reporting practices in institutions to ensure the Board is regularly informed of procurement performance.

### We recommend that:

- senior management and the governing body at institutions regularly review the performance of their procurement function, through formal reporting arrangements, both to inform their strategic decisions and to ensure value for money is being achieved; and
- senior management review their organisational structure to ensure that wherever practicable the procurement manager reports directly to the executive director responsible for procurement.

## Do all institutions have sufficient professional expertise?

- 2.7 At the time of our survey, seven of the institutions employed a procurement manager, all of whom were professionally qualified through their corporate membership of the Chartered Institute of Purchasing and Supply (CIPS). Institutions with a higher level of non-pay expenditure were more likely to employ a specialist member of staff with lead responsibility for procurement. Of the six institutions with no dedicated officer, four considered they were too small to warrant one, and two expressed the view that by using purchasing consortia, they obviated the need to employ a qualified procurement manager.
- 2.8 Professionally qualified and experienced procurement staff are likely to have the key skills for good purchasing, including: an understanding of pricing strategies, interpreting market intelligence, an ability to negotiate terms and conditions, knowledge

of contract law and procurement regulations, and an understanding of how purchasing should be structured to best meet the needs of the organisation. Previous National Audit Office reports on procurement in the education sector, and *Better Value Wales*, both acknowledged that not every organisation could afford a dedicated full-time procurement officer. There is no precise level of expenditure above which a dedicated procurement post becomes cost-effective. However, in *Procurement in the Further Education Sector in Wales*, the Auditor General estimated that organisations with non-pay expenditure in excess of £3 million would derive financial benefit from the appointment of such a post. All but two higher education institutions in Wales currently exceed this threshold. **Figure 7** below lists the institutions in order of their non-pay expenditure, and shows those with a dedicated procurement officer, together with the total number of qualified and non-qualified procurement staff.



### 7 Procurement expertise in higher education institutions

Institution	Non-pay expenditure 2002-03 £000	Dedicated Procurement Officer	MCIPS qualified staff (including procurement officer)	Other support staff <sup>2</sup>
University of Wales, Cardiff	66,372	✓	1	6
University of Wales, College of Medicine	36,787	✓	2	3
University of Wales, Swansea	34,426	✓	3	2
University of Glamorgan	26,955	✓	2	1
University of Wales, Bangor	26,851	✓	1	3
University of Wales, Aberystwyth	24,683	✓	1 <sup>1</sup>	0
University of Wales Institute, Cardiff	17,128	✓	1	2
University of Wales College, Newport	10,791		0	1
North East Wales Institute of Higher Education	7,420		0	0
Swansea Institute of Higher Education	5,247		0	0
University of Wales, Lampeter	3,433		0	0
Trinity College Carmarthen	2,910		0	0
Royal Welsh College of Music and Drama	2,069		0	0
<b>TOTAL</b>	<b>265,072</b>	<b>7</b>	<b>11</b>	<b>18</b>

#### NOTES

- 1 As well as the central procurement manager, University of Wales, Aberystwyth has two purchasing officers with specific responsibility for designated departments within the university
- 2 Of the 18 other support staff, ten were pursuing further training, mainly through National Vocational Qualifications.

## Training and guidance

- 2.9 Training is important in developing and maintaining up to date skills among both qualified and non-qualified procurement staff. In response to the need for more training among procurement staff, the Welsh Procurement Initiative has set up a programme of courses on a range of procurement subjects, including, for example, supplier appraisal and contract law, effective negotiation and EC procurement. The courses have met with a good response so far from most institutions, with nine sending representatives to attend.
- 2.10 In addition to training courses, the Welsh Procurement Initiative has provided good practice guidance on, for example, developing a procurement strategy and measuring savings. They also answer specific queries and provide advice via a help desk from their base in Swansea. According to our survey, most institutions welcomed the Welsh Procurement Initiative's efforts and believed it would reap benefits as it was rolled out across the public sector.
- 2.11 The Joint Procurement Policy and Strategy Group for United Kingdom Higher Education (JPPSG) and latterly its successor, the Procurement Strategy Implementation Group for Higher Education (Proc HE) have also been a source of guidance for the sector, as has the professional body, the Chartered Institute of Purchasing and Supply. More recently, the consortia have proved beneficial to the sector in terms of sharing information on contracts and documentation, for example, the standardisation of tender forms.

## Influence of procurement officers across the range of non-pay expenditure

- 2.12 Where institutions employ a specialist member of staff with lead responsibility for procurement, it is important to use those skills across the range of non-pay expenditure, including both current and capital expenditure. In some institutions there may already be procurement expertise in specific areas, such as estates, but the procurement manager should supplement those skills with advice on the purchase of, for example, items to equip the buildings. Of the seven dedicated procurement specialists in the higher education sector, only three considered they had influence over all areas of procurement in the institution. Although most reported they

had some influence over estates and information technology expenditure, areas where some of them were not consulted included banking, insurance, recruitment advertising, print buying, books and catering.

## KEY POINTS

### on procurement expertise

- There are currently six institutions in the higher education sector with no qualified or dedicated procurement personnel, although the level of non-pay expenditure in all but two exceeds £3 million per annum.
- Staff with procurement expertise are not currently able to influence areas of non-pay expenditure where they might usefully contribute.

### We recommend that:

- all institutions consider the cost-effectiveness of appointing a dedicated procurement officer and ensure that their procurement expertise is deployed across the range of capital and current expenditure.

## Is there good management information in each institution?

- 2.13 Good quality management information is an essential part of effective procurement. It enables an institution to:
- adopt a strategic approach to target areas most at risk in terms of securing better prices and improving quality;
  - compare prices and share information with other institutions; and
  - assess the performance of the purchasing function, and monitor the achievement of efficiency gains.
- 2.14 Management information can take a variety of forms, from high-level financial reports showing expenditure against budget to detailed information on individual products and services. Basic management information should cover:
- how much is spent, with whom and on what goods and services;
  - the number of suppliers and the profile of expenditure with them;
  - the type of contract under which goods and services are purchased, and the amount of purchasing that takes place outside organised arrangements (known as "contract leakage" or "maverick spend");



- information about suppliers and the quality of goods and services received from them; and
- transaction and process costs for different types of purchase.

2.15 This information is needed to monitor expenditure at a sufficiently detailed level to identify the most appropriate form of procurement (for example, to aggregate its business with other institutions or with fewer suppliers) and to monitor effectively the performance of suppliers. Without such information, institutions are not able to judge whether or not they are achieving value for money, nor can they assess the impact of any changes made (Figure 8)

## 8 Supplier management in the higher education sector

Although most institutions have a list of suppliers, only five institutions formally record poor supplier performance. Consequently, there is a risk that unsatisfactory suppliers will be used again. From responses to our survey, there is also scope for institutions to rationalise the numbers of suppliers not only to eliminate poor performance but also to facilitate the grouping of purchases to fewer suppliers. This in turn increases average order values and the scope for negotiating bulk discounts.

### There is considerable scope for improvement in the management information held by most institutions

2.16 We found that systems at most institutions were able to provide only the most basic information on procurement, and this was often generated from their accounting systems. For example, all institutions were able to monitor and report expenditure against budget for different parts of their business, and most had a supplier list and the capacity to report payments made to those suppliers. But few had systems that routinely collected the information listed in paragraph 2.14, and in no institution was all of the information collected. Generally, institutions relied on manual review to collect such information as and when it was needed, often at the behest of people outside the organisation rather than as part of planned procurement activity.

2.17 The level of management information varies widely. The University of Wales Institute, Cardiff leads the sector with a fully integrated system that records detailed information for each purchase, and is able to report extensively on procurement activity. The system has led to improvements in management information, financial control and the efficiency of the procurement process (Case Study C). Several other institutions have implemented purchase order processing (POP) systems that allow the orders to be created and authorised electronically. These are at varying levels of development but have the potential to develop into fully integrated systems capable of providing extensive management information. Most institutions in the sector still rely on paper-based ordering systems that provide very limited management information specifically on procurement. In some cases, the necessary information is collected but its use is limited by a lack of consistency and integration (Figure 9 overleaf).



## C The University of Wales Institute, Cardiff has a fully integrated information system that has helped to improve the procurement process

The University of Wales Institute, Cardiff (UWIC) operates an integrated procurement system that is managed centrally, thus ensuring a high degree of consistency and financial control, while maintaining the devolved budgeting that is characteristic of the higher education sector. The purchasing team consists of a procurement manager and two buyers but all university staff involved in purchasing goods and services (the users) have access to the system to make purchases. The system is largely automated, and orders are requested and authorised electronically. Benefits of the system identified by UWIC are as follows:

- the high degree of automation saves staff time and minimises process costs;
- authorisation limits and other controls are programmed into the system, improving financial control. For example, only approved suppliers can be used, (thus eliminating the risk of maverick spending) and new suppliers need to be authorised by the procurement team. The team also approves all orders, over £30,000 and reviews a sample of all other orders for any irregularity. This professional input helps to ensure that the institution complies fully with procurement regulations, including its own financial regulations;
- the system is user-friendly, with a web-based buyer's guide that helps the user in all aspects of making a purchase. Information on current, dormant and prospective suppliers is retained and readily available to users; and
- detailed information on products is readily available from the electronic ordering function and can be analysed using the system's extensive reporting capability.

The procurement manager at UWIC is building on these achievements by developing e-procurement (whereby the buyer sends orders and receives invoices electronically) and introducing procurement cards. UWIC plans to upgrade the system over the next two years to support full e-procurement for those suppliers who are able to use it. Most suppliers do not have this capability currently but e-procurement has the potential to generate further efficiency savings, and to provide more sophisticated management information.

Source: University of Wales Institute, Cardiff



## 9 The need for better management information

At one institution, there are various parts to the electronic information systems but they are not linked. Outdated IT means that some information has to be entered twice onto different systems and management information, although it exists in various parts of the system, is not readily available. Poor management information systems and computer systems occupy the time of staff seeking out information when better systems could release them to do more proactive procurement tasks.

*Source: National Audit Office Wales*

2.18 These shortcomings in management information mean that performance measurement systems (paragraphs 2.20 to 2.25 below) are also undeveloped, with indicators that relate to broad objectives rather than well defined, measurable targets. Although there are skilled staff in the sector who do undertake higher-level strategic activity, they are constrained by a number of practical drawbacks:

- savings and efficiency gains are not recorded consistently and accurately across the sector, making it very difficult to assess procurement performance. Only four institutions were able to tell us what their annual savings were other than those recorded through the purchasing consortia of which they were members;
- it is more difficult to rationalise suppliers, monitor their performance and develop the supply chain (i.e. to improve supplier performance or meet sustainability criteria by considering the origin of the supplier's purchases). For example, a newly appointed procurement manager at one institution wished to undertake a high level review of expenditure, to identify suppliers and the basis of their contracts for different types of goods and services, but was unable to obtain the necessary detailed information without approaching the suppliers themselves, a time-consuming and unreliable way of doing so;
- it is difficult to supply purchasing consortia with detailed information on product consumption to enable them to negotiate effectively with suppliers for

new contracts. Price depends to some extent on the amount of business that a contractor may expect to do with a consortium and how certain this estimate is. A consortium also needs reliable information on the most popular products so that it can negotiate the best discounts on these products; and

- price monitoring becomes difficult as most institutions do not have readily available information on the unit price, consumption and supply and delivery arrangements for individual products. These factors need to be considered when comparing prices with those paid in the wider market, to ensure that a genuine like-for-like comparison is taking place. Price benchmarking in the sector tends to be done on an ad hoc and informal basis as the necessary detailed information is very rarely recorded and collected routinely.

2.19 Institutions need to further develop their systems so that as much basic management information as possible is collected routinely as part of the standard process of setting up suppliers and contracts, and placing purchase orders. This will work most efficiently if the information is entered electronically onto an integrated system with good reporting capability, minimising the amount of time needed to record and analyse information. Few institutions currently have this capability; partly because most have a devolved management structure that gives a great deal of autonomy to individual departments - to the extent that they are not always obliged to use a centrally controlled procurement information system. The periodic replacement and upgrading of accounting systems is a good time to consider an institution's procurement information needs and to incorporate them into a wider management information system, thus getting most value from the unavoidable cost and disruption of major changes to IT systems. Several institutions told us that they hoped to invest in electronic systems to improve their management information, and several wished to develop full e-procurement functionality whereby the whole procurement process could be conducted electronically.

## KEY POINTS

### on management information

- Institutions have limited management information and its use is often constrained by inadequate systems to collate and analyse data. This hinders strategic procurement activity, for example monitoring prices, sharing information and identifying opportunities for savings.
- Improved management information would facilitate the monitoring and reporting of savings within the higher education institutions and to the Council.

### We recommend that:

- institutions ensure that their management information is sufficiently developed to provide basic information on suppliers, purchase transactions and process costs. This in turn will facilitate the setting, achievement and monitoring of savings over time within the higher education sector.

## Do all institutions have a sound performance measurement system?

2.20 A procurement strategy must be underpinned by a strong performance measurement system. This means setting clear objectives for the procurement function, identifying suitable performance indicators and monitoring achievements against them. Appropriate performance measures provide institutions' management and governors with a formal means to assess

procurement performance and to assure themselves that the procurement process is contributing to the institution's overall aims. In order to assess fully the performance of the procurement function, both financial and non-financial indicators are needed, and they should cover the whole range of procurement activity.

2.21 We found that few of the institutions had formal performance measurement systems. Five institutions reported that they either do not measure their procurement function or find it difficult to do so, generally through a lack of resources or expertise. The other institutions used a variety of measures, including savings achieved, the amount of expenditure influenced by the procurement manager, customer satisfaction, time to process orders, and achievement against specific objectives set out in strategies or operational plans. The procurement strategies provided little basis for robust performance measurement, since only two of them had measurable targets. Most institutions used a small number of measures - usually two or three - independently of their strategies, based on the information available and the preference of the procurement manager. UWIC had the most comprehensive range of indicators and used them to monitor the achievement of strategic objectives, although they were not the subject of formal targets (**Case Study D**).



## D UWIC measures its procurement performance using several indicators that cover all the key strategic objectives

The Institute uses several indicators to measure the success of its procurement function in implementing the strategy:

- average order value, number of orders and number of suppliers: this indicates the Institute's success in consolidating expenditure with a limited number of key suppliers. In recent years average order values have risen while the number of orders and suppliers has fallen steadily;
- contract coverage: the proportion of expenditure covered by contracts arranged through the purchasing team;
- use of the on-line buyer's guide: the proportion of orders placed that are with suppliers promoted in the buyer's guide;
- cost savings achieved through purchasing activity - as a general indicator of overall performance, but not a primary measure; and
- process costs: the average cost per order is used to indicate the effectiveness of Agresso (the integrated purchasing system) in reducing administrative costs.

The performance indicators are normally reported to the Finance Director every three months, and are used to support the assessment in the annual procurement report to the Institute's audit committee. However, they are not used as targets; instead, UWIC favours a broad assessment of overall trends, on the basis that substantial improvement takes time and cannot be properly assessed using a few specific indicators.

Source: University of Wales Institute, Cardiff



2.22 Generating financial savings is a key aim of the Welsh Procurement Initiative, but only three of the institutions have a savings target. In two cases, this is not specific but a general commitment to save at least the cost of running the central procurement unit. All the procurement managers we spoke to were reluctant to set specific savings targets for their institution on the basis that savings were difficult to measure and that it became more difficult to obtain savings once the best opportunities had been exploited, thus penalising institutions that had already made significant improvements.

2.23 The Welsh Procurement Initiative has sought to address these misgivings, which have been raised more widely in the Welsh public sector, by developing a model for measuring value for money savings (Figure 10) and by urging institutions to set a realistic target for savings that reflects their current position. This should not be the only indicator of a purchasing team's performance, but should be a central element of each institution's procurement strategy and performance measurement system. The Initiative is keen for all bodies in receipt of public funding in Wales to record and measure their savings consistently so that valid comparisons can

be made and to indicate the success of *Better Value Wales* in meeting its overall savings target.

2.24 We found that most institutions did not record savings at all, other than those obtained on their behalf by HEPCW and identified by the consortium. Only three institutions calculated savings from their own procurement activity, and none calculated process savings (those achieved by reducing the cost of the procurement process, rather than savings made on the purchases themselves). In most cases, the saving was due to price reduction, although it was clear from our visits to institutions other savings could have been calculated - for example from post-contract negotiation and process simplification. It is possible that in some areas savings are understated, and that use of the value measurement system proposed by the Welsh Procurement Initiative could result in an increase in the level of recorded savings but not necessarily an increase in actual savings. Nevertheless, the adoption of the model would focus attention on the Assembly Government's policy priority of delivering savings and would enable the Council to identify areas where further development was needed.

## 10 What is a saving?

There are a variety of ways of measuring savings and not all savings are easy to identify. The Welsh Procurement Initiative has developed a model ("value measurement system") to classify savings in an attempt to ensure that an auditable and comprehensive system is applied consistently across the Welsh public sector.

The system adopts the Chartered Institute of Purchasing and Supply's definition of a saving as "a benefit that increases or sustains the organisation's financial standing. Outcomes are only savings if they are realised and quantifiable." All savings must be adjusted for inflation (or deflation in the case of products which fall in price, such as many computer products). There are three broad categories of saving:

Category	Example
Price reduction	Same item costs less Savings from post-contract negotiation Inclusion of additional items or services at no extra cost Bulk buying discounts
Cost avoidance	Price increase avoided through negotiation Delay in price increase Supplier sponsorship (donation of funds) or income generation
Added value	Changing specification to remove unnecessary cost Change in financing (e.g. lease rather than buy) Lower cost of processing due to simplified procedures for low value orders (e.g. purchasing cards or call-off contracts)

Source: *Welsh Public Sector Value Measurement System, developed jointly by the Welsh Assembly Government and the Welsh Local Government Procurement Support Unit with the support of the Welsh Procurement Initiative, based on the system developed at Heriot Watt University*

2.25 Overall, there is a need for the sector to develop more formal and comprehensive performance measurement arrangements. These should include (but not be limited to) specific, measurable indicators that can be used to assess the procurement function objectively. This will contribute towards a balanced assessment of procurement performance, based on the objectives set out in the institution's procurement strategy, and will point to areas where further development is needed. In most institutions, management information will need to improve significantly if such a system is to be developed.

## KEY POINTS

### on performance measurement

- Few institutions have a robust performance measurement system that encompasses clear objectives, comprehensive performance indicators and regular reporting to senior managers. Such a system is most likely where procurement has been centralised and is supported by a well-developed, integrated management information system.
- There is a strong reluctance to set savings targets, although this is recommended by the Welsh Procurement Initiative and there is now a common model for measuring value for money gains.

### We recommend that:

- all institutions develop a robust and balanced performance measurement system with time-related, measurable targets, including explicit savings targets. Performance against objectives should be reported regularly to senior management.

procedures rather than outcomes, and the Council does not monitor the procurement performance of individual institutions, nor of the sector as a whole.

2.27 The Council also seeks to contribute to the improvement of procurement in Welsh higher education through its funding and membership of the Procurement Strategy Implementation Group for Higher Education (ProcHE), which is responsible for implementing the UK-wide strategy for higher education. This group provides guidance and assistance to institutions through a number of initiatives, but does not have the authority to hold the institutions to account for their procurement performance. The Council does not provide guidance or advice to institutions directly on procurement matters but supports the work of Proc HE and other specialists in the field who perform this function; and procurement staff in the institutions we visited told us there was little direct contact with the Council.

2.28 Given the independence of the institutions and the arm's length relationship of the Council, there is a risk that improvements in performance, in particular the realisation of financial savings, will not be achieved. If the sector is to secure the three per cent target specified in *Better Value Wales* and *Making the Connections: Delivering Better Services for Wales*, it must identify annual savings of some £8 million. In response to our survey, institutions reported savings of £1.65 million in 2001-02. Moreover, institutions are reluctant to set specific targets for financial savings and lack a consistent and reliable methodology for assessing and recording them.

## The role of the Higher Education Funding Council for Wales

2.26 Although the institutions are self-governing, the Higher Education Funding Council for Wales (the Council) has a responsibility to ensure that public funds are used in an economic, efficient and effective way. While it does not have the authority to instruct institutions, it can encourage and facilitate improvement by spreading good practice and monitoring progress. As part of its stewardship role, the Council's audit service reviews the management and governance of each institution every three years with interim follow-up reviews. This review focuses on high-level controls and

### We recommend that the Higher Education Funding Council for Wales:

- agree with the sector a strategy for achieving the savings targets set out in *Better Value Wales* and *Making the Connections: Delivering Better Services for Wales*;
- monitor the implementation of the strategy and hold the institutions to account for their procurement performance; and
- work with the institutions to secure any improvements to procurement systems and practices necessary to achieve and record the target savings.

# 3 The sector has the potential to achieve further savings

## Introduction

3.1 This part of the report considers the measures taken by the sector to improve its procurement performance, and the potential for further improvements, particularly in respect of financial savings. There is little reliable, quantitative evidence on how well the higher education sector in Wales performs currently, relative to public or private sector bodies, and thus what savings potential exists. Such comparisons are problematic because of the lack of consistent, reliable management information within the sector and the inherent difficulty of comparing costs and other aspects of procurement performance in a very diverse and complex marketplace.

3.2 As a broad indicator for consumable products only, a price benchmarking exercise commissioned by the National Audit Office Wales showed that overall the sector paid very close to the average (1.2 per cent more than comparator organisations) for a sample of commonly used items (Figure 11). However, underlying this average performance were wide variations between institutions and categories of expenditure that indicate some scope for further savings. Since this exercise covered consumables like stationery and food, the findings cannot be extrapolated to other types of expenditure which account for most of the sector's procurement.

## 11 Price comparisons for consumable products

The National Audit Office Wales commissioned a price benchmarking agency, Purchasing Index (UK) Ltd, to compare the prices paid by institutions for commonly purchased items with prices paid elsewhere in the wider public and private sectors. The agency requested detailed information on a sample of 80 specific items, designed to be representative of the sector's expenditure on consumables for catering, stationery, computers, laboratories and cleaning services. These product categories account for about £25 million of expenditure in the sector. All 13 institutions returned the questionnaire, and suggested other similar products for benchmarking leading to a total sample size of 169. The prices were compared with those paid for the same products by comparator organisations in the public and private sectors. Based on the sector's total estimated annual consumption of the sampled products, the analysis showed that:

- The sector paid on average 1.2 per cent more than its comparators;
- as a maximum, the sector would save 12.4 per cent of its current expenditure if it could buy each product at the lowest price paid within the sector, and 18.8 per cent if it could buy at the lowest price paid by the sector and its comparators; and

- there were major variations in prices paid by institutions for very similar products, not all of which could be explained by differences in quality, brand, order quantity (larger quantities potentially leading to lower prices) and delivery arrangements.

In reality the scope for savings is less than the figures shown above, as the lowest price is not available to every institution and users may require a higher quality, more expensive version of a product. Details of our findings are given in Appendix 2, and indicate that price differences are explained primarily by user preference for certain qualities or brands of goods, although a range of other factors also had an impact. Nevertheless, there were several major variations for some products that could not be justified by these factors, and this suggests that there remains some scope to realise savings in the purchase of consumables, especially where institutions could pay lower prices by using consortium contracts rather than their own contracts.



Source: NAO analysis of price data submitted by institutions



3.3 In their responses to our survey, institutions identified several factors affecting their ability to improve procurement practices in the sector (**Figure 12**); if these were addressed, it was their view that significant savings could be achieved as well as other benefits. In the rest of this report we consider the potential for improving procurement in the sector by:

- extending collaboration between institutions, and more widely with other sectors;
- better management of suppliers and contracts;
- market testing;
- using procurement to help sustainable development; and
- improving procurement processes.

## Further collaboration can lead to better value for money

3.4 Collaborative procurement is a well-established way of improving value for money in the public sector, especially for smaller organisations such as most of the institutions in the Welsh higher education sector. Typically, this takes the form of a purchasing consortium, which has the potential to secure keener prices and better service by combining the purchasing power

of its members. Purchasing consortia have other potential benefits, especially for smaller institutions, including:

- the sharing of knowledge and experience among members of the consortium to raise the commercial awareness of buyers and service users within the institutions;
- a more efficient use of the substantial resources needed to research, award and manage contracts well, since this burden is shared among members of the consortium. This pooling of resources may allow the consortium to enhance the quality of its procurement activity, compared with individual institutions whose resources are more constrained; and
- greater potential for developing relationships with suppliers, for example, by holding exhibitions for suppliers to advertise opportunities for them in the sector, and for providing training.

3.5 There are seven regional purchasing consortia for the higher education sector in the United Kingdom. In Wales, ten of the thirteen institutions are members of the Higher Education Purchasing Consortium, Wales (HEPCW). Two institutions in North Wales have chosen to join the North-West Universities Purchasing Consortium

12

Institutions have varying views on how to improve their procurement but increased collaboration, better procurement systems and more resources are common themes

Areas for improvement cited in response to survey	Number of institutions
More collaboration (e.g. increased use of consortia)	6
More staff/resources	6
Introduction of e-procurement	3
Appointment of a procurement officer	2

Source: NAO Survey



(NWUPC) rather than HEPCW for reasons of geographical proximity. The operations and membership of these two consortia is summarised in **Figure 13**. One institution - the Royal Welsh College of Music and Drama - has joined the Cardiff County Council consortium as it considers the subscription fee to be more affordable for the size of the institution. Institutions also use selectively more specialised consortia, such as those for energy, software and catering, and national framework agreements negotiated by Proc HE or the Office of Government Commerce. In addition, HEPCW and NWUPC both use contracts that have been negotiated by another consortium to apply across the whole of the United Kingdom (national agreements) or across several consortium regions (inter-regional agreements).

3.6 The consortia differ considerably in their operating arrangements. HEPCW is smaller, with only two members of staff, and relies on membership subscriptions for its income. NWUPC has five employees, including qualified procurement specialists, and a much larger income based mainly on contract rebates (payments from suppliers based on the amount of business done with them). This enables NWUPC to undertake more extensive marketing activity, promoting its contracts to institutions and developing relationships with suppliers through exhibitions and training on how to sell into the higher education sector. It also provides accredited procurement training to staff in the institutions. Both consortia rely heavily on their product groups to provide guidance on the needs of the member institutions and to award and manage contracts on the consortium's behalf. The true cost of the consortia is therefore likely to be significantly greater than their income once the cost of unremunerated services is included.

### 13 HEPCW is a smaller consortium than NWUPC and relies more on membership subscriptions

	HEPCW	NWUPC
Status	Voluntary association with no formal organisational status	Non-profit company limited by guarantee
Numbers of Members	10 <sup>10</sup>	21+4 associated FE colleges
Members in Wales	10 (all except University of Wales, Bangor, North East Wales Institute of Higher Education and the Royal Welsh College of Music and Drama)	2 (North East Wales Institute and the University of Wales, Bangor)
Income in year to 31 July 2003, of which:	£41,129 (86% from membership fees)	£306,535 (mostly from contract rebates)
Membership fees (2002-03)	£3,200 per institution	£6,300, £3,750 or £1,750 depending on the size of the institution
Number of employees	2	9 (including training staff)
Product groups (working groups of buyers who monitor and advise on contracts)	9	10
Expenditure by institutions on consortium's contracts, 2002-03	£13.9m (6% of non-pay expenditure)	£37.0m (8.5% of total non-pay expenditure)
Savings achieved, 2002-03 (% of expenditure by institutions on consortium's contracts)	£1.35m (9.7%)	Not known but estimated at 8% for the two Welsh members

Source: HEPCW and NWUPC annual reports and interviews with consortium staff and members

10 The University of Wales Registry is also a member of HEPCW but is excluded from this report due to its administrative role.

## Institutions benefit from the arrangements that exist but there is scope to extend them further

- 3.7 The consortia have set up contracts covering a broad range of goods and services, mainly consumables. Where regional contracts have not been negotiated, consortia members often support national contracts negotiated by another consortium or public agency. These contracts are widely used, with the majority of expenditure on the relevant goods and services acquired through the consortium contracts.
- 3.8 HEPCW estimates that these contracts have saved its members £1.35 million in 2002-03, or 9.7 per cent of expenditure made through the consortium. They estimate further savings of some £610,000 or 9.6 per cent of contract spend on associated national contracts. This compares with eight per cent in 2001-02 and six per cent in 2000-01. There are no equivalent figures for NWUPC, which does not collect information on savings, but the two Welsh members estimate that they have saved at least eight per cent of their expenditure on NWUPC contracts and cite significantly greater savings on some contracts. These consortium-led savings are supported, to a lesser extent, by the results of our own benchmarking work (Figure 14).
- 3.9 The reach of the consortia is limited to relatively common, standard consumable products that are used across the sector. Less progress has been made with more complex and unusual products, because an institution's needs are often specific and thus difficult to standardise across a consortium. Since expenditure on consumables accounts for a minority of total procurement, spending through the consortia and similar

### 14 Price benchmarking work shows that consortium prices are generally lower

As part of the price benchmarking exercise, we compared the prices paid by institutions based on contract type. Although the results are difficult to interpret because of the multiplicity of factors that affect price, and the limited number of non-consortium prices, we found that for the 63 items that were purchased under both consortium and non-consortium contracts, the cost of the "basket of goods" (the total annual consumption of the relevant items) was five per cent more using the average non-consortium price than using the average consortium price.

national agreements in 2002-03 amounted to about £25 million, just 9.2 per cent of total procurement spending. Both HEPCW and NWUPC wish to extend their coverage into new areas. NWUPC plans to increase by 30 per cent, in the three years to the end of 2005, the proportion of its members' expenditure going through NWUPC contracts. The consortium expects to achieve this through a combination of reducing contract leakage, developing new contracts for library purchases and waste disposal, and identifying potential for other contracts by analysing expenditure across the consortium. These plans are set out in a three-year strategy approved by the company's management board.

- 3.10 HEPCW's ability to extend its coverage is constrained to a greater extent by a lack of resources. It relies entirely on the small cadre of qualified procurement specialists in the member institutions, thus limiting its capacity to identify and develop opportunities for new contracts and to manage them once they are agreed. Consequently, the coverage of both national and local contracts is somewhat lower than in NWUPC and there is scope for promoting the contracts more vigorously to maximise take-up and develop relationships with suppliers. NWUPC attributes much of its success in increasing the take-up of its contracts to its marketing and supplier development: it also asks for formal "in-principle" commitment to contracts from institutions before awarding them. HEPCW recognises the need to extend the coverage of its contracts and to manage contracts more proactively by keeping them under close review and promoting them more vigorously to its members. Take-up varies widely between institutions. Our price comparison work showed that on average more than 90 per cent of purchases were made through consortia, but three institutions had a lower take-up rate, ranging from 54 per cent to 73 per cent - in two cases these were small institutions without a procurement officer, and in one case a larger institution with a highly decentralised structure, where a procurement officer had only recently been appointed. In addition, decentralised management in larger institutions means that purchasing often falls outside these authorised arrangements.



- 3.11 As a first step, HEPCW plans to revive its dormant commodity group on building supplies, an area that it considers has great potential for savings because of diffuse purchasing through many suppliers, few of whom have formal contracts. Further progress, especially in the area of contract management, depends on the availability of additional resources and better management information, so that the extent of contract leakage can be identified accurately. At present, HEPCW has no formal strategy setting out its objectives, resource requirements and future plans.
- 3.12 As the smallest higher education regional consortium, HEPCW could generate economies of scale by working more closely with other consortia, either locally or across Wales. They have made progress in this area by letting a joint confectionery contract with the Welsh Further Education Purchasing Consortium (WFEP) which has 26 members across Wales. Collaborative purchasing is less developed in the further education sector in Wales as the consortium was only established in 2000 and has one full-time employee. Closer working has the potential to increase the purchasing power of the consortia, thus helping to obtain better prices and service for standardised products, and to create more resources managing contracts and developing suppliers. NWUPC has already let several joint contracts with further education institutions in its area. In this context HEPCW fully support the Welsh Procurement Initiative's endeavours to extend the degree of collaboration with the further education sector.
- 3.13 Not all non-pay expenditure is suitable for consortium coverage, as much is specific to the institution concerned, for example, estates expenditure and specialised scientific equipment used for research. HEPCW told us that contracting must provide the best method of procurement for each institution and acknowledges the right of individual institutions not to participate where their individual needs cannot be satisfied. However, procurement managers in the HEPCW member institutions accept that a significant expansion is possible and desirable and that further benefits can be obtained by collaborating locally, especially for smaller institutions as in the case of Swansea Institute of Higher Education (**Case Study E**), and by spreading the benefits of expertise not only within the consortium but also further afield (**Case Study F**). Meanwhile, procurement officers within HEPCW continue to engage in collaborative arrangements at the Welsh and

### E The Swansea Institute of Higher Education has benefited from closer working with the University of Swansea

The Swansea Institute of Higher Education (SIHE) benefits from the procurement expertise available in its larger neighbour, the University of Wales, Swansea. The two institutions meet regularly to discuss procurement issues and SIHE has the opportunity to participate in major contracts when they are re-tendered by the University, offering the potential for economies of scale in price, service and administrative effort. SIHE chose to participate in the University's photocopying contract, which was some 12.5 per cent cheaper than continuing with its own contractor and also provided new, better quality machines.

None of the other institutions without procurement officers currently benefits from similar arrangements, but the University of Wales, Aberystwyth hopes to develop closer links with neighbouring institutions in both the higher and further education sectors that may provide similar benefits.

Source: Head of Procurement, University of Wales, Swansea

### F Cardiff University's new telecommunications arrangements save it around £14,000 per year

Cardiff University has undertaken a series of telecoms-related projects on behalf of the University and other HEPCW institutions. It recognised that by aggregating institutional call tariff expenditure and approaching service providers with a 'bloc' of public sector business, the University would benefit from more competitive terms and improved service levels. Firstly, the University analysed the profile of its telephone activity by time and call type (local, national, mobile etc) then compared the call tariffs of different telecommunications companies. As a result, the University saved £14,000 or 11 per cent of its previous call charge.



#### Extension to the public sector

Cardiff University and the Welsh Procurement Initiative then rolled out this agreement to public sector bodies in Wales. Between the start of the scheme in May 2003 and January 2004, all local authorities in Wales have participated and saved in excess of £900,000. It is also known that other public sector organisations have negotiated their contracts using the framework as leverage, even though they have not 'bought in' to the framework.

Source: Procurement Section, Cardiff University

UK level by participating in the Welsh Procurement Initiative and by serving on national working groups to develop and manage contracts for the whole UK higher education sector. These contracts often provide good value for money. For example, HEPCW decided to terminate its own stationery contract and to use a national one, as it found that prices were very similar and the differences did not justify the expense of tendering its own contract. However, it is important to compare costs carefully on a regular basis to ensure that consortium members get the best value from the products available. HEPCW's own experience has shown that national agreements do not always provide better prices, and in some cases can be significantly more expensive.

## KEY POINTS

### on collaborative working

- Collaboration between institutions and sectors, at various levels, has substantial potential benefits.
- Collaborative arrangements, especially purchasing consortia, are well established in the sector and there is a high level of interaction between purchasing officers in the main institutions. There is little detailed information available on contract leakage.
- The consortia have a beneficial effect, generating savings in 2002-03 of around 9.5 per cent of the value of HEPCW contracts.
- Consortium contracts generally cover more straightforward goods, mainly consumable products, and there is considerable scope to extend the coverage of total procurement spend above the 9.2 per cent currently achieved. In the case of HEPCW, this will require more resources to develop new contracts and to manage all contracts more proactively.
- There is scope to work more closely with the further education sector, obtaining economies of scale in contracts and administration. Joint working has just started and for further collaboration is planned for the future, with the assistance of the Welsh Procurement Initiative.
- Expertise is needed to research opportunities for efficiency gains and to spread these more widely. In doing so, there is no need to be restricted by sectoral or geographical boundaries.

### We recommend that:

- HEPCW enhance its efforts to expand the coverage of consortium contracts and to introduce new contracts, based on informed judgements of the potential for both financial savings and non-financial benefits;
- HEPCW consider working more closely with the Welsh Further Education Purchasing Consortium to obtain economies of scale in contracting and contract administration;
- institutions continue to collaborate at local and UK level, and expand such collaboration where there is a clear case for doing so, for example by sharing expertise with smaller institutions, joint contracting and spreading best practice. This should include collaboration with other sectors where appropriate; and
- the Council support actively the expansion of the consortia's activities based on an agreed strategy for the sector that incorporates the main targets and recommendations of *Better Value Wales*. If necessary, the Council should consider providing financial assistance for HEPCW provided on the basis of agreed targets and effective working with other groups to ensure the most efficient distribution of administrative resources.

## Better management of suppliers and contracts

3.14 At present institutions undertake the majority of their procurement directly, spending most of their non-pay budgets without using purchasing consortia or other collaborative arrangements. This is most common for expenditure on estates, including construction, and professional services, for which an institution is likely to have specific requirements. It is essential, therefore, that each institution has the capability to maximise value for money from procurement at the institutional level. Value for money is much more than a straightforward comparison of prices, and a significant investment of resources and expertise may be needed to identify the best opportunities for improvement.

## Supplier management is undeveloped, and some institutions do not follow basic good practice

3.15 There are several ways in which an institution may obtain better value for money from its suppliers, ranging from basic good practice to more advanced aspects that are at the cutting edge of modern procurement. These include:

- *rationalising the supplier base* so that business is concentrated among a few reliable suppliers, to obtain the best price and service. Usually this involves reducing the number of suppliers, although it may mean increasing the number to reduce the risk of over-reliance on one or two suppliers for strategically important products;
- *maintaining a list of approved suppliers*, to ensure that purchasers use suppliers and contracts that have been properly assessed for reliability and value for money;



- *appraising regularly the quality and performance of suppliers*, to ensure that high standards are maintained;
- *communicating openly and frequently with suppliers*, helping them to understand and meet the buyer's needs;
- *developing a sound commercial awareness* by understanding the market in which suppliers operate and the relative importance of the buyer to the supplier's business; and
- *developing closer relationships with key suppliers* for strategically important procurement, to help deliver continuous improvement and mutual benefit for both buyer and supplier. This may include reviewing the supplier's own supply chain to identify weaknesses that could jeopardise the quality of service to the buyer.

3.16 We found that supplier management across the sector was undeveloped. Even at a basic level there is scope for substantial improvement, as we found in our survey of the 13 institutions that existed in 2002-03:

- most institutions had a supplier database, providing basic information on the supplier, the type of service provided and the history of purchases. However, two institutions did not have such a list and of the 11 that did, two could not say how many suppliers they had;
- three institutions did not vet new suppliers, increasing the risk of supplier failure; and
- only five of the 13 institutions formally record poor supplier performance, although this is often done informally or locally within devolved purchasing units.

3.17 Limited management information and decentralised procurement arrangements often impede best practice in supplier and contract management. Ideally, comprehensive management information on suppliers is maintained centrally and used to manage procurement proactively. This should involve identifying approved suppliers (after rationalising the number of suppliers as appropriate), requiring purchasers to use these approved suppliers unless there is good reason otherwise, monitoring supplier performance, and reviewing the supplier list regularly to ensure it continues to meet the institution's needs. But this is only possible if there is a central procurement function with comprehensive management information on suppliers, and with the authority to prevent purchasers bypassing approved contracts without good reason. At most institutions, one or both of these requirements is lacking.

Although much progress has been made, some institutions could rationalise suppliers by aggregating business within the institution and ensuring that best use is made of existing contracts

3.18 The use of purchasing consortia is well established for standard, common products and services (see paragraphs 3.7 - 3.13) and this has helped institutions to make the most of their buying power in these areas. Nevertheless, there remains some scope to aggregate business at an institutional level to obtain better value for money, especially for less straightforward contracts that require some expertise and resources to assess. For example, the procurement team at the University of Wales, Swansea has successfully consolidated its business for photocopiers and waste disposal with a single supplier in each case, reducing prices and process costs (**Case Study G**). As in any such negotiations it is important to balance cost savings against the quality of service and the risk to the institution of cheaper but inappropriate price structures.

3.19 Similar savings could be achieved at institutions which currently have more fragmented procurement arrangements. For example, departments in Cardiff University are permitted to buy independently if the cost of the purchase is less than £5,000, and this restricts the scope for aggregating demand across the university and maximising the benefits from centrally negotiated arrangements (although these may not always be the best option). It also raises the risk of departments placing repeated low-value orders with a preferred supplier, rather than tendering properly for the business. At the University of Wales, Aberystwyth, a similar devolved structure exists in which departments are able to purchase goods and services independently from external or internal sources - an internal market exists whereby departments within the university may purchase goods and services from each other. The result is a diversity of contracts and purchasing practices that is unlikely to provide the best value for money, although the lack of a central system for managing procurement performance means that there is no data to identify which contracts are yielding better value for money. The recently appointed procurement officer at University of Wales, Aberystwyth has undertaken an expenditure analysis that indicates scope for rationalising contracts in a number of areas, including business travel and building supplies. These areas will be prioritised as part of an in-depth review of supply arrangements throughout the university that is planned to begin in 2005 and to take three years to complete. The aim is to identify approved suppliers for all appropriate areas of the university's business, consolidating purchases as necessary, and to establish a system for ensuring that these suppliers are used.

## G

## University of Wales, Swansea - improving procurement by rationalising suppliers

**Photocopying arrangements**

The University of Wales, Swansea has a contract with one supplier for the supply of all its departmental photocopiers. Under the agreement photocopiers are leased and replaced on a three yearly cycle simultaneously, thus maximising the university's leverage with potential suppliers. The agreement in place is currently running in its third cycle.

Prior to the award of its first contract the University had no policy regarding photocopiers and there was a mixture of equipment that had been purchased and leased. There were more than 100 copiers all commanding a different tariff. Following the award of the contract the University gradually replaced its copiers with equipment supplied by its sole approved supplier as and when the individual agreements expired. By the end of the second agreement, the University had replaced all its copiers and saved at least £250,000 in total.

Under the agreement the contractor submits one invoice per quarter to the University for the payment of all leases. This reduces the number of invoices paid per annum by approximately 500, thus reducing staff time spent on processing routine transactions.

**Waste Management**

In January 2002 the University awarded an integrated waste management contract for the first time. Under this contract the University now has one supplier responsible for the collection of all waste, with the exception of hazardous materials which, due to legal requirements, are handled separately. The appointed supplier is working proactively with the University to minimise the amount that is sent to landfill by identifying the waste that can be recycled and providing receptacles at appropriate locations to facilitate its collection. The arrangements in place prior to the award of this contract were so fragmented that the University is unable to identify savings other than the £3,750 per annum on Landfill Tax. The University and the contractor have agreed targets for the volume of waste to be recycled and these form part of the contract monitoring process.

*Source: Head of Procurement of University of Wales, Swansea*



- 3.20 It is important that once approved contracts have been identified, they are listed and used by purchasers wherever possible. This requires the existence of an approved supplier list and controls to prevent "maverick spending" - i.e. purchasing outside the approved arrangements. We found that institutions varied in their compliance with this good practice. The University of Wales Institute, Cardiff has a centralised system in which all orders must be placed with approved suppliers on an automated purchasing system, and the purchasing unit will prevent the approval of suppliers who have not been fully appraised. At most other institutions purchase orders may be placed without the knowledge of the purchasing section, which is therefore unable to control the use of approved suppliers directly. Management information on the extent of contract leakage is limited and is generally unreliable because it focuses on suppliers rather than products, and it is not always possible to identify whether suppliers are being used for legitimate needs that are not covered by an approved contract.
- 3.21 Major contracts must be reviewed regularly to ensure that they continue to provide the best possible value for money. However, the extent and frequency of benchmarking within the sector is limited, with only four institutions telling us that they did it formally, while eight did it informally. Most contracts for commodity-type products like food, stationery and IT consumables are based on a series of discounts from the supplier's list price. At tender stage, a buyer will identify the most commonly used items and negotiate the highest discounts, typically 80 per cent, for these products, which are known as core items. Other products are discounted to a lesser extent, perhaps by 50 per cent, making them more than twice as expensive as core items. It is therefore important to identify the correct core items, to ensure that the use of non-core items is restricted as far as possible, and to review the core list regularly to ensure that it remains appropriate for the institution's use. This is particularly important with national contracts, which are not developed specifically to meet the needs of any single institution. Typically a buyer should aim for 70 per cent to 80 per cent of purchases to be core items. In discussion with procurement officers, we found that the consortia reviewed their core lists regularly and that for key contracts, such as the national stationery contract used by HEPCW, the institutions were able to add their own core items to the list and most took the opportunity to do so. We found that at HEPCW the use of core items varied between 35 per cent for stationery to over 70 per cent for catering products. Purchasing officers told us that use of core items was generally between 50 per cent and 60 per cent, suggesting some scope for further standardisation and attendant cost savings. This is likely to be greatest where procurement has been decentralised and purchasers do not have to use approved suppliers or core lists.



### There is little progress on the more advanced aspects of supplier management but there exist some pockets of good practice

3.22 Once basic good practice has been established, well managed suppliers can bring benefits as relationships are developed and the institution's requirements are more fully understood. Construction is an area of expenditure that is strategically important but has been prone in the past to delays, cost overruns and disputes over the quality of work. During the 1990s, a series of independent reviews (primarily the Latham Report<sup>11</sup> and the Egan Report<sup>12</sup>) concluded that adversarial relationships with suppliers and a short-sighted concern with contract price were largely responsible; and that a more open, cooperative relationship between supplier and customer was essential to improve the situation. They suggested that these problems could be avoided by long-term collaborative arrangements known as partnering.

3.23 There are two types of partnering: project partnering for a single project and strategic partnering, when the customer and contractor work together on a series of projects to promote continuous improvement. It has been used widely in the private sector for many years and is now becoming more common in the public sector. The concept is based on the premise that the openness and long-term nature of the agreement will allow both parties to understand each other's needs better, and over time this will lead to better service for the customer and lower costs. Independent research indicates the potential for savings of between two per cent and ten per cent for project partnering and up to 30 per cent for strategic partnering. It is particularly suitable for complex services where a detailed knowledge of the customer's unique needs is necessary to provide an effective service. Typically it involves all or several of the following features:

- initial competition to select a reliable partner, with a contract for three to five years;
- a commitment to continuous improvement, supported by an agreed performance measurement system that includes clearly measurable targets (for example, cost reduction, reduced delays and customer satisfaction);

- open book accounting, so that both parties are aware of the costs and a fair target price can be agreed that provides benefits for both parties; and
- incentives to "gain share and pain share" - i.e. both cost overruns and savings are shared between supplier and customer in an appropriate way.

3.24 Partnering is little developed in the higher education sector, but the University of Wales, Swansea has used it in its estate management for professional services and minor construction work (**Case Study H**). There is scope for the practice to be extended to other institutions with significant expenditure on estates, and for institutions to collaborate in order to make best use of the expertise and resources that are needed to make the process work effectively.

#### H Partnering at the University of Wales, Swansea

University of Wales, Swansea perceives major benefits to its procurement of construction and estates management services from its partnered framework agreements for design consultants, construction management consultants and minor works contractors. For project partnering, the contractor teams were selected through best value practices and an assessment of their overheads, profit margins and fee structures. The contract was signed only when the University agreed with the whole team of suppliers a target cost for the project. This contrasted with the previous approach, when the University let the various elements of the project (design, surveying, construction) separately based on a tendering process that encouraged bidders to minimise price rather than consider longer-term value, and to profit from subsequent design changes by penalising the client heavily for variations. Now any changes are the subject of open negotiation with the contractors, aided by open-book accounting, and the effect on the suppliers' finances can be ascertained. University of Wales, Swansea has let a number of construction contracts since project partnering began in 2001 and all have been delivered within the contract cost.

The university has also concluded strategic partnering agreements with several external contractors to carry out minor works. The contracts were let for periods of three years with an option to extend for two years. The university holds informal tenders to select contractors for minor works, avoiding the need for costly formal procedures every time a project is undertaken.

Source: Head of Procurement, University of Wales, Swansea

<sup>11</sup> *Constructing the Team, a joint review by the Government and the construction industry (Sir Michael Latham, 1994).*

<sup>12</sup> *Rethinking Construction, Sir John Egan (1998).*

## KEY POINTS

### on better management of suppliers and contracts

- The majority of procurement is undertaken outside established collaborative arrangements, to reflect the specific needs of individual institutions.
- Supplier management is undeveloped, with some institutions not following basic good practice in maintaining a list of approved suppliers, vetting new suppliers and formally recording supplier performance.
- Most institutions have taken steps to rationalise suppliers and aggregate business to achieve better value for money but more progress could be made. Decentralised purchasing and limited management information make it difficult to control contract leakage.
- There is scope for more active contract management and further standardisation to gain better value from existing contracts.
- The sector has not developed the more advanced aspects of supplier management, but there is evidence of benefits from building longer-term relationships with suppliers.

### We recommend that:

- institutions maintain or develop a suitable supplier management system. This should include a database of approved suppliers, proper vetting of new suppliers and a formal system for monitoring the performance of suppliers;
- institutions continue their efforts to rationalise suppliers, whilst ensuring that contracts are regularly reviewed to ensure that they remain value for money;
- institutions make best use of the discount structure they have negotiated for commodity contracts, taking practical measures to increase the use of core items; and
- where appropriate, institutions consider the benefits to be obtained from partnering and other long-term collaboration with key suppliers.

## Most institutions have tested the market for non-core services but there remains some reluctance to do so comprehensively

3.25 Market testing is the process of testing the value for money of in-house services against tenders from outside firms. This will result in work remaining in-house, or the out-sourcing of work to an external contractor. *Better Value Wales* recommended that each public sector body adopt the principles of "Best Value" that were used in local government when the report was published in 2001. This involves a process of "consult, compare, challenge and compete" for non-core services such as catering, building and grounds maintenance, cleaning, payroll, legal services, accountancy and internal audit. The report concluded that by opening these services to the possibility of competition and setting appropriate quality standards, the main beneficiaries should be the recipients of the services.

3.26 Most institutions in the Welsh higher education sector have undertaken some market testing or have plans to do so. **Figure 15 overleaf** shows which institutions have reviewed four services that are commonly subject to competition. In most

of these cases an external contractor was selected, but the benefits have not necessarily been financial and in some cases savings and quality improvements have been delivered by bringing some or all of the service back in-house. Procurement officers told us that there was some ambivalence about market testing in their institutions, and in some cases policy decisions have been made not to contract out key services (**Figure 16 overleaf**). Those institutions that have not exposed in-house services to competition extensively in the past are now planning to do so. The University of Wales, Swansea plans to consider a range of services in turn over a four-year period. The University of Wales, Aberystwyth, is currently market testing its internal audit function and is undertaking a review of contract services that may lead to the market testing of cleaning, security and grounds maintenance. The University plans to reform its catering services internally before considering contracting them out. Only three institutions in the sector out-sourced their catering services.







## 15 Most institutions have market tested some services that are commonly subject to competition

Institution	Service			
	Catering	Cleaning	Security	Grounds Maintenance
University of Glamorgan	✓	✓	✓	✗
University of Wales, Aberystwyth	✗	✗	✗	✗
University of Wales, Bangor	✗	✓	✗	✗
University of Wales, Cardiff	✗	✓	✗	✓
University of Wales, Lampeter	✓	✗	✗ (Note 1)	✗
University of Wales, Swansea	✗	Partly	✗	✗
University of Wales, College of Medicine	✓	✓	✓	✓
University of Wales Institute, Cardiff	✓	✓	✓	✓
University of Wales College, Newport	✗	✓	Partly	Partly
North East Wales Institute of Higher Education	✓	✓	✓	✓
Swansea Institute of Higher Education	✗	Partly	✓	✗
Trinity College Carmarthen	✓	✗	✗ (except equipment) ✗ - but regularly benchmark	✓
Royal Welsh College of Music and Drama	✓	✓	✗	Due 2005

### NOTES

- 1 Audit report recommended in-house retention
- 2 Facilities management for the University of Wales, College of Medicine is dealt with by Cardiff and Vale NHS Trust, which manages the university hospital, under a service level agreement

Source: NAO data from procurement staff in institutions

## 16 Market testing has had mixed results

### Benefits of out-sourcing may not only be financial

University of Wales Institute, Cardiff's (UWIC's) cleaning services were provided by Cardiff County Council until 2003 when they were contracted out. The main benefits of the new contract are clearer performance incentives and a system that transfers cost of staff absence to the contractor; previously this risk was borne by UWIC. There was also a modest financial saving arising from the more efficient use of cleaning staff, thus reducing employment costs.

Grounds maintenance is also contracted out, but this has not significantly reduced cost. However, UWIC considers that the quality of the service has greatly improved.

### The in-house option may provide better value for money

Swansea Institute of Higher Education brought its cleaning staff back in-house, leading to savings of £50,000. University of Wales, Lampeter decided to bring its catering service back in-house after concerns about quality.

### The process of market testing may lead to improvements, even if the service is retained in-house

UWIC engaged an independent consultant in 2001 to review its catering services, who recommended out-sourcing to strengthen the management of the function. The review accepted that financial savings would not result from out-sourcing, and UWIC decided to address the management issue specifically rather than contract out the whole catering function, with the attendant cost and disruption to staff.

### Institutions may make policy decisions to keep services in-house without market testing

The in-house catering managers at University of Wales, Aberystwyth have recently carried out a major review of services in 2003 to set out a business plan for the service, and particularly to address a substantial operating deficit. The review recommended substantial changes to the staffing and provision of services, but has delayed decisions about contracting out while internal measures are implemented and assessed, and because reports elsewhere in the higher education sector indicated that external services were unresponsive, unsuccessful in meeting students' needs and damaged staff morale.

University of Wales, Cardiff also decided to adopt a policy of not contracting out catering or security.

Source: NAO assessment of information received from higher education institutions



3.27 The evidence available suggests that market testing has not always led to financial savings, but the process has led to other benefits and should result in the best value option being adopted when the exercise is carried out. Decisions not to proceed with market testing stem from concerns about the quality and responsiveness of the service and the effect on staff, and in some cases from resource constraints. Full market testing is time-consuming and resource-intensive, and creates uncertainty for the employees affected. A possible solution, as adopted by UWIC for its catering function, is to conduct an initial review to benchmark the performance of the in-house function and to identify its strengths and weaknesses (the first stages of the best value process). This can then inform a decision as to whether full market testing is likely to be justified, given the performance and strategic importance of the service. More generally, it is important to review the performance of all services regularly.

## KEY POINTS

### on market testing

- Most institutions have market tested at least some non-core services, but several have not done so, sometimes because a policy decision has been made to keep certain services in house.
- Where market testing has been carried out, the results have been mixed. There have typically been non-financial benefits and some cost savings, but in most cases these have not been substantial. The in-house option is sometimes cheaper and/or provides better quality.
- Market testing requires expertise and resources, and needs to be justified by the relative performance and importance of the service.

### We recommend that:

- institutions develop a programme of best value reviews for non-core services, which may lead to full market testing, as part of their procurement strategies. This should be based on the evidence available on the likely benefits of market testing for the services considered.

## Sustainable procurement

3.28 Sustainable procurement is the term used to describe the contribution of procurement activity towards the sustainable development agenda. The National Assembly has a statutory duty to promote sustainable development and defines it as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."<sup>13</sup> This involves assessing the environmental, social and economic impact of decisions, and can be a difficult balance to achieve in practice. It covers issues such as resource consumption, pollution, improving the position of disadvantaged groups and strengthening local communities. In practical terms, the contribution of procurement to these goals falls into three broad areas:

- a) *Reducing the negative impact of an institution's operation on the environment*, for example by consuming less by changing to more environmentally friendly products and encouraging change in suppliers. More obvious examples include renewable energy, recycled paper and organic food, but one can assess the environmental impact of a much wider range of products. This would include factors like energy requirements over the whole life of the product, the amount of packaging, the use of recycled or hazardous materials, the potential for recycling or re-using the product, and disposal arrangements;
- b) *assisting small and medium size enterprises (SMEs)*, especially where this helps smaller, local businesses and so helps to strengthen local economies. A greater role for local business can also have environmental benefits, as goods are less likely to be transported long distances between origin and destination, reducing pollution. The Office of Government Commerce has suggested various ways in which public bodies may help SMEs to gain public business without compromising value for money or breaching procurement regulations that prohibit explicitly favouring local business. These include dividing business into smaller lots (so smaller firms with lower capacity may enter the market), promoting business opportunities by holding "meet the buyer events", giving good supplier de-briefing and advertising contracts in a single place, for example on a readily accessible web page; and

<sup>13</sup> The National Assembly for Wales' Sustainable Development Scheme, November 2000, based on the definition used by the World Commission on Environment and Development.



- c) more widely, *promoting social inclusion* by rewarding suppliers that follow ethical codes or bring particular benefit to disadvantaged groups. Examples include "fair trade" products that guarantee a basic income to small producers in developing countries, help for social enterprises, and considering health and safety and training policies as part of supplier appraisals.

### There is increasing consideration of sustainability in the higher education sector

3.29 Sustainable procurement is a relatively recent development and few institutions have developed specific policies or strategies. However, institutions generally do appreciate sustainability issues but cite a lack of resources to undertake the necessary detailed work (for example to develop the supply chain) to establish sustainable procurement more widely. Nevertheless, there are examples of sustainable procurement practices:

- several institutions have recently established cross-functional groups to develop a sustainability policy, on which procurement staff are represented. For example, the group at the University of Wales, Aberystwyth has identified waste management and recycling, "green" electricity and energy conservation as priorities;
- NWUPC has an environmental policy that is applied to all its contracts, and sustainable procurement is part of its strategy;
- four of the 13 institutions responding to our survey told us that they monitored the environmental performance of their suppliers and three said they planned to do so. In some cases, this has extended to the inclusion of environmental factors in tender evaluation criteria (Figure 17);
- Cardiff University now purchases all of its electricity from renewable sources;
- several institutions buy "Fair Trade" products, primarily to meet customer demand in catering outlets, and the University of Wales, Swansea has achieved "fair trade status"; and
- there is increasing use of recycled paper for general use, with some institutions using it as standard (Figure 17).

## 17 Examples of sustainable procurement practices

**The University of Wales, College of Medicine (UWCM)** included environmental criteria when evaluating tenders for laboratory freezers. These included the energy efficiency of the equipment, the energy cost over the product's life, the proportion of the product that is recycled and that can be recycled after disposal, the method of disposal, the handling of hazardous gases and the use of packaging.

**The University of Wales, Swansea** decided in 2003 to standardise the use of recycled paper and more than 60 per cent of its copier paper is now recycled. This was done primarily to save money by replacing the higher grade virgin papers used by some departments with two standard recycled products, for which the university receives bulk discounts. This has led to financial and environmental benefits, although it is possible to purchase equivalent grades of virgin paper at slightly lower prices.

**On behalf of HEPCW, UWIC** has negotiated with a small Welsh firm to buy organic milk products directly rather than through a distributor, improving profit margins for the company while saving four pence per carton for those HEPCW members benefiting from the arrangement.

*Source: Heads of Procurement at UWCM, University of Wales, Swansea and UWIC*

3.30 The Welsh Procurement Initiative is running two pathfinder projects: one on sustainable procurement, and the other to develop the role of small and medium enterprises (defined as those with fewer than 250 employees). Guidance on sustainable procurement is likely to be issued at the end of 2004 and the suggested approach is being piloted at UWIC. This recognises that sustainable procurement is a complex area that needs to be integrated fully into a wider sustainability policy, developed by people from across the institution. The main features of the proposed approach are:

- that sustainable development is a complex area with long-term implications, so a policy of incremental change should be adopted;
- the need for procurement expertise in the development of policy;

- setting clear objectives and establishing a baseline against which progress can be measured; and
- focusing initially on reviewing policy and procedures, whilst also starting practical work on those areas that will have the greatest beneficial impact.

3.31 The essence of sustainable procurement is long-term benefit and considering factors other than immediate economic advantage. This may result in higher costs to pay for different products, but the effect may be mitigated or offset completely by more imaginative purchasing (Figure 17), reducing consumption through wider recycling and waste reduction strategies, and cost-neutral changes in the way that services are provided. Sustainable procurement may therefore result in financial savings. Similarly, the Welsh Procurement Initiative's approach is to raise the capacity of SMEs to respond to the needs of the public sector so that they can compete for business on more equal terms. Procurement regulations generally forbid public buyers from favouring SMEs or local businesses explicitly when selecting suppliers, and to do so would risk undermining value for money.

## KEY POINTS

### on sustainable procurement

- Sustainable procurement is a relatively recent development but reflects an important policy of the Welsh Assembly Government.
- Institutions do not have detailed sustainable procurement policies but individual institutions have made progress in specific areas.
- Current policy development work by the Welsh Procurement Initiative will shortly offer a framework that institutions can use to advance the sustainability agenda.

### We recommend that:

- institutions consider sustainable development in their procurement strategy and develop practical measures to advance sustainable procurement, based on available guidance and good practice.

## Improving the process

### Processes can be streamlined to save time and money

3.32 A potential area for savings is through a reduction in the administrative costs associated with the procurement of goods and services. This usually involves simplifying procedures and reducing the number of transactions, thus saving staff time. Several institutions we visited demonstrated an awareness of the scope for administrative savings by, for example, aggregating their waste contracts, centralising procurement of corporate stationery or reducing the number of suppliers for photocopiers. However, the scope for greatest savings in administration is through the introduction of electronic processing. *Better Value Wales* outlined the main benefits of e-commerce as follows:

- reduced staff time and postage costs by communicating electronically with suppliers;
- less contract leakage through central control of product choice and supplier;
- lower prices through strategic sourcing;
- better management information and accounting; and
- environmental benefits through the reduction of paperwork.

In addition, staff are released from more clerical duties to take a more proactive role in procurement.

### Progress in the higher education sector towards e-procurement is minimal

3.33 At all the institutions we visited, procurement managers recognised the benefits of more automated processing systems and regarded their current lack of electronic systems and management information as the principal barriers to improving procurement processing. Ten institutions currently run the procurement function with both electronic and paper-based processes. The most developed is UWIC's integrated procurement system where orders are requested and authorised electronically. Electronic catalogues have

been placed onto the system and the function is managed centrally, thus preventing contract leakage. In all, the system has proved beneficial by saving staff time and minimising process costs, improving financial control, and improving management information. UWIC now plans to develop the system so that the remaining stages of the purchasing cycle can be conducted electronically from 2006, thus moving to full e-procurement capability. No other institution has firm plans to implement full e-procurement, and procurement managers we visited believed too few suppliers had sufficiently developed systems to allow a comprehensive electronic system. Some institutions operate parts of the procurement cycle electronically, through electronic ordering or catalogues, but, whilst they recognise its benefits, do not have the resources or expertise to progress to full e-procurement. We note also that the Chartered Institute of Purchasing and Supply strongly recommends that organisations have a well defined procurement strategy before developing e-procurement. Given the current deficiencies in most institutions' strategies, the higher education sector needs to make significant progress in this area before it is ready for e-procurement.

### There is potential for cost savings through procurement cards

3.34 A procurement card is a charge card that can be used to buy goods and services from suppliers who have agreed and been authorised to accept payment by this means. A consolidated invoice is sent by the card company which is settled by one payment. It is a means of procuring without the need to produce documentation such as requisitions or purchase orders or to process invoices. It can bring benefits in saving time and, therefore, money especially in the procurement of minor purchases which represent the majority of the total orders issued.



3.35 *Better Value Wales* recommended that the Welsh public sector improve its performance in the area of low value payments and transactions, and work carried out by the Welsh Procurement Initiative on the Welsh Procurement card (below) concluded that its use could save organisations at least £8 per transaction. The use of the procurement card is, however, still underdeveloped in the higher education sector. Five institutions are using purchasing cards on a limited basis with a further four investigating its use. Although the card can bring immediate benefits in terms of the speed and cost of transactions and reduced risk of errors, the institutions' main concern is the control of such cards, as the absence of formal authorisation controls at each stage of the standard procurement process makes their use vulnerable to fraud. However, appropriate safeguards can be developed and UWIC has successfully piloted the use of the procurement cards for travel and subsistence; they will now be used for all such expenditure throughout the institution. The use of cards could be seen as an opportunity to reduce the supplier base but this will depend upon the number of suppliers accepting such cards, which currently is a small minority.

### KEY POINTS

#### on improving procurement processes

- The use of electronic systems in higher education procurement is underdeveloped. The introduction of such systems would have significant benefits, including greater control over the purchasing function and reduced costs.

#### We recommend that:

- institutions review their processing systems with a view to adopting greater automation of transactions where this proves cost-effective.

# Appendix 1

## Methodology

- 1 We used a variety of methods to collect evidence for this study. We examined:
  - the results of our survey of the thirteen higher education institutions in Wales;
  - tender files and other procurement documents at the institutions visited;
  - the work of the two main purchasing consortia used by institutions in Wales;
  - the arrangements in each institution for managing the procurement function;
  - the extent of expertise that institutions have access to;
  - specific examples of good practice at institutions; and
  - the savings recorded across the sector.
- 2 We conducted the work in five stages:
  - a survey of all institutions;
  - visits to half the institutions in the sector;
  - work at the Higher Education Funding Council for Wales;
  - employing an agency, Purchasing Index (UK) Limited, to carry out a 'basket of goods' price benchmarking exercise; and
  - using a focus group of five qualified procurement managers in the sector to give a view on our emerging findings.

## Work at the Council

- 3 At the Council we interviewed staff about:
  - their monitoring of procurement practices in the sector; and
  - their contribution towards improving procurement in the Higher Education sector.

## Visits to institutions

- 4 We visited the University of Wales, Institute Cardiff (UWIC), the University of Wales, Swansea, University of Wales, Cardiff, the University of Wales, Aberystwyth, the North East Wales Institute and the Royal Welsh College of Music and Drama to discuss issues in greater depth and to identify good practice supported by case studies. These institutions account for 56.6 per cent of the sector's non-pay expenditure (2002-03).

## Survey

- 5 In 2003-04 all institutions were sent a survey in order to obtain up to date information about the sector's procurement practices. Responses were received from all institutions.

## Benchmarking exercise

- 6 We employed an agency, Purchasing Index (UK) Limited, to:
  - gather a set of unit price data from each institution for a sample of commonly used consumable products;
  - compare those prices to highest, lowest and volume-weighted average prices for the sector as a whole and for all subscribers to the database; and
  - estimate possible savings across that range of items using the data collected.

Responses were received from all institutions.

## Focus Group

- 7 We asked a group of five procurement managers in the higher education sector for their views on:
  - our emerging findings;
  - the results of our analyses; and
  - possible conclusions.



# 2 Appendix

## Price comparison exercise for consumable products

### Method

- 1 We commissioned Purchasing Index (UK) Ltd (PI) to collect data on unit prices paid by institutions for a sample of consumable products, and to compare these prices with those paid elsewhere in the public and private sectors. This involved:
  - selecting a sample of items across five categories of commonly purchased products. Each item was specified in detail to reduce the risk of invalid comparisons, but inevitably some differences were possible in the nature and quality of a product;
  - issuing questionnaires to institutions requesting information on the price paid for product, the typical order quantity, the delivery arrangements (for example, to a central store or directly to point of use), annual consumption, type of contract and other factors likely to affect the price. We received returns from all institutions, based on prices applying in January 2004;
  - analysing the data to calculate how prices compared with the low, average and high for the sector and for all users on PI's Pricetrak database. The median number of external comparators was 15 for each product, with the most commonly used products generally having a higher number of comparators. Averages were weighted to reflect the volume of the product bought at each price; and
  - interpreting the data, based on the detailed information provided in the questionnaires and on subsequent discussions and correspondence with procurement managers, to identify possible causes for price variations within and between the sectors.

- 2 The sample was selected by PI to be as representative as possible of typical purchasing profiles for consumable products. However, institutions vary considerably in the range of products they buy and there is a huge range of products available, and the returns were based on approved central contracts, so they exclude maverick spending which may be significant in some institution. Consequently the sample can offer only a broad indication of each institution's purchasing activity.

### Findings

- 3 We obtained price data for 169 items, with a total annual expenditure of about £1.44 million, representing about £25 million of similar expenditure on consumable items. Overall, the sector's performance was almost the same as the average for other users on the Pricetrak database. However, the results varied widely by category, as shown in the **table opposite**.
- 4 These results need to be interpreted in the context of other factors that affect price, as price alone may give a misleading impression of potential savings. We therefore analysed the data to identify any patterns in pricing based on the variables for which data was collected by PI. We focused our attention on those items with the greatest annual spend and the greatest notional savings opportunities, when assessed against the lowest prices paid within the sector. Our main conclusions, based on the evidence available to us, are set out below.

Product category	Annual expenditure on the sampled items	Notional saving (extra cost) as % of annual expenditure, if each institution had bought at:		
		All-user average	HEW low price	All-user low price
Audio-visual	£5,924	(37.08%)	34.04%	38.76%
Food and drink	£329,393	7.02%	9.84%	23.39%
IT consumables	£228,404	(12.78%)	9.46%	17.54%
Janitorial	£128,094	7.75%	14.29%	21.26%
Laboratory	£20,596	2.18%	9.26%	12.98%
Stationery	£774,244	1.96%	14.02%	16.76%
<b>All products</b>	<b>£1,486,655</b>	<b>1.16%</b>	<b>12.40%</b>	<b>18.77%</b>

**NOTE:**

The notional saving is the difference between the sample annual spend (average unit price paid by the Higher Education Sector in Wales (HEW) sector, adjusted for the volume purchased by each institution) and the price that would have been paid had each institution purchased at the volume-adjusted average price of external comparators (all-user average), the lowest price reported by HEW (HEW low price) and the lowest price reported by all comparators including higher education Wales (all-user low).

## There were significant price spreads within the sector, with brand and quality appearing to be the main determinants of price

5 Prices for most of the products varied considerably between institutions. The price spreads ranged from 810 per cent to zero, with a median of 28 per cent. The very high price spreads were usually due to one or two institutions paying an exceptionally high price for an infrequently used product, and the most commonly used products are likely to attract greater discounts and thus have lower prices. In most cases price differences were more modest and were due mainly to differences in brand or perceived quality, with users selecting their preferred products and paying the necessary cost from their budget. Catering managers may prefer more expensive but better quality food products for commercial reasons, since costs need to be covered mostly by paying customers. Unsurprisingly, budget brands were considerably cheaper but they were not universally used. There were some significant differences, as shown by the examples below:

- most institutions bought C-grade paper for standard use in laser printers and photocopiers, but some used better quality paper that was significantly more expensive. The average price was £1.67 per ream, in line with the average for external comparators, but prices varied between £1.42 and £3.18 with the most common price being £1.53 for C-grade paper. If all institutions paid this price, the sector as a whole would have saved around £60,000;
- one institution spent £9.32 per litre on liquid soap, compared with an average of £2.71 per litre for other institutions buying the product, and would have saved £9,100 a year by reducing the price it paid to this level; and
- two institutions paid £3.63 for 100 milk jiggers (mini-cartons), whereas the other two who bought the product paid £1.73 using an alternative brand. The two institutions would together have saved £7,800 per year by buying the cheaper brand.

- 6 Overall, the wide price differences mean that there is likely to be some scope for achieving savings through standardising products and buying at cheaper rates, although this may involve opting for lower quality in some cases.

### Other factors may affect price but there is no clear pattern

- 7 In general there was no clear link between unit price and annual consumption, order quantity or delivery arrangements. It is difficult to disaggregate the impact of each factor on price and some differences were probably masked by a more pervasive difference in user preference for particular brands or quality. For example, suppliers charge less for bulk deliveries of paper to a central store than for delivering smaller quantities directly to the point of use (although the storage and distribution costs of central stores are not accounted for in this exercise). The Universities at Aberystwyth and Bangor also cited their location as a disadvantage in securing lower prices, as they have a restricted choice of suppliers for some products, especially for perishable food.
- 8 Overall, the evidence suggests that consortia have been effective in negotiating flexible contracts that do not disadvantage smaller institutions that buy lower quantities, and which have enabled institutions to close or greatly reduce their central stores to avoid the attendant premises and distribution costs.

### Differences between institutions and product categories

- 9 At least 90 per cent of the expenditure covered by the sample was made through purchasing consortia, and their prices were marginally better than those obtained through sole contracts and spot purchases. There was no clear pattern with non-consortium buying, with a range of good, average and poor prices from sole contracts and spot purchases.
- 10 There were significant differences between product categories. The sector as a whole bought audio-visual products and IT consumables at well below average prices, mainly through national agreements, but paid around seven per cent more for food and janitorial products. This may be due to the smaller quantities ordered by institutions compared with, for example, very high consumers like NHS trusts. Stationery and laboratory prices were in line with the average.
- 11 Each institution's expenditure on the sampled products varied between 93 per cent and 116 per cent of the average for the whole sector. It is problematic using this headline figure as a measure of purchasing performance, since it conceals the impact of a wide range of influences on price that are not wholly within the control of the purchasing function, especially user preference for particular qualities or brands of product. There was no significant link between the notional savings opportunity and the size of an institution or the presence of a dedicated procurement manager. This supports the contention that purchasing consortia have been effective in passing on the benefits of collaborative contracts to smaller institutions, who therefore benefit indirectly from the expertise needed to negotiate and monitor these contracts; this is usually provided by procurement specialists in the larger institutions. However, procurement specialists within institutions can ensure that the consortium contracts are used to best effect and that areas not covered by them are properly covered by local arrangements.