



# getting value for money from procurement

How auditors can help





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# Foreword by the Comptroller and Auditor General

**P**rourement is big business. Departments spend £13 billion a year on the procurement goods and services. Failure to purchase them cost effectively can put the achievement of key objectives and services at risk. So it is not surprising that auditors are interested in how departments procure goods and services and in the good practice which might be more widely applied. Our reports on Modernising Procurement, Modernising Construction, Purchasing Professional Services and Private Finance Initiative deals have all highlighted good procurement practice.

Auditors - both external and internal - have an important role to play in promoting improvements in procurement particularly by adopting a constructive approach and highlighting good practice which can be more widely applied.

To help do this, this guide distils the lessons learnt in the context of current developments in procurement and provides those examining procurement practices with a checklist of issues to explore to ensure that value for money is being achieved.

Whatever approach departments and agencies adopt to procure goods and services there a number of key principles which they need to follow:

- have a strategic approach to procurement;
- make appropriate use of electronic commerce;
- manage procurement risks;
- develop contract strategies and manage supplier relationships;

- develop partnerships and longer term collaboration with suppliers when appropriate;
- carefully manage major procurement projects;
- ensure there is reliable procurement financial and management information;
- measure and evaluate procurement performance.

This guide which we have developed with the help and support of the Office of Government Commerce considers each of these principles in turn and suggests some key questions for auditors to ask in assessing whether good practice is being followed.

**SIR JOHN BOURN**

# Foreword by the Chief Executive of the OGC

I am delighted that the OGC is co-sponsoring this important guide for auditors.

The OGC was established by the Government to lead a comprehensive and far-reaching programme to reform the way in which departments (and their executive agencies and NDPBs) undertake procurement so that substantial value for money improvements can be realised through greater efficiency and enhanced effectiveness.

Underpinning the reform programme are four key elements:

- a reinforcement of the principle that procurement by departments should be based on value for money - defined as the optimum combination of whole life costs and quality to meet the customer's requirements - rather than initial purchase price;
- defining procurement as the whole life-cycle process of the acquisition of goods, services and works from third parties;

- incentivisation so that departments retain the value for money improvements that they realise within the time period of a Spending Review;
- top-level support through OGC's Supervisory Board which is chaired by the Chief Secretary and includes over half of the departmental Permanent Secretaries together with two external members and the Comptroller & Auditor General.

This guide recognises the substantial contribution that auditors - both internal and external - can make in supporting departments in undertaking procurement activities as efficiently and effectively as possible through the application of proven best practice.

I hope you will find this guide helpful and valuable in your important work.

**PETER GERSHON**



# why procurement is important and how auditors can help

Departments depend on the range of goods and services which they purchase to deliver their core services. These can range from rudimentary and low value items such as pens and paper to new works and high value and complex items such as, IT enabled services to support business change , or technical advice or equipment to support research and development. Purchasers need to purchase goods and services of the right quality, at the most cost effective price, in the most economic quantities, and ensure that they are available when needed. Failure to meet any of these requirements can seriously affect a department's ability to meet its objectives and outputs and ultimately to deliver services to citizens. Procurement is, therefore, strategically important to departments.



## Private sector approach to procurement

- As procurement can influence profit levels there is more incentive to secure the best price for goods and services
- Private sector companies tend to take a long term strategic view of their procurement needs and the best way of meeting them.

An estimated £13 billion a year is spent on civil procurement (excludes military equipment) – the equivalent of 2-3 pence on income tax. Procurement covers every aspect of the process of determining the need for goods and services, and buying, delivering and storing them.

Departments agencies and non-departmental public bodies are responsible for determining the goods and services which they need and how they acquire them. Since 1993 a number of reviews have attempted to improve procurement by these organisations culminating in the establishment of the Office of Government Commerce (OGC) in April 2000. OGC's remit is to improve the efficiency and effectiveness of the estimated £13 billion annual civil procurement budget and to become the centre of excellence in procurement. Appendix 1 outlines in more detail the OGC's responsibilities. Appendix 2 sets out the key reviews of procurement since 1993.

### **Procurement is**

"the whole process of acquisition from third parties (including logistical aspects) and covers goods, services and construction projects. This process spans the whole life cycle from initial concept and definition of business needs through to the end of the useful life of an asset or the end of a services contract".

**Review of Civil Procurement in Central Government, Peter Gershon, 1999**

### **Goods and services typically bought by departments and agencies**



#### **Financial and consultancy Services**

£3.3 billion

#### **Other services**

(such as publicity and facilities management)

£3.2 billion

#### **Equipment and bulk orders**

(such as paper and furniture)

£2.7 billion

#### **IT Equipment and services**

£2 billion

#### **Utilities**

(such as phone, gas, water and electricity)

£1.5 billion

#### **Routine items**

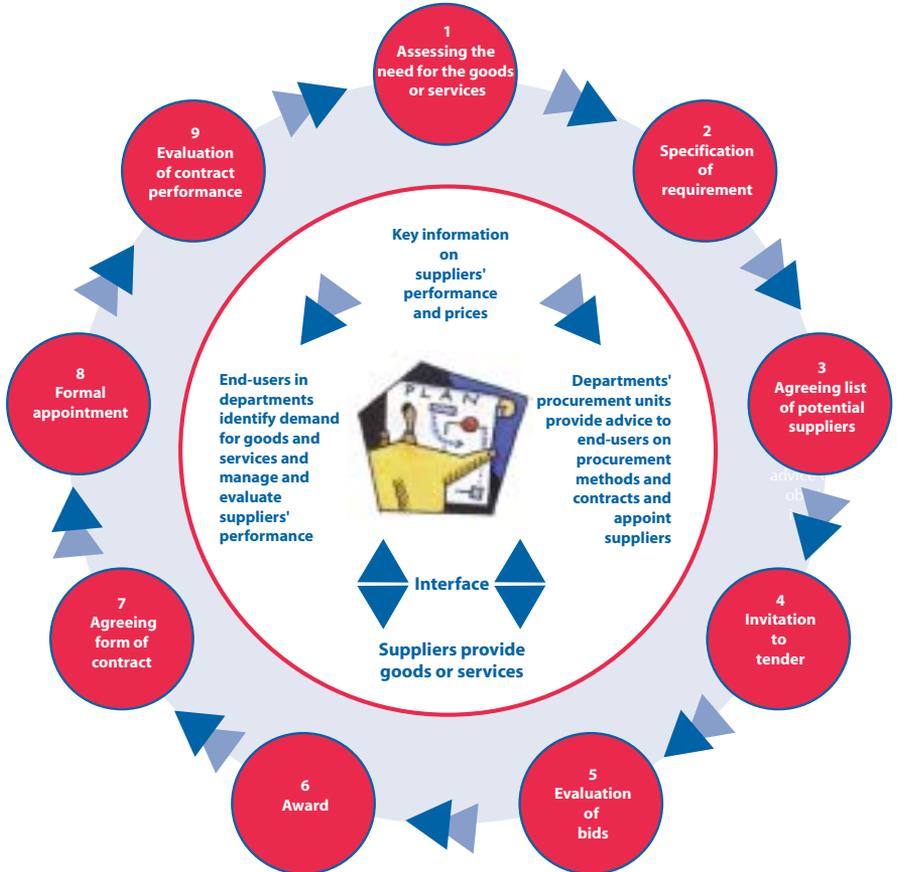
(such as ad hoc, low value items of stationery and cleaning materials)

£0.3 billion

## Value for money in procurement

All public procurement of goods and services, including works, must be based on value for money, having due regard to propriety and regularity. Value for money is not about achieving the lowest initial price: it is defined as the optimum combination of whole life costs and quality. This policy is set out in guidelines issued to departments and reproduced in Chapter 22 of Government Accounting. Goods and services should be acquired by competition unless there are convincing reasons to the contrary. The form of competition should be appropriate to the value and complexity of the procurement and barriers to the participation of suppliers should be removed.

## Typical stages in competitive procurement



Better value for money from procurement can be achieved in many ways, for example:

- getting an increased level or quality of service at the same cost.
- avoiding unnecessary purchases.
- ensuring that user needs are met but not exceeded.
- specifying the purchasing requirement in output terms so that suppliers can recommend cost-effective and innovative solutions to meet that need.
- Sharpening the approach to negotiations to ensure departments get a good deal from suppliers. Departments should act as intelligent customers by discussing with suppliers all the elements of the contract price including level of service, timescale of the assignment, skill mix of the supplier's team and how costs are to be remunerated.
- optimising the cost of delivering a service or goods over the full life of the contract rather than minimising the initial price.
- introducing incentives into the contract to ensure continuous cost and quality improvements throughout its duration.
- aggregating transactions to obtain volume discounts.
- collaborating with other departments to obtain the best prices and secure better discounts from bulk buying.
- Developing a more effective working relationship with key suppliers to allow both departments and suppliers to get maximum value from the assignment by identifying opportunities to reduce costs and adopt innovative approaches.
- reducing the cost of buying goods or services by streamlining procurement and finance processes.
- Reducing the level of stocks held.

Improvements in value for money fall into: (i) those aimed at reducing the cost of purchasing and the time it takes for example, the administrative effort in processing an order, seeking and evaluating tenders, and taking delivery of the goods ordered. This is the procurement overhead and can typically add between 10 to 50 per cent to the cost of buying goods and services; (ii) those aimed at getting more value from money by negotiating improved deals with suppliers (reduced cost and/or better quality), or aggregating demand to get greater leverage on suppliers; and (iii) those aimed at improving project, contract and asset management.

**Requiring the procurement approach to be carefully thought through**

**Getting value for money in the long as well as the short term**

**Value for money depends on combining competition with innovation**

### **But procurement is increasingly more complex:**

The complexity of procurement needs can make it more difficult to measure whether value for money is being achieved. Services such as the development of IT related services and professional advice, can be difficult to define precisely or may require considerable feasibility work before a reliable specification can be drawn up; the work may be specialised with only one or two potential suppliers making competition impracticable; and if the service is delivered over a long term there is a need for regular monitoring of the quality.

In the case of goods and services which have a working life over many years there is a need to ensure they are cost effective over their whole working life. This means taking a long term view and not focusing on the lowest purchase price at the expense of long term value for money. Long term procurement commitments also need to be able to deal with change, for example, a department may wish to take advantage of changes in technology.

Buying goods and services through competition remains the best way of ensuring that the best combination of whole life costs and quality is achieved. But it is not always appropriate or cost-effective for low value items, or sufficient on its own for complex goods and services or where no well developed market exists. Increasingly, value for money depends on combining competition with innovative ways of procurement while managing the risks effectively.

The wide diversity in the value and type of goods and services which departments purchase mean that no one single procurement method is appropriate to promote value for money.



## £9 billion<sup>1</sup> strategic procurement

**Strategic items** are those essential to the achievement of departments' key outputs for example, the development of IT enabled services to process and pay grants or benefits. Key characteristics of such contracts are that they are high profile; the contract is high value relative to other contracts; and often the specification of the services or goods requires further development with the contractor, so that choosing the right contractor is likely to be key to the success or failure of the project. The competitive process therefore, needs to allow where appropriate, for

negotiation between the procuring body and bidders about what is to be supplied and how risks are to be shared. There also needs to be a focus throughout the life of the contract on total costs and an incentivised relationship between the department and contractor to enable the partners to secure mutual benefits for delivering the contracted project.

Note 1: Figures indicate the broad amounts of money which departments and agencies spend on the different types of procurement.

**Non strategic items** are high volume contracts for goods and services that are not especially critical to the delivery of a department's key output. Examples might include expenditure on travel or bulk orders of stationery. Such contracts are not crucial to the provision of services to customers and so the organisation would be able to accommodate minor dips in the performance of a supplier. Many of these items can be specified clearly enough to enable the project to be awarded to the best value for money bidder consistent with the specified quality standards.

**£3.7 billion<sup>1</sup>**  
**Non-strategic  
procurement**



**Routine items** refer to the ad hoc purchase of low value items, such as a book, or an item of stationery. Departments place some two to three million low value orders each year, with an average value of £100. But the administrative costs incurred in purchasing such an item, equivalent to

£25 to £100 for each transaction, can often equal or exceed the cost of the items themselves. Periodic review of the procurement arrangements for low value purchases should consider whether ordering and payment procedures could be streamlined.

There are three key approaches to streamlining administrative costs of low value purchases which could be applied to both non-strategic and routine items: greater use of electronic commerce; the Government Procurement Card (a corporate card which allows specified employees to buy items directly and reduces paperwork); and greater use of framework agreements (an agreement to purchase specified items at agreed prices, to minimise contract letting costs by bringing together separate purchases into one contract).



**£300 million'  
Routine  
procurement**

## Action to improve value for money

The OGC has taken a number of initiatives and developed a number of tools to promote improvements in procurement. These include:

- Gateway process
- European Foundation for Quality Management (EFQM) Excellence Model
- Code of Good Customer Practice – Working with Suppliers
- 90 per cent Measurement Tool
- Business Guidance: Value for Money Measurement
- Specific Initiatives for Construction and IT

Appendix 3 outlines in more detail each initiative or tool.



## How audit can help in procurement

Both external audit and internal audit are concerned that value for money is achieved, appropriate controls are in place so that expenditure is reliably recorded; that it complies with all relevant accounting requirements, authorities and regulations including the Procurement Directives of the European Communities and that the risks of waste, impropriety and fraud are minimised.

In designing control, it is important that the control in place and the cost of applying it is proportional to the risk. Apart from the most extreme undesirable outcome (such as loss of human life) it is normally sufficient to design control to give a **reasonable assurance** of confining likely loss within the risk appetite of the organisation. Generally speaking, the purpose of control is to contain risk rather than to **obviate** it (Management of Risk: A Strategic Overview, Treasury, February 2000).

External and internal audit can also make an important contribution by adopting a forward looking and constructive approach to:

- reviewing how departments and agencies determine the need for goods and services and how they procure them to identify how this might be done better;
- highlighting good procurement practice backed up by practical examples which might be more widely applied;
- supporting well managed risk taking and innovation that is likely to lead to sustainable improvements in both the cost of procurement and the quality of the goods and services purchased; and ensuring that departments and agencies have overall organisational and management capability to undertake large, novel and/ or contentious projects; and
- ensuring that departments and agencies have overall organisational and management capability to undertake large, novel and/or contentious projects.

The NAO's strategy is to carry out a series of studies from time to time on procurement as part of our statutory remit to report to Parliament on the economy, efficiency and effectiveness with which departments use their resources and as part of our general support to the drive to improve value for money from procurement. We have also played a role before major procurements are finalised, for example in reviewing the value for money comparison methodology of the London Underground deal. Pre-deal audit involvement may help to prevent poor procurements from proceeding and may ensure that sound methodologies are used. But such involvement needs to be conducted with care so that it does not prejudice the auditor's ability to conduct post contract examinations and that the audit regime does not slow up the procurement process.

## European Union Procurement Directives

The opening of public procurement to competition from all member states is an integral part of the European Single Market. There are separate EC procurement directives, and Regulations which implement them in the UK, covering supplies, works and services contracts in the public sector. In addition, there is a directive, and Regulations, covering the utilities sector. These directives, and Regulations, require that contracts above specified thresholds are advertised in the Official Journal of the European Communities and they include detailed requirements for the selection of tenderers and the award of contracts, based on the principles of transparency, non-discrimination and competitive procurement.

Appropriate application of these EC requirements is essential. Breaches can result in action by suppliers or contractors against the contracting authority in the High Court or by the European Commission against the member state in the European Court of Justice.



The directives provide three ways in which contracts can be awarded:

- (a) **Open Procedure:** all suppliers may tender.
- (b) **Restricted Procedure:** all suppliers may express an interest, but only those selected from those who meet the purchaser's minimum

requirements for economic and financial standing and technical capability may tender.

- (c) **Negotiated Procedure:** a purchaser may negotiate the terms of the contract with one or more suppliers of its choice.

The open and restricted procedures are freely available, whereas the circumstances in which the negotiated procedure, with or without a call for competition, can be used are closely defined in the directives and Regulations.

The directives allow purchasers to award contracts: either on the basis of price or the offer which is "the most economically advantageous" to the purchaser. This latter option is equivalent to value for money, and it should be used by UK contracting authorities.

## Contribution which internal audit can make to assist in improving procurement value for money

In our VFM work our focus is not solely on quantitative and financial measures of performance but also effectiveness such as the quality of service which departments get from their procurement. With longer term contracts we are particularly concerned that the whole life cycle of the procurement from the purchase of goods and services to their disposal or termination represents value for money.

In relation to the balance between propriety and regularity and value for money we seek to satisfy ourselves that existing controls, and their cost, are appropriate in relation to the potential for achieving value for money benefits, through, for example, closer customer-buyer-supplier relationships (the principle of proportionality). Appropriateness will be determined in relation to the assessment of

procurement risks, and the existence of a well thought through strategy for their management.

In order to achieve more efficient joined up audit we draw on the work of internal audit wherever practicable. Internal audit's examination of procurement may be part of a planned, regular cycle or in response to an unforeseen occurrence for example:

- **multiannual audit:** every few years internal audit may carry out a complete review of the overall procurement function. In the case of an agency, this may form part of the quinquennial review;
- **annual programme:** selected procurement issues, policies and systems agreed between procurement and audit for specific study eg delegations;

### Regularity and Propriety

"Regularity, or legality, is concerned with compliance with authorities in terms of authorising legislation and associated regulations. While the concept of propriety is underpinned by compliance with authorities, and in particular with legislation, it goes wider than this and covers conduct and behaviour unconnected with authorities. Non compliance with authorities may not always be improper. Where it is inadvertent it may or may not be improper, depending on the circumstances. Impropriety more usually carries an assumption of a deliberate act or a wilfully careless one".

Propriety and Audit in the Public Sector  
Consultation Paper Public Audit Forum  
May 2000

- **in-year studies:** unplanned, urgent or emerging issues where audit can assist in resolving problems or taking advantage of opportunities eg electronic procurement.

There are other stages and levels of the procurement process at which internal audit can help, for example:

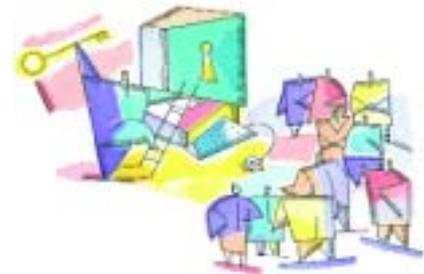
- **pre-emptive, advisory role:** helping to ensure that appropriate and sufficient procurement competence is involved at an early stage in policy developments and in major procurement projects, and that procurement options are fully considered by the project manager/sponsor and steering group;

- **risk assessment:** checking that a procurement risk assessment has been carried out by project teams in accordance with Treasury Guidelines, that risks are monitored on an ongoing basis and that corrective action is taken where appropriate;

- **gateway review:** may be involved in checking that gateway reviews are carried out at appropriate stages in the life of a project or procurement (see Appendix 3);

- **post-implementation review:** on completion and/or at agreed stages in the life of a long-term contract to examine whether planned VFM benefits are being achieved and risks are being effectively managed.

The remainder of this guide considers what the auditor should be looking to be in place in departments and agencies to promote value for money from procurement. The aim throughout the guide is to encourage the achievement of an effective balance between appropriate controls and well thought through innovation based on sound risk management and proportionality of control.



# in summary

## **Government procurement is important because...**

...failure to purchase goods and services cost effectively can put the achievement of key objectives and services at risk.

It is big business and successive independent reviews have highlighted the significant potential to improve value for money. The current target is to achieve improvements valued at £1 billion by the end of 2002-2003.

Value for money in procurement can be achieved by:

- (i) Reducing the cost of purchasing and the time it takes – the processing overhead;
- (ii) getting better value for money for the goods and services purchased and improved quality of services; and
- (iii) improving project, contract and asset management.

Making procurement decisions on the basis of a long term view of value for money so that the focus is not on the lowest price.

Combining competition with innovative ways of procurement while managing the risks effectively, and drawing on latest advances in electronic commerce and good procurement practice.

Using the range of tools available which promote and measure value for money gains, audit can examine how well they are being implemented in departments and agencies and whether they have achieved their objectives.

# What is likely to promote value for money in procurement?

## What the auditor should be looking for

Departments have a wide range of possible options when purchasing. Outsourcing and the Private Finance Initiative have meant a shift in focus to thinking in terms of the purchase of whole services such as the management of prisons rather than buying the goods and services necessary to deliver or manage the service.



## Four main approaches to buying goods and services

### Approach

### Method

Do it themselves.



The Forensic Science Service purchases their own routine items, such as scientific equipment and consumables (items used for testing)

Purchasing jointly with other departments where one takes the lead in securing a competitive deal.



The Lord Chancellor's Department uses contracts set up by the Court Service Agency for the purchase of routine items, such as office equipment and stationery.

Use a central buying agency.



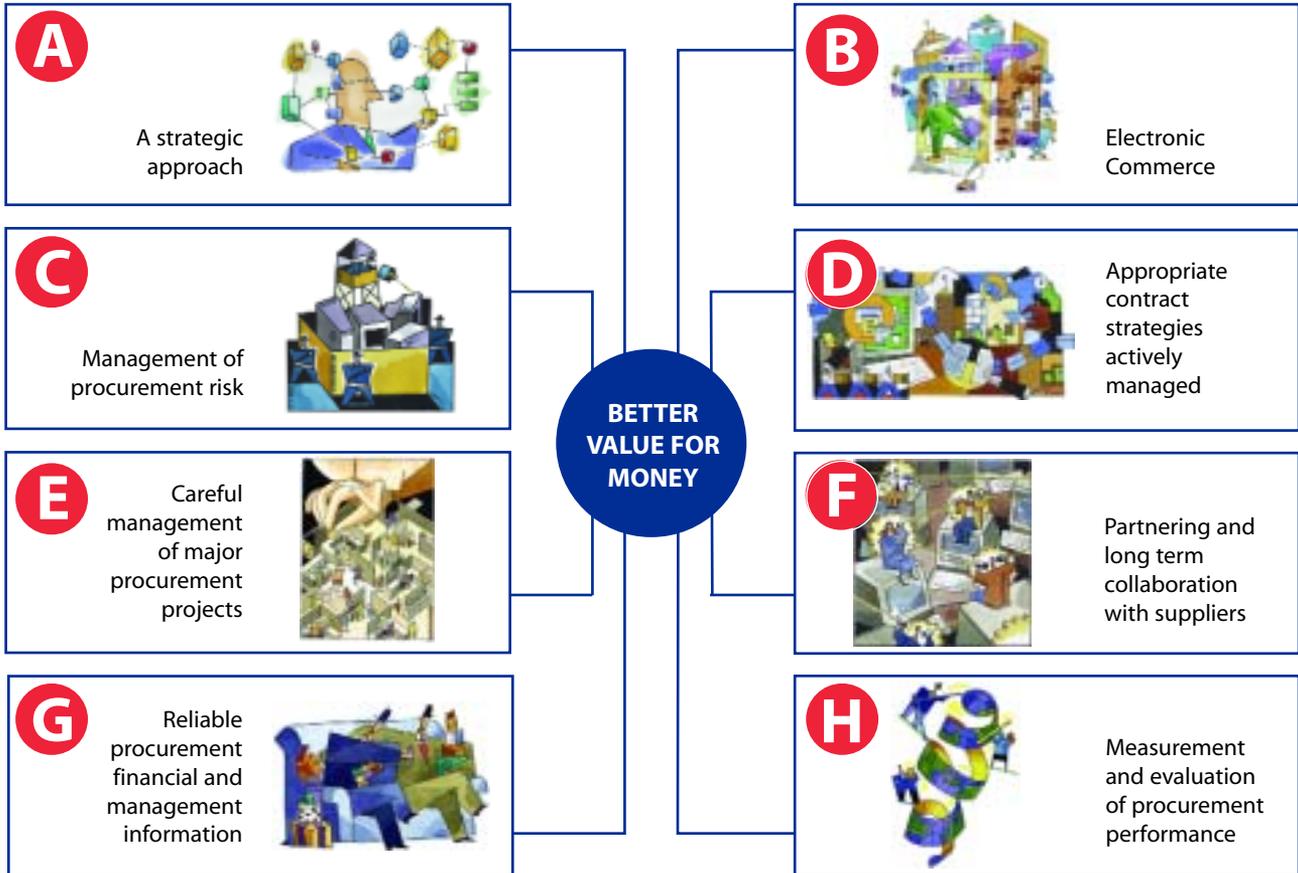
The Home Office makes use of arrangements established by the Office of Government Commerce in the procurement of some of its IT requirements

Get a contractor or the private sector, as with Private Finance Initiative projects, to do it for them.

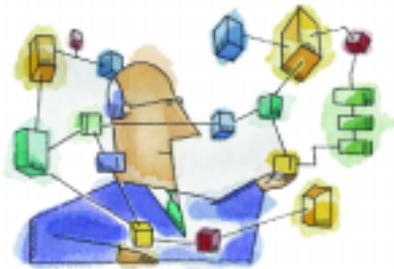


The Department for Culture Media and Sport have contracted out the facilities management of their buildings, including maintenance, cleaning and security to a private company.

Whatever approach departments adopt to procure goods and services there are a number of key principles of good practice which they should follow. These are set out in Figure 10. This part of the guide considers each of these in turn and suggests some key questions for auditors to ask in assessing whether good practice is being followed and whether there is scope for improvement.



## **A** Strategic approach to procurement



<sup>1</sup> Supply chain management is the process by which every stage of the procurement of goods and services is managed from beginning to end with the aim of improving the quality of the product or service being bought to eliminate waste and excessive costs and improve delivery times. It can extend from the end customer to the second or third sub-contractors.

A comprehensive procurement strategy should include:

- an analysis of the key goods and services, and their cost and their priority, which the department or agency needs to deliver its objectives and services;
- an assessment of the way in which these are purchased;
- the performance of key suppliers; and
- the scope to improve value for money and quality of service.

The strategy should also consider:

- the performance of the purchasing unit and the potential to reduce processing costs through for example: using electronic commerce, procurement cards and framework agreements; combining procurement with other departments; more astute negotiations with suppliers and supply chain management<sup>1</sup>;

- the extent to which other bodies funded by the department for example through grant aid apply best practice in their purchasing;
- the scope to adopt innovative approaches to improve procurement while reliably managing associated risks;
- the extent to which professional procurement staff are involved in the purchase of all goods and services, the awareness of end users of the input procurement staff can make and how to involve them and the need to further develop purchasing expertise.

In the private sector, companies' procurement can have a significant impact on profits and senior managers frequently consider its performance, expect regular reports and will consider strategically important procurement issues such as long term relationships with key suppliers.

## Key questions for auditors to ask

- Does the department have a procurement strategy covering the whole process of obtaining goods, services and construction projects from third parties?
- Does the procurement strategy make a clear link between procurement goals and the achievement of departmental policy and business objectives?
- Is there a formal statement of procurement policies and plans with mechanisms to ensure they are implemented across the whole organisation?
- Is there a written policy or code of ethics covering procurement and are staff aware of its content?
- Is there monitoring and periodic reporting on the outcomes of major procurement initiatives at a senior level in the department?
- Does the department know its: main procurement requirements; its key suppliers and their supply chains; the markets from which it purchases and is there evidence that it uses this information to develop its procurement strategy and in its negotiations with suppliers?
- Does the department examine the extent to which the third parties it funds apply best practice in their procurement? Does it encourage them to do so?
- Does the department have in place mechanisms for working with key suppliers effectively at a senior level?
- Does the procurement strategy contain an assessment of the:
  - performance of the department's purchasing unit and the potential to reduce purchasing costs?
  - scope to adopt innovative approaches to improve procurement while managing risks? and
  - the extent to which professional procurement staff are involved?
- Does the procurement strategy cover all the spend?
- Does the department have sufficient management information to make decisions?
- Has the department considered the benefits of tools and methods such as electronic commerce, procurement cards and framework agreements and is there evidence that it uses these appropriately?
- Has the department considered the scope for collaboration with other departments, for example by sharing information or joint purchasing?

## Case Example 1: Environment Agency

The Environment Agency currently spends about £375m each year (60per cent of annual operating costs) with suppliers and contractors. Shortly after the Agency was set up in April 1996, its Board recognised that there were areas in which the procurement function was underdeveloped and committed itself to ensuring that the Agency applied best practice in all areas of purchasing. In late 1996 consultants conducted a benchmarking exercise to establish how the Agency's procurement practices and procedures compared with other organisations operating in the market, with a particular emphasis on those areas of procurement which were identified as being of high risk. The benchmarking exercise produced over 30 recommendations and resulted in the development of a 3-year procurement change programme.

The programme has resulted in:

- the targeting and development of procurement skills in high risk and specialist areas such as IT, civil engineering, transport, utilities and research and development. This has aided efficiency savings, for example the cost of IS/IT support and maintenance has decreased from £2800 per non manual employee to £2000;
- procurement influence and involvement in virtually all areas of expenditure;
- procurement involvement in Regional Project Appraisal Boards which decide whether projects meet the business needs of the Agency and whether they should go ahead;
- specific projects to strengthen and make procurement more efficient and effective such as an e Commerce Market Place Project and the implementation of a Contract Management System Project (a standard system for contract management and managing supplier performance); and

- development of key commodity and service supply arrangements.

The Agency has recently repeated the benchmark exercise to assess the progress achieved and has found a 38% improvement in procurement performance since 1997. The exercise has also informed the next three-year programme.

### What does this show?

This example shows that a strategic approach to procurement allowed the Agency to identify where procurement can most add value and draw up a framework for developing the function so that it can do so. This approach has enabled it to identify £12 million efficiency improvements over three years - £4million per annum (Corporate Plan 2000-2001), which will allow the Agency to keep their charges for services at lower levels than would otherwise be necessary and carry out some activities which otherwise would not be possible.

## Case Example 2: Department for Education and Skills

Department for Education and Skills (formerly Department for Education and Employment) recently reviewed the role of procurement in the delivery of policy objectives. One of the conclusions made by the review was that there is a need to improve procurement skills and practice within its Non Departmental Public Bodies. The review recommended: the establishment of a procurement forum to encourage networking and sharing of ideas and best practice; the identification of opportunities for collaboration with and between Non Departmental Public Bodies; the development of awareness within the department of the need for procurement competence within these bodies; and raising that competence (the department has developed a self assessment toolkit to aid this process).

### What does this show?

This example shows how one department recognised that to ensure its policy objectives are delivered well and cost effectively, it is necessary to consider the procurement skills and practices of other organisations it works with.



## **B** Electronic Commerce

Electronic commerce involves using electronic networks to simplify and speed up all stages of procurement including tendering, design and production for development projects, ordering, requisitioning, stock management, and monitoring delivery and supplier performance and payment. It has the potential to provide better management information about suppliers, products and prices to aid better procurement decisions and communication between purchasers, but to do so requires radical change in business processes and in the attitude of the people who operate them.



### The main forms of e Commerce currently used within Government

- **Government Procurement Card** is a VISA purchasing card. Designated staff are given a card which they can use to order goods and services by telephone, fax, written purchase order, in person or through e-Commerce. Cardholders use their cards subject to controls agreed between the organisation and their card issuing bank that will prescribe financial limits on transaction value and monthly and annual spend. The cardholder receives periodic statements listing the transactions. A consolidated invoice is sent by the Card Company to the department which is settled by one payment or through a direct debiting arrangement.
- **Using the Internet for procurement through:**
  - **electronic Catalogues** such as G-CAT and S CAT which provide details of suppliers and their

goods and services including prices, which have been vetted and approved by OGCBuying solutions, and which departments can access and order from either by phone, fax or electronically; and

- **e-Procurement systems** are being piloted which will allow departments to conduct the procurement process electronically from ordering by end users through to payment of suppliers.
- **e-tendering** – where potential suppliers submit their tenders for work electronically.
- **Intranet based databases** used in the private sector to provide guidance to purchasers and end users and to collate, update and disseminate information on suppliers.

Using e commerce provides many opportunities to significantly improve value for money, but also brings with it a number of challenges.

## Advantages, risks and safeguards of e-Commerce

### Government Procurement Card

#### Advantages

- Reduces processing costs (up to 85 per cent)
- Allows for speedier delivery of goods and services
- Improves efficiency of finance and procurement staff with less time spent checking and authorising purchases
- Statements provide detailed information on what has been spent by and with whom
- Faster payment to suppliers – reduces risk under commercial debits bill and enhances supplier relations
- Building block to e-commerce

#### Risks

- Goods bought for personal use
- Use by an unauthorised person
- Collusion between cardholder and supplier

#### Safeguards

- Restrict use to authorised people
- Employment, security and credit checks before authorising users
- Carry out monthly checks on statements
- Make misuse a disciplinary offence
- Users keep a log of transactions
- Card and identification number to be kept secure
- Line manager to authorise monthly statements
- Examine monthly expenditure records
- Manager examines log of goods received and price paid
- Liability waiver
- Training of users and managers.



## Using the Internet for Procurement

### Advantages

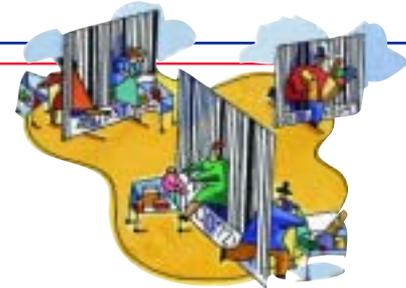
- Reduces processing costs
- Makes aggregation for volume discounts easier
- Allows for better inventory management
- Makes benchmarking of prices easier
- Easy to track alterations

### Risks

- Goods bought for personal use
- Use by an unauthorised person
- Collusion between cardholder and supplier
- Electronic records are easy to create and alter
  - Information can be read or altered in transit
  - Text typed by one person indistinguishable from that typed by someone else
- Audit trail can be difficult with confusion between different versions, loss or destruction or loss of context

### Safeguards

- Private link using encryption of information
- Users set up account with pass word to be verified by seller online
- Seller sends confirmation to buyer by email
- Must identify and manage records with evidential value
- Audit trail must identify log time, identities, actions and results and so must have a logging system at transaction level



## Using intranets to collate and share information

### Advantages

- Easier to record and update information
- Allows identification of opportunities for joint purchasing and benchmarking
- Allows access to independent data on supplier performance

### Risks

- Inaccurate or out of date information can lead to:
  - Poor decision making
  - discrediting of database
  - legal action if information defames a supplier<sup>2</sup>

### Safeguards

- Information must be verified for accuracy
- Comments on suppliers must be substantiated with evidence and must not be personal
- Must be updated regularly
- Must be protected against unauthorised disclosure, manipulation, unavailability and destruction



<sup>2</sup> Departments should ensure that they have due regard to the provisions of the Freedom of Information Act 2000, the Data Protection Act 1998, Civil tort on negligent mis-statement (House of Lords 1963) and any confidentiality clauses.

## Key questions for auditors to ask

- Does the departmental e-procurement strategy fit with the main procurement strategy?
- Has the department carried out a risk assessment of electronic procurement, identifying key risks including propriety, security (especially access to and protection of electronic records), confidentiality, reduced division of responsibility and shorter timescales, and taken steps to manage them effectively?
- Is the level of control reasonable given the risks involved whilst still being cost effective?
- Is the department using electronic commerce to facilitate:
  - information sharing;
  - electronic procurement; and
  - monitoring of prices and suppliers' performance?
- Is the Government Procurement Card (GPC) used where appropriate?
- Are there procedures in place to ensure that third party providers of services, where necessary, have the electronic procurement capability required to meet the government's objectives in respect of electronic procurement?
- Is there a suitable audit trail?

## Case Example: The Forensic Science Service

The Forensic Science Service adopted the Government Procurement Card in June 1999. Its introduction has helped its finance section cope with an increasing volume of financial transactions due to a merger with the Police Forensic Science Laboratory without increasing staff, as well as reduce the number of requisitions on small value transactions by 38 per cent. The monthly statements provide useful management information on which suppliers are used and the amount of expenditure by item. These reports are used to check the cards are used properly and to identify patterns and trends – such as whether there is potential to negotiate better prices through a call off contract. To minimise the risk of impropriety the following safeguards have been adopted

## Risk

## Safeguards adopted by the Forensic Science Service

Procurement of goods for personal use by the cardholder

The cardholder must be a permanent employee and have been with Forensic Science for at least 12 months

The cardholder is subject to security and credit checks.

The cardholder is informed that any misuse will be treated as a disciplinary offence.

Each cardholder maintains a log of transactions. The cardholder's manager checks the log each month and reconciles the record to the monthly card statement.

Card use is restricted to transactions below a certain amount and to specific types (for example, cash withdrawals are excluded).

Use of card by unauthorised staff

The cardholder is instructed to keep the card and any personal identification number secure. Failure to do so is a disciplinary offence.

Managers must authorise cardholders' statement each month

Collusion between cardholder and supplier

Forensic Science minimise the risk by examining monthly management reports of expenditure by supplier and by item to look for anomalies and trends.

The cardholder's manager examines the log for evidence of goods received and price paid.

## What does this show?

This example shows how the Forensic Science Service were able to use e-Commerce to reduce processing costs, increase staff efficiency and get better management information, whilst safeguarding against fraud, errors and impropriety.

## Management of procurement risks

All activity by government departments and agencies involves some risk –

- that key outputs are not delivered on time, to budget and of appropriate quality; the risk of financial impropriety, fraud and waste;
- of something coming out of the blue which knocks planned achievements off course; and
- of missing an opportunity to do something better and more cost effectively.

Procurement is no exception and all of the above risks need to be considered in procurement decisions and managed where appropriate.

The range of procurement from low value purchasing to Private Finance Initiative varies considerably. The following figure sets out some of the typical risks associated with major PFI projects. More generally risks most typically encountered in procurement are:



## Risk

## How to deal with the risk

Unnecessary purchasing	Clear justification of need for goods and services – independently reviewed when goods are of significant value or strategic importance.
Price does not represent value for money	Purchase through competition and regular benchmarking to ensure prices remain competitive.
Goods and services are purchased in uneconomic quantities	Assessment of optimum order quantity to maximise opportunities to get the best price.
Excessive stock holdings	Assessment of optimum stock holding; adopt “just in time” policy with suppliers to keep stock holdings to a minimum.
Suppliers fail to deliver	Assessment of supplier’s financial viability and past performance, having a good knowledge of supplier markets and supply chains. Departments should draw up contingency plans for how they will ensure public services are delivered in the event of the supplier failing to deliver.
Goods and services are not of appropriate quality	Clearly defining quality requirements up front and monitoring quality of goods and services received. Link payment to performance and consider staged payments for delivery of goods and services.
Impropriety and fraud	Fraud prevention strategy with separation of duties and regular independent review of the adequacy of internal systems to minimise the risk of fraud.
Missed opportunities	Remaining alert to best deals on offer, understanding the market of key suppliers to negotiate on the basis of good information. Considering whether there are alternative sources such as small firms which may be able to provide increased competition, value for money and innovation to the supply chain and ensuring that tendering and information requirements do not exclude such companies from competing.

## Risks associated with Private Finance Initiative projects

Appropriate risk allocation between the public and private sectors is the key to achieving value for money on PFI projects. If the private sector are asked to accept responsibility for a risk that is within their control, they will be able to charge a price for this part of the deal which is economically appropriate. However, if the Department seeks to transfer a risk which the private sector cannot manage, then the private sector will seek to charge a premium for accepting such a risk, thereby reducing value for money. The Department should therefore have sought to achieve not the maximum but rather the optimum transfer of risk, with individual risks allocated to those best placed to manage them.

The main categories of risk involved are dealt with in turn in more detail below. For each project, some risks are more relevant than others. In a road project, for example, the key risks will be demand, design, construction and

maintenance, whereas in a prison project the key risks relate to availability, performance and operating cost. In an IT project, the Department should have addressed the risks arising from technology and its possible obsolescence.

### Design and construction risks

- Surveys and investigations fail to identify problems
- Construction lasts longer than expected
- Construction costs higher than expected
- Facilities are not provided to the required specification
- Alternative service provision is required during the delayed completion



## Commissioning and operating risks

- Contractor fails to meet performance standards for service delivery
- Contractor fails to make assets available for use
- Operating costs are more than expected
- Operating costs are less than expected
- Assets underpinning service delivery are not properly maintained

## Demand risk

It is not always desirable to transfer demand risk since the level of usage required of an asset or service under PFI deals is usually not within the private sector's control. The auditor will need to check that, if seeking to transfer some demand risk, the Department carried out at an early stage an appraisal of the likely demand for services before designing the specification for a PFI project. This appraisal should have included an assessment of the factors likely to

influence demand for the services being supplied, and evaluation of the robustness of the Department's assumptions. The Department should also have had informal discussions with prospective bidders at the outset of a procurement to test the bidders' likely reaction to being asked to bear volume risk.

## Residual value risk

This is the risk that is borne by the party taking over the capital asset underlying the project at the end of the contract. If the Department is to take the residual asset back, the risk that the contractor bears is simply that of handing the asset back in good condition (and the Department will need to set in place arrangements to ensure that this occurs). The Department will bear the wider risks involved with the ownership of the asset. On the other hand, if the contractor is to take the residual asset back and thus incur the greater responsibilities of ownership, the Department will wish to ensure that the contract is not unnecessarily prolonged to reduce the risk to the contractor.

## Technology/obsolescence risk

The risk is that the quality of service delivery may be adversely affected if the equipment or other assets used in the service delivery become obsolete. Alternatively, there could be a need to make further financial investment in the project in order to introduce equipment or other assets which are based on new technology. This is an important factor in all long-term procurement projects and is likely to be particularly important in IT projects or those where services are dependent on other specialist equipment (such as medical equipment in hospitals).

Where there is a risk (as with an IT system) that an asset might become technologically obsolete by the end of the contract period, the Department should consider the pros and cons of including a payment arrangement, which the contractor only becomes entitled to if the asset is still usable at the end of the contract period. Departments should weigh the likely benefit that may arise from encouraging the initial contractor to keep the asset technologically up to date against any

impact the existence of a transfer payment may have on subsequent competitions, as it may affect other suppliers' interests in bidding or their pricing strategy for a new contract once the initial contract expires.

### **Regulation risk**

This is the risk that the balance of a deal may be affected by regulatory changes (such as in taxation type or rate), planning regulations, or other legal aspects. A major difficulty is that there are many different types of regulation which may affect a project. The allocation of regulatory risk should be guided by the general principle that the contractor assumes risk for all regulatory changes that apply to all industry, but may not do so for highly specific legislation or regulation applying to a small sub-set of industry.

### **Project financing risk**

Project financing consists of two types; financing that is internal to the project, for example proceeds from the disposal of existing assets; and that which is raised from external funders. The risks differ in each case.

### **(i) Disposal risk**

This risk arises when the Department vacates existing property or assets, which can then be sold to help fund the new contract. Generally, the Department should have sought to secure better value for money (in the form of reduced future payments) by transferring to the contractor surplus assets at a net present value. However they should have considered this carefully since some property may actually represent a liability due to a short remaining lease life with a rent above market levels and an expensive commitment to carry out outstanding repairs and maintenance before vacating the property.

### **(ii) External finance risk**

This risk is concerned with the possible failure to raise funding for the project in the market. The Department should therefore have considered at an early stage whether external finance on acceptable terms was likely to be

feasible at all for their proposed project. They should have ensured that their statement of requirements or proposed contractual terms and conditions did not make it unnecessarily difficult, expensive or impossible for potential contractors to obtain financial backing. As part of this preliminary assessment they should also have formed a view as to whether there was likely to be sufficient equity capital available from contractors and other investors to absorb the level of risk transfer being sought. Projects which are largely or wholly debt financed may involve insufficient risk taking by the private sector.

### **Risk of contractor default**

The Treasury's guidance "Standardisation of PFI contracts" issued in 1999 explains the basis of payment (linked to the market value of the contract) which should be payable by the public sector in the event of contractor defaults for contracts developed since the issue of the guidance.

Departments should monitor what the value of their termination liabilities are and whether any events have occurred, such as refinancing, which may affect the value of these contingent liabilities.

### Refinancing

Departments should also be aware of the possibility that the PFI contractor may seek to refinance the project. This is particularly likely to happen once the service is being delivered satisfactorily and the risks inherent in the project are, therefore, less than at the time the contract was let. In these circumstances banks may be prepared to improve the terms of the financing. Such a refinancing is likely to increase the returns which the private sector's investors in the project will receive which could threaten the perceived value for money of the project.

### Other points to consider are:

- the contracts should be structured to ensure they eliminated all potential upside for the contractor and their lenders if the contract is terminated early through the

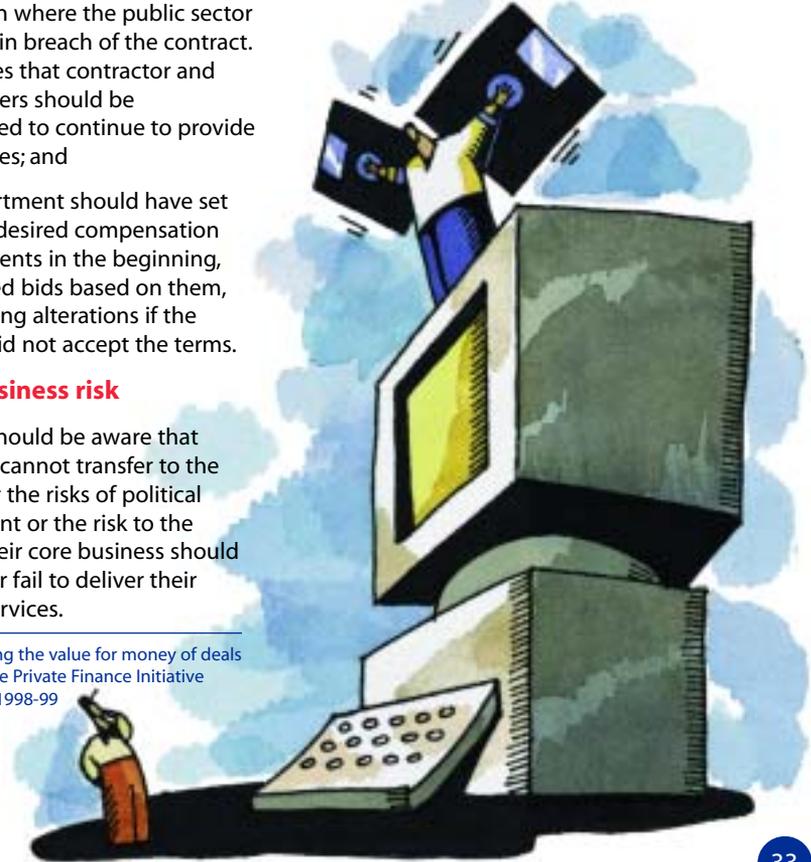
contractor's default or through other action by the contractor other than where the public sector has been in breach of the contract. At all times that contractor and their lenders should be incentivised to continue to provide the services; and

- the Department should have set out their desired compensation arrangements in the beginning, and invited bids based on them, only making alterations if the bidders did not accept the terms.

### Political business risk

The auditor should be aware that departments cannot transfer to the private sector the risks of political embarrassment or the risk to the delivery of their core business should the contractor fail to deliver their contracted services.

Source: *Examining the value for money of deals under the Private Finance Initiative*  
HC 739, 1998-99



## Key questions for auditors to ask

- Is the procurement need justified in terms of a sound business case?
- Where specialist skills are needed has the most appropriate mix of internal expertise and input from external consultants been considered?
- Has the risk to service delivery and objectives of the suppliers providing a service or goods late, over budget or below standard been considered and appropriate contingency plans been developed?
- Has the procurement been subject to competition and, if not, are the reasons for not using competitive tendering justified (such as procurement costs) and the arrangements/mechanisms in place to ensure value for money?
- Are early warning indicators in place to identify potential underperformance from suppliers?
- Do the contractual and other arrangements with suppliers encourage them to be innovative and suggest ways in which value for money can be improved?
- Have the full implications for service delivery been considered where risks are transferred to the private sector, for example in the case of PFI projects?
- Is there common understanding of risks for all parties involved in the procurement chain?
- Is there sufficient information on contractors' performance to assess the risks in using them?
- Are there appropriate controls in place to ensure propriety and regularity in procurement activities? In particular to address the risk of fraud, misappropriation of funds and ensure procurement complies with UK procurement law?
- Are there any special risks of fraud and impropriety because of the type of goods and services being purchased?
- Do the financial awards to private sector contractors appear reasonable in relation to the risks that the contractors will be bearing?
- Have alternative forms of procurement been considered?
- Does the payment mechanism include suitable deductions for poor performance by the supplier?
- Do processes hinder new or small suppliers competing successfully for relevant contracts?
- Have the department established rights to approve any refinancing and to share in refinancing gains?

Further background and guidance on approaching risk can be found in:

- NAO reports Examining the value for money of deals under the Private Finance Initiative (HC 739, 1998-99) and Supporting Innovation: Managing Risk in government departments (HC 864, 1999-2000). Both reports can be found on the NAO's web site [www.nao.gov.uk](http://www.nao.gov.uk)
- CUP Guidance No. 61: Contract Guidance which is available from [www.ogc.gov.uk](http://www.ogc.gov.uk).

## Case example: Highways Agency and Department of the Environment, Transport and the Regions

### The Yorkshire Link M1-A1 Lofthouse to Bramham Link Road



This was a £200 million Design, Build, Finance and Operate contract in which the Highways Agency agreed responsibility for handling the risks involved in the design, construction and operation of the road with a private sector partner, whilst minimising the public sector's contribution.

The risks identified to the project included the risk to public safety and convenience, disruption from construction work, the risk of project delay and compensation payments to the contractor and risks of damage to the Agency's reputation arising from joint working, particularly in those areas involving interfaces with the public and third parties.

To address these risks and others, the Highways Agency and the Design, Build, Finance and Operate company established a project forum on which all stakeholders were represented. The project forum enabled risks to be monitored, reviewed and resolved on a day to day basis by effective partnering during the construction of the project on a without prejudice basis.

The Highways Agency identified the opportunity to promote more innovation than conventional methods of procurement by allowing contractors to use alternative approaches provided that they delivered equivalent levels of service and durability for the work.

The project was delivered safely and opened five months ahead of schedule in February 1999. Improved road design and specification have contributed to early benefits including relieving traffic congestion and improvements in road safety.

#### What does this show?

This example shows how a thorough assessment of risk early in the procurement process allowed the development of a procurement and contract strategy which ensured that those risks were managed by the party best able to do so, with the result that the project was delivered successfully.

## **D** Appropriate contract strategies actively managed



Different types of goods and services require different forms of contract strategies - for example, for high volume, low value but regularly purchased goods a call off contract or framework agreement might deliver better value for money. For higher value more specialised goods or services a specific competition might be required and for a complex project a Private Finance Initiative deal might offer the best value for money. Departments need to determine the contract strategy that is most likely to deliver value for money.

### Contract strategies and when they are most likely to be appropriate

#### Contract strategy

Limited competition with individual price negotiation

Competitive tender  
*(which depending on value may have to be advertised in the Official Journal of the European Communities)*

#### Circumstances when they are most likely to be appropriate

Requirement is for low value and low volume goods and services with a supplier with a proven track record in a niche market. Tender costs are disproportionate to the value of the contract and competition is unlikely to reveal other potential suppliers

Requirement is for a medium to high value and volume with more than one potential supplier available. Competition will identify the best supplier in terms of cost and quality.

## Contract strategy

## Circumstances when they are most likely to be appropriate

Framework Agreements  
*(As call off contracts but there are a number of suppliers to choose from identified through competition)*

A number of specific goods or services are required within a broad category over a specified period but the exact requirement can not be predicted. This is an umbrella term for both framework arrangements and framework contracts. Framework arrangements form part of the process for awarding contracts and the EC Directives would not normally apply until an order is placed, payment is promised and a contract is established. On the other hand, framework contracts are binding on at least one of the parties and fall within the definition of a contract for the purposes of the directives.

Lump Sum Contracts

Most commonly used in purchasing professional services for projects where the requirement in terms of quantity is unknown. Once certain levels of fees are reached it allows for consideration and re-negotiation before proceeding to the next stage.

Private Finance Initiative

Where the cost and quality of the delivery of services can be improved by the use of private sector management and business skills incentivised by having private finance at risk and by transferring risks to those best able to manage them.

Identification of the most appropriate form of contract strategy requires the early involvement of procurement staff and wherever possible, the proposed project manager to ensure that they have time to: work with the end user to draw up tender specifications which are output based, specify required performance and reflect user needs; analyse market conditions, in particular, cost drivers and the latest technological solutions; identify the risks and develop risk management strategies; ensure there is enough time to hold a fair and open competition; and to develop selection criteria which reflect the need to balance cost with quality by considering whole life costs.

The contract strategy also needs to consider how the contract will be managed once it is in operation to ensure that the deal negotiated is delivered satisfactorily. Departments should give careful consideration to issues before the contract is let. This involves ensuring that reliable and comprehensive information is specified and available to monitor the performance of the contractor, and to

take action quickly when delivery, price and quality is at risk. Contract management also requires a clear understanding of shared responsibilities so that when the client department has agreed to provide facilities, support or other inputs essential for the supplier to meet the terms of the contract these are provided at the right time. Failure to provide that which was agreed or changes to the original requirement by the client should not be capable of being used by the contractor to justify poor or non performance on their part. If changes to requirements are essential the cost implications of these should be fully assessed by departments and agencies negotiated and agreed with the supplier and documented.



"For all contracts departments will appoint contract managers who are the focal point for the intelligent customer role for that contract. They will have a clear responsibility for ensuring that the service contracted for is delivered by the supplier and for maintaining communication for all parties with an interest in it".

**The White Paper - Setting New Standards 1995 (Cm 2940)**

## What are framework agreements?

This is an umbrella term for both framework arrangements and framework contracts. Framework arrangements form part of the process for awarding contracts and the EC Directives would not normally apply until an order is placed, payment is promised and a contract is established. On the other hand, framework contracts are binding on at least one of the parties and fall within the definition of a contract for the purposes of the directives.

## What are the benefits of framework agreements?

### Framework agreements

- Provide rapid access to goods and services that are likely be required on a regular basis
- Are easy to use if they are supported by guidance for end users
- Reduce internal processing costs and time by avoiding the need to

go through the full European Union procurement process for individual specific requirements

- Use standard terms and conditions and so help to ensure best practice is followed
- Aggregate demand and can result in more competitive fees for users than if they are negotiated individually. Mini competitions within the frameworks can help ensure fee rates remain competitive

**Legal position** – the current European Union rules covering the purchase of services by public bodies do not specifically mention framework agreements. There is, however, a different set of rules for the utilities which formally recognise the use of framework agreements which are let competitively. These provisions were included at the UK's request to reflect an understanding that existed for public authorities but which was not written on the face of the Directives. The European Commission has put forward proposals to clarify, simplify

and modernise the Directives. These are under discussion in the Council. One of the Commission's proposals is to recognise the use of framework agreements by public bodies and to regulate mini competitions between framework providers. At the same time, the Commission announced that it proposed to refer a case to the European Court of Justice concerning framework arrangements. The Office of Government Commerce is continuing to discuss the case with the Commission and it remains to be seen whether the case will be closed in the light of developments or the revision of the Directives. The Office of Government Commerce will be issuing guidance to all departments on the use of framework arrangements when the outcome of the European Court of Justice case and the legislative process is known. In the meantime the advice to all departments from the Office of Government Commerce is "business as usual" taking care to ensure that the use of framework agreements does not "hinder, burden or distort competition" as is required for utilities.

## Key questions for auditors to ask

- Is the contract approach appropriate to the goods and services being purchased?
- Will the contract strategy deliver what is needed by the end user to the appropriate quality, time and cost standards?
- Is the contract strategy consistent with the department's high level objectives?
- Are the roles and responsibilities of the end user, the procurement team and the supplier(s) during procurement and subsequent contract management clearly set out in the contract strategy and are arrangements in place to monitor their performance?
- Have suitable staff for managing the contract been identified and trained?
- Does the contract strategy include incentives for the supplier to perform well?
- Has appropriate expert advice been sought on the contract strategy, for example that of lawyers?
- Are there appropriate mechanisms for monitoring performance of the contract/supplier with clear review dates?
- Does the procurement team have a sound knowledge and experience of the market for the particular goods or service, which they have drawn from to develop appropriate contract strategies?
- Do procurement staff have up to date knowledge of movements in prices in key goods and services, for example computer equipment?
- Do contract strategies make provisions for succession planning at the end of a contract?
- Does the contract strategy ensure competition?
- If single tender has been adopted, are the reasons justified?
- Where strategies such as call off contracts and framework agreements are used, have opportunities to negotiate better value for money (such as discounts for volume purchases or better quality of service) been taken?
- Where price reductions have been negotiated, has the procurement unit ensured that these apply to the whole department and not just to that contract?
- Have suitable change procedures been built into the contract?



## Case Examples: English Partnerships

English Partnerships require a broad range of ad hoc professional advice including legal, engineering; property; economics and business appraisal. To meet these needs it has set up a series of term consultancy panels in each professional area which run for two to three years. Each panel consists of a small number of suppliers selected through competition, who collectively provide the full range of services required across all the department's regions. Managers can draw upon the most appropriate panel member (by specialism or location) as required. The rates charged for services are agreed at the start of the contract. Lead contacts for each panel within the department monitor the quality of service received and the amount of work placed with suppliers. Managers are required to inform the lead contact of any work they propose to give to panel members.

## Benefits

English Partnerships has found that the panels:

- facilitate access of managers to required services;
- reduce processing costs; and
- allow better control of costs as suppliers are required to provide information on a monthly basis.

## What does this show?

This example shows how a department worked from an analysis of its requirements to develop a contract strategy which met its need to be able to access a range of specialist skills quickly, whilst retaining control of costs and meeting the requirement of UK procurement regulations.

## **E** Careful management of major procurement projects



All procurement projects require proper project management but for major projects, which may be defined as such either because of their value or their importance to the delivery of the department's objectives and services to the public, there is an even greater need to ensure that proper project management procedures and principles are in place and adhered to so that projects are delivered to time, cost, quality standards and with minimum disruption of services.

The development and implementation of IT related services, the building, refurbishment and maintenance of facilities, and the procurement of services through the Private Finance Initiative are examples of major procurement projects in government. There have been a number of recent reports which describe the risks and complexities of such projects:

- Examining the value for money of deals under the Private Finance Initiative - National Audit Office (HC739) August 1999;
- The Committee of Public Accounts Report – Improving the delivery of Government IT Projects (HC65 1999-00) January 2000;
- Successful IT: Modernising Government in Action (Cabinet Office) May 2000; and
- Modernising Construction - National Audit Office (HC 87) January 2001.

These point to the need for the application of a number of good practice principles including: thorough project plans which set realistic objectives and timescales; risk management; clear roles and responsibilities agreed between the client, the procurement unit; a senior manager within the department taking responsibility for the project; clear understanding and specification

of the requirement; clear communication of that requirement to potential bidders; regular reviews of progress; and the need for staff working on such projects to be skilled and experienced.

Departments now have a number of new tools and protocols available to them to help with the management of such projects, including:

- the Gateway Process which provides a project profile model to assess the difficulty of the project, identify the level of project control necessary and can provide a mechanism for independent reviews by experienced senior managers; and
- guidance issued following the Successful IT projects report (see Bibliography page 68).

## Key questions for auditors to ask

- Is the scale and complexity of the procurement project achievable?
- Does the department have a clear and well-documented plan for the whole procurement, which splits it down into manageable blocks of work?
- Has a reasonable timetable for the procurement exercise been set which allows sufficient time for potential suppliers to make good quality bids but also means goods and services are delivered when required?
- Has the procurement team been involved from an early enough stage?
- Is the Project Profile Model or other similar tool used to make an early assessment of the difficulty of the project and the risks involved?
- Are appropriate forms of peer review and project controls used throughout the project?
- Has a formal project management approach been used?
- Is there a senior manager responsible for overseeing the project and acting as the client (may be known as Project Sponsor for construction projects, or senior responsible owner in IT projects)?
- Is the contract between the department and its suppliers clear? For example are issues such as the length of the contract, risk allocation, payment mechanisms and incentives, performance monitoring and change procedures clearly set out?
- Does the procurement team have the necessary skills and experience to carry out this procurement?
- Has the team identified early on what external advice it required and appointed appropriate advisors through competition?

- Are there clear procedures in place for reporting and decision making and are these adhered to during the life of the project?
- Has there been a proper investigation of the market? Did it identify whether there were suppliers willing and able to bid for the work? Did it seek early soundings from the market as to the different types of potential solutions available?
- Has the team chosen an appropriate procurement strategy which allowed maximum competition, whilst containing costs both for the department and supplier?
- Was the specification clearly explained to the supplier at the time of bidding and is there evidence that this understanding has been passed on to the team supplying goods and services, or carrying out the work?
- Are suppliers required to produce a realistic delivery plan before contracts are signed and are these re-examined during the delivery of the goods or services?
- Has the Department reviewed the success of the procurement, including the realisation of benefits against plans so that the lessons learnt can be fed back into other projects?
- Does the contract clearly specify the respective roles of the procurement team, the contract manager and the supplier and are mechanisms for measuring the performance of the contract/service in place, so that its success can be evaluated and performance managed?

## Case Example: Department for Education and Skills

The Department for Education and Skills delivers many of its policy objectives through third parties, this means that part of the process for developing and implementing policy often involves a procurement exercise. Whilst the Department is confident that more traditional areas of procurement activity such as buying office supplies are carried out by qualified and experienced procurement staff and follow best practice, it was less confident that this was the case for contracting out the delivery of policy. In 2000 it reviewed seven recent and high profile policy initiatives including Individual Learning Accounts, the Teachers Pension Scheme and Teachers Performance Management and Threshold Assessment, which relied upon high profile, high value and high risk procurement. The review concluded that: there is a need to address the more complex and technical procurement matters such

as commercial, market and contract management issues earlier and more fully in the policy process; the department had a tendency to pursue overly ambitious procurement timescales which have an impact on procurement projects.

### **As a result of the review the department is:**

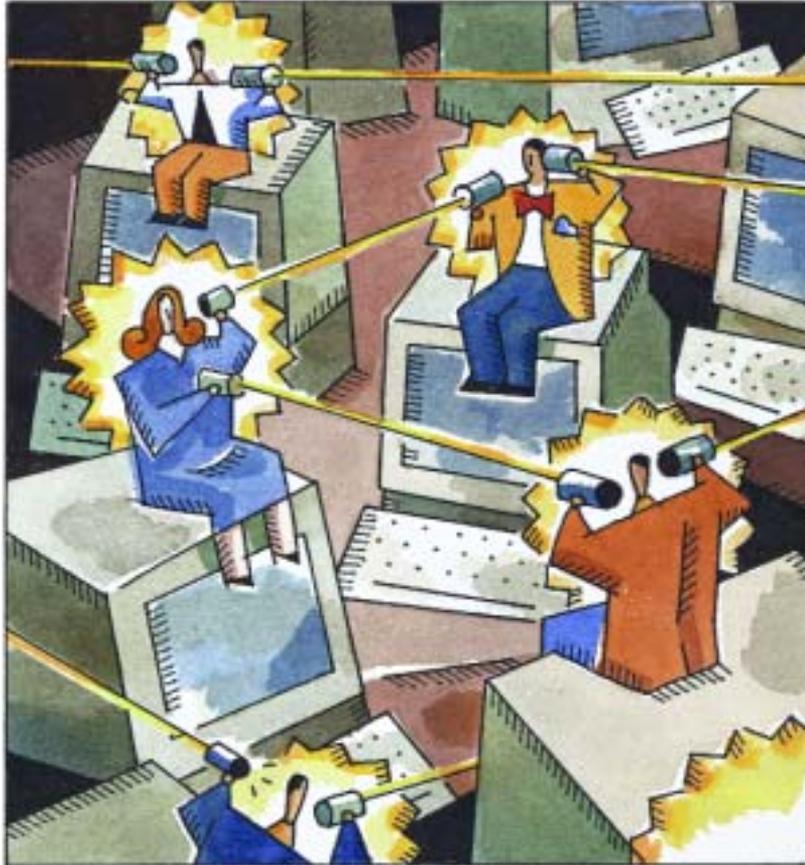
- raising awareness of the role of procurement in delivering policies successfully through third parties, for example by highlighting in letters of delegation to senior managers the requirement to ensure procurement expertise is applied appropriately to key areas of expenditure;
- encouraging policy teams to consider procurement issues at the start of the policy process, for example by requiring them to ensure that all procurement and contract management related risks are covered in the project's risk register;

- developing closer links with key organisations and suppliers responsible for delivering policy outcomes and managing them more effectively, for example by using procurement management information available from the department's financial systems to identify strategic suppliers; and
- raising the procurement skills of those responsible for implementing and delivering policies.

### **What does this show?**

This example shows how one department has identified that there are many major procurement projects undertaken which lie outside the traditional spheres of influence and how it is planning to raise awareness of procurement issues and the need for early involvement of procurement staff to ensure the successful delivery of policy objectives.





## **F** Partnering and Long term collaboration of suppliers

Partnering or collaborative working cover a range of practices designed to promote more co-operation between contracting parties with the objective of aligning and uniting the parties behind a shared goal of delivering the goods or services in a cost effective and timely manner which is mutually beneficial. Until recently, in comparison with the private sector central government made little use of such methods. It is now becoming more of a feature of Government procurement by departments who have continuous requirements for core goods or services or for specific major procurements such as IT and construction projects where successful delivery impacts on the success of the department or its objectives.

## Partnering and Collaborative working: Advantages, Risks and Safeguards

### Advantages

- Reduced procurement costs with less frequent formal competitions
- Suitable for developmental projects where it is difficult to specify the goods and services required, but choosing the right partner is crucial
- Gives the supplier increased continuity of work which allows them to offer better value for money through reduced costs or better quality of service

### Risks

- Placing larger contracts out to tender may squeeze smaller companies out of the market and raise costs in the long term
- Procurement competitions are big, complex and expensive
- The department may tie itself into a contract for too long and deprive itself of the opportunity to take advantage of new developments in the market
- Relationships with the supplier become too cosy and the department becomes dependent on the supplier

### Safeguards

- An up to date knowledge of the department's requirements and the market in which suppliers operate which is used to develop appropriate procurement and contract strategies
- Balancing the cost of procurement against the value of the contract for both the department and suppliers to choose an appropriate procurement strategy
- Risk analysis of the contract strategy and management of those risks
- Subjecting the contract to open competition at appropriate intervals.
- Specifying in the contract the need for open book accounting and clear performance targets against which the supplier's performance is reviewed

## Key questions for auditors to ask

- Are partnering/collaborative working relationships established on the basis of open competition?
- Is the criteria for selection of partners clear? Did the selection process consider criteria such as through life cost, ability to deliver, ability to manage the supply chain?
- Have appropriate measures been taken to assure propriety, for example is the requirement regularly put out to competition; is performance regularly monitored against clear performance targets, does the contract specify open book accounting?
- In negotiating the terms of the relationship have issues such the intellectual property rights of any product used or developed in carrying out the contract been considered and agreed with suppliers taking into account the department's current and future needs for the product and its commercial value?
- What incentives are in place to encourage the contractor to deliver the services required?
- Is there a partnering agreement or protocol which defines: the common goals for success; a common resolution ladder for reaching decisions and solving problems; the targets to be met to demonstrate continuous measurable improvements in performance; and any mechanisms for sharing "gains and pains" in the contract?
- Where collaborative working results in mixed client and supplier teams, are there mechanisms in place to ensure that where appropriate skills are transferred to the Department's staff?
- Do staff have the necessary experience and training to enter a partnership relationship?

## Case Example 1: Dudley Southern By Pass

Dudley Metropolitan Borough Council wanted a to build a by pass to relieve congestion in Dudley Town centre. The project had already had a long and difficult history even prior to the awarding of the contract to construct the road and it was recognised both by the Council and the main contractor (who had been appointed by open competition) that the construction phase would be difficult. It was agreed to overlay the contract with a partnering agreement to unite the two parties behind the goal of completing the project in a cost effective and mutually satisfying manner. They established a joint project team with a common identity (through mechanisms such as a project logo and co location in open plan offices on site).

The joint project team carried out value engineering and risk management exercises to identify and plan how to manage the risks to the project and to develop a realistic target price. As a result of this:

- a target cost of £16.7 million was agreed with a split of 50/50 of any “pain” or “gain” over or under that target price between the two parties;
- a detailed project plan was drawn up for the work;
- all risks associated with the construction process were allocated to the partnership where they were best able to be managed;
- opportunities to make savings and to improve working methods were identified.

Because the novel nature of the partnering agreement, an internal auditor worked as part of the project team to develop financial controls which would give Dudley assurance of propriety and value for money, whilst ensuring the contractor and its suppliers were paid promptly. The key

features of the financial arrangements were open book accounting, including checks carried out by internal audit at the contractor’s headquarters of overhead allocation and central payments and discounts.

The project was completed five months ahead of schedule and within the target cost.

### **What does this show?**

This example shows how one organisation used partnering on a single complex project so that both client and supplier worked together to ensure the success of the project. It also shows how internal audit contributed to the project to give the client assurance of propriety and value for money.

### **Case Example 2: Defence Estates**

Defence Estates is fundamentally changing the way it procures construction for both capital and maintenance following a review of the performance of its construction projects and suppliers which concluded that it was paying too much for

inefficient work which often delivered functionally inefficient buildings and facilities. The agency is adopting a policy of using Prime Contracting (a form of partnering) as the preferred procurement route where Private Finance Initiatives are inappropriate. Prime Contracting involves the integration of design, construction and maintenance under the control of a fully accountable Prime Contractor who is responsible for: selecting sub contractors; managing procurement from the rest of the supply chain; designing the facility; planning, programming and cost control; and total delivery of the facilities. The aim is to incentivise the Prime Contractor to produce good quality and cost effective facilities by making them responsible for the subsequent maintenance.

### **What does this show?**

This example show how one agency is developing a form of partnering to meet its need to enhance the whole life performance of its estate whilst giving suppliers more continuity of work by making contractors responsible for the design, build and maintenance of facilities.



## Reliable Procurement Financial and Management Information



The Review of Civil Procurement in Central Government highlighted that very few departments have reliable data on procurement expenditure and supplier performance. Information on what the departments buys, the prices paid and sources of supply allow purchasers to adopt a strategic approach and to target their expertise on the goods and services where value for money is most at risk in terms of potential missed opportunities to secure better prices and improve quality.

### Departments need reliable management information on:

- Total expenditure to monitor trends in the goods and services purchased for example to identify if increased expenditure in particular areas is justified.
- Who purchases goods and services within departments to ensure that they have appropriate skills and access to guidance and information, and their expertise can be used.
- Prices and fee rates paid to compare or benchmark these with those paid for similar goods or services or with the current market average to determine if there is scope to get a better deal.
- Key suppliers and the amount of business which they are receiving from a department; if this is significant there may be an opportunity to negotiate post tender discounts.

- Procurement methods used to assess the potential for negotiating more appropriate contracts with key suppliers which meet their actual needs, reduce internal administrative costs and secure better prices.
- Good Practice so that it can be more widely applied.

This information is needed not only to make it easier to identify opportunities to increase value for money and to manage expenditure, but also so that managers can monitor procurement activity to identify any fraud or malpractice. Having access to robust financial and management information will help managers to spot any irregularities such as unexplained increases in volume or prices of purchases, or the ordering of unusual items. Keeping records on the financial interests of procurement staff and suppliers will also help to identify potential risks of collusion.

## Key questions for auditors to ask

- Is the department's Financial and Management Information System able to provide sufficiently focussed data on procurement spend with key suppliers, by contract, product or service, in a reasonable timescale to enable the department or agency to meet its policy commitments, and to facilitate best practice procurement?
- Does the department have a system for capturing performance data on contracts which incorporates qualitative indicators, including changes from specification or agreed level of service, and which facilitates year on year trend analysis?
- For major, multiyear projects, does the available information include: spend with each supplier/contractor, information on specific projects, spend against plan, milestone information, work in progress, variations of cost and time, claims?
- Are there mechanisms for capturing and sharing best practice in procurement processes and performance throughout procurement /project networks within and beyond the department or agency, subject to legal requirements?
- Is there a register of financial interests?
- Are there systems for recording and monitoring fraud?
- Is management information reviewed against budget to identify anomalies in recorded expenditure?
- Are the procurement processes followed and the reasons for purchasing decisions clearly documented?
- Has the department established appropriate rights of access to the financial records of its private sector contractors?

## Case Example 1: Research Councils

The seven Research Councils are independent bodies who have developed a joint purchasing strategy and action plan. To help implement this the Joint Procurement Unit has developed a programme to merge the purchase ledgers from the different finance systems which operate in the Councils and their institutes. They have also commodity coded 1000 of their top suppliers, so know their spend by commodity area and the extent of commonality of suppliers, products and services. This has enabled them to develop a well targeted joint programme of purchasing arrangements and to identify scope for further collaboration with other organisations.

## What does this show?

This is an example of how separate organisations can create a joint purchasing information system from disparate systems and sets of data so they can work together to identify opportunities to increase value for money.

## Case Example 2: Defence Estates

Defence Estates are developing a framework for measuring performance in construction projects at three levels: core measures which compare Defence projects' performance with that of the construction industry as a whole



covering time to complete projects, average cost, (number of defects) accident frequency, and customer satisfaction; secondary measures which compare different Defence Estates' projects covering the number of changes to project requirements, final cost against initial estimate, and end user satisfaction; and tertiary measures which are project specific and cover the achievement of targets to improve the performance of the project for example building cost reductions, and lower maintenance and operational costs.

## What does this show?

This example shows how one organisation is developing a comprehensive set of performance measures which will provide it with information so that it can manage construction procurement projects during their life to ensure they meet targets and identify areas of good practice and areas which require improvement.



## Measurement and Evaluation of Procurement Performance



Using financial and management information to measure and evaluate the performance of suppliers and the procurement process enables:

- future purchasing decisions to take account of past supplier performance and the performance of different procurement methods;
- management of contracts by discussing information on supplier performance with suppliers to improve performance during the life of a contract;
- management of overall expenditure on procurement by allowing questions to be asked about priorities, the need for expenditure and opportunities for collaboration across the department and with other departments;
- identification of good procurement practice which can be applied elsewhere and shared with others in the department and within government; and

- Identification of areas where improvement is necessary.

For performance evaluation to become an effective management tool departments need to:

- Determine at the beginning of a procurement the information which is needed to assess the supplier's performance and how this is to be collected;
- Undertake regular evaluations once a contract is in place;
- Consider linking suppliers' remuneration to achieved performance (while also ensuring that reliable and unbiased data is available to measure performance); and
- Disseminate and implement lessons from evaluations.

## Key questions for auditors to ask

- Are there regular reviews and analysis of the department's total procurement expenditure to identify trends on how much is spent, on what and with which suppliers to help inform the development of procurement and contract strategies?
- Are Post Implementation Reviews carried out after procurement exercises to assess whether planned targets have been achieved and to identify lessons learnt? ?
- Does the contract contain regular reviews, targets and quality standards with which to assess and manage supplier performance? Is this information discussed with the supplier and used to improve performance?
- Is information on the past performance of suppliers taken into account in making procurement decisions?
- Is information on good practice shared within the departments and more widely in government?
- Does the procurement unit evaluate and benchmark its performance against other purchasers in areas such as practices and procedures, prices paid and transaction costs?
- Is information on the department's purchasing requirements and the procurement unit's performance used to develop the expertise of procurement staff, by identifying priorities for making guidance and training available?

## Case Example: Driving Standards Agency

The Driving Standards Agency wanted to ensure a high level of performance when it contracted out the administration of the Driving Theory Test as delays and poor quality would impact on other processes and on the Agency's reputation. The Agency's contract strategy had a number of features:

- the contract was defined in terms of what outputs the contractor had to deliver;
- the tenders received were evaluated against a range of criteria including cost, quality, experience and financial status;
- the terms and conditions specified twenty output measures in four main areas: availability; responsiveness; reliability and service to the Agency (in terms of paying test fees and providing accurate information);

- the Agency monitored performance through a contract manager who examined monthly information on results against each output measure provided by the contractor and dealt with issues as they arose. There were also spot checks to verify information in the contractor's performance reports and external validation by commercial auditors.

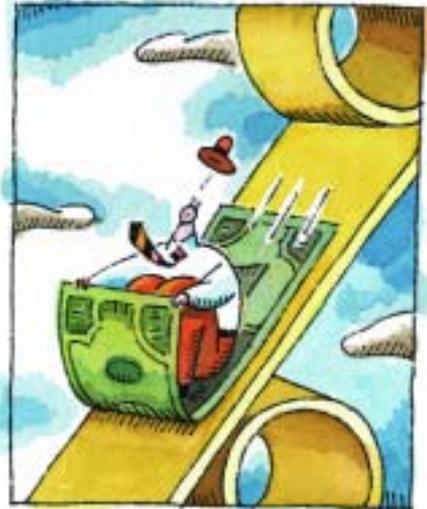
- the contract provided for compensation to be paid to the Agency if the contractor failed to meet performance targets.

There were some initial problems with the quality of service received, but overall the contract worked well.

Since then, the contract has been put out to competition again to a new supplier to provide a computer based delivery of service. The Agency continue to monitor the quality of service using the same techniques.

## What does this show?

This example shows how the Agency used performance targets and information on performance against those targets to evaluate and manage the performance of a contract so that it delivered the service to the standard required.



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# Appendix 1

## Office of Government Commerce

The Office of Government Commerce took responsibility for the range of civil purchasing and services offered by the Treasury Procurement Group, the Buying Agency (TBA), Property Advisors to the Civil Estate (PACE), the Central Computer Telecommunications Agency (CCTA), and the policy activities of the Treasury's Private Finance Unit staff.

Since 1 April 2000, the OGC has developed 10 key strategies to achieve £1 billion value for money improvements in the annual £13 billion procurement expenditure by the end of 2002-2003: These are to:

- develop OGC as a centre of excellence;
- help civil government departments secure value for money through the use of best practice techniques;
- achieve value for money by catalysing the sharing and exchange of knowledge about departmental commercial activity;
- drive forward improvements in the management of large, complex and/or novel projects involving the acquisition of third party goods, works and/or services;
- catalyse and facilitate commercial relationships with suppliers and partners that generate value for money;
- ensure that staff in departments have the professionalism and skills to meet the needs of all aspects of government commerce in the 21st century;
- implement and continue to develop a process for the strategic management of key suppliers so that value for money is gained from these relationships;
- achieve effective competition through simplified access to the government market place for suppliers;
- realise a step change in efficiency by catalysing the use of e-procurement for inter-actions with the supply base; and
- support the wider public sector in the achievement of value for money.

## Appendix 2

# Key Reviews of Procurement since 1993

**1993**

### **Organisation of Procurement in Government Departments and Agencies**

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This *Treasury Paper* highlighted the fragmentation of the procurement function due to the devolvement of responsibility and operations from departments to agencies. It encouraged each department to develop a clear procurement strategy.

**1991-1995**

### **Enactment of EC Directives**

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Several *EC directives* were incorporated into UK legislation. The fundamental principles of the Directives are that there should be an equal opportunity

to bid for work without discrimination on grounds of nationality, that the award criteria should be stated clearly at the outset, and that there should be transparency in the award decision.

**1995**

### **Setting New Standards White Paper**

---

The paper recognised recent developments, such as outsourcing and the Private Finance Initiative and that procurement staff now have to work to a new strategy. The paper defined procurement and emphasised new standards, in particular: fair competition; whole life costing; a step change in professionalism; benchmarking; and a new statement of best practice.

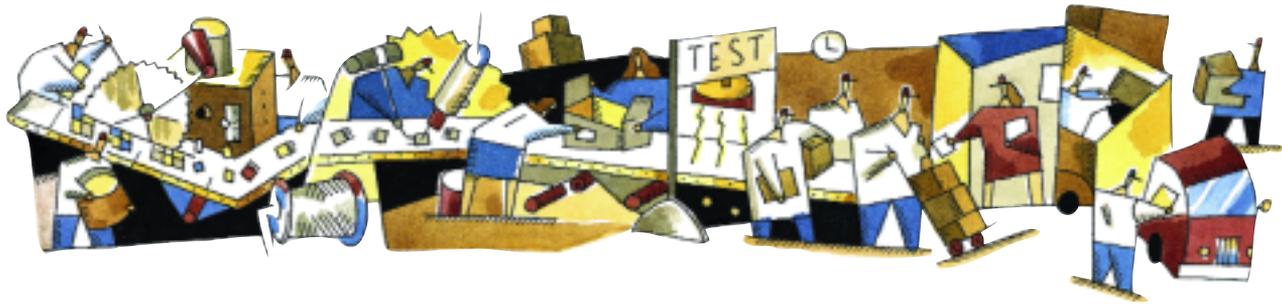
**1998**

### **The PX study**

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The *PX Committee*, as part of the Comprehensive Spending Review commissioned a study of how procurement practices might be modernised to generate efficiency savings. The report identified 42 action points. In particular, that:

- electronic procurement will be everyday practice in three years
- joint procurement strategies will be pursued by departments
- procurement performance will be benchmarked



- by 2000, most procurement staff in key posts will have a professional qualification.
- Treasury will monitor progress and report back to the Prime Minister every six months.

**1998**  
**Modern Public Services for Britain:  
 Investing in Reform**

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This summarises the Comprehensive Spending Review emphasises that efficiency savings are an essential component and summarises the findings of the PX report.

**1998**  
**Public Services for the Future:  
 Modernisation, Reform,  
 Accountability**

---

This publishes measurable targets for all government services in Public Service Agreements. These agreements specify departmental strategies for achieving efficiency savings from procurement.

**1998**  
**Tackling the Improvement of Public  
 Sector Procurement**

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The Prime Minister commissioned Peter Gershon, to identify efficiency, modernisation and competitiveness gains in central government

procurement. Peter Gershon reported in April 1999.

**1999**  
**The Office of Government Commerce**

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In July 1999 this new body was established to promote further improvements in government procurement.

The Office of Government Commerce took responsibility for the range of civil purchasing and services offered by the Treasury Procurement Group, the Buying Agency (TBA), Property Advisors to the Civil Estate (PACE), the Central Computer Telecommunications Agency (CCTA), and the policy activities of the Treasury's Private Finance Unit staff. Since 1 April 2000, the OGC has

developed 10 key strategies to achieve £1 billion value for money improvements in the annual £13 billion procurement expenditure by the end of 2002-2003:

- develop OGC as a centre of excellence;
- help civil government departments secure value for money through **the use of best practice techniques**;
- achieve value for money by catalysing the **sharing and exchange of knowledge** about departments commercial activity;
- drive forward **improvements in the management of large, complex and/or novel projects** involving the acquisition of third party goods, works and/or services;
- catalyse and **facilitate commercial relationships with suppliers** and partners that generate value for money;
- ensure that staff in departments have the **professionalism and skills** to meet the needs of all

aspects of government commerce in the 21st century;

- implement and continue to develop a process for the **strategic management of key suppliers** so that value for money is gained from these relationships;
- achieve effective competition through **simplified access to the government market place for suppliers**;
- realise a step change in efficiency by catalysing the **use of e-procurement** for inter-actions with the supply base; and
- **support the wider public sector** in the achievement of value for money.

### 1999 Modernising Procurement

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The National Audit Office report set out examples of good procurement practice drawn from departments and agencies, the private sector and overseas with recommendations to help to achieve the £1 billion savings target. These covered the

development of a centre of expertise for the procurement of high value items, electronic commerce, the use of the Government Procurement Card, better management information, active management of contracts and closer working with suppliers to achieve continuous cost and quality improvements.

### 2001 Modernising Construction

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This NAO report made a series of recommendations for change in how government departments and agencies procure and manage new construction projects worth some £7.5 billion a year. These covered the selection of contractors on the basis of value for money grounds not lowest price, closer working between clients all those involved in the design and construction and integration of the supply chain to drive out waste and reduce the overall costs of construction throughout its whole life.

**2001**

## **Purchasing Professional Services**

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The NAO report looked at how departments can get better value for money from the £600 million they spend a year on consultancy services in the areas of human resources, financial, legal and general management consultancy. These included undertaking more robust analysis of the need for professional services, use of the most effective form of procurement, better use of management information, development of a more effective working relationship with key suppliers and a sharper approach to negotiations to get a good deal.



# Appendix 3

## Initiatives and tools to improve value for money procurement

### The Gateway Process

OGC's Supervisory Board, chaired by the Chief Secretary to the Treasury, agreed that from January 2001 the Gateway Process is mandatory for all new high-risk projects. From mid-2001 all medium risk projects and from early 2002 the process will be applied to all low risk projects that involve procurement in civil government departments, executive agencies and NDPBs. The process also applies to information technology procurement projects of all sizes.

### What is a Gateway Review?

In simple terms, it is a review of a project carried out at a key decision point by a team of experienced people independent of the project team on behalf of the project sponsor. The purpose is to ensure that the project is justified and that the proposed procurement approach is likely to achieve value for money. The Gateway Process should consider the project at critical points known as gates, in its development. There are five gates during the life cycle of a project, shown in the process diagram below, three before contract award and the other two looking at service implementation and confirmation of the operational benefits. The review and accompanying report are for the project sponsor's advice and guidance.

### Review teams

For large complex projects, the review team leader is appointed on the advice of OGC together with a review team independent of the department. For medium-risk projects, an independent team leader is appointed to lead a review team drawn from independent departmental staff. For low-risk projects, departments appoint the independent leader and team members from within the department. The Senior Responsible Owner (SRO) uses a Project Profile Model to determine the level of risk associated with a project.

The teams vary in size but typically are between three and five people. Each review takes about three to four days.

## Gates



### Gateway Review 1

To confirm Business Justification



### Gateway Review 2

To confirm Procurement method  
and Sources of Supply



### Gateway Review 3

To confirm Investment Decision



### Gateway Review 4

To confirm Readiness for Service



### Gateway Review 5

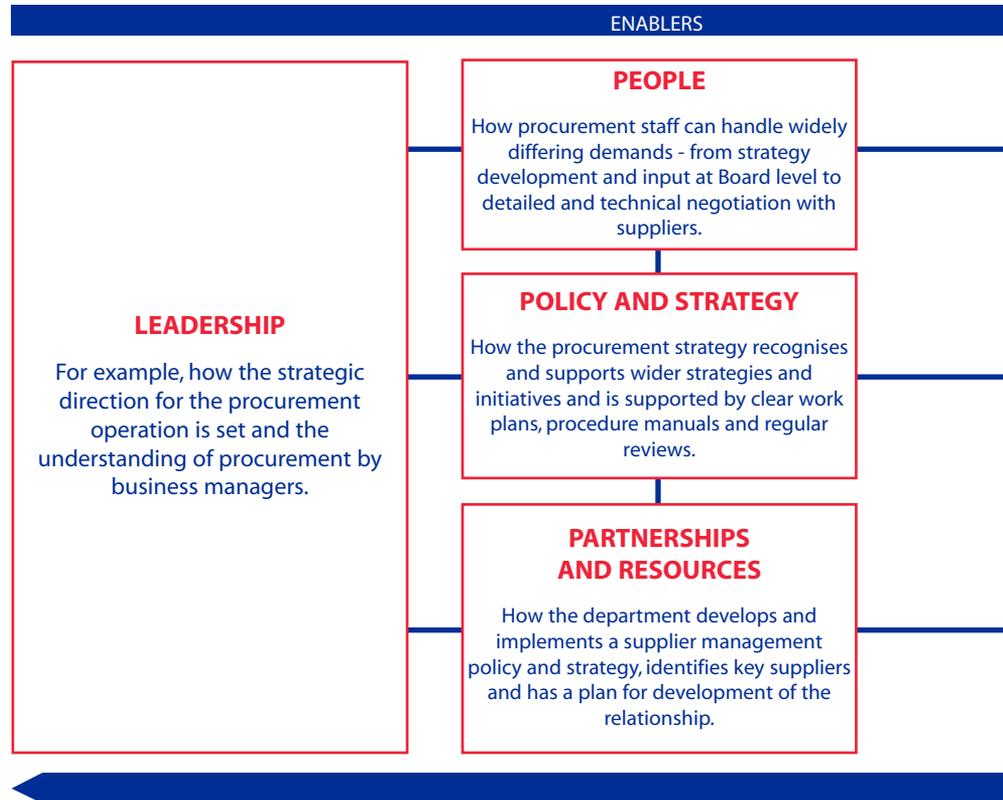
To confirm In Service Benefits



## EFQM Excellence model in procurement

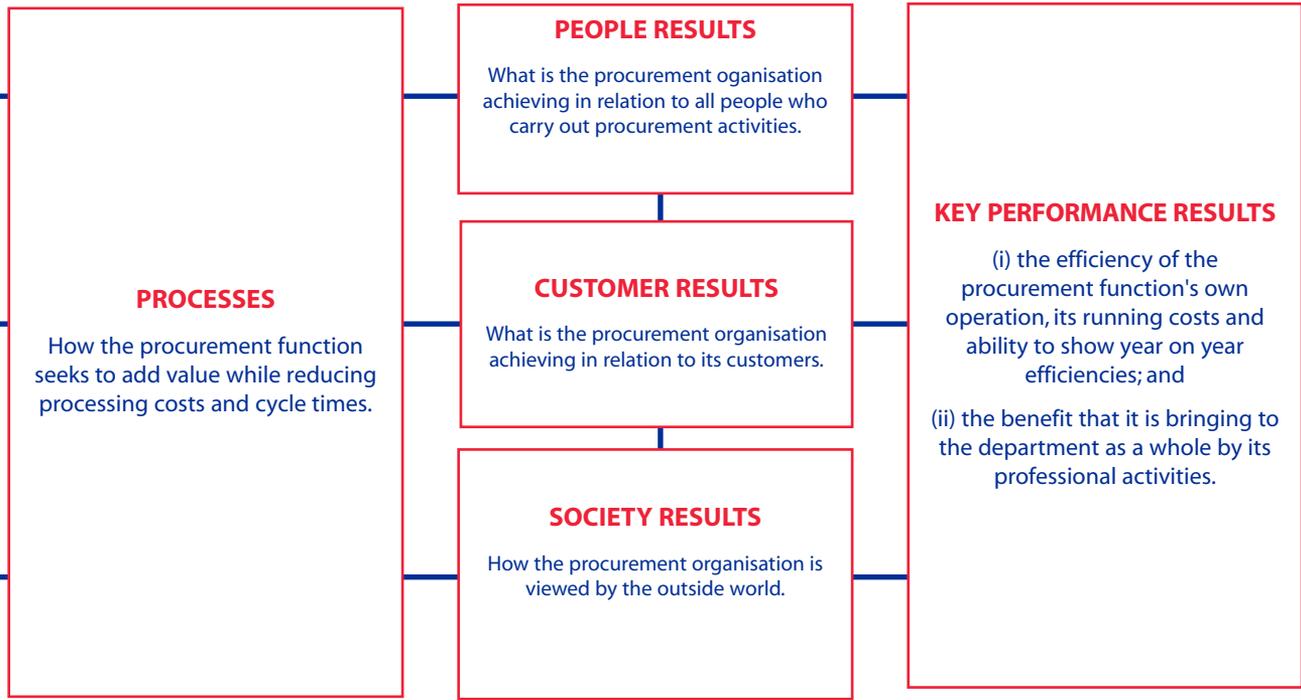
The EFQM Excellence Model<sup>®</sup> is increasingly used by the public and the private sector as a means of assessing the extent to which an organisations' approach to all activities and results including procurement are soundly-based, likely to promote continuous improvement and value for money and to identify strengths and areas for improvement. If particular strengths are identified the key question is what makes them so effective and can these aspects be transferred to other areas requiring improvement. A department's comparison of its own procurement operation against others who have achieved "excellence" in areas where a department wants to make improvements is a good way of avoiding reinventing the wheel.

© 1999 EFQM The Model is a Registered Trademark of EFQM. The criteria and criterion parts are copyright 1999 EFQM.





RESULTS

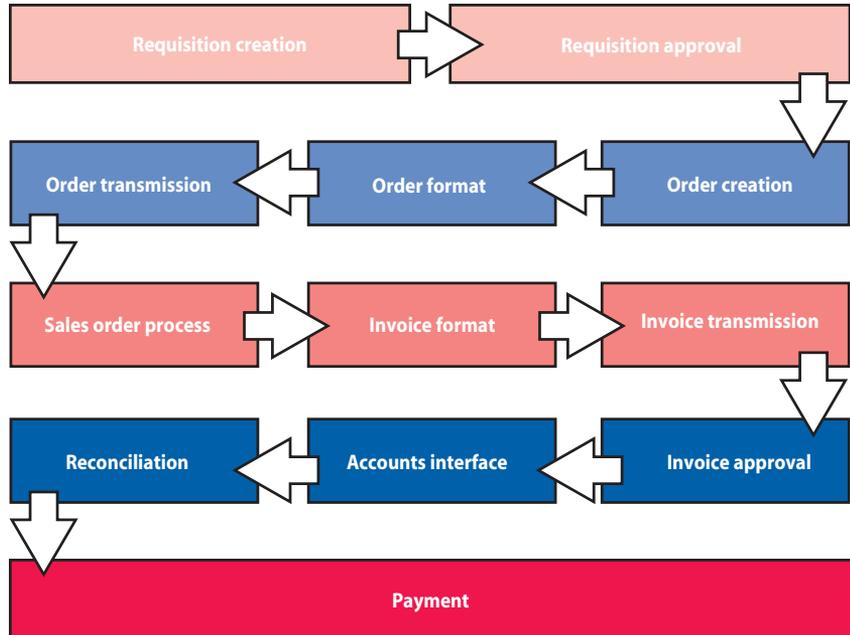


## 90 Per Cent Measurement Tool

Departments have been set a target to conduct 90 per cent of low value purchases electronically. The scoring matrix measures the extent to which the entire purchasing process is electronic from requisition through to payment and helps departments measure their progress against this target. The matrix splits the purchasing process into twelve elements including three which relate to the supplier's ability to trade electronically. These elements are weighted and grouped into five component parts:

- the requisitioning process;
- the ordering process;
- the supplier's processes;
- the buyer's accounting processes; and
- payment.

This allows measurement of each part of the process and illustrates the areas where effort is required.



### **Business Guidance: Value for Money Measurement (issued November 2000)**

This contains methodologies for measuring and quantifying improvements in procurement to assist in monitoring the achievement of the overall value for money improvement target of £1 billion. The methodologies are intended to apply to all procurements of goods, services and works including projects, IT, construction and property and programme spend where there is a definable procurement element. They measure value for money gains from:

- individual departments negotiating an improved deal with a supplier;
- aggregating demand across departments to exert greater leverage on suppliers;
- reducing process or transaction costs; and
- improving project, contract and asset management.

### **Specific Initiatives for procurement of construction and information technology projects**

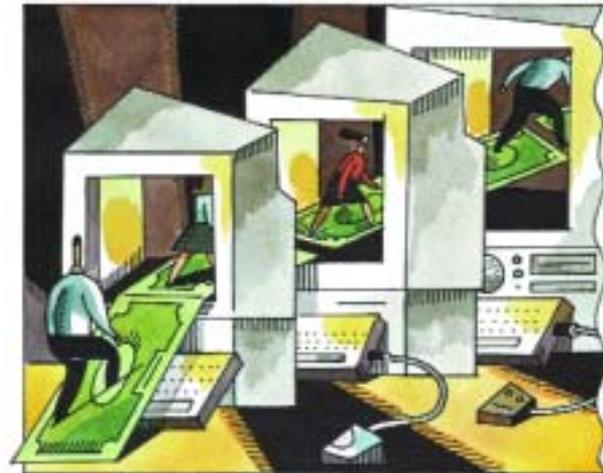
There are specific initiatives to promote improvements in the way that construction and information technology projects are procured and managed.

- **Achieving Excellence** launched in March 1999 aims to improve departments' performance as clients of the construction industry. It includes an Action Plan for implementing best practice by March 2002 in areas such as risk management, output based specification, through life costing, performance indicators, team working and partnering;

### ■ **Successful Projects in an IT Environment (SPRITE)**

was launched December 2000 to support departments, agencies and NDPS to implement the recommendations from the report 'Successful IT: Modernising Government of May 2000.

In addition, extensive guidance exists on good procurement practice (see Bibliography page 68).



# bibliography

## Guidance on procurement good practice

The list on the following pages shows the procurement stages cross referenced against principal sources of guidance on procurement. More detailed reference is provided in the Office of Government Commerce (OGC) Master Index of procurement guidance:

<http://www.ccta.gov.uk/bestpractice>

### Subject

### Title of publication/guidance

Policy and Legal Framework	Introduction to EC procurement rules (CUP no 51 - available free online)
Procurement stage	Procurement Policy Guidelines (OGC - available free online)
Pre-procurement (and general guidance on procurement process)	Senior Responsible Owner: briefing (Office of the e-Envoy - available free online)
	Successful IT: Modernising Government in Action: Project Profile Model (Office of the e-Envoy - available free online)
	Appraisal and Evaluation in Central Government (the Green Book) (HM Treasury - available free online)
	Acquisition (CCTA - published by Format)
	Total Acquisition Process: Services (CCTA - published by TSO)
	Step-by-step guide to the procurement process (Treasury Taskforce - available free online)
	Strategic partnering in government (CUP no 57 - available free online)
	Managing Successful Programmes (CCTA - published by TSO)
	Gateway review summary (OGC Gateway - available free online)
	Interoperability (mandatory technical framework) (Office of the e-Envoy - available free online)
Managing Partnering Relationships (OGC - available free online)	
Why IT Projects Fail (OGC - available free online)	

<b>Subject</b>	<b>Title of publication/guidance</b>
Market sounding	Model appraisal questionnaire (CUP 59a - available free online)
Requirement definition	Treasury Taskforce Technical Note no 2: How to follow EC procurement procedure and advertise in EU Official Journal (available free online)
Shortlisting/negotiations	Supplier appraisal (CUP on 60 - available free online) Standardisation of PFI contracts: IT Supplement (Treasury Taskforce - published by Butterworths) Service Level Agreements (CUP on 44 - available free online) Model Agreements (CCTA - published by TSO)
Contract award	Debriefing (CUP on 56 - available free online)
Contract management	Contract management (CUP on 61 - available free online) Managing Services (CCTA - published by Format) Managing Contracts (CCTA - published by TSO) Value management (CUP no 54 - available free online) Treasury Taskforce Note no 6: How to manage the delivery of long-term PFI contracts (available free online)
Review and ecompetition	Managing Partnerships (CCTA - published by Format)

## Construction Procurement Guidance - Office of Government Commerce

Series of nine guidance documents covering: Essential requirement for Construction Procurement; Value for Money; Appointment of consultants and contractors; Procurement strategies; Financial aspects of projects; Project evaluation and feedback; Benchmarking; Team working, partnering and incentives; and Whole life costs.

Value for Money Measurement - Office of Government Commerce, November 2000

## Other Reports

Efficiency in Civil Government Procurement - PX Report July 1998;

Review of Civil Procurement in Central Government - Peter Gershon, April 1999;

Examining the value for money of deals under the Private Finance Initiative - National Audit Office (HC 739, 1998-99);

Supporting Innovation: Managing Risk in government departments - National Audit Office (HC 864, 1999-2000)

Modernising Construction - National Audit Office (HC 87) January 2001;

The Committee of Public Accounts Report - Improving the delivery of Government IT Projects (HC65 1999-00) January 2000;

Successful IT: Modernising Government in Action (Cabinet Office) May 2000;

Delivering better policy outcomes: Modernising DFEE procurement - Department for Education and Employment 2000;

Modernising Procurement - National Audit Office (HC 808, 1999-2000)

Purchasing Professional Services - National Audit Office (HC 400, 2000-2001)

## Websites



HM Treasury Public Private Partnerships: <http://www.hm-treasury.gov.uk>



Office of the e-Envoy, e-government (formerly CITU): <http://www.e-envoy.gov.uk>



OGC Private Finance Unit: <http://www.ogc.gov.uk>  
includes Treasury Taskforce guidance <http://www.treasury-projects-taskforce.gov.uk>



OGC Gateway: <http://www.ogc.gov.uk>  
Government Construction Client Panel and Achieving Excellence: <http://www.ogc.gov.uk>  
OGC: Directorate and procurement guidance: <http://www.ogc.gov.uk>



NAO Reports: <http://www.nao.gov.uk>

**Further advice on this guide can be obtained  
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