

August 2006/33a

**Policy development**

Consultation

Comments should be sent to HEFCE  
by Friday 27 October 2006

This document seeks views on the development and strategic management of procurement in the higher education sector. It can also be used by institutions as a checklist of good practice. It has been developed by Proc-HE, the sector procurement body, in consultation with representatives from universities and colleges.

# Procurement in higher education – a time of change

**Consultation**

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# Procurement in higher education - a time of change

## Consultation

To	Heads of HEFCE-funded higher education institutions
Of interest to those responsible for	Strategic planning, Finance, Procurement
Reference	2006/33a
Publication date	August 2006
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### Executive summary

#### Purpose

1. This document invites comments on and proposals for the development and strategic management of procurement in the higher education sector. It has been developed by Proc-HE, the sector procurement body, in consultation with representatives from universities and colleges.
2. A summary of the issues for senior managers is available in hard copy and on the web (HEFCE 2006/33), and is included here for completeness (paragraphs 8-38). This web-only document expands on those issues, and can be used as a checklist of good practice for institutions. Good practice points are included throughout the main text, and summarised in Annex A.

#### Key points

3. Better procurement has the potential to deliver significant efficiencies, releasing resources for institutions to use for their core activities of teaching and research.
4. There have been many developments in procurement over the last decade. They include increased professionalism and skills of staff, more use of new technology, more collaboration, and a greater variety of contractual arrangements.
5. There is now an opportunity for the sector to move to a more inclusive model of procurement in which it is recognised as a key business process for institutions, and is based on strategic, collaborative processes and knowledge-sharing for the benefit of all.
6. This document suggests that improvements will only be possible if individual institutions take a positive strategic approach, and the sector collectively takes a more active role in promoting and managing procurement.

### **Action required**

7. We invite institutions and other stakeholders to comment on and make proposals for the development and strategic management of procurement in the higher education sector, using the response form at Annex B. Responses should be e-mailed to [procurement@hefce.ac.uk](mailto:procurement@hefce.ac.uk) by **Friday 27 October 2006**.

## Summary of issues for senior managers

### Context

8. Procurement in higher education, and in the wider public sector, is at a turning point. Central government is expecting ever greater efficiencies from public funds and is relying on developments in procurement to deliver a substantial proportion of them. Recent government-sponsored reviews<sup>1</sup> have focused on making procurement more effective and using the resources which are released to contribute to 'front line' activities.

9. Non-pay recurrent expenditure by higher education institutions (HEIs) in England is over £5,000 million a year. There is a further £2,000 million a year of capital expenditure. HEIs will be looking to secure optimum value for money from this level of investment.

10. There have been significant developments in procurement over the last decade. They include the increased professionalism and skills of procurement staff, greater use of information systems to provide 'e-procurement' solutions, and an increasing variety of contractual arrangements. The maturity of the procurement function in HE means that it is better placed than many to build on these developments and to maintain its position as a leader in the public sector.

11. In this context we are issuing this report in which we invite comments on and proposals for the way forward. It has been developed by Proc-HE, in consultation with representatives from the sector. It has also been informed by the work of consultants PMMS<sup>2</sup>, whose report 'Managing external spend across the HE sector' is available on the Proc-HE web-site ([www.proc-he.ac.uk](http://www.proc-he.ac.uk)).

### The case for change

12. HEFCE and the other higher education funding councils have funded several central initiatives to promote procurement, notably the Joint Procurement Policy and Strategy Group (JPPSG) to 2003, and now Proc-HE. The objectives set for the JPPSG and Proc-HE have not been wholly achieved. However, there are many examples of good practice within the sector, as illustrated by the case studies in this report, and the time is right for higher education to build on these achievements.

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<sup>1</sup> 'Releasing resources to the front line: independent review of public sector efficiency', by Sir Peter Gershon CBE (published by HMSO, July 2004); 'Making the connections: delivering better value in Wales' (published by the Welsh Assembly Government, October 2004); 'Delivering the connections: from vision to action' (published by the Welsh Assembly Government, June 2005); 'Review of public procurement in Scotland – report and recommendations', by John F McClelland (published by the Scottish Executive, March 2006).

<sup>2</sup> PMMS Consulting Group is a consultancy working with organisations to improve the performance, profitability and competitive drive of purchasing processes and supply chains. It has a database of over 200 organisations against which procurement in higher education has been compared.

13. In particular, there needs to be shared support of the following fundamental principles:
- a. Esteem: HEIs recognising that procurement, used effectively across all areas of non-pay expenditure, generates value that contributes to delivering academic aims and objectives.
  - b. Leadership: effective leadership of procurement across the sector so that the £7 billion of purchasing power is used to secure maximum value for higher education as a whole.
  - c. Resources: HEIs providing adequate resources for procurement to secure the potential benefits, and those working in procurement having the capacity and capability to secure those benefits.
14. Procurement needs to be viewed as an essential business process that, if deployed effectively, will contribute to achieving institutions' academic and financial objectives as well as securing value for money. Procurement needs to:
- be embedded in HEIs' strategic and operational planning and budgeting processes
  - be extended beyond the tactical to the strategic
  - influence all institutional non-pay expenditure, whether recurrent or capital.
15. More strategic management and leadership of procurement at a sector level and within institutions would improve efficiency and release additional resources for core activities.
16. Similarly, work in the sector has identified operational changes that could be made to unlock resources. These include:
- a. Streamlining procurement processes, including a greater use of information technology.
  - b. More active management of relationships with suppliers.
  - c. Increasing the use of collaborative procurement for low-value, low-risk items.
17. Further improvements in procurement governance, management, business processes, information and systems are required. This will establish a base from which the higher education sector can manage any procurement challenges it may face in the future.
18. These changes can only be achieved by the active participation of the sector, rather than being imposed by the funding councils or other central government directives. However, we believe that HEIs have much to gain from addressing the issues identified in this report. These are illustrated in the main report with examples from universities and colleges across the sector.

### **Leadership and strategic role of procurement**

19. Leadership is required from governing bodies and senior management teams to ensure that effective procurement contributes to delivery of institutions' strategic plans. This means recognising procurement as a key business process that should be integrated with all other business processes of the HEI.

20. The report contains, at Annex A, a checklist of activities or attributes that would characterise an advanced procurement process at work. They are summarised below:

- the head of the institution recognises the importance of applying advanced procurement processes to achieve value for money
- the head of the institution has persuaded the senior management team and department heads of the benefits of effective procurement
- a capable and relevant staff member has been nominated as the institutional lead for procurement
- there is sound management information and clear reporting on efficiency and effectiveness of performance by reference to key performance indicators, internal and external benchmarking, and application of 'best in class' practices
- professional, highly-skilled commercial people are playing leading roles in the process
- key suppliers are treating the HEI as a genuine 'preferred customer', as a consequence of a clear supplier strategy
- there is appropriate capacity and capability at the pressure points
- collaboration with other HEIs is developed where appropriate, to increase leverage and capacity across the sector
- knowledge is shared across the sector to avoid re-inventing the wheel.

### **Procurement within decision-making**

21. Procurement decisions are fundamental to many projects. Sometimes the head of procurement or other procurement professional is involved as part of a project team. However, there are a significant number of examples where, although the principles of project management have been applied, the procurement input has not been seen as necessary. In some cases the head of procurement then has to unravel some of the decisions taken. This can be for a number of reasons, such as to comply with legislation, to abide by existing contracts made by the HEI which have been ignored, or to link into other procurement activities undertaken by the institution or across the sector.

22. One way to avoid these problems is for institutions to involve the procurement function in project teams and in major procurement decisions from the outset as standard practice.

### **Developing people and skills**

23. The structures of procurement departments, roles and responsibilities vary a great deal between HEIs. Improved communication and co-operation between institutions, their departments and various procurement working groups are needed to achieve better informed purchasing and up-to-date national information on the best deals in the sector. This would mean increased purchasing power and better cost effectiveness. Investment in developing procurement skills is also required to ensure that there are appropriately trained staff in the sector to service this growing requirement.

## **Streamlining procurement systems**

24. Over the last decade, procurement information systems and technology have advanced to the extent that it is possible to have paperless purchase order and invoice processing. In addition, tendering and contracting can be fully automated, with price lists that are constantly updated against which staff can place their orders. Electronic marketplaces can be established which give staff choice over which competing products to order, within the context of managed contracts with preferred suppliers.

25. Recent studies suggest that the cost of processing each invoice through the cycle of purchase to payment is about £50. Reducing these costs by 50 per cent would have a significant impact on funds available for core activities. A report by the Office of Government Commerce states that a figure of £28 should be used to measure the efficiency of using procurement cards over more traditional purchasing mechanisms. So the increased efficiency available through procurement information systems is now widely accepted.

## **Supplier relationships and contract management**

26. The higher education sector has many thousands of suppliers, ranging from multinationals to local sole traders. Good relationships with suppliers are an important aspect of the procurement process, helping to achieve efficiencies as much as concentrating on other aspects such as price, quality, delivery or contract terms and conditions. They enable HEIs to be aware of the market before tendering for goods and services. Therefore there is a need to manage those relationships.

27. However, managing supplier relationships is not often recognised as an important aspect of the procurement function's work in the sector. Therefore, it is largely unresourced, and when resources become available it is not always performed as a planned programme of activity. A more strategic approach would ensure that the benefits are maximised and that as many institutions as possible make a contribution. To achieve this some central focus will be necessary.

28. Equally important is contract management to ensure that contracts are operating effectively and that any problems from either the supplier's side or the institution's side are resolved quickly.

## **Performance measurement**

29. There is a lack of consistency in the management information of value to procurement that is available, generated, and applied across the sector. This limits the analysis that is (and can be) done on expenditure at institutional, regional and national levels: how much is spent on goods and services, by whom, on what, how often, and on what terms. Without this detailed knowledge it is extremely difficult to build up any coherent, substantiated body of evidence that will illustrate the costs and benefits of change or of no change.



30. Proc-HE has developed its Efficiency Measurement Model (EMM). This is beginning to be used by procurement staff to record efficiency performance on new contracts. However, because there is much expenditure in institutions which is not influenced by procurement staff, the EMM will not be widely used without a stronger impetus from senior management, perhaps in the form of future reporting requirements.

31. The value of data and its analysis lies in how well it serves the effective management of outputs and results against recognised objectives. The key is to make the important measurable, not the measurable important. It follows, therefore, that the items selected for measurement and reporting should be relevant to improvements in organisational performance as well as satisfying external requirements, such as meeting government targets.

32. Some of these key performance indicators can be reported using existing management information systems and data. However, some indicators are less commonly available, yet are integral to good strategic management and governance of institutions – as well as contributing to improved procurement. For example, few institutions can report on expenditure against contracts without undertaking a large amount of investigative work.

33. There needs to be a systematic and consistent approach to procurement benchmarking activity across the HE sector. One option would be for sector representative bodies to establish a benchmarking and good practice exchange group to oversee the development of such an approach. The Association of University Procurement Officers (AUPO) would be well-placed to co-ordinate this, consulting with key sector groups on the data elements to be covered and the mechanisms needed to capture them.

### **Working collaboratively**

34. The HE sector has several well-established collaborative procurement arrangements, with considerable recorded successes over many years. Principal among these are the six regional purchasing consortia, which include all but a few of the UK HEIs. The advantages of such consortia include better utilisation of resources and skills to reduce duplication of effort, extended purchasing power and negotiating leverage, regular exchange of expertise and knowledge, and the spread of good practice underpinned by skills development.

35. Other collaborative arrangements in the sector include procurement exercises for the benefit of neighbouring institutions; the many national and inter-regional procurement groups and working parties; the Science Research Investment Fund procurement programmes managed on the sector's behalf by the Research Equipment Affinity Group ; and a few cross-sectoral collaborative initiatives with public sector partner organisations. While this work is driven by the need to increase efficiency and reduce costs, much of it is delivered by volunteers. There is little doubt that the number, diversity and complexity of such arrangements would benefit considerably from some rationalisation and strategic planning.

36. Professional procurement staff are skilled at dealing with contract terms and contract management. Their skills will be of value when dealing with shared service provision and in investigating any shared service opportunities.

## **Conclusion**

37. Procurement as a profession has developed to a point where it can make a more positive contribution to institutional management at a more strategic level. For this to happen, strategic leadership is required.

38. Hitherto the funding councils have funded central initiatives in the sector to promote procurement. However it is becoming clear that in order for procurement to develop further in HE, a different approach is required. This document suggests that improvements will only be possible if individual HEIs take a positive strategic approach, and institutions collectively take a more active role in promoting and managing procurement.

# Procurement in higher education – a time of change

## Background

### Procurement – a definition

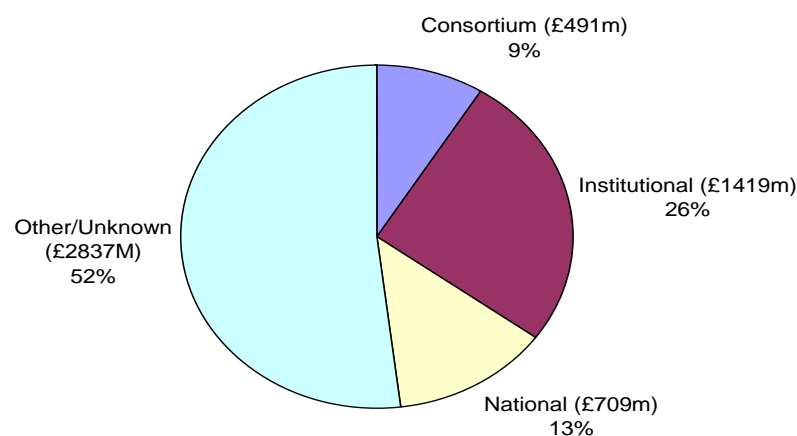
1. The National Audit Office (NAO) has defined procurement<sup>3</sup> as follows:

‘For all aspects of an HEI’s non-pay expenditure, the entire process of acquiring goods and services from third parties. It therefore includes the identification of requirements, specification, assessment of risks, management of tendering processes, ordering, contract award and management and the monitoring of suppliers’ performance. The procurement process takes into account factors such as the cost over the whole life of the good or service, and the quality necessary to meet users’ requirements. It is distinct from the “purchase” of goods and services, which refers to the specific activity of committing expenditure and tends to focus on issues of price rather than of value.’

### Non-pay recurrent expenditure in the higher education sector

2. Non-pay recurrent expenditure by higher education institutions (HEIs) in England is over £5,000 million a year. There is a further £2,000 million of annual capital expenditure. Figure 1 gives a breakdown of estimated expenditure (excluding capital expenditure) across the entire HE sector for financial year 2003-04. Totals are estimated because detailed data, from institutional returns processed through the existing expenditure analysis tools, only covers about half of total expenditure.

**Figure 1 Expenditure by UK HEIs by contract/agreement type 2003-04**



<sup>3</sup> ‘Procurement in the English higher education sector’, report by the Comptroller and Auditor General, HC 437 Session 1998-99, 27 May 1999.

3. The total number of suppliers to the HE sector is also difficult to calculate. Through the extrapolation of data gathered from a sample of universities, a total of around 100,000 suppliers is estimated. These suppliers are generating approximately 7 million invoices relating to 5 million purchase orders. Recent studies of the procurement cycle suggest that the cost of processing each invoice is about £50, giving a cost to the sector of around £350 million a year.

4. As shown in Figure 1, 26 per cent of institution-specific expenditure is influenced by the procurement expertise within those institutions, and 22 per cent is currently managed through consortia and national working groups. The remaining 52 per cent, even to the extent of rates and rental values, could be influenced through professional procurement staff.

5. All major HEIs and many others have at least one and sometimes more dedicated professional procurement staff. There are also professional procurement staff in the higher education regional purchasing consortia. Currently procurement professionals in the sector are active in delivering efficiencies. For example:

a. The regional purchasing consortia deliver some £45 million of savings to their member institutions on a total contract value of £500 million.

b. The Research Equipment Affinity Group (REAG) is currently delivering 15 per cent efficiencies on £60 million of equipment purchased in the third round of the Science Research Investment Fund (SRIF).

c. The Energy Consortium handles utility contracts totalling £250 million on behalf of the sector, delivering £9.5 million of efficiencies on energy prices each year.

6. Individual procurement officers deliver other efficiencies, some of which are considerable, for their own institutions. We are beginning to capture these through the Efficiency Measurement Model (EMM) which has been developed by the sector.

## **External environment**

7. There are external pressures on the sector to demonstrate that it is delivering more effective and efficient procurement, which vary when viewed from the different national perspectives within the UK.

## **England**

8. In July 2004 the Government announced the outcome of its spending review for the three years to 2007-08. A focus was on achieving efficiencies in the public sector so that fewer resources were consumed in administration costs, allowing extra resources for front-line services such as education and health. This will have a direct impact on universities and colleges through creating opportunities to develop new – or revise existing – practices where savings can be generated and reinvested within higher education.

9. Within the total annual savings target announced by the Government of £21,480 million to be achieved by 2007-08, the Department for Education and Skills is required to deliver savings of £4,350 million, of which procurement will have to deliver efficiency gains of £1,400 million. At least half of these savings will be recyclable, enabling reinvestment in front-line activities including higher education.

10. In developing its response to the Efficiency Review<sup>4</sup>, HEFCE has not passed on targets for efficiencies to individual institutions. Activities which HEFCE has identified as contributing to the review are mostly in areas it would have expected the sector to improve by 2008 as a result of current activity. For higher education, all efficiencies will be classed as recyclable so any savings will be retained by HEIs for reinvestment.

11. The target for procurement efficiencies in the sector is £100 million a year by 2007-08. Areas from which HEFCE expects such efficiencies to come include SRIF collaborative procurement, extension of regional purchasing consortia activity, extension and enhancement of national contracting activity, implementation of e-procurement solutions, and procurement in estates departments.

## **Scotland**

12. In March 2006 the McClelland review of public procurement in Scotland<sup>5</sup> was published. It was conducted within the agenda of efficient government and was commissioned by the Minister for Finance and Public Sector Reform. The review made recommendations on current structure and organisation, skills and capability, practices and procedures, performance indicators and targets and opportunities for improvements and new techniques.

13. The 200+ public sector bodies in Scotland combine to generate annual procurement expenditure in excess of £8 billion. As part of its Efficient Government programme the Scottish Executive has set and published financial savings targets for public sector procurement expenditure. The McClelland review postulates expected savings of £200 million by 2007-08, £400 million by 2008-09 and £600 million by 2009-10.

14. The review recommends that these savings targets can be met through more rigorous progress on governance and accountability issues, application of more advanced procurement skills and techniques, better generation and application of management information, and a more structured and integrated contracting strategy. A Procurement Transformation Board will oversee the implementation of the detailed proposals, backed up by Ministerial support.

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<sup>4</sup> 'Releasing resources to the front line: independent review of public sector efficiency', by Sir Peter Gershon, HMSO, July 2004.

<sup>5</sup> 'Review of public procurement in Scotland – report and recommendations', by John F McClelland, Scottish Executive, March 2006.

15. It is too early to predict what impact the McClelland proposals will have on the capacity of Scottish HEIs to participate in the wider UK HE procurement initiatives. The expectation that HEIs in Scotland will deliver collaborative contracting successes with other public sector organisations in Scotland could reduce their involvement in some UK-wide HE collaborative contracts.

## **Wales**

16. The Welsh Assembly has issued a report<sup>6</sup> and action plan<sup>7</sup> on delivering better services. The report sets out how an improved approach to delivery of public services could release £600 million to front line services by 2010. Procurement efficiencies form a significant part of this target.

17. As part of the action plan the Welsh Procurement Initiative has been rebranded as Value Wales and has been given a broader remit to act as:

‘a catalyst to seize opportunities for smarter procurement, streamlining support functions and better management of capital investment. We will support and challenge delivery organisations to re-allocate resources to get better value and maximise efficiency through collaboration.’

18. The Higher Education Purchasing Consortium Wales (HEPCW) has already been engaged to participate in Value Wales initiatives, and there are now a number of ‘all Wales’ public sector contracts which compete directly with the UK-wide agreements established within higher education.

19. While these developments actively promote better procurement, they do cut across many of the more gradual improvements to procurement which have happened in higher education over the last decade. HEPCW and HEIs in Wales are clear that they will be open to all procurement initiatives available to them, but it is also clear that UK HE procurement will have to demonstrate its effectiveness in order to retain the additional buying power of Welsh institutions.

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<sup>6</sup> ‘Making the connections: delivering better value in Wales’, Welsh Assembly Government, October 2004.

<sup>7</sup> ‘Delivering the connections: from vision to action’, Welsh Assembly Government, June 2005.

## **A vision for procurement in higher education**

20. The role and purpose of the procurement process in the HE sector can be defined as follows:

‘The role of the procurement process in each HEI and across the HE sector is developing, securing and sustaining optimal value, in terms of money, efficiency and risk, for institutional needs from resources and external expenditure, to support and enable short and long term teaching, research and commercial objectives.’<sup>8</sup>

### **Procurement as a function**

21. Procurement activity in the sector is currently being delivered largely on a functional basis. Procurement is viewed by some senior managers as a low level activity, and procurement teams deliver only a peripheral, tactical support function. As a result professional procurement staff are often involved only in the tendering and contracting stages. Under this functional model, the professional procurement team, on average, only has influence over 48 per cent of all non-pay spend. This will of course vary between HEIs.

22. Where professional procurement staff are not involved, the institution’s management and governors cannot get full assurance that there is legal compliance or that value for money is achieved.

### **Future potential**

23. Procurement needs to be viewed as an essential business process that, if deployed effectively, will contribute to achieving institutional academic and financial objectives as well as securing value for money. It needs:

- to be embedded in HEIs’ strategic and operational planning and budgeting processes
- to be extended beyond the tactical to the strategic
- to have greater influence across all institutional non-pay spend, whether recurrent or capital.

24. As a result, procurement staff could become more fully involved in institutional strategy and business planning in all HEIs. They would need to be supported with improved information systems, to give better data on current and proposed institutional spend. This would allow senior procurement professionals to influence markets by talking with suppliers before contracting to condition those markets. On completion of contracts, they would have a part to play in evaluating performance in order to learn for the future.

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<sup>8</sup> Statement developed during a series of workshops in June 2005 facilitated by PMMS and involving finance directors, chairs and heads of purchasing consortia, and institutional heads of procurement.

25. A change to procurement operating more strategically offers considerable potential. Work has been carried out for Proc-HE by consultants PMMS, using the limited data available from the sector and supplemented by data from a sample of institutions, cross-referenced with records of achievement compiled across PMMS's large client base. This has identified estimates of savings that may be unlocked by addressing three areas:

- a. **Transforming procurement in HEIs.** Moving procurement from being a function to being a business process would accelerate changes in the way procurement operates. For example the introduction of e-procurement systems could unlock huge process and contracting efficiencies. A more informed view of institutional non-pay requirements would mean that contracts could be consolidated both within the institution and, where appropriate, more widely across the sector. In PMMS's experience, HEIs could reduce their total costs of purchasing and processing purchases by more than 25 per cent.
- b. **Managing relationships with suppliers.** PMMS has concluded that the limited capacity of HEI procurement resources means that there is little supply market conditioning. Yet the size of spend by the sector is such that it can have a considerable impact on suppliers. PMMS suggests that improvements in terms of around 13 per cent over existing purchase terms are entirely feasible.
- c. **Low-value, low-risk procurement.** A comprehensive strategy focused on managing low-value, low-risk expenditures inside each HEI and across the sector would result in a reduction in the number of suppliers by at least half. Through this consolidation and use of new technology, the costs associated with low-value, low-risk procurement would reduce significantly.

26. Table 1 below sets out PMMS's estimate of savings achievable by addressing these areas.

**Table 1 Potential savings from improving procurement in three key areas (£ millions)**

	2007	2008	2009	2010
Transforming procurement in HEIs	47	61	89	89
Managing relationships with suppliers	12	12	12	12
Low-value, low-risk procurement	15	15	15	15
<b>Total</b>	<b>74</b>	<b>88</b>	<b>116</b>	<b>116</b>

*NOTE: All benefits estimated above are in addition to benefits already being won by existing consortia and other groups and by individual HEIs.*



## **Vision statement**

27. The McClelland report sets out a vision for procurement in the public sector, which we reproduce below, suitably adapted for higher education.

28. We envisage a higher education procurement system in which the following critical success factors of organisation and practice are consistently established and maintained:

- recognition and implementation of the principles of good governance and accountability as they apply to procurement activities within the higher education sector
- leadership of, and within, the procurement function which ensures not only the deployment of policy, accountability and best practice but also the appropriateness of staff development, training, career paths and other ongoing skills and people-related support
- an overall organisational structure in which the procurement function is recognised as a high priority
- an adequately-staffed procurement organisation in terms of resources and skills, and where enhancement of those resources and skills is perceived as an investment providing a financial return
- sound practices and business processes that fully address the complexity and criticality of procurement activities and transactions, including the wider responsibilities of the higher education sector
- effective information systems supporting the procurement operation and assisting its performance, including the ability of internal users to access an information system at their workplace and request goods and services independent of the organisation (local or remote) that has established the original contract
- all of the above contributing to highly-advanced and effective capabilities, including collaborative procurement which consistently delivers best value performance and supports a competitive but transparent and equitable environment for suppliers.

29. In summary, the management of non-pay expenditure in higher education should be a high priority, and procurement should be regarded as a distinct and important profession and business process.

## Transforming procurement

30. HEFCE and the other higher education funding councils have funded several central initiatives to promote procurement, notably the Joint Procurement Policy and Strategy Group (JPPSG) to 2003, and now Proc-HE. The objectives set for the JPPSG and Proc-HE have not been wholly achieved. However, there are many examples of good practice within the sector, as illustrated by the case studies in this report, and the time is right for higher education to build on these achievements.

31. It is becoming clear to the funding councils that in order for procurement within higher education to move to its next stage of development, a different approach is required. Procurement needs to be viewed as an essential business process which, if deployed effectively, will contribute to achieving institutional academic and financial objectives as well as securing value for money.

32. Real progress on procurement will only be achieved if there is a greater understanding about the value of this business process and how it can be applied in delivering HEIs' academic objectives. Such understanding and recognition should be at the level of governing bodies and senior management teams.

33. In particular, there needs to be shared support of the following fundamental principles:

- a. Esteem: HEIs recognising that procurement, used effectively across all areas of non-pay expenditure, generates value that contributes to delivering academic aims and objectives.
- b. Leadership: effective leadership of procurement across the sector so that the £7 billion of purchasing power is used to secure maximum value for higher education as a whole.
- c. Resources: HEIs providing adequate resources for procurement to secure the potential benefits, and those working in procurement having the capacity and capability to secure those benefits.

34. There is also progress to be made at the operational level through better use of the tools and networks available to drive improved delivery. There are improvements that can be made to how procurement is organised within and between HEIs to secure the real benefits that are available.

35. This section identifies the areas which need to be addressed and recommends actions which we believe will help to transform procurement in the higher education sector into a process which can make a real and positive contribution to delivering institutional strategies. It covers the following issues:

- accountability and governance
- leadership of procurement
- people and skills
- extending the involvement of procurement expertise

- procurement practices and business processes
- procurement information systems
- collaborative and co-ordinated procurement.

36. A number of short case studies are included, illustrating existing areas of excellence in the sector, which other HEIs may wish to use as exemplars.

## **Accountability and governance**

### **Lead institutional responsibility for procurement**

37. The responsibility for procurement rests ultimately with the head of institution. He or she delegates authority for day-to-day management of procurement to one or more members of the senior management team.

38. To maximise the potential benefits from well-managed procurement, ideally a single member of the senior management team should have lead responsibility for procurement. This person should be designated within financial regulations as the person with overall authority to negotiate and agree contracts, and with overall responsibility for day-to-day procurement transactions. They would also be accountable for all other procurement functions throughout the institution, including the procurement team. Professional leadership of the procurement team would be provided by the most senior procurement professional in the institution – normally the head of procurement.

39. Institutions should apply the principles of delegating the authority to procure from the board of governors through the chief executive down through the management chain to the head of procurement. The head of procurement should be able to further delegate the authority to procure to named individuals within an institution in order to facilitate business processes.

40. All documents associated with the procurement of goods and services in institutions are legal contracts between the institution and supplier. Contracts are often complex, requiring a degree of expertise to understand fully their risks, financial and operational implications. Therefore it is essential that all goods and services are obtained under the management of a professional.

41. The relationship with suppliers needs to be managed by procurement professionals, formally authorised to contract for the procurement of goods and services within the accountability framework.

42. Although many institutions now have at least one full-time professional procurement officer, the authority which that position should hold on behalf of the institution in negotiating and agreeing contracts is not always recognised. A clear and explicit delegation of authority from the head of institution will help to demonstrate the lines of authority within HEIs.

### Good practice points

43. Every institution should have a member of the senior management team designated as having lead responsibility for procurement. He or she should be designated within financial regulations as the person with authority to negotiate and agree contracts, with overall responsibility for day-to-day procurement transactions, and as accountable for all other procurement functions including leadership of the procurement team.

44. Departments within an institution that have delegated authority to procure should formally designate a procurement officer who is responsible to the head of procurement and who should comply with the formal duties delegated to them.

### **Structure and organisation**

45. The status of central procurement functions within institutions and the status of heads of procurement have generally been increasing over the last 10 years.

46. However, there are institutions where the most senior procurement manager is not placed at a sufficiently high level, and where responsibilities for procurement are dispersed. This is at odds with the basic minimum standards for procurement that boards of governors should expect in an HEI (see paragraph 66 below).

47. Often the central procurement function is part of another department such as finance or estates. The McClelland review considers that in these circumstances there is a risk that the status of the head of procurement within an institution is not high enough to deliver effectively within the accountability and governance framework. McClelland suggests a minimum reporting line to the head of institution, recommending that:

‘The optimum reporting line for the head of procurement is directly to the chief executive but at a minimum he or she should report to an officer or executive who reports to the chief executive. The procurement function should not have a less senior reporting line than this minimum.’

48. We recognize that existing structures may make moving to this position difficult and/or undesirable, but we would urge institutions to reflect the importance of procurement in their organisational structures.

### Good practice point

49. Institutions should reflect the importance of procurement in their organisational structures.

## **Authority to procure**

50. Paragraphs 38-39 above describe the procurement officer's role as having delegated authority within the financial regulations to execute the institution's procurement decisions on its behalf. Once this principle of delegated authority and accountability is accepted, it follows that others without this authority should not commit institutions to contracts and other purchasing decisions.

51. Typically, within the sector, heads of procurement do not have full authority over the non-pay spend in institutions. There are areas, such as libraries, IT departments, estates departments and high spending academic departments, where the head of procurement has no locus and is rarely involved.

52. This perpetuates the view within some departments that they are free to manage their own procurement activity, sometimes regardless of the contracts for goods and services which institutions have entered into and made legal commitments for.

53. In some HEIs this position is changing to one where the concept of the 'authority to procure' is recognised. In these institutions, such authority is delegated to properly trained and controlled individuals within the high spending departments, but it is clear that they are professionally responsible to the head of procurement for procurement decisions.

### Good practice points

54. Institutions should adopt and apply the principles of delegating the authority to procure from the board of governors through the head of institution to the head of procurement. The head of procurement should be able to further delegate the authority to procure to named individuals to facilitate the procurement process.

55. Procurement activities and transactions should only be conducted by staff in the procurement function and other appropriately trained staff.

56. Where, for operational reasons, authority to procure is delegated beyond the central procurement function then strict guidelines should be followed, including formally documented delegated authorities. The individuals to whom authority is delegated are responsible to the head of procurement and subject to the same professional standards, responsibilities and accountability requirements as staff in a central procurement function.

The University of Durham has identified that good procurement practice is critical to achieving value for money and has incorporated it into the university's strategic improvement programme. Improvements are being delivered through cost savings, more efficient use of staff, better management information and risk reduction.

Procurement has been identified as a key specialist function supporting the institutional strategy. Reorganising this activity based on a standard set of processes is releasing significant resources back to the institution. A 'Strategically Controlled Action Network' (SCAN) is being phased in, with the procurement service as the professional lead. Procurement staff, managed by the director of procurement, are being embedded in the major spending areas, giving departments a professional and consistent service, and allowing a strategic approach to procurement to be developed across the university.

This approach in the estates department has led to:

- 38 per cent reduction in the number of invoices processed
- 19 per cent reduction in invoices valued over £250
- 47 per cent reduction in invoices valued at £250 or less
- 18 per cent reduction in the number of suppliers.

## **Financial regulations, procurement policies and procedures**

57. Each HEI needs an unambiguous statement of levels of authority in financial transactions authorised by the board of governors, which is usually contained within the financial regulations. There are usually policies and procedures below the financial regulations: policies describe the choices made in order to conduct business within the ambit of the financial regulations, and procedures describe how transactions must be processed.

58. Typically, HEIs do not readily differentiate between placing orders on existing contracts (that is, a purchasing process) and placing orders which establish new contracts for the institution (that is, a procurement process). In both instances, financial regulations will in most cases give budget holders authority to place orders but with increasing levels of competition required for higher levels of spend.

59. Often the head of procurement and the central procurement function are referred to only in an advisory capacity within the procurement process documented by the financial regulations, procurement policies and procedures. This gives the impression to budget holders that they have the authority to make procurement decisions outside of national, regional and institutional contracts. The effect is potentially to increase the amount of off-contract buying in the sector.

### Good practice points

60. Financial regulations and procurement policies should be reviewed in the light of this document with regard to the head of procurement and the authority to procure.

61. Financial regulations and procurement policies should be amended to strengthen the role and responsibilities of the head of procurement and the central procurement function to make them integral to the business processes of the institution, rather than just a source of advice and guidance.

62. Procurement procedure documents should be reviewed to ensure they are fit for purpose where they are mandatory in institutions, as enforced by financial regulations and procurement policies.

### **Governance principles**

63. Institutional governance has direct links to procurement in terms of its interests in institutional strategic plans, risk management, value for money, and internal controls. A number of documents set out the requirements for governors and senior managers in higher education institutions. These include:

- institutions' own instruments and articles of governance or equivalent
- EU legislation on public procurement
- the reports by the Nolan Committee on standards in public life (see [www.public-standards.gov.uk](http://www.public-standards.gov.uk))
- the 'Guide for members of higher education governing bodies in the UK', issued by the Committee of University Chairmen (HEFCE 2004/40)
- the HEI's financial memorandum with the funding council (HEFCE 2003/54)
- 'Accountability and audit: HEFCE code of practice' (HEFCE 2004/27).

64. Governance and accountability have improved in the sector over the last 10-15 years. The number of serious breakdowns in management systems at HEIs has declined significantly over the period.

65. However, despite the large amount of guidance setting out requirements and principles for good governance, these principles do not seem to have been taken forward and translated into actions on procurement, specifically to address the requirements of good governance, accountability and risk management consistently.

66. As a minimum, boards of governors should expect the following in an institution:

- a strategy for procurement and a policy for contracts and contractors
- procurement is considered at an appropriate level within an institution's risk management framework
- appropriate procurement expertise, guidance and training is available to support its procurement activity.

67. Vice-chancellors and principals are asked to sign an annual assurance return which, among other things, confirms that the requirements of the financial memorandum with the funding council have been satisfied, and that during the year in question there have been sound arrangements for risk management, control and governance and that value for money has been pursued. Even though all HEIs sign and return these statements it is debatable whether, in all cases, the principles have been rigorously applied.

### Good practice point

68. Boards of governors should re-evaluate whether procurement has been accorded appropriate importance through institutional governance processes.

### **Risk management and value for money**

69. Risk management and value for money are both areas which require governor involvement.

70. HEFCE first published 'Risk management: a guide to good practice in higher education institutions' in May 2001 (HEFCE 01/28). A follow-up statement of guidance was published in February 2005 (HEFCE 2005/11). The risk management approach has strengthened the position of governors within the overall assurance framework of institutions, and has allowed financial statements to be produced which are in line with the reporting practices of the corporate sector.

71. Non-pay expenditure in institutions accounts for upwards of 30 per cent of total expenditure. Much of this expenditure is undertaken through procurement processes and involves technical, legal and financial aspects, all of which have associated risks.

72. The financial memorandum between the funding councils and institutions makes it clear that the governing body has the overarching responsibility for delivering value for money from public funds. This does not mean that the funding councils expect special value for money initiatives to be undertaken constantly in order to demonstrate compliance with this provision. An awareness of the responsibility, and written assessments of why certain decisions offer better value for money, are often sufficient to demonstrate compliance.

73. Often procurement is not identified as a critical business process in institutions, and so does not feature highly on the risk register. Therefore governors, who are concerned with high level strategic risks, do not consider the legal, financial and reputational risks associated with procurement. They do not require full assurance that the management arrangements are appropriate, because the level of risk to the institution is not perceived to be of the highest order requiring governing body oversight.

74. The Efficiency Measurement Model (EMM) developed by Proc-HE is a tool for recording the value for money achieved through the procurement process in purchasing decisions. It records efficiencies arising through cost reductions, added value, risk reduction, business process re-engineering and sustainability. The EMM has been adopted by the DfES as the preferred tool for recording efficiencies and has been taken up by the further education sector. It is also being considered for use by agencies in Scotland and Wales, and so is a real success story for procurement in higher education.

75. EMM reports have not yet found their way to many finance committees or audit committees in HEIs, even though their contribution to demonstrating value for money and compliance with the financial memorandum could be great.



76. Given the proportion of an institution's expenditure that is affected by procurement processes it is important that a committee of governors, such as the finance committee or audit committee, receives reports on procurement activity. These should give assurance to governors that this expenditure is managed appropriately and is accorded the appropriate level of risk in the risk framework, as well as delivering value for money.

Good practice point

77. Governors should review the reporting framework to ensure that procurement is accorded an appropriate level of importance through committees of governors. They should be satisfied that any significant breakdown in control would be reported to governors.

## Procurement leadership

78. Non-pay expenditure by HEIs in the sector is over £5,000 million a year. Of this up to 20 per cent is managed through regional and national contracts, including those managed through consortia. A further 25-30 per cent of institution-specific expenditure is influenced by the procurement expertise within those institutions. While there may be some scope to increase the reach of consortia agreements (at national, regional or local level), this is only part of the picture. There is much greater scope to extend the use of procurement within institutions.

79. Work carried out for Proc-HE by PMMS highlights that strategic management and leadership of procurement by the sector could be improved, and would contribute to strategic planning and release additional resources for core activities. The current focus of procurement in the sector is largely on tactical engagement in the tendering process. More can be achieved through greater involvement in managing relationships with suppliers before tendering, and through effective contract management and evaluation after contracts are agreed.

80. Procurement is viewed by many senior managers as a low level activity which has no influence over the HEI's strategy and performance. Raising understanding of procurement and the benefits it can deliver will help individual institutions, but this can only happen if senior managers accept that change is necessary and beneficial and then implement it.

81. Leadership is required from institutional managers in order to reposition and refocus procurement so that it contributes effectively to delivery of strategic plans. This means changing procurement into a business process permeating through and integrating with all other business processes in an institution.

82. In a broader context, there are many aspects of procurement which cannot easily be addressed by a single institution in isolation. For example, the regional purchasing consortia were developed to combine the purchasing power of their members. Collaboration could also be beneficial in areas such as managing supplier relationships, collaborative procurement projects, benchmarking, spend analysis, and training.

83. None of this can be achieved by a single institution. It is also beyond the scope of the procurement community and the Association of University Procurement Officers (AUPO) to take this forward on their own. The sector must combine further to establish ways in which it can work together even more co-operatively to take the areas highlighted above forward. The levels of co-operation required mean that sector bodies must also be involved, including Universities UK, the Standing Conference of Principals, the British Universities Finance Directors Group, the Association of University Heads of Administration and the Association of University Directors of Estates.

### Good practice points

84. Senior managers in HEIs should consider to what extent procurement is established as a business process in their institution.

85. Senior managers in HEIs should initiate a programme, where required, to transform procurement from a tactical and operational to a strategic focus.

86. Sector representative bodies should consider how they can facilitate collaboration to improve areas of procurement such as managing suppliers, benchmarking and training.

## People and skills

87. The structures of procurement departments, staff roles and responsibilities vary a great deal between HEIs. Better communication and co-operation between the institutions, their departments and various procurement working groups would lead to better informed purchasing and up-to-date national information on the best deals in the sector. Close co-operation and collaboration would mean increased purchasing power and better cost effectiveness.

88. The total picture of the skills base for procurement is unclear. There are excellent skilled professionals in the sector, but their numbers may be low compared to the levels and diversity of expenditure throughout higher education. Investment in the skills base is required in order to ensure that there are appropriately trained staff in the sector to service this growing requirement.

89. In the McClelland report and in the PMMS report to HEPCW, the relationship between the number of procurement professionals and the value of organisational spend was explored. Findings varied from 1.5 procurement team members per £10 million of spend to 1 team member per £20 million. The right number would depend on the mix and complexity of the expenditure in each organisation. McClelland makes the point that a total cost for procurement staff and processes of less than 1 per cent of overall spend would compare with private industry.

90. The centrally funded NVQ programme, as well as courses on specialised issues, has proved to be an excellent foundation for enhancing procurement skills in the sector. Between 2001 and 2005 more than 400 candidates were recruited for the NVQ courses; over 150 delegates from 77 institutions completed training sessions on EU directives; and 40 procurement staff attended courses on the Freedom of Information Act. The skills development sub-group of Proc-HE has compiled a skills framework for procurement staff, identifying and defining the skills needed. The framework reflects the competencies required for emerging challenges and the need to embrace strategic procurement.

91. The work by PMMS pointed to the need for migration towards strategic procurement techniques, which in turn requires the development of a complimentary education and skills programme.

92. Proc-HE's skills development group, with input from the Leadership Foundation, has recommended that future strategy should focus on three new categories of skills: technical, business and people/leadership skills.

### Good practice points

93. Each institution should review its procurement activities to establish the adequacy or otherwise of the resources and skill levels dedicated to them. This work should identify both the base requirements essential to satisfy the board of governors (see paragraph 66), and the requirements to improve performance.

94. The level of non-pay expenditure compared with the number of full-time equivalent procurement professionals should form part of the benchmarking data on procurement (see paragraphs 134-138 below).

95. Where the internal review highlights deficiencies in the procurement skills base, institutions should implement a programme of professional training and development.

The North West Universities Purchasing Consortium (NWUPC) has delivered training in the form of NVQs, training CDs and associated training courses to staff in higher education. Since 2003, over 300 staff have been trained to an NVQ accredited level or to a full MCIPS qualification (Member of the Chartered Institute of Purchasing and Supply). Many staff receiving the training are members of procurement offices in HEIs, but there are many more from other faculties and departments.

Although it is difficult to quantify the benefits of training and skills development of an individual in procurement practices and techniques, these benefits are recognised by the reports by the NAO on procurement in the sector and by the McClelland report in Scotland. The NWUPC has monitored soft measures such as the number of hits on its web-site for downloadable information (increased by 200,000 over a two year period); attendance at NWUPC commodity group meetings (up by 22 per cent); and the increase in use of regional purchasing contracts.

There are also individual success stories among those who have benefited from the training. Three NVQ candidates were part of a working group which saved £480,000 on a £22 million contract for office furniture. A contract for chemicals and solvents had the prices of 172 items reduced sufficiently to produce savings of £504,000 over the life of the contract.

## **Extending the involvement of procurement expertise**

### **Complex areas of procurement**

96. Heads of procurement in HEIs often do not get involved in procurement in significant areas of an institution's non-pay spend. Typical areas include ICT, estates, libraries and departments with large numbers of technical and administrative staff.

97. This situation has arisen for a number of reasons. The first is that central procurement teams have grown from small numbers initially (often only one person). Therefore it was convenient for those small teams to concentrate on aspects of procurement which had no procurement input, even at an amateur level. So the larger departments were left alone.

98. Second, some specialist departments such as estates and ICT believe that procurement staff have nothing to offer over and above their own technical expertise, missing the point that professionally qualified procurement staff offer expertise in procurement itself.

99. Lastly, sometimes the institutional structure is a barrier. A central procurement team established under the director of finance, for example, may find that the entry into specialist areas such as procuring research equipment has to be by invitation rather than as part of an accepted business process.

100. This document suggests that all procurement should be made the responsibility of the head of procurement, regardless of where the purchase is instigated and whatever the lines of accountability regarding budgets and management reporting.

101. In some cases, this change would find some resistance in departments where the head of procurement is taking on new responsibilities, so the support of governors and senior management would be crucial. Often, the change of arrangements would be as simple as establishing a reporting line from the person with the procurement role in a department (the procurement officer) to the head of procurement.

#### Good practice point

102. Where the head of procurement is given responsibility for procurement in new areas, senior managers and governors should support this change appropriately to ensure that it is implemented effectively.

## **Project management**

103. Projects can vary in size and complexity – from major new build and refurbishment programmes through re-organisation of schools and departments, to re-equipping a laboratory or buying a single item of research equipment. Each project presents its own particular challenges, but a common thread is that a number of specialisms need to come together as a team to achieve the desired outcome.

104. Where project-based working is embedded within an institution's management processes, individual projects can be linked back to institutional strategies and plans. The progress and outcomes of a project can then be monitored through the reporting processes used to inform senior management and governors. This in turn gives governors the assurance they need about the management of risk in the institution.

105. Procurement decisions are fundamental to many projects. Sometimes the head of procurement or other procurement professional is involved as part of a project team. However, there are many examples where, although the principles of project management have been applied, the procurement input has not been seen as necessary. In some cases the head of procurement then has to unravel some of the decisions taken, for example to comply with legislation, to abide by existing contracts made by the HEI which have been ignored, or to link into other procurement activities undertaken by the institution or across the sector.

106. One way to avoid these problems is for institutions to involve the procurement function in project teams and in major procurement decisions from the outset as standard practice.

### Good practice point

107. Institutional senior managers should look at how projects are managed in their institution and determine whether the input from the procurement function is appropriate.

At the University of Sussex the head of procurement is involved in the development of all business cases which have a significant element of procurement. Business cases are used by the university to manage developments through a process of scoping, drafting, submission, approval and implementation in order to demonstrate efficient and effective use of resources.

The involvement by procurement staff in the preparation of business cases allows them to add value early on in the process rather than trying to fix problems later which had not been identified at the outset. Recent examples include the sale of the university bookshop, and the purchase of research equipment together with its ongoing operational aspects, including support and use by third parties. Another example is the appointment and management of an agent to handle the disposal of a large number of university-owned houses.

The business case approach has encouraged the development of cross-functional teams and a meaningful corporate culture within the institution. Procurement staff have become integral to this approach.

### **Areas of major capital spend**

108. HEIs generally have a programme of redevelopment, renewal and expansion which involves capital-intensive projects. Projects such as major building programmes or a replacement of network infrastructure are common across the sector, and senior managers working with professional colleagues from departments such as estates and ICT are experienced at managing them.

109. Typically, these projects include a significant amount of procurement which tends to be managed within the spending department without reference to the head of procurement. We have recommended that the head of procurement takes full responsibility for all procurement activity in an institution (see paragraphs 54-56). The intention is not to change current practice so that control over projects shifts to the procurement function; but rather that procurement expertise should be used effectively to add value.

110. When procurement staff have been part of the project teams of major capital projects they have made a significant contribution. Procurement professionals not only have the overview of how a well managed procurement exercise can contribute to the successful delivery of a capital project, but also have the technical ability to use a range of tools to make it happen. When this is combined with the technical expertise of other staff, institutional management and governors are able to take additional assurance about the project management and delivery of a capital project.

#### Good practice point

111. Institutions should involve procurement staff in programmes of capital spend at an early stage to ensure that the added value they can offer is maximised.



The University of Plymouth has adopted a strategy for developing the estate which assumes that capital funding, although uncertain, will become available in order to maintain momentum during the period of the strategy. This assumption allows a different relationship with the construction industry to emerge. Longer-term partnerships have been established with professional advisers and construction companies, which deliver a quality product to consistent standards within agreed timescales and to budget. The approach is consistent with the Egan<sup>9</sup> principles: ongoing and committed leadership, an integrated approach, goals that are driven by quality, development of partners and supply chains, and a firm commitment to people.

The university is seeing its investment in the process over the last three years come to fruition through demonstrably better value for money, and quality projects that experience fewer problems both during and after the works. The multidisciplinary team that has grown out of the process all remain committed to delivering the university's requirements and see the process as a positive experience.

The university's head of procurement has been integral to establishing these frameworks with companies, and continues to be involved to ensure that contractual terms and conditions are complied with on both sides, and that contract costs are managed effectively. This makes her a vital element in the delivery of the estates strategy for the university.

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<sup>9</sup> Sir John Egan, 'Rethinking construction: the report of the Construction Task Force to the Deputy Prime Minister on the scope for improving the quality and efficiency of UK construction', Department of Trade and Industry, 1998.

## Procurement practices and business processes

‘Without sound business practices and processes, it is impossible to operate in a way that is internally efficient and that also delivers good value in procurement cost.’

McClelland report

### Minimum standards

112. Approximately 30 per cent of institutional expenditure is on goods and services to sustain HEIs’ infrastructure, teaching and research needs. This is a lower proportion than in most industrial and commercial organisations (where figures of 50-80 per cent are more typical), reflecting the proportionately higher staffing costs in HEIs. However, the ability of HEIs to alter factors such as staff and property costs, and their own product prices, is severely constrained (at least in the short term). So effective management of non-staff external expenditure is even more critical, being one of the few ways in which HEIs can improve the ‘bottom line’ both quickly and directly.

113. Whether the need is for new building programmes, catering services, information and library management, complex research equipment, professional and legal services, or basic day-to-day operational needs, the challenge to each HEI is to implement a recognisable, well managed (in terms of capability and capacity), robust procurement process that is applicable across all the external expenditure that it can influence— no matter who is managing it.

114. HEIs across the UK are diverse in their academic focus, structure, culture and operating systems. There are different outlooks and perceptions as to how each institution should engage with its external environment, of which suppliers are an important element.

115. However, what is consistent between institutions is the procurement process. Research across different industry sectors, public and private organisations and across disciplines, has shown that the issues limiting value delivered from a procurement process are remarkably similar. HEIs have considerable scope to derive further benefits from more effective procurement and to learn from others.

116. It is now incumbent upon the HE sector to address this potential, to achieve significantly better performance from the procurement process and thereby release funds for front line use, to enable increased levels of educational and research activity and promote excellence. This is the challenge presented to HEIs nationwide, whether it be from ‘Gershon’ in England, the ‘Efficient Government’ programme in Scotland or the Assembly sponsored ‘Procurement Initiative’ in Wales.

117. In recent reports (the McClelland review in Scotland and the PMMS procurement health checks for the Higher Education Funding Council for Wales) attempts have been made to relate present performance levels in procurement to where they could be if operating at the highest standards. PMMS uses a tool called the Enabling Foundation to arrive at performance scores ranging from emergent through bronze and silver to gold. McClelland identifies four similar categories: Level 0 non-conformance, Level 1 conformance, Level 2 improved performance, and Level 3 superior performance. The level is assessed against a number of key attributes: this is reproduced in Table 1 of Annex A.

118. In both studies it was concluded that no single institution could be classified in the highest gold or superior performance categories, and most would fall into the middle two groups. Only gold or superior performance institutions could be considered to have the standards necessary consistently to deliver best value. However, HEIs with a lower rating will still have many attributes which could deliver best value for that HEI. Only by taking standards to the highest practical level of operation will the full savings and benefits be realised.

#### Good practice point

119. Every HEI should make a detailed assessment of where its procurement practices and business processes sit in relation to the matrix of key attributes.

The University of Oxford managed a collaborative procurement for research equipment, in which it tendered for DNA sequencers for 12 institutions. From the initial evaluation of tenders by a small project group, two potential vendors were selected. Vendor 1 had a capital cost for the equipment of £127,500 per sequencer and from Vendor 2 the capital cost was £199,500. Eleven of the 12 groups had expressed a clear preference for Vendor 1, which had a clear market lead in the sector.

The two systems were evaluated to establish what the full costs over the useful life of the equipment would be. Costs included equipment maintenance, software, consumables (sequencing kits, capillaries, polymers and buffers) and residual value. Technician support costs were also included because Vendor 1's equipment included a robotics system for changing samples whereas for Vendor 2 this had to be done manually. Most groups intended to run the equipment for 24 hours a day. Other costs such as electricity were deemed to be negligible.

The whole life cost of Vendor 1 for five years' useful life amounted to £2,343,184 with a cost per run of £164. For Vendor 2 the costs for five years were £1,643,488, amounting to £115 per run. These results persuaded five groups to change their preferred option. The remaining six groups decided to stay with Vendor 1 for other technical reasons.

## Information reporting

120. There is a lack of consistency in the management information of value to procurement that is available, generated, assembled, interpreted and applied across the sector. This limits the analysis that is (and can be) done on expenditure profiles at institutional, regional and national levels of procurement. Without this detailed knowledge – of how much is spent on goods and services, by whom, on what, how often, and on which terms – it is extremely difficult to build up any coherent, substantiated body of evidence that will illustrate the costs and benefits of change or of no change.

121. In 1999 the NAO published a report on 'Procurement in the English higher education sector'. It made a number of recommendations, including that the sector should monitor the adoption of initiatives which had either been developed centrally or had arisen out of technological and good practice developments. A key means of providing data for monitoring is to analyse expenditure with suppliers, and to consolidate that into regional and national perspectives.

122. The sector has developed its own tool for analysing spend which provides data at a high level. It gives spend by company across broad categories of provision. So, for example, IBM would be categorised as computing regardless of whether the expenditure was on hardware or consultancy, or anything in between.

123. This tool can give broad indications of spend, but when questions are asked about the detail, for example whether national or other contracts were used, the information is not generally available unless institutions themselves have put considerable further work into analysing the data. The absence of such detailed analysis limits understanding of performance, procurement options and opportunities, and the capacity to act strategically to secure best value.

124. Institutions' senior management, the purchasing consortia and other collaborative procurement groups need to work with funding and representative bodies in the sector to broaden the base of information reporting so that higher, consistent standards of reporting are developed and maintained. The information generated needs to be analysed systematically so that costs and benefits can be tracked, to inform key procurement strategies and decisions.

125. More systematic use should be made of other existing tools for performance appraisal. For example, Proc-HE has developed its Efficiency Measurement Model (see box below) for recording efficiencies across five categories: added value, process re-engineering, price reduction, risk reduction and sustainability. This is beginning to be used by procurement staff to record efficiency performance on new contracts. However, because much spend in institutions is not influenced by procurement staff, the model will not be put to use without an impetus from senior management, perhaps in the form of reporting requirements.

### Good practice points

126. Sector representative bodies should agree certain minimum reporting standards for procurement by institutions. The established reporting baseline should provide data of value to decision making and to performance enhancement, and should therefore be readily convertible into key performance indicators of procurement effectiveness.

127. Institutions should ensure that information reporting is deepened and broadened to satisfy more searching management scrutiny. This will help institutions to improve performance in this area.

Proc-HE, the body established and funded by the funding councils to develop procurement practice and strategy in the sector, has produced two systems which assist procurement management and practice in the sector.

The Efficiency Measurement Model (EMM) records and reports value for money efficiencies achieved through good procurement practice. The EMM has a robust measurement methodology and user documentation, and can be used easily by non-procurement office staff. Recorded efficiencies are divided into five main areas: cost reduction, added value, business process re-engineering, risk reduction, and sustainability. The EMM has been well received by HEIs, and has been adopted by the further education sector and the Research Councils and is under evaluation by the Scottish Executive and Value Wales.

The Tender Evaluation Model (TEM) uses the financial data from supplier tenders and takes the user through a whole life costing exercise. The resultant financial evaluation is used to inform the overall tender evaluation comprising both non-financial (qualitative and quantitative) and financial criteria. These criteria are weighted and scored to produce an overall evaluation to inform and substantiate the purchase decision.

### **Efficiency and key performance indicators**

128. The value of data and its analysis lies in how well it serves the effective management of outputs and results against recognised objectives. The key is to make the important measurable, not the measurable important. It follows, therefore, that the items selected for measurement and reporting should be pertinent to improvements in organisational performance and should satisfy external requirements, such as meeting government targets.

129. In order to provide some consistency in measurement and reporting across the HE sector, the sector needs to agree on and adopt a standard set of key performance indicators. The McClelland report identified 18 items of data as key performance indicators (KPIs):

- total procurement expenditure
- procurement expenditure analysed by spending department
- procurement expenditure analysed by commodity or service
- procurement spend by geographical spread
- total number of procurement transactions
- total cost of resources in the procurement department

- total cost of resources in the procurement process, including insupport departments such as accounts payable
- procurement resources analysed by commodity or service procured
- procurement department cost per £ of spend
- procurement process cost per £ of spend
- procurement department/process cost per £ of specific commodity spend
- process cost per transaction
- savings achieved year-on-year in absolute terms
- year-to-year movement in an index of a selection of procured commodities
- number of suppliers (active/inactive)
- spend identified by supplier
- average spend per supplier
- average spend per order placed.

130. Greater use of e-procurement systems will deliver additional KPIs which can be used to demonstrate the benefits of e-procurement. It would also be helpful to know the proportion of expenditure on goods and services that is covered by national, regional/consortia and local contracts and the proportion that may be thought of as 'off-contract', specifically:

- spend by supplier through identified national contracts
- spend by commodity through identified national contracts
- spend by supplier through identified regional or consortia contracts
- spend by commodity through identified regional or consortia contracts
- spend by supplier and by commodity through third party contracts (such as the Office of Government Commerce (OGC) contracts)
- spend by supplier and by commodity through institutional contracts
- spend by supplier and by commodity that is 'off-contract'.

131. Some of these KPIs can be reported by institutions using existing management information systems and data. However, there are other important KPIs where data are not readily available, which are nevertheless integral to good strategic management and governance of institutions, as well as contributing to better performance. For example, few institutions can report on expenditure against contracts without undertaking a large amount of investigative work.

#### Good practice points

132. Sector representative bodies should agree a minimum standard set of key performance indicators which an institution displaying superior performance should report as management information.

133. Institutions should review the adequacy of their finance and procurement systems in delivering the minimum standard key performance indicators and plan for change where appropriate.

The University of Leeds began issuing purchasing cards in 2002 and these were quickly taken up by members of staff. However the financial system for electronic reconciliation and payments was somewhat temperamental. As a result, when the number of cardholders reached 80 the university suspended the rollout of the scheme to any more staff.

In 2004 the university successfully integrated these back-office processes directly into SAP. With full electronic transaction processing through SAP, the rollout could be re-launched.

Cards are predominantly used for business travel, conferences, internet purchases and one-offs where it is not practical to create a new vendor in SAP. Cardholders are controlled through individual card and transaction limits, and by blocking certain categories of merchandise as appropriate.

The university has benefited through implementing a flexible purchasing system that is efficient but with the necessary controls to manage risk and achieve best value for money. The number of cardholders has grown steadily to 180, accounting for some 12,000 transactions and approximately £1.8 million spent per annum. The Government Procurement Card scheme calculates the efficiency savings of using cards at £28 per transaction. Using this figure for the university's fully automated solution, savings for 2004-05 were £266,000.

## **Benchmarking**

134. The assessment of procurement practice and business process performance needs to be carried out in two dimensions to be effective. It is important to know both the improvements made over time, and how institutional performance relates to the performance and results achieved in other organisations. Through such comparative analysis, further process enhancements and opportunities for change might be identified. Such benchmarking applied systematically across the HE community (and beyond) should stimulate the development of good practice.

135. HEIs are well placed to do this as there are tools available to facilitate both internal and comparative benchmarking. The Integrated Benchmarking Information System (IBIS) was developed by the sector specifically for such purposes and its widespread application should be encouraged.

136. The Proc-HE Management and Information Systems Group has produced work on benchmarking of management information system applications and outputs. A wealth of comparative data is available and further, specific benchmarking activity will be prompted by its findings. More information can be found on the Procureweb site – [www.procureweb.ac.uk](http://www.procureweb.ac.uk).

137. There needs to be a systematic and consistent approach to procurement benchmarking activity across the HE sector. One way to achieve this would be for sector representative bodies to establish a benchmarking and good practice exchange group. The AUPO would be well-placed to co-ordinate this activity, consulting with key sector stakeholder groups on the data elements to be covered and the mechanisms needed to capture them.

#### Good practice point

138. Sector representative bodies should establish a benchmarking and good practice exchange group to oversee a systematic and consistent approach to procurement benchmarking across the HE sector.

The University of Strathclyde purchasing services team has used IBIS (the Integrated Benchmarking Information System) for over eight years to manage off-contract spend in a devolved procurement environment.

The purchasing function's priorities are contracting, strategy support, communications, providing advice and training rather than raising or processing purchase orders. This leaves little time for identification and control of maverick buying or off-contract spend. Despite this the purchasing services staff have managed to increase contract compliance for the institution's non-salary expenditure to more than 87 per cent.

IBIS has enabled Strathclyde to measure, and thereby improve the effectiveness of the procurement function in terms of value for money and risk reduction, through the use of sound contracts with reliable suppliers and through a procurement office that provides a recognised high quality, economical service. IBIS provides a host of management information on purchasing activities in a form that enables the head of purchasing services and senior management to make well-informed decisions on the day-to-day management as well as on the strategic influence and importance of the procurement function.

This management information is ideal for benchmarking within the institution, to report year on year progress and improvements, and for benchmarking against other similar institutions. It enables the university to gain knowledge of best practices nationally and to use that knowledge to make further improvements through cross-institutional and even cross-functional collaboration.

### **Advanced procurement**

139. This section sets out the benefits that would accrue to the HE sector through developing and implementing more advanced procurement. This in turn depends upon senior management in institutions knowing whether or not they are getting the full value for money benefits from the procurement process.



140. Assessment should begin with understanding the role and purpose of procurement. At the workshops facilitated by PMMS in June 2005, the following wording was proposed:

‘The role of the procurement process in each HEI and across the HE sector is developing, securing and sustaining optimal value, in terms of money, efficiency and risk, for institutional needs from resources and external expenditure, to support and enable short and long term teaching, research and commercial objectives.’

141. Building upon the performance levels described in the McClelland report, an advanced procurement process might include the following characteristics:

- the head of the institution recognises the importance of applying advanced procurement processes to achieve value for money
- the head of institution has persuaded the senior management team and department heads of the benefits of effective procurement, and the need for collaboration across the HEI
- a capable and relevant staff member has been nominated as the chief procurement officer, and has defined roles, responsibilities and expectations. He or she has categorised total HEI spend and is – through effective procurement strategies – managing spend, internal client needs, and external suppliers to deliver expected value
- there is sound management information and clear reporting on efficiency and effectiveness of performance by reference to comprehensive KPIs, internal and external benchmarking, and application of ‘best in class’ practices. Processes are in place to support this, or are being introduced
- professional, highly-skilled commercial people are playing leading roles in the process, to ensure delivery of solutions from suppliers that meet HEI and departmental needs
- key suppliers are treating the HEI as a genuine ‘preferred customer’, as a consequence of a clear supplier strategy
- there is appropriate capacity and capability at the pressure points. (Those points may shift, and the capacity and capability should also be capable of being re-targeted)
- collaboration with other HEIs is developed where appropriate to increase leverage and capacity across the sector
- knowledge is shared across the sector to avoid re-inventing the wheel, and there is a clear focus on avoiding duplication of effort and wasting energy on trivial operational/tactical activities.

142. Few institutions could currently claim to have goals and structured processes in place that would be consistent with this vision of advanced procurement.

### Good practice point

143. Each institution should take stock of its procurement performance and should devise a development and implementation strategy to improve the process to meet its needs.

The University of Edinburgh has changed its procurement processes to improve the management of its non-pay expenditure of over £150 million a year. For example, for laboratory consumables it has implemented an e-procurement tool (SciQuest) and rolled it out to colleges and schools.

SciQuest is a web-based system for buying scientific laboratory consumables from a range of suppliers. It has a growing number of supplier catalogues (40+) at university pricing, searchable concurrently online by over 800 registered users. It uses a 'shopping basket' approach across all the suppliers and an approval workflow, suitable for the structure of each school. The purchase order files are uploaded automatically overnight into the university's finance information system. In a nine-month period in 2005-06 around 8,000 purchase orders were raised through SciQuest with an overall value of £1 million.

It is estimated that during this same period savings of over £125,000 were made in process costs, with a further £100,000 of efficiency savings through better product and management information, far fewer process errors, faster delivery, staff time released, and improved supplier engagement.

Complementing the developing use of the SciQuest service, the university also uses the Unity e-procurement tool for non-scientific purchasing and carries out most of its tendering work using the e-tendering tool InTend. As a result, procurement efficiency and effectiveness are being enhanced, as are relationships with suppliers.

## Procurement information systems

144. Over the last decade procurement information systems and technology have advanced to the extent that it is possible to have paperless purchase order and invoice processing. In addition, tendering and contracting can be fully automated, with constantly updated price lists against which staff can place their orders. Electronic marketplaces can be established which enable staff to choose from competing products within the context of managed contracts with preferred suppliers.

145. There has been a gradual increase in the adoption of procurement information systems by the higher education sector in the following areas:

- e-sourcing of goods and services (electronic marketplaces). Sourcing software such as Unity Marketplace, Science Warehouse and SciQuest have been adopted by a number of institutions including the University of Edinburgh, University of Leeds, and King's College London. Implementation of these systems is generally phased over a number of years, so even in institutions which introduced e-marketplace systems three or four years ago there are still areas of spend to be covered
- e-tendering. Early adopters such as the University of Sheffield and the University of Ulster played a large part in developing these products for the wider public sector. Hundreds of procurement professionals across the public sector and industry now use this method of tendering. There is a greater use of e-tendering systems in HEIs than other procurement information systems
- e-auctions. A growing number of institutions have used this system of procurement, helped often by the consortia, but e-auctions are only appropriate for some commodities and will never completely substitute for more conventional tendering routes. They were pioneered by HEIs such as the University of Nottingham
- payment systems. Faster payment systems such as purchase cards, corporate cards and lodge cards have been introduced by institutions, streamlining purchasing and payment. Pathfinders such as Loughborough University have cost-effective back office systems that allow the savings to be realised
- procurement-enabled finance systems. Commercial systems such as Agresso, Oracle and SAP have proved invaluable in analysing what goods and services are purchased in large complex HEIs, enabling regional purchasing consortia and other groups collaborating within and across sectors to produce best value contracts.

146. While there has been progress in the sector in all these areas, this needs to accelerate to keep pace with the wider public sector and industry. The Chancellor of the Exchequer's December 2005 Pre-Budget Report makes the following statement:

'The adoption of best procurement practice in e-procurement could lead to savings for governments of up to 5 per cent on expenditure and up to 50-80 per cent on transaction costs for both buyers and suppliers.'

147. Recent studies suggest that the cost of processing each invoice through the cycle of purchase to payment is about £50. Halving these costs in HEIs would have a significant impact on funds available for core activities. An OGC study states that a figure of £28 should be used to measure the efficiency of using procurement cards over more traditional purchasing mechanisms. So the increased efficiency available through the adoption of procurement information systems is now widely accepted.

148. Growing numbers of public bodies are using e-procurement. The OGC and other government departments and agencies are putting a large amount of resources into this area. HEIs will also be expected to take advantage of the efficiencies offered by e-procurement.

#### Good practice point

149. Governors, senior management and heads of procurement should all ensure that appropriate e-procurement systems are adopted and rolled out into institutions as soon as is practicable.

King's College London has over £120 million of non-pay expenditure, and processes over 130,000 invoices each year. In 2001 the college implemented the Science Warehouse e-procurement marketplace system, and has rolled this out to departments.

Approximately 800,000 products are available on the system, from over 70 of the sector's leading suppliers. It allows informed choices to be made and the user does not feel driven down an 'approved supplier' route. Over 500 members of staff are registered to use the system and 15,000 orders are placed on it each year. As the Science Warehouse system links with the main college accounting system, as well as the Hyperdata systems favoured by the departments, it has cut out all of the transfer of paper in making an order, receiving goods and paying invoices.

Implementation of the Science Warehouse e-marketplace has already reduced the time and cost associated with administrative aspects of procurement, releasing resources for core business. In addition, usage has helped achieve significant savings by ensuring greater awareness of approved core contracts and reducing transaction errors.

## **Collaborative and co-ordinated procurement**

150. The HE sector has several well-established collaborative procurement arrangements in place with considerable recorded successes over many years. Principal among these are the six regional purchasing consortia which include all but a few of the UK HEIs. The advantages secured through consortia include better use of resources and skills in ways that reduce duplication of effort, extended purchasing power and negotiating leverage, regular exchange of expertise and knowledge, and the spread of good practice underpinned by skills development.

151. Other collaborative arrangements range from procurement exercises for the benefit of neighbouring institutions; the many national and inter-regional procurement groups and working parties; the SRIF procurement programmes managed on the sector's behalf by the Research Equipment Affinity Group; and a few cross-sectoral collaborative initiatives with public sector partners. While this collaborative work is driven by the need to increase efficiency and reduce costs, much of it is delivered by volunteers. There is little doubt that the number, diversity and complexity of such arrangements would benefit from some rationalisation and strategic planning.

152. An example of progress in this direction is the four consortia in England coming together to form the English National Procurement Consortium. The consortia covering Wales, Scotland and Northern Ireland are also pursuing their own collaborative initiatives. However, it must be recognised that consortia contracts account for only about 15 per cent of institutional spend. Improved co-operation among consortia is, therefore, only a limited answer.

153. The value to be gained from effective collaboration across the sector and with bodies outside the sector cannot be emphasised enough. HEIs provide multiple contact points for suppliers. This increases supply side costs and results in fragmented and duplicated efforts. It also prevents institutions sharing market intelligence, recognising and planning for demands that may interact with similar supply markets, and co-ordinating the management of key suppliers. The sector could have a major influence on many supply markets but this influence is only valuable with carefully planned collaboration. HEIs will only collaborate effectively when the perceived value from collaboration is greater than the value of going it alone.

154. Collaboration driven by volunteers can only be successful in the short term. There needs to be a well-defined and well-supported strategy to facilitate people and organisations working together.

155. The recent PMMS review considered several options for a sector-wide integrated structure for procurement, including different leadership models. However, the limited amount of data precluded all but a high level cost/benefit assessment of the need and options for change. That assessment did signal that there were measurable and demonstrable benefits to be realised; but not at a cost of significant increase in investment funding or with collaboration that was either mandated or centrally directed. The leadership on collaborative working should provide contracting opportunities of value to the user institutions but not in ways that would have an impact on the autonomy of the individual institutions.

156. In the PMMS work for HEPCW and in the McClelland report in Scotland the same issues have been acknowledged.

157. The McClelland report recognised that perhaps the most contentious recommendations related to collaborative procurement (across the public sector in Scotland not just HE). It recommended establishing centres of expertise for collaborative procurement on a commodity by commodity basis. The report proposes three categories of contract, with no crossover between them: national contracts; sector-specific contracts (for example, for local authorities, health, higher and further education, and government departments); and general contracts for a single organisation.

158. Higher education needs a similar approach to integrating and consolidating its diverse procurement and contracting operations in an effective way.

159. The regional purchasing consortia can play a key part in such a collaborative contracting strategy, although their operating models may have to change. Voluntary effort has taken the sector only so far. A more strategic approach to managing collaborative and co-ordinated procurement is needed to identify and take advantage of new opportunities.

160. The full extent of collaborative procurement activity is not clear. Numerous groups have been established to fill a particular need in the sector, delivering value for money but in an unco-ordinated fashion with some overlaps and some gaps. Once a full picture is available, decisions can be made to extend collaborative contracting into new areas on the basis of a business case which demonstrates return on the investment and additional value for money. A senior management forum, made up of key stakeholders and procurement professionals, would be well placed to manage this activity.

#### Good practice point

161. Sector representative bodies should establish a senior management forum, made up of key stakeholders and procurement professionals, to take stock of collaborative procurement activity and to develop a co-ordinated strategy.

The Research Equipment Affinity Group (REAG) has a membership drawn from procurement staff in institutions, the Research Councils and Funding Councils with an interest in improving the procurement of highly technical, often tailored and expensive, research equipment. It also draws on others in procurement and beyond in the sector for major exercises such as SRIF collaborative procurement.

REAG produces good practice guidance and shares knowledge among its members, and is beginning to have an effect on the relationship between vendors and the sector, as well as on the way equipment maintenance is managed. It is developing an equipment procurement database for the sector.

The group has been involved in procuring equipment for all three rounds of SRIF. In both SRIF 1 and 2, 15 per cent efficiencies were achieved through reduced costs for volume sales, adding equipment originally not specified, negotiating better payment and other contract terms, and securing higher specification equipment within allocated budgets.

### **Shared and outsourced services**

162. Definitions of shared services vary. Typically they describe a model of providing services (not just 'back-office' services) in a combined or collaborative function, sharing processes and technology. In the private sector this is usually within the same group of companies, but in the public sector it will most often be between separate entities. The most sophisticated models involve establishing a new organisation, run and managed as an autonomous business.

163. Procurement as a function in higher education already displays many of the attributes of a shared service. The regional purchasing consortia are prime examples, but there are other examples where a degree of shared services in procurement has developed over time. There is also the potential which professional procurement staff can offer when institutional management are considering other shared service arrangements. Often these arrangements can involve complex contractual arrangements between partner institutions. Professional procurement staff have much to offer when establishing these arrangements.

164. Procurement in higher education already uses shared services. The regional purchasing consortia were established in the 1970s and now have contracts for many types of goods and services. Contracts are in place at regional and national levels, and member institutions are generally free to use the contracts negotiated on their behalf or to use in-house resources to make their own arrangements.

165. There are working groups which deal with specific commodities on a national basis: examples include TEC (energy), CHEST (information systems) and TUCO (catering). There are also sector-wide resources such as Procureweb, the online portal for procurement tools and guidance, and REAG which co-ordinates purchase of research equipment.

166. There is always more that can be done. Full compliance with national contracts would deliver greater efficiencies to the sector, and there are other areas which could be contracted for nationally which are currently managed locally.

167. There is growing pressure on higher education to move to either shared services or to fully outsourced provision.

168. The range of services with potential for sharing or outsourcing is large, but one key characteristic is that there is often a large amount of data management or transactional processing. Examples include elements of human resources departments, finance systems, payroll, and records management.

169. Other possible areas are those where particular expertise is required for limited periods in a year. Examples include internal audit, professional services, international student recruitment, and media services and PR. A further category is the management of non-core activities such as catering and residences, facilities, security and buildings maintenance.

170. The simplest arrangement is where one HEI provides the service not only for itself but also for its partner institutions. In these instances there are contracts between the parties and levels of provision to be managed, which will vary in complexity. The most complex arrangements involve the establishment of a separate organisation which services the requirements of all the partners.

171. Professional procurement staff are skilled at dealing with contract terms and contract management. Their skills will be of value when dealing with shared service provision and in investigating any opportunities for shared services.

#### Good practice point

172. Professional procurement staff should be involved at an early stage in the investigation of any opportunities for shared services.



Analysis of annual purchasing returns from HEIs identified temporary agency staff as a high spend area, with the potential for efficiencies using a framework contract delivered through the regional purchasing consortia. Existing public sector frameworks did not fit the requirements of the higher education sector, so the Southern Universities Purchasing Consortium (SUPC) led a joint tender with the London Universities Purchasing Consortium for a combined annual spend of over £60 million.

SUPC established a cross-functional working group including human resources, institutional procurement and the consortia. Its first task was to agree the overarching strategy and after research the group decided on the Master Vendor solution.

Consolidation of the spend of individual HEIs has delivered savings through economies of scale. The framework contract was awarded to three suppliers from 1 November 2005 and has secured low margins and fees coupled with high standards of service. Institutional savings of 20-30 per cent are common.

Since the launch of the contract there has been a rapid take-up by institutions as well as by other regional purchasing consortia in the UK. Annual savings from this contract will be at least £15 million.

### **Managing supplier relationships and contracts**

173. The higher education sector has many thousands of suppliers, ranging from multinationals to local sole traders. Good relationships with suppliers are an important aspect of the procurement process, and help to achieve efficiencies as much as concentrating on other aspects such as price, quality, delivery, or contract terms and conditions. There is a need to manage those relationships to ensure that suppliers have a point of contact, that the sector is aware of the market and updated on current developments, and that new entrants to a market have quick access. This information helps to ensure that the best value for money contracts are agreed for the sector.

174. Although the suppliers for each institution will vary, there is a high level of commonality between HEIs. Thus creating meaningful relationships with suppliers can best be done by the sector agreeing a joint approach. Whenever such an approach has been adopted in the sector in specific markets it has been welcomed by suppliers.

175. There have been many developments in the management of supplier relationships in the sector over the last decade. The most prominent example is The Energy Consortium (see box below), which is now the main point of contact for contracts with the sector by utility suppliers. The regional purchasing consortia have also increased activity in this area.

176. However, managing supplier relationships is not often recognised as an important aspect of the procurement function's work. Therefore, it is largely unresourced and when resources become available it is performed ad-hoc rather than as a planned programme of activity. A more strategic approach would ensure that the benefits available are maximised and that as many institutions as possible contribute. In order to achieve this, some central focus will be necessary.

177. More effort has been put into managing contracts, to ensure that they are operating effectively and that any problems from either side are resolved quickly. The regional purchasing consortia devote resources to contract management, as do central procurement teams in institutions. To make contracts work effectively and to learn from them for the future takes yet more resource, but the benefits would justify the investment.

178. The PMMS report identified that procurement professionals in the sector are deployed tactically to manage the tendering process, but that the amount of time spent in conditioning markets and developing links with suppliers is limited. It also suggests that more time devoted to contract management would be well spent. Both of these activities would be best achieved through a strategic and unified approach by the sector.

#### Good practice point

179. Sector representative bodies should consider the need for a sector-wide approach to managing contracts and relationships with suppliers, and how best to deliver it.

The Energy Consortium (TEC) is a not-for-profit organisation employing expert purchasing and technical staff to procure energy supplies on behalf of its members in the sector. Only two HEIs in the UK are not covered by TEC contracts for gas, water and electricity supplies.

Energy and water suppliers now see TEC as a simple way of accessing the complex market of higher education. TEC staff use this to their advantage to develop relationships with suppliers and to lever best energy prices for HEIs.

Longer-term professional relationships between TEC staff and suppliers enable contracts to be negotiated and managed effectively. In addition, access to market intelligence makes it easier for TEC to manage extended contract prices and to forecast renewal prices. Together with active price benchmarking and collection of consumption data this allows the most competitive prices to be negotiated.

TEC negotiates annual contracts for HE for utilities (gas, electricity and water) totalling £250 million. Estimates of the savings amounted to £9.5 million in 2005-06.

#### **Links with other procurement organisations**

180. The procurement function has evolved over the last decade to an extent where it contributes more effectively to operational efficiency. As a result there is an expanding set of procurement organisations with which contact should be maintained.

181. Procurement groups within higher education include:

- regional purchasing consortia
- The Energy Consortium
- The University Catering Officers (TUCO)
- Combined Higher Education Software Team (CHEST)
- Proc-HE
- Association of University Procurement Officers (AUPO)
- Joint Information Systems Committee (JISC)

- National Group on Procurement for Libraries (PFL)
- Libraries Purchasing Consortia
- National Commodity Working Groups
- Procureweb.

182. Organisations outside of the HE sector which influence the way HEIs manage procurement include:

- the Office of Government Commerce (OGC)
- Centre for Procurement Performance at the DfES
- Value Wales
- Scottish Procurement Directorate
- e-Procurement Scotland
- further education purchasing consortia
- the Chartered Institute of Purchasing and Supply (CIPS)
- local authority Centres of Procurement Excellence
- NHS Purchasing and Supply Agency
- Research Councils' Procurement Organisation.

183. Each has its role to play and cross working of these groups at all levels benefits in aspects of sharing knowledge, contracts and resource. If there is not sufficient communication between these groups there is a risk of duplication, adding costs to the sector. But strengthening links needs to be managed at a strategic level if it is to be most effective.

184. Networking of information between partners is the way to achieve operational efficiency. The sector has achieved much through the regional purchasing consortia and AUPO but more can be done both within the sector and with external agencies.

#### Good practice point

185. Sector representative bodies should assess the benefits from communication and exchange of information within HE and with the wider public sector, and establish mechanisms for exploiting these more effectively.

## Conclusions

186. Procurement as a profession has developed to a point where it is poised to make a more positive contribution to institutional management at a strategic level. For this to happen, strategic leadership is required.

187. Hitherto the funding councils have funded central initiatives in the sector to promote procurement. However it is becoming clear that in order for procurement to move to its next stage of development, a different approach is required. This document suggests that improvements will only be possible if individual institutions take a positive strategic approach to procurement, and if the sector collectively takes a more active role in promoting and managing procurement.

188. Institutions and other stakeholders are invited to comment on and make proposals for the development and strategic management of procurement in the higher education sector.

## **Annex A**

### **Good practice checklist**

#### **Activities or attributes that would characterise an advanced procurement process at work**

The following good practice points are drawn from the relevant sections in the main text. Table 1 below reproduces the matrix of key characteristics from the McClelland report that can be used to assess procurement performance in HEIs.

#### **Accountability and governance**

1. Every institution should have a member of the senior management team designated as having lead responsibility for procurement. He or she should be designated within financial regulations as the person with authority to negotiate and agree contracts, with overall responsibility for day-to-day procurement transactions, and as accountable for all other procurement functions including leadership of the procurement team.
2. Departments within an institution that have delegated authority to procure should formally designate a procurement officer who is responsible to the head of procurement and who should comply with the formal responsibilities delegated to them.
3. Institutions should reflect the importance of procurement in their organisational structures.
4. Institutions should adopt and apply the principles of delegating the authority to procure from the board of governors through the head of institution to the head of procurement. The head of procurement should be able to further delegate the authority to procure to named individuals to facilitate the procurement process
5. Procurement activities and transactions should only be conducted by staff in the procurement function and other appropriately trained staff.
6. Where, for operational reasons, authority to procure is delegated beyond the central procurement function then strict guidelines should be followed, including formally documented delegated authorities. The individuals to whom authority is delegated are responsible to the head of procurement and subject to the same professional standards, responsibilities and accountability requirements as staff in a central procurement function.
7. Financial regulations and procurement policies should be reviewed in the light of this document with regard to the head of procurement and the authority to procure.

8. Financial regulations and procurement policies should be amended to strengthen the role and responsibilities of the head of procurement and the central procurement function to make them integral to the business processes of the institution, rather than just a source of advice and guidance.
9. Procurement procedure documents should be reviewed to ensure they are fit for purpose where they are mandatory in institutions, as enforced by financial regulations and procurement policies.
10. Boards of governors should re-evaluate whether procurement has been accorded appropriate importance through institutional governance processes.
11. Governors should review the reporting framework to ensure that procurement is accorded an appropriate level of importance through committees of governors. They should be satisfied that any significant breakdown in control would be reported to governors.

### **Procurement leadership**

12. Senior managers in HEIs should consider to what extent procurement is established as a business process in their institution.
13. Senior managers in institutions should initiate a programme, where required, to transform procurement from a tactical and operational to a strategic focus.
14. Sector representative bodies should consider how they can facilitate collaboration to improve areas of procurement such as managing suppliers, benchmarking and training.

### **People and skills**

15. Each institution should review its procurement activities to establish the adequacy or otherwise of the resources and skill levels dedicated to them. This work should identify both the base requirements essential to satisfy the board of governors (see paragraph 66) and the requirements to improve procurement.
16. The level of non-pay expenditure compared with the number of full-time equivalent procurement professionals should form part of the benchmarking data on procurement (see paragraphs 134-138).
17. Where the internal review highlights deficiencies in the procurement skills base institutions should implement a programme of professional training and development.

## **Extending the involvement of procurement expertise**

18. Where the head of procurement is given responsibility for procurement in new areas, senior managers and governors should support this change appropriately to ensure that it is implemented effectively.
19. Institutional senior managers should look at how projects are managed in their institution and determine whether the input from the procurement function is appropriate.
20. Institutions should involve procurement staff in programmes of capital spend at an appropriate stage to ensure that the added value they can offer is maximised.

## **Procurement practices and business processes**

21. Every HEI should make a detailed assessment of where its procurement practices and business processes sit in relation to the matrix of key attributes.
22. Sector representative bodies should agree certain minimum reporting standards for procurement by institutions. The established reporting baseline should provide data of value to decision making and to performance enhancement, and should therefore be readily convertible into key performance indicators of procurement effectiveness.
23. Institutions should ensure that information reporting is deepened and broadened to satisfy more searching management scrutiny. This will help institutions to improve performance in this area.
24. Sector representative bodies should agree a minimum standard set of key performance indicators which an institution displaying superior performance should report as management information.
25. Institutions should review the adequacy of their finance and procurement systems in delivering the minimum standard key performance indicators and plan for change where appropriate.
26. Sector representative bodies should establish a benchmarking and good practice exchange group to oversee a systematic and consistent approach to procurement benchmarking across the HE sector.
27. Each institution should take stock of its procurement performance and should devise a development and implementation strategy to improve the process to meet its needs.

## **Procurement information systems**

28. Governors, senior management and heads of procurement should all ensure that appropriate e-procurement systems are adopted and rolled out into institutions as soon as is practicable.

## **Collaborative and co-ordinated procurement**

29. Sector representative bodies should establish a senior management forum, made up of key stakeholders and procurement professionals, to take stock of collaborative procurement activity and develop a co-ordinated strategy.
30. Professional procurement staff should be involved at an early stage in the investigation of any opportunities for shared services.
31. Sector representative bodies should consider the need for a sector-wide approach to managing contracts and relationships with suppliers, and how best to deliver it.
32. Sector representative bodies should assess the benefits from communication and exchange of information within HE and with the wider public sector, and establish mechanisms for exploiting these more effectively.



**Table 1 Procurement attributes and performance assessment**

<b>Attributes</b>	<b>Assessed status</b>			
<b>Governance role</b>	No involvement	Adequate	Proactive	High-priority focus
<b>Organisational structure</b>	Poor	Meets minimum standards	Seen as key function	One of top-level organisations
<b>Resources and skills</b>	Inadequate	Meet minimum standards	Valued	Seen as investment
<b>Practices and processes</b>	Weak	Meet minimum standards	Pursuing advanced procurement	Achieving advanced procurement
<b>Information systems</b>	Inadequate	Supportive	Adding good value	Fully capable
<b>Involvement in collaboration</b>	None	Intent	Developing	Established
<b>Corporate and social responsibilities</b>	No recognition	Intent	Pursuit	Inclusion
<b>Reporting/ KPIs</b>	Inadequate	Minimum	Adding value	Comprehensive and basis for action
<b>Benchmarking</b>	None	Intent	Some	Practice routine and basis for action
<b>EU guidelines</b>	Not met	Meet minimum	Developed	Advantageous
<b>Supplier policy and strategy</b>	None	Basic	Developed	An asset
<b>Overall value of results</b>	Weak	Just adequate	Better value	Best value
<b>Overall procurement status for the organisation</b>	<b>Nonconformance</b>	<b>Conformance</b>	<b>Improved performance</b>	<b>Superior performance</b>