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Purchasing Good Practice

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The purpose of the FEFC is to secure further education provision which meets the needs and demands of individuals, employers and the requirements of government in respect of the location, nature and quality of provision.

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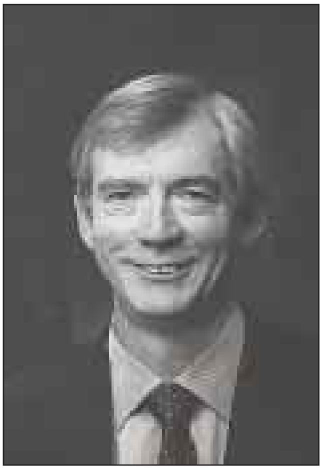
Purchasing Good Practice

Foreword

by the Chief Executive of the FEFC, David Melville



Government is increasingly turning the spotlight on purchasing practices in the public sector.

In response, the Further Education Funding Council (FEFC) facilitated the establishment of, and chairs, the National Procurement Arrangements Group. This comprises representatives of the FEFC, the Higher Education Funding Council for England, the Welsh Funding Council, the Department for Education and Employment, the Joint Policy and Procurement Strategy Group, the Association of Colleges and the Office for Government Commerce (of which OGC buying.solutions is an executive agency) in an effort to promote good practice across the education sector.

Discussions with colleges have highlighted the wide variety of practice that is taking place within the FE sector. The FEFC is concerned that colleges may not be making the most effective use of the sector's buying power, and it wishes to ensure that colleges achieve value for money in the procurement process. This pamphlet has been produced jointly by the FEFC and the Office for Government Commerce. It identifies the main issues that should be considered by colleges as part of purchasing good practice, and is intended to promote best procurement practice.

The National Procurement Arrangements Group has been encouraged by the progress the sector has made in implementing good practice, but there would still appear to be much room for improvement. I encourage colleges to review carefully their purchasing practices, thereby ensuring value for money in the sector's procurement processes.

David Melville

Obtaining Value for Money

The potential contribution of effective and efficient purchasing has been widely acknowledged within the commercial world for many years and the buyer has been tasked with obtaining the right quality of product or service, in the right quantity, at the right time, in the right place, at the right price. Collectively, these '5 rights' constitute value for money. Additionally, it has been increasingly acknowledged that the cost of the procurement process is also a key factor in the value for money equation and various means of reducing or avoiding such costs have been developed.

The public sector has generally been slower to recognise the scope for benefits but, while profit is not a principle motivator, best practice in purchasing can help scarce resources go further and result in improved service provision. Unlike the commercial counterpart, however, the public sector buyer is also required to meet certain national and international obligations.

In the first instance, HM Treasury require that value for money should be obtained following competition, wherever possible. Usually, public authorities will embrace this need within local financial instructions or standing orders, although value thresholds will normally be established below which it is not necessary to follow a tendering process or obtain quotations.

The competitive process

There is also an international obligation imposed by the European Union. At the general level, the Treaty of Rome requires that no buyer should discriminate on nationalistic grounds, whatever the value of the purchase. For higher value demands, EC Directives demand that contracting authorities should provide equality of opportunity to all potential suppliers within the Union. In particular, prescribed actions are required to be carried out, including the advertisement of intended purchases in the *Official Journal of the European Communities*. Failure to comply can lead to legal challenge by a disadvantaged supplier, with the courts able to impose damages available, including revocation of any non-compliant contract and the payment of damages by the contracting authority to an aggrieved supplier. Details of the EC Directives can be found on HM Treasury website (www.hm-treasury.gov.uk).

Best practice purchasing techniques

The obligation to pursue a competitive process does not, however, diminish the benefits that can accrue from the use of best practice techniques in purchasing. As stated above, the '5 rights' will represent value for money and the likelihood of securing each of them will be maximised by examining a combination of the following issues. The relative importance of each 'right' and the amount of time to be spent on the facets below will, of course, be dependent on the specific nature of the purchase and the circumstances surrounding it.

- ***specification*** – the means of defining what is wanted is a key aspect in obtaining value for money. It is important to select the correct level of quality for the task in hand – indeed, quality is defined by the British Standards Institute as 'fitness for purpose' – as any call for an over-specified product or service will only serve to increase costs. It is also important to use the right medium to describe that requirement to potential suppliers. A range of options is available, from the use of brand names, blueprints or engineering drawings, and full descriptions of the methods of manufacture, through to functional or performance based specifications. Each has benefits and disadvantages but the general preference these days is for output-based specifications that allow manufacturers to offer trade pattern products or standard working practices. Again, it is generally more expensive to require industry to create a bespoke solution, especially where the individual demand is not unique to the end-user.

- ***source of supply*** – having defined the need appropriately, the most important factor in ensuring delivery of value for money is the choice of the source of supply. Many issues are worthy of consideration, not least the would-be supplier's:

  capability and capacity – thereby allowing a buyer to assess the likely ability of the supplier to provide the correct quality and quantity of goods within the requisite timescale;

  financial position – to ensure that a company has the necessary resource to finance the manufacture or servicing of the demand;

  track record – to demonstrate that similar demands have been successfully met. This may involve both seeking references from the company's client base and analysing vendor rating records which should include important data such as promptness of delivery, product or service reliability, speed of query resolution and price competitiveness in previous tender exercises;

  location – while significant improvements in distribution chains have occurred in recent years, this might be a factor where the contract covers service provision rather than the supply of goods;

  administration – the ability of a company to administer orders and invoicing is almost as important as the supply of goods or services and inefficiencies in these areas can quickly erode competitive advantages in terms of pricing.

- ***terms and conditions of contract*** – the choice of appropriate terms will not only provide adequate protection to the buyer but also relieve suppliers from having to insure against unnecessary risk. This can cover areas such as warranties, indemnity, payment methods, loss and damage, acceptance, rejection and title.

Tender negotiations

The ability to obtain value for money will frequently be enhanced by pre-tender discussions with the market to ensure that potential suppliers are fully aware of the requirement and that the specification reflects what is available in the most cost-effective manner. Post-tender negotiation may also be appropriate. In both instances, however, care must be taken to ensure that all companies are treated equitably and that the competitive process is not distorted.

All of the above reflects the belief that value for money is more that just a price-based judgement. It is important, therefore, that in the evaluation of offers a raft of criteria is used to assist in the comparative quantification of bids. The individual issues, and weighting of each, will vary according to the nature of the purchase but will frequently include a variety of whole-life aspects such as delivery, performance, reliability, ease and frequency of maintenance and servicing, guarantee periods and disposal costs as well as the initial capital outlay and payment scheduling.

Costs

The cost of the procurement is also an important consideration and includes:

- the time and effort involved in managing the contracting process, from both the buyer's viewpoint and that of industry. In this latter respect, if the demands on suppliers are too great when measured against the likely contract value, or the scale of competition offers only a small chance of success, it is likely that many suppliers will decline to tender. Alternatively, they will load their prices to recoup their costs, including those associated with previously unsuccessful bids;
- the transactional elements of the process, particularly those linked with requisitioning, ordering and bill payment.

Smarter methods of working can eliminate or reduce some elements of these costs. The aggregation of demands within an organisation, for example, might result in a single contract with improved prices, better terms and conditions, more efficient ordering and consolidated invoicing. A consortium approach, through linking with other buyers with similar requirements, offers the opportunity to share economies of scale, benefit from potentially greater price advantage and deploy more efficient management of the supplier base.

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