

August 2006/33

**Policy development**

**Summary of issues**

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Comments should be sent to HEFCE  
by 27 October 2006

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This document summarises issues 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. It accompanies a more detailed report on the web (HEFCE 2006/33a) in which we invite comments on and proposals for the way forward. The full report also provides a checklist of good practice.

# Procurement in higher education – a time of change

## Summary of issues for senior managers

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# Procurement in higher education – a time of change

## Summary of issues for senior managers

<b>To</b>	Heads of HEFCE-funded higher education institutions
<b>Of interest to those responsible for</b>	Strategic planning, Finance, Procurement
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### Executive summary

#### Purpose

1. This document summarises issues 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. It accompanies a more detailed report on the web (HEFCE 2006/33a) in which we invite comments on and proposals for the way forward. The full report also provides a checklist of good practice.

#### Key points

2. Better procurement has the potential to deliver significant efficiencies, releasing resources for institutions to use for their core activities of teaching and research.
3. 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.
4. 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.
5. 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**

6. We welcome comments and proposals on the development and strategic management of procurement in higher education, in particular to the questions set out in the full report. All responses should be returned to HEFCE by **27 October 2006**.

## Context

7. 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.

8. 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.

9. 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.

10. In this context we are issuing this document, which summarises issues for the development and strategic management of procurement, and a more detailed report on the web (HEFCE 2006/33a) in which we invite comments on and proposals for the way forward. Both have been developed by Proc-HE, in consultation with representatives from the sector. They have 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

11. 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 document and the full report, and the time is right for higher education to build on these achievements.

12. 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.

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

- 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.

13. 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.

14. More strategic management and leadership of procurement at a sector level and within institutions would improve efficiency and release additional resources for core activities.

15. 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.

16. 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.

17. 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 below with examples from universities and colleges across the sector.

## Leadership and strategic role of procurement

18. 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.

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. Procurement activity has been reorganised, based on a standard set of processes, resulting in significant resources being released back to the institution.

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.

19. HEFCE 2006/33a contains 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

20. 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.

21. 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.

The University of Sussex involves the head of procurement in the development of all business cases that have a significant element of procurement. It uses business cases to manage developments through a process of scoping, drafting, submission, approval and implementation, in order to demonstrate efficient and effective use of resources.

This approach has encouraged the establishment of cross-functional teams and supported a corporate culture within the institution.

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

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 for a different relationship with the construction industry. 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.

Members of 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 framework agreements 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.



## Developing people and skills

22. The structure 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.

The North West Universities Purchasing Consortium has delivered training in the form of NVQs, training CDs and associated 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 of them work in procurement offices in HEIs, but there are many more from other faculties and departments.

Although it is difficult to quantify the benefits of such training and skills development, there are individual success stories. 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 save £504,000 over the life of the contract.

## Streamlining procurement systems

23. 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.

24. 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.

King's College London has over £120 million of non-pay expenditure, and processes over 130,000 transactions each year. In 2001 the college implemented the Science Warehouse e-procurement marketplace system and has since rolled this out to departments. 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 has interfaces with the main college accounting system and other departmental systems, it has cut out all the transfer of paper involved in making an order, receiving goods and paying invoices. This has already reduced the time and costs of procurement. In addition, usage has helped drive significant savings by ensuring greater awareness of approved core contracts and considerably reducing transaction errors.

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, SciQuest is a web-based system for buying 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. In a nine-month period in 2005-06 around 8,000 purchase orders were raised through SciQuest with an overall value of £1 million.

## **Supplier relationships and contract management**

25. 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.

26. 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.

27. 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.

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 higher education sector. 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. Combined with active price benchmarking and collection of consumption data, this enables them to negotiate the most competitive prices on behalf of the sector.

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

## Performance measurement

28. 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.

29. Proc-HE has developed its Efficiency Measurement Model (EMM), see box below. 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 reporting requirements.

The Efficiency Measurement Model (EMM) is designed to record and report value for money efficiencies achieved through good procurement practice. It has a robust measurement methodology, 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 Tender Evaluation Model (TEM) uses the financial data from suppliers' tenders and takes the user through a whole-life costing exercise. The resulting financial evaluation is considered alongside other non-financial (qualitative and quantitative) criteria. These criteria are weighted and scored to produce an overall evaluation to inform the purchase decision.

30. 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.

31. 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.

The University of Leeds began issuing purchasing cards in 2002 and these were quickly taken up by members of staff. Cards today are predominantly used for business travel, conferences, internet purchases and one-off transactions where it is not practical to create a new vendor in the accounting system. Cardholders are controlled through individual card and transaction limits, and by blocking certain categories of merchandise as appropriate.

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 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.

32. 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.

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

The purchasing function's priorities are contracting, strategy support, communications, and providing advice and training rather than raising or processing purchase orders, which 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 by using IBIS data effectively.

## Working collaboratively

33. 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.

34. 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 (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 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.

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. The group also draws on others in procurement and beyond in the sector for major exercises such as SRIF collaborative procurement.

REAG's biggest visible impact is in collaborative procurement for capital funding initiatives. The group has been involved in procuring equipment for all three rounds of SRIF. In both the first two funding rounds, 15 per cent efficiencies were achieved by reducing costs for volume sales, adding equipment originally not specified, negotiating better payment and other contract terms, and achieving higher specification equipment within allocated budgets.

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, undertaken by a small project group, two potential vendors were selected. Vendor 1 had a capital cost for the equipment of £127,500 per sequencer; 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 market lead in the sector.

The whole life cost of sequencers from 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. This evaluation by the procurement team leading the collaborative exercise persuaded five groups to change their preferred option. The remaining six groups decided to stay with Vendor 1 for other technical reasons.

35. 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.

Analysis of institutions' annual purchasing returns identified temporary agency staff as a high spend area, with the potential for efficiencies through a framework contract delivered through the regional purchasing consortia. The Southern Universities Purchasing Consortium led a joint tender with the London Universities Purchasing Consortium for a combined annual spend of over £60 million.

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.

## **Conclusion**

36. 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.

37. 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.

38. We welcome comments on the issues highlighted here, which are set out in more detail in the accompanying document on the web, HEFCE 2006/33a. Comments should be sent to [procurement@hefce.ac.uk](mailto:procurement@hefce.ac.uk) by Friday 27 October.

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