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</table>
1. **Introduction**

1.1 This document sets out in one source the top level Procurement Capability Review (PCR) Model, showing the scope and coverage of the model at high level, the approach to scoring and the detailed Standards Framework (including notes for reviewers on the standards expected and the likely evidence required).

1.2 Procurement Capability Reviews are an integral part of the Transforming Government Procurement (TGP) agenda. They assess how far departments are able to meet the standards to deliver TGP. The reviews will identify priorities for improvement and the process will provide for a structured follow up with departments.

1.3 The objective of OGC’s Procurement Capability Review Programme is to assist organisations improve their procurement performance by attaining “world-class” standards that are appropriate to the scale and complexity of their business.

1.4 Procurement Capability Reviews assess organisations across the procurement spectrum (i.e. from commodities to complex projects) against a series of nine high level indicators distributed under the headings:

- Leadership;
- Skills;
- Systems.

1.5 The Standards Framework is a reference document which acts as the repository of OGC’s thinking under each of the high level indicators.
2. **Review Model**

2.1 The pictures below shows the high level structure of the Model, in which nine indicators of world class capability are divided between three broad areas.

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![Diagram showing Leadership, Skills, and Systems with Indicators 1 to 3, Indicators 4 to 5, and Indicators 6 to 9.]
3. **Scoring Model**

3.1 A key aspect of the Procurement Capability Reviews is the scoring of departments against the indicators. The scoring mechanism is closely aligned with that in the Civil Service Departmental Capability Reviews and is appropriate for departments of differing sizes and organisation types (centralised, diversified and/or decentralised).

The scoring approach judges is as follows:

- Departments are judged against all of the top level indicators on a “fitness for purpose” basis
- Fitness for purpose is defined as an “optimum correlation between the capability displayed by the department in each area and the specific challenges of its planned delivery portfolio”
- To demonstrate “optimum correlation” departments will need to convince the Review Team that they are doing the “right things”, “doing them well” and have the processes/performance measures in place to support these assertions
- To help departments to respond to this challenge, each of the Indicators has a non-exhaustive standards framework of “what good looks like”. This will be used as the reference point to support the judgments of the Review Team in the priority areas identified during each Review. It is not a checklist to determine the scope and focus of the Review itself

The PCR RAG status scoring is set out below:

<table>
<thead>
<tr>
<th></th>
<th>Strong</th>
<th>Well Placed</th>
<th>Development Area</th>
<th>Urgent Development</th>
<th>Serious Concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Strong capability in all areas important to the organisation and demonstrates highest levels of performance achievement</td>
<td>Well placed to address any gaps in capability or performance through existing actions or plans.</td>
<td>Generally fit for purpose with some remedial action required to address one or a number of important but not “critical” capability or performance issues. (Note: “critical” means an issue that is expected to significantly impact on optimum procurement delivery and/or the achievement of VFM in the short to medium term).</td>
<td>Remedial action required to address one or a number of “critical” capability or performance weaknesses.</td>
<td>Immediate intervention required to address major gaps in capability or performance. (Note: only used infrequently for the most serious concerns)</td>
</tr>
<tr>
<td></td>
<td>G</td>
<td>A/G</td>
<td>A</td>
<td>A/R</td>
<td>R</td>
</tr>
</tbody>
</table>
3.2 The scoring mechanism allows the individual scores to be placed in the wider government context with an appropriate narrative. The assessment for scoring will consider:

- The degree of difficulty of the organisation’s delivery portfolio relating to procurement (clearly some organisations face greater challenges than others)
- The importance of procurement to the organisation’s wider delivery agenda (different levels of procurement capability will be more critical in some organisations than others)
- The assessment will not alter the scores given under each indicator (organisations can only be judged against what they are required to deliver and everyone should ultimately be aiming to achieve “fitness for purpose”)
- The narrative assessment will however give a visible context to the scores making it clear that achieving “fitness for purpose” is more difficult / critical for some organisations than others and that due regard should be had to this when comparing scores.

3.3 Scoring is designed to achieve consistency through a common vocabulary of what good looks like, as confirmed by robust moderation. The key points include:

- Some subjectivity is inevitable when judging what is “appropriate” capability in what are fast changing, complex and differing departmental delivery environments
- Consistency will be achieved through a robust moderation process taking place at the end of each tranche prior to the formal publication of scores
- Moderation will be carried out by a panel chaired by the Chief Executive of OGC. The panel consists of senior staff external to the review process that are from a range of organisations such as the Cabinet Office, the National Audit Office, the Confederation of British Industry (CBI) and HM Treasury
- To form a decision on moderation, the panel invites submissions from both Review Team Members and departmental representatives, if they choose to attend. The panel has an opportunity to question and scrutinise justification of particular scores that may be marginal
- As the Procurement Capability Review Programme develops, moderation will take into account the experience of previous panels in reaching their decision.
3.4 The PCR Model and Transforming Government Procurement refer to measuring performance against ‘world class’ standards. However, there are numerous theories and arguments on what constitutes world class performance, and OGC continues to investigate these (especially in relation to procurement) as part of the ongoing development of this model. In the absence of a clear and universal definition OGC believes that world class should be broadly characterised as the following:

- Exemplary performance at the very highest levels of efficiency and professionalism; and/or

- The best possible use of resources to achieve optimal performance for the department, taking into account the departments business needs and objectives (see also the comments on scalability at 4.4 and 4.5 below)

3.5 The following points should be considered by reviewers if issues about ‘world class’ arise during the review and scoring process:

- The score GREEN means “Strong” and thus indicates very high levels of performance;

- Because resources are finite: a world class level of performance can represent an ideal based on unconstrained resource and time parameters. In practice, such levels of performance are not always achievable, nor always desirable; and

- An organisation which pursues absolute excellence in every aspect of procurement, without regard to the appropriate allocation of resources and time, could be argued NOT to be world class. The achievement of an optimal level of good performance whilst making best use of limited resource can be a World Class performance.
4. Procurement Capability Review Programme Standards Framework

Introduction

4.1 The objective of the OGC Procurement Capability Review Programme is to assist departments improve their procurement performance by helping them work toward and meet “world-class” standards.

4.2 Procurement is covered by PCRs in its widest sense from commodity purchasing to complex procurement and commissioning. It includes the associated project, contract and programme management skills and capacity to deliver procurement outcomes. (Note, OGC has recently agreed a definition of Procurement within the GPS community, see Key Definitions below)

4.3 The Standards Framework document sets out a non-exhaustive framework of standards that will be used by OGC’s Procurement Capability Review Programme to underpin the Review Model and Scoring Mechanism. Reviews will also take into account the series of letters that are issued by OGC setting out the new standards and requirements that central government is expected to meet, as part of the implementation of the policy set out in Transforming Government Procurement.

Scalability

4.4 It is important to note that the application of these standards should always be considered in the light of assessing whether procurement skills, strategies and processes are fit for purpose. For instance, at one extreme a public sector organisation may be small, with mainly tactical procurement spend – basic office services, IT, travel and similar. They may not need the same sophisticated approach to managing strategic IT, Estates, PFI and policy delivery contracts that some organisations will require.

4.5 Therefore the Review team will ensure that assessment against this framework is made with this fitness for purpose principle in mind. For example, an organisation can “score” well on the indicator relating to “sourcing and collaboration” without being at the leading edge of supplier relationship management if it can demonstrate that it has enough competence in that area to meet its own needs fully (i.e. that its capability and performance is fit for purpose).

Context

4.6 The standards contained in the PCR Model will also take into account the wider context against which the department in question is operating. In particular, the reviews will recognise that government departments, like all organisations, are effectively on a ‘journey’ through their existence, maturity, or in some cases history. Therefore, whilst the scoring by the Review Team against the indicators of capability will remain consistent in their application, the review’s comments and recommendations will take into account, for example:
- Recent or imminent machinery of government changes
- Key external political and social issues that give context to prioritisation decisions in the business
- Change programmes, organisational reviews and restructuring
- Significant improvement in performance over time, including for example achievement of improvements from a previously low baseline, even if performance has not yet reached a 'fit for purpose' level.

**Key definitions**

4.7 The following table sets out some key definitions of terms used in this model:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>Commercial activity encompasses business, revenue generating activity, commissioning, contract management, estates management and procurement activity. 'Commercial' particularly relates to the increasing reliance on third party suppliers by central Government and the need to influence outcomes without having direct managerial control.</td>
</tr>
<tr>
<td>Commercial Function</td>
<td>Throughout this model, the commercial function is often referred to. This function is responsible for all the activity outlined above, including procurement. Sometimes it is necessary to distinguish procurement from the wider commercial aspects as per the definitions below.</td>
</tr>
<tr>
<td>Procurement</td>
<td>Procurement is the business management function that ensures identification, sourcing, access and management of the external resources and assets that an organisation needs or may need to fulfil its strategic objectives. Procurement exists to explore supply market opportunities and to implement resourcing strategies that deliver the best possible supply outcome to the organisation, its stakeholders and customers. There is a duty on procurers in central government to apply the key principles of public procurement. These require the delivery of value for money (VFM), appropriate quality and service to meet business needs, and appropriate governance.</td>
</tr>
</tbody>
</table>
| Procurement Professional | The Government Procurement Service (GPS) procurement professional is defined as someone who spends the majority of their working time:  
   *“In a role that directly adds value on the quality and cost effectiveness of procurement and acquisition of goods, services, assets and works; positively impacting upon...”* |
commercial relationships during one or more stages of the procurement cycle, i.e. from product or service conception through to the eventual disposal of the asset or termination of the contract. This will explicitly include the extraction of the value of these goods and services over the lifetime of any contractual arrangement be it short, medium or longer term. This will often include the development and signature of contracts which secure value for money and comply with legal and policy requirements.”

Using this Framework

4.8 This framework is for use with organisations that will be assessed as part of the Procurement Capability Review Programme. It sets out the relevant standards of “what good looks like” in relation to each element of the Review Model. As well as the key standards, it identifies a number of relevant metrics. These are ‘hard’, quantitative measures that can be used to make direct comparisons between organisations, and to monitor progress over time. This set of Key Performance Indicators (KPIs) has been developed in the light of experience from the first set of 16 reviews in Tranches 1 to 5 of the PCRs, and to reflect current good practice externally, in the audit community and beyond. This version of the PCR Model contains a revised set of KPIs which forms a base set of performance measures which OGC believes are relevant both to departments’ commercial business, and as basic benchmark data. These measures will also be used to measure progress at the 12 month milestone (Stock take) assessment conducted by OGC after the completion of the initial PCR process in each department.

4.9 There are three different types of PCR indicator:

- **Key metrics:** These are key measures designed to help OGC and the department track whether performance is improving over time. There are 9 key metrics.

- **Contextual metrics:** These are measures that inform the key metrics and that are useful to track over time. However, they need to be interpreted alongside other information. There are 6 contextual metrics.

- **Diagnostic metrics:** These are more detailed measures that are used to inform specific lines of enquiry during the Procurement Capability Review or 12 month stock take. They are not intended for ongoing monitoring of procurement performance. There are 8 diagnostic metrics.

Table 2 on the next page lists the KPIs under each of these types. The detailed KPIs are embedded in the standards framework in the appropriate indicator and definitions of the terms used to define the KPIs can be found at Annex D.
Table 2: PCR Key Performance Indicators (KPIs)

<table>
<thead>
<tr>
<th>Key metrics</th>
<th>Leadership</th>
<th>Skills development &amp; deployment</th>
<th>Systems &amp; processes</th>
<th>Results delivered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Stakeholder confidence</td>
<td>5. Ratio of procurement VFM savings to the cost of procurement function</td>
<td>12. Average processing cost per purchase order/per invoice</td>
<td>19. Procurement VFM savings as a % of 3rd party spend</td>
<td></td>
</tr>
<tr>
<td>2. Supplier confidence</td>
<td></td>
<td>13. % of 3rd party spend via pre-arranged contracts</td>
<td>20. % 3rd party spend via SMEs</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>14. % of 3rd party spend via collaborative procurement</td>
<td>21. Performance against SOGE targets</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contextual metrics</td>
<td>3. % of 3rd party spend actively managed by procurement professionals</td>
<td>6. Cost of procurement function as a % of 3rd party spend</td>
<td>15. % 3rd party spend via procurement cards</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>7. % staff turnover of procurement professionals</td>
<td>16. % achievement of payment terms/within 30 days of receipt</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>22. Average unit costs of a basket of 11 commodities</td>
<td></td>
</tr>
<tr>
<td>Diagnostic metrics</td>
<td>4. Level of head of procurement function</td>
<td>8. % procurement staff FTEs that are qualified</td>
<td>17. % 3rd party spend via structured category management</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>9. % procurement staff undergoing professional training</td>
<td>18. % 3rd party spend managed via eSourcing</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>10. % procurement employees externally resourced</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>11. % 3rd party spend covered by supplier relationship management</td>
<td>23. Customer satisfaction with supplier performance</td>
<td></td>
</tr>
</tbody>
</table>
4.10 Also contained with the Framework are **Reviewer Notes** setting out in more
detail relevant issues relating to assessing performance against each of the nine
indicators. However, it is vital that Reviewers apply their own judgement and
experience, particularly around issues such as the fitness for purpose point
described above. In particular, they should be prepared to investigate further
those areas that appear to offer significant improvement opportunities. Hence the
Review Notes do **not** lay out hard and fast rules for the assessment. They do go
into more detail in some technical areas, such as a more detailed description of
typical category management processes. They also highlight the sort of areas
where reviewers do need to be flexible and look at each organisation on its own
merits. OGC has developed a PCR Workbook which contains more specific
guidance for reviewers on certain issues, and provides a set of supporting tools
to be used when carrying out a PCR. The Workbook is not a published document
and is for use by PCR Review Teams only.

### Assessing “Wider Network” Organisations

4.11 Many government departments have some responsibility for a “wider network” of
other public sector organisations. This ‘wider network’ may consist of associated
agencies, executive agencies, non-departmental public bodies (NDPBs) and
other arm’s length organisations. For example, The Department of Culture Media
and Sport as a Department has over 60 NDPBs. within its network.

4.12 This diagram below illustrates this issue and suggests that during the review
scoping stage, reviewers need to analyse the degree of control departments
have over the ‘wider network’ and establish to what extent the review will
encompass this.
4.13 The assumption in the reviews is that a certain amount of governance, influence, support and advice around the “wider network” should be provided by or be within the remit of the core procurement function within the central Department centre. Some of the standards in this framework are therefore specifically targeted to assess how well a procurement function manages this wider network. However, it is unreasonable to expect that the same level of control be exercised as within the core Department.

4.14 According to ‘Executive Agencies; A Guide for Departments’ every agency needs clear arrangements for overseeing its strategic direction, performance monitoring and review; and these arrangements should be outlined in a ‘Framework Document’. The variety of agencies means that one solution will not fit all, and it should be for departments to decide on the precise structure of governance arrangements as long as the key principles of governance are met: shared strategic direction; meaningful, stretching but achievable targets; risk assessment and management and effective high-level performance monitoring and review.

4.15 The ‘Framework Document’ should set out the key accountability arrangements between Chief Executives in the wider family and the sponsor department. The framework should be approved by Treasury and published on the department’s website. Traditionally departments have formulated one framework document for each agency, it is acceptable for a departmental framework to be developed setting out the governance framework for the department and its wider family. This could assist in emphasising the role that the agencies play in delivering the department’s overall objectives and help to address any problems of disconnection between the agency and department.

4.16 The role and responsibility of a sponsor department should include:

- developing and advising Ministers on the strategic direction of the agency in the context of wider departmental or cross-governmental objectives;
- agreeing a framework for strategic performance management;
- advising Ministers on their response to strategic performance information;
- advising the Chief Executive on steering the agency’s activities to ensure that they most effectively support the delivery of departmental objectives; and
- ensuring that the agency has the delegations and authorities necessary for effective delivery and continuous improvement.

4.17 Every agency should have a departmental sponsor although it should be noted that some agencies (such as HM land Registry) are departments in their own right. In these cases the role of the sponsor is different with a greater emphasis places on communication, liaison and integration rather than on setting the strategic direction and the Chief Executive is directly accountable to Ministers.

4.18 Annex A provides advice to reviewers to aid decision-making when considering the level of autonomy of ‘network’ organisations and which of these networks should be included in the procurement capability review.

1 http://beta.civilservice.gov.uk/about/work/codes/public-bodies.aspx
**Structure of the Framework**

4.19 There are three major Capability areas, with nine key Indicators sitting beneath these areas as follows:

<table>
<thead>
<tr>
<th>3 Capability Areas</th>
<th>9 Key Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership:</td>
<td>(1) Visibility and impact of leadership</td>
</tr>
<tr>
<td></td>
<td>(2) Vision, aspirations, business and policy alignment</td>
</tr>
<tr>
<td></td>
<td>(3) Stakeholder and supplier base confidence levels</td>
</tr>
<tr>
<td>Skills Development and Deployment:</td>
<td>(4) Effective resourcing of procurement activity</td>
</tr>
<tr>
<td></td>
<td>(5) &quot;Intelligent client” capability</td>
</tr>
<tr>
<td>Systems and processes:</td>
<td>(6) Governance and organisation</td>
</tr>
<tr>
<td></td>
<td>(7) Strategic and collaborative approach to market engagement and sourcing</td>
</tr>
<tr>
<td></td>
<td>(8) Effective use of procurement and PPM tools and techniques</td>
</tr>
<tr>
<td></td>
<td>(9) Knowledge and performance management</td>
</tr>
</tbody>
</table>

4.20 The format of this Framework is to set out the high level **Indicators** and underneath each indicator in bold the relevant underpinning **Standards**. **Reviewer Notes** and **Key Metrics** are embedded under the relevant indicators and standards as appropriate.

4.21 The detailed Framework document, which is set out in the remainder of this paper, is therefore primarily a reference document; it acts as a repository of the thinking behind the PCR assessment process and models. This document forms the first baselined iteration of the model. The model was developed throughout 2007 following publication of an initial draft on the OGC internet and a full review of the document at the end of Tranche 1. This updated Version 4.0 reflects improvements identified and implemented during the first round of sixteen reviews of central departments. The model will be updated periodically to reflect any further major developments.
### PROCUREMENT CAPABILITY REVIEW PROGRAMME

#### STANDARDS FRAMEWORK

<table>
<thead>
<tr>
<th>3 Capability Areas</th>
<th>9 Key Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leadership:</strong></td>
<td>(1) Visibility and impact of leadership</td>
</tr>
<tr>
<td></td>
<td>(2) Vision, aspirations, business and policy alignment</td>
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<td><strong>Skills Development and Deployment:</strong></td>
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<tr>
<td></td>
<td>(5) “Intelligent client” capability</td>
</tr>
<tr>
<td><strong>Systems and processes:</strong></td>
<td>(6) Governance and organisation</td>
</tr>
<tr>
<td></td>
<td>(7) Strategic and collaborative approach to market engagement and sourcing</td>
</tr>
<tr>
<td></td>
<td>(8) Effective use of procurement and PPM tools and techniques</td>
</tr>
<tr>
<td></td>
<td>(9) Knowledge and performance management</td>
</tr>
</tbody>
</table>
(1) Leadership … has real visibility and impact

- Commercial activity (defined on page 7) within the department benefits from strong and effective leadership at all levels up to and including Board Level
- The result is all commercial and procurement professionals are confident, highly motivated, empowered, delivery focused and operate effectively within clear parameters and processes, to manage commercial risks and issues across the organisation in a way that is joined-up and commercially focused

Reviewer Notes:

- Reviewers should seek evidence from documentation or interviews, including the stakeholder and supplier questionnaires.
- Reviews should seek to answer the following questions: Is the leader visible? Are the leadership team having a direct influence in the most important areas, projects and activities? Do their peers see them as key people in the senior management structure?
- In terms of personal leadership, the head of the commercial or procurement function, depending how the department defines this activity, is referred to in this document as the ‘Head of Profession’ (HoP). The HoP is always vital, but in most organisations it is also appropriate to consider the wider commercial or procurement senior management team. ‘Leadership’ of the function might involve a wide coverage and many staff in a very large, complex Department with a wide network it may reside in a centralised handful of individuals in a smaller less devolved organisation.

PROCUREMENT CAPABILITY STANDARDS RELATING TO INDICATOR (1)

1.1 The Board demonstrates effective commercial capability and understands the role of the commercial function and its contribution to commercial decision-making in the department and, where appropriate, across the wider network (operationally, from a control perspective and in terms of strategic benefits)

Reviewer Notes:

- Do the permanent secretary and senior colleagues perceive commercial activities as having an important role to play within their organisation?
- Does the Board demonstrate effective commercial capability and understanding?
- Is there sound commercial capability in the senior commercial roles across the wider network?
- Would they automatically involve the commercial function in early discussions about new projects and policies? Reviewers should test this in interviews and seek evidence of supporting processes.
- Is there an understanding at Board level of the estates management function and the requisite governance in place to support delivery of the estates strategy? The Department should have a Property Asset Management (PAM) Board or equivalent in existence with sufficient executive authority to provide the necessary corporate steer and have a membership with the appropriate decision making powers. There should be effective links between the PAM Board and the Board.
1.2 The Head of Profession ("HoP") is clearly identified and visible, either at Board level; or one level below with a Board member taking clear ownership of commercial and procurement matters

Reviewer Notes:

- Is there an identifiable 'Head of Profession' with visibility and influence over commercial activity across the department and, where appropriate, its wider network?
- If the head of profession is not at executive board level, there should be a board member with explicitly defined (written evidence) responsibility for commercial matters.
- The relevant board member should be interviewed to establish their level of involvement, commitment and understanding of the function and its role.
- The functional head should report into this board member; if the head is positioned at a lower level this may be indicative of an organisation that does not take commercial issues seriously.
- Does the department have a named Minister responsible for overseeing procurement activities?

KPI 4: Leadership – level of head of procurement function

<table>
<thead>
<tr>
<th>Rationale</th>
<th>This indicator provides a measure of whether procurement is operating at a senior level in the department and hence is in a position to make a strategic contribution to the wider organisation. Generally the head of the procurement function should be working at either Executive Board level or reporting directly to the Board member. This indicator is a diagnostic metric that is helpful to the Procurement Capability Review team’s assessment of the strategic contribution of procurement.</th>
</tr>
</thead>
</table>
| Calculation | Level 1 = Executive Board level  
Level 2 = Direct report of a Board member  
Level 3 = Managed by a direct report of a Board member |
| Data source | Department organisation structure chart |

1.3 Procurement / Commercial is seen as a distinct function with a Director or “Head of Profession” leading that function at SCS level

Reviewer Notes:

- If procurement is buried within another function or business area it can be an indicator of an organisation that does not take it seriously. However, reviewers need to consider the specific situation; a strong procurement function may report into a main board Chief Finance Officer (CFO) but still operate very successfully.
- In terms of the level and grading, a HoP who is not at SCS level (as per previous OGC guidance) is unlikely to carry the necessary weight or credibility to influence senior colleagues in the manner necessary to drive excellent procurement practice.
1.4 There should be an identifiable Estate Champion at the appropriate senior level and authority to deliver the estates strategy.

Reviewer Notes:

- Recognised best practice would be to have an individual at an appropriate senior level (possibly the Board) level who is the Estate Champion with either a specific responsibility for Estates or a specific objective, as part of a wider remit, to promote/champion Estates management.
- There is evidence the property champion clearly communicates the estates strategy, objectives and plans.
- There is evidence the property champion engages with the wider Government estates community and across collaborative activity.
- There is an understanding at Board level of the estates management function and the requisite governance in place to support delivery of the estates strategy.

1.5 All third party spend is addressed by the commercial function and the HoP has line of sight to ‘follow the money’ and implement appropriate strategies when engaging with the market

Reviewer Notes:

- The best practice principle is that all third party spend should fall under the remit of procurement from a professional, policy and strategy point of view. For example, routine spend should be addressed by a procurement professional or through established procurement vehicles such as Frameworks or GPC cards. Complex procurements should be managed appropriately and led by the HoP and/or other senior and experienced professionals within commercial function.
- Any exclusions (‘procurement doesn’t look at that because it is programme or commissioning spend’) should be explored by reviewers to determine why and consider whether that position is reasonable. The reviewers may also assess in such cases whether there are clear opportunities to improve performance through greater professionalism.
- The HoP can demonstrate value for money is achieved as a result of interventions.
- The HoP commercially led activity is risk aware and drives the commercial vision for the department.

---

2 Defined as the optimum combination of whole life costs and quality (fitness for purpose) to meet user’s requirements
### KPI 3: Percentage of third party spend which is actively managed by procurement professionals

#### Rationale
This indicator provides a measure of the proportion of third party expenditure which is managed by procurement professionals either in the central procurement function or in business units elsewhere in the department. The expectation is that as far as possible the department would want to apply procurement expertise to the management of third party spend so as to maximise the value obtained. Hence Departments would aim to achieve a high proportion of third party spend managed by procurement professionals and to increase it over time.

This indicator is a contextual metric that provides useful information about whether a procurement function has a well developed role. It would need to be considered alongside other information such as the typical value and nature of spend in the department.

#### Calculation

\[
\text{Percentage managed spend} = \frac{\text{Total third party spend managed by procurement}}{\text{Total third party spend of department}}
\]

#### Data sources
Departments should derive the data for third party spend from the information they enter onto the Treasury’s public expenditure database, the Combined Online Information System (COINS) for current procurement expenditure (gross) and gross expenditure on tangible and intangible fixed assets. The data provided should be reconciled to the relevant figure published in the Public Expenditure Statistical Analyses in the data return. Departments would also be advised to cross check the data they provided with the return submitted for the OGC’s Public Sector Procurement Expenditure Survey (PSPES).

#### External benchmarks
This indicator is directly comparable with the following external benchmarks:
- Public Audit Forum procurement indicator:
- Percentage of non-pay spend actively managed by procurement professionals
- CAPS research:
- Percentage of purchase spend managed/controlled by purchasing

---

1.6 There is clear ownership of commercial decision-making at relevant and appropriate levels in all component organisations of the wider network

**Reviewer Notes:**

- In most situations, the central department will act as the sponsor for its wider network. Reviewers should consider whether the organisations in its wider network show a clear ownership of procurement, possibly on a sample basis. One indication is that an identifiable person exists with an appropriate level of seniority and responsibility for procurement in each of the wider organisations.
1.7 The Head of Profession is considered part of a senior ‘peer group’ with other Board members and senior heads of functions

Reviewer Notes:

- Reviewers should explore how the HoP and other senior procurement functional leaders are considered by other senior stakeholders – heads of other functions such as HR or IT, operational directors etc.
- Does the Board request and follow advice at the appropriate time from the HoP so commercial decisions can be effectively influenced to achieve desired business outcomes alongside value for money?
- Does the Board perceive that the commercial function makes a real contribution to business decisions within the department and, where appropriate, across the wider network?

1.8 Leadership of the commercial function forms an integral part of the Head of Profession’s role and the impact of this activity is visible and inspires the team through the line management chain

Reviewer Notes:

- The leadership and management style should be appropriate to the structure of the team. Reviewers should look for appropriate mechanisms for leading and communicating, such as regular team and individual staff meetings, site visits if procurement is decentralised and workshops.
- Leadership within the function can be demonstrated in many ways – these are just a few examples. Reviewers should look for this type of direct and positive intervention and interaction between the leadership and the wider team.
- They should also use interviews with commercial staff to explore the less obvious elements of leadership – do staff feel they understand their role? Do they feel valued? Do they get support when it matters from their senior leaders?
- The commercial team should be confident, highly motivated, empowered and operate within clear parameters and processes.
- The commercial team should understand their role, be focussed to achieve the strategic objectives of the organisation and feel supported and valued by senior staff.

1.9 There is clear communication from the HoP about strategy, objectives, and targets etc.

Reviewer Notes:

- There should be evidence of communication of strategy, objectives, plans and so on by functional leadership, both to procurement staff and to key stakeholders around the organisation. Formal evidence may come from web-based material, documents, workshops etc – less formal communication routes should be explored during interviews.
- Communication would be two-way and dynamic, not a set of sterile and unused documents.
1.10 The Head of Profession sits on appropriate key Steering Groups, project boards etc. generally where advice on spend is required

Reviewer Notes:

- Where procurement has an important role to play in key programmes, projects or other initiatives, the HoP should be represented at the strategic level. A leader who is not involved in this way is perhaps not as highly regarded by senior management, as ideally they should be.

1.11 The Head of Profession participates in wider Government, professional and collaborative initiatives at the appropriate levels in areas applicable to the department

Reviewer Notes:

- As well as demonstrating leadership within their organisation, and whilst not disregarding their core role, procurement leaders should look to play a role in the wider Government procurement community and across the collaborative activities – category management, collaboration, the GPS, CIPS and the Public Sector Faculty, Gateway programmes, etc.
- HoP should only delegate to deputies in cases where participation at their level is not required.

1.12 The Head of Profession provides active personal leadership of wider networks, where appropriate

Reviewer Notes:

- The sponsor department should have a relationship with the heads of procurement in its wider network and this should be proportionate to the amount of spend and responsibility held in the wider network organisations.
- This functional leadership can be demonstrated through the type of contacts they have with these organisations, how they communicate, whether they exert real governance etc. Formal governance structures may exist, such as a council or board, that bring the heads of procurement together to discuss common issues, performance management and opportunities for collaboration. These structures will vary from department to department depending on the scale, complexity and decentralised/centralised structure of the procurement function.
- Interviews with both function leaders and some of these wider stakeholders will help to make reviewers make this assessment. Reviewers will also need to assess how much involvement is practical and appropriate in each specific organisation – this is not an automatic ‘more is better’ issue.
- Sharing of training, staff development, standards and policies across the wider departmental network (and across government generally) is a good indicator of “joined up” leadership.
(2) Leadership ... delivers clear vision, aspirations, business and policy alignment

- There is a clear and purposeful vision and a commercial strategy that plays an integral part in supporting delivery of the department's business objectives.
- Commercial activity must clearly reference the legal and policy framework that requires public procurers to focus on value for money, appropriate quality and affordability, particularly where services are being delivered by third parties.
- Without compromising the overriding objective of VFM, there is clear alignment between commercial activity and the broader policy goals of UK Government such as in environmental sustainability, innovation and appropriate SME participation. The achievement of procurement through policy goals must support and be relevant to the needs of the business.

Reviewer Notes:

- Reviewers should look for evidence of a reasonably concise, high-level, maintained and current commercial strategy which outlines the vision for achieving vfm as part of the department's overall strategic aims. The commercial strategy must be relevant and up to date.
- They should also look for evidence that the strategy means something in practical terms; that it does steer the day-to-day work of the commercial/procurement function and is well aligned to the priorities of the organisation as a whole. This should be tested during the interviews with staff at all levels in the procurement function.
- Reviewers should also seek evidence, written or verbal, from other documentation or interviews, including the stakeholder and supplier questionnaires.

PROCUREMENT CAPABILITY STANDARDS RELATING TO INDICATOR (2)

2.1 There is a clear, current and agreed commercial strategy, signed off by the Board and linked to the department's overall strategic aims.

Reviewer Notes:

- The precise format may vary, but most strategy documents should contain elements such as mission and vision; commercial environment (current position), commercial objectives (future position), indicators of success, governance, risks as well as reference key procurement through policy issues such as innovation and environmental sustainability.
- VFM must be at the heart of the commercial strategy, in line with the Government's procurement policy i.e. assessed over the whole life of the contract and awarded via the appropriate competitive process.
- A Board member should have responsibility and overall accountability for sign-off of the strategy. This ownership must be clearly defined.
2.2 The HoP can demonstrate an effective link between the commercial strategy and the departmental operational plan

Reviewer Notes:

- There should be identifiable activities, responsibilities and objectives that are regularly reviewed to support the objectives of the commercial strategy.
- Plans and metrics should be evident for achieving delivery of the commercial strategy.
- A wide range of staff both inside and outside the function should be aware of the strategy and its contents.
- Reviewers should check how it has been communicated – intranet, workshops etc? It should also be reviewed and updated regularly; ideally annually but certainly no less than every two years.
- IT and market engagement are key areas that should be translated into operational activities.

2.3 The Department’s estates strategy should align with the underlying strategic objectives of the Department and the PAM Board should manage the strategy in a way that supports the achievement of these objectives.

Reviewer Notes:

- There should be evidence the estates strategy is sufficiently effective to achieve corporate and estate objectives, including that of the department’s wider networks.
- The strategy is realistic and compliant with statutory and regulatory cross-government obligations.
- Senior management has signed up to the strategy.

2.4 There should be evidence of a strategic Property Asset Management Plan and any issues should be assessed at an early stage in policy and business planning

Reviewer Notes:

- This Plan should be developed in conjunction with stakeholders, communicated and understood.
- The component projects and programmes should be clearly identified with clear milestones and benefits of delivery, including estimated vfm savings and delivery of sustainability targets.
- There should be a link between the department’s objectives, performance measures and benefits set out in the Plan.
- There is a clear acquisitions and disposal policy that is linked to the organisation’s overall vision and strategy and the policy is in line with cross government targets.
- Acquisitions and disposals are market tested and comply with HMT Green Book and Managing Public Money requirements.
- Approval for commercial decisions relating to estates is given at appropriate PAM and Senior Board level.
2.5 The remit of procurement and the relationship with commissioning is understood and all procurement decisions are based on a whole life, total cost of ownership ("TCO") approach

Reviewer Notes:

- This is a key strategic principle for procurement activity, and reviewers should check that it is understood from a strategic level downwards. Any specific procurement activities (category management or project procurement) examined by reviewers should show evidence of a whole life, TCO approach.
- The department recognises the role that procurement plays in commissioning ie. not just the contract process.
- The department’s commissioning strategy and plans involve collaboration with procurement/commercial.

2.6 There is a systematic approach to business change and the HoP and commercial function are involved in decision-making at key stages

Reviewer Notes:

- Reviewers should establish that the senior commercial team are aware of organisational strategy and that it has been used to inform the commercial strategy.
- The commercial strategy should be linked to the corporate strategy and demonstrate a clear business alignment from strategy to delivery. The commercial strategy must be able to effectively implement changes in response to a change in corporate strategy.
- Reviewers should consider how the commercial function influences and manages change projects. For example, in the case of IT enabled change; to what extent is commercial advice sought and the commercial function is able to advise at all relevant stages ie. from developing the strategy, through the operational phase and to delivery?

2.7 Procurement and commercial impacts and issues are assessed (and professional procurement staff involved) at an early stage in policy and business issues and plans

Reviewer Notes:

- Most major projects or new policy delivery activities have implications for procurement – and procurement issues may well have impact back on the deliverability, cost and timescales for the activity.
- Reviewers should explore whether there are any processes that drive early involvement of procurement. Does the head of function have access to policy and strategy decisions? Are they represented on key working groups, boards, committees etc? Do options or policy papers for Ministers feature any discussion of likely procurement challenges or issues?
2.8 Where necessary, market consultation and market making takes place to support current and future policy and business requirements

Reviewer Notes:

- Particularly in the case of strategically important and non-commodity procurement activities, it is often useful to involve the market in the early processes around establishing requirements, procurement strategy and approach.
- In some cases, organisations may go as far as ‘market making’ – creating capacity where previously none has existed – perhaps by persuading suppliers in an associated sector that they should be developing the new capabilities required.
- Reviewers should seek evidence there is a clear understanding of the need for market management and creation where necessary to fulfil demand and ensure effective competition and long term capacity planning has been considered.
- Reviewers should look for awareness of the organisation’s potential impact on the market; systems should be in place to ensure demand is not having an adverse affect on particular market sectors, for example where an oligopoly exists (few suppliers) or where the organisation could be deemed to be a monopsony (dominant buyer).

2.9 A healthy relationship and dialogue should exist between the commercial function and the area responsible for PPM, possibly a Centre of Excellence (CoE) or equivalent division, and the commercial function should be equipped to support key PPM strategy and activities

Reviewer Notes:

- The commercial function should have regular contact and a strong relationship with the PPM CoE. Reviewers should seek evidence of working together positively; exchange of information, shared training etc.
- It is imperative that PPM and commercial speak to each other at an early stage in any major project. The ‘Starting Gate’ checkpoint may also be used in the department as part of a programme assurance process.

2.10 The organisation has a clear process for “make versus buy” decisions covering both new requirements and existing activities

Reviewer Notes:

- Organisations should regularly review activities to establish the optimum balance between outsourcing and insourcing in order to deliver performance and value.
- This applies to both existing activities and new requirements, and covers in house activities that could be outsourced and externally delivered activities that could be brought back in-house.
Historically, ‘non-core’ activities (facilities management, payroll) were considered most suitable for outsourcing but there may be other valid reasons for outsourcing – for example, skills and knowledge that are hard to develop or retain internally may be available from the market. Over the last few years, suppliers rather than internal teams have provided an increasing proportion of key policy delivery activities.

Reviewers should establish whether such a process exists and if so, examine the evidence to see if it is pursued in a professional and structured manner. (It is less important whether or not the procurement function or others execute the strategy, as long as the correct competence is in place).

‘Make or buy’ decisions, need to be made on a case by case basis as part of the procurement route options evaluation at business case stage.

2.11 Where departments are responsible for delivering internal services, such as FM, ICT, HR, these are regularly assessed against the market

Reviewer Notes:

Even where outsourcing is not deemed to be an attractive option, internally delivered services that have an appropriate market comparator should be assessed regularly against the market, through benchmarking or other processes.

2.12 Complex procurements are well managed and the organisation has a process for considering procurement routes and options for new projects, particularly for major investments

Reviewer Notes:

A complex procurement may be one where the specification is difficult to define or is complex or innovative, the procurement is high risk, the competition is restricted to do a limited market, the contract will be based on unusual commercial models (e.g. PFI or a PPP variant) or where the procurement involves spend in a number of categories. For these procurements, specialist advice will always be required. Particular attention should be given to evaluating value for money in complex procurements.

Early commercial and financial involvement is essential in major project and investment decisions and should be discussed by the appropriate governance structure, such as the commercial board. At this early stage, a wide range of commercial options should be considered.

The funding of investments is a major strategic issue, and the organisation should be able to show they understand the options and the pros and cons around techniques, such as PFI and PPP, as well as ‘conventional’ procurement strategy issues such as commercial models and type of competitive process to be followed (competitive dialogue, restricted etc.)
2.13 The department must understand the need to apply the key principles of public procurement and the achievement of delivering value for money (VFM)

Reviewer Notes (From the OGC Policy and Standards Framework):

- When considering suitable procurement options and developing the business case, VFM should always be assessed over the whole life of the contract. This should include disposal (either sale proceeds or decommissioning costs) and take into account all costs and benefits to society as a whole including the environmental and social benefits and costs, not simply those directly relevant to the purchaser.

- Assessment of supplier bids should only be conducted in relation to a published set of evaluation criteria, which must be relevant to the subject of the contract, and any ‘added value’ that justifies a higher price must flow from these defined criteria and be assessed from the perspective of the contracting authority.

- Affordability should be considered; clearly, goods or services that are unaffordable cannot be bought. This should be addressed as soon as possible within the process, ideally at the business case stage before procurement commences. In order to address this issue, a change in procurement approach, specification or business strategy may be required.

- VFM should normally be established through the competitive process. A strong competition from a vibrant market will generally deliver a VFM outcome. But where competition is limited, or even absent, other routes may have to be used to establish VFM (market creation activity would help avoid this problem for future procurements).

2.14 The department understands the mandatory elements to delivering the environmental sustainability policy agenda

Reviewer Notes (From the OGC Policy and Standards Framework):

Mandatory requirements on departments are:

- Contributions to the Sustainable Operations on the Government Estate targets and commitments (which include the Sustainable Procurement Action Plan commitments).
- Always buying products that at least comply with mandatory standards and buying those at higher standards where possible.
- Buying timber from legal, and, where it offers value for money, sustainable sources. From April 2009, the policy is that Government will only buy timber and timber products from legal and sustainable sources.
- Buying low-emission cars in order to achieve a fleet average car procurement target of 130g/km CO2 by 2010/11 for new cars used for administrative operations.
- Considering the energy efficiency of products as required by the Energy Services Directive.
- Consider the best ways to dispose of waste electrical and electronic equipment.
- OGC’s has produced detailed guidance ‘Environmental Issues in Purchasing’ on the scope to include environmental considerations into the procurement process, in line with the overarching legal and policy framework or value for money and the EU rules.
In addition, departments and agencies should be aware of the Public Service Agreement (PSAs) targets relating to environmental, social and economic progress and spend in a way that supports them, where possible. PSAs 27 ‘Lead the global effort to avoid dangerous climate change’ and 28 ‘Secure a healthy natural environment for today and the future’ are likely to be particularly relevant.

<table>
<thead>
<tr>
<th>KPI 21: Results delivered – Latest star rating and % available points awarded to the department for progress made against the 14 Sustainable Operations on the Government Estate (SOGE) targets.</th>
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</thead>
<tbody>
<tr>
<td><strong>Rationale</strong></td>
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</table>
| This indicator provides a measure of the progress made by departments against the 14 SOGE targets. Procurement has a significant contribution to make in supporting the delivery of the targets.  
| This is a key metric that tests the extent to which procurement is working with stakeholders and suppliers to realise improvements in the management of the government’s estate. |
| **Calculation** |
| The calculation methodology and results are given in Sustainable Development in Government 2007. Departments are given a star rating to illustrate whether the department is on track to meet the SOGE targets. The star rating is derived from points awarded for each target area which are added together to give an overall percentage of points scored. The bandings for star rating are as follows:  
| 0 Star rating = Less than 25% of target points  
| 1 Star rating = 25 - 39% of target points  
| 2 Star rating = 40 - 54% of target points  
| 3 Star rating = 55 - 69% of target points  
| 4 Star rating = 70 - 84% of target points  
| 5 Star rating = 85% or over of the target points |
| **Data source** |
| The latest departmental ratings are published in Sustainable Development in Government 2007 table 2.4 |
| **External benchmarks** |
| None |

## 2.15 Social Issues in Procurement, including equality should be considered and applied appropriately

**Reviewer Notes (From the OGC Policy and Standards Framework):**

The Government’s policy on social issues in procurement is that central Government departments and their agencies should consider and incorporate social issues in their procurements where they are relevant and proportionate to the subject matter of the contract. A range of social issues can be addressed in procurement, including community benefits, employment, equality and workforce skills. Social issues need to be addressed in a way that is
consistent with value for money policy, the UK procurement regulations, and the EU Treaty principles and procurement directives.

This means when departments consider social issues, they should consider:

- Meeting obligations under relevant social legislation, for example compliance with public sector equality duties, which require public bodies to pay due regard to promoting equality of opportunity and eliminating discrimination in their procurement activities.
- Thinking about social issues from the outset. There is most scope available early on in the process, in the business case or when defining needs and specifications.
- Consulting stakeholders including customers and interest groups to help them understand what is needed.
- Including relevant social issues in specifications e.g. a requirement for facilities to attract young people in a procurement for community-centre services
- At selection stage, asking suppliers for evidence of relevant professional or technical ability e.g. for services to ethnic minority communities, cultural awareness and language skills
- Using social clauses or conditions that are relevant and proportionate to the performance of a specific contract

### 2.16 The commercial function should encourage innovation to be used appropriately

**Reviewer Notes:**

- Innovation – The seeking and procuring of innovative solutions can enable better engagement with, and understanding of, the market resulting in more informed, evidence-based decision-making. This in turn can help Government meet its policy commitments and achieve better value for money through higher quality, faster delivery and/or reduced whole-life costs.

- Departments should embed innovation in their practices and seek to use innovative procurement mechanisms, based on the DIUS/OGC guidance Finding and Procuring Innovative Solutions.

- The commercial function should be aware of the “Innovation Nation” White Paper, and its requirement for departments to put in place an Innovation Procurement Plan; reviewers should look for awareness and compliance as positive indicators of performance.

- The commercial strategy should include innovation and should link up with more detailed plans for implementation, e.g. at project or category level.
2.17 Creating opportunities for SMEs and third sector organisations.

Reviewer Notes:

- The Government’s policy on third sector procurement is to encourage and support third sector organisations to compete for public sector contracts where this is consistent with value for money policy, the UK regulations, EU Treaty principles and the EU procurement directives.

- The Government’s policy on SMEs is to encourage and support these organisations to compete for public sector contracts where this is consistent with value for money policy the UK regulations, EU Treaty principles and EU procurement directives.

<table>
<thead>
<tr>
<th>KPI 20: Results delivered – Percentage third party spend via small and medium sized enterprises</th>
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</table>
| **Rationale** | This indicator provides a measure of the department's work to realise the benefits of increased competition by working with SMEs. Departments should be working with SMEs to realise improvements in value for money and the quality of public services.  
This is a key metric that tests the extent to which the department is procuring goods and services via SMEs. |
| **Calculation** | Percentage spend with SMEs = \[ \frac{\text{Total spend with SMEs}}{\text{Total third party spend of department}} \] |
| **Data source** | The value of contract spend with SMEs should be available from the department's contracts database.  
Departments should derive the data for third party spend from the information they enter onto the Treasury’s public expenditure database, the Combined On-line Information System (COINS) for current procurement expenditure (gross) and gross expenditure on tangible and intangible fixed assets. The data provided should be reconciled to the relevant figure published in the Public Expenditure Statistical Analyses in the data return. Departments would also be advised to cross check the data they provided with the return submitted for the OGC’s Public Sector Procurement Expenditure Survey (PSPES). |
| **External benchmarks** | This indicator is directly comparable with the following external benchmark:  
Public Audit Forum procurement indicator:  
The percentage of non-pay spend channeled through SMEs.  
CAPS research have a similar but broader based indicator:  
Percentage of purchase spend with diversity suppliers |
(3) Leadership … results in high stakeholder\(^3\) and supply\(^4\) base confidence levels and expectations

- Leadership across the commercial function results in stakeholders and suppliers understanding of the key drivers and aims of the commercial strategy.
- There are clear and shared positive aspirations regarding the purpose, direction and contribution procurement, estates and PPM operations make to overall organisational performance.
- These positive perceptions are shared by the key elements of the department’s supply base.

Reviewer Notes:

- The Stakeholder and Supplier confidence questionnaires (included at Annexes B and C respectively) can be used as a basis for obtaining useful information in this context.
- Reviewers should use the data from the telephone surveys to develop lines of enquiry for the review.

PROCUREMENT CAPABILITY STANDARDS RELATING TO INDICATOR (3)

Stakeholder Confidence

3.1 The commercial function engages effectively with stakeholders to ensure consideration of commercial issues is seen as a key to achieving value for money and policy delivery.

Reviewer Notes:

- Many people through the organisation will have an interface with the commercial function and activities. This includes senior management, budget holders, specialists (such as IT professionals) who may specify goods or services, and staff who place orders, receive goods and are part of payment processes.
- A shared view exists that procurement is a strategic activity that contributes through a number of channels, including PPM, to the overall objectives of the department in an effective way.
- The CF has a stakeholder engagement plan which articulates different forms of activity and the resultant outcomes.
- There are clear and accessible routes of communication and interfaces between stakeholders and the commercial function and, in particular, appropriate procurement advice is readily available.

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\(^3\) Stakeholders are interpreted as internal to the department and its wider network

\(^4\) Suppliers are interpreted as external to the department and its wider network
KPI 1: Leadership – average stakeholder confidence score

| Rationale | This indicator provides an overall measure of the confidence of stakeholders in the department’s procurement function. A composite score is derived from nine questions that cover the key aspects of the procurement function’s capability i.e. leadership, strategy, responsiveness, skills, governance, market engagement, procurement processes, contract management and performance management. Over time the procurement function would want to increase the proportion of stakeholders agreeing with the statements. This is a key metric that tests confidence in the efficacy of the procurement function. |
| Calculation | Average confidence score = \( \frac{\text{Total score for responses to all 9 questions}}{\text{No. of responses received} \times 9} \) |
| Data source | Completed stakeholder questionnaires from OGC survey |

3.2 Stakeholders perceive commercial colleagues as important allies, professional and supportive of their own priorities

Reviewer Notes:

- The commercial function has an important governance role in the organisation, in particular the best commercial functions are seen positively by stakeholders as colleagues who assist in the delivery of their own and organisational objectives, rather than as policemen who ‘stop things happening’.
- Reviewers will need to use their judgement as to whether the commercial function is achieving the balance between governance and helpfulness. Interview responses and the stakeholder questionnaire results should help.
- Reviewers should note the difficulty of achieving this in decentralised departments where the sponsor department head of procurement does not have direct influence over procurement in its wider network.

3.3 Stakeholders have a good understanding of the role of the Procurement Function together with its plans and policies (e.g. when to involve it, when they can operate independently, and how to work with suppliers)

Reviewer Notes:

- These points indicate a strong, positive relationship between procurement and key stakeholders, and a procurement policy that is clear and well communicated (see ‘governance and organisation’ indicator).
- Stakeholders should understand and accept there is a need for compliance with EU rules and regulations
- There should be a clear perception that procurement staff assist in a professional manner with advice on the procurement process and there are clear and simple lines of engagement
3.4 Users, experts and other non-procurement staff are involved in the procurement process and are also involved in training/community activities as appropriate

Reviewer Notes:

- This is also covered to some extent under the ‘intelligent client’ indicator. Stakeholders will have more confidence in procurement if they understand the overall process and have the right skills and knowledge to play their part in the process.
- This may mean no more than a limited communication from procurement; or it could mean detailed training and development in areas (depending on the individual’s role) such as use of e-procurement processes and systems, supplier or contract management, or technical market knowledge that assists them in developing appropriate specifications.
- Reviewers should look for evidence that procurement engages positively with this wider internal community, and that the key stakeholders take their role in the overall procurement process seriously.
- A ‘programme of education’ should exist for stakeholders in order to promulgate procurement rules and policy issues.

3.5 A focus on stakeholder engagement is evident across the “wider network”

Reviewer Notes:

- Reviewers need to assess how realistic and how beneficial it is for the ‘centre’ to influence the wider network and therefore in how much detail they wish to check stakeholder engagement here.
- In most cases, procurement in the ‘centre’ would be expected to have some relationship with the most important stakeholders around the network – for instance, with Chief Executives, CFOs or Heads of Procurement in NDPBs, or procurement leads in regional hubs in the case of devolved networks such as schools or health.

Supplier Confidence

3.6 Suppliers perceive the organisation as a preferred customer and its procurement operations as a professional, competent function

Reviewer Notes:

- The ultimate aim is that suppliers will ‘go the extra mile’ for the organisation because of the preferred status. This should mean managing them professionally, respectfully and positively thereby building their confidence that the customer organisation is one they want to work with. Such an approach should be part of a strategic and robust approach to contract management.
- Professional and positive relationships should exist at all levels, and especially with a key set of strategic suppliers.
- Information from the Supplier Questionnaire (see Annex C) responses and supplier interviews will be particularly useful to reviewers here.
3.7 Regular and effective communication takes place between the commercial function and the department's supply base

Reviewer Notes:

- The supply base should be segmented with regular, systematic, effective and appropriate communication occurring with the related slice of suppliers eg. Key suppliers will receive a different format of communication to one-off suppliers.
- Senior ownership of key relationships is apparent and key suppliers have more formal communication.
- An escalation procedure exists for suppliers to use where necessary.
- Suppliers are vital to virtually every organisation’s success. As such, communication is key. Good practice could include both ongoing engagement using mechanisms such as the website, along with targeted events or activities (such as supplier conferences or a mail-shot) about a particular issue.

3.8 Where appropriate there is positive engagement with key trade bodies and associations

Reviewer Notes:

- Trade associations and similar bodies can provide useful market intelligence, information on firms with particular capabilities, and offer a sounding board for customer ideas, specifications or plans. But reviewers should assess whether such contact would be useful (on the ‘fit for purpose’ principle), as it may not always be appropriate or necessary.
- This will be more relevant for large departments, smaller departments may engage on an ad hoc basis.

3.9 Mechanisms are in place to encourage new suppliers, including Small and Medium Enterprises (SMEs) and third sector providers, and to offer clear access routes for doing business

Reviewer Notes:

- Organisations that always use the same supply base and are closed to new offerings or suppliers will inevitably miss out on innovation, performance and value. Mechanisms to encourage new suppliers to bid for work can include sections on the organisations website, participation in supplier open days, visits to trade exhibitions etc.
- Such activities clearly have to be judged against the relevant costs and the effectiveness of bringing new suppliers on board.
- The more the organisation buys from complex, innovative or rapidly changing markets the more critical such mechanisms are likely to be in delivering VFM.
- The department may use particular routes to market, such as Supply2gov to encourage new suppliers.
3.10 It should be clear who is responsible for contract management and the contract manager(s) should be respected by suppliers

Reviewer notes:

- Suppliers are clear who to discuss contract management issues with in the department
- Suppliers are confident that the contract management staff are well-trained, experienced and commercially competent.
- Suppliers express that key contracts are managed effectively by the department, routine contracts are not overlooked.
- Dispute resolution is rarely needed – as a result of good relationships being developed and managed (rather than a reluctance to engage)

3.11 New and existing suppliers have routes to contribute innovative ideas

Reviewer Notes:

- This issue is also covered under Indicator (2) where it falls into the assessment of how the organisation handles sustainability and environmental issues.
- Innovation should be encouraged wherever it might be useful to the organisation.
- There will be many instances where it will be smaller and medium size enterprises and / or less established suppliers who can provide diversity, innovation and responsiveness to needs. While there should not be any bias towards such organisations that cuts across VFM, the procurement rules and procurement policy, organisations can and should take positive action to open up public sector procurement to such firms.
- Approaches that have proved successful in opening up procurement in this way include simplifying bidding processes to encourage new suppliers; ensuring ‘rules’ on financial stability of bidders are not restricting younger firms; or running open days or education sessions (perhaps with local Chambers of Commerce) for small or minority owned suppliers.

3.12 Suppliers have high levels of confidence in the buying organisation

Reviewer Notes:

Suppliers feel that:

- A professional, well thought out and strategic approach is taken to procurement by the buying organisation
- Procurement professionals within the buying organisation have the appropriate capabilities
- Procurement processes adopted are transparent and appropriate
- A win/win approach is pursued by the buying organisation
- They are treated fairly
- They are able add value to the business of the buying organisation
- There is a defined complaints process
<table>
<thead>
<tr>
<th><strong>KPI 2: Leadership – average supplier confidence score</strong></th>
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<tbody>
<tr>
<td><strong>Rationale</strong></td>
</tr>
<tr>
<td>This indicator provides an overall measure of the confidence of suppliers in the department's procurement function. A composite score is derived from eight questions that cover key aspects of the procurement function's capability i.e. strategy, professionalism, skills, market engagement, procurement processes, governance, contract management and performance management. This is a key metric that tests confidence in the efficacy of the procurement function.</td>
</tr>
<tr>
<td><strong>Calculation</strong></td>
</tr>
<tr>
<td>Average confidence score = ( \frac{\text{Total score for responses to all 8 questions}}{\text{No. of responses received} \times 8} )</td>
</tr>
<tr>
<td><strong>Data source</strong></td>
</tr>
<tr>
<td>Completed supplier questionnaires from survey undertaken by the OGC</td>
</tr>
</tbody>
</table>
Skills Development and Deployment ... demonstrates effective strategies for the resourcing of commercial activities

- The department has clear, effective and forward looking strategies to address the resourcing of all commercial activity including strategies to address the sourcing, development and retention of appropriate procurement professionals, staff with appropriate broader commercial skills and other specialist resources including appropriate legal support
- The correct balance between in-house and outsourced / bought in capabilities is addressed in this context

PROCUREMENT CAPABILITY STANDARDS RELATING TO INDICATOR (4)

4.1 There is an appropriate number of procurement professionals relative to the size and nature of the organisation

Reviewer Notes:

- Appropriately qualified people are used effectively and appropriately to ensure their skills are fit for purpose for the needs of the department.
- Factors to be considered are the complexity of the procurement profile. For example a profile with more major projects and lower commodity spend may need more staff than vice versa.
- A very approximate guide and benchmark to appropriate levels based on total annual third party spend is:
  - £100M  10 - 15 professional staff (excluding admin, transactional)
  - £500M  30 - 50
  - £1000M 50 - 80
  - £2000M 70 –120

These figures relate to core procurement people, not those involved in operations or contract management, nor delegated transactional ‘order placing’ activity across the wider network.

- Either too few or too many staff is potentially a negative indicator.
- Reviewers should ensure the organisation provides information on the number of contractors and interims used and in what roles together with the relevant rationale. In particular, the last two years trends should be looked at. Depending on the rationale, continuous heavy use of such resource may indicate problems with recruitment or retention, skills transfer issues and/or poor resource planning.
### KPI 5: Skills development and deployment – ratio of procurement related VFM savings to the cost of the procurement function

**Rationale**
This indicator provides a measure of the value for money savings generated by procurement relative to the cost of the procurement function. The expectation is that procurement professionals should be seeking to constantly improve the value for money obtained from third party spend.

This is a key metric that tests the contribution of the procurement function to the overall work of the department.

**Calculation**
\[
\text{VFM to cost ratio} = \frac{\text{Total procurement related VFM savings}}{\text{Total running costs of the procurement function}}
\]

**Data sources**
- CSR 04 procurement related VFM savings should be derived from the OGC CSR04 efficiency return
- CSR07 procurement related VFM savings should be derived from the monitoring of the department’s value for money delivery plan
- Cost of the procurement function should be from the departmental estimates

**External benchmarks**
- There are no directly comparable benchmarks but department’s may wish to refer to the following:
  - CAPS research
  - Cost avoidance savings as a percentage of total purchase spend.
  - Accenture
  
  Accenture’s cross industry research based on 225 companies suggests that the best procurement functions deliver a savings ratio of eight to 10 times their cost. Ineffective organisations deliver a ratio of three to four times.

### KPI 6: Skills development and deployment – cost of the procurement function as a % of third party spend

**Rationale**
This indicator provides a measure of the cost-effectiveness of the department’s procurement function. The expectation is that the procurement function would aim over time to reduce the costs of procurement relative to spend.

This indicator is a contextual metric that provides useful information about whether a procurement function is relatively cost effective or not. It would be need to considered alongside other information such as savings achieved and stakeholder confidence.

**Calculation**
\[
\text{Percentage procurement cost} = \frac{\text{Total running costs of procurement function}}{\text{Total third party spend of department}}
\]

**Data sources**
- Cost of the procurement function should be derived from the departmental estimates
- Departments should derive the data for third party spend from the information they enter onto the Treasury’s public expenditure database, the Combined Online Information System (COINS) for current procurement expenditure (gross) and gross expenditure on tangible and intangible fixed assets. The data provided should be reconciled to the relevant figure published in the Public
Expenditure Statistical Analyses in the data return. Departments would also be advised to cross check the data they provided with the return submitted for the OGC’s Public Sector Procurement Expenditure Survey (PSPES).

<table>
<thead>
<tr>
<th>External benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>This indicator is directly comparable with the following external benchmarks:</td>
</tr>
<tr>
<td>Public Audit Forum procurement indicator:</td>
</tr>
<tr>
<td>Cost of the procurement function as a percentage of non-pay spend</td>
</tr>
<tr>
<td>CAPS research:</td>
</tr>
<tr>
<td>Purchase operating expense as percentage of purchase spend</td>
</tr>
</tbody>
</table>

4.2 There is a clear workforce strategy in place for resourcing the commercial function

Reviewer Notes:

- Strategies exist to address the sourcing, development and retention of procurement professionals, staff with appropriate broader commercial skills, appropriate legal support and other specialists on an ad-hoc basis as appropriate.
- Skilled people should be recognised as such and fill jobs that require their skills ie. appropriate people should be in related roles for their skillset.
- There should be written evidence that the resourcing strategy is linked to future organisational changes and that a plan exist that supports the strategy.
- The organisation’s analysis should include identifying gaps (e.g. major forthcoming projects), leading to recruitment / resourcing plans that identify what sort of people (in terms of skills and experience) are needed, when, and how they will be sourced.
- Staff on long-term temporary promotion should not fill resource gaps.
- There should not be a disproportionately large number of staff on temporary promotion filling resource requirements.
- The procurement function should demonstrate close working relationships with legal and other specialist advisers (potentially internal and external) and an understanding of when it is necessary and appropriate to involve them (including the relevant forward planning).

4.3 Succession and organisational planning processes are in place relating to the organisation’s procurement operations

Reviewer Notes:

N.B These plans must relate to the structure of the organisation and the assumption is that the issues in both small decentralised and small centralised departments will be different to large departments as the issues they face will differ.

- Succession plans should be in place – at least for all senior and mid level positions. As part of this process, there should be clear identification of staff with potential for promotion at all levels.
- Talent management strategy visible and used to support successful succession planning.
- Processes exist that anticipate staff changes.
- Processes must be proportionate for the size of the department.
4.4  **Job descriptions, role profiles, objectives, targets and effective performance evaluation and grading processes are in place for all procurement positions**

**Reviewer Notes:**

- Job descriptions and clear, measurable objectives should be available for all roles. They should be up to date and appropriate. The absence of such descriptions is a strong negative indicator.
- Value for money targets should be set for individuals or teams.
- Job evaluation processes should be in place. Reviewers may want to check that the process is relevant for procurement roles.
- There should be evidence of a strong appraisal process, which focuses on both a look back at achievement of objectives and forward at future objectives and development.
- The objective setting, appraisal and review process should be timely. Objectives set should be SMART and have enough clarity that poor performers can be identified and remedial action taken.
- Is there any evidence of successful remedial action for poor performance? If this has never happened, it may be an indicator of a ‘weak’ approach to performance.

4.5  **Recruitment for procurement posts is open, fair, professional, and seeks excellence and diversity**

**Reviewer Notes:**

- Reviewers should assess how recruitment is handled. Is there a clear process that meets business needs and can recruitment be carried out in a timely manner, quickly where there is a specific business need?
- Vacancies should be advertised widely, including on the government recruitment gateway and externally (Supply Management etc.) Selection processes such as assessment centres may be used – if so, they should focus clearly on required procurement skills.
- How successful have campaigns been – what is the cost per person recruited? What is the profile of staff recruited – age / sex / ethnicity etc? Does the function show evidence of diversity of job background (e.g. a mix of public / private sector backgrounds), as well as these factors?
- Regular difficulty in recruitment is a negative indicator – could be either poor ‘package’ offered to recruits or a poor recruitment process.
- Human resources should be an effective enabler of the resource strategy.
4.6 Different needs within procurement are identified (e.g. category specialists combine procurement and specific category knowledge, project procurement staff have project management skills)

Reviewer Notes:

- Evidence that different needs have been identified and that specific job descriptions / training plans are developed for different aspects of procurement.
- Some evidence of thinking 'outside the box' - possibly category experts brought in from technical or business areas, or project procurement people developed from project managers?
- Once they are underway, co-operation in the GPS ‘mid-career’ and graduate entry schemes will be a positive indicator.

4.7 Procurement and commercial staff are included in the organisation’s induction programme that are in place, relevant and used

Reviewer Notes:

- Physical evidence of initiation process, including meeting key people, basic organisation facilities and processes etc. should be considered
- It is anticipated that staff completing the induction process will have a basic understanding of the role of procurement and commercial influences

4.8 Retention strategies are in place for key procurement professionals

Reviewer Notes:

- The department should have in place a reward strategy for procurement professionals that encompasses professional development, career progression and focuses on the total reward package available to civil service staff, including flexible and non-monetary benefits.
- Retention strategies may include payment of a “procurement allowance”, targeted performance bonuses or personal development approaches. The department should be able to demonstrate benchmarking of salaries against market rates.
- The turnover rate for procurement staff is an indicator of the need for such strategies. A rate above about 15% can cause problems and can also be indicative of issues such as low salaries, poor motivation or organisational reputation.
- However, too low a turnover rate can be an issue if it does not allow for the function to be ‘refreshed’.
- Note: Reviewers should be aware that the OGC is working with departments, through the GPS community, to agree a Reward and Recognition Strategy which seeks to address the current disparity of approaches which exist across departments, and to reach some commonly agreed solutions to reward and retention issues.
KPI 7: Skills development and deployment - Percentage turnover of procurement professionals

| Rationale | This indicator provides a measure of the stability of the procurement workforce. The procurement function should be aiming to keep turnover levels at a reasonable level – not too high so that business continuity and recruitment/induction costs become issues but also not too low so that the function stagnates. This indicator is a diagnostic metric that is helpful to the Procurement Capability Review team’s assessment of how the procurement workforce is managed. |
| Calculation | Percentage turnover = \( \frac{\text{Total permanent FTEs leaving in last 12 months}}{\text{Total permanent FTE procurement professionals}} \) |
| Data source | This information should be derived from the Department’s HR systems |
| External benchmarks | There are no external benchmarks. However a turnover rate of 8 -15% could be seen as a notional standard. |

4.9 The central commercial function has an overview of resourcing needs such as legal support both within the department and, where appropriate, across its wider network

Reviewer Notes:

- The legal function is sufficiently resourced to support the department’s aims and business.
- There should be evidence there is an effective working relationship with the legal function.
- The legal function understand the requirements of the department and is able to provide appropriate advice, including for complex procurements.

4.10 There is an overall learning & development strategy with appropriate programme/interventions in place to support the department’s procurement operations. There should be evidence of procurement practitioners holding relevant professional qualifications, such as the Chartered Institute of Purchasing and Supply (CIPS) or other equivalent professional qualifications. There should also be evidence of continuous professional development (CPD) and/or equivalent programmes that are owned and managed by the departmental Head of Profession.

Reviewer Notes:

- Components of the professional learning and development portfolios may incorporate the CIPS ladder of qualifications with the MCIPS qualification recognised as a
professional standard. Learning and development paths for procurement should also recognise that other qualifications, such as RICS, may also be relevant depending on the job role.

- Co-operation and sharing of learning and development activities across the wider departmental network and across the wider public sector is considered a positive indicator.
- Learning and development and CPD plans for individuals and teams should encompass more than being a member of a relevant professional body. Reviewers should ask for evidence to support proposals in this space.
- All senior and experienced staff in particular should participate in formal and recorded CPD activities. Reviewers should ask for evidence to support proposals in this space.
- Professional learning and development strategies should cover the needs of non-procurement professional stakeholders, such as SROs, finance directors, project management teams, etc; particularly where these stakeholders play an influential role in the commercial decision making cycle.

<table>
<thead>
<tr>
<th>KPI 8: Skills development and deployment – Percentage permanently employed procurement employees (FTEs) that are professionally qualified</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rationale</strong></td>
</tr>
<tr>
<td><strong>Calculation</strong></td>
</tr>
<tr>
<td><strong>Data source</strong></td>
</tr>
<tr>
<td><strong>External benchmarks</strong></td>
</tr>
</tbody>
</table>

4.11 Procurement and commercial skills should form part of the department’s skills framework

**Reviewer Notes:**

- As well as the standard CIPS route, individual training plans should be available and up to date for all staff. They should address development needs and opportunities identified through the review and appraisal process.
- Ideally, a range of methods should be used, including formal courses, conferences or workshops, internal mentoring / experiential routes, secondments, etc.
- The use of a recognised competency framework to measure skills levels and gaps is considered a positive indicator.
- The lack of a CIPS programme or formal training that includes commercial and procurement plans is a strong negative indicator in this section.
- As well as assessing individual needs, there should be some consideration of the wider procurement function needs. For example, not everyone in the function may need to be a top class negotiator; but it would be a concern if there were no staff with such skills.
- This analysis should drive the prioritisation of training activities and / or be used to identify needs for new development areas for the function as a whole.
- Again, the use of recognised competency frameworks is a positive indicator.

### KPI 9: Skills development and deployment – % permanently employed procurement employees (FTEs) that are undergoing professional training

| Rationale | This indicator provides a measure of the level of investment in training of procurement employees. It is expected that procurement functions will wish to maximise the levels of professional skill and knowledge of its workforce. This indicator is a diagnostic metric that is helpful to the Procurement Capability Review team's assessment of how the procurement workforce is trained and developed. |
| Calculation | Percentage training = \( \frac{\text{Total FTEs enrolled on a relevant course}}{\text{Total permanent FTE procurement professionals}} \) |
| Data source | This information should be derived from the Department's HR systems or the department's procurement training budget |
| External benchmarks | None |

#### 4.12 There is visible evidence that the Head of Profession engages with the Government Procurement Community (GPS) and develops a sense of procurement "community" within the department and where appropriate, the wider network and the wider commercial function.

**Reviewer Notes:**

- There is a sense of a procurement community
- Procurement professionals are members of the GPS
- Internal 'community' activities may include newsletters, conferences and workshops, as well as social events
- Beyond the organisation, participation in GPS and the public sector faculty is a key element. Other activities could include working with other organisations, or participation in OGC or CIPS initiatives.
4.13 Contract management staff demonstrably drive value from third party spend

Reviewer Notes:

The National Audit Office in conjunction with OGC has developed a Good Practice Contract Management Framework. The following attributes are expected of a contract manager and the following notes are taken from 'Area 2: People' on page 9 of that framework.

Ensuring the right people are in place to carry out the contract management activities.

The contract manager (or contract management team) should carry out the following:

- The contract manager has continuity (ideally through involvement during the tendering/contract award processes) and a handover from the staff responsible for the tendering/contract award.
- The contract manager has a detailed knowledge of the contract and other relevant issues, such as service level agreements, and ongoing supplier performance.
- The contract manager has the appropriate skills (both specific contract management skills and more general commercial awareness and expertise), with access to relevant training and development. Experienced contract managers are utilised on key contracts.
- Contract managers have accurate job descriptions, roles are positioned at an appropriate level and salary, and there is a career path for contract management staff.
- Contract managers have clear objectives and reporting lines and their performance is managed through reviews and appraisals.
- The contract manager has appropriate delegated authority to manage the contract effectively.

Wider staff issues should be addressed in the following way:

- Balanced contract management teams are brought together, with an appropriate range of skills; the teams may vary in composition over the life of the contract to meet specific needs.
- Contract management is adequately resourced, in proportion to the importance of the contract (primarily but not exclusively its cost), and there are enough staff to carry out the required activities.
- The organisation has a contract management ‘community’ allowing contract managers to share good practice. The community also plays a role in the wider government contract management/procurement community.
- Reviewers should expect to find evidence of knowledge of the NAO Contract Management Framework, and use of and compliance with the framework.

It should also be noted that in deciding how to resource their contract management activities, departments should assess the value for money opportunities and level of risk associated with individual contracts across their portfolio of service contracts, drawing on the guidance in the NAO good practice framework. This assessment will help organisations determine whether the resources they have are allocated to best effect, and whether they need to improve the quantity and/or quality of resources to exploit opportunities for value for money gains and to manage risk effectively.
4.14 Training for senior staff goes beyond CIPS towards a broader business focus, such as finance, accountancy, understanding mergers and acquisitions, investments etc.

Reviewer Notes:
- High performing commercial functions need to be resourced by people with relevant experience and skills
- There may be a need for wider training in business skills or for the buying in of specialist skills. Where skills are bought in, knowledge transfer and succession planning must be applied to capture and share knowledge and learning
- There should be evidence of discussion and planning between the various commercial functions within the department to ensure that where capacity gaps exist, resources are managed effectively.
- The use of non-executive Board members could signal innovative ways of filling skills gaps.
- Shared activity such as co-ordinated training courses and joint or cross-departmental networking events would be positive indicators.
- Professional and business training schemes, MBA programmes, alliances with academic and private sector organisations and mentoring schemes would all be positive indicators.

4.15 External resource is used effectively and appropriately (e.g. to fill short term skill gaps, for specific specialist consulting advice or for discrete outputs / outcomes based requirements)

Reviewer Notes:
- “External resource” should be taken to include service contractors (e.g. staff in outsourced functions), consultants and other specialist advisory firms (such as both law and accountancy firms) and interims on temporary or short term employment contracts.
- The organisation should intelligently distinguish between options. In particular, it should show it understands the difference between potential resources and that they consider carefully which resources are most appropriate.
- There should be some sort of business case process for all but very small spend. Where spend is significant there should be a justification – in output terms preferably for consultancy work, or explaining why permanent staff / recruitment is not being used in the case of contractor or interim support.
- For each requirement, a clear and robust specification relevant to the business need should be developed in such a way that supplier performance can be measured.
- The focus should be on finding the right people and achieving value for money. Proper selection processes should be used that consider a range of options – different interim providers or consultants for instance.
- Procurement staff should have relevant training on how to buy and use consultancy services effectively and appropriately.
- Such resources should be carefully managed. For example, in relation to consultants there should be evidence of consultants / advisors being actively managed throughout an assignment, with clear deliverables, performance criteria, review processes and a defined client. Interims and service contractor staff should be managed in a similar manner to internal staff – with clear deliverables and performance reviews. End
points are defined so assignments do not run on unnecessarily. Interims should
generally not be employed for over 12 months consecutively.

- Payment for external resource should be linked whenever possible to deliverables.
- A structured approach should be taken to skills transfer to internal staff. For example,
  by identifying who will be the recipient and how the skills will be transferred (working
  with the consultant, written material, training sessions etc.)
- As well as skills transfer to individuals; the organisation should seek to capture
  knowledge and learning form external resource and projects, through processes such
  as post assignment reviews.
- The organisation has an awareness of the National Audit Office Consultancy
  Assessment Toolkit and this has been applied to the use of consultants across the
  organisation, or at a project-level, as a mechanism for reviewing how well value for
  money is being obtained from its use of consultants. Any areas of weakness identified
  should have been considered and improvements either planned or put in place.
- There should be an understanding or contribution towards the OGC Consultancy
  Value Programme and how this can contribute to help departments to plan their
  resourcing more effectively.

<table>
<thead>
<tr>
<th>KPI 10: Skills development and deployment - % all procurement employees (FTEs) externally resourced</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rationale</strong></td>
</tr>
<tr>
<td>This measure gauges the extent to which there is an appropriate use of external resources to meet the needs of the procurement function. Procurement functions will wish to ensure that external resources are only used to fill short-term skill gaps, provide specialist advice or deliver discrete assignments or outputs. This indicator is a diagnostic metric that is helpful to the Procurement Capability Review team’s assessment of how the procurement workforce is managed and resourced.</td>
</tr>
<tr>
<td><strong>Calculation</strong></td>
</tr>
<tr>
<td>% external resources = Total FTE contractors, interims etc</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Total FTE procurement employees</td>
</tr>
<tr>
<td><strong>Data source</strong></td>
</tr>
<tr>
<td>This information should be derived from the Department’s HR systems</td>
</tr>
<tr>
<td><strong>External benchmarks</strong></td>
</tr>
<tr>
<td>None</td>
</tr>
</tbody>
</table>
4.16 Strategic property asset management (PAM) skills needs and resource requirements are understood and resources are strategically deployed to meet these needs

Reviewer Notes:

- The organisation structure is appropriate to delivering an efficient estate, including strategic planning, procurement and management of capital works projects, service contract management and in-use building performance management.
- There are clear responsibilities for performance measurement and management, data and information systems and management and identifying opportunities for enhanced vfm.
- Capacity and capability of the estate team should be effectively documented.
- Training and development opportunities should have been given to post holders.
- There is evidence that post holders have the necessary skills, experience and knowledge to deliver.

4.17 Property Asset Management Role Profiles - All PAM roles should have a documented role profile setting out roles and responsibilities, expected qualifications and experience for the role.

Reviewer Notes:

- Job descriptions and clear, measurable objectives should be available for all roles. They should be up to date and appropriate.
- There should be evidence of a strong appraisal process and there should be evidence of action being taken where poor performance is identified.

4.18 Skills Development – staff at an appropriately senior level should be concerned with ensuring that there is active support for the development of PAM management skills and experience within the Department and use this to meet any skills gap.

Reviewer Notes:

- Although there is no requirement for property asset managers to be qualified, current standards would suggest that the department should be supporting the attainment of a recognised qualifications such as RICS, CIPS, IAM, PPM, MBA as appropriate.
- Any development plan should provide PAM specialists with the opportunity to enhance their PAM experience and grow their own knowledge and understanding through undertaking appropriate PAM roles.
(5) Skills Development and Deployment: … delivers and maintains an effective “intelligent client” capability

- The commercial function has a thorough understanding of and positive influence over the department’s business, particularly through Supplier Relationship Management (SRM) and Contract Management (CM)
- The commercial function is well respected and able to demonstrate that it is delivering value for money to the internal client
- The department’s resourcing strategies reflect the need to develop and retain appropriate organisational knowledge and the importance of maintaining an effective in-house intelligent customer function
- The commercial function has created an internal and external partnership culture and integrated processes to support these relationships
- The commercial function uses data effectively to support its intelligent client capability
- The result is that the organisation is able to effectively extract optimal value from external resources and expertise at all levels from the board down to individual projects

PROCUREMENT CAPABILITY STANDARDS RELATING TO INDICATOR (5)

Reviewer Notes:

- Contract and supplier managers will often work in other functions (e.g. IT) or operational areas of the organisation. This indicator therefore requires analysis of documentation and interviews beyond the procurement operations.
- All departments should be focusing on developing ‘intelligent client’ expertise. Even if collaborative contracts are used, so an organisation has limited requirement for contract letting expertise, those contracts still have to be managed to meet the organisation’s needs.
- Departments may consider that supplier relationship management (“SRM”) is not necessary, as they do not have strategically important suppliers with whom such processes would be relevant. Reviewers should consider whether this is reasonable under the “fit for purpose” criteria.
- Most departments do have some suppliers, possibly a very small number, where ‘intelligent client’ capability requires more than merely standard operational contract management activities (e.g. particular types of complex contracts, such as major ICT outsourcing and PFI contracts, will require sophisticated client side technical and commercial skills to match the contractor teams deployed on these contracts).
- This is also an indicator where Reviewers will almost certainly want to consider a number of actual live examples, as well as supporting documentation, and look at how some key contracts and suppliers are managed in a practical sense.
5.1 Intelligent supplier relationship management (“SRM”) and contract management functions are appropriately developed and resourced. The result is effective SRM and contract management input is evident within the organisation and across the wider network throughout the whole life cycle of procurement.

Reviewer Notes:

- The deployment of supplier and contract management resource with the right technical and commercial skills should be visible at all stages in the procurement life cycle (e.g. it is good practice for the contract manager to be involved from the early procurement phases rather than being brought in once the contract is awarded)
- Even if a contract offers good value for money and performance when it is first placed, the lack of intelligent client capability can destroy that value remarkably quickly as the contract term progresses (e.g. to manage and deliver value through a major ICT outsourcing contract will require significant skilled client side technical and service management skills)
- Reviewers need to assess how much influence it is reasonable for the ‘centre’ to have over the wider network of related organisations such as NDPBs. Where the centre is providing an element of governance and support, then this should encompass SRM and contract management as well as procurement activities.

Supplier Relationship Management

5.2 Staff engaged in SRM (not just professional procurement staff) have appropriate skills, training and knowledge

Reviewer Notes:

- Staff engaged in SRM activities need to understand their role and how it should be executed
- SRM activities need to be supported by appropriate in-depth technical and market knowledge relating to the procurement area in question
- SRM activities are often quite different from traditional procurement; there is more focus on relationships, managing innovation and change, and subtle influencing skills. Training and development in this area should therefore be positioned to address this sort of need.

5.3 Segmentation of suppliers takes place with identification of most strategic suppliers

Reviewer Notes:

- Before appropriate supplier relationship management can take place, the supply base must be segmented, as most organisations have thousands of suppliers and it would be impossible and inefficient to apply SRM practices across all of them.
- Typically, organisations will segment suppliers into a number of categories (in descending order of importance) such as business critical, key, major and tactical.
SRM activities will then vary by segment, with the greatest effort expended on the ‘highest’ categories, particularly those suppliers considered business critical.

- There are no hard and fast ‘rules’ in terms of the categorisation other than it should lead to a manageable SRM programme. Even a large organisation may have only a handful of suppliers at their very highest level – reviewers need to consider the particular situation and whether any categorisation appears appropriate for the organisation.

5.4 SRM processes are in place for key suppliers

Reviewer Notes:

- **Supplier strategies and plans.** The foundation of successful SRM is an understanding of what the organisation wants to achieve from the supplier and the relationship. Reviewers should therefore expect well-documented supplier plans and strategies to be in place and signed off where an organisation is claiming SRM capability.

- **Shared development activities.** Reviewers should look for evidence that there are some ‘real’ activities taking place. A quarterly lunch between the Permanent Secretary and the supplier’s Chief Executive does not comprise an SRM programme. Good examples could include; innovation workshops, ‘tiger teams’, shared R&D programmes or training courses.

- **Governance and relationship management.** Successful SRM programmes need well-defined governance in terms of responsibilities, reporting and accountability. This should include relationship management; identification of roles and responsibilities, and how personal interactions are handled (particularly at a senior level) between supplier and customer.

<table>
<thead>
<tr>
<th>KPI 11: Skills development and deployment - % third party spend subject to supplier relationship management (SRM)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rationale</strong></td>
</tr>
<tr>
<td>This indicator provides a measure of the extent to which there is an effective in-house intelligent client function that optimises the value of external resources and expertise. Wherever feasible the procurement function should seek to maximise its use of proactive relationship management in order to achieve this.</td>
</tr>
<tr>
<td>This indicator is a diagnostic metric that is helpful to the Procurement Capability Review team’s assessment of the use of supplier relationship management.</td>
</tr>
<tr>
<td><strong>Calculation</strong></td>
</tr>
<tr>
<td>% SRM = [ \frac{\text{Total value of third party spend subject to SRM}}{\text{Total third party spend of department}} ]</td>
</tr>
<tr>
<td><strong>Data sources</strong></td>
</tr>
<tr>
<td>Departments should derive the data for third party spend from the information they enter onto the Treasury’s public expenditure database, the Combined Online Information System (COINS) for current procurement expenditure (gross) and gross expenditure on tangible and intangible fixed assets. The data provided should be reconciled to the relevant figure published in the Public Expenditure Statistical Analyses in the data return. Departments would also be advised to cross check the data they provided with the return submitted for the OGC’s Public Sector Procurement Expenditure Survey (PSPES).</td>
</tr>
<tr>
<td>The value of SRM spend should be available from SRM teams.</td>
</tr>
</tbody>
</table>
External benchmarks

There are no directly comparable benchmarks. However, Accenture cross industry research based on 225 companies identifies the most significant differences in specific SRM capabilities.

5.5 Key suppliers are considered key business partners and managed in an appropriate manner

Reviewer Notes:

- Underpinning successful SRM is the view that key suppliers are ‘partners’ in the success of the customer organisation. This does not mean that the customer is a “soft touch”; but reviewers should look for indications that key staff in the organisation do understand that to be a successful ‘intelligent client’ they cannot just treat suppliers in an aggressive, tactical manner.

5.6 Board level (on both sides) engagement takes place in a structured manner with the most critical handful of suppliers

Reviewer Notes:

- Board level commitment to and engagement with strategic suppliers is always useful and sometimes essential. However, it must be structured so that it is aligned with the overall objectives of the SRM programme. Meetings need to have a clear purpose and focus with documented outcomes and actions.

5.7 The commercial function manages supply chains effectively to deliver the strategic aims of the organisation

Reviewer notes:

- Does the commercial function understand their top tier suppliers (particularly for the most strategic and highest value contracts), and the supply chains they manage?
- How does management of risk flow through the supply chain? For example, are common terms and conditions used through the supply chain, and is risk and responsibility to deliver allocated sensibly? Are subcontractors (including SMEs) being overburdened with risks or treated unfairly by primes?
- Where a large prime contractor is sub-contracting some of its obligations, does the procurement function include provisions that permit it rights over the supply chain and generally monitor use of sub-contractors in an appropriate and effective way?\(^5\)
- Are top tier suppliers encouraged to apply best procurement practice themselves through their supply chains, including consideration of issues such as sustainability and innovation?

\(^5\) Schedule 4.3 of the Model IT Services Agreement, Partnerships UK http://www.partnershipsuk.org.uk/index.asp
5.8 Contract managers (in procurement or the business) have training, skills and knowledge

Reviewer Notes:

- This is also covered under the Indicator (4) in relation to skills. There may well be more staff in contract management roles in the organisation than there are procurement personnel, so their capability is key.
- Contract management tasks vary from relatively administrative to handling very complex relationship, change, and operational and technical issues.
- The contract end users must understand the nature of the contractual deal to ensure it delivers the benefits. For example a deal may be reliant on increased demand to deliver savings so the contract users must consider the optimum way of placing orders to release these savings.
- For major deals, training should be provided to end users in the form of briefing or user guides.

5.9 Effective appropriate contract management processes are in place for all contracts

Reviewer Notes:

- The NAO Contract Management Framework is a useful resource that departments should reference.
- Integration. Departments should integrate the establishment of good contract management arrangements into the final stages of the procurement process, and before approving the award of major service contracts senior managers should review these arrangements and sign them off as fit for purpose.
- Correct profile. To raise the profile of contract management departments should include in their annual report details of their most important (taking account of contract risk and expenditure) service contracts, and highlight the actions taken to improve value for money and reduce risk.
- Ownership. Departments should assign ownership of contract management issues across their organisation to a single individual (for example, the commercial director/head of procurement) who has a clear remit to improve contract management and the authority to deliver change. Among other things, the individual should be responsible for ensuring that contract management plans and appropriate governance arrangements are in place for all major contracts.
- Measurement and reporting. All contracts of any size or importance require performance measurement. Key Performance Indicators and Service Level Agreements should be agreed during the contracting and negotiation process and most measurement will then take place against these. Reporting is likely to include upwards reporting within the organisation for escalation purposes. Reviewers should seek evidence of measurement and reports.
- Feedback / continuous improvement. Measurement is of limited value if there is no feedback or improvement programme with suppliers. Reviewers should seek evidence that supplier improvement activities are embedded within contract management processes. Successful improvement will usually require a degree of formality – structured planning and review etc.
• **Change management.** All but the most straightforward contracts require change management processes. In the case of business-critical service contracts, poor change management is probably the most common source of cost overruns, performance failure and friction between supplier and customer. Change processes should not be so cumbersome that they unduly affect delivery, but they should be robust enough to protect both parties financially and operationally. Good processes will address issues such as governance and who can authorise change, how the cost of change is assessed and apportioned, risks and possible consequences.

• **Risk management.** For more important contracts, formal risk management processes should be used and visible to Reviewers. In some cases, risks should be considered in conjunction with the supplier e.g. ‘natural disaster’ at a supplier facility affecting availability of product. In other cases, the organisation may consider risks independently; for example, what happens if the supplier went out of business – how would the organisation source that product or service?

• **Exit Strategies** should be developed for major contracts and appropriate provisions should be embedded in contracts to ensure the co-operation of incumbent and other third party suppliers.

5.10 **Major contracts are always managed with measurement and review through the entire contract period**

**Reviewer Notes:**

• All contracts of any significant size or criticality should have key performance indicators and there should be regular measurement, and feedback to suppliers. Contract reviews should then identify where improvement is needed and plans agreed with suppliers.

• Reviewers should look for tangible evidence that a range of standard processes are in place to ensure that contract performance is routinely measured, and should also check that the process is followed in practice.
(6) Systems and processes... deliver optimal deployment of spend through effective governance and joined-up organisational structures

- The governance and structure of the department’s commercial operations (including in relation to how such operations interface with each other and other parts of the department) supports the effective prioritisation and coordination of commercial activity.
- This activity includes cross-functional collaboration and the effective prioritisation, deployment, control and monitoring of spend across the procurement spectrum.
- Such structures provide complete clarity on the decision making process and the relationship between all relevant stakeholders including the ultimate point of responsibility and final decision making.
- The relationship and lines of accountability between the department and its wider network are clear and function effectively.

PROCUREMENT CAPABILITY STANDARDS RELATING TO INDICATOR (6)

Departmental Structure

6.1 Commercial activities take place at the optimum level within the department and its wider network, acknowledging this can be more difficult to define and implement in decentralised departments

Reviewer Notes:

- There are many different ways of structuring commercial activities within a department and there is no simple ‘right or wrong’ answer. However, below are some principles that reviewers should consider when they review departmental organisation charts and interview senior procurement staff.
- Is spend aggregated where sensible to gain leverage and efficiency? For instance, an organisation may centralise procurement of commonly bought ‘commodity’ items.
- On the other hand, procurement project activities may be structured in order to be physically or organisationally close to the ‘business’ clients.
- Areas such as strategy, systems and policy should not be unnecessarily duplicated.

6.2 There are clearly defined roles, responsibilities and reporting lines both across the commercial function and within the procurement and other teams

Reviewer Notes:

- Whatever the organisational structure, the commercial function should have clear roles, responsibilities and reporting lines, which are well documented and understood by staff and internal clients.
Where there is ‘matrix management’ (e.g. procurement staff reporting to a local finance head with a ‘dotted line’ to a central head of function), there should be clarity over what the dotted line means in practice.

Equally, there should be clarity where the procurement function and line management share responsibility for procurement delivery. This is particularly relevant in complex devolved organisations where a number of parties may be involved in driving performance. A lack of clear accountability is often the result of such complexity.

Governance structures should be clear, understandable and integrated. Evidence of over-complex governance structures can result in lack of clarity and understanding.

6.3 There are clear linkages between procurement and other functions of the department and the commercial function that enable procurement to influence outcomes effectively

Reviewer Notes:

- Where procurement has a close organisational link with other functions or business areas that should ideally be reflected in the organisational structure.
- For instance, procurement may use the concept of ‘client / account managers’ – staff with specific responsibility for managing an internal relationship as well as some procurement activities.
- Use of matrix management and dotted reporting lines can also be appropriate; procurement staff may also sit on boards, steering groups or management teams of other areas where the interface is particularly close.

6.4 The Strategic Property Asset Management Function is appropriately placed and has sufficient authority to deliver an efficient and effective estate

Reviewer Notes:

- There is appropriate accountability and authority to enable the capacity to deliver the departmental family-wide PAM Plan and estate strategy.
- There is clear leadership, effective management and appropriate delegation.
- There are strategic links with stakeholders

6.5 Functional links with wider network are clear (e.g. where there are ‘dotted lines’ they are well defined and understood)

Reviewer Notes:

- See point 6.2 above (clearly defined roles & responsibilities, reporting lines…) – this is particularly important where a central Department has some responsibility for NDPBs or other wider network organisations. Procurement staff (and other stakeholders) should understand what the role of the ‘centre’ is and how the organisational links should work.
- There should be a good understanding of the accountability of NDPBs and other wider network organisations to the centre for their spend.
6.6 Procurement policies are designed to support strategy and process and must be clearly communicated

Reviewer Notes:

- Policy should be explicitly linked to strategy and should show consideration of the strategic goals of procurement and the organisation.
- There should be evidence of a written, visible procurement policy with a mandate for its use led by the top of the organisation.
- There must be evidence of compliance appropriate to respective levels of spend with all mandated rules and regulations as articulated in the OGC's Policy and Standards Framework.
- A policy document that exists only as a single paper copy on a shelf in the procurement director’s office is useless. Policy documentation and advice should be easily accessible to all stakeholders – staff should know who they should contact (usually within the procurement function) for further advice on policy issues. The Intranet, regular newsletters or similar, workshops and face-to-face interaction can all be valuable in ensuring policy is understood widely. Reviewers should ask for physical evidence of such communication.

6.7 Procurement policy is aligned with the Finance function and pays regard to government accounting issues and rules

Reviewer Notes:

- There are obvious links between finance and procurement policy in areas such as delegated levels of authority, adherence to EU and HMT regulations, and use of standard terms and conditions (for example, standard payment terms). Reviewers should check that finance has input into the policy, and that good working links exist between key staff in the two areas.
- Finance systems should support provision of good management information to procurement, for example spend, payment and savings data.

6.8 A generic procurement policy document is in place

Reviewer Notes:

- There is a wide range of topics that can potentially be covered in a policy document.
- There is also some potential overlap with other key documents; for example, standard process descriptions can sometimes be included in the ‘policy’, or can be documented separately.
- The policy described here is generic and aimed at the entire organisation (budget holders, specifiers and other stakeholders as well as procurement professionals.) There may also be more specific policy or guidance aimed at procurement professionals covering the detailed standard processes; for instance, how bids are evaluated in complex procurements.
• Reviewers should not be constrained by the list below of typical policy areas. However, there are some fundamental issues covered here – such as delegated authority, EU regulations, competition, and ethics – that should exist elsewhere if not covered in the policy document. The communication of policy is also considered a critical factor.

• **Budget and procurement authority.** A clear description of procurement authority, what it means (and how it differs from budgetary authority), how it is granted in the organisation, and how it can be exercised.

• **Role of procurement (when and how procurement involvement happens).** The ‘rules’ around how budget holders should work with procurement, in terms of both spend levels and at what point in the process involvement should happen. May also include the need for involvement in the process by other specialists e.g. IT managers to sign off major IT purchases.

• **EU and UK regulations.** Basic policy around EU and UK procurement regulations, covering issues such as limits for OJEU advertisement, timescales, principles of competition and openness.

• **Compliance and use of frameworks, standard contracts etc.** Many organisations make extensive use of framework agreements; policy should cover compliance to such agreements; is their use mandatory? It should also make clear how they should be used (e.g. at what spend level is new competition needed rather than call-off from framework).

• **Competition (linked to spend levels).** The rules for competition – how many bids should be obtained for different spend levels and / or commodities.

• **Standard processes.** When and how standard procurement processes should be used – for instance, use of GPC (Government Procurement Card), e-ordering, full tendering etc.

• **Record keeping and reporting.** There should be policies and processes in place so that an accurate and standardised picture of spend is captured and monitored on an ongoing basis, as this will be a key input into future strategy.

• **Standard terms & conditions.** The policy should define when standard terms and conditions should be used, and what the parameters are for not using them (e.g. supplier Ts and Cs only acceptable if agreed by Legal function’). The actual standard terms and conditions may be contained in the policy or elsewhere. (As always, reviewers should check the actual documentation)

• **Segregation of duties.** The principle that no individual should requisition, order and approve the invoice for the same single transaction should be clearly explained.

• **Compliance with wider policy (See also comments under Indicator 2).** Whether or not they are contained in a single policy document, the organisation should have clear policies covering environmentally sensitive procurement, sustainability and openness to SMEs (small and medium enterprises.)

• **Personal behaviour and ethics.** Similarly, there should be a policy on personal behaviour and ethics, covering gifts, hospitality, conflict of interests, etc. The CIPS code of conduct is a useful basis. It should be made clear that this applies to all staff that have any contact with the procurement process, not just functional staff.

• **Confidentiality and Freedom of Information.** Appropriate confidentiality through the procurement process is important to both buyer and seller – however, the impact of Freedom of Information also needs to be considered and any issues highlighted as policy.

• **Compliance and sanctions.** A policy document is worthless if there is no follow through in terms of compliance. How is this carried out by the organisation? There should also be clearly stated sanctions in case of breach. Reviewers may wish to ask for specific examples of sanctions taken for breaches as an indicator of compliance management.
6.9 Some spend may be given to external providers as grants or grant-in-aid. The organisation must adhere to the principles of achieving value for money whatever funding route is used.

Reviewer Notes:

- As well as procurement, organisations can fund certain defined activities via grants or grant-in-aid.
- We would expect the vast majority of spend to be channelled though the procurement function. If large projects are being funded via grants, the principles of value for money must be followed. Grants must be used appropriately and should not be used as a substitute for procurement, for example to reduce timescales or to favour certain providers.
- Public bodies should at all times follow public procurement policy, based on value for money, and the EU procurement rules which exist to ensure all providers can compete for contracts on an equal basis. This means that procurement practices should not involve preferential treatment for third sector organisations. Equally, it is important to ensure that third sector organisations engaging in public service delivery are aware of the procurement opportunities, how the procurement rules apply, and that there are no barriers to participation.
- Under a competitive procurement regime, purchasers should be clear that they expect third sector providers to be aware of the risks of not bidding on a full cost recovery basis. A third sector organisation unwittingly subsidising a public service is unlikely to represent good value for money, particularly in the long term.
- In all cases where grants are made, the body making the grant should have proper controls in place to ensure that the grant is used in an appropriate manner that will deliver value for money. It is reasonable to expect the commercial function to be aware and involved in discussions about terms and conditions of grant giving.

6.10 EU and other governance regulations and constraints are well-understood and necessary steps taken to implement them

Reviewer Notes:

- There is a considerable range of EU and UK regulations that apply to procurement. Some are relevant to budget holders as well as procurement staff – for example, rules on contract limits for OJEU advertising. Others are more relevant to professional procurement staff – regulations on setting up frameworks, or running a ‘competitive dialogue’ for example.
- Reviewers should check that processes are in place for maintaining appropriate understanding amongst both stakeholders and professionals, and that guidance is available when required. That may be locally provided and / or reference made to relevant external guidance such as that provided by OGC (certainly an understanding of OGC’s role and services in this area is expected).

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6 The ‘third sector’ encompasses voluntary and community organisations, charities, social enterprises, mutuals and co-operatives.
6.11 Staff are empowered and trusted, but processes are in place to ensure that policies and rules are clearly understood and complied with.

Reviewer Notes:

- Staff should be empowered to act and bureaucracy minimised – whilst paying appropriate attention to risk (see paragraph 6.13 below).
- However, staff should be aware of the relevant policies and must understand the consequences of non-compliance. Reviewers should check for evidence that such awareness is being achieved (e.g. there should be evidence of compliance checks being carried out and any non-compliance being appropriately addressed).

6.12 Controls should be proportionate to the purchase involved

Reviewer Notes:

- While controls are key, it is not sensible (for example) to have an approval process with a cost of £100 for a purchase worth £10. Therefore in areas such as sign-off and approvals, level of competition required and post-event auditing, the control should be proportionate to the purchase it is addressing.

6.13 A clear link must exist between the owners of budgets and people who are accountable for authorising expenditure to ensure sufficient controls and a clear understanding of respective responsibilities in relation to spend

Reviewer Notes:

- In general, it is best practice for budget holders to be able to affect spend levels directly. Where this does not happen, there can be issues of budget allocation and inefficiencies (e.g. those spending the money have less interest in doing so effectively).
- There should be a two way flow of information and accountability between budget owners and those responsible for authorising expenditure.
- Evidence of the existence and effectiveness of processes to encourage “savings” should also be looked at in this context; for example, incentivisation through performance management and appraisal systems.
6.14 Relevant procurement policies appropriate to the department are in place in all organisations across the wider network.

Reviewer Notes:

- Due to the required independent nature of a department’s wider network it is not feasible to expect a ‘central’ function to impose a single policy on their entire wider network. However the Cabinet Office encourages closer working and this is referenced in their guidance e.g. ‘Executive Agencies: A Guide for Departments.’.
- However, all organisations should have a procurement policy in place, so it is not unreasonable to expect the ‘centre’ to carry out appropriate checks around the network to establish whether a fit for purpose policy exists and is effectively implemented.
- There should be a reference to the approach to procurement policy in the wider network in the department’s commercial strategy.

6.15 As a result of the relevant policies, governance and organisation structures put in place, there is a clear picture of spend and evidence of effective strategy development and prioritisation based on organisational goals

Reviewer Notes:

- The policy and governance framework should support effective organisational decision-making, business planning and the appropriate prioritisation of organisational spend. Reviewers should seek evidence of how this is being achieved.
- A clear picture of organisational spend should also be used as a key input into organisational procurement strategy and ongoing continuous improvements to policy and / or organisational structures and governance.
- The policy and governance framework should state how policies will be applied. The head of profession will need to understand areas which are known and agreed not to be covered.
- Business and value for money objectives must be at the heart of any policy and governance framework.
- Where the department is decentralised, having a clear picture of spend across the wider network may be difficult. However, given Cabinet Office guidance encouraging closer working, it is expected the department will have an overview and a consistent and communicated policy for understanding spend and strategies.
(7) Systems and processes ... embody a strategic and collaborative approach to market engagement and sourcing in order to maximise effectiveness and efficiency

- The department has a clear picture of major spend areas that allow analysis of spend by supplier, cost centre and spend category.
- The department leverages to the fullest extent possible pan-government frameworks, collaboration initiatives and supply base intelligence initiatives to secure optimal VFM and utilisation of commercial resources.
- The department structures its own commercial activities where appropriate in such a way that other departments can benefit from the resultant arrangements and supply base intelligence.
- The department makes best use of market and supplier intelligence to inform its sourcing, commercial and risk management strategies.
- Early market engagement is undertaken for all significant sourcing and commercial activity so that supply side knowledge, capacity and capability can be leveraged effectively.

PROCUREMENT CAPABILITY STANDARDS RELATING TO INDICATOR (7)

Sourcing Strategy and Collaboration

7.1 Sourcing strategies are defined for all major spend areas

Reviewer Notes:

- The department must have a clear picture of major spend areas and should be able to provide a clear and accurate ‘Spend Map’ showing the flow of money through the department and covering all third party spend across its operations. An inability to provide a ‘Spend Map’ should be seen as a serious deficiency in capability.
- The department should be able to show processes by which all major spend areas are considered and a strategic approach developed.
- This may initially involve segmenting spend into categories that will undergo “category management” and other spend areas that will be handled on a project basis. Decisions about the appropriateness of collaboration should then be made as part of that strategy.
- The commercial function should have systems in place for gathering and using market and supplier intelligence to inform all of its sourcing, procurement, contract management, VFM and risk management strategies.
- There should be evidence that early market engagement is undertaken in relation to all significant sourcing and procurement activity. Use of supplier forums (e.g. Intellect’s ‘Concept Viability’, PIN notices, and clear communication of forward plans to suppliers would all be positive indicators.
7.2 The organisation is able to define its requirements accurately and present prospective suppliers with a clear, accurate and full description of the organisation’s needs.

Reviewer Notes:

- The department specifies its requirements clearly to the market and these are directly relevant to its business needs.
- Requirements specifications should be undertaken by qualified procurement staff with the necessary knowledge, authority and experience. Requirements should incorporate stakeholder needs, supplier input (where appropriate) and must be deliverable i.e. a market exists or can be created.
- The organisation should be able to demonstrate the processes for the business and financial assessment and challenge of requirements specifications.
- Specifications and requirements should be developed in such a way that supplier performance can be measured, and key performance indicators should be relevant to the organisation’s business.

<table>
<thead>
<tr>
<th>KPI 13: Systems &amp; processes – Percentage of third party spend committed via prearranged contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rationale</strong></td>
</tr>
<tr>
<td>This indicator provides a measure of the extent to which third party expenditure is managed through pre-arranged contracts e.g. framework agreements. The expectation is that as far as possible third party spend will be routed through pre-arranged contracts in order to minimise sourcing costs and maximise buying power. This is particularly relevant for standard commodities where user needs are less likely to vary. This is a key metric that tests the efficacy of the procurement function’s procurement processes.</td>
</tr>
<tr>
<td><strong>Calculation</strong></td>
</tr>
<tr>
<td>Percentage of pre-arranged spend = ( \frac{\text{Total spend via pre-arranged contracts}}{\text{Total third party spend of department}} )</td>
</tr>
<tr>
<td><strong>Data source</strong></td>
</tr>
<tr>
<td>Contracts and their value should be identified through the department’s contracts database. The department should calculate the actual total spend against each contract in the financial year.</td>
</tr>
<tr>
<td><strong>External benchmarks</strong></td>
</tr>
<tr>
<td>This indicator is directly comparable with the following external benchmarks:</td>
</tr>
<tr>
<td>Public Audit Forum procurement indicator:</td>
</tr>
<tr>
<td>Actual spend committed against pre-established contract arrangements as a percentage of non-pay spend.</td>
</tr>
</tbody>
</table>

7.3 Spend is concentrated as appropriate pursuant to relevant framework arrangements

Reviewer Notes:

- Organisations should have a clear spend breakdown that will allow analysis of spend by supplier, cost centre and spend category.
However, there is no ‘rule’ that defines how many suppliers are appropriate for a particular organisation in a particular category (or indeed project) spend area. A single supplier can be high risk if there are factors such as high dependence, barriers to easy switching, a limited market, or rapidly changing technology.

On the other hand, multiple suppliers will reduce buying power (leverage), increase transaction costs and make standardisation and simplification of specification more difficult. But it may be that multiple suppliers are essential because of genuinely varied needs even within a single spend category.

So reviewers need to consider each case on its own merits. However, a good best practice starting point is to look for a reasonably concentrated spend profile, unless there are strong reasons against. For instance, it is hard to see why a medium sized Department would need more than one stationery supplier, travel agent, or basic IT hardware supplier.

Reviewers should also consider the compliance in key spend areas i.e. whether users and budget holders actually use the contracts put in place by procurement and those recommended and endorsed by OGC (especially through its series of letters to Permanent Secretaries) – “Key Metric 11 – Percentage compliance to recommended commodity contracts (across a basket of goods and services)” will therefore again be relevant here.

7.4 Collaboration is actively pursued by the department

Reviewer Notes:

- Collaborative procurement delivery should be underpinned by a strong governance and programme management that is adapted to reflect the requirements of a category. Reviewers should expect to see evidence that departments engage with and contribute to the OGC collaborative procurement agenda and vision, and that they understand and participate in the OGC collaborative procurement governance structure (see Information Notes below). This should include responding positively to the OGC’s Public Sector Expenditure Survey (PSPES).

- A department should be able to show that it actively considers and has a vision for collaboration, with a good understanding of the various options that can be used. Government procurement policy is to seek to make greater use of collaboration between public sector organisations in order to achieve greater leverage and reduce the costs of procurement activities.

- Government will know that it has reached a truly effective and efficient collaborative procurement regime for its common goods and services when significant, measurable, cashable savings are delivered, and the following are a selection of key indicators which reviewers should take into account:
  
  - High quality management information is provided regularly by departments such that it can be analysed to identify who’s buying what;
  - Structured collaboration over the procurement of common good and services is accepted as the “norm” across the public sector;
  - Individual departments accept any marginal disadvantage is in the best interests of the Exchequer as a whole and are prepared to trust others to procure on their behalf;
  - No new OJEU advertisements are placed for goods and services that are already available through collaborative deals;
Public sector buying organisations are more aligned across the procurement landscape and able to achieve their own targets whilst optimising the sourcing of departmental requirements;

Suppliers and organisations that represent them recognise the collaborative approach is delivering benefits for the supplier community.

- Reviewers should look for evidence of appropriate use of other contracts, a pro-active approach to new contracts (allowing others to participate); and membership of wider government collaborative groups.
- If collaboration is seen as an area of importance for the particular organisation, then as well as a general review of skills and process, reviewers may wish to examine 2 or 3 recent collaborative ventures in more detail.
- As a general rule, most ‘standard’ commodity items should be bought through collaborative arrangements, so the onus is on the organisation to explain why in cases where they have not used collaboration for standard commodities.
- This includes collaborative routes such as OGC.bs or regional buying organisations, but it might also include the organisation taking a pro-active approach when a new requirement is identified – seeking out others who might have a similar need.
- Reviewers should explore whether collaboration is genuine or ‘potential’. For example, an organisation may make a contract available to others in terms of the wording in the OJEU advert and contract. But if they do nothing pro-actively to identify other organisations that wish to participate, and do not promote the contract, then they are not truly engaged in a collaborative venture.
- Collaboration must be an informed and well-planned decision. Departments should retain suitable commercial resources and capability in house to deliver.

Information Notes:

- **OGC’s collaborative procurement vision** embraces a systemised and managed approach to procuring common goods and services that brings together purchasers from across Government to achieve the best (vfm) deals and contracting arrangements. To achieve the vision, Government needs to:
  
  - have consistent and standardised recording of departmental spend data that is regularly reported to the centre in order to inform procurement decisions, performance measurement and value for money through the Public Sector Expenditure Survey (PSPES)
  - use single sourcing approaches, category management techniques, and tools such as eAuctions;
  - embed the values and behaviours necessary to achieve a collaborative approach to procurement in operational business processes
The OGC Collaborative Procurement governance structure comprises the following elements:

- **Commercial Delivery Board (CDB)** – sets the strategic direction (along with the SSF).

- **Strategic Stakeholder Forum (SSF)** – is accountable for Collaborative Procurement Programme.

- **Markets & Collaborative Procurement (M&CP) Directorate** – Enables and facilitates collaborative procurement.

- **Collaborative Category Boards (CCB)** - Key customers, independent experts, representatives of Strategy Leads, key influencers and the OGC own the landscape within a category.

- **Category Strategy Teams (CST)** - Develop category strategy.

- **Strategy Leads** - Deliver the category Strategy within a segment of the customer market and supply side solutions.

- **Public Sector Customer Organisations and Suppliers** - Commits to collaborate.

- **Performance Management** – Structured reporting, strategic objectives driven into teams through clear Key Performance Indicators. Team performance information cascades directly into management reports. Departments are variously represented by procurement professionals with the appropriate level of responsibility and accountability on the SSF, CCBs and CSTs.

| **KPI 14: Systems & processes** – Percentage of third party spend committed via collaborative procurement arrangements with other buying organisations for specified categories |
| **Rationale** | This indicator provides a measure of the extent to which third party expenditure is managed through pre-arranged collaborative procurement arrangements with other organisations. The expectation is that as far as possible departments would wish to procure third party through collaborative procurement arrangements in order to minimise sourcing costs and maximise buying power.  
This is a key metric that tests the efficacy of the procurement function’s procurement processes. |
| **Calculation** | Percentage collaborative spend = \( \frac{\text{Total collaborative spend for 6 categories}}{\text{Total spend of department for 6 categories}} \) |
| **Data source** | Contracts and their value should be identified through the department’s contracts database. The department should calculate the actual total spend against each contract in the financial year.  
Departmental category spend should be derived from the data provided in the return submitted for the OGC’s Public Sector Procurement Expenditure Survey (PSPES). |
<table>
<thead>
<tr>
<th>External benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are similar benchmarks available (see below) but they are not directly comparable as they measure the total level of collaborative spend rather than for specified categories.</td>
</tr>
<tr>
<td>Public Audit Forum procurement indicator:</td>
</tr>
<tr>
<td>The percentage of total non-pay spend channeled through collaborative procurement arrangements with other buying organizations</td>
</tr>
<tr>
<td>CAPS research:</td>
</tr>
<tr>
<td>Percentage purchase spend via strategic alliances</td>
</tr>
</tbody>
</table>

7.5 **Where an organisation uses collaborative contracts, they play an appropriate role in the collaboration**

**Reviewer Notes:**

- The role the department plays in collaborative deals must be relative to the strategic nature of supply for that department. It is acknowledged that not all departments should engage or lead collaborative deals where the deal is not relevant to the work of the department.
- Clear contact points should be set.
- Requirements should be specified accurately but with regard to collaborative opportunities;
- The organisation should demonstrate evidence of (i) working collaboratively to ensure appropriate suppliers are chosen; and (ii) contributing to contract and supplier management activities.
- If they are the lead organisation, their input should go from initial definition of requirements through to contract management.
- While using a collaborative agreement should mean a saving in procurement resource, it should **not** mean an abdication of responsibility to make sure the arrangement works well internally and that the organisation plays their part in its overall success.
- Reviewers may wish to interview the providers of collaborative contracts used by the organisation to gain their views on how the organisation behaves as a client of the collaborative arrangement.

7.6 **Clear supporting policies are in place to cover business issues that have a key sourcing aspect (e.g. car fleet usage policy, travel policy, IT standards etc.)**

**Reviewer Notes:**

- This is related to the topics of demand and specification management covered under the ‘category management’ section below.
- Achievement of VFM requires a broad focus across the organisation on the issues that drive value. For instance, a travel policy that allows unrestricted use of 5 star hotels and 1st class travel will not be perceived to demonstrate value for money, no matter how well procurement buy the travel services. Poor control on purchase of laptops or PDAs would be another example of lax policy and would suggest there are opportunities for better demand and specification management.
• The organisation therefore needs to show that it underpins strong procurement activity with sensible policies that drive requirements, specifications and demand in areas such as travel, fleet, IT standards, and facilities services.
• The review team may wish to examine policy documents, such as the travel policy, and ask relevant questions related to these topics.

**Category Management**

**Reviewer Notes:**

• “Category management” means a structured approach to procuring routinely required goods and services. Common categories used across Government include stationery, travel, professional services (with sub-categories such as management consulting and legal services), desktop IT, telecoms, various facilities management services and so on.
• The reviewers should consider both how strong the general processes and skills are in this area, and if this is seen as an area of importance for the particular organisation, then they should examine 2 or 3 recent category procurement exercises in more detail.
• There is a link here with the previous heading – ‘collaboration and sourcing strategy’. If an organisation determines that most of its routinely required goods should be sourced through collaborative ventures with other organisations, then clearly it may carry out category management only in limited number of categories. At the extreme, it may not do it at all.
• Collaboration does not negate the need for category management. A department should be able to demonstrate a category management approach for relevant categories and have a sensible balance of both category management and collaboration. The department should be able to demonstrate clear plans and a rationale for the choices it makes to deliver its requirements.
• An organisation should not therefore be ‘marked down’ if it is sensibly choosing collaboration. In such a case, the organisation does not need full Category Management competence in order to be ‘fit for purpose’.
• However, in most cases, larger organisations will participate in some collaborative activities, but will still carry out some category management internally. This assessment is aimed at such organisations.
• Reviewers should not look for a specific category management model or process. Indeed, the process may not even be defined internally as ‘category management’. But the key characteristics that define a best practice approach should be demonstrated:
  o A carefully structured approach to what is being bought and the end to end contracting process (including post-contract award) should be evident;
  o A proactive approach should be taken to the relevant areas of spend;
  o There should be procurement staff with specialist knowledge in that category;
  o A questioning approach to what is being bought (including demand and specifications management) in order to drive VFM should be evident

• Whatever detailed process is used, there are key steps listed in the Reviewer Notes under Para 7.7 that define a professional approach, likely to lead to strong value for money outcomes. This entire process is a critical element in the overall assessment.
7.7 An overall category management process (or similar) is in place for routinely bought commodities, with defined activities and processes

Reviewer Notes:

- **Market / supplier research and engagement:** The category in question should be well understood by the buying organisation. That includes knowledge of key suppliers within the market, market dynamics and positioning, key developments and innovation etc. ‘Research’ does not take place through placing an OJEU advertisement and waiting to see who applies.

- **Understanding requirements and demand (stakeholder management):** The internal requirements of that category must be well understood by procurement. That includes technical and performance requirements, volumes, logistical details and so on. Where there are multiple internal clients for the category, a wide range of stakeholder consultation activities may be necessary in order to establish this. This process should also be used to build commitment to the outcome. Demand management should also continue through the life of the contract, with procurement and users working together to reduce demand without affecting business outcomes e.g. extending lifecycles for IT or other equipment.

- **Sourcing strategy:** A strategy for approaching the category should be drawn up prior to approaching the market. This may be called a ‘category plan’, but whatever the terminology, it should lay out the objectives of the category activity, how they will be achieved, and the plan for execution.

- **Specification management:** Procurement should show how they link knowledge of user needs with market and supplier understanding to ensure that specifications achieve best value for money. There should be examples of successful challenge of specifications. In addition, a high performing organisation will continue the process of optimising specifications through the whole life of the contract, to drive improved VFM.

- **Supplier selection:** Market engagement should start before OJEU advert in most cases in order to build interest. Procurement should then promote the contract to build interest. The PQQ and ITT processes should be robust, using OGC best practice where applicable. There needs to be a clear audit trail that evidences the justification to select one supplier over another supplier.

- **Evaluation process:** This should be clear with a ‘flow through’ from the strategic objectives, which should define the evaluation criteria, which in turn should define the questions asked of suppliers and the marking process. The evaluation process should encompass price and non-price factors, with weightings and methodology such that a reasonable balance is obtained between price and non-price ‘value’ factors. (See also paragraph 7.12 in the “Project Procurement” section (pages 48-49) below for further guidance.)

- **Negotiation and contracting:** e-auctions should be used where appropriate. Depending on the procurement procedure being used, the buyer should use positively any opportunity for dialogue or clarifications built into the process. The contract itself should be based as far as possible on standard terms and conditions (OGC or others). Appropriate legal advice should be sought and the contract should be written in “plain English” such that it becomes an effective contract management tool.
- **Promoting the outcome and compliance (including demand management):** Once the contract is in place, there should be a plan covering how it will be promoted internally in the organisation (and more broadly if it is to be used by others). There should also be planned activities around compliance. Procurement should have visibility of contract usage so areas of non-compliance can be identified and addressed. Reviewers need to explore compliance; there is little point having a strong category management programme, with good contracts as outcomes, if internal budget holders do not take advantage of them.

### KPI 17: Systems & processes – Percentage of third party spend via structured category management

| Rationale | This indicator provides a measure of the extent to which departments are using structured category management of their third party spend to maximise the value obtained. In most circumstances departments would seek to increase the proportion of third party spend subject to category management. This indicator is a contextual metric that provides useful information about the management of the supplier base. It would be need to considered alongside other information such as the extent and nature of collaborative procurement. |
| Calculation | Percentage of category management = \[\frac{\text{Total spend via category management}}{\text{Total third party spend of department}}\] |
| Data source | Spend for the categories subject to structured category management should be derived from the return submitted for the OGC’s Public Sector Procurement Expenditure Survey (PSPES). Departments should derive the data for third party spend from the information they enter onto the Treasury’s public expenditure database, the Combined On-line Information System (COINS) for current procurement expenditure (gross) and gross expenditure on tangible and intangible fixed assets. The data provided should be reconciled to the relevant figure published in the Public Expenditure Statistical Analyses in the data return. Departments would also be advised to cross check the data they provided with the return submitted for the OGC’s Public Sector Procurement Expenditure Survey (PSPES). |

### KPI 22: Results delivered – average price paid for a basket of 11 commodities

| Rationale | This indicator measures the average prices paid for a standard set of goods that is routinely used by the department. Over time procurement functions would aim to reduce the prices paid for these items. This is a contextual metric that tests the extent to which procurement is successful in securing competitive prices for standard goods. It needs to be considered alongside other purchasing information such as the comparability and quality of the items purchased. |
| Calculation | Average price = \[\frac{\text{Total spend on item}}{\text{Total}}\] |
### Data source

The volume and total cost of these items should be identified through the department's contracts database.

### External benchmarks

This indicator is directly comparable with the following external benchmark:
- Public Audit Forum procurement indicator:
  - Benchmarking of a defined set of goods

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7.8 **Responsibility for stock holding, management and financing of goods is passed as far as possible back to suppliers, working under clear service parameters**

**Reviewer Notes:**

- In terms of physical goods, historically organisations often held ‘buffer stock’ in readiness for internal usage. Best practice now is (as far as possible) to pass responsibility for stock holding and related financing back to the supplier. For instance, with electronic ordering and next day delivery, there is little need for organisations to hold significant stocks of stationery or IT consumables. Reviewers should question the level of stockholding, the presence of any major warehouses or stores, and investigate further depending on answers.
- An appropriate inventory management system should be applied as necessary.

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**Project Procurement**

**Reviewer Notes:**

- The reviewers should both consider how strong the general processes and skills are in this area, and if this is seen as an area of importance for the particular organisation, then they should examine 2 or 3 recent procurement projects in more detail.
- While category management covers routinely bought goods and services, ‘project procurement’ as defined here covers all one-off purchases required by the organisation. At the very lowest level, these will probably be covered by non-professional buying, such as through the GPC.
- The main focus for reviews should be on relatively major projects, i.e. those projects which are complex in their scope and delivery, are typically high value in terms of the investment required and tend to have a significant strategic impact for any or all of the organisation, the government and the citizen. The type of project that is addressed here would include business process or other outsourcing, projects requiring business change and/or major capital investment, and projects relating to the delivery of core Departmental policy.
7.9 The procurement function is routinely and automatically involved at the earliest and strategic stages of all projects with an acquisition element

**Reviewer Notes:**

- The procurement function can only contribute effectively if it is involved at the early strategically important stages in projects. Getting involved once decisions about scope, specifications, packaging of requirements or similar have already been made will always restrict ability to ensure value for money is achieved.
- Reviewers should look both for standard processes and policies that support this approach, and also for a general ‘attitude’ amongst senior stakeholders – do they see it as normal and reasonable to involve procurement at such an early stage?

7.10 The department routinely reviews the validity and applicability of the different available approaches to “project procurement” and funding

**Reviewer Notes:**

- Before commencing a procurement project, a strategy should be developed that defines the approach to the market. At the highest level, this should include whether innovative funding approaches are appropriate.
- There may be other strategic considerations, such as how to ‘package’ a major requirement (one single contract or several). Decisions are also needed to determining the best EU procurement approach – competitive dialogue, restricted procedure, concession etc. Reviewers should seek solid written evidence of this process and output.
- This all requires early involvement of procurement professionals at initial project or programme stages – see also Indicator (2) regarding the importance of joined-up working between procurement and other business areas

7.11 In terms of major projects, the organisation has the commercial understanding and capability to test market appetite and create new markets (i.e. it understands the relevant commercial models, ‘bankability’ issues etc.)

**Reviewer Notes:**

- More complex projects may well involve complex financing mechanisms, sophisticated commercial models and risk transfer issues. Suppliers will be unlikely to even bid if these are constructed in such a way to make the deal unattractive (i.e. ‘unbankable’). Equally, commercial naivety on the buying side can lead to poor value for money. The organisation should be able to show that it does consider such issues when appropriate, and has the commercial skills (ideally in house, but if not, from a trusted source and easily available) to do so in an intelligent and knowledgeable manner.
- The organisation understands the state of the current market and whether one exists. If no market exists, the department demonstrates it can ‘stimulate’ a new market and has relevant processes for implementing market making. For example, the organisation approaches the market in an intelligent way, is able to open a dialogue with suppliers or relevant trade bodies and can persuade the supplier community to respond to their requirements.
7.12 An overall procurement project process is in place covering all stages of the project cycle

Reviewer Notes:

- **Business case, options assessment and project initiation:** Before the procurement phase of the project commences, the organisation should have a signed off justification for the project, a clear sense of direction (with options analysis where appropriate) and funding committed. There should be evidence that recognised standard PPM disciplines are used to govern project approval and the commitment of funds. The processes and documents covering project initiation should be available for reviewers to consider (see also Para 7.13 below).

- **Market research and planning:** Where appropriate, procurement should be carrying out research into the supply market and key suppliers in order to understand how best to structure the procurement and approach the market. This is particularly important where the project is looking for relatively novel goods or services to be provided.

- **Requirements and specification:** The detailed requirements process for a major project may well sit outside the procurement team or function. But reviewers should check that:
  
  o There are strong linkages between procurement and requirements teams;
  o Requirements are developed with a view to “procurability” and deliverability;
  o Specifications are aligned with the market and are likely to achieve VFM; and
  o Timescales for provision of requirements fit with the overall project and procurement timescales.

- **Market engagement:**
  
  o For all but the smallest projects, there should be structured engagement with the market during the early stages of the procurement process (potentially both before OJEU advertisement and after). This is designed to generate interest, brief suppliers and get feedback that can help shape the procurement process and ultimate contract.
  o This engagement can take the form of advertising for supplier views; questionnaires; supplier meetings; ‘open days’ or supplier briefings. Reviewers should look for evidence of this sort of activity and establish that it is handled fairly and professionally (for instance, all potential suppliers should be offered similar access to information and project staff.) Potential suppliers should feel that they have been given both an opportunity to learn about the plans, and also a chance to provide input in terms of their own thoughts and ideas on the project, procurement process and deliverables.

- **Pre-qualification Questionnaire (“PQQ”) and ITT:**
  
  o Most procurement projects will follow a multi-stage process. The PQQ stage determines which suppliers are capable of carrying out the work. It can also
be used to rank suppliers where there is a need to eliminate some on the
grounds of numbers, even if they are ‘capable’.

- Generally, best practice suggests taking 4-8 suppliers through to the final
tendering stages. The PQQ should therefore focus on financial and technical
capability and capacity; not on how the supplier proposes to meet the
customer’s specific needs. The OGC standard PQQ available on the website
is a good model; if it is not used, reviewers should explore why.

- After the PQQ, there may be a single ITT (invitation to tender) stage or in the
case of the ‘competitive dialogue’ process, a number of further stages which
both refine the requirement and can act as further section and elimination
mechanisms.

- The final evaluation process should be robust and focus on the key factors
that will determine the success of the overall project. Evaluation criteria
should be published, and the evaluation approach should show a thoughtful
balance between cost and non-cost factors.

- Weighting of the criteria is also critical – how is ‘price’ scored and weighted in
the process? Too great a focus on price, with other factors proving
insignificant in the evaluation, is usually unsatisfactory. But the project should
also avoid a model where high cost options are justified by other criteria that
have doubtful tangible value.

- There should be "checks and balance" within the process; multiple evaluators,
expert advice used as appropriate, and evaluation board to review scoring etc.

- **Final contract conclusion:** Once a supplier(s) is chosen, then the final contract
conclusion should be progressed quickly and in a structured manner. Any necessary
approvals should be planned for, and an Alcatel “standstill period” will be required,
which, again, should have been included in plans so that unforeseen delays are
avoided.

### 7.13 Standard PPM disciplines and processes are followed

**Reviewer Notes:**

- **OGC Gateway and other PPM guidance:** These give an excellent view of world-
class best practice in this whole area. The notes below are therefore a very brief
summary only of some key points. Where reviewers wish to look at this area in detail,
they should consult the more complete OGC guidance to identify areas of potential for
detailed review. However, the scope of the capability reviews is to examine the
procurement element of projects, rather than the entire PPM capability of the
organisation. Reviewers should therefore consider carefully the scope of their
assessment.

- **Project / programme planning:** Appropriate project documents and plans should be
in place (e.g. a relevant Project Mandate, Project Brief, Business Case and Project
Initiation Document), with key deliverables, resource plans, etc. Plans should always
be realistic in terms of timescales. This should take into account EU procurement
rules and best practice / experience in terms of the time needed to run procurement
projects, particularly for complex service procurements. Skilled PPM specialists
should be available to advise project teams and decision makers (especially the
project SRO).
- **Reporting and governance:** There should be a clear governance structure with project sponsors, project boards etc. Reporting mechanisms should be well defined and reviewers may wish to look at actual reports to establish that they are used in practice.

- **Use of Gateway and ‘Starting Gate’:** Gateway reviews should be implemented with the appropriate staffing. Actions identified through Gateway should be followed through, with appropriate governance and reporting. Starting Gate is a new intervention intended to provide assurance for departments at the stage of developing major new policy options to initiation of a project or programme. Starting Gate should be used as a key tool to avoid project or programme failure.

- **Risk management:** Appropriate risk management processes and tools should be used (such as OGC’s Management of Risk methodology), with identification of key risks, mitigation and residual risk analysed. The risk assessment should be updated regularly and reported through the governance structure.

7.14 **Procurement staff work as part of integrated project team, but with “governance” links to the Procurement Function**

Reviewer Notes:

- Any project with a significant acquisition element should contain procurement professionals. They will usually work under a matrix management structure – reporting to the project manager with a dotted line to the functional head of procurement, or vice versa. It is important that they do at least have this ‘dotted’ line to the functional head, as this provides a useful element of independence, and maintains the integrity of a professional procurement community within the organisation.

7.15 **Projects are run by the organisation in manner that balances rigour with the achievement of optimum levels of efficiency and speed. Timescales that are communicated to market are realistic and achieved**

Reviewer Notes:

- Projects, including the procurement element should be carefully planned and timescales should be realistic. However, timescales should not be excessive, as the length of the process will have direct implications procurement and bid costs. Also, procurement and bid teams should not be tied up on an individual project any longer than is necessary as this has an adverse effect relating to both sides overall capacity.
- Timescales for the project and procurement activity will generally be communicated to the market. Every effort should then be made to stick to the timetable, as this will be a key factor in building general market credibility. Where slippage is unavoidable, communication to the market should be open and prompt.
Wider Network

7.16 The department should consider how collaboration, category management and a shared approach to project procurement can be effectively led and managed across its wider network

Reviewer Notes:

- The depth of reviewer analysis across the wider network will depend on the agreed scope of the review. At one extreme, it may be appropriate merely to test whether the "centre" of the Department applies some basic governance across the network and provides simple guidance if requested. The level of involvement of the centre will vary depending on size of the department and how decentralised its wider network is.
- At the other extreme, the same points within this indicator could be applied in full to wider network organisations in order to test their capability in some depth.
- In terms of category management, it would seem to be appropriate in many cases for the "centre" to take a lead on driving collaboration across the network through applying partnership working principles.
- Project procurement may well be more specific to different organisations within the network. Reviewers may need to look closely at spend profiles to assess where to focus attention. For instance, in the schools sector, much of the spend is relatively dispersed and commodity based. However, projects within the 'building schools for the future' programme typically have values in the £ billions and are obviously significant – so project procurement capability is vital in that part of the organisation.
(8) Systems and processes: ... ensure the effective use of Procurement and PPM Tools and Techniques

- The organisation successfully deploys effective world class tools and techniques appropriate to its procurement profile in the following areas:
  - Transactional procurement (e.g. e-procurement tools, framework agreements, HMT / OGC standardisation material for both PFI and ICT projects)
  - Sourcing, Supply Base and Category Management
  - Portfolio management, programme management and project management (e.g. OGC best practice methodologies such as PRINCE 2™ Project Management, Achieving Excellence, Managing Successful Programmes)
  - Risk management (e.g. OGC’s Management of Risk)
  - Contract / service management
  - Common government (e.g. GPS) standards, processes and tools

The organisation makes appropriate use of Gateway™ Reviews to provide world class programme and project assurance

PROCUREMENT CAPABILITY STANDARDS RELATING TO INDICATOR (8)

Reviewer Notes:

- When looking at how organisations develop and deploy systems and processes, as well as looking for the use of proven tools and techniques, Reviewers should assess whether organisations show an understanding of the need to balance:
  - efficiency (minimising the cost and resource levels requires to operate the system or process)
  - effectiveness (successful attainment of the objectives of the system or process) and
  - control (assurance that the system or process supports governance, legal and ethical considerations).

- For example, a very simple procurement process might be efficient (low cost and simple) but score badly on effectiveness and control if it does not end up with the most appropriate goods and it breaks EU regulations.
- The commercial function should adopt recognised and proven standards, principles, tools and techniques. For example, effective use of systems to manage data and MI, and P2P systems, would be a positive indicator.
KPI 12: Systems & processes – average processing cost per purchase order and per invoice in the purchase to pay process

**Rationale**
This indicator provides a measure of the extent to which a streamlined and integrated purchase to pay process is in place. It is expected that procurement functions will wish to reduce the costs of procurement processes on an ongoing basis.

This is a key metric that tests the efficiency of procurement processes in the department.

**Calculation**
- Average order cost = \( \frac{\text{Total direct costs of orders raised pa}}{\text{Total no. of orders raised pa}} \)
- Average invoice cost = \( \frac{\text{Total direct costs of invoices paid pa}}{\text{Total no. of invoices paid pa}} \)

**Data source**
Direct costs should be derived from the departmental estimates

**External benchmarks**
This indicator is directly comparable with the following external benchmarks:
- Procurement Strategy Council (PSC):
  - Average processing cost per purchase order
  - Average processing cost per invoice
- The Public Audit Forum finance indicator cost of accounts payable per invoice processed is very similar but uses a slightly narrower definition by of invoice processing costs ie starting activity from the point at which invoices are ready to be entered into the system.

8.1 The organisation does not constantly “reinvent the wheel”, but adopts recognised and proven standards, principles, tools and techniques wherever possible

**Reviewer Notes:**

- Reviewers should look for evidence of the appropriate adoption of effective standards, recognised principles, tools and techniques. For example, when looking at Project Procurement under Indicator 7 one would expect to see methodologies such as OGC’s Prince 2™, Managing Successful Programmes, Management of Risk and Gateway™ Reviews adopted as appropriate.
- Reviewers should look for evidence that cross government tools and standards have been considered and adopted as appropriate, for example GPS standard job descriptions and competencies. Involvement in contributing to these as part of the GPS community is a positive indicator.
- Reviewers should look for evidence that relevant standards, recognised principles, tools and techniques (such as those referred to under the various parts of this Procurement Capability Review Standards Framework) are codified into recognised systems and business processes to ensure compliance and consistent adoption
8.2 Risk Management should be applied to good effect by the commercial function as well as appropriately considered by other functions and visible to the Board

Reviewer Notes:

- There is active strategic management of commercial risks at Board level
- Risk management procedures should be easily found
- A departmental commercial risk and issues log is regularly reviewed and updated
- There is clear ownership of commercial risk
- Government data security standards are applied and commercial data is securely held.
- There are clear and effective channels for risk escalation if needed
- The commercial function is aware of risk management techniques and familiar with the management of risk at all levels.

8.3 The organisations transactional processes that support procurement activity also reflect effective proven standards, tools and techniques

Reviewer Notes:

- The organisation should be able to show a small number of standard recognised procurement processes that cover both the sourcing element of the process and the transactional route that the user goes through to obtain the actual goods and services.
- Sometimes the two are closely linked; for example, the Government Procurement Card (GPC) is principally a transactional payment mechanism, but use of the GPC is generally considered a ‘process’ for obtaining low value items.
- Even in this case however, the process description should include how competition is used (defining how many quotes should be obtained before committing a GPC order) as well as the associated internal documentation, approval mechanisms etc.
- Low value ad hoc purchases should be handled through low cost processes such as Government Procurement Card (GPC). In such cases, the cost of engaging with new suppliers – for instance, setting up suppliers on accounts payable databases - frequently exceeds the cost of the goods bought. GPC (and the appropriate process around it) is a well-proven, effective route for low value transactions; organisations not using it (and not intending to do so) should be able to explain why and show effective alternatives that offer comparable efficiency and control.
- High value one-off purchases should be controlled through a formal, systemised requisition / Purchase Order process.
- For high value purchases and transactions, there needs to be a more rigorous control mechanism. This is likely to include a requisitioning process that will include an element of business case justification, followed by placing a formal purchase order and / or contract with the supplier. There must also be clarity around approvals and the involvement of procurement in such activities (see also indicator (2) in this regard).
**KPI 15: Systems & processes - Percentage of third party spend via purchasing cards or the government procurement card**

| Rationale | This indicator provides a measure of the extent to which use is made low cost procurement processes for low value, ad hoc transactions. It is expected that procurement functions will wish to reduce the costs of procurement processes on an ongoing basis. This indicator is a contextual metric that provides useful information about the cost effectiveness of procurement processes. It would need to be considered alongside other information such as the extent and nature of low value items that are procured. |
| Calculation | Percentage of procurement card spend = \[
\frac{\text{Total spend via procurement card}}{\text{Total third party spend of department}}\] |
| Data source | The amount of expenditure via the procurement card should be available from the person managing the department’s procurement card. Departments should derive the data for third party spend from the information they enter onto the Treasury’s public expenditure database, the Combined Online Information System (COINS) for current procurement expenditure (gross) and gross expenditure on tangible and intangible fixed assets. The data provided should be reconciled to the relevant figure published in the Public Expenditure Statistical Analyses in the data return. Departments would also be advised to cross check the data they provided with the return submitted for the OGC’s Public Sector Procurement Expenditure Survey (PSPES). |
| External benchmark | This indicator is directly comparable with the following external benchmark: CAPS research: Percentage purchase spend via procurement cards |

**Reviewer Notes:**

- Low value, ad hoc transactions should be handled by appropriate low cost processes. GPC is a strong process for such spend.
- The KPI should be calculated over the last full year for which data is available. To calculate this KPI, the total number of invoices with a value of under £500 needs to be calculated. (A single invoice with a total value of over £500 but separate invoice lines of under £500 does not count.) The total number of GPC transactions should also be calculated. The respective percentages can then be calculated.
- By way of example, if an organisation processed 8,000 invoices of a value under £500 in 2005/6 and in the same year there were 17,000 GPC transactions of value under £500, the total number of transactions would be 25,000 and the respective percentages: **32%** invoiced and **68%** GPC.
- In general, the higher the ‘GPC percentage’, the better.
8.4 The organisations finance processes that support procurement activity reflect effective proven standards, tools and techniques

Reviewer Notes:

- Accounts payable (“AP”) should use effective and efficient processes, be highly automated, and provide fast, accurate management information.
- Reviewers need to consider at least the high level processes used in AP. Ideally, AP systems will be closely linked to financial (ERP) systems that provide automated matching of invoices with orders. A strong process should have relatively few invoice exceptions and non-matches that require manual intervention. Management information should be accurate, rapidly available and should drive further process improvement.
- AP should hit payment targets and have a strategy to take advantage of payment discounts where appropriate. The organisation should have published targets for invoice payment (e.g. 99% of invoices paid to terms). This should be monitored and the results published. Where possible, procurement and AP should be aligned so that prompt payment discounts can be negotiated where appropriate based on accelerated payment.
- Reviewer should also look for evidence of actions taken to minimise quantity and complexity of invoices. Various actions can be taken to improve AP operations. Reviewers should look for a proactive approach, targeting suppliers who submit multiple invoices, and considering techniques such as consolidation, automation and standing payments etc).

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<thead>
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<th>KPI 16: Systems &amp; processes – Percentage of valid invoices paid within 30 days of receipt or within the agreed payment terms</th>
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8.5 The organisation uses appropriate technology based tools to support its overall strategies, systems and processes

Reviewer Notes:

- The organisation may not require ‘leading edge’ solutions. However, it would be concerning if there was no recognition of the benefits available from appropriate technologies, as many of these are now well established.
- There is no simple ‘best practice’ definition of systems and technology usage. Reviewers will need to form a view of whether technology is being used in an appropriate manner. Some of the processes that can be addressed by technology include:
  - **Requisitioning and ordering systems** that route end user requirements through to formal purchase orders and then suppliers.
  - **ERP systems** (often linked to ordering) that feed procurement commitments and orders into core financial systems, and generally handle the payment cycle (again, integrated into general accounts systems). An integrated ERP system that handles the end-to-end ‘procure to pay’ process is likely to be preferable to a number of independent systems that require interfaces and integration. In any event, it is important that the links from procurement systems into the core financial system (general ledger, accounts payable and asset register) are robust.
  - **Contract databases and contract management systems**.
  - **eProcurement and eMarketplaces**: electronic linkages to suppliers (whether individual or multiple) for ordering, enquiries or similar.
  - **eSourcing** – automation of the tendering process. This is a less developed tool but a high capability organisation is likely to be able to show that it is at least considering or piloting such an approach.
  - **eAuctions** – auctioning technology that may be integrated into ERP, or stand-alone software, or accessed as a hosted service.

### KPI 18: Systems & processes – Percentage of third party spend sourced electronically

| Rationale | This indicator provides a measure of the extent to which departments are using technology to improve the efficiency of sourcing. In most circumstances departments would wish to increase the use of technology over time.

This indicator is a contextual metric that provides useful information about the use of cost effective procurement processes. It would be need to considered in light of what is appropriate for the department’s needs. |
|---|---|
| Calculation | Percentage of eSourced = \[
\frac{\text{Total spend via eSourcing}}{\text{Total third party spend of department}}
\] |
| Data source | The value of contracts placed using eSourcing should be available from the eSourcing system. Departments should derive the data for third party spend from the information they enter onto the Treasury’s public expenditure database, the Combined On-line Information System (COINS) for current procurement expenditure (gross) and gross expenditure on tangible and intangible fixed assets. The data... |
8.6 The wider network applies recognised and proven standards, principles, tools and techniques wherever possible in order to ensure effective systems and processes are deployed in support of procurement and PPM activities.

Reviewer Notes:

- Reviewers need to assess how much influence it is reasonable for the ‘centre’ to have over the wider network of related organisations such as NDPBs. Where the centre is providing an element of governance and support, then this should encompass an overview of processes and technology management in line with the above standards.
- Where a decentralised structure exists, which means a standard and consistent approach across the wider network is difficult to achieve, and departments demonstrate effective collaborative working arrangements, this will be recognised as a positive outcome.

8.7 The department should have information systems in place that are able to provide relevant and accurate information to support the aims of estate resource and business management.

Reviewer Notes:

- The organisation complies with OGC requirements on estate recording, for example mandatory use of e-PIMS and the Property Benchmarking Service.
- There are rigorous processes in place for capturing timely information to support strategic and operational decision making about Property Asset Management.
(9) Systems and processes: ... continuously improve through effective knowledge and performance management

- The department successfully deploys effective systems and processes to capture the necessary management information required to support effective commercial operations as appropriate to its Procurement Profile
- The department translates the vision, aspirations, and strategies relating to its procurement/PPM operations into measurable targets and monitors its performance against such targets so as to inform the management and future strategic direction of such operations
- The commercial function initiates knowledge sharing both internally and externally
- The department deploys effective benefits management strategies together with strategies and processes for capturing and learning from organisational experience and wider developments

PROCUREMENT CAPABILITY STANDARDS RELATING TO INDICATOR (9)

Performance Management

9.1 A performance regime (from Board level down) is in place covering all major commercial initiatives and activities (including forward strategic planning to ensure capacity and capability to meet ongoing and future requirements)

Reviewer Notes:

- The department translates its commercial strategy into measurable targets, using key performance indicators (KPIs) and metrics to monitor its performance. KPIs should be aligned with the department’s business needs and performance targets. Use of and the ability to respond to the KPIs contained in this PCR Model would be a positive indicator.
- Effective benefits management strategies should be well defined
- At an individual level, performance is also addressed under Indicator 4. Individual personnel performance should feed into the wider assessment of the function’s performance.

9.2 The department benchmarks procurement performance against others

Reviewer Notes:

- High performing organisations measure themselves against others and look to learn from best practice wherever it can be found. Procurement / PPM functions should behave in this manner and look to learn from external organisations – public and private sector.
- The measurement should highlight year on year procurement performance improvements.
Measuring performance should not be seen as a one off exercise; systems and processes should be in place, with performance measures linked to the key metrics and KPIs for the function.

9.3 The department deploys clear savings and benefits measurement that aligns with OGC / HMT best practice

Reviewer Notes:

- As well as measuring benefits, it is useful to set some targets; particularly in areas such as cashable savings (this may well be required of organisations under CSR07 or similar.) Targets should be achievable but stretching, time-bounded and measurable.
- Savings and benefits measurement should be established and routinely monitored. It should be closely aligned with the OGC, efficiency and other government guidance.
- Savings reporting should go through a process of internal validation and checks before reports are published or communicated externally.
- The department needs to be able to link procurement savings to departmental spend. eg. Identify how the CF has contributed to the CSR07 savings plan
- Reviewers may wish to look at a sample of declared procurement savings to establish confidence in the process. To be meaningful, any sampling will need to track savings back to source and verify the baseline, the action taken to release the savings, and the outcome.

<table>
<thead>
<tr>
<th>KPI 19: Results delivered – procurement related VFM savings as a % of third party spend</th>
</tr>
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<tbody>
<tr>
<td><strong>Rationale</strong></td>
</tr>
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</table>
| **Calculation** | Percentage of VFM savings = \[
\frac{\text{Total procurement related VFM savings}}{\text{Total third party spend of department}}
\] |
| **Data source** | CSR 04 procurement related VFM savings should be derived from the OGC CSR04 efficiency return  
CSR07 procurement related VFM savings should be derived from the monitoring of the department’s value for money delivery plan  
Departments should derive the data for third party spend from the information they enter onto the Treasury’s public expenditure database, the Combined Online Information System (COINS) for current procurement expenditure (gross) and gross expenditure on tangible and intangible fixed assets. The data provided should be reconciled to the relevant figure published in the Public Expenditure Statistical Analyses in the data return. Departments would also be advised to cross check the data they provided with the return submitted for the OGC’s Public Sector Procurement Expenditure Survey (PSPES). |
| **External benchmark** | This indicator is directly comparable with the following external benchmark: CAPS research:  
Cost reduction savings as a percentage of total purchase spend |
9.4 The department adopts a “scorecard” approach to procurement performance reporting (e.g. that includes savings, other benefits, business and service factors, resourcing issues, system, process and policy compliance etc.)

Reviewer Notes:

- Benefits and Savings are key measures, but should not be the only measure of procurement performance. While reviewers should not be overly prescriptive, a wider range of measures should generally be collected – perhaps using a scorecard or similar tool - and used for monitoring and improving procurement performance.
- Measures might include other aspects of “added value” obtained through contracting activity, internal customer service and other stakeholder measures, transactional measures (e.g. time taken to process a requisition), wider community benefits (e.g. assistance offered in training SMEs to bid more successfully), staff success measures such as retention or training, and the achievement of milestones in relation to key activities.

<table>
<thead>
<tr>
<th>KPI 23: Results delivered – customer satisfaction with supplier performance</th>
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<tr>
<td><strong>Rationale</strong></td>
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<td><strong>Calculation</strong></td>
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<tr>
<td><strong>Data source</strong></td>
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<tr>
<td><strong>External benchmarks</strong></td>
</tr>
</tbody>
</table>

9.5 The department demonstrates a focus on performance improvement year on year

Reviewer Notes:

- The Reviewers should establish whether performance measurement is seen as a series of “one-off” events, or (more appropriately) a continuous process; identifying improvement opportunities, implementing changes to achieve them, then looking for more opportunities and so on.
Management Information and Planning

9.6 Appropriate and robust management information is available to support sourcing activities, procurement planning, priority setting, performance measurement and improvement strategies

Reviewer Notes:

- Effective procurement requires good management information. Reviewers will have a good sense of the availability and quality of information in the organisation based on the ease of obtaining data to inform the Review itself.
- Key management information should include spend / demand data, categorised by spend area, cost centre, supplier etc; contract information; forward business and project plans; resourcing information and performance information etc.
- There should be clear information about achievement of procurement through policy issues, such as how much is spent with SMEs or on sustainability.

9.7 Performance management, information management and contracts information is robust around the wider network

Reviewer Notes:

- Reviewers need to establish how much influence it is reasonable to expect the centre to exercise across the wider network.
- However, high quality measurement and reporting relating to procurement/PPM activities should be fundamental for all public sector organisations, so this is an area where the department’s centre should play a key role. For example, it should help its wider organisation network establish good measurement and performance processes, and have a governance role in validating the savings reporting throughout the network even if only on a 'sample' basis
- The basic principles relating to planning and information should also apply to all organisations in the network; at the minimum, the centre should be ensuring that basic contract and spend information is available and used by procurement staff around the network.

9.8 Future demand for goods and services is forecast on at least an annual basis

Reviewer Notes:

- A view of future requirements is essential so that procurement can plan its activities effectively, and so that the organisation puts itself in the best possible negotiating position with suppliers. Reviewers should check that organisational plans / management information include this element, and that procurement are involved in the process and have access to appropriate plans/information.
9.9 The procurement function feeds appropriate information into the annual planning process for both capital and revenue spend

Reviewer Notes:

- Procurement should be both a contributor to the annual planning process as well as a receiver of data. Procurement input might cover providing resource and timing projections for major projects; or forecasting cost reductions (or indeed increases) at category spend level; or suggesting specification changes that could mean operational budgets can be safely reduced.
- Organisations that plan purely on the basis of “the same cost for purchased items” as last year plus an RPI adjustment are not demonstrating good practice.

9.10 Financial planning and budgeting for the procurement function is carried out professionally

Reviewer Notes:

- The procurement function should demonstrate that its own internal operational planning processes (e.g. financial, resourcing, facilities and other resources) are robust.

9.11 A contracts database should exist with key contract information (e.g. documentation and expiry dates) that is well organised and easily available

Reviewer Notes:

- Contract information should be easily available, both in summary form and the full contracts, with schedules and other relevant associated information (e.g. change control and contract review documentation).
- Key ‘decision points’ – dates for extension, termination - should be captured and held in a format that enables easy checks to be made and triggers action at the appropriate time.
- The existence of an easily accessed database of contracts – physical or electronic – is an important element of managing the procurement function.

Knowledge Management

9.12 An internal knowledge sharing network exists, and where appropriate covers the wider network

Reviewer Notes:

- There should be effective, visible networks in place for formal and informal knowledge sharing and organisational learning and ‘memory’.
9.13 The department, particularly the commercial function, initiates knowledge sharing externally

Reviewer Notes:

- The department should lead engagement with peers and cross-Government initiatives, such as conference presentations to share good practice and learning to learning networks.

9.14 Estates Performance Management - Measurement of the performance both of the estate, and the PAM function is complete and accurate and management information is used effectively

Reviewer Notes:

- The Property Benchmarking Service is used to set targets and inform decision making
- The overall performance of the estate is related to business objectives through a balanced range of KPIs and targets
- There is a continuous review and improvement cycle in place and used to ensure the estate remains fit for purpose
- Environmental sustainability is measured appropriately and managed to meet Government targets
- The estate delivers vfm and this is measured using recognised CSR and HPP methodology.
- Internal audit is engaged in auditing both estates projects and the PAM function on a risk basis using the HPP Internal Audit Assessment Matrix
- The department monitors the capability of the PAM function using the PAMCAM and takes action to improve capability
5. ANNEXES

Annex A

Criteria to assist reviewers consider the ‘wider network’

One of the principles of the PCR process is for each review to ‘follow the money’, that is to scrutinise all areas of departmental spend and ensure appropriate controls and processes are in place. Central department’s spend, which traditionally falls under the remit of the procurement function, may account for a relatively small amount of money compared to the overall departmental budget. This begs the questions:

- How is the department accountable for spend in the ‘wider network’?
- To what extent should the central department control the spend of it's NDPB’s, executive agencies and other arm's length organisations?
- How should PCRs approach this issue?

What is a Public Body how does the department relate to it?

A public body is not part of a government department, but carries out its function to a greater or lesser extent at arm's length from central government. Ministers are ultimately responsible to Parliament for the activities of the bodies sponsored by their department and in almost all cases (except, for example, where there is separate statutory provision) ministers make the appointments to their boards. Departments are responsible for funding and ensuring good governance of their public bodies.

The term ‘public body’ is a general one that includes: Non-Departmental Public Bodies (NDPBs); Public Corporations; NHS Bodies; and Public Broadcasting Authorities (BBC and S4C). NDPBs are defined as ‘bodies which have a role in the processes of national government, but which are not government departments or part of one, and which accordingly operate to a greater or lesser extent at arm's length from Ministers’. There are four types of NDPB. These denote different funding arrangements, functions and kinds of activity. They are:

Executive NDPBs - established in statute and carrying out administrative, regulatory and commercial functions, they employ their own staff and are allocated their own budgets. The chief executive has responsibility, under the board, for the overall organisation, management, and staffing of an executive NDPB and for its procedures in financial and other matters.

For example, the Environment Agency is an executive NDPB of Defra, the Learning and Skills Council is an executive NDPB of DCSF.

7 Definition taken from public bodies 1999

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Advisory NDPBs - provide independent and expert advice to ministers on particular topics of interest. They do not usually have staff but are supported by staff from their sponsoring department. They do not usually have their own budget, as costs incurred come within the department's expenditure.

For example, the Independent Advisory Group on Teenage Pregnancy is an advisory NDPB for DCSF and the Building Regulations Advisory Committee is an advisory NDPB for CLG.

Tribunal NDPBs - have jurisdiction in a specialised field of law. They are usually supported by staff from their sponsoring department and do not have their own budgets.

Independent Monitoring Boards - formerly known as 'Boards of Visitors' - 'watchdogs' of the prison system. Their duty is to satisfy themselves as to the state of the prison premises, their administration and the treatment of prisoners. The sponsoring department meets the costs.

As NDPBs are not part of the Government, the day-to-day decisions they make are independent but Ministers are ultimately responsible to Parliament for the effectiveness of decisions made by NDPBs.

As well as NDPBs, there are executive agencies defined as:

Executive agencies

Executive agencies are well-defined business units that carry out services or functions, with a clear focus on delivering specific outputs within a framework of accountability to ministers. They can be set up or disbanded without legislation, and they are organisationally independent from the department.

'Animal Health' is an example of an executive agency of Defra.

There are a number of areas that can assist the PCRs decide what is within the scope of the review, although it must be understood the reviews themselves are an iterative process and the review teams are at liberty to investigate whatever areas they believe are relevant.

The PCR information pack should provide information on the department and its public bodies that should inform the reviewers of areas they should focus on. Factors to consider include:

Political influence

PCRs assess the ability of the Department's procurement function to effectively contribute towards the overall objectives of the organisation. Therefore the Public Service Agreements (PSAs) should be considered to understand what the departments are committed to achieving.

The political relationships between the central departments and wider network should be analysed, particularly to ensure resultant recommendations are realistic. For example, it would not be realistic to recommend DCSF carry out all procurement for all universities even though this would increase their control over the money spent. However, it is realistic to expect DCSF to set a clear strategy and policy objectives to influence how procurement in universities is managed.
Funding relationships

How much money and where the money is spent is a key factor. For example CLG provide over £23bn to local authorities and are therefore responsible for ensuring good governance in order to achieve value for money. However, PCRs focus on procurement and therefore it is the spend with third parties across the procurement spectrum that is of most interest. So in the CLG example, it is the local government markets, spend with suppliers and CLG’s role in promoting possible collaborative opportunities that is of interest.

Accountability

It is commonly accepted that accountability in central government is based on an intricate web of relationships. An aspect of being publicly accountable is having a responsibility to achieve value for money wherever possible.

It is worth exploring the role of the Permanent Secretary with respect to spend across the wider network. They are responsible for providing advice to their respective Minister and, given that Ministers are responsible to Parliament for the effectiveness of NDPBs, the Permanent Secretary must also take direct responsibility for the Department and its NDPBs. Permanent Secretaries act as the Principal Accounting Officer for the Department. This involves being responsible for maintaining a sound system of internal control for public finances.

Other considerations and principles

- The recommendations developed as a result of undertaking a review must reflect the central department’s ability to influence. In order to develop an improvement plan to drive up capability that is both challenging and realistic, the strength of the relationship with its wider network should be taken into account.
- The scope of the review must be realistic. For example when reviewing CLG it is not realistic to interview the Chief Executive of every Local Authority. However it is realistic to consider how CLG implements financial controls over local authorities and encourages collaboration between them.
- Particular model indicators may be more relevant than others, for example how the central department approaches category or market management across the wider network will be more relevant than more detailed information around staff objectives.
- Should a site visit to a particular NDPB be made? This decision should be taken at an early stage of the planning to ensure any useful information gathered could be fed into the report.

Conclusion

Each review will need a unique approach to the wider network issue. The review team must consider and agree an approach to the wider network at an appropriate stage of the process that enables an effective PCR to take place.
Annex B

Procurement capability: supplier survey

For each of the statements given below please assess xxxx department as follows:

1. Strongly agree with the statement
2. Agree with the statement
3. Disagree with the statement
4. Strongly disagree with the statement
N/A Not applicable or don’t know

There is also space for you to write comments against each question if you wish.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strategy</td>
<td>1 2 3 4 N/A</td>
</tr>
<tr>
<td>The procurement function understands and supports the customer’s goals.</td>
<td></td>
</tr>
<tr>
<td>Comments:</td>
<td></td>
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<tr>
<td>2. Supplier confidence</td>
<td>1 2 3 4 N/A</td>
</tr>
<tr>
<td>The procurement function is fair, ethical and professional in its dealings with us.</td>
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</tr>
<tr>
<td>Comments:</td>
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</tr>
<tr>
<td>3. Procurement skills</td>
<td>1 2 3 4 N/A</td>
</tr>
<tr>
<td>The procurement function has staff that are well trained, experienced and competent.</td>
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<td>Comments:</td>
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4. **Supplier relationship management**  
The customer organisation engages effectively with suppliers and there is ongoing and timely sharing of information, thinking and intelligence.  

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<th>4</th>
<th>N/A</th>
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**Comments:**

5. **Procurement processes**  
Procurement processes are efficient and we are paid on time.  

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**Comments:**

6. **Governance and organisation**  
I can speak to staff at the right level in the customer organisation to resolve contract issues that arise.  

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**Comments:**

7. **Intelligent client**  
The customer organisation manages contracts effectively to ensure suppliers provide what is required.  

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**Comments:**

8. **Performance management**  
The customer organisation works actively with us to obtain value for money from the goods and services we supply.  

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**Comments:**
9. Other comments

Do you have any other comments on the procurement and commercial capability of the customer organisation?
Annex C

*Procurement capability: stakeholder survey*

For each of the statements given below please assess your department as follows:

1. Strongly agree with the statement
2. Agree with the statement
3. Disagree with the statement
4. Strongly disagree with the statement
N/A: Not applicable or don’t know

There is also space for you to write comments against each question if you wish.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Assessment</th>
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<tbody>
<tr>
<td>10. Leadership</td>
<td>1 2 3 4 N/A</td>
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<tr>
<td>There is strong, visible and effective leadership of procurement at all levels</td>
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<td>Comments:</td>
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<tr>
<td>11. Strategy</td>
<td>1 2 3 4 N/A</td>
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<tr>
<td>There is a clear procurement strategy aligned to the organisation’s goals</td>
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<td>Comments:</td>
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<td>12. Stakeholder confidence</td>
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<tr>
<td></td>
<td>The procurement function is responsive to our needs and provides vfm</td>
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<td>Comments:</td>
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<th>13. Procurement skills</th>
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<tr>
<td></td>
<td>Procurement staff are well trained, experienced and competent</td>
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<td>Comments:</td>
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<th>14. Governance and organisation</th>
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<td></td>
<td>The procurement function is appropriately involved at all the key decision points</td>
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<td>Comments:</td>
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<th>15. Collaboration</th>
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<tbody>
<tr>
<td></td>
<td>There is effective engagement and dialogue with suppliers and procurement is done collaboratively</td>
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<td>Comments:</td>
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16. Processes and Systems

Procurement processes are efficient and appropriate to our needs

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17. ‘Intelligent client’

Our contract management processes ensure we get the best from suppliers

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18. Performance management

Our department obtains vfm from the goods and services it buys

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19. Other comments

Do you have any other comments on the procurement and commercial capability of your organisation?

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Annex D: Key Performance Indicator Definitions

**Stakeholders (KPI 1 Leadership)**

The stakeholders of the department’s procurement function are defined as the managers and senior managers that commission goods and services. The indicator is derived from stakeholder responses to the following statements in the questionnaire:

- There is strong, visible and effective leadership of procurement at all levels
- There is a clear procurement strategy aligned to the organisation’s goals
- The procurement function is responsive to our needs and provides VFM.
- Procurement staff are well trained, experienced and competent
- The procurement function is appropriately involved at all the key decision points
- There is effective engagement and dialogue with suppliers and procurement is done collaboratively
- Procurement processes are efficient and appropriate to our needs
- Our contract management processes ensure we get the best from suppliers
- Our department obtains VFM from the goods and services it buys

**Supplier Confidence (KPI 2 Leadership)**

Supplier confidence is derived from supplier responses to the following statements in the questionnaire:

- The procurement function understands and supports the customer's goals.
- The procurement function is fair, ethical and professional in its dealings with us.
- The procurement function has staff that are well trained, experienced and competent.
- The customer organisation engages effectively with suppliers and there is ongoing and timely sharing of information, thinking and intelligence.
- Procurement processes are efficient and we are paid on time.
- I can speak to staff at the right level in the customer organisation to resolve contract issues that arise.
- The customer organisation manages contracts effectively to ensure suppliers provide what is required.

The customer organisation works actively with us to obtain value for money from the goods and services we supply.
Third Party Spend (KPI 3 Leadership, KPI 6 and 11 Skills, KPI 13, 14, 15, 17, 18, 19, 20, Systems)

This should comprise third party spend managed by the department only and exclude the expenditure of other related bodies including NDPBs, public corporations, local authorities etc. The figure provided should be gross expenditure only. The definition of third party or non-pay spend to be used should be the same as for the 2007/08 Procurement Indicators as devised by the Public Audit Forum i.e. It should include the following:

- **Goods** – tangible products such as stationery, which are often also known as supplies
- **Services** – provision of an intangible product such as refuse collection, elderly home care, whether carried out internally or externally
- **Works** – including construction works
- **Utilities** – energy costs

It excludes employee costs, grants, trust payments and other non-controllable payments to other government departmental bodies but should include spending on agency staff.

**Actively managed (KPI 3 Leadership)**

This is defined as spend where procurement professionals are actively supporting the sourcing process, for example providing guidance would not be deemed as ‘active management’, they should be an active participant in defining and running the sourcing process.

**Procurement professionals (KPI 3 Leadership, KPI 7 Skills)**

The definition of a procurement professional is as provided by the Government Procurement Service i.e. someone who is

“In a role that directly adds value on the quality and cost effectiveness of procurement and acquisition of goods, services, assets and works; positively impacting upon commercial relationships during one or more stages of the procurement cycle, i.e. from product or service conception through to the eventual disposal of the asset or termination of the contract. This will explicitly include the extraction of the value of these goods and services over the lifetime of any contractual arrangement be it short, medium or longer term. This will often include the development and signature of contracts which secure value for money and comply with legal and policy requirements.”

[Currently draft definition]

In practice this is likely to be someone holding or studying for a qualification recognised by the Chartered Institute of Purchasing and Supply (CIPS) and is in a designated or key designated procurement post.

All procurement professionals working for the department should be included whether working for the procurement function or embedded in business units.

**Head of procurement function (KPI 4 Leadership)**

This is the person who is in charge of the department’s procurement professionals and will largely or exclusively focus on procurement related issues.
Level (KPI 4 Leadership)
This refers to the tier of management in the department’s structure chart working downwards from the Board.

Value for money savings (KPI 5 Skills)
For 06/07 and 07/08 procurement related value for money savings should be calculated in accordance with OGC’s efficiency measurement and reporting guidance for CSR04.
For 08/09 and the rest of the CSR07 period the calculation of VFM savings should comprise total net value of ongoing cash-releasing value for money gains that are procurement related. Departmental value for money delivery plans are expected to have monitoring arrangements over the CSR07 period and departments should use the monitoring data in their calculations, (Please see HM Treasury’s 2007 COMPREHENSIVE SPENDING REVIEW: Guidance for Departmental Submissions for more detail).

Cost of the procurement function (KPI 5 and 6 Skills)
Total cost of the procurement function should include:
- Employee costs including employers NI, pension and recruitment costs
- IT costs
- Accommodation costs
- Supplies / consumables
- Outsourcing costs
- Other costs
Where some or all procurement activity is devolved in the organization (for example where there is no centralized procurement function, or where individuals work outside of any centralized function and are based in service departments) include the cost of those staff who spend more than 50 per cent of their time on strategic and / or operational procurement activities. Any payments made to third parties to conduct procurement on the organization’s behalf should also be included in the costs of procurement.

Turnover (KPI 7 Skills)
Turnover is defined as the % of total permanently employed staff measured in full-time equivalents (FTEs) that leave each year for whatever reason e.g. retirement, resignation etc. Part-time staff should be calculated on the basis of the proportion of a full-time equivalent that they work.

Permanently employed procurement employees (FTEs) (KPI 8 and 9 Skills)
The number of permanently employed staff that can be defined as procurement professionals measured in full-time equivalents (FTEs). Part-time procurement staff should be calculated on the basis of the proportion of a full-time equivalent that they work.
Professionally qualified (KPI 8 and 9 Skills)
Professionally qualified is defined as holding a qualification recognized by the Chartered Institute of Purchasing and Supply (CIPS) which includes:

- The Government Procurement Service Certificate of Competence in Purchasing and Supply;
- The Certificate and Advanced Certificate in Purchasing and Supply;
- The CIPS Graduate Diploma (Foundation and Professional levels); and
- NVQs and SVQs in Procurement.

Procurement employees (FTEs) (KPI 10 Skills)
The number of staff employed by the department that can be defined as procurement professionals measured in full-time equivalents (FTEs). Part-time procurement staff should be calculated on the basis of the proportion of a full-time equivalent that they work.

Externally resourced (KPI 10 Skills)
Professional procurement staff (FTEs) that are contractors, interim managers, consultants or temporary employees. They should be included in the calculation of the number of all procurement employees as described above.

Supplier relationship management (SRM) (KPI 11 Skills)
Supplier Relationship Management (including analysis) is the proactive management of an ongoing business relationship to secure a competitive advantage for your own organization. The focus is on overall relationships between the supplier and the buying organization rather than a focus on a specific contract. Its purpose is to encourage purchasing and business management to develop a structured understanding of the nature of current relationships that exist within and between your organization and the suppliers.

The objectives for SRM are likely to include

- Reduction in costs
- Service improvement
- Solution development

Flexibility and mutual benefit

Purchase to pay (KPI 12 Systems and processes)
This is defined as the steps of the procurement process from when procurement creates and sends an order to the chosen supplier to when the supplier’s invoices are sent to accounts payable and the invoice is paid.
Costs (KPI 12 System)

The direct costs of raising orders and processing invoices should be used and they should include:
- Employee costs including employers NI, pension and recruitment costs
- IT costs
- Accommodation costs
- Supplies / consumables
- Outsourcing costs
- Other costs

The cost of processing orders should include the activities from the point of receipt of requisitions (including checking of requisition) to the issuing of purchase orders to suppliers.

The cost of processing invoices should include the activities from the receipt of the invoice (including matching) to the authorization of payment.

These activities refer to work undertaken by finance, procurement or the shared service provider depending on how the purchase to pay process is organized in the department. Internal client costs should not be included.

Pre-arranged contracts (KPI 12 and 13 Systems)

For the purpose of this indicator, pre-established contracts are written agreements with third parties for the provision of goods, services, works and utilities, including framework agreements. This can include contracts established by the organization or by another organization, for example through nationally established framework agreements or collaborative arrangements with other organizations. ‘Pre-established’ means that formal legal contracts for the spend are in place before goods and services are ordered.

Collaborative procurement arrangements (KPI 14 Systems)

These are defined as collaborative arrangements endorsed by the Pan government Strategic Stakeholder Forum (SSF) with other buying organisations and agreed by Collaborative Category Boards

Specified categories

The use of collaborative procurement arrangements should be assessed for 6 categories:
- Professional services
- ICT
- Office solutions
- Vehicles
- Travel
- Energy
Purchasing/government procurement cards (GPC) (KPI 15 Systems)

Purchasing cards (P-cards) are similar in principle to charge cards used by consumers (for example suppliers are paid within five days; the buyer is billed monthly in a consolidated invoice), but with extra features which make them more suitable for business-to-business purchasing.

Payment terms (KPI 16 Systems)

Normally, departments will be operating payment terms with suppliers of paying for goods and services after receipt and within 30 calendar days of the receipt of a valid invoice.

Structured category management KPI 17 Systems)

This is defined as a structured approach to procuring routinely required goods and services. Spend is assigned to a hierarchy of items and an active process of managing categories of expenditure is put in place that includes understanding stakeholder requirements, developing a sourcing strategy, development of a specification, supplier selection and contract management. A standard set of categories have been developed across government including professional services, facilities, office solutions, ICT, travel, energy and vehicles.

eSourcing (KPI 18 Systems)

eSourcing is a suite of collaborative, web-based tools that enable procurement professionals and suppliers to conduct strategic sourcing and contract management activities over the internet. These strategic activities include:

- spend analysis
- tendering
- evaluation of tenders
- collaboration
- contract management

Further information about eSourcing is available on the OGC and Buying Solutions web-sites.

For expenditure to count as having been sourced electronically it should have been used for the tendering stage as a minimum.

Value for money savings (KPI 19 Results)

For 06/07 and 07/08 procurement related value for money savings should be calculated in accordance with OGC’s efficiency measurement and reporting guidance for CSR04.

For 08/09 and the rest of the CSR07 period the calculation of VFM savings should comprise total net value of ongoing cash-releasing value for money gains that are procurement related. Departmental value for money delivery plans are expected to have monitoring arrangements over the CSR07 period and departments should use the monitoring data in their calculations. (Please HM Treasury’s 2007 COMPREHENSIVE SPENDING REVIEW: Guidance for Departmental Submissions for more detail).
Small and Medium Enterprise (KPI 20 Results)
This should follow the EU definition of an SME (Recommendation 2003/361/EC), which stipulates a headcount of less than 250 and a maximum annual turnover of £40m.

Sustainable Operations on the Government Estate (SOGE) targets (KPI 21 Results)
In 2006 the government published the Sustainable Operations on the Government Estate (SOGE) framework. As part of the framework the government committed to delivering 14 outcome orientated performance targets. The targets cover carbon emissions (offices and vehicles), energy efficiency, waste reduction, recycling and water consumption. More details of the trajectories for delivering the targets are set out in OGC's Sustainable Procurement and Operations on the Government Estate delivery plan.

Basket of commodities (KPI 22 Results)
The department should supply the average price paid for the following basket of commodities:
- A4 White Photocopying Paper (per ream)
- Std pack of 36 2-ply white toilet rolls
- Toner cartridge for laser jet printer
- Std office chair
- Bottled mineral water per litre
- Telephone handset
- Provision of temp labour – total cost of an admin asst per day
- Photocopier
- LaserJet printer, 19 ppm, 250 sheet std input tray, 16MB
- Electricity per KWH
- Gas per unit

Customer satisfaction with supplier performance (KPI 21 Results)
Departmental customer survey tools should cover key areas of performance such as timeliness, quality, working relationships, VFM, benefits generated.