

# **Public Sector Corporate Services VfM Indicators**

## **Procurement**

**2008/09**

### **Barchester**

*compared with*

**All Members**

*with other Police Forces highlighted*

*Computed and printed by:*

*CIPFA Business Ltd*

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## Preface

The UK Audit Agencies (Audit Commission, NAO, Audit Wales, Audit Scotland and Northern Ireland Audit Office) combined together to develop a set of indicators to measure the value for money of support services across the public sector. KPMG, with CIPFA as a partner, was appointed to undertake the research and development work and the Audit Agencies published their report in May 2007.

The functions covered by the VfM indicators (Finance, HR, ICT, Estates Management and Procurement) have been identified by the Government as a priority area for securing efficiency improvements and releasing resources for use in delivering front-line services. Although the Audit Agencies were keen for public sector bodies to use the indicators, they decided not to offer a benchmarking service themselves. CIPFA (supported by KPMG) has therefore undertaken to provide this service to the public sector. In this, the third year of operation, over 200 organisations have subscribed, and we expect that more bodies will participate once the value of this service becomes apparent.

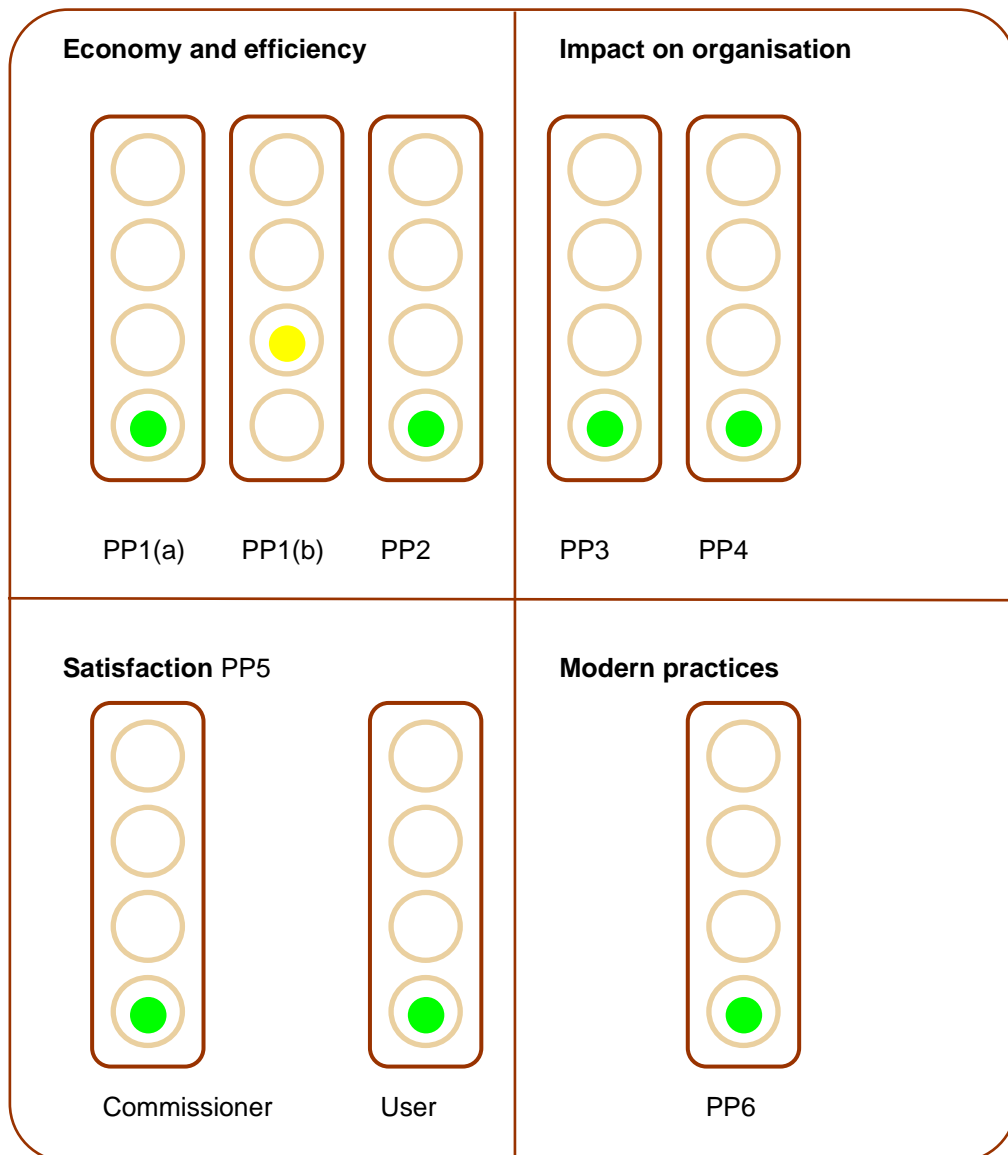
I hope that you find the enclosed information useful, and more importantly that you use it in the spirit in which it is intended; this is not a “school report”, but instead is a tool to help you take a view on the value for money provided by your corporate support services, and provide some pointers as to how they might improve.

We have great plans for how to develop this service further and hope that it makes a real contribution to improving value for money in corporate services.

Julian Mund  
Director, CIPFA

## RESULTS ON ONE PAGE

The Audit Agencies developed an approach to considering Value for Money for Corporate Services which had four dimensions. The overall results are shown below:



### Notes:

- A green light indicates performance in the best quartile; a yellow light indicates performance between the median and best quartile; an amber light indicates performance between the median and worst quartile and a red light indicates performance in the worst quartile.
- For the purposes of this report, high cost and low productivity are considered poor. However, we accept this is a generalisation and that in some circumstances organisations can choose to invest more in functions because they have under invested in the past or because they want to place particular emphasis on a function.
- Full descriptions of the indicators are shown in the remainder of this report.

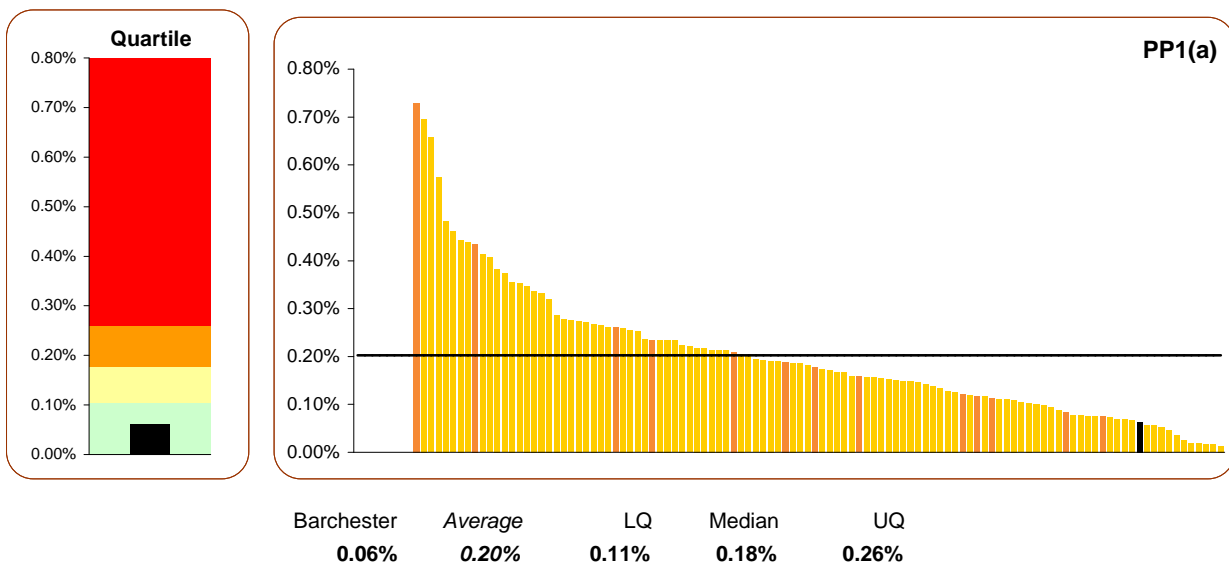
# Section 1 - ECONOMY AND EFFICIENCY

## PP1 Cost of the Procurement function

### Rationale and expected impact on behaviour

This is a high-level indicator measuring the cost-effectiveness of the organisation's procurement function (whether managed centrally, devolved or a combination of approaches). In most circumstances organisations would aim to reduce the costs of procurement relative to their spend over time. However organisations should interpret their score against this indicator with their results against measures of effectiveness such as primary indicators 3 (percentage of spend managed by procurement professionals), 4 (average savings achieved), 5 (the commissioner and user satisfaction index) and 6 (the management practice indicator).

### PP1(a) Cost of the Procurement function as a percentage of organisational running costs



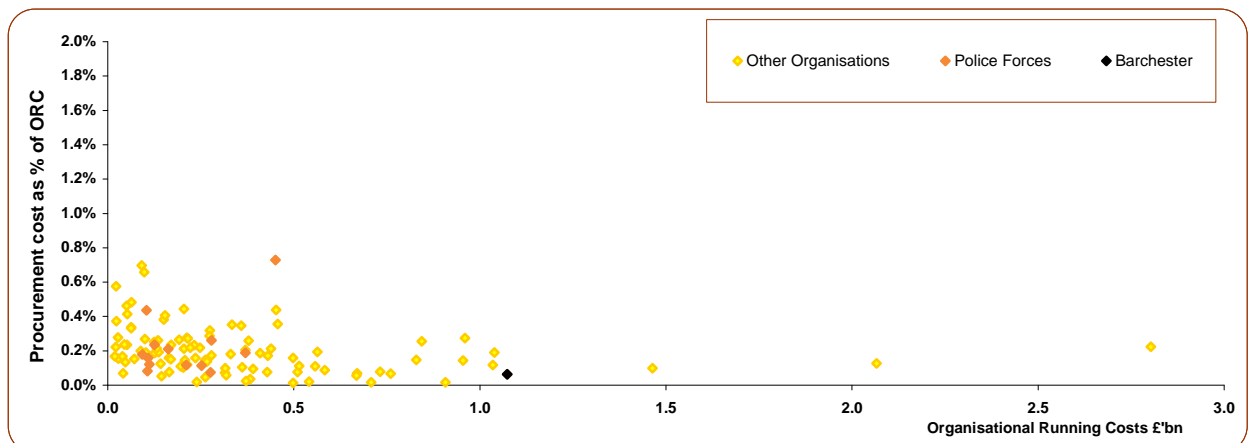
### Cost of Difference

This shows the monetary value represented by the difference in percentage from the median (and lower quartile). Favourable variances are shown as negative figures.

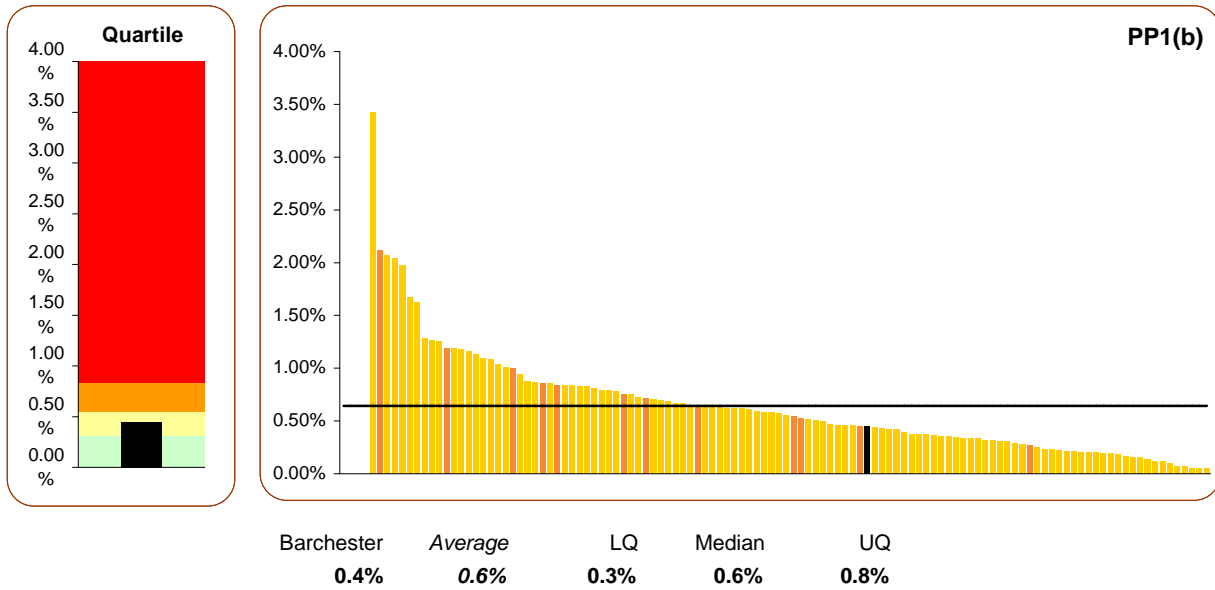
From median (£'000)	-£1,218	From lower quartile (£'000)	-£454
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### Economies of Scale

This chart investigates the relationship between cost and size of the organisation.



## PP1(b) Cost of the Procurement function as a percentage of third-party spend



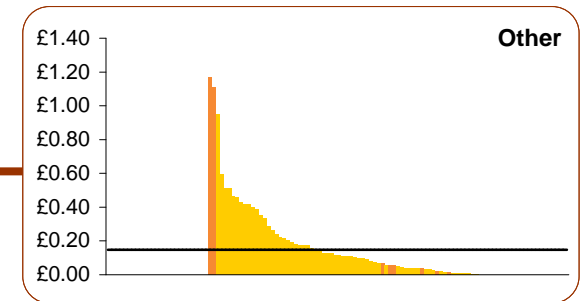
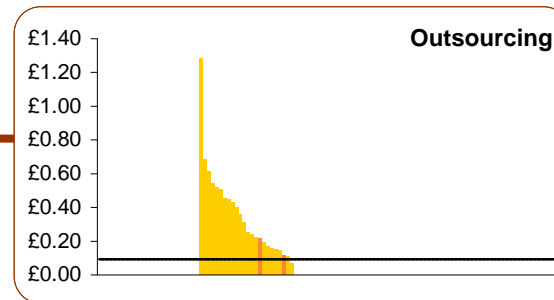
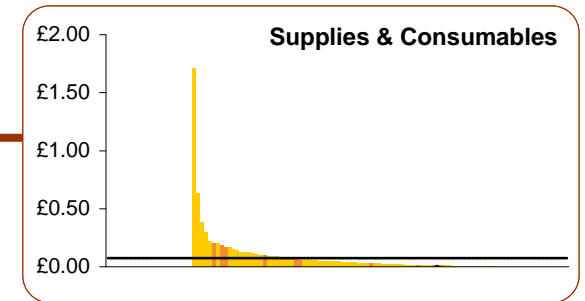
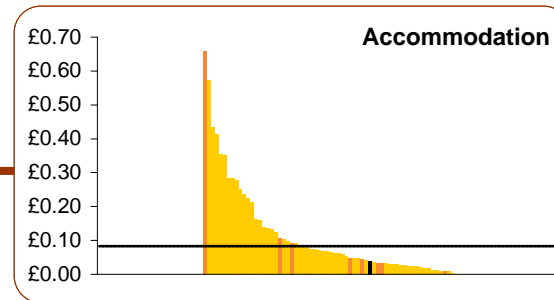
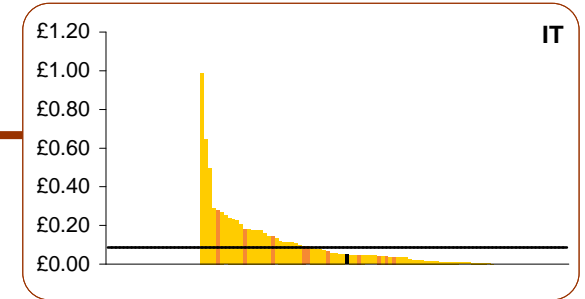
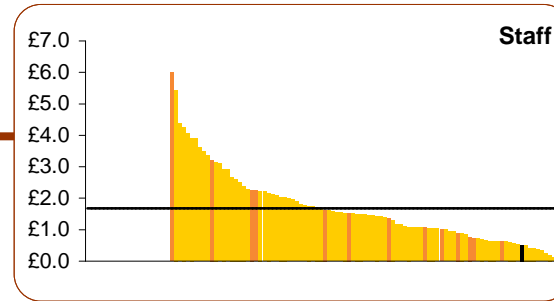
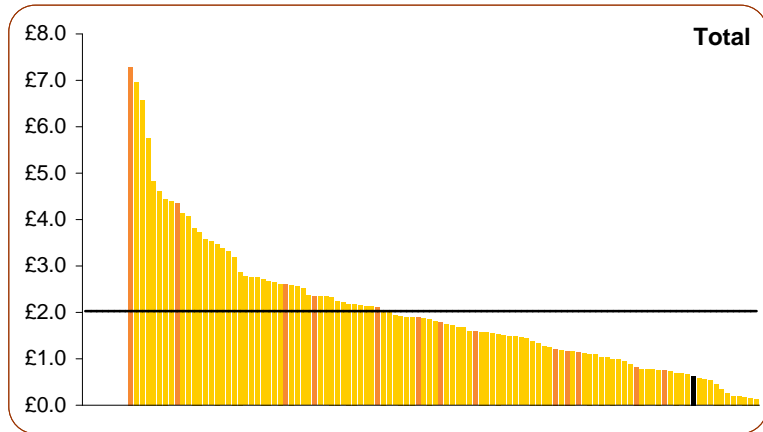
## PROCUREMENT COST/£'000 Organisational running costs 2008/09

For each benchmark two figures are given, the first being the organisation's cost and the second (in italics) is the group average.

		Costs 2008/09 (£'000)	
<b>Total Cost</b> £0.63	<b>Staff</b>	£0.53	£1.68
	<b>IT</b>	£0.05	£0.09
	<b>Accommodation</b>	£0.04	£0.08
	<b>Supplies &amp; Consumables</b>	£0.01	£0.07
	<b>Outsourcing</b>	£0.00	£0.09
	<b>Other</b>	£0.00	£0.15
	<b>Total</b>	<b>£2.03</b>	<b>675</b>
		<b>Organisational running costs</b>	<b>1,073,700</b>
		<b>FTE</b>	<b>16.0</b>

# COST PER £'000 ORGANISATIONAL RUNNING COSTS

2008/09 Actuals

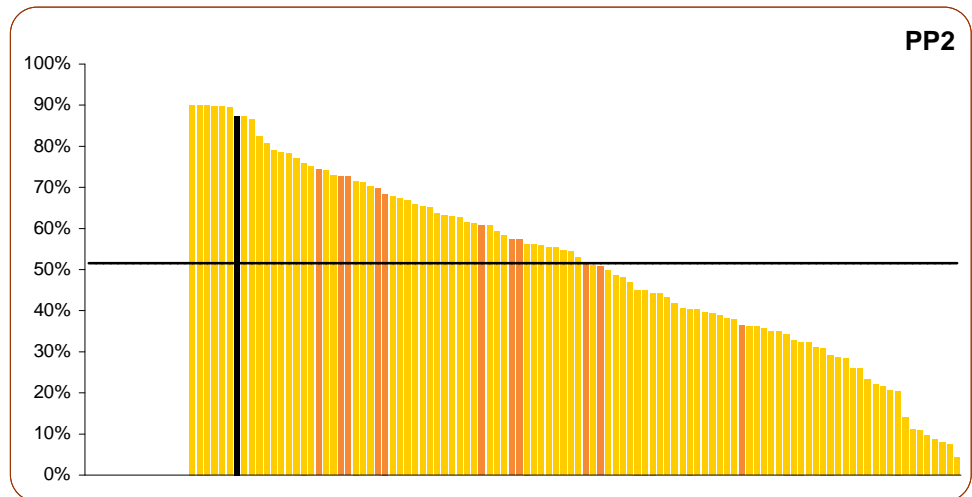
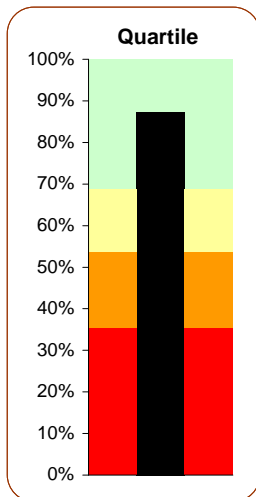


## PP2 Actual spend through pre-established contract arrangements as a % of third-party spend

### Rationale and expected impact on behaviour

This indicator assesses the level of non-contract spend across the organisation and so provides an indication of the level of influence and control exerted by procurement professionals.

An efficient organisation that buys specific goods or services regularly should establish pre-agreements so that terms are clear, risks are mitigated and a degree of leverage will be applied. Over time, organisations would therefore seek to achieve and maintain a high percentage figure for this indicator.



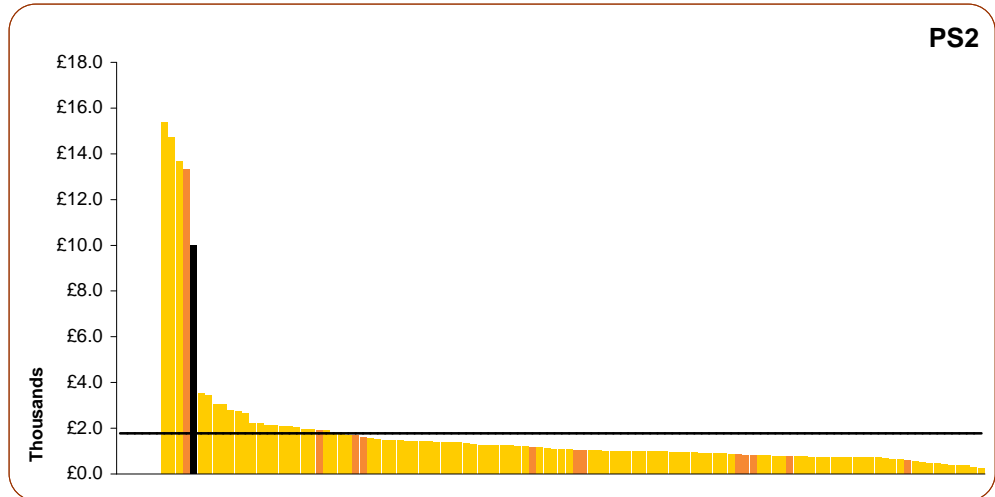
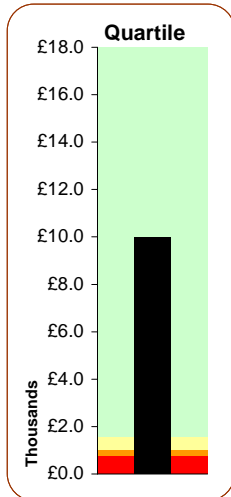
Barchester	Average	LQ	Median	UQ
87.3%	51.6%	35.4%	53.6%	68.7%

## Secondary Indicators

### PS2 Average invoice value

#### Rationale and expected impact on behaviour

In most circumstances organisations should, wherever possible, ensure that invoices for their purchases are consolidated in order to reduce transaction costs. Organisations should therefore expect to see an increase in the average value of their invoices over time.

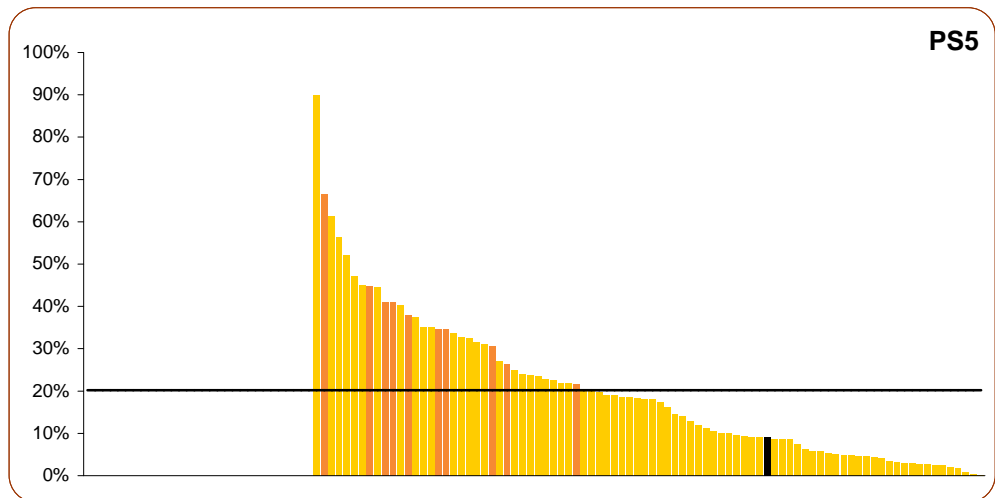
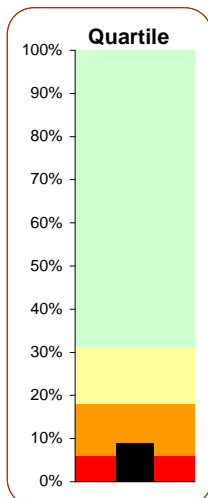


Barchester	Average	LQ	Median	UQ
£9,990	£1,773	£778	£1,045	£1,557

### PS5 The percentage of total non-pay spend channelled through collaborative arrangements with other buying organisations

#### Rationale and expected impact on behaviour

This indicator assesses the effectiveness of the organisation in sourcing goods and services through collaborative procurement channels such as local or national consortia arrangements, cross Government bodies or shared services centres. The Government's Efficiency review encourages Government bodies to work collaboratively and deliver on joint procurement projects to deliver greater efficiencies. In most circumstances organisations would aim to increase the percentage of spend made through collaborative arrangements in order to secure more competitive deals.



Barchester	Average	LQ	Median	UQ
9.0%	20.2%	5.9%	18.0%	31.2%

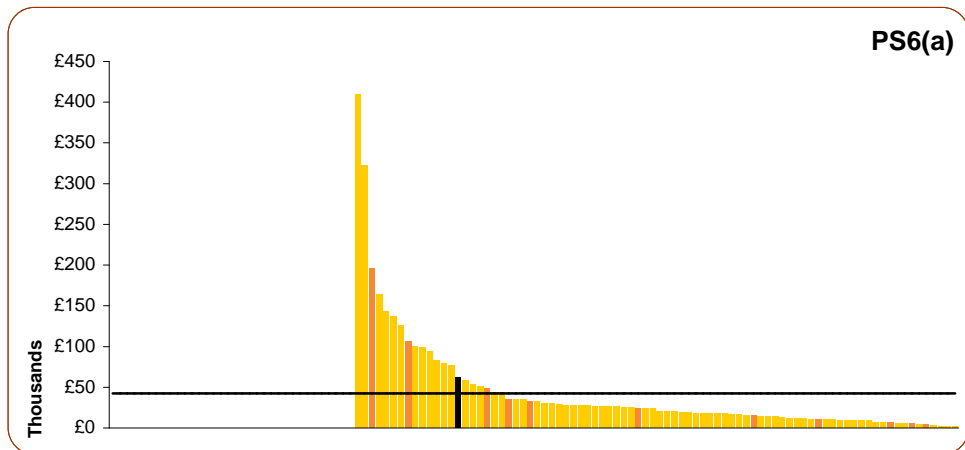
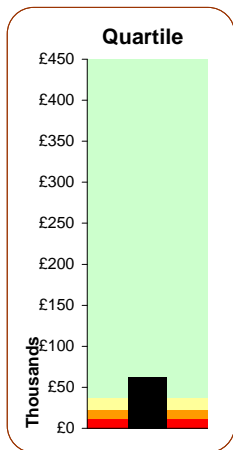
## PS6 Management of supplier base

### Rationale and expected impact on behaviour

This indicator examines the extent to which the organisation proactively manages and drives value from its supply base. Having a large and extended supply base relative to the size of the organisation's third-party spend tends to make supplier relationship management more arduous and time consuming, negating opportunities for leverage and supplier innovation and creating unnecessary administrative costs. Organisations should seek to purchase from an optimal number of suppliers (typically by spend category), taking into account market conditions and the capability of the procurement function to effectively manage the supply base.

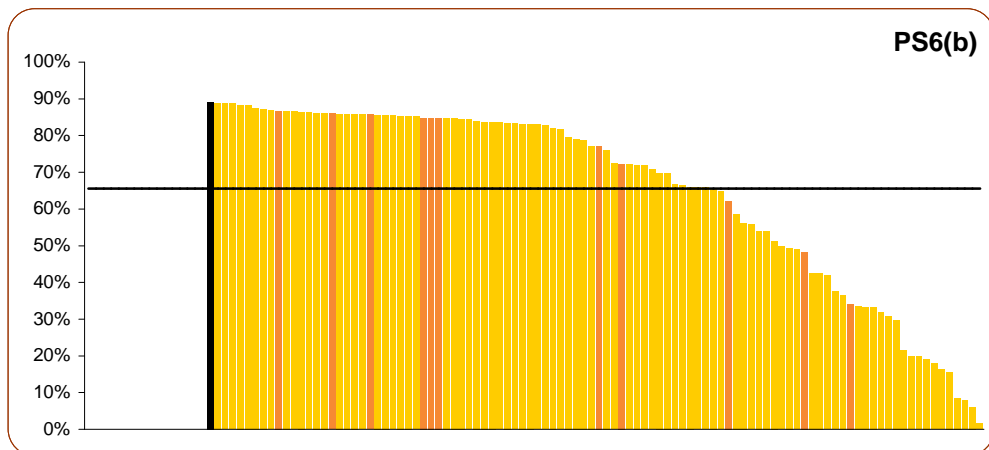
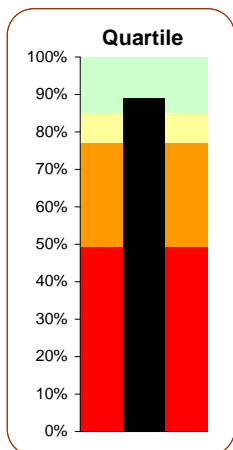
The constituent parts of this indicator examine different elements of how spend is distributed across the organisation's total supply base. High performing organisations typically aim to aggregate their purchasing in order to secure competitive deals. They would therefore expect to increase the average spend and the percentage of spend with their largest suppliers over time (parts (a) and (b) of the indicator). High performing organisations also ensure that the 'tail' is being managed effectively and that spend is not distributed too thinly to the extent that the organisation receives minimal value from the supplier after factoring-in transactional costs and supplier maintenance on systems. They would therefore expect that the percentage of suppliers with whom they have placed no orders would decrease over time. Organisations should aim to balance their achievement against parts (a) and (b) of this indicator with their performance against secondary indicator 4 (the percentage of spend with SMEs).

### PS6(a) Average spend per accredited supplier



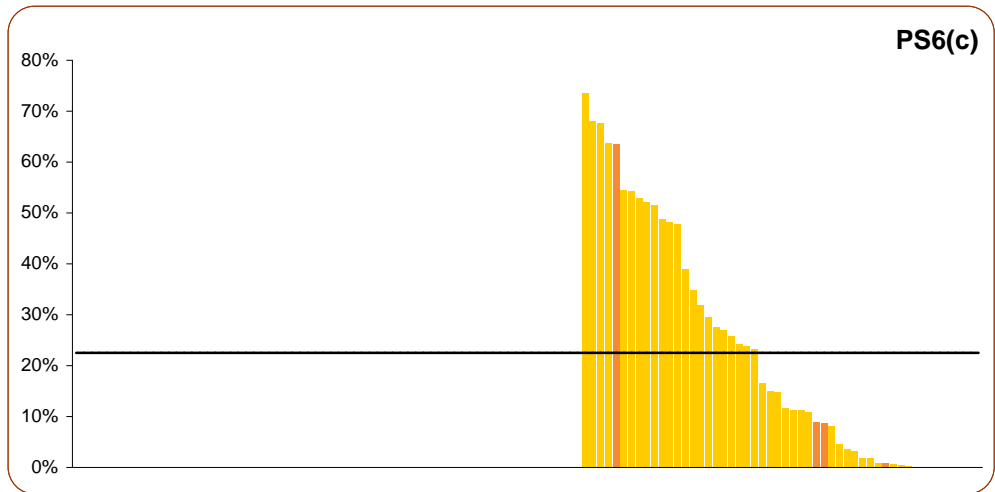
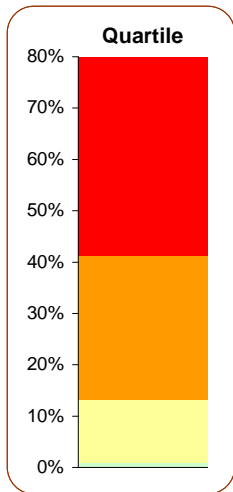
Barchester	Average	LQ	Median	UQ
£62,576	£42,481	£11,297	£22,212	£37,211

### PS6(b) Percentage of total third-party spend represented by the top 20 per cent of suppliers (by value)



Barchester	Average	LQ	Median	UQ
89%	66%	49%	77%	85%

**PS6(c) Percentage of suppliers on an accredited list with no orders in the previous 12 months**



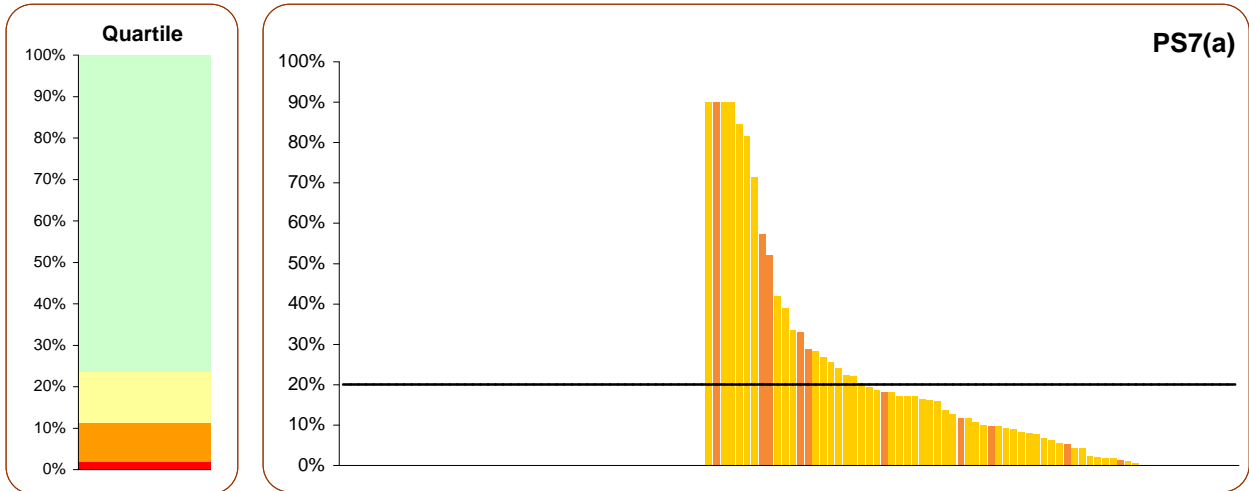
Barchester	Average	LQ	Median	UQ
<b>0%</b>	<b>22%</b>	<b>1%</b>	<b>13%</b>	<b>41%</b>

## PS7 The use of technology within procurement

### Rationale and expected impact on behaviour

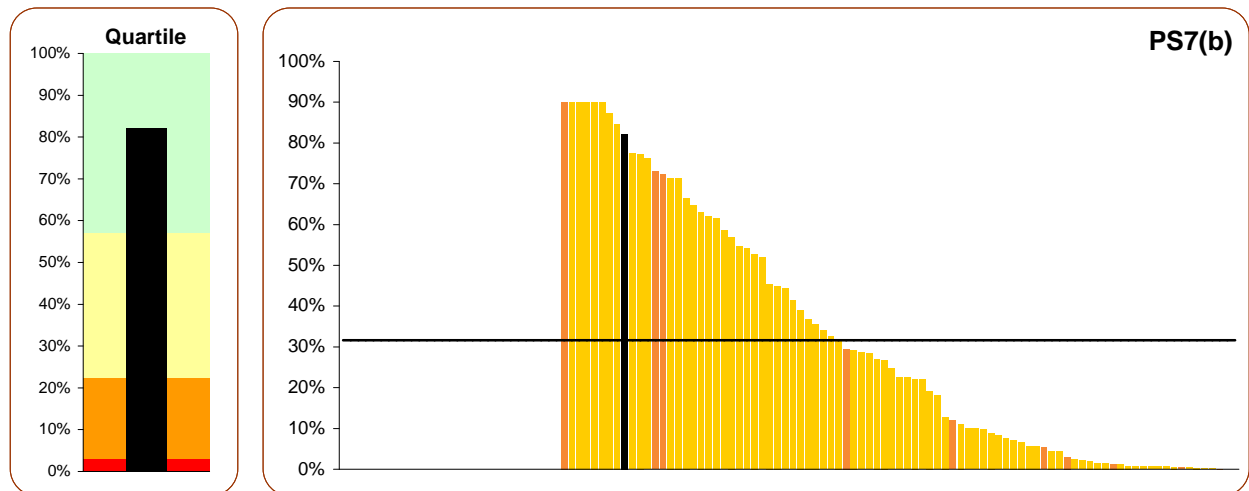
This indicator examines the use of technology to support efficiency in the procurement of goods and services. In most circumstances organisations would expect to increase these percentages over time.

### PS7(a) The percentage of total third-party spend that is sourced electronically



Barchester	Average	LQ	Median	UQ
0.0%	20.1%	1.8%	11.3%	23.7%

### PS7(b) The percentage of total third-party spend managed through ePurchasing



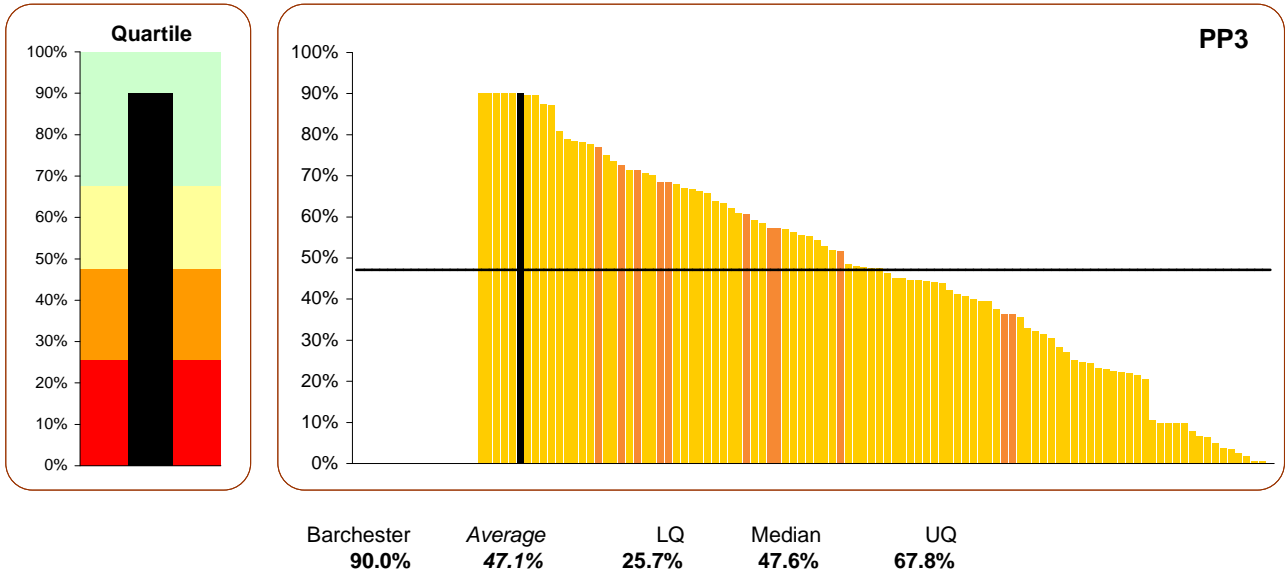
Barchester	Average	LQ	Median	UQ
82.3%	31.7%	3.1%	22.5%	57.0%

## Section 2 - IMPACT

### PP3 % of third-party spend that is actively managed by procurement professionals

#### Rationale and expected impact on behaviour

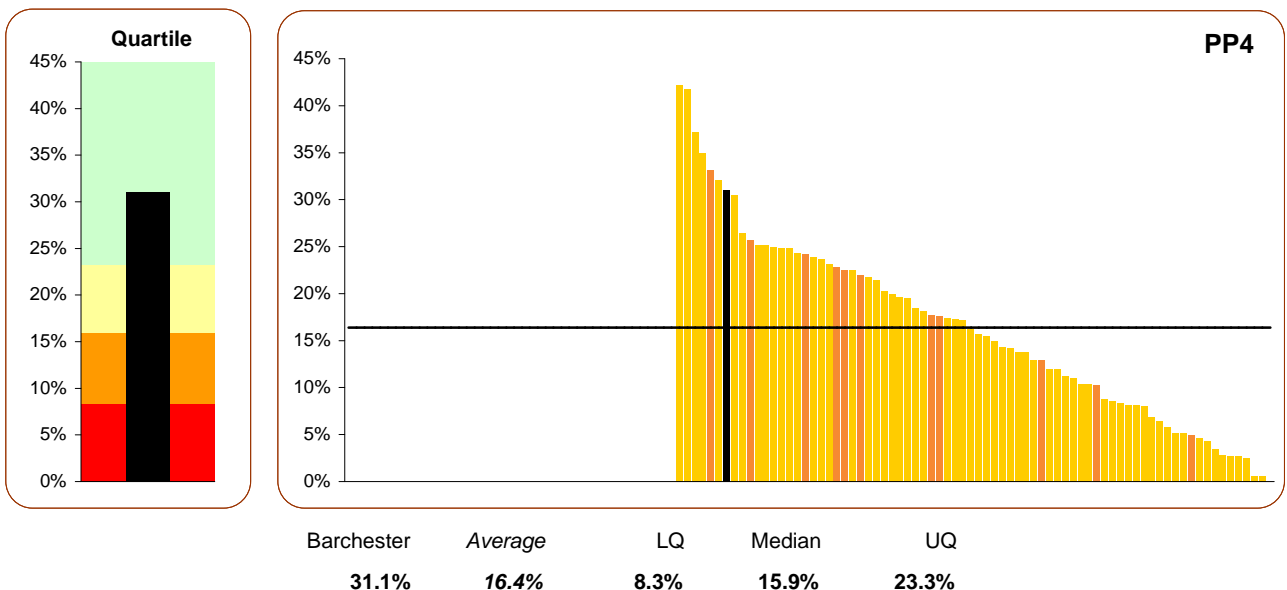
This indicator examines the extent to which procurement spend is managed by procurement professionals either working in a central procurement function or who work in business units (for example qualified procurement staff embedded in IT). Most organisations would aim to achieve a high percentage for this indicator and to increase it over time. Organisations should interpret their achievement against this indicator alongside primary indicator 4 (average savings achieved through procurement).



### PP4 Average percentage savings achieved through procurement for the 5 largest procurement projects delivered in the previous financial year

#### Rationale and expected impact on behaviour

This examines the effectiveness of procurement in achieving savings. The Government's Efficiency Review: Releasing Resources for the Front Line (2004) focused on efficiencies that can be achieved in back office activities with the aim of redirecting resources. Procurement is a key area targeted to deliver these savings. Organisations would therefore seek to increase this average over time. Organisations should interpret their achievement against this indicator alongside primary indicators 1 (cost of procurement function) and 3 (percentage of spend managed by procurement professionals).

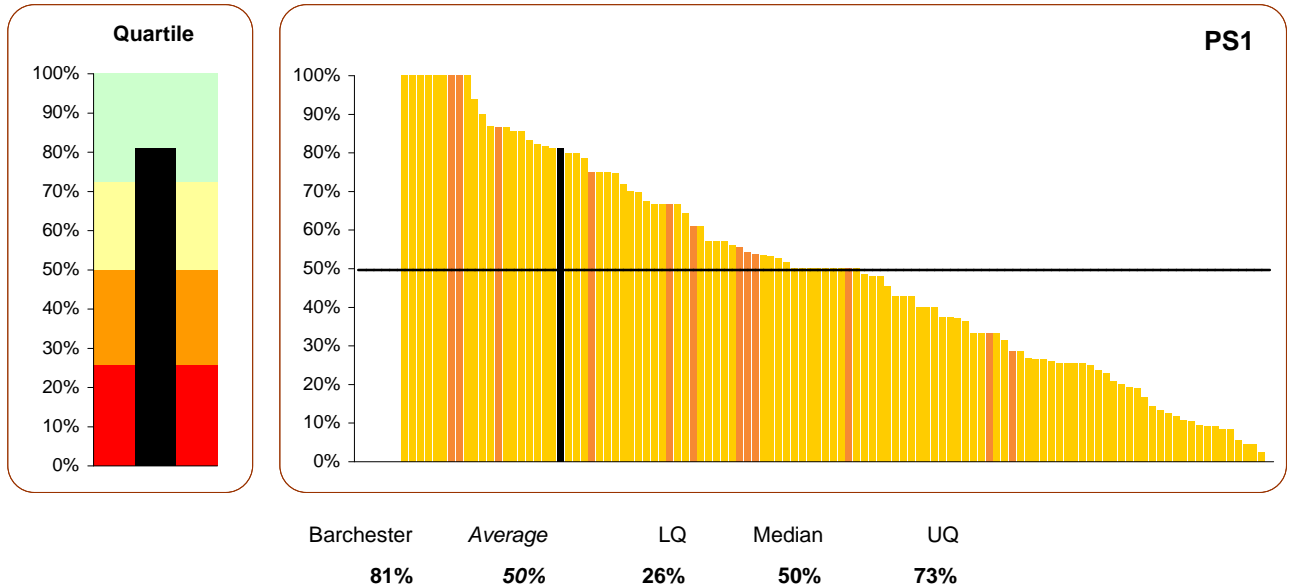


## Secondary Indicators

### PS1 Professionally qualified procurement FTEs as a percentage of total procurement FTEs

#### Rationale and expected impact on behaviour

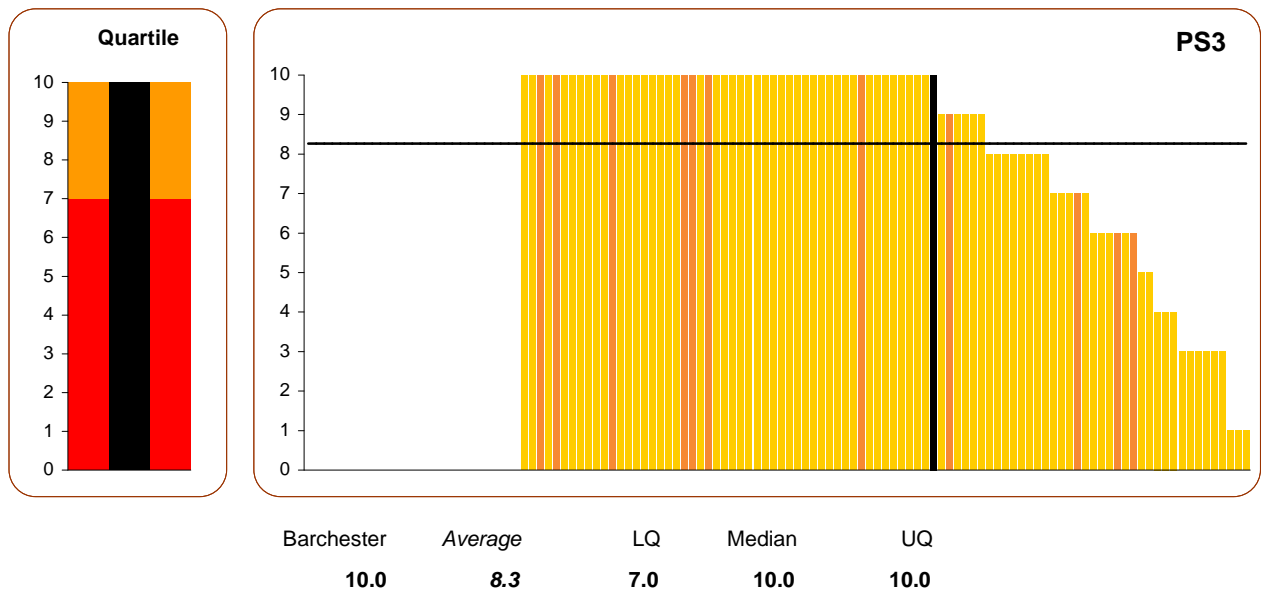
This indicator measures the proportion of procurement personnel (both within the procurement function and embedded in business units) who have procurement qualifications. In most cases organisations would aim to secure a period-on-period increase in respect of this indicator.



### PS3 Number of the organisation's top 10 suppliers who have a formal partnership/framework agreement with the organisation

#### Rationale and expected impact on behaviour

This indicator examines the extent to which the organisation has formal agreements with its suppliers in order to manage their relationship with them and to better control its expenditure. In most cases high-performing organisations would expect the number of such agreements to increase over time.



# PS4 The percentage of third-party spend channelled through SMEs

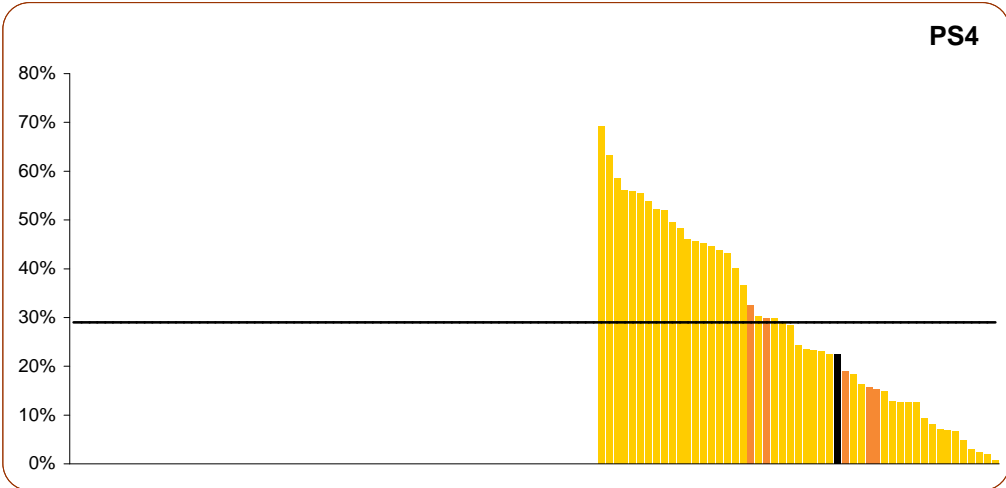
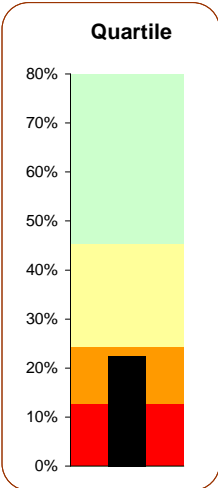
**Rationale and expected impact on behaviour**

This indicator examines the effectiveness of the procurement function in relation to its corporate social responsibility objectives. In most circumstances, organisations should expect the percentage of spend with SMEs to increase. However organisations which are seeking to increase the aggregation of their purchasing (for example where there is currently little central procurement leading to uncompetitive prices being paid for goods and services) the percentage may decrease. High-performing organisations will strike a balance between their achievement against this indicator and against secondary indicators 6 (a) and (b) which examine the extent to which organisations have aggregated their purchasing arrangements.

Note:

(a) It is recognised that the importance and relevance of this indicator may be greater in some sectors than others, for example in local government it is often seen as particularly important to corporate objectives. The indicator needs to be set therefore in the context of what the organisation is seeking to achieve through procurement. It is not intended that a high value is pursued at the expense of achieving value for money in procurement decisions.

(b) It should be noted that SMEs do not necessarily imply they are local to the area served by the organisation.



Barchester	Average	LQ	Median	UQ
22.5%	29.0%	12.7%	24.3%	45.4%

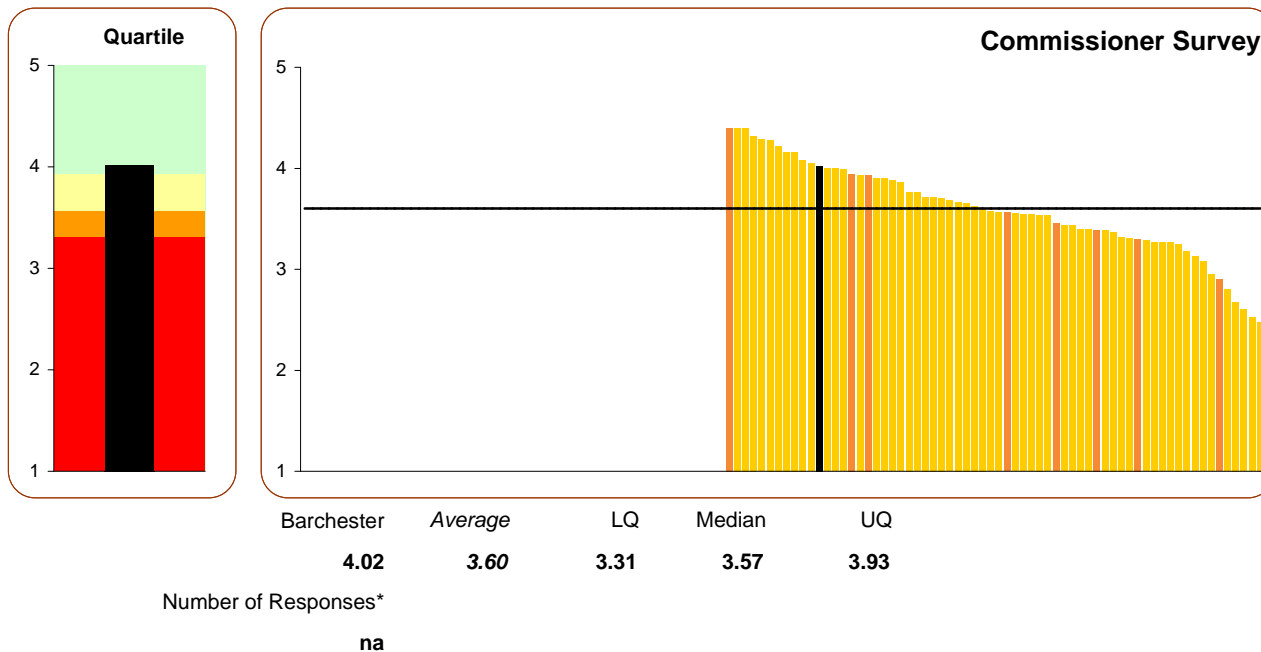
# Section 3 - SATISFACTION

## Rationale and expected impact on behaviour

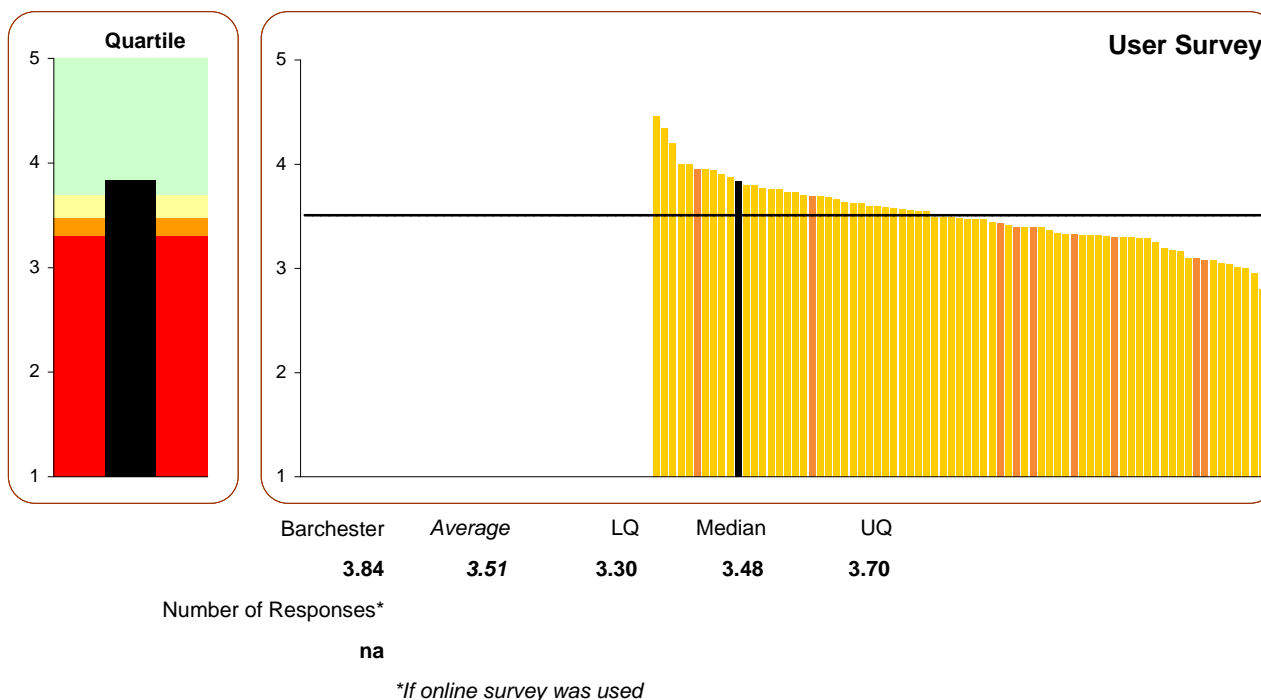
This indicator examines the effectiveness of the procurement function by assessing the perceptions of commissioners and users of procurement.

Over time, organisations should seek to increase the proportion of commissioners and users agreeing with the statements.

### PP5(a) Commissioner satisfaction average score



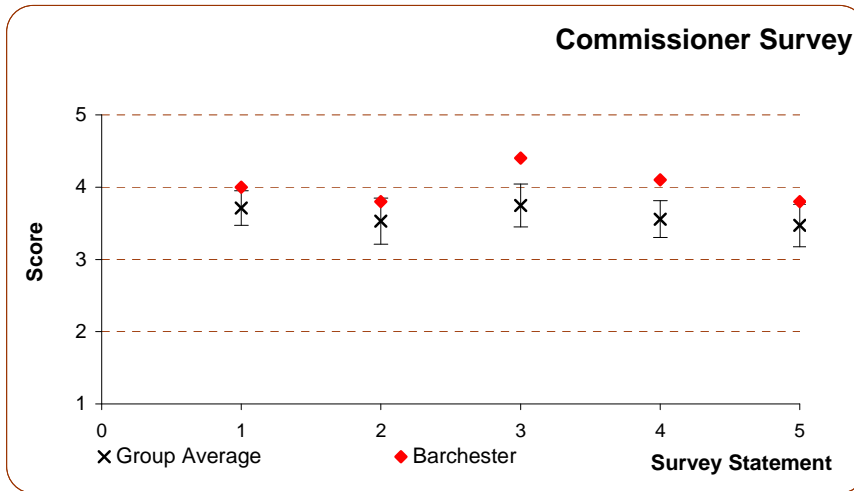
### PP5(b) User satisfaction average score



## Analysis of individual statement scores

These charts show the average performance scores for all participants as black x's. The black error bars show one standard deviation either side of the mean. Approximately 65 - 70% of the organisations will fall within this range. The red diamond is the average score for your organisation.

### Commissioner Survey



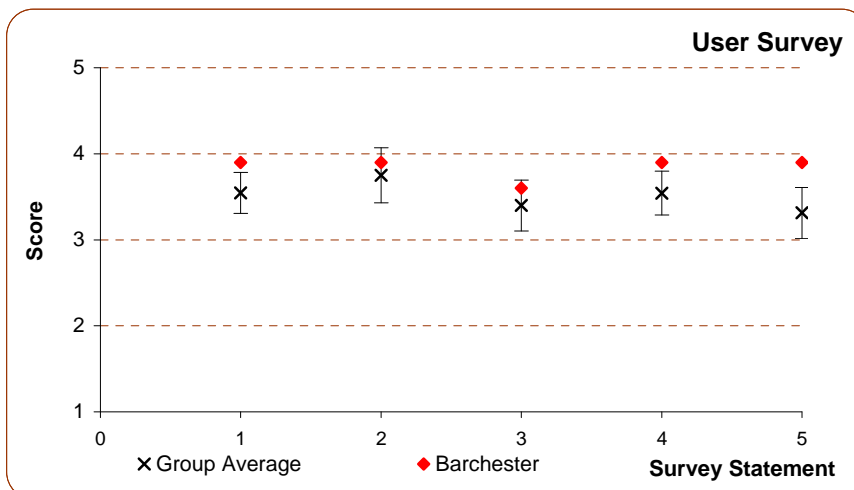
#### Scores

- 5 Strongly Agree
- 4 Agree
- 3 Neither
- 2 Disagree
- 1 Strongly Disagree

#### Survey Statements

- 1 • The Procurement function supports the overall objectives of the organisation.
- 2 • The Procurement function is proactive in sourcing goods and supplies which represent best value.
- 3 • The Procurement function provides appropriate advice and support on major strategic procurement projects.
- 4 • The Procurement function is responsive to my ad hoc needs.
- 5 • The Procurement function provides value for money.

### User Survey



#### Scores

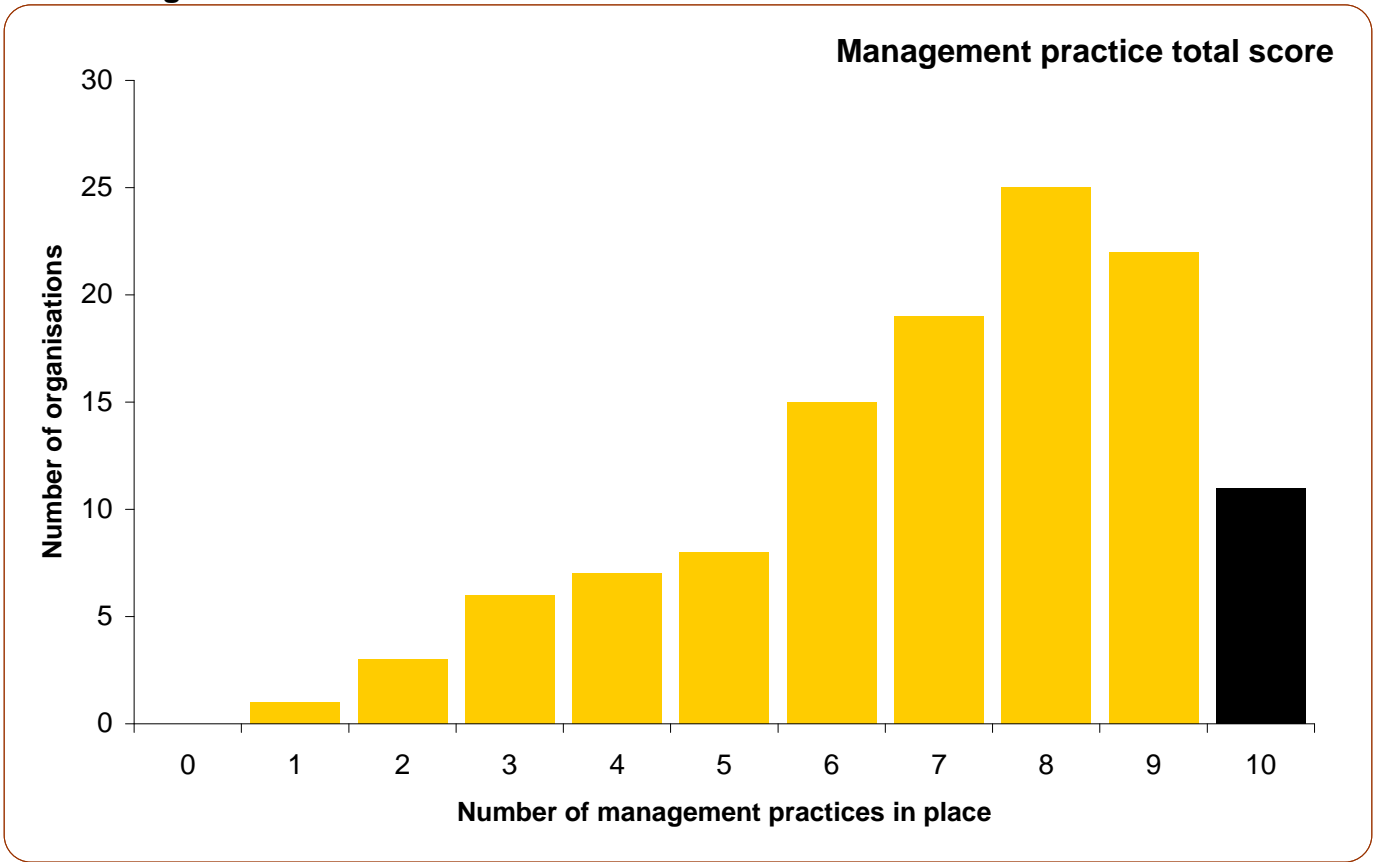
- 5 Strongly Agree
- 4 Agree
- 3 Neither
- 2 Disagree
- 1 Strongly Disagree

#### Survey Statements

- 1 • There is a consistent and easy to follow process for ordering goods and supplies.
- 2 • The goods and supplies that we are given are of appropriate quality.
- 3 • Technology is used to make the process of ordering and paying for goods easy and efficient.
- 4 • The Procurement function is responsive when I need help in sourcing or ordering goods and supplies.
- 5 • The Procurement function is helping staff to develop their skills in relation to the procurement process.

# Section 4 - MANAGEMENT PRACTICE INDICATORS

## PP6 Management Practice Indicators

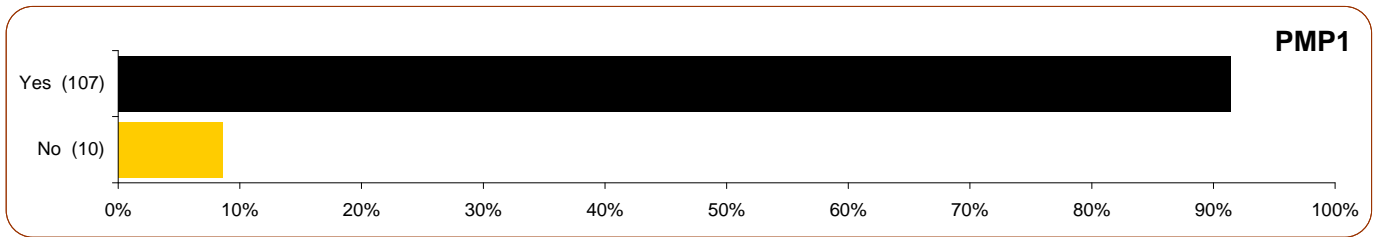


Barchester	Average	LQ	Median	UQ
10.00	7.04	6.00	7.00	9.00

		Yes	No	% Yes	% No
<b>PMP1</b>	<b>Yes</b>	<b>107</b>	<b>10</b>	<b>91.5%</b>	<b>8.5%</b>
<b>PMP2</b>	<b>Yes</b>	<b>48</b>	<b>69</b>	<b>41.0%</b>	<b>59.0%</b>
<b>PMP3</b>	<b>Yes</b>	<b>76</b>	<b>41</b>	<b>65.0%</b>	<b>35.0%</b>
<b>PMP4</b>	<b>Yes</b>	<b>71</b>	<b>46</b>	<b>60.7%</b>	<b>39.3%</b>
<b>PMP5</b>	<b>Yes</b>	<b>93</b>	<b>24</b>	<b>79.5%</b>	<b>20.5%</b>
<b>PMP6</b>	<b>Yes</b>	<b>82</b>	<b>35</b>	<b>70.1%</b>	<b>29.9%</b>
<b>PMP7</b>	<b>Yes</b>	<b>67</b>	<b>50</b>	<b>57.3%</b>	<b>42.7%</b>
<b>PMP8</b>	<b>Yes</b>	<b>106</b>	<b>11</b>	<b>90.6%</b>	<b>9.4%</b>
<b>PMP9</b>	<b>Yes</b>	<b>84</b>	<b>33</b>	<b>71.8%</b>	<b>28.2%</b>
<b>PMP10</b>	<b>Yes</b>	<b>90</b>	<b>27</b>	<b>76.9%</b>	<b>23.1%</b>

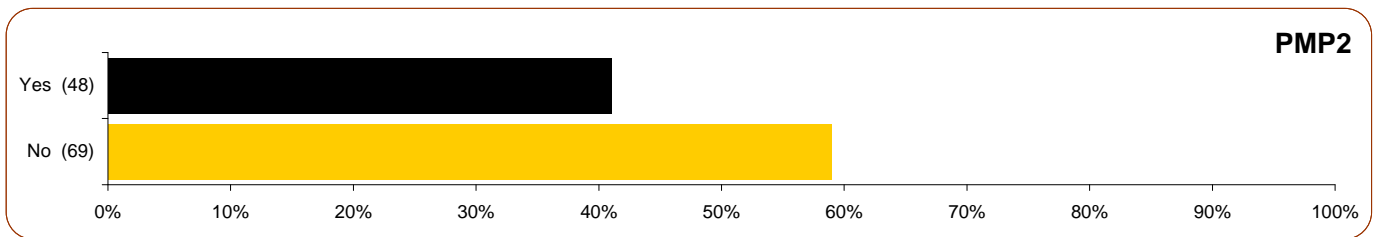
**PMP1**

The individual with lead responsibility for procurement is a member of, or reports directly to, the Organisation’s Senior Management Team, and there is a Board/Cabinet member with responsibility for procurement.



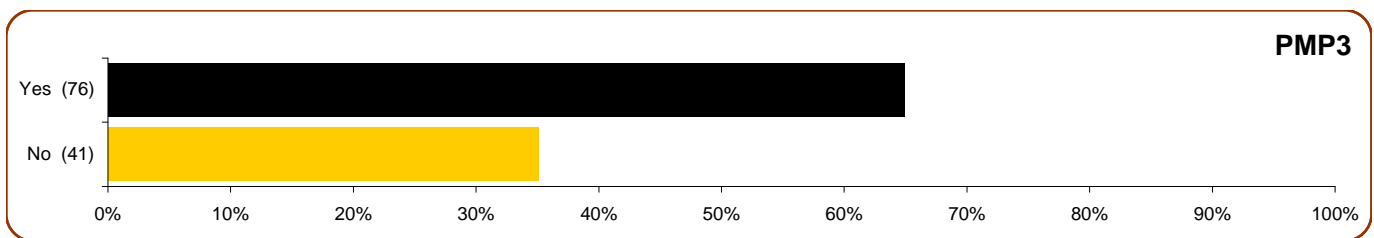
**PMP2**

Customer satisfaction surveys are undertaken at least annually to understand user views on the added value brought about by procurement, with the results published internally and fed into an improvement plan which is regularly monitored.



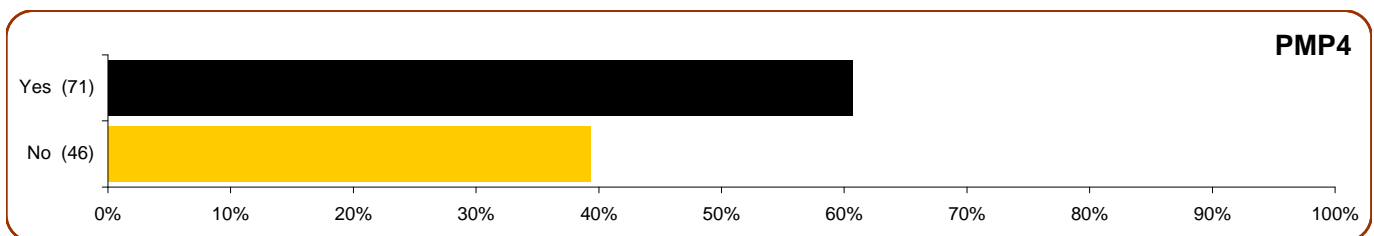
**PMP3**

Future demand for goods and services are forecast on at least an annual basis alongside analysis of new technology and commodities, and emerging market developments, both of which inform the organisation’s procurement strategy and results in a prioritised work-plan for the next 12 months.



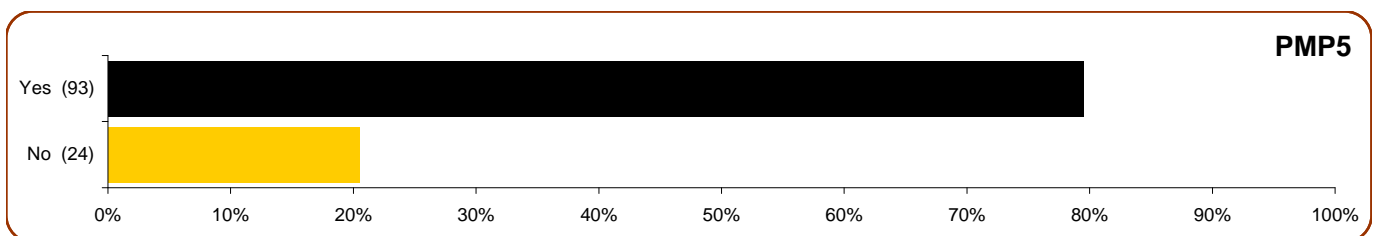
**PMP4**

Specific and measurable targets have been set in relation to the cashable and non-cashable benefits to be delivered by procurement, and the organisation can demonstrate that at least 85% of targets were met for the previous financial year.



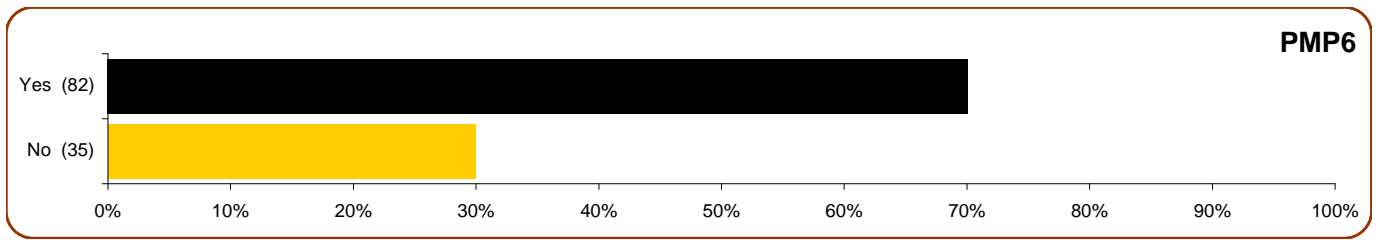
**PMP5**

Specifications for high value purchasing decisions are made based on a detailed understanding of the total cost of ownership (TCO).



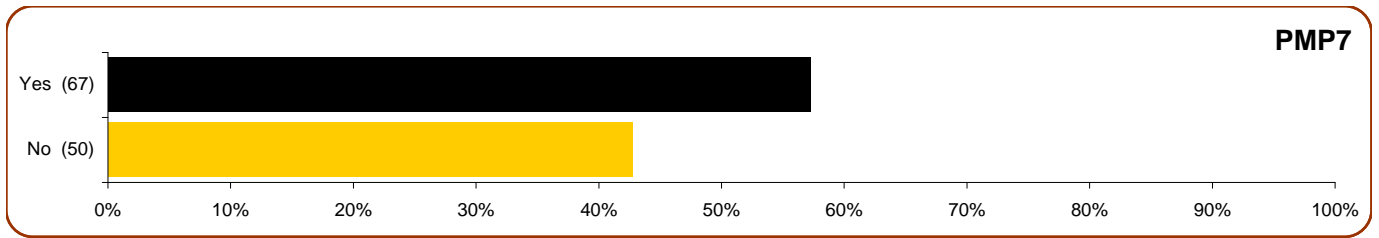
**PMP6**

The organisation keeps a comprehensive and cross referenced record of all contracts worth over £10,000, which can be sorted (at least) by supplier and by contract date.



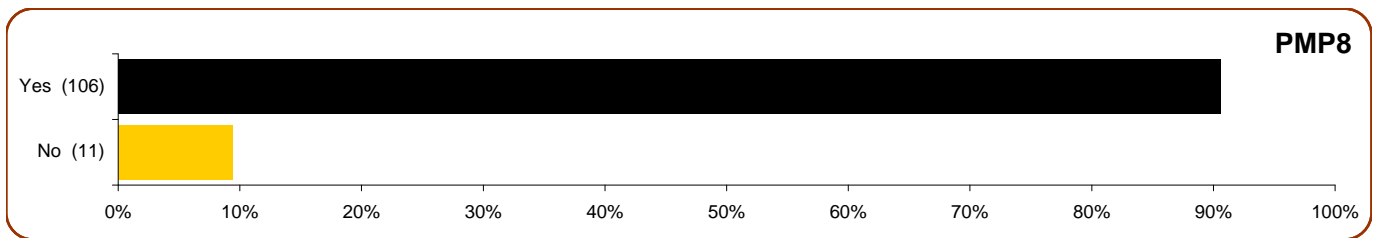
**PMP7**

Benchmarking data from both public and private sector sources is actively used to undertake price comparisons on key goods and services.



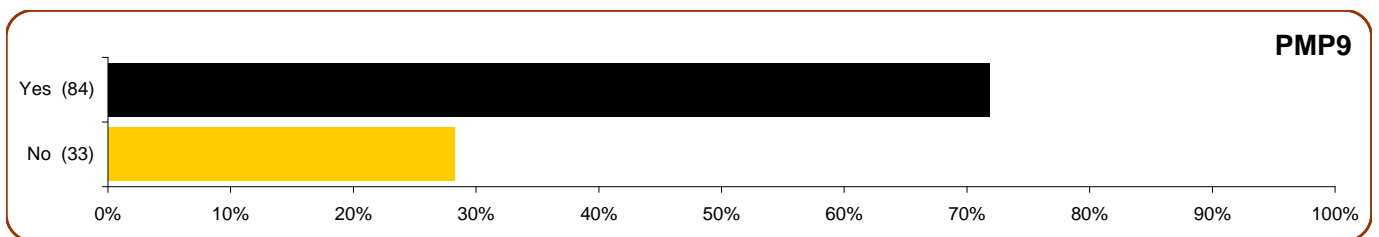
**PMP8**

The organisation has identified and developed strategic partners for collaborative procurement and can demonstrate measurable cashable benefits over the previous 12 months from this collaboration.



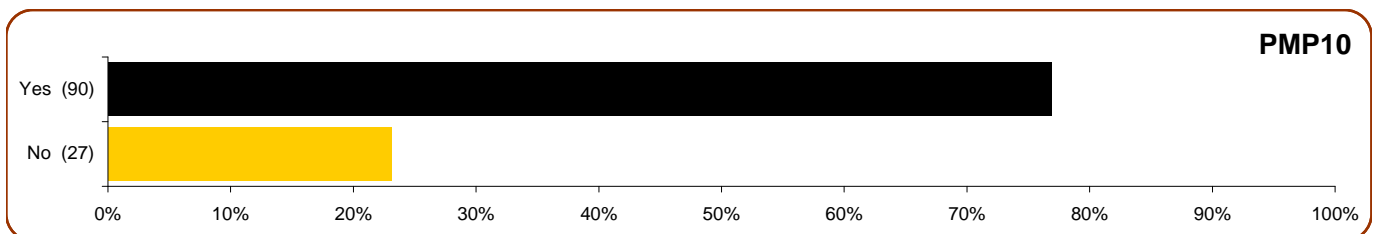
**PMP9**

The organisation has clearly defined ethical procurement standards in place which are in line with the CIPS Ethical Code and which are actively applied and monitored across the organisation, with any breaches recorded and acted upon.



**PMP10**

A rolling programme is in place to develop procurement skills and capabilities across the organisation at all levels.



## Section 5 - TABULAR DATA

		Barchester	Average	Lower Quartile	Median	Upper Quartile
<b>Primary Indicators</b>						
<b>PP1(a)</b>	Cost of the Procurement function as a % organisational running costs	0.06%	0.20%	0.11%	0.18%	0.26%
<b>PP1(b)</b>	Cost of the Procurement function as a % third-party spend	0.4%	0.6%	0.3%	0.6%	0.8%
<b>PP2</b>	Actual spend through pre-established contract arrangements as a % third-party spend	87.3%	51.6%	35.4%	53.6%	68.7%
<b>PP3</b>	% of third-party spend that is actively managed by procurement professionals	90.0%	47.1%	25.7%	47.6%	67.8%
<b>PP4</b>	Average % savings achieved through procurement for the 5 largest procurement projects delivered in the previous financial year	31.1%	16.4%	8.3%	15.9%	23.3%
<b>Secondary Indicators</b>						
<b>PS1</b>	Professionally qualified procurement FTEs as a % total procurement FTEs	81%	50%	26%	50%	73%
<b>PS2</b>	Average invoice value	£9,990	£1,773	£778	£1,045	£1,557
<b>PS3</b>	Number of the organisation's top 10 suppliers who have a formal partnership/framework agreement with the organisation	10.0	8.3	7.0	10.0	10.0
<b>PS4</b>	% third-party spend channelled through SMEs	22.5%	29.0%	12.7%	24.3%	45.4%
<b>PS5</b>	% total third-party spend channelled through other collaborative procurement arrangements	9.0%	20.2%	5.9%	18.0%	31.2%
<b>PS6(a)</b>	Average spend per accredited supplier	£62,576	£42,481	£11,297	£22,212	£37,211
<b>PS6(b)</b>	% total third-party spend represented by the top 20 percent of suppliers (by value)	89%	66%	49%	77%	85%
<b>PS6(c)</b>	% suppliers on an accredited list with no orders in the previous 12 months	0%	22%	1%	13%	41%
<b>PS7(a)</b>	% total third-party spend that is sourced electronically	0.0%	20.1%	1.8%	11.3%	23.7%
<b>PS7(b)</b>	% total third-party spend managed through ePurchasing	82.3%	31.7%	3.1%	22.5%	57.0%

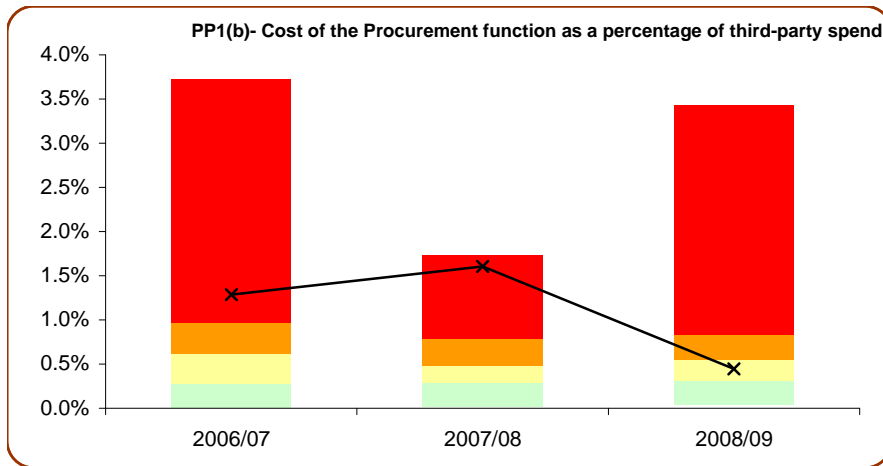
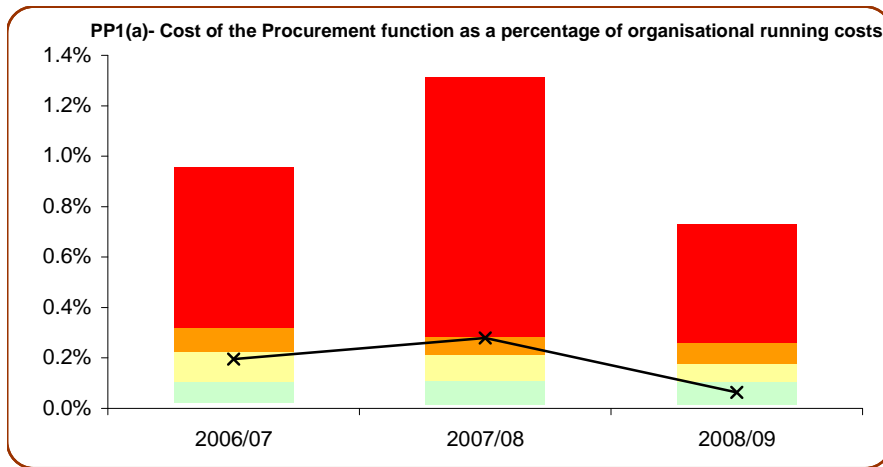
## Section 6 - TIME SERIES DATA

### Time Series Charts

The charts below show how your organisation's indicators have changed over time, indicated by black x's. They also show the change in the spread of the quartiles.

### Time Series Tables

This table shows the change in your indicator results between 2007/08 and 2008/09. For previous years, the averages shown here are scaled up or down from the 2009 figure based on the average rate of change in each year. This is calculated using data from members who supplied figures in consecutive years, otherwise the simple average in each year would be distorted by changes in the composition of the club from year to year.



<b>Primary Indicators</b>		<b>2007/08</b>	<b>2008/09</b>
<b>PP1(a)</b>	Cost of the Procurement function as a % organisational running costs	<b>0.3%</b> 0.2%	<b>0.1%</b> 0.2%
<b>PP1(b)</b>	Cost of the Procurement function as a % third-party spend	<b>1.6%</b> 0.7%	<b>0.4%</b> 0.6%
<b>PP2</b>	Actual spend through pre-established contract arrangements as a % third-party spend	<b>68.4%</b> 52.1%	<b>87.3%</b> 51.6%
<b>PP3</b>	% of third-party spend that is actively managed by procurement professionals	<b>69.0%</b> 48.1%	<b>90.0%</b> 47.1%
<b>PP4</b>	Average % savings achieved through procurement for the 5 largest procurement projects delivered in the previous financial year	<b>32.9%</b> 17.3%	<b>31.1%</b> 16.4%
<b>Secondary Indicators</b>			
<b>PS1</b>	Professionally qualified procurement FTEs as a % total procurement FTEs	<b>33.3%</b> 46.9%	<b>81.3%</b> 49.7%
<b>PS2</b>	Average invoice value	<b>£1,571</b> £1,849	<b>£9,990</b> £1,773
<b>PS3</b>	Number of the organisation's top 10 suppliers who have a formal partnership/framework agreement with the organisation	<b>10.00</b> 8.14	<b>10.00</b> 8.26
<b>PS4</b>	% third-party spend channelled through SMEs	.. 25.8%	<b>22.5%</b> 29.0%
<b>PS5</b>	% total third-party spend channelled through other collaborative procurement arrangements	<b>21.6%</b> 17.7%	<b>9.0%</b> 20.2%
<b>PS6(a)</b>	Average spend per accredited supplier	<b>£53,215</b> £44,200	<b>£62,576</b> £42,481
<b>PS6(b)</b>	% total third-party spend represented by the top 20 percent of suppliers (by value)	<b>81.9%</b> 64.2%	<b>89.1%</b> 65.6%
<b>PS6(c)</b>	% suppliers on an accredited list with no orders in the previous 12 months	<b>0.3%</b> 28.4%	<b>0.0%</b> 22.5%
<b>PS7(a)</b>	% total third-party spend that is sourced electronically	<b>6.3%</b> 17.6%	<b>0.0%</b> 20.1%
<b>PS7(b)</b>	% total third-party spend managed through ePurchasing	<b>5.6%</b> 31.3%	<b>82.3%</b> 31.7%