



**REPORT TO THE AUDIT COMMITTEE OF THE
NATIONAL ASSEMBLY FOR WALES BY THE NATIONAL
COUNCIL FOR EDUCATION AND TRAINING FOR
WALES**

***PROGRESS BY FURTHER EDUCATION INSTITUTIONS
IN ACHIEVING COST SAVINGS THROUGH IMPROVED
PROCUREMENT PRACTICE***

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Introduction

- 1 This report has been prepared in response to a recommendation (ix) in the National Assembly for Wales Audit Committee's Report 04-02 *Procurement in the Further Education Sector in Wales*. The Audit Committee's report, presented to the National Assembly on 25th April 2002 recommended that "...within twelve months of the publication of this report, the Council report back to the Committee on the further progress the sector is making towards its target of cumulative savings of at least £2.5million."

Background

- 2 In September 2001 the Auditor General published a report entitled *Procurement in the Further Education Sector in Wales*. The Assembly's Audit Committee considered this report at its meeting on 6 November 2001 and received evidence of the progress being achieved from officers representing the National Council for Education and Training for Wales (the Council) and the National Assembly for Wales. At that meeting the Council reported that the savings achieved by further education institutions since the publication of the Auditor General's report had accumulated to £91,000.
- 3 This report details the activities and initiatives which have been undertaken since November 2001 to improve procurement practice at further education institutions in order to secure cost savings. The report also provides details of the cumulative savings achieved by the institutions, summarises the ongoing and planned initiatives and identifies areas for future improvement.

Initiatives

- 4 The Auditor General's report found that whilst some progress had been made there remained some way for the sector to go in ensuring that all institutions have strategies for better procurement, access to the expertise needed to deliver improvements and the management information systems to monitor progress.
- 5 Since November 2001 significant initiatives have been undertaken in order to improve procurement practices progressively and thus to achieve improved value for money from the funding provided by the Council. Central to these initiatives has been the expansion of the role and work of the Welsh Further Education Purchasing Consortium (the Consortium) and the development of procurement strategies by all institutions.
- 6 Specific activities which have been undertaken include:

- a) **December 2001** – the Council agreed to provide further pump-primer funding of £64.5K to the Welsh Further Education Purchasing Consortium (the Consortium) for the period up to March 2003. Principally, this was to enable the Consortium to continue the development (see c – l & n below) of new contracts, introduce good practice models, arrange training events and develop a mechanism to record the savings resulting from use of the Consortium's contracts.
- b) **January 2002** - the Council issued guidance on Good Practice on Procurement. The guide provided advice to institutions on ways to develop more effective procurement arrangements and focused primarily on the shortcomings highlighted in the Auditor General's report. It provided a suggested structure for a Procurement Strategy and the covering letter from the Council's Chief Executive required all institutions to complete such a strategy by July 2002.
- c) **April 2002** – new contract let by the Consortium for library books.
- d) **April 2002** – new contracts let by the Consortium for personal computers, printers and laptops. These contracts have proved to be particularly successful. Computing equipment to the value of some £2.5m has been purchased and this has generated savings of approximately £250,000. For the first time, this contract was offered to the market broken down into lots. Not only did this provide for better value for money by encouraging more to bid, but it also encouraged the smaller suppliers, including some in Wales, to bid. Furthermore, one Welsh SME won a significant part of the business. This is particularly important as concern was expressed at the Audit Committee that the first few Consortium led contracts all went to suppliers outside Wales.
- e) **July 2002** - the Council confirmed that all institutions have procurement strategies in place. The quality of the strategies varies and, in the main, this is a reflection of the quality of staff resource at institutions. Following an initial appraisal by the Council's Audit Service, copies of the strategies have been provided to the Welsh Procurement Initiative Team for a more comprehensive assessment. The outcomes and conclusions of this assessment will be followed up with individual institutions.
- f) **July 2002** - a two day training event was held by the Consortium in collaboration with the Chartered Institute of Purchasing and Supply. 14 delegates, representing 12 institutions, attended.
- g) **August 2002** – the original Consortium contracts for stationery, computer consumables and photocopier paper were re-let after a new tendering exercise. This resulted in prices that were lower than in the previous contracts and included the awarding of one contract to a Welsh SME. The annual spend on these contracts is estimated to

be currently in excess of £1million and it is anticipated that this will result in savings of more than £100,000

- h) **September 2002** - new contracts let by the Consortium for furniture. The annual spend on these contracts is estimated to be approximately £200,000 and it is anticipated that this will realise average savings of 7%. A Welsh based SME has been awarded one of the contracts
- i) **October 2002** – the Consortium commissioned external benchmarking by Pricetrak of the contract prices for the stationery, computer consumables and photocopier paper contracts. The result demonstrated that the Consortium's prices were at, or below, the Pricetrak average. It is understood that Pricetrak maintain an extensive database of prices in respect of a range of organisations from both the public and private sectors in the UK
- j) **October 2002** - new contract let by the Consortium to a Welsh SME for protective clothing. The annual spend on this contract is estimated to be approximately £75,000 and it is anticipated that this will achieve average savings of around 20%.
- k) **November 2002** – the Consortium established a subgroup to identify how it can best carry out its procurement activities in an environmentally responsible manner. The Group has developed an Environmental Procurement Policy which is being implemented by the Consortium in its letting of new contracts. As part of this initiative key indicators are being established in order to monitor performance in the awarding and management of contracts.
- l) **December 2002** – the Consortium established a website containing details of all the contracts let , its strategic plan, contact details, a newsletter and information about the Assembly's Welsh Procurement Initiative (WPI).
- m) **January 2003** - institutions reported to the Council on progress in achieving savings. A summary of the savings is provided in Table 1.
- n) **March 2003** - *fforwm* agree to underwrite the ongoing management and administration costs of the Consortium and are concurrently examining options for future funding.

Estimate of Savings Achieved

- 7 At the Assembly Audit Committee hearing in November 2001 the Council acknowledged the inadequacy of the sector's procurement management information, particularly in respect of savings. This has slowly improved and, in particular, since August 2002 the Consortium gathers regular management information on the usage against each of its contracts and the savings being achieved.

- 8 Up to the date of the publication of the Auditor General's report information on savings hardly existed. Exceptions to this were Coleg Sir Gar and Goleg Gwent who were able to demonstrate savings of £250,000 and £260,000 respectively up to September 2001.
- 9 The Council's Circular letter dated January 2002 which accompanied the issue of the guide on Good Practice in Procurement required institutions to introduce systems to record the savings achieved through better procurement practice. In December 2002 the Council required institutions to report on the progress being made on cost savings achieved through use of Consortium contracts and through improvement in their own procurement arrangements. Table 1 summarises the information provided by the institutions.

Table 1 – Summary of Estimated savings

<u>Institution</u>	<u>Estimated savings</u> <u>September 2001 to</u> <u>December 2002</u>
	£
*Aberdare College	17,707
Barry College	74,635
Bridgend College	26,803
Coleg Ceredigion	44,000
Deeside College	117,000
Coleg Glan Hafren	14,000
Coleg Gwent	336,000
Coleg Harlech WEA(North)	2,150
Coleg Llandrillo	126,000
Coleg Llysfasi	15,000
Coleg Meirion-Dwyfor	42,500
Coleg Menai	73,000
Coleg Powys	30,500
Coleg Sir Gar	691,002
Gorseinon College	43,000
Merthyr Tydfil College	78,418
Neath Port Talbot College	86,000
Pembrokeshire College	327,190
*Pontypridd College	4,000
S† David's Sixth Form College	10,000
Swansea College	62,000
WEA (South)	1,600
Welsh College of Horticulture	1,825
Yale College	67,585
Ystrad Mynach College	19,000
YMCA	3,000
Total	<u>£2,313,915</u>

* The former Aberdare and Pontypridd Colleges merged on 1 January 2003 to form Coleg Morgannwg

- 10 The savings of £2.3m shown in the above table were achieved over a 16 month period. Expressed on an annual basis this would represent a saving of approximately 2% of non-pay expenditure. The information is based on returns submitted by colleges, certified by College Principals. The Council's Audit Service undertook validation work at 6 colleges to confirm the accuracy of the returns. This represented in excess of 50% of the reported savings.
- 11 The selective validation of returns by the Council has indicated that the information reported is backed up by adequate evidence of the claimed savings. However, the validation work and discussion with institution staff has indicated that the following issues should be taken into account:

- The quality of colleges' procurement management information at the time of the Auditor General's report was not comprehensive or reliable. This is now improving but further improvements are required.
 - The savings reported by colleges include £410,000 achieved through use of the Consortium's 7 current contracts. (This has been validated against the summaries of usage and savings compiled by Consortium for the period August 2001 to January 2003).
 - There is inconsistency in the methodology adopted by colleges in calculating savings. Guidance on the introduction of a standard procurement savings system has been developed by the WPI. A draft of this guidance was issued to all colleges in January 2003.
 - Savings achieved prior to September 2001 have not been included. These are substantial, for example, the NAO's September 2001 report refers to savings by Coleg Gwent and Coleg Sir Gar of in excess of £500k.
 - Indirect administration cost savings, such as those arising from the use of procurement cards, e.procurement and BACS payments have not been included.
- 12 During 2002 there was increasing use of consortium contracts, particularly on higher value commodities such as computing equipment. Spend on Consortium contracts between August 2001 and July 2002 exceeded £2.0m. The increased usage of the contracts is continuing and spend between August 2002 and February 2003 is in excess of £3.0m. On the basis that this trend continues, a further significant increase in savings is anticipated. The annual spend on the Consortium's contracts represents approximately 5% of the sector's non-pay expenditure.
- 13 All colleges, apart from Deeside College, are utilising one or more of the Consortium's contracts. Because of their location and for operational reasons Deeside College utilise the greater range of contracts available from the Crescent Consortium which is operated by Salford University.

Staffing and Expertise

- 14 Since the publication of the Auditor General's report in September 2001 the number of institutions employing dedicated procurement staff has increased from 5 to 10. These institutions account for approximately 61% of the sector's non-pay expenditure. The total number of procurement staff employed has increased to 17 compared to 11 in September 2001. A procurement champion, at senior management level, has been identified at all institutions.
- 15 In addition to the increase in the number of procurement staff at institutions there has also been an increase in the level of their expertise and qualifications. 6 of the staff are members of the Chartered Institute of Purchasing and Supply and a further 4 are studying for this

qualification. In addition, institutions are reporting that other staff attend specific training events designed to increase their level of procurement expertise.

- 16 In November 2001 the WPI let a contract for procurement training to a training provider, PMMS. Details of the training programme were forwarded to all institutions and they have been encouraged to participate in a wide range of courses available. The Consortium itself is funding its contract managers to attend a two-day Contract Management training course in June 2003.

Collaboration

- 17 The work of the Consortium itself in letting sector wide contracts and sharing good practice is clearly progressing the amount of collaboration and co-operation between individual institutions. The sharing of model specifications, tenders and contracts is increasing, leading to improved quality and standardisation of key elements of procurement practice. This increased collaboration is also resulting in administrative and management efficiencies.
- 18 The Consortium itself has examined ways in which it can become more effective through collaboration with the consortium operating in the Welsh higher education sector, HEPCW. The first joint contract, in respect of confectionery, is in the process of being tendered.
- 19 9 procurement staff from further education institutions represent the sector on a range of commodity groups established by the WPI to promote greater collaboration within the Welsh public sector. In addition, examples of further involvement by representatives from Coleg Sir Gar and Coleg Gwent include:
 - membership of the Welsh Purchasing Forum Steering Committee;
 - chairing the South West Wales Regional Forum;
 - membership of the WPI Programme Board and the Collaborative Procurement Legal Issues Board; and
 - membership of a number of other key project boards and steering groups.

Ongoing Initiatives

- 20 The development of the work and role of the Consortium continues to be the main focus of the ongoing initiative to improve procurement procedures throughout the sector. From April 2003 *fforwm*, the representative body of the Welsh further education institutions, has agreed to underwrite the Consortium's costs. The Consortium's mission statement has recently been revised and states that its purpose is – *“To make a recognisable and measurable contribution to the success of the*

FE sector, by assisting institutions in the effective management of their procurement activities." An updated Strategic Plan has been produced and an Operating Plan, to commence in August 2003, is being developed to enable the Consortium to achieve its strategic objectives.

- 21 Key Consortium activities for next 12 months include:
- development of two new contracts in respect of examination fees and recruitment advertising. Combined spend on these areas of expenditure exceeds £5 million
 - finalising and letting of the first joint contract with HEPCW;
 - completing the 2003/04 Annual Operating Plan including the finalisation of key targets;
 - raising awareness of sustainable development;
 - continuing further collaborative work with HEPCW; and
 - promoting sector involvement in WPI initiatives.
- 22 The Coleg Gwent procurement manager is currently piloting two suppliers systems as part of the WPI eTendering Pathfinder project. This follows the abandonment of the College's involvement as a pilot site in the FEOnline project which had been deemed by the Consortium e.procurement sub-group as unsuitable for the sector.

Future challenges

- 23 **Progress in respect of the achievement of savings is continuing but remains slow at many institutions.** It is estimated that, based on the current trend of expenditure, savings resulting from use of the Consortium's contracts will be approximately £400,000 during 2002/03.
- 24 **The procurement expertise and resource gap, particularly at small institutions, will remain the principal barrier to progress** both on good practice and savings.
- 25 **The extent of collaboration between institutions in sharing good practice is growing but still limited.** Further co-operation, for example between clusters of colleges, could make a significant impact on the rate of improvement. This matter will be progressed by the Council in discussion with the WPI team and *fforwm*.
- 26 **The quality of procurement management information at many institutions remains poor.** This is principally due to much procurement documentation being manually based. Some smaller institutions have not invested in the computerisation of their procurement and supplier accounting systems.
- 27 Using the powers available to it, the Council has provided comprehensive advice and guidance to the sector, funded the creation and initial development of the Consortium and monitored the progress being made. **In order to extend and accelerate the rate of improvement of procurement practice within the sector the Council's Chief Executive has arranged a meeting on 16 June 2003 with the WPI Team Leader and the *fforwm* Chief Executive to examine and agree ways in which each body can contribute to the process of improving procurement practice within further education institutions in Wales.** The focus of the meeting will be the identification, through a joint action plan, of initiatives to reduce or eliminate the barriers to progress identified above. The meeting will also discuss the undertaking of the WPI's Procurement Fitness Checks within the FE sector. This is recognised to be a fundamental development in the initiative to improve procurement performance at FE institutions.