

14 Measuring Procurement Performance

- 14.1** Estimates supplied by the Department of Public Expenditure and Reform (the Department) indicate that public expenditure on procurement of goods and services in 2011 totalled around €8.6 billion, with a further €4.5 billion being spent on capital works (see Figure 14.1).

Figure 14.1 Estimated Annual Public Procurement Expenditure by Sector^a

Expenditure area	2009	2010	2011
	€bn	€bn	€bn
Health sector ^b	4.7	4.6	4.5
Central government sector ^c	2.0	2.0	1.7
Local government sector	1.7	1.6	1.2
Education sector	0.9	0.9	1.2
All goods and services procurement	9.3	9.1	8.6
Capital works	7.0	6.0	4.5
Total public procurement	16.3	15.1	13.1

Source: Estimates by Department of Public Expenditure and Reform

Notes: a The figures for expenditure by sector in 2009 and 2010 include an element of capital expenditure. The 2011 sectoral figures do not include any capital expenditure.

b Includes expenditure relating to drugs and medicines and GP and pharmacist fees.

c Government departments and agencies, including the Defence Forces and An Garda Síochána.

- 14.2** A procurement capacity review carried out by consultants on behalf of the Department and completed in August 2012 included a focus on
- the identification of the current total procurement spend by the State, and its component parts both by sector (central government/local authority etc.) and by category of purchase
 - the identification of sectors and categories for a central procurement function to deliver procurement savings and the quantification of the savings potential
 - an outline of the requirements of a central procurement function to deliver and sustain the savings.
- 14.3** The Accounting Officer of the Department stated that the procurement review has highlighted that significant savings are possible through the implementation of a transformational change in the procurement model. The Government is to consider the implications of the recommendations of the review for the organisation of the central procurement function and the range of measures needed to achieve the transformational change.
- 14.4** Responsibility for central co-ordination, development and direction of public procurement processes is currently shared between the Department and the Office of Public Works (OPW).
- 14.5** The Department is responsible for setting a broad strategic direction for procurement implementation. This is done through the Department's National Public Procurement Policy Unit (NPPPU), which has responsibility for national public procurement policy, legislation and construction procurement reform.

- 14.6** The National Procurement Service (NPS) was established in March 2009 within the OPW. Its objectives are
- to establish national procurement framework agreements to allow all central government departments and offices, agencies and non-commercial public bodies to procure commonly-used goods and services more effectively, efficiently and with better value for money
 - to provide professional procurement advice to central government and non-commercial public sector bodies
 - to develop targeted and accredited procurement training and education measures
 - to further develop web-based e-procurement.
- 14.7** This chapter focuses on the extent to which the framework agreements have been established by the NPS and the methodologies used by NPS for calculating savings from procurement initiatives. The circumstances surrounding the extension by NPS of a contract for energy advisory services are also considered.

National Framework Agreements

- 14.8** A procurement framework is an agreement with one supplier or a number of suppliers, which sets out the terms that will govern contracts awarded to those suppliers during the term of the agreement. There is generally no guarantee to the suppliers about the quantity of goods or services that will be purchased. One or more contracting authorities may avail of the terms of the framework.
- 14.9** Frameworks aim to provide an economic and efficient means of purchasing goods and services by allowing public bodies to place contracts with framework suppliers without having to carry out multiple tendering procedures, and by reducing the tendering costs for suppliers. They can also encourage competition by allowing suppliers to group together in submitting tenders or by having the purchase requirements broken down into lots.
- 14.10** At 31 December 2011, the NPS had in place a total of 43 framework agreements incorporating 268 individual contracts with 65 suppliers. Figure 14.2 summarises details of the most significant framework agreements in place. Framework agreements are open for use by all public bodies and agencies. The NPS has estimated that the public bodies that used these contracts in 2011 incurred expenditure of €180 million over a range of procurement categories.
- 14.11** The operation of framework agreements is monitored by the NPS with the extent and nature of monitoring determined by the type of contract, the complexity of the category being supplied and the information needs of the client departments and others.
- 14.12** With effect from September 2012, public bodies will be required to procure certain commonly used goods and services under NPS frameworks.¹ This includes energy, stationery, motor vehicles and advertising. Mandatory use of frameworks will be introduced on an incremental basis in some sectors. The NPS will publish a quarterly report detailing the value of goods and services being procured under mandatory framework agreements, analysed by category and public body.

¹ Circular 6/12 Public Procurement (Framework Agreements), issued by the Department of Public Expenditure and Reform, 25 July 2012.

Figure 14.2 Main NPS Framework Agreements at end 2011

Goods/ Service	Framework start date	Number of contracts with suppliers	Number of agencies using frameworks	Number of suppliers	Estimated expenditure 2011
Electricity ^a	1 January 2011	153	178	5	€112m
Natural gas ^a	20 October 2010	70	125	7	€34m
Fuel chargecards	20 May 2009	1	16	1	€11m
Advertising	1 November 2010	1	181	1	€3m
Janitorial supplies	1 November 2011	1	48	1	€2m
DPM uniforms ^b	21 June 2010	1	1	1	€2m
Stationery	4 April 2011	1	199	1	€2m
Furniture	1 March 2011	5	18	5	€1m
Garda uniforms	6 August 2008	1	1	1	€1m
Parliamentary printing	13 July 2010	1	1	1	€1m

Source: National Procurement Service

Notes: a Seven mini competitions for electricity and six for natural gas based on different sectors within the public service.

b Disruptive pattern material i.e. camouflage style military uniforms.

- 14.13** In future, a public sector body which does not use a mandatory framework must be able to explain their rationale and provide a value for money justification. This justification is to be made available (when requested) to internal and external auditors. The Department has indicated that public bodies are not required to report the value for money justification to the NPPPU or the NPS. However, this does not preclude the NPPPU or the NPS requesting such documentation to monitor compliance and inform future procurement processes.

Performance Measurement

- 14.14** The Public Service Reform Plan recommends the development of a procurement performance measurement system.² This is to be developed jointly between the NPPPU and the NPS and will incorporate
- guidelines on calculating procurement savings
 - a set of performance benchmarks from other jurisdictions (for example, scale of price and volume savings achievable)
 - a scorecard of indicators for quarterly reporting to NPPPU.

² Public Service Reform Plan, Department of Public Expenditure and Reform, November 2011.

Procurement Savings Calculation Methodologies

- 14.15** In the OPW's vote estimate for 2012, it reported NPS savings achieved on existing public service contracts of €28.2 million in 2011. In addition, it stated that there were further administrative savings but these were not quantified or valued.
- 14.16** During this examination, NPS provided details of estimated savings in 2011 of €46.5 million from a range of cost saving and cost avoidance measures. The OPW provided Information to the Public Accounts Committee in March 2012 indicating that NPS had 48 framework contracts currently in place with an estimated multi-annual value of €1.4 billion. The projected annual savings to be achieved in 2012 in respect of these contracts was stated to be €78 million. Figure 14.3 sets out the main saving areas identified for 2011 together with the projected savings to be achieved in 2012.

Figure 14.3 NPS Savings, 2011 and 2012

Area	Value of savings/cost avoidance measures	
	2011 estimate	2012 projection
	€m	€m
Energy	21.6	30.0
eTenders	11.8	9.6
Fuel charge cards	7.5	8.0
Postal costs	1.8	—
Uniforms and personal protective equipment	1.4	1.5
Stationery, paper and envelopes	1.4	1.4
State advertising	0.8	0.9
Secure printing	0.1	0.4
Janitorial supplies	0.1	0.4
Managed print services	—	15.0
Waste management	—	4.0
Low value purchase cards	—	4.0
Other	—	2.8
Total	46.5	78.0

Source: National Procurement Service

- 14.17** The NPS takes a number of different approaches to the calculation of savings depending on the nature of the procurement and in the case of energy, the focus of the public sector buyer. While the NPS issued staff guidance on saving estimation methodologies in 2011, the methods are not set out formally in procedures manuals. The methodologies used by NPS for calculating savings in 2011 in four areas were reviewed as part of this examination.

Energy Savings

14.18 NPS have estimated expenditure on energy frameworks of €146 million in 2011. Savings in 2011 were estimated by NPS at almost €22 million, with further projected savings of €30 million in 2012. The methodologies used to calculate this saving are set out in Figure 14.4 below.

14.19 Issues noted in relation to the methodologies used include

- The potential saving of €2.1 million identified from the review of tariffs was based on a review of pricing for 12,000 meters. It was assumed that a planned review of a further 12,000 meters in 2011 would identify a similar level of saving.
- The realisation of the savings arising from the review of tariffs is dependent on the public bodies implementing the recommended changes. NPS do not know the extent to which this has been done, or the extent to which the estimated savings have been realised.

Figure 14.4 NPS energy saving calculation methodologies

Initiative/saving	Attributed saving €m	NPS methodology
<i>Review of tariffs and import capacity levels</i>	4.2	Comparison of existing tariffs and charges on a meter by meter basis to identify more economical tariffs. Reviews of 12,000 meters identified <i>potential</i> savings of €2.1m. The same level of saving was anticipated for a further 12,000 meters which the NPS planned to review in 2011.
<i>Framework competition</i>		
Competitive savings	8.7	This potential saving is calculated in one of two ways <ul style="list-style-type: none"> ▪ the current supplier price is compared to the price offered by the winning tenderer (when energy prices are falling) ▪ the price quoted in the framework competition by the current supplier is compared to the winning tenderer (when energy prices are rising).
Market savings	8.0	The difference between the winning tender in the competition and prices quoted in competitions of a similar aggregated nature for a private sector multinational company based in Ireland. Potential competitive savings (identified above) are deducted from this amount.
Administrative saving	0.7	The difference between the estimated cost that the public bodies that availed of the framework would have incurred had they each held separate tender competitions (estimated at €6,000 per competition) and the estimated cost of each of the central competitions (€27,500 each).

- The way in which some competitive savings are calculated involves comparison of existing and new supplier prices. Therefore, there is a potential double counting of savings in cases where the recommended change identified in the review of tariffs has not been taken up with the existing supplier.
- In relation to estimated market savings, the NPS was unable to provide the examination team with reliable evidence about prices paid by private sector purchasers of energy (for example, quotations or contract terms).
- The costs incurred in the generation of the savings have not been measured and factored into the calculations.

14.20 The OPW Accounting Officer stated that the actual savings achieved as a result of the review of tariffs and import capacity levels are currently being compiled and are expected to be available in October 2012. She expects the actual savings to exceed the €4.2 million estimate.

eTenders

14.21 NPS estimate that the use of the eTenders site saves an average of €1,920 per contract in advertising costs.³ In 2011, 6,120 contracts were advertised on the site (6,074 in 2010). NPS therefore estimate an annual saving of €11.8 million from the use of the site.

14.22 This estimated saving is based on the assumption that all contracts advertised on eTenders would have been advertised in three newspapers. While this may have occurred for larger value contracts, it is unlikely to have occurred for low value contracts.

Fuel Charge Cards

14.23 NPS have estimated expenditure on fuel charge cards of €11 million in 2011 and savings of €7.5 million. Fuel charge cards are used by a number of public sector bodies including An Garda Síochána to allow personnel to purchase fuel for official vehicles as required. Where charge cards are used, each individual purchase of fuel does not have to be processed separately. Periodic invoices are issued by the supplier, resulting effectively in batch processing of individual transactions. Therefore, there is a potential saving in administrative cost (staff time and processing costs).

14.24 There were some 228,000 transactions on fuel charge cards in 2011. NPS estimate that the transaction costs in terms of staff time and processing costs of each card transaction was €32 less than a traditional invoiced transaction. This gives rise to €7.3 million of the estimated saving.

14.25 The basis for the €32 cost differential is a 1998 UK study. A recent UK National Audit Office report found that this estimated difference could no longer be used as a business case for using charge cards due to modern processing procedures.⁴

14.26 The Accounting Officer stated that an estimate of the difference in processing cost between using charge cards and traditional procurement methods needs to reflect the processing procedures in place in each public sector body. She considers that the estimated administration saving of €32 per transaction used to calculate the overall saving is reasonable.

³ This is based on the estimated cost of one 10cm, two column advertisements in each of three newspapers at a cost of €640 each.

⁴ The Government Procurement Card, UK National Audit Office, March 2012.

Uniforms

- 14.27** Expenditure of €7.5 million on all uniform contracts in 2011 has been estimated by NPS. The potential saving of €1.4 million is estimated by applying the difference between the prices previously applicable and the winning tender prices to the quantities expected to be purchased over the duration of the contracts.
- 14.28** This methodology is reasonable. However, the saving will only be realised as and when purchases are made under the new contracts.
- 14.29** The Accounting Officer stated that the experience to date in relation to the uniform contracts has been that actual demand over the lifetime of the contracts is generally in line with the pre-tender estimates. Therefore, the savings are based on forecasted quantities. Savings in subsequent years will be adjusted to reflect the actual demand over the lifetime of the contracts.

Overview of the OPW Accounting Officer

- 14.30** The OPW Accounting Officer said that NPS calculates average saving estimates for the public sector and can only rely on the data available to it. She stated that since its establishment, the NPS has sought but does not have all data in relation to historic and current demand and price. It is therefore not possible for it to reliably calculate spend savings. Accordingly, prices and current usage are the most reliable method for the NPS to estimate savings for most of its frameworks. She said that the estimated savings are reliable in that context. One of the primary objectives of the NPS was putting in place the necessary frameworks as quickly as possible given the deteriorating economic circumstances and the obvious savings that could be achieved. Now that these are in place, a more robust system of performance measurement is being put in place.

Procurement of Energy Advisory Services

- 14.31** In 2009, the NPS advertised for the services of an energy advisor to provide advice on energy procurement. It was estimated at the time that the work would involve two to three weeks per annum over a three-year period at an annual estimated cost of €11,000. Following a tender competition, a three-year contract for the provision of these advisory services was awarded at an estimated cost of €20,000 a year (or total contract value of €60,000).
- 14.32** During the contract period, the scope of the work expanded and the daily fee rates agreed in the contract were paid for this additional work. To date, a total of just over €1 million has been paid under this contract.
- 14.33** Department of Public Expenditure and Reform guidelines stipulate that contracts should not be extended without re-tendering where the cost of the extension is more than 50 percent of the original contract price or exceeds €250,000, whichever is lower.⁵ This is in line with EU requirements. In addition, EU procurement rules at the time of awarding the contract required that contracts for services with an estimated value of €133,000 or more be advertised in the EU journal.

⁵ Engagement of Consultants and other External Support by the Civil Service, Department of Public Expenditure and Reform (issued 2006 by the Department of Finance).

- 14.34** In December 2011, tenders were sought for the provision of services of an energy advisor with expertise in procurement and change management facilitation. The existing energy advisor was successful in the tender competition and was awarded the contract for a three-year term (2012 to 2014). The contract is estimated to be valued at €2 million, excluding VAT, over the three year term.
- 14.35** The Accounting Officer stated that the 2012 competition took account of the experiences arising from the previous contract including the subsequent expansion of the scope of the work.

Conclusions and Recommendation

- 14.36** Accurate, comprehensive and detailed data on spending by category of goods and services would facilitate the development of optimum strategies for procurement.
- 14.37** A performance measurement system for procurement was recommended in the Public Sector Reform Plan (November 2011). This should include the development of a full suite of performance measures for procurement which can be used both in the NPS and in procurement functions in public sector bodies.
- 14.38** A practical set of performance measures in relation to procurement might include measures relating to
- trends in spending by category, and by supplier
 - cost of the procurement function as a proportion of total administration expenditure and of the procurement spend
 - the duration of procurement processes
 - expenditure under written contracts as a proportion of total procurement expenditure⁶
 - the proportion of procurement expenditure that is managed by procurement professionals
 - the proportion of procurement expenditure arising from framework or other centralised agreements
 - savings achieved through procurement
 - satisfaction surveys of suppliers and end users
 - an assessment of the organisation's compliance with procurement rules and good practices.
- 14.39** Based on the four areas of procurement reviewed, the savings identified by the NPS are not reliable and are not suitable for use as a performance measure mainly because
- they have not been calculated by comparing the actual spend under the new arrangements with the projected spend had those arrangements not been introduced
 - the full cost associated with the initiatives has not been measured and factored into the calculations in all cases
 - the extent to which the savings have materialised is not known in all cases because the take up of the new initiatives by public sector bodies has not been established.

⁶ Some procurement occurs based on placement of orders with suppliers on standard terms, rather than under written contract terms.

Recommendation 14.1: Savings are a key element of measuring procurement performance.

In that regard

- the methodologies to be used should be clearly defined and consistent
- calculations should be based on actual costs compared to what it is projected the actual purchases would have cost under previous arrangements
- all costs associated with the procurement initiatives that give rise to the savings should be factored into the calculations
- savings reported should be those that have materialised and not represent an anticipation of potential future savings.

OPW Accounting Officer's Response: The National Procurement Reform Steering Committee has established a Working Group to develop a common approach to the measurement and reporting of procurement related savings across the public sector and this recommendation will be an input to the work of this Group.