

Procurement Indicators 2008/09

The Procurement indicators have remained largely unchanged from the previous year.

Clarification on definitions have been made to the following indicators:

Primary indicators 1, 2, 3 and 5.

Secondary indicators 1, 2, 4, 5, 6 and 7

Procurement value for money indicators guidance

1) Introduction

This document sets out the indicators to be collected for the Procurement function. The guidance below starts by defining the scope of the function and goes on to identify key questions which reflect the requirements of a modern, value for money Procurement function that the indicators are aiming to help organisations explore. The scope and key questions are included as background information as well as the primary and secondary indicators

2) Scope

The scope includes the key activities performed by the procurement function across the procure-to-pay process:

- Understanding the demand and business requirements for goods and services;
- Sourcing of the required goods and services from qualified suppliers at best value and in accordance with the appropriate tendering regulations;
- Ensuring that contracts and service levels are agreed and clearly defined with suppliers;
- End users are able to raise requisitions which result in approved purchase orders transmitted to the supplier; and
- Supplier performance is managed against contractual standards and Service Level Agreements.

In the way the procurement function is carried out the scope also includes:

- The degree to which the procurement strategy and objectives are aligned with corporate objectives;
- Sustainability in relation to the procurement of goods and services;
- Ethical contracting and purchasing standards;
- Awareness and application of technology to support the procurement function in achieving efficient and effective delivery;
- Appropriate procurement structures, policies and procedures in relation to the organisation's procurement requirements; and
- Capability and skills of those involved in the procurement function
- The degree to which the procurement department assess their performance against peers and other industries to seek continuous improvement and innovation to deliver greater value to the organisation.

3) Key questions

In order to help derive our VFM indicators for the Procurement function, we have identified some key questions that reflect a modern, value for money Procurement function which we hope the indicators will help to explore:

- Is the Procurement function / model used by the organisation cost effective and appropriate?
- Does the Procurement effectively support the delivery of the organisation's strategic objectives?
- Are Procurement processes operated in an efficient, timely and effective manner? (which minimise risk and maximise impact)
- Does Procurement effectively understand the requirements of the demand and business requirements for goods and services?
- Does Procurement have a good understanding of markets and effectively manage suppliers?
- Is appropriate use made of technology to support the organisation's procurement activity to achieve efficient and effective delivery?
- Is Procurement effectively supporting the organisation in achieving cost reduction?
- Is corporate social responsibility a serious consideration in the procurement of goods and services including sustainability and ethical procurement?
- Are internal customers / end users satisfied with the services provided by Procurement?

In relation to the indicators we are not seeking to be prescriptive about how the procurement function is set up in terms of the structure or model the organisation uses. We are concerned only that the organisation adopts the right practices to secure the best possible outcomes. Our view is that organisations should use the indicators to question whether their current procurement arrangements provide best value for money and if not, how they should change to achieve this whether this is through increased centralisation, greater collaboration or other options such as shared services and outsourcing.

4) Summary list of indicators

Primary indicators	
Primary indicator 1	Total cost of the procurement function: a) Cost of the procurement function as a percentage of organisational running costs (expenditure); and b) Cost of procurement function as a percentage of third-party expenditure.
Primary indicator 2	Actual spend committed against pre-established contract arrangements as a percentage of third-party spend.
Primary indicator 3	Percentage of third-party spend which is actively managed by procurement professionals.
Primary indicator 4	Average (weighted) savings achieved through procurement for the 5 largest procurement projects delivered in the previous financial year.
Primary indicator 5	Commissioner and user satisfaction index - a composite indicator compiled from the responses to a set of statements by commissioners and users.

	<p>Commissioner statements:</p> <ul style="list-style-type: none"> • The Procurement function supports the overall objectives of the organisation. • The Procurement function is proactive in sourcing goods and supplies which represent best value. • The Procurement function provides appropriate advice and support on major strategic procurement projects. • The Procurement function is responsive to my ad hoc needs. • The Procurement function provides value for money. <p>User statements:</p> <ul style="list-style-type: none"> • There is a consistent and easy to follow process for ordering goods and supplies. • The goods and supplies that we are given are of appropriate quality. • Technology is used to make the process of ordering and paying for goods easy and efficient. • The Procurement function is responsive when I need help in sourcing or ordering goods and supplies. • The Procurement Function is helping staff to develop their skills in relation to the procurement process.
<p>Primary indicator 6</p>	<p>Management practice indicator – the number of practices that have been adopted by the organisation out of a possible total of 10:</p> <ol style="list-style-type: none"> 1) 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. 2) Customer satisfaction surveys are undertaken at least annually to understand user views on the added value brought about by the professional procurement function, with the results published internally and fed into an improvement plan which is regularly monitored. 3) Future demand for goods and services is 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. 4) 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 per cent of targets were met for the previous financial year. 5) Specifications for high value purchasing decisions are made based on a detailed understanding of the total cost of ownership (TCO) (also known as whole life costs). 6) The organisation keeps a comprehensive and cross referenced record of all contracts worth over £10,000, which can be sorted

	<p>(at least) by supplier and by contract end date.</p> <p>7) Benchmarking data from both public and private sector sources is actively used to undertake price comparisons on key goods and services.</p> <p>8) 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 (in larger organisations this will include having facilitated collaborative procurement with smaller organisations).</p> <p>9) 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.</p> <p>10) A rolling programme is in place to develop procurement skills and capabilities across the organisation at all levels.</p>
Secondary indicators	
Secondary indicator 1	Professionally qualified procurement employees (FTEs) as a percentage of total procurement employees (FTEs).
Secondary indicator 2	Average invoice value.
Secondary indicator 3	Number of the organisation's top 10 suppliers (by spend value) who have a formal partnership / framework agreement with the organisation.
Secondary indicator 4	The percentage of third-party spend that is channelled directly through SMEs (Small and Medium sized Enterprises).
Secondary indicator 5	The percentage of total third-party spend channelled through collaborative procurement arrangements with other buying organisations.
Secondary indicator 6	<p>Management of supplier base:</p> <p>a) Average spend per accredited supplier;</p> <p>b) Percentage of total third-party spend represented by the top 20 per cent of suppliers (by value); and</p> <p>c) Percentage of suppliers on an accredited list with no orders in the previous 12 months.</p>
Secondary indicator 7	<p>The use of technology within procurement:</p> <p>a) The percentage of total goods and services spend that is sourced electronically;</p> <p>and</p> <p>b) The percentage of total goods and services spend managed through e-Purchasing.</p>

5) Detailed definitions for Primary indicators

Reference number	Primary indicator 1
Description	<p>Total cost of the procurement function:</p> <p>a) Cost of the procurement function as a percentage of organisational running costs (expenditure); and b) Cost of procurement function as a percentage of third-party spend.</p>
Rationale	<p>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).</p> <p>In most circumstances organisations would aim to reduce the costs of procurement relative to their spend over time.</p> <p>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).</p>
Definition	<p>The indicator should be based on the latest financial year.</p> <p>Total cost of the procurement function should include:</p> <ul style="list-style-type: none"> • Employee costs including employers NI, pension and recruitment costs • IT costs • Accommodation costs • Supplies / consumables • Outsourcing costs • Other costs <p>Where some or all procurement activity is devolved in the organisation (for example where there is no centralised procurement function, or where individuals work outside of any centralised function and are based in service departments) include the total cost of those staff who spend more than 50 per cent of their time on strategic and / or operational procurement activities.</p> <p>This could include any staff member involved in either strategic or operational procurement activities, such as contracting for goods services or works from third party suppliers, full-time procurement support services or the development of procurement policy or practices. The staff involved may not necessarily sit within the corporate procurement function, and may be involved in areas not traditionally thought of as procurement, e.g. involved in capital projects, care commissioning, etc. (This specifically excludes accounts payable, routine requisitioning and other staff in purely</p>

transactional activities using previously established contracts and agreements with suppliers, **but includes support and administrative staff who spend more than 50% of their time on procurement related support work.)**

Any payments made to third parties to conduct procurement on the organisation's behalf should also be included in the costs of procurement.

Part a) Organisational running costs (expenditure)

These are the costs for delivering the primary responsibilities / remit of the organisation. It should exclude transfer payments, capital and programme spend, grants, precepts and other funds which simply flow through to another body, for example grants made to voluntary organisations. It should include payments made to any contractors for services which are within the main remit of the organisation (for example a refuse contract in a local authority).

Part b) Third-party spend

Third-party spend is defined as including:

- 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 (but in local authorities exclude spending on agency/supply staff in schools)

Example

a) To calculate the cost of the procurement function as a percentage of organisational running costs (expenditure)

Cost of the procurement function = £150,000

Organisational running costs = £20 million

The cost of the procurement function as a percentage of organisational running costs is therefore $150,000 / 20,000,000 = 0.75$ per cent

b) To calculate the cost of procurement function as a percentage of third-party spend

Cost of the procurement function = £150,000

Third-party spend = £9 million

The cost of procurement function as a percentage of third-party spend is therefore $150,000 / 9,000,000 = 1.67$ per cent

Reference number	Primary indicator 2
Description	Actual spend through pre-established contract arrangements as a percentage of third-party spend.
Rationale	<p>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.</p> <p>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.</p>
Definition	<p>The indicator should be based on the latest financial year.</p> <p>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 organisation or by another organisation, for example through nationally established framework agreements or collaborative arrangements with other organisations.</p> <p>'Pre-established' means that formal legal contracts for the spend are in place before goods and services are ordered.</p> <p>Contracts and their value should be identified through the organisation's contracts database. The organisation should calculate the actual total spend against each contract in the financial year.</p> <p>Third-party spend is defined as including:</p> <ul style="list-style-type: none"> · 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 <p>It excludes employee costs, grants, trust payments and other non-controllable payments to other government departmental bodies but should include spending on agency staff (but in local authorities exclude spending on agency/supply staff in schools)</p> <p>Example</p> <p>Spend against pre-established contract arrangements = £15 million Total third-party spend = £200 million</p>

	Spend committed against pre-established contract arrangements as a percentage of third-party spend is therefore $(15,000,000 / 200,000,000) \times 100$ per cent = 7.5 per cent
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Reference number	Primary indicator 3
Description	Percentage of third-party spend which is actively managed by procurement professionals.
Rationale	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).
Definition	<p>The indicator should be based on the latest financial year. The organisation should assess the amount of third-party spend which has been actively controlled by procurement professionals operating either within a central procurement function or procurement professionals who are devolved into departments / services.</p> <p>Procurement professionals should be consistent with those staff included in Primary Indicator 1.</p> <p>· Procurement professionals are full-time equivalent staff holding a qualification recognised by the Chartered Institute of Purchasing and Supply (CIPS) which includes:</p> <ul style="list-style-type: none"> · 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) · NVQs and SVQs in Procurement <p>Other appropriate qualifications may include:</p> <ul style="list-style-type: none"> · MSc Procurement, Construction qualification which requires procurement expertise, National standards for Commissioning, Procurement and Contracting. · staff who have 5 years or more experience in running procurement processes <p>‘Active control’ – this is defined as spend where the procurement professionals are actively supporting the sourcing process, for example providing guidance would not be deemed as ‘active support’, they should be an active participant in defining and running the sourcing process.</p>

	<p>Third-party spend is defined as including:</p> <ul style="list-style-type: none"> · 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 <p>It excludes employee costs, grants, trust payments and other non-controllable payments to other government departmental bodies but should include spending on agency staff (but in local authorities exclude spending on agency/supply staff in schools)</p> <p>Example</p> <p>Third-party spend which is actively managed by procurement professionals = £150 million Total non pay spend = £260 million</p> <p>Percentage of third-party spend which is actively managed by procurement professionals is therefore $(150,000,000 / 260,000,000) \times 100$ per cent = 57.6 per cent</p>
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Reference number	Primary indicator 4
Description	Average (weighted) savings achieved through procurement for the 5 largest procurement projects delivered in the previous financial year.
Rationale	<p>This examines the effectiveness of procurement in achieving savings.</p> <p>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).</p>
Definition	<p>This indicator should be based on figures for the latest financial year.</p> <p>The indicator should be based on the organisation's 5 largest procurement projects in the previous financial year.</p> <p>A procurement project is where the organisation made a formal approach to the market to tender for specific goods / services. To calculate the indicator, for each project identify the annual spend on the relevant goods / services prior to re-tendering and calculate a total across the five projects. Identify the annual spend based on the new contract for each project and calculate a total across the five projects.</p> <p>Calculate the saving (i.e. difference between new and old contract) as a percentage of the annual spend prior to re-tendering using the total figures.</p> <p>Example:</p> <p>Project 1: Annual spend on the relevant goods/services prior to re-tendering = £20 million Annual spend based on the new contract = £16 million</p> <p>Project 2: Annual spend on the relevant goods/services prior to re-tendering = £15m Annual spend based on the new contract = £14.5 million</p> <p>Project 3: Annual spend on the relevant goods/services prior to re-tendering = £550,000 Annual spend based on the new contract = £475,000</p> <p>Project 4: Annual spend on the relevant goods/services prior to re-tendering = £357,000</p>

	<p>Annual spend based on the new contract = £335,000</p> <p>Project 5: Annual spend on the relevant goods/services prior to re-tendering = £225,000 Annual spend based on the new contract = £210,000</p> <p>Total spend prior to re-tendering across all 5 projects = £36,132,000</p> <p>Total spend against new contracts across all 5 projects = £31,520,000</p> <p>Saving = £4, 612, 000</p> <p>Percentage saving is therefore $4,612,000 / 36,132,000 \times 100$ per cent = 12.8 per cent</p>
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Reference number	Primary indicator 5
Description	Commissioner and user satisfaction index - a composite indicator compiled from the responses to a set of statements by commissioners and users.
Rationale	<p>This indicator examines the effectiveness of the procurement function by assessing the perceptions of commissioners and users of procurement.</p> <p>Over time, organisations should seek to increase the proportion of commissioners and users agreeing with the statements.</p> <p>(Organisations may wish to incorporate these statements into existing surveys of users and commissioners.)</p>
Definition	<p>See main guidance document for details on the approach to collecting data for this indicator.</p> <p>Commissioners are defined as senior management, for example, senior decision-makers within the organisation.</p> <p>Users are internal staff that use the service for example, frontline managers and staff.</p> <p>The commissioner and user statements are as follows:</p> <p>Commissioner statements:</p> <ul style="list-style-type: none"> • The Procurement function supports the overall objectives of the organisation. • The Procurement function is proactive in sourcing goods and supplies which represent best value. • The Procurement function provides appropriate advice and support on major strategic procurement projects. • The Procurement function is responsive to my ad hoc needs. • The Procurement function provides value for money. <p>User statements:</p> <ul style="list-style-type: none"> • There is a consistent and easy to follow process for ordering goods and supplies. • The goods and supplies that we are given are of appropriate quality. • Technology is used to make the process of ordering and paying for goods easy and efficient. • The Procurement function is responsive when I need help in sourcing or ordering goods and supplies. • The Procurement function is helping staff to develop their skills in relation to the procurement process.

Reference number	Primary indicator 6
Description	Management practice indicator – the number of practices that have been adopted by the organisation out of a possible total of 10.
Rationale	<p>This indicator is to assess the extent to which the Procurement Function has adopted a set of key management practices. This provides an indication of whether it is well-run, modernised and a professionally mature function.</p> <p>It is not anticipated that most organisations will have adopted all of the practices listed when first measuring themselves against this indicator set. However organisations should expect that the number of practices that they have adopted would increase over time.</p> <p>(The list of practices will be updated, if appropriate, in future revisions of the indicator set).</p>
Definition	<p>The management practices indicator consists of 10 statements of management practice. The respondent should assess whether their organisation follows each practice as set out below:</p> <ol style="list-style-type: none"> 1) 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. 2) Customer satisfaction surveys are undertaken at least annually to understand user views on the added value brought about by the professional procurement function, with the results published internally and fed into an improvement plan which is regularly monitored. 3) Future demand for goods and services is 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. 4) 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 per cent of targets were met for the previous financial year 5) Specifications for high value purchasing decisions are made based on a detailed understanding of the total cost of ownership (TCO) (also known as whole life costs) 6) 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 end date 7) Benchmarking data from both public and private sector sources

	<p>is actively used to undertake price comparisons on key goods and services.</p> <p>8) 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 (in larger organisations this will include having facilitated collaborative procurement with smaller organisations)</p> <p>9) 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.</p> <p>10) A rolling programme is in place to develop procurement skills and capabilities across the organisation at all levels.</p> <p>For each practice tick 'yes' if the organisation has fully implemented that practice.</p> <p>For each practice tick 'no' if the organisation:</p> <ul style="list-style-type: none"> · does not have that practice in place; · has the intention to develop this practice but it is currently not in place; or · is currently implementing this practice but it is not yet fully in place. <p>The organisation should then count the number of questions where they answered 'yes' in order to calculate their score. The maximum score is therefore 10.</p> <p>The list below provides some further definitional details for specific practices:</p> <p>Management practice 5: Total cost of ownership is also referred to as 'whole life costs' i.e. purchase price together with support and maintenance and upkeep through to final disposal.</p> <p>Management practice 8: For large organisations e.g. central government departments, this may be interpreted as having facilitated collaborative procurement with smaller organisations</p> <p>Management practice 9: CIPs is the Chartered Institute of Purchasing & Supply. Ethical procurement standards should ensure that procurement activities are demonstrably lawful and fair and should as a minimum define the organisation's position in relation to environmental sustainability, equal opportunities and corporate social responsibility within procurement.</p>
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6) Detailed definitions for Secondary indicators

Reference number	Secondary indicator 1
Description	Professionally qualified procurement employees (FTEs) as a percentage of total procurement employees (FTEs)
Rationale	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.
Definition	<p>This indicator should be based on the latest financial year</p> <p>Procurement professionals should be consistent with those staff included in Primary Indicator 1.</p> <p>·</p> <p>“Procurement professionals are full-time equivalent staff holding a qualification recognised by the Chartered Institute of Purchasing and Supply (CIPS) which includes:</p> <ul style="list-style-type: none"> · 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) · NVQs and SVQs in Procurement <p>Other appropriate qualifications may include:</p> <ul style="list-style-type: none"> · MSc Procurement, Construction qualification which requires procurement expertise, National standards for Commissioning, Procurement and Contracting. · staff who have 5 years or more experience in running procurement processes <p>Total Procurement employees = total full-time equivalent (FTE) staff (including part-time staff who should be calculated on the basis of the proportion of time of a full-time equivalent that they work).</p> <p>Where some or all procurement activity is devolved in the organisation (for example where there is no centralised procurement function, or where individuals work outside of any centralised function and are based in service departments) include those staff who spend more than 50 per cent of their time on strategic and / or operational procurement activities.</p>

	<p>For staff leaving / joining during the 12 month period, calculate on a fulltime equivalent basis the proportion of the year that they worked. For example if someone left 3 months into the year they would be a 0.25 FTE, or if they served 6 months it would be 0.5 FTE etc. The same principle applies for anyone who joined, it should be based on the proportion of the year that they worked translated into an FTE figure.</p> <p>Your calculation should include any temporary / agency staff who are brought in for periods of over 10 per cent of the working days available in the 12 month period</p> <p>Worked example</p> <p>Number of Professionally Qualified Procurement employees = 5.5 FTEs</p> <p>Total procurement employees = 15.3 FTEs</p> <p>The percentage of professionally qualified procurement employees is therefore $(5.5 / 15.3) \times 100$ per cent = 35.95 per cent</p>
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Reference number	Secondary indicator 2
Description	Average invoice value.
Rationale	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.
Definition	<p>This indicator should be based on figures for the latest financial year.</p> <p>To calculate this indicator divide the total spend on goods and services by the total number of invoices processed. Total spend is calculated based upon the total value of invoices paid per annum, excluding VAT, to all suppliers for the purchase of goods, services, works and utilities.</p> <p>The total number of invoices per annum can generally be obtained through accounts payable, finance system or any eProcurement tools or spend analysis carried out by your organisation.</p> <p>Invoices refer to transactions and can be either paper or electronic.</p> <p>Worked example:</p> <p>Total spend on goods and services = £22 million Total number of invoices = 12,000 Average invoice value is therefore $22,000,000 / 12000 = £1,833$</p>

Reference number	Secondary indicator 3
Description	Number of organisation's top 10 suppliers (by spend value) who have a formal partnership / framework agreement with the organisation
Rationale	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.
Definition	<p>This indicator should be based on the latest financial year.</p> <p>To calculate this indicator the organisation should rank their suppliers according to total spend on goods, services works and utilities (excluding VAT) in the latest financial year.</p> <p>For the top 10 suppliers, identify those suppliers where the organisation had a formal framework/partnership agreement in place with the supplier.</p> <p>Example:</p> <p>Number of the organisation's top 10 suppliers who have a formal partnership/framework agreement with the organisation = 6</p>

Reference number	Secondary indicator 4
Description	The percentage of third-party spend channelled through SMEs (small and medium sized enterprises)
Rationale	<p>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.</p> <p>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.</p> <p>Note:</p> <p>(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.</p> <p>(b) It should be noted that SME's do not necessarily imply they are local to the area served by the organisation.</p>
Definition	<p>This indicator should be based on the latest financial year.</p> <p>Total spend on goods and services is calculated based upon the total value of invoices paid per annum, excluding VAT, to all suppliers for the purchase of goods and services.</p> <p>Third-party spend is defined as including:</p> <ul style="list-style-type: none"> · 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 <p>It excludes employee costs, grants, trust payments and other non-controllable payments to other government departmental bodies but should include spending on agency staff (but in local authorities exclude spending on agency/supply staff in schools)</p> <p>For the purposes of this indicator small and medium sized enterprises (SMEs) are those that have less than 250 employees. This is in line with the Department of Trade and Industry (DTI) who define a small enterprise as one with 0 – 49 employees, and</p>

	<p>a medium-sized enterprise as one with 50 – 249 employees.</p> <p>To calculate this indicator, total the value of contracts and orders placed directly with SMEs and divide by total third-party spend, and multiply by 100.</p> <p>Exclude any contracts and orders placed with suppliers where the contract specifies that the supply chain includes a proportion of SMEs.</p> <p>Example:</p> <p>Amount of third-party spend channelled through SMEs = £20 million Total third-party spend = £35 million</p> <p>The percentage of third-party spend channelled through SMEs is therefore $20,000,000 / 35,000,000 = 57.1$ per cent</p>
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Reference number	Secondary indicator 5
Description	The percentage of total third-party spend channelled through other collaborative procurement arrangements.
Rationale	<p>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.</p> <p>The Government's Efficiency review encourages government bodies to work collaboratively and deliver on joint procurement projects to deliver greater efficiencies.</p> <p>In most circumstances organisations would aim to increase the percentage of spend made through collaborative arrangements in order to secure more competitive deals.</p>
Definition	<p>This indicator should be based on the latest financial year.</p> <p>Total third-party spend is calculated based upon the total value of invoices paid per annum, excluding VAT, to all suppliers for the purchase of goods and services.</p> <p>Third-party spend is defined as including:</p> <ul style="list-style-type: none"> · 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 <p>It excludes employee costs, grants, trust payments and other non-controllable payments to other government departmental bodies but should include spending on agency staff (but in local authorities exclude spending on agency/supply staff in schools)</p> <p>Collaboration is defined as the use of joint contracts and framework agreements (for example consortium contracts including catalogues) and joint projects with other public sector bodies. Use of national government framework arrangements or call-off contracts is included. These include frameworks such as SCAT.</p> <p>To calculate this indicator, total the value of contracts and orders placed through a collaborative arrangement and divide by total third-party spend and multiply by 100.</p> <p>Example</p> <p>Total third-party spend channelled through collaborative procurement arrangements with other buying organisations = £1.5 million</p>

	<p>Total third-party spend = £35 million</p> <p>The percentage of total third-party spend channelled through collaborative procurement arrangements is therefore $(1,500,000 / 35,000,000) \times 100$ per cent = 4.28 per cent</p>
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Reference number	Secondary indicator 6
Description	<p>Management of supplier base:</p> <p>a) Average spend per accredited supplier b) Percentage of total third-party spend represented by the top 20 per cent of suppliers (by value) c) Percentage of suppliers on an accredited list with no orders in the previous 12 months</p>
Rationale	<p>This indicator examines the extent to which the organisation proactively manages and drives value from its supply base.</p> <p>Having a large and extended supply base relative to the size of the organisation's third-party spend tends to makes 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.</p> <p>The constituent parts of this indicator examine different elements of how spend is distributed across the organisation's total supply base.</p> <p>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).</p> <p>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.</p> <p>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).</p>
Definition	<p>This indicator should be based on the latest financial year.</p> <p>The total number of suppliers can be sought from your organisation's creditor ledger / finance application.</p> <p>Total spend is calculated based upon the total value of invoices paid per annum, excluding VAT, to all suppliers for the purchase of goods, services, works and utilities</p> <p>Goods and services excludes all spend on permanent staff but should include the full cost of temporary labour where temporary</p>

staff are employed for less than 12 months. Temporary staff who have been employed by the organisation for over a year should be considered permanent and therefore excluded from total spend on goods and services.

Capital spend on goods and services should be included.

Also exclude:

- Payments to pension funds
- Payments to individuals for expenses etc
- Grant payments

Example:

Supplier name	No of suppliers	Supplier value	Cumulative number	Cumulative value
A	1	1500	1	1500
B	1	1432	2	2932
C	1	1321	3	4253
D	1	1166	4	5419
E	1	1160	5	6579
F	1	900	6	7479
G	1	428	7	7907
H	1	421	8	8328
I	1	398	9	8726
J	1	350	10	9076
K	1	222	11	9298
L	1	198	12	9496
M	1	192	13	9688
N	1	174	14	9862
O	1	173	15	10035
P	1	171	16	10206
Q	1	166	17	10372
R	1	140	18	10512
S	1	121	19	10633
T	1	111	20	10744
U	1	100	21	10844
V	1	98	22	10942
W	1	97	23	11039
X	1	54	24	11093
Y	1	45	25	11138
Z	1	42	26	11180
Others	73	2498	99	13678

a) To calculate the average spend per accredited supplier

Number of suppliers = 99

Total spend = 13678

Average spend is therefore 13678 / 99

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

Spend on top 20 per cent suppliers = £10744

Total spend = £13,678

	<p>Percentage of total third-party spend represented by the top 20 per cent of suppliers is therefore $10744/13678 \times 100$ per cent = 78.54 per cent</p> <p>c) Percentage of suppliers on an accredited list with no orders in the previous 12 months</p> <p>No. of suppliers on an accredited list = 50 No. of suppliers with no orders in 12 months = 5</p> <p>Therefore the percentage of suppliers on an accredited list with no orders in the previous 12 months is $5 / 50 \times 100$ per cent = 10 per cent</p>
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Reference number	Secondary indicator 7
Description	The use of technology within procurement: a) The percentage of total third-party spend that is sourced electronically b) The percentage of total third-party spend managed through ePurchasing
Rationale	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.
Definition	<p>Both parts of this indicator should be based on the latest financial year.</p> <p>Third-party spend is defined as including:</p> <ul style="list-style-type: none"> · 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 <p>It excludes employee costs, grants, trust payments and other non-controllable payments to other government departmental bodies but should include spending on agency staff (but in local authorities exclude spending on agency/supply staff in schools)</p> <p>Part a: eSourcing</p> <p>Total spend is calculated based upon the total value of invoices paid per annum, excluding VAT, to all suppliers for the purchase of goods, services, works and utilities.</p> <p>The definition of eSourcing is taken from OGC's eProcurement Guidance – "the Blue Frogs". Electronic sourcing (eSourcing) is the use of internet technology to establish, manage and monitor contracts: It includes:</p> <ul style="list-style-type: none"> · eSpend analysis – this tool assists with the collation of information, removal of duplication in data and the initial grouping of the goods or services bought; · eTendering (which may include electronic reverse auctions (eAuctions) and collaborative e-auctions) - tenders that are managed on-line i.e. - invited, received and evaluated electronically · eEvaluation - An automated process of tender evaluation against pre-agreed criteria. eEvaluation allows evaluation panels to streamline processes for: <ul style="list-style-type: none"> ○ Developing and structuring assessment criteria

	<ul style="list-style-type: none"> o Conducting tender evaluation, and o Comparing tender responses. <ul style="list-style-type: none"> · eRFQs – electronic requests for quotations/evaluations · eCollaboration - This tool is provided via an extranet (a shared working environment) to enable geographically-dispersed groups to discuss and document-share during any part of the tendering process. · eContract Management - This is an online tool that helps to establish, manage and monitor contracts including collating supplier bid histories including the value and number of contracts awarded. <p>The tool will notify buyers (via email) when contracts are due for renewal and collates supplier performance information against contractually agreed criteria.</p> <p>To calculate this indicator, identify the value of those contracts that have been placed further to the use of eSourcing and divide this figure by the total spend on goods and services and multiply by 100 to give the percentage.</p> <p>To qualify for inclusion contracts must have been placed using eSourcing in at least one key activity within the preparatory stage which would include:</p> <ul style="list-style-type: none"> · Identifying and researching potential suppliers · Advertising requirements · Generating and receiving pre-qualification questionnaires · Creating an Invitation to Tender (ITT) and Invitation to Negotiate (ITN) and in at least one key activity in the evaluation and negotiation stage which would include: <ul style="list-style-type: none"> · Receiving responses, including tenders · Evaluating tenders · Undertaking negotiations · Issuing contract award <p>Exclude any contracts which are have only used eSourcing at the contract management stage (eContract Management) or in just the preparatory stage or just the evaluation and negotiation stage.</p> <p>Worked example:</p> <p>Value of contracts placed using e-sourcing = £2.5 million Total spend on goods and services = £12 million</p> <p>The percentage of total third-party spend that is sourced electronically is $(2,500,000 / 12,000,000) \times 100$ per cent = 20.83 per cent</p> <p>Part b: ePurchasing</p> <p>Total spend is calculated based upon the total value of invoices paid per annum, excluding VAT, to all suppliers for the purchase of goods, services, works and utilities.</p> <p>The definition of ePurchasing is taken from OGC's eProcurement</p>
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Guidance – “the Blue Frogs”.

ePurchasing tools can help procurement professionals and end users achieve more efficient processes and more accurate order details. The two aims of (a) maximising control and (b) process efficiency are the function of ePurchasing tools such as purchase-to-pay systems, purchasing cards and electronic invoicing solutions.

Purchasing cards including the Government Procurement card -

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.

eOrdering – electronic ordering of goods and services.

Purchase-to-pay tools - software and systems which allow online trading and transactions between buyer and supplier. They include:

- Buy-side systems, designed to streamline the internal workflow associated with procurement
- Marketplaces hosted on the internet where many buyers and suppliers can trade online
- Sell-side solutions, or suppliers' own web shops.

eInvoicing - Electronic invoicing is the transmission and storage of invoices, without the delivery of paper documents, by electronic means.

To calculate this indicator, identify the value of those goods and services that have been ordered and paid for through ePurchasing and divide this figure by the total spend on goods and services and multiply by 100 to give the percentage.

Use of self-billing an arrangement whereby the customer determines the value of goods or services supplied, raises the supplier's invoice and forwards a copy to the supplier, with, or separately from, the payment (It may be a paper-based or an electronic process) is not included in this definition of ePurchasing.

Worked example:

Value of goods and services ordered and paid for through ePurchasing solutions = £7.5 million

Total spend on goods and services = £22 million

The percentage of total third-party spend managed through ePurchasing is therefore $(7,500,000 / 22,000,000) \times 100$ per cent = 34.09 per cent

