



House of Commons
Committee of Public Accounts

Assessing the value for money of OGCbuying.solutions

Thirty-third Report of Session
2006–07

*Report, together with formal minutes, oral and
written evidence*

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The Committee of Public Accounts

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Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

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Summary

Central civil government organisations spent approximately £20 billion on goods and services in 2005–06. The Office of Government Commerce has estimated the figure for the wider public sector to be in the region of £100 billion. It is important that central government departments and the wider public sector secure good value for money when procuring these goods and services. The Government's Efficiency Programme is designed to improve public service delivery by achieving £21.5 billion of efficiency gains per year by 2007–08. About one third (nearly £8 billion) of this is expected to come from more efficient procurement of goods and services.

Established in April 2001 as an agency of the Office of Government Commerce, itself an Office of the Treasury, OGCBuying.solutions' primary purpose is to maximise the value for money that public sector bodies can achieve when buying goods and services. It provides a portfolio of products (framework agreements, managed services and memoranda of understanding) which aim to provide public sector organisations with lower prices and reduce procurement process costs through avoiding the need to undertake time-consuming and expensive tendering processes. OGCBuying.solutions' customer base extends across both central government and the wider public sector, including the devolved administrations. Its products cover a wide range of commodities, for example, consultancy services, IT equipment, office equipment and telecommunications services.

In 2005–06, OGCBuying.solutions reported value for money savings of £412 million. Whilst these savings are significant, the National Audit Office has identified the potential for a significant increase in savings of between £520 million to £660 million over the next 3–5 years through improved performance by OGCBuying.solutions and by increased co-ordination across public sector procurement. Three key areas where OGCBuying.solutions can add greater value are through: securing lower prices for its customers; improving the management of its suppliers; and increasing its market penetration. To achieve these benefits will require a 'fit for purpose' organisation based around a core set of products, enhanced staff skills, and incentives to drive performance across all its activities.

Public sector procurement is unco-ordinated. OGCBuying.solutions is only one of over 50 public sector procurement organisations operating across the UK, many of which offer framework agreements for the same goods and services found in OGCBuying.solutions' product range. In addition, central government departments, executive agencies, non-departmental public bodies and wider public sector organisations operate their own framework agreements. This lack of co-ordination results in organisations paying more than they should for goods and services and incurring unnecessary procurement process costs.

In support of the Efficiency Programme, the Treasury announced on 23 January 2007 its plans to transform government procurement which included a more defined role for OGCBuying.solutions.

On the basis of a Report by the Comptroller and Auditor General,¹ we took evidence from OGCBuying.solutions on three main issues: creating a ‘fit for purpose’ organisation; increasing market share through smarter engagement with customers; and the role of OGCBuying.solutions in transforming government procurement.

Key terms used in this report are listed in the **Annex** in order of appearance.

¹ C&AG's Report, *Assessing the value for money of OGCBuying.solutions*, HC (2006-07) 103

Conclusions and recommendations

- 1. OGCBuying.solutions operates 180 framework agreements, but more than 90% of customer sales are undertaken using only 25% of these agreements.** 40% of framework agreements do not cover their letting and management costs. OGCBuying.solutions should identify the product areas where it has particular areas of market expertise and where it can demonstrate best value by offering keener prices and securing higher levels of customer take up than other bodies or procurement organisations in the public sector. It should rationalise its framework agreements accordingly.
- 2. The requirement for OGCBuying.solutions to raise revenue as a trading fund acts as a disincentive for it to promote activities such as the Government Procurement Card and Memoranda of Understanding which provide wider value to public procurement, but do not yield a direct return to the business.** At present, for example, 47% of central government organisations are not using the Microsoft Memorandum of Understanding for purchasing software licenses, and 22% are not using the Government Procurement Card. The Office of Government Commerce and OGCBuying.solutions need to agree separate funding arrangements and incentives to encourage OGCBuying.solutions to promote these products, based on the principle that the immediate costs involved will be more than covered by the wider savings achieved across the public sector.
- 3. OGCBuying.solutions acknowledges that it has insufficient high level commercial expertise to negotiate consistently good deals with suppliers which its customers want to use.** OGCBuying.solutions needs to gauge the extent of this shortfall by reference to, for example, high performing procurement operations in the private sector. It should develop an action plan for training and recruitment so that it has the capabilities to convince its customers that the deals it negotiates with suppliers offer the best prices and quality of service.
- 4. OGCBuying.solutions operates in a commercial world, but incentives for key staff do not match this environment.** In order to attract high calibre individuals and to drive performance, incentives for senior staff, particularly those in commercial roles, should be linked to business performance as measured, for example, by volume commitments secured, better value deals negotiated and increased market penetration.
- 5. 63% of central government organisations and 73% in the wider public sector consider that OGCBuying.solutions do not consult their organisations enough when letting new framework agreements and managed services.** OGCBuying.solutions needs to have regular meetings with its key customers, including executive agencies, non-departmental public bodies and wider public sector organisations, particularly before letting new framework agreements. It should also use these consultations to get feedback on the performance of OGCBuying.solutions' suppliers.

6. **Despite three development stages, customers still find OGCBuying.solutions' website difficult to use.** OGCBuying.solutions should identify from successful websites in both the public and private sectors how it can improve its website and how it can better identify what their customers want. OGCBuying.solutions should also make it easier for potential customers to use other forms of contact, for example, by providing them with names and email addresses of staff most able to deal with their issues.
7. **OGCBuying.solutions' suppliers are not given enough information to understand their performance and how to improve it.** OGCBuying.solutions needs to improve its supplier performance monitoring system so that it gathers comprehensive customer feedback on supplier performance and relays this to suppliers to enable them to improve performance and better meet customer requirements. It could, for example, introduce supplier league tables, which are used by the NHS Purchasing and Supply Agency to compare supplier performance across the same framework agreement.
8. **OGCBuying.solutions has met its value for money performance target in each of the last three years, but has the potential to increase its annual value for money savings by at least £500 million.** These savings should be achievable within three years, but the Office of Government Commerce needs to set OGCBuying.solutions much more challenging targets, based on the recommendations above, to make sure this happens. OGCBuying.solutions should also aim to ensure that the prices for all its major framework agreements fall within the lowest 25% of public sector prices, as a more demanding test of value for money than the 'average prices' benchmark currently used.
9. **Public sector bodies spent £415 million on unnecessary procurement process costs in 2005, and prices across central government organisations for four standard products varied by between 73% and 139%.** The Office of Government Commerce and OGCBuying.solutions need to provide public sector organisations with accurate and comprehensive information on the costs of letting and managing contracts and clear price benchmarking data so that, under the principle of 'comply or explain', the Office of Government Commerce has reliable grounds to challenge departments where they decide to depart from 'best deals'.
10. **Across Central Government and the NHS there are four main procurement organisations (OGCBuying.solutions, the NHS Purchasing and Supply Agency, the Defence Logistics Organisation and the Defence Procurement Agency).** The resulting duplication of effort means, for example, that both OGCBuying.solutions and the NHS Purchasing and Supply Agency procure electricity. To support its 'single approach to sourcing', the Office of Government Commerce should develop a concordat so that, where a 'lead' organisation, whether a dedicated procurement organisation, government department or other public body, is identified for each commodity or product, these four procurement organisations commit to using and promoting the contracts put in place by that organisation.
11. **Central government organisations have made little use of eProcurement despite, for example, potential price savings using eAuctions in the region of 20-25%, compared with historic prices.** The Office of Government Commerce and

OGC buying solutions should publicise and highlight these savings to demonstrate to procurement professionals and, more importantly, budget holders and Finance/Commercial Directors the value that is not being currently captured.

1 Creating a 'fit for purpose' OGCbuying.solutions

1. OGCbuying.solutions is an executive agency of the Office of Government Commerce and is also a trading fund. It has four annual performance targets (**Figure 1**).

Figure 1: OGCbuying.solutions' performance targets		
Target area	2005–06 target	2006–07 target
Value for money savings	To facilitate at least £400 million value for money improvements for the wider public sector	To facilitate at least £500 million value for money improvements for the wider public sector
Customer satisfaction	To achieve levels of customer satisfaction above 90%	To achieve levels of customer satisfaction above 90%
Return on capital employed	To make a return on capital employed of 6.5%	To make a return on capital employed of 6.5%
Internal efficiency	To reduce by 5% the ratio of internal costs over the value for money improvements compared with the outturn for the same ratio in the previous year	To reduce by 5% the ratio of internal costs over the value for money improvements compared with the outturn for the same ratio in the previous year

Source: OGCbuying.solutions annual report and accounts 2005–06

2. In the last three years OGCbuying.solutions has exceeded its value for money savings target by £32 million in 2003–04, £21 million in 2004–05 and £12 million in 2005–06.² It has, however, potential to increase significantly its annual savings by between £520 million and £660 million over a three to five year period.³ Doubling market penetration would increase annual savings by £400 million, while reducing prices on high volume framework agreements to below the lowest 25% of public sector prices would increase savings by a further £120 million to £260 million a year.

3. OGCbuying.solutions operates a set of products (the Government Procurement Card and Memoranda of Understanding) that do not raise revenue and, therefore, fall outside its target to make a return on capital employed, meaning that there is a conflict with maximising take up of the products and the value for money savings across the public sector.⁴ The Government Procurement Card, in a similar way to a credit/debit card, provides a streamlined process for low value, ad hoc purchases.⁵ OGCbuying.solutions manages several Memoranda of Understanding with major suppliers for software and

2 OGCbuying.solutions, *Annual Report and Accounts 2005–06*

3 Qq 7–9

4 C&AG's Report, HC (2006–07) 103, para 3.13

5 C&AG's Report, *Improving Procurement*, HC (2003–04) 361–I, figure 24, page 38

telecommunication services which provide public sector organisations with specific price guarantees.⁶

4. Sales through the Government Procurement Card and Memoranda of Understanding have grown significantly in recent years,⁷ but there is potential to significantly increase sales. For example, 47% of central government organisations surveyed did not use the Microsoft memorandum of understanding and 25% of these organisations were unaware of it.⁸

5. The Government Procurement Card and Memoranda of Understanding provide significant value for money savings for the public sector. Whilst these products contribute to OGCbuying.solutions' value for money savings target they do not raise revenue for OGCbuying.solutions and therefore resourcing the marketing of these products works against the return on capital employed target.⁹

6. Zanzibar does raise revenue for OGCbuying.solutions, but the prices charged for the service are affecting the take up of the product, particularly in executive agencies and non-departmental public bodies. 94% of central government organisations surveyed did not use Zanzibar. Of the organisations not currently using Zanzibar, 15% of executive agencies and 21% of non-departmental public bodies cited cost as the reason.¹⁰ In addition, Zanzibar has had a series of red Gateway Reviews related to the resourcing of the project.¹¹ The new Chief Executive of OGCbuying.solutions, appointed in October 2006, has instigated a review of Zanzibar, which is due to report in Spring 2007.¹²

7. On 23 January 2007 the Treasury unveiled a range of public procurement reforms which included the Office of Government Commerce's 'single approach to sourcing'. The Office of Government Commerce will identify either OGCbuying.solutions or a relevant department—generally the one that has the largest spending for the category—to lead on behalf of the rest of government in buying a range of commonly procured goods and services.¹³ OGCbuying.solutions will lead on certain product category areas,¹⁴ but will need to demonstrate that it offers the best deals in these areas.¹⁵

8. OGCbuying.solutions operates 180 framework agreements.¹⁶ 91% of customer sales through framework agreements are undertaken through only 25% of framework agreements¹⁷ with 40% of framework agreements not covering running costs.¹⁸ There is an

6 C&AG's Report, Figure 1, page 9

7 C&AG's Report, Figure 4, page 11

8 Ibid.

9 C&AG's Report, para 3.13

10 National Audit Office central government survey results - http://www.nao.org.uk/publications/nao_reports/06-07/0607103_gov_survey.pdf

11 Qq 4–6

12 Q 4

13 HM Treasury (2007) *Transforming Government Procurement*, London: The Stationery Office, para 2.15

14 Q 112

15 HM Treasury (2007) *Transforming Government Procurement*, London: The Stationery Office, para 2.20

16 C&AG's Report, para 1.7

17 Q 3

opportunity cost of continuing to operate this large number of low volume framework agreements with resources directed away from letting and managing and promoting the top 25% of framework agreements effectively.¹⁹ Customers on framework agreements that OGCbuying.solutions decides to dis-continue will need to be provided with alternatives so they do not unilaterally set up their own contracts resulting in an increase in process costs.²⁰ The other 75% of framework agreements still account for £200 million in sales.²¹

9. 25% of OGCbuying.solutions' staff have Chartered Institute of Purchasing and Supply (CIPS) qualifications.²² OGCbuying.solutions' senior management acknowledge, however, that there are gaps in areas such as leadership and influencing when dealing with customers.²³ OGCbuying.solutions' suppliers also identified gaps in areas such as commercial experience and communication skills.²⁴ A rationalisation of framework agreements would change the profile of capabilities required by OGCbuying.solutions moving away from administrative procurement tasks to the management of a smaller number of strategically important framework agreements.²⁵

10. OGCbuying.solutions is operating in a commercial environment and many of its staff perform roles identical to staff in commercial organisations, but its staff are employed as civil servants and do not work under the same performance regime as those in commercial organisations.²⁶ Some senior staff are on a bonus scheme which is linked to their individual performance, but the bonus is a small percentage of their overall salary.²⁷

18 C&AG's Report, para 2.49

19 C&AG's Report, para 2.49

20 C&AG's Report, para 3.10

21 Q 3

22 Q 47

23 C&AG's Report, para 2.53; Q 48

24 Qq 62–64, 130; C&AG's Report, para 2.53

25 C&AG's Report, para 2.54

26 Qq 35–37, 116

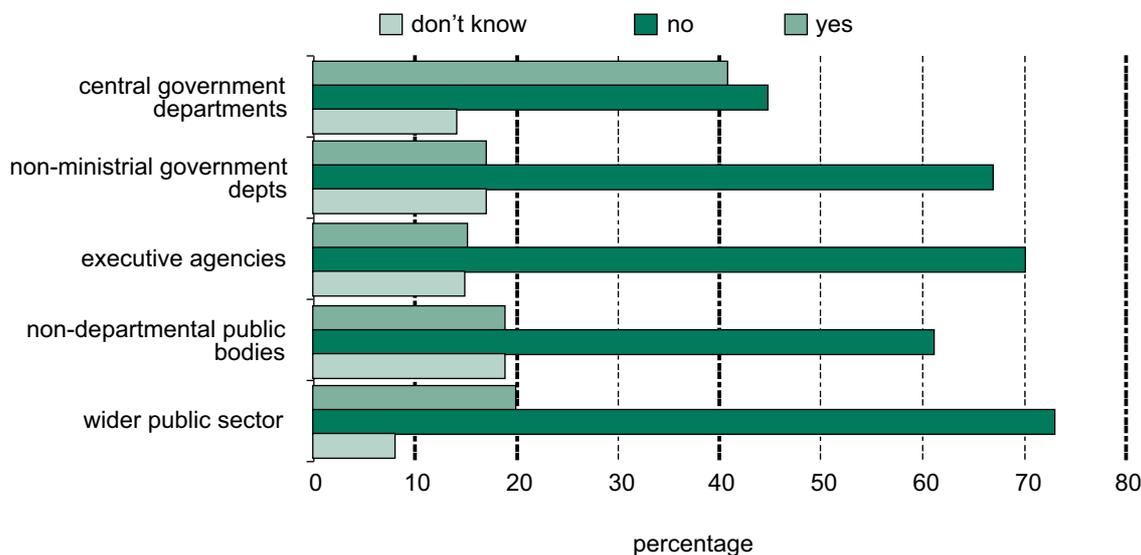
27 Qq 92–98

2 Increasing OGCBuying.solutions’ market share

11. OGCBuying.solutions’ share of central government total procurement spending is approximately 5%. If categories outside the areas covered by OGCBuying.solutions’ products and services are excluded, OGCBuying.solutions’ share makes up 10% of expenditure.²⁸ In the wider public sector (local government, health, education and emergency services), OGCBuying.solutions’ share of total procurement spending is less than one per cent.²⁹

12. Customers of OGCBuying.solutions ranked the need to improve customer consultation when letting new framework agreements as a key improvement that would make them use OGCBuying.solutions more.³⁰ 29% ranked more consultation in their top three improvements.³¹ While 41% of central government departments considered that they were consulted enough on new framework agreements and managed services, only 15 to 20% of the other organisations (non-ministerial government departments, executive agencies, non-departmental public bodies and wider public sector organisations) felt this to be the case (Figure 2).³²

Do OGCBuying.solutions consult your organisation enough when letting new framework agreements and managed services?



Source: National Audit Office

28 C&AG’s Report, para 2.33

29 Q12; C&AG’s Report, para 2.33

30 Qq13–14

31 C&AG’s Report, Figure 19, page 24

32 Qq 17, 67, 77–78

13. OGCBuying.solutions has established a Customer Steering Group to increase consultation with customers. The representation on this group is primarily from central government departments with only limited involvement of executive agencies and non-departmental public bodies.³³

14. Despite an improvement programme which is in its third phase, OGCBuying.solutions website remains to be fully exploited to increase customer take up. 29% of customers ranked the website in their top three improvements that would make them use OGCBuying.solutions more.³⁴

15. Customers are also not consulted enough by OGCBuying.solutions about the performance of suppliers on its framework agreements and managed services.³⁵ 57% of central government organisations and 68% of organisations in the wider public sector have never been asked by OGCBuying.solutions about the performance of its suppliers.³⁶ More than four fifths of customers, both in central government and the wider public sector, consider the level of consultation on the performance of suppliers to be insufficient.³⁷

16. Customers who do not currently use OGCBuying.solutions highlighted the need to make it easier to get in contact with OGCBuying.solutions and to be kept better informed about current products and offers.³⁸ 21% of potential customers identified clearer contact information as the one action that would make them use OGCBuying.solutions with 19% identifying more marketing information.³⁹

17. The primary method by which OGCBuying.solutions monitors the performance of its suppliers is through a red, amber, green rating system. Suppliers are either unaware of the OGCBuying.solutions' rating system or do not consider that it helps them understand their performance and how to improve it.⁴⁰ The NHS Purchasing and Supply Agency use key performance indicators, together with sales volume data, to produce league tables to compare performance across suppliers on the same framework agreement. The league tables are discussed with suppliers to identify reasons for good or poor performance.⁴¹

33 C&AG's Report, para 2.40

34 C&AG's Report, para 2.41

35 Q 129

36 C&AG's Report, para 2.29

37 C&AG's Report, para 2.29

38 C&AG's Report, Figure 21, page 26

39 Qq 30–33; Qq 114–115

40 C&AG's Report, para 2.30

41 C&AG's Report, case example 3, page 22

3 The role of OGCbuying.solutions in transforming government procurement

18. Central civil government spends an estimated £20 billion a year procuring goods, services and works. The wider public sector spends an estimated £100 billion.⁴² Public sector procurement is uncoordinated.⁴³ The ‘silo effect’ remains prevalent with procurement professionals letting their own contracts rather than considering collaborative options such as using OGCbuying.solutions’ framework agreements or agreements set up by other departments.⁴⁴ Central government organisations are operating 2,300 framework agreements, many of which are in areas covered by framework agreements operated by OGCbuying.solutions.⁴⁵ For example, there are 37 framework agreements covering energy which are likely to duplicate the range of energy framework agreements operated by OGCbuying.solutions.⁴⁶

19. This lack of co-ordination is eroding value for money. Prices for standard products vary greatly across central government organisations (**Figure 3**).⁴⁷

Figure 3: Prices paid by central government organisations for the same product show significant variation

Product	Price range	Price variations (highest price above lowest price) %
Toner cartridge (per cartridge)	£41 to £89	117
Electricity (day rate p/kWh)	4.8p to 8.3p	73
Box of 5 x 500 A4 (80g/m ²) 100% recycled white paper (per box)	£6.95 to £14.95	115
Post-it notes 76mm x 76mm yellow recycled pack of 12 (per pack)	£4.41 to £10.55	139

Source: National Audit Office

20. In addition to price variations, the lack of co-ordination is resulting in duplication of effort resulting in increased procurement process costs. In 2005 public sector organisations spent an estimated £415 million on unnecessary process costs by tendering their own contracts rather than using framework agreements operated by OGCbuying.solutions.⁴⁸

42 C&AG’s Report, footnote 22, 25, page 23

43 Qq 28–29

44 Qq 138–140, 125–126

45 C&AG’s Report, para 3.4

46 C&AG’s Report, Figure 24, page 29

47 Q 127

48 Qq 46, 83–85; C&AG’s Report, para 3.9

21. Information is a key element to enable public sector organisations to make rational decisions about when to let their own contracts and when to use collaborative options. Central government organisations consider three types of centrally available data are the most important to improve value for money across the public sector: information on price benchmarking; information on framework agreements which are open to public sector organisations; and information on where the ‘best deals’ are. The majority of organisations think there should be more of this information available.⁴⁹

22. The Office of Government Commerce has established a database providing public sector organisations with information on established contracts that are open to all public sector organisations across various product categories including energy, professional services and travel.⁵⁰ There is, however, no centrally available price benchmarking information.⁵¹ In addition, organisations need to understand the costs of letting their own contracts to be able to make an informed decision about when to let contracts and when to use collaborative options. 87% of central government organisations have not made an assessment of the cost of letting and managing contracts.⁵²

23. As part of the Treasury’s reform of public sector procurement, the Office of Government Commerce will be given stronger powers to set out the procurement standards departments need to meet, monitor departments’ performance against them and demand inter-departmental collaboration where it improves value for money.⁵³ Good information on the contracts open to public bodies, price benchmarking information and information on the cost of letting and managing contracts will strengthen the Office of Government Commerce’s role when it looks to organisations to ‘comply or explain’. Where government departments choose to depart from the best deals they will be subject to challenge by the Office of Government Commerce.⁵⁴

24. There are over 50 procurement organisations across central government and the wider public sector contributing to the lack of co-ordination across public sector procurement.⁵⁵ There is significant duplication across these procurement organisations with many operating framework agreements in the same product areas.⁵⁶

25. Across central government and the NHS there are four main procurement organisations: OGCbuying.solutions; the NHS Purchasing and Supply Agency; the Defence Logistics Organisation; and the Defence Procurement Agency. There is some co-ordination amongst these organisations.⁵⁷ For example, the Defence Logistics Organisation manages the liquid fuels portfolio for OGCbuying.solutions’ Energy Managed Service

49 C&AG’s Report, para 3.6

50 C&AG’s Report, para 3.7

51 Qq 90–91, 127

52 C&AG’s Report, para 2.37

53 Qq 52–54, 153–154; HM Treasury (2007) *Transforming Government Procurement*. London: The Stationery Office. Foreword by the Financial Secretary to the Treasury, page 1

54 HM Treasury (2007) *Transforming Government Procurement*. London: The Stationery Office. Foreword by the Financial Secretary to the Treasury, page 1

55 Q137; C&AG’s Report, para 3.3

56 C&AG’s Report, para 3.3

57 Qq 86–87, 113, 147

customers. However, other OGCbuying.solutions' products and services are in competition with similar products and services provided by other procurement organisations.⁵⁸ For example, OGCbuying.solutions and the NHS Purchasing and Supply Agency both procure electricity. At present there is no systematic co-ordination of activity across public sector procurement organisations.⁵⁹

26. eProcurement offers the potential for significant value for money savings. For example, across the 138 eAuctions undertaken through the OGCbuying.solutions' framework agreement, average price savings are reported at 22% compared to historic prices paid for the same product.⁶⁰ Utilisation of eProcurement tools nevertheless remains low across the public sector.⁶¹ For example, 73% of central government organisations have not used an eAuction. Of the organisations that have not used eAuctions, 31% cited 'the value for money benefits are difficult to identify' as the reason despite the strong evidence of significant savings potential.⁶²

58 C&AG's Report, para 3.5

59 C&AG's Report, para 3.3

60 C&AG's Report, para 2.18

61 Qq 117–120

62 National Audit Office, central government survey results: http://www.nao.org.uk/publications/nao_reports/06-07/0607103_gov_survey.pdf

Annex: Key terms used in the report

Framework agreement: A framework agreement is a general term for agreements with suppliers which set out terms and conditions and standard prices under which specific purchases can be made throughout the term of the agreement. For example, OGCBuying.solutions has a range of framework agreements for IT equipment.

Managed services: A range of on-going services managed by OGCBuying.solutions on behalf of public sector customers. For example, the Managed Telecommunications Service provides a combination of equipment, infrastructure, service and support to ensure continuous operation of an organisation's communications systems. Organisations are charged a single fee per telephone handset.

Memoranda of Understanding: OGCBuying.solutions manages several Memoranda of Understanding which provide public sector organisations with agreed price discounts. For example, for software purchased from Microsoft and Oracle.

Government Procurement Card: The Government Procurement Card provides substantial benefits for users by providing, in a similar way to credit/debit cards, a streamlined process for low value, ad hoc purchases.

Zanzibar: The Zanzibar Managed Service is the new purchase-to-pay and emarketplace available to the whole of the UK public sector, extending to any organisation subject to European Union procurement rules. It enables the public sector and suppliers to be linked up over the Internet, and transact in a fully integrated end-to-end manner, from initial tender to invoicing, using electronic systems.

Single approach to sourcing: The Office of Government Commerce will identify either OGCBuying.solutions or a relevant department—generally the one that has the largest spending for the category—to lead on behalf of the rest of government in buying a range of commonly procured goods and services, where that can provide good value for money.

eAuction: An eAuction (electronic auction) is an online bidding process between pre-selected suppliers for a specific piece of business. Suppliers compete online and in real-time using the internet to communicate offers. Its principles, therefore, follow those of a conventional auction, but as the eAuction proceeds, suppliers make offers to supply goods and services at successively lower prices until nobody wishes to place a lower bid.

Formal minutes

Monday 18 June 2007

Members present:

Mr Edward Leigh, in the Chair

Annette Brooke
Mr Philip Dunne
Ian Lucas

Mr Don Touhig
Mr Iain Wright

Draft Report

Draft Report (Assessing the value for money of OGCBuying.solutions), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 26 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary agreed to.

Resolved, That the Report be the Thirty-third Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 20 June at 3.30pm]

Witnesses

Wednesday 24 January 2007

Page

Ms Alison Littley, Chief Executive, and **Mr David Murray**, Director of Corporate Services, OG buying.solutions.

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List of Reports from the Committee of Public Accounts Session 2006–07

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

First Report	Tsunami: Provision of support for humanitarian assistance	HC 25 (Cm 7018)
Second Report	Improving literacy and numeracy in schools (Northern Ireland)	HC 108 (Cm 7035)
Third Report	Collections Management in the National Museums and Galleries of Northern Ireland	HC 109 (Cm 7035)
Fourth Report	Gas distribution networks: Ofgem's role in their sale, restructuring and future regulation	HC 110 (Cm 7019)
Fifth Report	Postcomm and the quality of mail services	HC 111 (Cm 7018)
Sixth Report	Gaining and retaining a job: the Department for Work and Pensions support for disabled people	HC 112 (Cm 7019)
Seventh Report	Department for Work and Pensions: Using leaflets to communicate with the public about services and entitlements	HC 133 (Cm 7020)
Eighth Report	Tackling Child Obesity—First Steps	HC 157 (Cm 7020)
Ninth Report	The Paddington Health Campus Scheme	HC 244 (Cm 7076)
Tenth Report	Fines Collection	HC 245 (Cm 7020)
Eleventh Report	Supporting Small Business	HC 262 (Cm 7076)
Twelfth Report	Excess Votes 2005–06	HC 346
Thirteenth Report	Smarter Food Procurement in the Public Sector	HC 357 (Cm 7077)
Fourteenth Report	Ministry of Defence: Delivering digital tactical communications through the Bowman CIP Programme	HC 358 (Cm 7077)
Fifteenth Report	The termination of the PFI contract for the National Physical Laboratory	HC 359 (Cm 7077)
Sixteenth Report	The Provision of Out-of-Hours Care in England	HC 360 (Cm 7077)
Seventeenth Report	Financial Management of the NHS	HC 361 (Cm 7077)
Eighteenth Report	DFID: Working with Non-Governmental and other Civil Society Organisations to promote development	HC 64 (Cm 7077)
Nineteenth Report	A Foot on the Ladder: Low Cost Home Ownership Assistance	HC 134 (Cm 7077)
Twentieth Report	Department of Health: The National Programme for IT in the NHS	HC 390
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Thirty-third Report	Assessing the value for money of OG buying solutions	HC 275

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 24 January 2007

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr Ian Davidson,
Mr Philip Dunne

Mr Austin Mitchell
Mr Iain Wright

Sir John Bourn KCB, Comptroller and Auditor General, and **Mr Mark Davies**, National Audit Office, were in attendance and gave oral evidence.

Mr Marius Gallaher, Alternative Treasury Officer of Accounts, HM Treasury, gave evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

ASSESSING THE VALUE FOR MONEY OF OGCBUYING.SOLUTIONS (HC 103)

Witnesses: **Ms Alison Littley**, Chief Executive, and **Mr David Murray**, Director of Corporate Services, OGCBuying.solutions, gave evidence.

Q1 Chairman: Good afternoon. Welcome to the Committee of Public Accounts where today's hearing is on the Comptroller and Auditor General's Report on *Assessing the value for money of OGCBuying.solutions*. We welcome Alison Littley, who is Chief Executive Officer at OGCBuying.solutions. I think this is your first appearance, is it not?

Ms Littley: It is, yes.

Q2 Chairman: Would you like to introduce us to your colleague?

Ms Littley: Yes. This is Mr David Murray, who is the Corporate Services Director.

Q3 Chairman: The acoustics are not good in this room, so if you can speak up loudly and clearly we would be very grateful. Would you like to start by looking, please, at the Comptroller's Report, page 26, paragraph 2.49 where it tells us that 91% of sales are undertaken through only 25% of framework agreements? Does that not rather suggest, therefore, that you are wasting your time with the other 75%?

Ms Littley: Of the other 75%, still 200 million go through them. Whilst it does show that we need to do a review of those, what we cannot do is just turn them off because it does mean that people are still using those and gaining value from them. They need to be reviewed and, in line with customers, we will determine how to best transition them.

Q4 Chairman: Fair enough. Can I ask you, please, about Project Zanzibar? There is a reference to it in paragraph 3.13. Why has it had a series of red gateway reviews?

Ms Littley: Clearly the three red reviews mean that we need to make some improvements. Primarily they have been around where we focus and prioritise resource. Along with this Report, when I first

started, which was in October, I instigated a review of Zanzibar to make sure we understand where it is currently adding value, where we think it has more opportunity and what resource we need to put behind it. That review is due to come back to me at the end of February.

Q5 Chairman: It is a sort of Government eBay, is it not? Why can these things be got right in the private sector but apparently not in the public sector, do you think?

Ms Littley: I think that they are very difficult to get right either in the public or the private sector. I think there are lots of options around—

Q6 Chairman: What, eBay does not work in the private sector you are telling us, are you?

Ms Littley: No. What I am saying is that Zanzibar, is an e.marketplace, and an e.buying tool, which is also about management information, not just buying, is difficult to get right and we need to put the right and appropriate resource in and we intend to do so.

Q7 Chairman: Okay. Let us look at how you might get additional value for money. This is dealt with briefly, I think, in paragraph seven on page seven of the Executive Summary. The NAO say there that they believe you could achieve value for money savings potential of between £520 million and £660. How soon will we see these savings? After all, you did agree this Report so presumably you believe these figures are entirely doable.

Ms Littley: We have agreed the Report and we think there is the potential there.

Q8 Chairman: Potential within what, two years, three years, four years?

Ms Littley: I think it will be three to five years. We are currently putting our three year strategic plan together which will show exactly how to do that in terms of timing, resource and the investment required. Also there will be some changes to our business model which will need to take place.

Q9 Chairman: If I put to you that the targets you have been given are not that demanding, certainly compared with the private sector, from which you have come, would you agree with me?

Ms Littley: I think the targets have—

Q10 Chairman: Presumably you have come into this job to try and do better than your predecessor and bring some more vigour and private sector rigour to this job. Do you think that we could have a lot more demanding targets which perhaps we could set for you in our Report?

Ms Littley: I have come into the role because I think that OGCbuying.solutions has a great platform to build on to do even more in the public sector than it has done.

Q11 Chairman: That is a very diplomatic answer but it is not really an answer to what I asked you.

Ms Littley: In terms of the way we have to build on it, is to change the model slightly. We currently do predominantly framework agreements, as you know from the Report. We would need to work with other departments, both in central government and local government entities, to do things in a more co-operative way such that we have more committed spend than we currently do.

Q12 Chairman: Let us look at your market penetration in the wider public sector. This is dealt with on page 23, paragraph 2.33. It is not very high, is it? Your market penetration into the wider public sector—health, education, emergency services, local government—is under 1%.

Ms Littley: Yes, it is, roughly 1%.

Q13 Chairman: That is pretty small beer, is it not? You are achieving £750 million. You have got a tiny footprint, have you not, on the wider public sector, let us be honest about it.

Ms Littley: Yes, we currently do have a small footprint on the wider public sector and it is clearly an opportunity for us to grow, but we would need to work closely—

Q14 Chairman: How will you grow? What are your ideas so far?

Ms Littley: There are two things. One is the wider public sector has slightly different needs from central government and what we need to do is understand better what those needs are so that we can offer a service that enables them to use OGCbuying.solutions rather than their own procurement capability to do that.

Q15 Chairman: Give me an example. A lot of your answers so far are very wordy but, frankly, rather vague. Give me some specific answers. What do you want to do? Presumably you have come to this job and you must be brimming with new ideas.

Ms Littley: What we want to do is to take certain categories of spend which are common across both central and local government where by pooling them together not only do we get aggregated opportunities but we also get the opportunity to allow those other areas to use their procurement people on more strategic things, or to have categories which are very niche which use some specialist capability that each entity would not want to have to buy in its own right.

Q16 Chairman: All right. Let me give you one idea. If you would like to look at page 14, paragraph 2.8. At the moment you benchmark your prices against the average across the public sector. Why do you not benchmark your prices against the lowest 25% of public sector prices, for instance? That would be one quite challenging thing to do, would it not?

Ms Littley: I totally agree and I think that whilst doing it against the average is a great starting point, as from our new fiscal year at the beginning of April we will take the recommendation of the Report and start benchmarking against the lowest 25% as well.

Q17 Chairman: I just wonder how effective your organisation is. If you would like to look at page 20, figure 13, where we see that only a third of central government organisations—these are your clients, so presumably you believe the client is always right—rate OGCbuying.solutions' range of suppliers as “excellent” or “good”. That is not very encouraging, is it?

Ms Littley: I think it would be remiss of me not to also comment that another 42% also find it “satisfactory”, so 75%, but it does show that we can work more closely with customers than we have done in the past to understand better how we can improve that service.

Q18 Chairman: You have come from a big job in the private sector, Diageo, have you not?

Ms Littley: Yes.

Q19 Chairman: So what are you bringing to the public sector from the private sector? What particular skills can you bring to this new job of yours? What are you looking to change generally? Give us an overview for a moment. This is my last question to you.

Ms Littley: I think the biggest opportunity for me coming out of the private sector is to understand historically how private sector companies, such as Diageo, in an international context had to put together various areas of spend across lots of different geographies, lots of different ownerships of spend, to get not necessarily just bigger and amalgamations of deals but to understand how to address things like corporate responsibility, local needs, that can be done by doing things once and doing them well.

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Chairman: Thank you. Mr Bacon.

Q20 Mr Bacon: Thank you very much. It says in your biography of your time at Diageo that you “spent the last seven years building a leading edge marketing procurement team for Diageo worldwide”. You have come into this job presumably intending to build a leading edge capability inside OGCbuying.solutions.

Ms Littley: Yes.

Q21 Mr Bacon: What are the biggest weaknesses that you are facing in OGCbuying.solutions?

Ms Littley: I think what we have, is it has got the rigour of how the business is run.

Q22 Mr Bacon: Sorry, can you say that again? It has got the what?

Ms Littley: It has got the rigour of how the business has been managed.

Q23 Mr Bacon: Is that the single biggest weakness?

Ms Littley: No, it is good.

Q24 Mr Bacon: Yes, is that what you are saying?

Ms Littley: No, that is not what I said. I said it is good. It is a good base.

Q25 Mr Bacon: I did not ask you about what is good.

Ms Littley: I am going to answer your question.

Q26 Mr Bacon: If you could answer my question that would be good because we are time limited. I did not ask you about what is good; I asked you what the biggest weakness is.

Ms Littley: The area that I currently think is the biggest weakness is our lack of committed spend. We currently do most of our spend through frameworks and we need to change that into committed spend if we are going to improve the value for money.

Q27 Mr Bacon: In other words, you will have more buying power if you have more committed spend.

Ms Littley: Yes, you do.

Q28 Mr Bacon: Why do you not have enough committed spend, because they could come to you, could they not? That chart the Chairman referred to on page nine is quite vivid: 54% of central civil government spend and the rest of it is divided between various different areas in the wider public sector. It is a tiny proportion of the total public spending on goods and services. Why do more of them not come to you for more committed spend?

Ms Littley: Firstly, the model we have is not a committed spend model, it is a framework model. Secondly, each entity that owns budgets currently has a procurement function that itself is free to buy and chooses to buy. At the moment because it is an uncoordinated landscape of programme within both the central and broader public sector that has meant that people have not seen the need to join up and do things in a more collaborative way.

Q29 Mr Bacon: “Each entity”, by which you mean each potential customer, potential agency?

Ms Littley: Potential budget holder actually.

Q30 Mr Bacon: Could one of the reasons why you do not have as much committed spend be that they have difficulty getting hold of it. Can I ask you to turn to page 26, figure 21, where the National Audit Office asks the question: “What one action could OGCbuying.solutions take to make you use it?” 21%, over a fifth, gave the answer: “Provide clearer information on how to contact and use OGCbuying.solutions—names, email addresses, reference points . . .”

Ms Littley: I think the Report makes a very good reference to the need to improve particularly the website, for example, in terms of how we are contacted and where that information sits.

Q31 Mr Bacon: The first thing it says is “names”. These are the folk inside OGCbuying.solutions who are single point of contact, customer managers for those clients. Is that how it works inside the organisation?

Ms Littley: Yes, it does.

Q32 Mr Bacon: If I am an OGCbuying.solutions client manager I have got a set of clients I look after, is that how it works?

Ms Littley: Yes.

Q33 Mr Bacon: Do those clients all know the name of the person? If I were in that position would they all know my name? I imagine if I was there I would try to make sure they did but this rather suggests that they do not.

Ms Littley: I think the commercial directors, who our salesmen tend to talk to, will. One of the things we have got to get much better at is the breadth within those organisations’ customers who know us, not just their single point of contact. Yes, we do have to improve it.

Q34 Mr Bacon: You are essentially a service organisation, are you not, you are providing a service just like many private sector service companies do. I used to work for a financial public relations agency and I have a friend who works for a procurement agency, there are agencies of all kinds in the private sector, advertising agencies, procurement agencies, sometimes with a great deal of specialist skill, and the only thing they have got to survive on is their wits because they have to be constantly in touch with their customers in order to provide something that the customer finds of value. Would you agree with that?

Ms Littley: I think they have to survive on their wits but also on their capability and on their delivery.

Q35 Mr Bacon: Indeed, absolutely. If, for the sake of argument, things started to go in the wrong direction, if your client managers whose job it is to be in contact with these customers, these agencies in the wider public sector and the other parts, what the Report calls “central civil government”, failed to do

their job, got worse at it, made their names less visible, made their email addresses less visible and their phone numbers more difficult to find, what would happen to them? Would their salaries suddenly stop? Would they be out of a job the following week because there was no business coming in?

Ms Littley: I think it is our responsibility as the leaders of OGCbuying.solutions to ensure that it obviously does not get to that.

Q36 Mr Bacon: I am asking if it did get to that, what would happen to them. Their salary carries on being paid, does it not?

Ms Littley: I think each case in turn would have to be looked at in terms of why that has come about, whether it is through capability, training or lack of competency in that area. I do not think there is a generic answer to that question.

Q37 Mr Bacon: You know the point I am making, do you not? Essentially the role that they fulfil is identical to that fulfilled by many commercial organisations whose very survival week-by-week, month-by-month rests only on their continuing ability to perform that function well and in the case of many of the people working in your organisation performing those functions that is not the case, is it? The organisation does not suddenly stop; they do not suddenly stop having an existence or a job because the numbers are going the wrong way. They are civil servants, are they not?

Ms Littley: They are civil servants but everybody has a role to play and it is our responsibility to ensure that they perform it in the right way.

Q38 Mr Bacon: Yes, and I hope the fact you have come in from Diageo is a good sign but this thing has been going how long?

Ms Littley: Since 2001 and it has grown year-on-year.

Q39 Mr Bacon: Yes. Just remind us what proportion of spend your equivalent in Denmark has?

Ms Littley: In Denmark they have about, I think it is similar actually.

Q40 Mr Bacon: Similar?

Ms Littley: I can tell you.

Q41 Mr Bacon: I thought it was three times larger. “SKI”, I do not know if that is correctly pronounced, my Danish pronunciation leaves a little to be desired—I always thought Ski was yoghurt, but anyway—“SKI in Denmark has achieved a market penetration across the whole public sector of approximately 15%, while CONSIP in Italy, whose use by some Italian public sector organisations has been mandated until recently, has achieved market penetration of approximately 30%.”

Ms Littley: Just so the information is accurate, that is within their market sector, so the areas they work in, those particular categories of spend. In terms of percentage of the total public sector it is 1.56%.

Q42 Mr Bacon: Denmark is 1.56%?

Ms Littley: Yes.

Q43 Mr Bacon: And Italy?

Ms Littley: Italy is 12%.

Q44 Mr Bacon: So it is much, much higher, is it not?

Ms Littley: Italy is much higher. We have done a lot of work with Italy.

Q45 Mr Bacon: Was that partly because they were mandated earlier on?

Ms Littley: Earlier on they were mandated for quite a period of time and they have only just left the mandate. That was a good start for them.

Q46 Mr Bacon: One of the central problems is—overall the Report alludes to this—the lack of co-ordination across the public sector. I read in the Report that £415 million is spent on letting contracts for things you already do, which on the face of it is money that other parts of the public sector need not be spending because that work has already been done. There is this lack of co-ordination. The obvious argument against this is in terms of the complacency that it might induce inside OGCbuying.solutions, but do you think there is a case for requiring a much greater degree of co-ordination rather than just encouraging it, in other words less carrot, if you like, and more stick, an Italian mandatory approach? It would help you build your business very quickly, would it not?

Ms Littley: I have never actually seen mandate work effectively in the private sector either, but I do think a co-ordinated approach is needed and, therefore, that is the responsibility both of the procurement people within central and local government to allow people to understand the missed benefits but also for the budget holders, it means a big cultural and behavioural change that would need to take place.

Q47 Mr Bacon: The Report refers to the fact that some of your clients do not think your managers have got the right skills. Why is that when you have been going for several years?

Ms Littley: I think that we have. 25% of our procurement people are CIPS accredited.

Q48 Mr Bacon: Are what accredited?

Ms Littley: Sorry, Chartered Institute of Purchasing Supply accredited. We have some good basic procurement skills. We are doing a skills audit currently and, as laid out here, that starts next week. We are doing a skills audit across the business to look both at procurement skills but to do procurement well you also need great leadership skills and good interpersonal skills because it has quite an influencing need. We are looking at all of those together. From there we will look at either training or recruitment to get up to the level we need to do to make OGCbuying.solutions more able to move forward in the way that the Report lays out.

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Q49 Mr Bacon: So you are planning to nick a few people from Diageo, are you? Have you brought in some already?

Ms Littley: From Diageo?

Q50 Mr Bacon: Yes, from Diageo and from any other private sector companies.

Ms Littley: I have not yet, no.

Q51 Mr Bacon: Yet. You think it is likely that you will bring in some more people from the private sector?

Ms Littley: Not necessarily from the private sector. Personally I think there is a misconception that the raw capability of procurement people in the private sector is necessarily better than the public sector but I am not convinced that is the case. I have seen some fabulous procurement capability in the public sector and I have known people who have worked in it for a long time, it is a very small community.

Q52 Mr Bacon: One of the things that would intuitively seem obvious is in a well run industry everyone else knows everyone else and the skills are probably the same but the buying power of the public sector ought to be well in excess of anything that almost any private sector organisation can come up with.

Ms Littley: Absolutely.

Q53 Mr Bacon: Yet you do not take advantage of that to anything like a sufficient extent.

Ms Littley: Because at the moment it is not joined-up enough and that was the biggest difference that the private sector changed probably about 10 to 15 years ago, not necessarily the raw capability but its recognition to join it up.

Q54 Mr Bacon: How do you think you are going to get it joined up?

Ms Littley: I think the announcement yesterday of the more focused way in which OGC is going to work will help considerably, in terms of comply or explain and in terms of collaboration. Also the challenges that a lot of departments are facing in terms of the spend that they have and how they are going to have to work in the future will probably be the biggest change in the buying platform to do so.

Q55 Mr Bacon: Can you just remind me, who put out the announcement yesterday because I have not seen it.

Ms Littley: That was from John Healey.

Q56 Mr Bacon: From the Treasury?

Ms Littley: Yes.

Q57 Mr Bacon: Could you send us a copy so that we can include it?

Ms Littley: Yes.¹

Chairman: Thank you, Mr Bacon. Mr Mitchell.

Q58 Mr Mitchell: I get the impression that you have come in from the commercial world and Diageo is a big drinks business.

Ms Littley: It is a big drinks business, yes.

Q59 Mr Mitchell: The organisation you have come to from the Report looks somewhat staid, bureaucratic, not adventurous and risk-taking. Would that be a fair description?

Ms Littley: No, I do not think so.

Q60 Mr Mitchell: Why?

Ms Littley: Because I think any organisation like OGCbuying.solutions, which is five years old and has grown year-on-year, has built and changed the things that it does. It has got a lot of bright, dynamic people but I would say the time is now right for it to change again in order to be able to take its place in doing much more for the public sector procurement than it has done.

Q61 Mr Mitchell: Change gear and leap forward?

Ms Littley: Yes.

Q62 Mr Mitchell: Still there are gaps in the skills, are there not, and a lack of commercial experience, indeed perhaps a lack of commercial instincts? I equate commercial instincts with simple thuggery. Are they lacking in your organisation?

Ms Littley: There are some skills lacking. If we are going to move from frameworks into a more committed spend then you have to have a depth of understanding about what you are buying that gives people confidence that you are an expert in your field. OGCbuying.solutions is unique in the sort of business it is probably in the public sector and thereby it will need to be extremely commercial because the sorts of people and businesses it will compete with will also include the private sector businesses.

Q63 Mr Mitchell: Some of the suppliers identified in the Report at 2.53: "lack of marketing skills and individuals with private sector knowledge of individual product markets." Your suppliers are sending the same message.

Ms Littley: Yes.

Q64 Mr Mitchell: What are you doing about it?

Ms Littley: As I said earlier, what I am doing about it is understanding across the business what the skills sets are we currently have so that we know what those are, how we can improve those but also what areas we have to build on, whether that is through infrastructure or in terms of capability or recruitment.

Q65 Mr Mitchell: Will this mainly involve bringing people in from the private sector?

Ms Littley: No, I do not think necessarily it will.

Q66 Mr Mitchell: Are you offering the money to attract those kinds of skills you are looking for?

¹ *Note by witness:* The document is available at: <http://www.hm-treasury.gov.uk/documents/enterprise—and—productivity/public—services—productivity/ent—services—procurement.cfm>

Ms Littley: From a procurement perspective there are some particular categories where people can now earn considerable sums of money in the private sector but in terms of some good, solid general procurement I do not think there is as much of a difference as people probably think. I think it needs to be a blend of both private and public, I do not think just bringing people in from the private sector is the answer.

Q67 Mr Mitchell: Pursuing the Chairman's point that you are actually small beer really in the field, I notice at table 22 on page 27 you have got a greater responsiveness, people think of you and use you more in central government than non-ministerial departments, less so in executive agencies and less so in non-departmental public bodies. Why is that? Is that because you are just not reaching out to them, they do not know about you, or what?

Ms Littley: Partly it comes from where the business came from but, yes, certainly as a starting point central government is the place you would start automatically because it is the easiest place to start. As I said earlier, to do more in some of the other areas, the offerings that we have and how we market them would have to be changed.

Q68 Mr Mitchell: You have not thought of what offerings you are going to have to make to executive agencies and this kind of thing?

Ms Littley: I think the categories of spend will be the same. In terms of how we approach it and what some of their criteria are for selection may be different.

Q69 Mr Mitchell: Just in terms of what Mr Bacon said, the potential is enormous, is it not?

Ms Littley: It is.

Q70 Mr Mitchell: You have got enormous power, a big guaranteed market, in a sense you are an arm of socialism, are you not, because you are cutting the cost of provision to the state and using the muscle of the state in the market, both of them important roles, I would have thought. Why have you not grown to the scale necessary? Is it just the fact of a late start and a slow catch-up or does ambition move that way?

Ms Littley: I think it would be wrong to say that the business has not grown, because it has, and it has grown considerably.

Q71 Mr Mitchell: It has grown but not enough to mobilise its full potential.

Ms Littley: No, but it is only five years old.

Q72 Mr Mitchell: That is what I am saying, is it a slow start or lack of ambition?

Ms Littley: I do not think it is a slow start. It has to start and the potential is huge and the ambition within our organisation in line with what is laid out in the document is there. What we are having to do now is to see how we can make that ambition, with some of the recommendations in there, become a reality and over what timeframe.

Q73 Mr Mitchell: I notice in the Report there is the example of the Yorkshire Purchasing Organisation, and this Yorkshire background might be the reason you are having some difficulty understanding what I am saying.

Ms Littley: No.

Q74 Mr Mitchell: They must be the sharpest purchasers and the best brains and have the meanest instincts in the whole field. I notice that they are doing things which you are not doing, like they offer a budget stretcher opportunity so that they can keep a constant profile across the year. Do you offer that?

Ms Littley: We do. We do offer something called Great Deals. The accent is not a problem, I am married to a Yorkshire man by the way. It is similar. They run a slightly different model but, yes, there are other purchasing organisations around that—

Q75 Mr Mitchell: How about open days?

Ms Littley: We do not have open days.

Q76 Mr Mitchell: How about teacher training courses?

Ms Littley: We do work with the education side on various things and there are various deals we do with them but I do not think we do teacher training courses *per se*.

Q77 Mr Mitchell: How about customer engagement to gauge customer requirements and develop products to meet those requirements?

Ms Littley: Yes, we do that. We do a regular customer survey with the commercial teams that we work with. We do that on a regular basis and one of our targets is feedback on that customer survey.

Q78 Mr Mitchell: But most organisations, if you consider page 26, the figure there, say that you do not consult them enough.

Ms Littley: That is fine; I understand what you mean. I think where we have to change, and we have already started doing this, is that we currently consult a specific area of each of these entities which tends to be their commercial area. What we do not do enough of is talk to the end users, in the way the other buying departments do. I think that is something we have to get better at and we are starting.

Q79 Mr Mitchell: For that you will need more staff.

Ms Littley: Not necessarily. You can do things differently. You do not necessarily always need more people.

Q80 Mr Mitchell: It seems odd to me that most of them think they can get better deals by not using you, if you look at page 16, figure 9.

Ms Littley: Where the big departments feel that they can do better?

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Q81 Mr Mitchell: Yes.

Ms Littley: The interesting—

Q82 Mr Mitchell: Why do they feel that?

Ms Littley: It does not surprise me because bigger departments have committed spend. What they do is, they use our frameworks as a starting point for those deals, and actually some of the bigger departments, as you will see, are still our biggest customers, so although yes, they do feel that they get better deals and with committed spend they certainly should be able to in some of these areas, they still use our frameworks as a starting point.

Q83 Mr Mitchell: Why is it that larger organisations spent an estimated £415 million in 2005 in unnecessary contract letting activities when they could have used your buying solutions? Why is that?

Ms Littley: The honest answer is because they have the ability to and they have the resources, and therefore that is naturally how people work.

Q84 Mr Mitchell: They would rather do it for themselves, would they?

Ms Littley: Yes.

Q85 Mr Mitchell: And lose money thereby?

Ms Littley: I do not know how consciously it is done, but yes, of course, it is one of the things we have to work better at, understanding why people are doing that and what we can do to help change those behaviours and find ways of working in a more joined-up environment.

Q86 Mr Mitchell: The NHS Purchasing and Supply Agency. Would you get the impression that that is more efficient and effective than you are?

Ms Littley: I think it has some very good practice. We work with them quite a bit. We are learning from that and we need to continue doing so.

Q87 Mr Mitchell: So do you work with them in partnership in it?

Ms Littley: Yes, we do. They obviously also use some of our frameworks, but there are forums where we work together to look at best practice and how we want to share it.

Q88 Mr Mitchell: Do they have an advantage because they work in a narrower field and you cover a universe?

Ms Littley: I think they probably have an easier first port of call but I still think that they have to deliver and they have to do the job well.

Q89 Mr Mitchell: Oh yes, I know they have to do the job well but it is easier if you are in a narrower market.

Ms Littley: It is the first port of call; it is easier, of course it is.

Q90 Mr Mitchell: What about benchmarking? Why do you not provide benchmarking information to public bodies which allow them to make their own judgments on prices and your achievements?

Ms Littley: Do you mean because we do not publish our benchmarking data on our website, which is true? That does not mean we do not with our customer—

Q91 Mr Mitchell: Should you publish it?

Ms Littley: The honest answer is I do not know because there are pros and cons. I have never seen it done and it is often commercially sensitive information and if you start publishing things you have to be careful about whether you are then still going to get the best deal and how that impacts. I think it has quite broad connotations so it would certainly need some deep thinking about.

Q92 Chairman: In terms of incentivising yourself and your staff are you, for instance, on a bonus scheme?

Ms Littley: Some people are.

Q93 Chairman: Are you?

Ms Littley: Am I personally?

Q94 Chairman: Yes.

Ms Littley: Yes, I am.

Q95 Chairman: How does that work in your case?

Ms Littley: It is based on, obviously, things like ministerial targets, but it is also based on other targets agreed with my line manager.

Q96 Chairman: Give us more details. What sort of target do you have to achieve and what bonus do you get if you achieve this target?

Ms Littley: In terms of the targets for this year, they were set prior to my joining so I have taken those over, which are the targets around savings, a customer satisfaction survey based on a pre-agreed customer survey, RSE and efficiency based on last year.

Q97 Chairman: So what sort of bonus will you get if you meet these targets in terms of pounds sterling? This is the public sector. There are no secrets here.

Ms Littley: Yes. I am just—

Q98 Chairman: We are paying your bonus, we are paying your salary. We would like to know. We want to see whether you are doing a good job.

Ms Littley: It is 10% of my salary.²

Q99 Mr Dunne: How many people do you have within your department and how many employees report to you?

Ms Littley: Within the business or who report directly to me?

Q100 Mr Dunne: How many employees are there in the business?

Ms Littley: 282.

Q101 Mr Dunne: And what is the total cost of the business?

² *Note by witness:* This refers to a personal bonus target against the Ministerial targets set.

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Ms Littley: It is about £22 million but in terms of cost it equates to about 5p per pound saved.

Q102 Mr Dunne: Comparing that with the £412 million of savings in the Report, is that before or after the costs of the business?

Ms Littley: If you do not mind I am going to pass over to Mr Murray for the detail of how we do that.

Mr Murray: In terms of trying to explain that, the £22 million cost delivers £412 million savings.

Q103 Mr Dunne: I am trying to work out what the saving to government has been of your department. I should take the costs off which has not been done in this Report?

Mr Murray: No.

Q104 Mr Dunne: You were established only six years ago, so the business has been growing and you are recently arrived, as is often the case with people who appear before this Committee. How do you see the head count developing over the next period of your business plan, whether it is one year, five years?

Ms Littley: In terms of the detail I cannot tell you because the business plan is not yet complete. It has to be complete by March, in which case we will also have, as part of the growth of the business, what investment is needed both in terms of people and infrastructure, so I cannot give you specific numbers. However, clearly that has to be in line and it has also to be benchmarked against best practice, which we are currently looking at doing. It is quite difficult to do because there are not that many places you can benchmark the type of entity we are, to be fair. There are not that many.

Q105 Mr Dunne: So this Report and this inquiry are quite timely in helping you develop your business plan? Will you be taking into account the recommendations of this Committee and the NAO in developing that plan in the next two months?

Ms Littley: I have to say that the Report and the way in which it has been provided have been superb in both timing and in content, and absolutely we will be utilising the help both from the Report and outside of it to continue doing that.

Q106 Mr Dunne: If you turn to page 31 there is a reference paragraph 3.9 to the extent of duplication which there is within the public sector as a whole. To help me understand how you interact with other procurement agencies, and there is a whole list of them in the appendix, what is the minimum size of contract that is appropriate to come through your business?

Ms Littley: I am not sure. Within the frameworks I would—

Q107 Mr Dunne: I think it is beyond the frameworks because frameworks clearly are of larger scale.

Ms Littley: They are larger scale.

Q108 Mr Dunne: I am talking about an individual project where somebody says, “Shall we put this through buying.solutions? How are they going to assess if it is even worth picking up the phone?”

Ms Littley: We do have examples where there is a smaller requirement or a more specific requirement where we have given people our people, if you like, to do that, so I do not think there is a minimum. I think if it is deemed to be appropriate and gives value and we can support it, then if it is half of somebody’s time for six weeks or 12 weeks we have run that model as well.

Q109 Mr Dunne: Surely if you are trying to determine your business plan and where you are going to extract better value you need to work out at what point it is cost effective for you to get involved or not? It refers in paragraph 3.9 to 22,000 notices under the EU procurement rules which might apply, of which 29%, I think it says here, could have used one of your framework agreements.

Ms Littley: Our current frameworks, yes.

Q110 Mr Dunne: And they talk about £65,000 being the cost of letting a contract under these procurement rules. That is the cost of using you, I take it, or using anybody to procure under these rules, so presumably a contract needs to have a margin in excess of that to make it worthwhile coming to your door?

Ms Littley: The costs are varied depending on what they are. For example, we do some managed services where we do everything end-to-end, like telecoms, for example, and it would be at the high end of the £65,000 to manage that. If you are doing smaller areas some of them only have a cost of £5,000 to manage those, so it is quite—

Q111 Mr Dunne: That is outside a framework agreement?

Ms Littley: Or a smaller framework cost, so it depends on the size of the opportunity to the cost, obviously, and also how much work is involved.

Q112 Mr Dunne: I am finding it difficult to understand how you assess whether you should get involved or not because it is so variable. You must have some standard benchmarks that you apply.

Ms Littley: Within the new environment the way that the announcement talked yesterday about how it is going to work, what we will do is that we will look at a handful or two handfuls of categories of spend, whether that is telephones, chairs or whatever it is, on behalf of the broader public sector and lead on that, so what we will have is bigger chunks of smaller amounts of things which will make it much more efficient and effective to do.

Q113 Mr Dunne: I understand; thank you. Can we turn to a couple of specific areas? In terms of defence on page 29 and the example of defence procurement agencies, it is my understanding that there are 50,000 people involved in procurement within the MoD

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although the Army is only twice that size. Do you see some potential for your business to get involved in defence procurement, or do you see the 50,000 people currently within the MoD?

Ms Littley: We already do work with the MoD and buy things on their behalf. We are talking to them about where we can do more of that for the non-strategic areas of procurement, yes.

Q114 Mr Dunne: As far as local government is concerned, and we have already heard the banner being waved for Yorkshire, with the increasing likelihood of further unitary authorities being introduced if the Local Government Bill goes through are you looking to do more work with local authorities to encourage them to procure through you?

Ms Littley: Yes, we are, and we have already started that.

Q115 Mr Dunne: What measures are you using to advertise your wares, to get people to seek to pick up the phone?

Ms Littley: We obviously have a website, which we have improved since this Report and are continuing to do so. We run workshops events, we obviously have a marketing team that have particular customer management. We have a public sector procurement magazine which we do on behalf of the broader public sector and which we share, so there is quite a lot of sharing and understanding that goes on. What we need to do is make it more targeted.

Q116 Mr Dunne: Just picking up a comment which you made to Mr Mitchell in relation to paragraph 2.53 and the skills of your team, within the supermarket trade the buyers are legendary for only staying in position for a short period of time, like two years, so that they do not get too close to the customers and they are tasked with achieving better terms than their predecessor or else they are sacked. You have only been going for six years, I appreciate that, but are you intending to introduce similar disciplines within your department?

Ms Littley: Certainly there is quite a lot to learn from the retail sector and how they do their procurement. I think there is a balance, however, between the content knowledge that goes with buying under certain categories, if you take things like energy, getting up to speed and understanding the depth of some these categories takes quite a long time and if you change people every two years you would miss quite enormous opportunities of doing it more effectively, and other areas which are more specialised, so you have to get that balance.

Q117 Mr Dunne: What percentage of transactions of public sector procurement take place on-line?

Ms Littley: I am afraid I do not know.

Q118 Mr Dunne: Is that something that you track, the use of on-line for procurement?

Ms Littley: Not across the total public sector, no, we do not.

Q119 Mr Dunne: Are you aware that the proportion of public sector job recruitment compared to private sector job recruitment is four to five times worse, ie, we do not go on-line, ie, the public sector tend to use the printed media rather than the on-line media?

Ms Littley: No, I was not aware of that.

Q120 Mr Dunne: Could I encourage you to look at your use of on-line in future? There is a reference in here to e-auctions and it would be interesting for the Committee to understand how much of that is going on.

Ms Littley: I agree.

Q121 Mr Dunne: Finally, in terms of increasing your penetration amongst public sector bodies, particularly in the wider public sector, do you believe that you are welcomed in or are you seen as a threatening force to the existing procurement teams and to officers responsible for procurement within other bodies, and how are you going to overcome that threat and potential distrust?

Ms Littley: I have felt extremely welcomed in personally, and I think the mixture within procurement of people who have been in the public sector for the long term and people who have done both private and public is very mixed, so I have not seen it as an issue at all.

Q122 Mr Wright: Do you think you have inherited a failing organisation?

Ms Littley: No, I do not.

Q123 Mr Wright: The reason I ask that is that we are currently experiencing the largest increase in public spending that this country has ever seen, 40,000 different individual bodies, organisations, procuring something like £125 billion a year, and yet your market penetration is extraordinarily low.

Ms Littley: Yes.

Q124 Mr Wright: The interchange between customers and suppliers—and I will come on to that later—seems very low. There is an unnecessary contract cost of £415 million compared with your savings of £412 million less £22 million in running the business. It is not very good, is it?

Ms Littley: I think it has the opportunity to do much more but I think the basics on which it is built are sound. I have started procurement functions in various areas many times. They all go through a very similar journey map and I do not see anything very different in buying.solutions from what I have come across before that would say that it was not on a good footing to do much more.

Q125 Mr Wright: You have mentioned at certain points during the evidence, as have members, about private and public and I just get the impression that for the likes of Tesco and Marks & Spencer, in terms of their relationships with suppliers, yes, we can criticise it sometimes but in terms of improved corporate and social responsibility it is in their interests to have a good, close relationship. Why can they sweat every single pound of turnover for them?

I was reading about Tesco today, £17 billion turnover, a couple of billion pounds profit. They really do sweat every single pound. Why can the public sector not do that?

Ms Littley: I think it could but I think what you are talking about are two very distinct characteristics. If you went into any Tesco or Marks & Spencer, as you use those as examples, and put all the people even in that shop in one room and asked them to put up their hand, all those people who have freedom to buy using Marks & Spencer's budgets, whether it was things that were in the store or the tills or the uniforms, they would not put their hand up. What they have is a group of people who buy everything for them and that is their responsibility and other people have different responsibilities.

Q126 Mr Wright: Why do we not do that in the public sector?

Ms Littley: For the same reason that most private sector companies do not do it outside retail, because when you give people accountability for budgets that is what they are being given and they are being given the responsibility to do what they think is the most efficient and effective way of utilising that.

Q127 Mr Wright: One of the things that struck me, reading this Report, was that we are not talking about specialist stuff; we are not talking about building an Olympic stadium or something like that. On page 31, table 27, some of the different price ranges for the most mundane things are quite astonishing, toner cartridges, for instance, and the NAO say the actual printer is specified, so it is fairly clear that that is on a like-for-like basis, 117% price variation. Why are there not more examples of things that we see in e-commerce and retail? I want to buy—I do not know—a Simpsons DVD boxed set. I will go on to www.kelkoo.com or some similar price comparison website. Why is it not as easy as that? Reading this Report, I get the impression that your website, although you suggest it is improving, hinders that sort of thing. With bog standard stuff like this why is it not quite clear and why do you not communicate, “If you want to buy a box of A4 paper the price that you should be paying is something like £4 as opposed to £11”?

Ms Littley: Yes, in all our frameworks it does communicate that so our framework deals will show you. The challenge is that if you get the best toner procurement team or Simpsons procurement team in the country they will be able to reduce the range and you should be looking in the lowest 25%, as we talked about earlier. Will somebody always be able to go on-line somewhere or go to a shop somewhere and find a Simpsons that is cheaper? Probably, because the difference is that what you are trying to do is match the criteria of the corporate responsibility and all those things, but is this range showing that there is a huge potential by doing things in a more co-ordinated way to get more value for money absolutely right? Yes, it is.

Q128 Mr Wright: One of the reasons that we can have much better efficiencies is that contract management in the public sector leaves a lot to be desired, so in terms of scoping what we actually want in the first place, monitoring it through, managing the contract, evaluating it at the end, we are very poor at that, are we not?

Ms Littley: I have not got enough experience to say whether contract management is poor or not. What I would say is that when you are trying to corral specifications over a fairly broad area what tends to happen is that the specification grows arms and legs where it can become probably more precise, particularly, as you say, in some of these standard areas which are not complex. I do think again that the comply or explain, which would have come out of yesterday's announcement, where OGC now have the ability to talk to different departments and say, “You are raising this. Why are you raising this new framework or agreement when there is one already in place? Why are you not using it?”, will be very helpful in making that, hopefully, less than it is at the moment.

Q129 Mr Wright: But can this Committee have faith in the announcement by John Healey yesterday? What I mean by that is that the thing that astonished me in reading this Report was page 22, table 16, talking to customers about, “Have you felt the performance of suppliers has been adequate?”, and for in the region of 70% of the wider public sector, “Never”, it says. That is a disgraceful statistic and what will be done to improve that?

Ms Littley: It obviously is not good practice for any buying entity not to review suppliers with its customers, but also, as importantly, to review its customers with its suppliers because both have merits in terms of good practice. What we will be doing by mid year is that we will have a 360-degree process whereby our customers will be able to talk to us about our suppliers and how they have performed, our suppliers will be able to talk to us about our various customers and how they find working with them such that the ways of working can be improved because that is where a lot of the costs will come out—it is not in the prices, whether it is £1.02 or £1.04, but in the ways of working between the two.

Q130 Mr Wright: Several of my colleagues have talked about skills. Could I refer you to page 27, paragraph 2.53 where staff skills in certain areas required augmenting, “better marketing skills and individuals with private sector knowledge of individual product markets”. More disturbing for me was, “Suppliers also identified these areas as skill shortages. However, they identified the lack of communication skills as the key skill shortage . . .”, and I know it is before your time but I refer back to my point about a failing organisation. What is the recruitment policy like of this organisation that allows people with a lack of communication skills in procurement to be employed?

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Ms Littley: I think that the communication skills is, as I said, one of the areas that we need to look at. Until I have looked at the skills matrix that shows me where each of the people are I do not know how big that communication area is. It is certainly something that has to be improved, I agree.

Q131 Chairman: Let us pursue Mr Wright's questioning a bit further. You are the Accounting Officer for this organisation. Let us see if you can do some accounting to us. What are you paying for your pack of 12 76mm x 76mm post-it notes? The price range is £4.41 to £10.55. What are you paying in your organisation?

Ms Littley: For the branded ones—I can tell you what we pay for unbranded.

Q132 Chairman: I thought this would leap off the top of your head.

Ms Littley: The unbranded one does leap off the top of my head because it is one in *The Guardian* article, so that is—

Q133 Mr Bacon: £1.75.

Ms Littley: No, our unbranded ones are 74p, but in terms of branded we pay £2.53.

Q134 Chairman: That is not bad. All right, what are you paying for a box of 5 x 500 sheets of A4 100% recycled white paper? I see the range here is £6.95 to £14.95. What are you paying?

Ms Littley: £6.63.

Q135 Mr Mitchell: What are you paying for a bottle of whisky?

Ms Littley: More than I used to, unfortunately, now.

Q136 Chairman: So you are now going to get a grip on the Treasury in terms of their purchasing of paper, are you, and post-it notes and electricity and toner cartridges?

Ms Littley: We have taken a great interest, obviously, in those areas, and I think it does come back to Mr Wright's point, that what we need to do in areas where there are clear categories of simple spends is make the range far smaller than it has been.

Q137 Mr Davidson: Could I start with paragraph 3.3 where it mentions that there are over 50 procurement organisations? Should we look forward in the next six or seven years to there being a decrease in that number? Would that be a sign of progress?

Ms Littley: I am not sure that the number of organisations would make a difference. I think what will make a difference is if all those organisations are not buying the same things. My view, as somebody said earlier, is that with such a vast amount of diverse areas that the public sector has to get involved in procuring the challenge is—

Q138 Mr Davidson: I understand that, but some of these must need a critical mass, in a sense, to be viable. It is this question of duplication because there must be a number of organisations which are

buying lots of the same things, whether it is Simpsons videos or duplicating paper and all the rest of it, and then they are doing other specialist things but they will need a certain critical mass in order to be doing the specialist things. Would you accept that that is a reasonable point?

Ms Littley: It depends whether they are aligned to departments or other entities or whether they are stand-alones that have to have their own infrastructure. A lot of the procurement areas are aligned to either a local government or a central government department so they do necessarily have a stand-alone infrastructure, so I am not quite sure that that would apply.

Q139 Mr Davidson: On this question of the issue of duplication which is mentioned, "Is there duplication?" means that people are in their separate silos and they are specifying different types of post-it notes, as it were, and therefore procuring different types of post-it notes where quite clearly there could be uniform post-it notes. What role do you play in all that in saying, "If you order post-it notes there are three sizes only and these are the sizes that you should procure"?

Ms Littley: There are a couple of things there. One is that part of our role is always to provide objective challenge around what people are asking for, because what people ask for and what people need are not always necessarily the same thing, so in working with suppliers what we should be doing is saying, "Yes, there are these 10 things but if you limit yourself to three of them there appears an opportunity to be more efficient".

Q140 Mr Davidson: That is the issue I want to pursue, this balance between centralisation and subsidiarity. If the Yorkshire Purchasing Consortium, who may or may not be miserable,—I do not know if Mr Mitchell has ever met Aberdonians—are saying, "We need for operational reasons to have four different types of post-it notes", who are you to say, "No, you only need three"? What is the process by which that is resolved?

Ms Littley: At the end of the day the people who decide what they need are the budget holders. However, our role is to ensure that they understand the implications of their choices, as you say, unless you centralise everything and take everybody's accountability away, and to be very clear about what the implications of those choices are and that they go in and make those choices and those decisions based on good and sound information and understanding.

Q141 Mr Davidson: But there is clearly an enormous amount of vested interest in maintaining silos in many cases, is there not, whether it is the Yorkshire Purchasing Consortium or the Strathclyde one. You can see how there is a natural tension there. I am not quite clear who referees that.

Ms Littley: The OGC referee that. With the new announcement yesterday that is part of their role, to referee that.

Q142 Mr Davidson: How then do you avoid the situation where, say, a headteacher would find it probably cheaper but certainly more effective to order a local glazier to repair a window as distinct from having a UK-wide contract for the replacement of broken windows? You can see how you are getting the first contradiction between what might be needed at a local level in terms of immediacy as distinct from buying something more cheaply but through a national contract which only orders a week. Presumably it is cheaper to have deliveries once a month, as distinct from once a week, as distinct from once a day, as distinct from in an emergency. How is that going to be balanced and refereed?

Ms Littley: Consolidating your buying into, say, the Yorkshire buying organisation deciding that they are going to be the glazier buyers for the public sector in the UK, does not mean you consolidate into one or two suppliers. What it means is that the knowledge and capability capacity for buying glaziers is sitting in one place, but what they still take into account is the criteria and the needs of the various customers, which in some cases might be local, whether it is due to local employment or because they have to have somebody on call. It is not the same as consolidating into two national suppliers at all. They are different things.

Q143 Mr Davidson: I wanted to pick up as well the point on page 20 sub-point 20, and this is the question of the comprehensive non-discrimination clauses in its framework agreements and so on. I get involved in a number of local organisations where we specifically seek to try and involve local suppliers and we specifically try to ensure that we are getting local firms to hire local labour and we specifically try to get people to incur additional costs by hiring apprentices and so on. How does all of that local discretion fit in with an emphasis upon reducing unit costs by national purchasing?

Ms Littley: Obviously, we do not discriminate for or against different sizes of organisation, so our frameworks currently cover all sizes of organisations. It comes back to when you are selecting you are selecting on behalf of customers as to what is important for those customers and recognising the implications of those choices. We are about supplying value for money which does not always mean that the cheapest is the right thing to do.

Q144 Mr Davidson: But how do you then make a choice in terms of the recommendations? The point was made earlier on about how much you have saved the public purse as compared to your costs, but presumably if you are purchasing, say, post-it notes and one manufacturer has given an undertaking that they will employ X number of disabled people or apprentices or what-have-you, that is going to increase the cost. From your perspective you would want to have the lowest cost possible in order that you demonstrate that gain, but for the local area involved clearly that is not

necessarily going to be the best buy. How is that tension resolved and how does it appear in your figures?

Ms Littley: At the moment, as I say, because we run frameworks other people go on and purchase through them so we do not necessarily do the purchasing. If you are doing a committed spend element it is still about total cost and if the total cost to a local authority means that if we do not use some of these local suppliers they have other costs for other reasons, that is a total cost option. It is not just about the cheapest price; it is also about cost.

Q145 Mr Davidson: So in terms of this total saving that you have achieved for the public purse, that would, using anything other than the minimum cost option, reduce your bonus?

Ms Littley: The costs that we talk about are the prices actually paid, yes, so they are actual. People have gone down the route of using a smaller business. We give people the choice.

Q146 Mr Davidson: That is right, but how does that then impact on your bonus, just coming back to the question of the figures that you show you have been able to make in terms of cuts in public spending? Presumably anything other than the very minimum cost option is going to reflect less well upon yourself and there is an inherent tension in all of that, is there not?

Ms Littley: We run a balanced scorecard approach, so there is a tension in the sense that we have savings but we also have customer satisfaction as part of it. I am not just measured on savings; it would be inappropriate to do that without having the balanced tension.

Q147 Mr Davidson: That is helpful. Can I ask about the purchasing contracts and things that the NHS has just struck with DHL? It seems to me there that that is a different situation from many of the other contracts because DHL presumably are incentivised to achieve gains and savings and so on that they can point to and say that they are theirs alone, whereas the other organisations have nothing to lose by co-operating. How is that relationship going to be managed?

Ms Littley: I do not know the detail of the DHL model in terms of how they are incentivised, but clearly they are a private sector business with shareholders and therefore yes, they will be very interested in their return and they will also be very interested in growing their business within the public sector. There is no one organisation that can cope with all the spend through the public sector, so there have to be ways of working together, and one of the things we have already spoken to PASA about is that when the relationship is up and working we will speak to them and DHL to understand how we can best work together.

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Q148 Mr Davidson: So presumably if, in five or six years, we have a report back showing that everything you have managed has been successful we can give you the Child Support Agency and the working families tax credit?

Ms Littley: I am still waiting for mine to grow up.

Mr Davidson: And you can procure tanks and jets for us as well. Thank you very much, Chairman.

Q149 Mr Dunne: I have now had an opportunity to read the Financial Secretary's speech yesterday and, just going back to the question I asked you about your plans for headcount, I note that the Financial Secretary said that in connection with the Comprehensive Spending Review he is seeking to reform the OGC.

Ms Littley: Yes.

Q150 Mr Dunne: And he says, "It will become a smaller and more focused, higher calibre organisation". Do you anticipate that impacting upon your team?

Ms Littley: I think what it will do is impact on some of the things that we do to make sure that there is not overlap and there is a clear distinction between the core OGC, which is focused around policy, best practice, capability, audit and all that sort of thing, whereas we are an operational organisation. I think what we can do is make sure that the two work very closely to ensure that there is no overlap and the right things are done in the right place.

Q151 Mr Dunne: It sounds to me as though you are going to have a struggle to extract a budget from more people which may make it difficult for you to achieve your other ambitions.

Ms Littley: As you know, we are a trading fund, so we have to be self-sufficient in terms of what we deliver rather than the core OGC, which is not, which is different.

Q152 Mr Bacon: The National Council for Voluntary Organisations says that 38% of charitable revenues now are from public sector sources, the state giving contracts to charities for everything from clean water in Africa to reaching hard-to-reach drug addicts in deprived areas, and therefore charitable organisations are an important element of public spending, if you like. On page 9 in the breakdown, where it says in figure 3 that 54% is central civil government and the remainder broken up in a variety of different ways, it says that "Other" is 8%, that is at the top there, which is divided up between utility, unclassified defence, private sector and not for profit. To what extent are your marketing managers, the people who are trying to sell OGCbuying.solutions' offer, making charities aware of what they could be doing through you because if there is 10 billions of public sector spend going towards charities in one way or another then presumably that is a big market, or is it that charities are already so good at playing the bleeding heart card that they get better deals than you could anyway?

Ms Littley: I do not know whether the latter is the case.

Q153 Mr Bacon: It is a huge potential market.

Ms Littley: It is a huge potential market and one that we will have to look at when we determine with the OGC and the other leading procurement bodies what areas buying.solutions is going to go into and which of those is appropriate for that sector.

Mr Bacon: I would like to return to this question of *The Guardian*. They had a lot of fun with this, obviously, but Mr Wright was drawing attention to some of the points referred to in this article and it is very obvious from figure 27 that you are not talking about prices offered; you are talking about prices paid for like-for-like items and there are startling gaps. That suggests that there is—and I think Mr Davidson alluded to this—an inertia in the various different public sector buying organisations who have above all else a continued wish to exist. If you are a procurement manager in a large metropolitan borough council, Newcastle, Birmingham or somewhere, and you have got your little team, other things being equal you are going to want to exist six weeks or six months hence even if there could be a better deal for the taxpayer by buying far more toner cartridges from one place. This brings me back to the question of the Italian example and compulsion versus competing.

Chairman: You are becoming as long as the David Hengey article.

Mr Bacon: I am sorry. It seems to me that on the one hand you want to maintain an element of competition potentially, but in order to maximise the buying power you actually need to get much larger much quicker and the potential inertia inside the public sector is going to prevent you doing that. There is no market clearing level of procurement agencies in the public sector like there would be in the private sector. A private sector agency will eventually fold if it does not sell enough good advice, but the power that you have available to you from having 12% or 15% of the market you are not going to get unless somebody makes it happen.

Chairman: She has got the point, so what is the answer?

Q154 Mr Bacon: You actually need more compulsion, do you not, to do it?

Ms Littley: I think through the announcement yesterday that will work, but yes, also we do need to influence not just the procurement people, because you are right: that is a bit like turkeys voting for Christmas, but also the people who make the decisions and who run the budgets.

Q155 Mr Davidson: Am I right in thinking that the Italian model has not a little to do with horses' heads in beds amongst other things? What I wanted to ask is this. Is there any organisation which is consistently worst in terms of procurement and could you give us a league table of badness, as it were, of inability to get good deals? Of those which are listed is there any particular organisation which is always paying more than others?

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Ms Littley: No, I do not have that information.

Q156 Mr Davidson: Does the NAO have that?

Mr Davies: I have not got that to hand.

Q157 Mr Davidson: Do you have it? Is it gettable without an enormous amount of work?

Mr Davies: I think it would be possible.

Q158 Mr Davidson: I think that would be helpful, Chairman, because it would be useful to confirm one of my other prejudices, which is the next point I want to raise, whether or not the NAO take the view that there are any lessons in here that could be applied to the Government's dealing with farmers.

Sir John Bourn: That is an interesting point. I will reflect on it. We have not looked at it from that point of view but I can see that you are buying things in a sense because money is going from the Government to farmers and there is a return of a rather different kind, so we will have a look at that. Interesting talk, Mr Davidson.

Mr Davidson: And after that you could look at lawyers.

Mr Bacon: And then Glaswegians.

Mr Davidson: That is a more dangerous one, actually.

Q159 Chairman: Sir John, in conclusion, I wonder whether you think we should return to this issue in two or three years' time. After all, we have a sleeping giant, only 5% of central government spending goes through this organisation, and I wonder whether, given the rather undemanding targets that have been given to this organisation so far, we can maintain pressure on them. If the Accounting Officer in two or three years' time is making dramatic improvements we can give her full plaudits and if she is not we can send her back to the private sector, which she probably would not mind because she would earn much more there. Would that be a fair suggestion?

Sir John Bourn: It will certainly be something that we will Report on because it will be interesting to see whether the changes in the remit of the OGC buying activities which were announced by the Financial Secretary do in fact have the hopeful results and we can report on that.

Chairman: Thank you very much, Sir John. Thank you very much, Ms Littley.

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