



# Procurement Performance Measurement

Towards a Pan London Strategy

**Author: Ken Cole, FCIPS  
Director, London Centre  
of Excellence**

**Date: January 2006**

**Version: 3.0 Final**

# PROCUREMENT PERFORMANCE MEASUREMENT

---

© LONDON REGIONAL CENTRE OF EXCELLENCE 2006

THIS DOCUMENT MUST NOT BE REPRODUCED IN ANY FORMAT WITHOUT THE WRITTEN PERMISSION OF THE  
LONDON REGIONAL CENTRE OF EXCELLENCE

## CONTENTS

---

<b>1.</b>	<b>Introduction</b>	<b>4</b>
<b>2.</b>	<b>The Measurement Framework</b>	<b>6</b>
	<b>2.1 Why Do We Need To Measure Procurement Outcomes?</b>	<b>6</b>
	<b>2.2 Vision For Procurement Measurement</b>	<b>6</b>
	<b>2.3 Challenges Presented</b>	<b>7</b>
	<b>2.4 Required Attributes</b>	<b>8</b>
	<b>2.5 Indicators That Make a Difference</b>	<b>8</b>
	<b>2.6 Trial Outcomes</b>	<b>13</b>
	<b>2.7 How To Make It Happen</b>	<b>14</b>
	<b>2.8 Risks</b>	<b>14</b>
<b>3.</b>	<b>Links to Other Documents</b>	<b>16</b>
	<b>Appendix A – List of Contributors</b>	<b>17</b>

## 1. INTRODUCTION

---

This document has been prepared following a request from several London Borough Treasurers to the London Centre of Excellence (LCE) for the development of a small number of indicators and associated measures for procurement that could be adopted on a pan-London basis. Specifically, the Treasurers were looking for:

- No more than five indicators that could be adopted by Boroughs
- Indicators that are easy to measure, but ideally show the contribution that procurement is making to overall efficiency, service delivery and fulfilment of corporate objectives
- An easy to use guide written in plain language which helps make procurement a mainstream activity

Developing and publicising a small number of common procurement indicators will benefit London Boroughs by:

- Helping raise the profile of procurement and its significant contribution to the delivery of corporate objectives
- Ensuring that London Boroughs gain an understanding of the most important areas for measuring the contribution of procurement over a sustained period (as opposed to shorter term measures or centrally imposed targets)
- Allowing London Boroughs to consider benchmarking with each other and working together to overcome barriers to achievement

For the purposes of ensuring that the recommended indicators would be widely accepted and not conflict with other initiatives from central government, the LCE has:

- Researched the availability of other measures in the public and private sector as well as through professional bodies (e.g. the Chartered Institute of Purchasing and Supply)
- Held a consultative workshop on 25<sup>th</sup> May, attended by representatives from over twenty Boroughs
- Invited the views of both the workshop attendees and representatives from the Society of London Treasurers (SLT) as to the value of the recommended indicators and the content of this document

The LCE would like to thank all those that participated in the workshop and document review process. A full list of participants at the workshop is at Appendix A.

Since publishing the document in October 2005, the LCE has under the auspices of the SLT trialled the recommended indicators. The LCE would like to thank the London Boroughs of Barking and Dagenham, Croydon, Hammersmith & Fulham, Haringey and Kensington & Chelsea for their proactive support. Although there were some comments on the proposed targets, we were pleased that in broad terms the recommended indicators were seen as both relevant and measurable. This document,

## PROCUREMENT PERFORMANCE MEASUREMENT

---

including the indicators and targets, has been amended to reflect feedback from the participating boroughs. Further information on this trial and general conclusions from it are set out at paragraph 2.6

Excluded from this document is:

- A commentary on the issues and challenges relating to the wider aspects of performance measurement
- Details of broader targets set by central government (e.g. BVI 8 – payment of invoices)

The LCE has attempted to provide core measures and indicators that:

- Demonstrate the professional value and contribution of the procurement function
- Will be supported by a majority of Boroughs regardless of political considerations
- Are easy to measure and can be used to assess issues and the impact of changes
- Show if procurement is contributing to improving value or quality of service

We recognise that Boroughs have different priorities and some may arrive at a different view as to what we should be attempting to measure pan-London. We accept this point but would add that agreement to these core, pan-London indicators do not replace localised ones already in existence or planned for the future.

## 2. THE MEASUREMENT FRAMEWORK

---

### 2.1 WHY DO WE NEED TO MEASURE PROCUREMENT OUTCOMES?

London councils have an influenceable third party expenditure of around £8 billion (2003/4). Of this expenditure, it is estimated that some 40% is on direct client facing services, such as social care and housing. For an average London Borough, third party expenditure is about £250 million per annum with an average of 7,000 suppliers used during this time.

All Boroughs would agree that it is important to measure the outcomes from this activity, although the reasons why may vary from council to council. Broadly speaking, we need to measure procurement outcomes to:

- Identify areas for improvement, especially around cashable savings and improved quality of services
- Ensure that procurement directly contributes to the fulfilment of the council's corporate objectives
- Demonstrate the value added, especially after changes (i.e. justify existence!)
- Assess the contribution to improved outcomes for the councils direct 'clients' and other stakeholders
- Support the delivery of politically related priorities e.g. green procurement, trading with small businesses, ethical trading
- Discharge CPA and audit obligations
- Accelerate the integration of procurement into the mainstream work of all public sector bodies (as opposed to being seen as a stand-alone administrative function)
- Contribute to better planning and the utilisation of scarce financial and human resources
- Support the move towards cross boundary collaborative working

### 2.2 VISION FOR PROCUREMENT MEASUREMENT

We believe that if it is to be worthwhile and measured properly, procurement measures should be:

- Aligned to the delivery of a council's corporate objectives
- Highly focused, standardised and directed towards 'added value', improved quality of service and delivery of cashable savings (particularly where there is an impact on council tax levels)
- Easy to report against and seen as an integral part of the job

## 2.3 CHALLENGES PRESENTED

The practice of measurement as opposed to the theory of how it should work is significantly different. Many people consider that for procurement:

- There are too many ways of measuring in use
- Most of the accompanying indicators currently in existence are either irrelevant, too low level, or impossible to measure
- There is no way of standardising on indicators so that performance can be assessed and corrective actions taken, particularly in the collaborative environment
- It is very resource intensive to undertake any measurement which tends to deflect from more important priorities, such as delivering services

The reasons for these challenges include:

- Absence of, inaccurate or inconsistent information including the difficulty in gaining access to it in the corporate IT systems
- Procurement indicators do not tend to be linked to corporate objectives, so they do not feature as a priority for senior managers or attract the resources needed to report against them
- Measurement of procurement performance is regarded as an overhead in a busy office rather than an integral part of the job
- Many people do not understand the benefits or importance of measuring procurement performance as corrective action is rarely taken or improvements demonstrated
- Indicators are often imposed by other stakeholders (e.g. finance) and do little to support key outcomes around the value delivered by the procurement function

It is important to recognise that not all of these challenges will be faced by every organisation. However, if they are not recognised and dealt with from the outset it will be impossible to:

- Integrate procurement as a mainstream business discipline integral to the fulfilment of corporate objectives
- Produce reliable and accurate returns against the key indicators adopted
- Move towards a standard pan-London approach for procurement reporting, which will underpin collaborative working and measurement of key factors such as value-add and service outcomes

## 2.4 REQUIRED ATTRIBUTES

Performance measurement needs to be an integral part of both the procurement function and the corporate culture if it is to succeed. If it is not, little will be achieved and there will be a tendency for a 'tick in the box' culture to be adopted.

The LCE workshop looked at the required attributes for the delivery of highly focused pan-London procurement indicators. The attributes for such indicators were agreed as being:

- Easy to measure with a well understood purpose both inside and outside the procurement function
- Contributing directly to the delivery of one or more corporate objectives
- Standardised, with complete portability to any London Borough or public sector organisation
- Linked to corrective actions and outcomes, so that people could see the value that the procurement function was delivering

## 2.5 INDICATORS THAT MAKE A DIFFERENCE

Broadly speaking, procurement indicators fall into three categories:

- **Strategic** – i.e. indicators that cover key outcomes such as quality and value as well as the overall contribution of the procurement function to the council's efficiency and effectiveness
- **Operational** – i.e. indicators that show the results of a process or how internal resources are deployed
- **External** – i.e. indicators relating to targets set by central government or other external body

It is not the purpose of this guidance to consider external indicators, although section 3 provides specific links and references.

Each category can then be sub-divided into 'upstream' and 'downstream' activity, depending on whether they are pre-contract (upstream) or post-contract (downstream).

The following sections are our recommended indicators for the **strategic** and **operational** categories.

### 2.5.1 STRATEGIC

Indicator and target	Source information and issues
How much of current third party expenditure is under a corporate or departmental contract	

# PROCUREMENT PERFORMANCE MEASUREMENT

Indicator and target	Source information and issues
<p><b>Contracted expenditure as a percentage of the Council's total influenceable expenditure.</b></p> <p>The target should be to reach <b>80%</b> within three financial years.</p>	<p><b>Source</b></p> <p>Third party expenditure is best identified from the creditors data in the finance system. It can be possible to extract contracted spend from total spend if the council has implemented the appropriate functionality.</p> <p><b>Issues</b></p> <p>The LCE definition of 'influenceable expenditure' needs to be adopted*. The LCE has baseline records on procurement expenditure for each council that took part in the 2003/4 and 2004/5 expenditure analysis work.</p> <p>Contracted expenditure means where a contract has been let or agreement put in place. Whilst a purchase order is a contract, the typical expenditure which is PO/ non contract related can be less than 5% in many boroughs.</p> <p>In order to measure spend under contract, it is essential that councils start to record purchase orders and invoices in their procurement and finance systems. Where such transactions are against a framework or period contract, a contract reference should also be included. This is usually relatively easy to do and is a precursor to establishing sound audit trails and showing the pursuit of best value for money.</p> <p><i>*Influenceable expenditure is defined as being spend on goods, services and capital works where the cost, quality, service level or trading process can be affected by human intervention.</i></p>
<p><b>How much of the contracted expenditure has been influenced by a designated procurement person using a corporately recognised process before the letting of a contract</b></p>	

# PROCUREMENT PERFORMANCE MEASUREMENT

Indicator and target	Source information and issues
<p><b>Contracted expenditure influenced before contract let as a % of total influenceable contracted expenditure.</b></p> <p>The target should be to reach <b>60%</b> within three financial years.</p>	<p><b>Source</b></p> <p>Contracted expenditure should be recorded on a corporate-wide system such as the finance system. The procurement or service department should have records of the value of contracts let after its involvement.</p> <p><b>Issues</b></p> <p>Some councils will not have assigned purchase orders and invoices to contract references in their systems. This is usually relatively easy to do and is a precursor to establishing sound audit trails and showing the pursuit of best value for money.</p> <p>Some councils do not have a corporate procurement function, preferring to have delegated specialists based in departments. This should not present a problem, provided that those specialists are suitably trained and/or qualified in modern procurement techniques to undertake such work in the first instance.</p> <p>There is a point about what constitutes “influenced”. This is more about the contract process having gone through a corporately recognised process where a designated person with appropriate commercial knowledge and/or training has been actively involved in the acquisition process from the definition of need.</p> <p>We strongly recommend that all councils should highlight where the corporate procurement function acted purely in a clerical capacity during the contracting process with no ability to influence the specification or the acquisition process.</p> <p>This can be extended to cover high level categories of product / service expenditure (e.g. consultancy, IT – see London categorisation shortly to be published in a future Pan London Strategy document on Procurement Classification)</p>
<p><b>Contribution of the procurement function or delegated service specialist to the delivery of cashable savings and cost avoidance</b></p>	

# PROCUREMENT PERFORMANCE MEASUREMENT

Indicator and target	Source information and issues
<p><b>Value of cashable savings and cost avoidance delivered by the procurement function or delegated service specialist as a % of the total costs of the contracts they have let.</b></p> <p>The target should to be to reach <b>10%</b> within three financial years for cost savings and cost avoidance.</p>	<p><b>Source</b></p> <p>This will need to be measured by the corporate procurement function (where it exists) with supporting data provided from the finance system.</p> <p><b>Issues</b></p> <p>Definitions can vary here, but the best method should be kept simple. Unit costs paid (before and after) for cashable savings and tabled increases presented against those accepted for cost avoidance.</p> <p>This indicator should be used not to justify a tick box approach to savings, but to encourage departmental managers and budget holders to make better use of existing resources.</p> <p>Some people regard cost avoidance as not being a real saving, but if price hikes are not challenged or rejected, they end up as next year's actual expenditure. Also, it is important to drive home the need for continuous improvement and on going cost reduction for many suppliers. The usual annual "inflation" hike is a throw back to the 1970s and is largely redundant in a modern commercial relationship.</p> <p>Cost avoidance will also be of increased interest given the sector uplifts, which are double digit, in areas such as energy supply and social care provision. These areas both contribute to the levels of council tax set.</p> <p>An independent audit of savings made should be encouraged.</p>

## 2.5.2 OPERATIONAL

Indicator and target	Source information and issues
<p><b>The quality of the service delivered by the procurement function or delegated service specialists to internal line customers (client) and potential / existing suppliers</b></p>	
<p><b>Satisfaction with quality of service provided by the procurement function, where it exists, against a series of defined outcomes.</b></p> <p>The target should to be to reach <b>90%</b> positive satisfaction rates within three financial years from internal clients, potential suppliers and existing suppliers.</p>	<p><b>Source</b></p> <p>This needs to be measured through a controlled survey, similar to the communication survey used by the LCE.</p> <p><b>Issues</b></p> <p>The exercise needs to be repeated each year, ideally with the same or a similar respondent base. Samples should be taken from each category.</p> <p>Not everyone will wish to participate in your survey. Also, try to get another internal stakeholder to run it to ensure independence.</p> <p>Don't be afraid to publish the results of the survey as the indicator is designed to support the taking of corrective action.</p> <p>You could use samples of SMEs and BMEs in your existing and potential supplier categories to help inform a further policy area.</p>
<p><b>Number of new trade suppliers used in the financial year</b></p>	

# PROCUREMENT PERFORMANCE MEASUREMENT

Indicator and target	Source information and issues
<p><b>Number of new trade suppliers used in a financial year as a % of the total used in the previous financial year.</b></p> <p>The target should be to reduce this to no more than <b>10%</b> in three years (for some councils it is as high as 40%).</p> <p>Number of new suppliers used in a previous year reused again in the following financial year as a %.</p> <p>The target should be to increase this to <b>50%</b> in three years (for some councils it is as low as 15%).</p>	<p><b>Source</b></p> <p>This information is best accessed through the creditors data in the finance system.</p> <p><b>Issues</b></p> <p>This is a simple indicator to measure and says a lot about how effectively a council is managing its supply base. Even though the range of products and services bought in each year remains relatively static there is lots of evidence of uncontrolled spending.</p> <p>Changing contractors regularly may be good in a highly competitive environment, but in many areas (e.g. social care) councils need more contractors and longer term relationships if they are to leverage improved quality and reduced costs.</p> <p>There is an overhead in maintaining supplier records and duplicating suppliers in the finance system.</p> <p>It would be wise not to include suppliers that appear on purchase card statements as this could skew the numbers achieved.</p>
<b>Number of individual invoices received reduced</b>	
<p><b>Number of individual invoices received for a given financial year as a % of the number of invoices received for the previous financial year.</b></p> <p>The target should be to reduce the number of invoices received by <b>10%</b> from a 2005/6 baseline.</p> <p><b>NB</b> In London about 7 million invoices are processed and paid by the Boroughs each year.</p>	<p><b>Source</b></p> <p>This information is best accessed through the creditors data in the finance system.</p> <p><b>Issues</b></p> <p>The handling and payment of invoices is an overhead and does nothing to add value to the quality of services provided by a council.</p> <p>There are several tried and tested ways of reducing the number of invoices received, including the use of the Government Procurement Card (GPC), consolidation and better use of contracts.</p> <p>All major financial / ERP solutions can handle P-cards and GPC will interface with your general ledger as standard, although there may be a small consultancy fee for mapping.</p> <p>Delivery against this measure delivers cashable savings, and other efficiency gains. It also ensures better use of human resources.</p>
<b>Numbers of invoices below £100 in value where payment is totally automated</b>	

# PROCUREMENT PERFORMANCE MEASUREMENT

Indicator and target	Source information and issues
<p><b>Number of invoices below £100 in value paid as a % of the total number of invoices paid in any financial year.</b></p> <p>The target should be to remove the ad-hoc invoices (through better use of framework agreements and purchasing cards) and fully automate the remainder using techniques such as self-billing, invoice consolidation, e-invoicing, direct debits, payment by instalments and automatic matching with orders.</p> <p>Target automating <b>50%</b> of invoices of value less than £100 within three years.</p> <p>Target a reduction of the number of invoices of value less than £100 to <b>10%</b> of the total number of invoices received within three years (baseline 2005/6)</p> <p><b>NB</b> In London 32% of invoices processed are valued at less than £100 and account for 1.2% of total third party expenditure. The cost of handling is arguably higher than the value of the invoice.</p>	<p><b>Source</b></p> <p>This information is best accessed through the creditors data in the finance system.</p> <p><b>Issues</b></p> <p>The use of the Government Procurement Card (GPC), e-invoicing, consolidation, direct debits / payment by instalments and IR/HMCE approved self-billing are all acceptable ways of automating invoice handling/ payment. Providing a retrospective audit is undertaken there are no probity objections for automating and removing these low value transactions.</p> <p>All major financial / ERP solutions can handle full automation of these transactions.</p> <p>The objective should be to work with suppliers to remove the need to raise such invoices in the first instance.</p> <p>Delivery against this measure delivers cashable savings, and other efficiency gains. It also ensures better use of human resources.</p> <p>There was some concern expressed by boroughs about the targets given the current magnitude of the problem. In many respects this is a cultural problem in public and private organisations. This problem prevents organisations from using automation capability to its full extent and forgets that the role of audit is not only about probity but also ensuring the delivery of value for money and effective use of scarce resources.</p>

Potential indicators were considered at the workshop on 25<sup>th</sup> May for the complete range of procurement activities including policies towards sustainability and the broader Corporate Social Responsibility (CSR) agenda. The last categories were regarded as important by many representatives but have not had indicators included in the recommended short list as they were:

- Deemed costly / difficult to produce and report against
- Thought to be associated with local political priorities and would not necessarily command pan-London adoption
- Considered to be best measured by existing policy networks that work on current delivery

## 2.6 TRIAL OUTCOMES

The proposed indicators and measures were tested by representatives from the London Boroughs of Barking and Dagenham, Croydon, Hammersmith & Fulham, Haringey and Kensington & Chelsea. The main conclusions from the trial were:

- The indicators were broadly speaking deemed to be relevant and helpful. Collecting the information in one or two areas was identified as an issue although this was not given as a reason for a 'do nothing option'
- Some practical issues on definitions and structures were raised which have now been

## PROCUREMENT PERFORMANCE MEASUREMENT

---

incorporated into the core document

- It was noted that the 'client satisfaction' indicator would require a survey. The opportunity to standardise on the survey was seen as an advantage, which the LCE will pursue
- Some thought the targets were on the high side. These have been reduced accordingly. However, targets should be challenging and aspirational. We hope that any future audit would reflect that and recognise that identifying the problem and tackling it is far more important than achieving a target
- There were some other useful indicators already being used by one or two boroughs which could be brought forward in future reviews of this document

### 2.7 HOW TO MAKE IT HAPPEN

Clearly, it may take time for Boroughs to achieve a common set of procurement measures and associated indicators for London. The immediate issues are to address the challenges set out in paragraph 2.3 and start the process for dealing with any other issues that may obstruct the fulfilment of the vision for procurement measurement set out at paragraph 2.2.

The most immediate tasks are to:

- Gain agreement to the adoption of common procurement measurement from your Management Board (or equivalent) and Member champion (if appropriate)
- Ensure that the objectives in your Procurement Strategy are directly aligned with the delivery of your corporate objectives and that the agreed measures are acknowledged in the Procurement Strategy
- Check how easy it is to access the required supporting data from corporate systems, as well as the quality of the data. Take appropriate actions to rectify any issues and contact the LCE if the system provider is unhelpful
- Contact the LCE to provide an on-site workshop to launch the new measures and address specific concerns and issues
- Feedback any issues or concerns to the LCE, the London Contracts and Supplies Group and your Treasurer so that these can be referred to the Society of London Treasurers (SLT) Gershon Sub-Group
- Ensure that there is a proper mechanism for reporting in addition to any external requirements associated with delivery of central government targets

### 2.8 RISKS

There are a number of high risks in developing a small number of indicators and associated measures for procurement to be used on a pan-London basis. These and the associated counter measures are

## PROCUREMENT PERFORMANCE MEASUREMENT

---

set out in the following table.

Risk	Counter Measure
<b>Pan-London measures adopted by SLT, but not implemented by Boroughs</b>	<ul style="list-style-type: none"> <li>▪ Ensure sign-off by SLT and Heads of Procurement</li> <li>▪ Avoid the need for 100% buy-in and encourage phased implementation</li> <li>▪ Ensure active promotion by LCE</li> </ul>
<b>Too many barriers to make a reality</b>	<ul style="list-style-type: none"> <li>▪ Specific workshop to identify the barriers with a report produced and presented to SLT</li> <li>▪ Pan-London strategy for approaches to any system provider where cost is deemed excessive and technology is proving to be an issue</li> </ul>
<b>Too many measures already in place</b>	<ul style="list-style-type: none"> <li>▪ It is up to each Borough to decide how they measure the value and contribution of their procurement function. Excluding those that are centrally imposed, it is up to Boroughs to decide their own measures</li> </ul>
<b>Performance Measurement not core to the procurement function</b>	<ul style="list-style-type: none"> <li>▪ Active promotion from LCSG, LCE and OGC</li> <li>▪ Consider CIPS endorsement</li> </ul>
<b>No interest from a majority of Boroughs</b>	<ul style="list-style-type: none"> <li>▪ Ensure sign-off by SLT and Heads of Procurement</li> <li>▪ Plan phased implementation accepting that three to five Boroughs adopting will be enough to start the process</li> </ul>
<b>Attempt to expand list to support localised policies</b>	<ul style="list-style-type: none"> <li>▪ Ensure that the core measures and indicators are preserved and allow Boroughs to add to it for their own purposes</li> </ul>

## 3. LINKS TO OTHER DOCUMENTS

---

The following websites and documents provide useful additional information on this subject:

- OGC "The Procurement Excellence Pilot" ([www.ogc.gov.uk](http://www.ogc.gov.uk))
- OGC "E-Procurement in Action" ([www.ogc.gov.uk](http://www.ogc.gov.uk))
- ODPM "The Efficiency Technical Note (ETN) for Local Government" ([www.odpm.gov.uk](http://www.odpm.gov.uk))
- ODPM "Delivering Efficiency in Local Services" ([www.odpm.gov.uk](http://www.odpm.gov.uk))

# PROCUREMENT PERFORMANCE MEASUREMENT

## APPENDIX A – LIST OF CONTRIBUTORS

Name	Organisation
Paul Ansell	London Borough of Barking & Dagenham
Alison Matheson	London Borough of Brent
Katherine Adams	London Borough of Camden
Roger Jones	London Borough of Ealing
Stephanie Seff	London Borough of Hackney
Francis Murphy	London Borough of Hammersmith & Fulham
Nicola Green	London Borough of Harrow
Eugene McLaughlin	London Borough of Havering
Mark Cooper	London Borough of Hillingdon
Angela Paterson	London Borough of Islington
Jeremy Beresford	Royal Borough of Kensington & Chelsea
Dave Starling	London Borough of Lewisham
Martin Yates	London Borough of Merton
Lisa Charles	London Borough of Redbridge
Martin McDonald	London Borough of Richmond upon Thames
Mark Brewer	London Borough of Sutton
Yvonne Sanders	London Borough of Waltham Forest
Alison Martins	London Borough of Wandsworth
Jonathan Kleinot	London Development Agency
Linda Eziquiel	Greater London Authority
Gordon Donovan	Transport for London
Richard Whiteside	Procurement Agency for Essex