



National Audit Office



REPORT

Efficiency in government procurement of common goods and services

Crown Commercial Service

SESSION 2024-25
HC 116

Key facts

£125bn

estimated public sector market for common goods and services

£25bn

spend on common goods and services purchased through the Crown Commercial Service's (CCS's) 238 frameworks from which expenditure was being reported in 2022-23

unknown

number of frameworks available across all framework providers for use by one or more contracting authorities; third-party data providers have identified at least 8,000 frameworks

- £393 billion** estimated spending on public procurement in 2022-23. This estimate from *Public Spending Statistics* dated February 2024 includes the procurement of goods and services by one public sector body from another
- 0% to 11%** percentage of revenue charged to suppliers for each contract by framework providers as a 'levy' or 'commission rate' (technical terms are defined in the glossary at Appendix Two); some framework providers charge additional fees to suppliers and subscriptions to members to use their services
- 0% to 2%** typical levy rate for CCS, whose average levy is 0.7% (CCS has two outlier frameworks where the combination of levy and management charges amounts to 4% and 11% respectively. One expired in June 2023 and the other is due to expire in January 2025)
- 19,606** organisations, including all of the main central government departments, which used CCS to buy common goods and services in 2022-23
- 3,926** number of suppliers who reported spend through CCS frameworks in 2022-23 (2017-18: 2,039)
- £3.6 billion** CCS's reported commercial benefits – representing an average price benefit of 10.37% by using CCS commercial agreements compared to external price benchmarks; there is an additional £0.2 billion of change related benefits not included in this figure

Summary

Background

1 The public sector spent some £393 billion on goods and services in 2022-23. This figure includes capital and current expenditure and spend between public sector bodies. Thousands of public bodies buy common goods and services, such as energy, temporary staff, and travel, as well as more specialist items such as defence equipment and pharmaceuticals. Procurement of goods and services makes up around one-third of total public spending and has increased by 22% in real terms in the five years since 2017-18.

2 Public sector procurement in the UK is subject to a legal framework which is intended to encourage value for money and free and open competition, in line with internationally and nationally agreed obligations and regulations. In March 2024, HM Treasury, in response to a speech by the head of the National Audit Office, included procurement as one of five areas in which it expects the government to create efficiency savings. The Cabinet Office notes that it is not possible to accurately model the impact of procurement reform on competition, but illustrative scenarios it looked at indicated that increased competition in public procurement could deliver annual benefits of between £4 billion and £7.7 billion.

3 A number of bodies across the government have specific responsibilities for procurement:

- The Crown Commercial Service's (CCS's) purpose is to help the UK public sector get better value for money from its procurement of common goods and services. CCS achieves this by establishing commercial agreements (such as framework agreements and Dynamic Purchasing Systems) for common goods and services for use by the UK public sector.
- The Government Commercial Function (GCF) leads public procurement policy including setting standards for the procurement of goods and services for government.

4 The Public Contracts Regulations 2015 permit a public sector body to establish frameworks and to act as a 'central purchasing body' (CPB). Under the Procurement Act 2023, a CPB is referred to as a 'centralised procurement authority' (CPA). CPAs can create frameworks that other buyers can use to purchase goods and services. CCS is the largest CPA and framework provider by the volume of spend it manages. The implementation of the new Act is expected in October 2024 and, for this reason, we refer to these organisations (CPBs and CPAs) as CPAs in our report, or 'framework providers' when we are emphasising issues relating to frameworks.

5 CCS was established in 2014. It is a trading fund and an executive agency of the Cabinet Office. CCS's main objective is to help the UK public sector get better value for money from its procurement of common goods and services. Of an estimated market of £125 billion in common goods and services, £25 billion of spend goes through CCS's frameworks. We last examined CCS in 2017 and we reported that although CCS's customers could save money by using CCS agreements, we expected a larger volume of savings would have been delivered if CCS had been set on a sounder footing. We concluded then that government reforms to central buying had not been well managed.¹

Scope of this report

6 This report looks at the efficiency of the central purchasing of common goods and services. It examines:

- how common goods and services are purchased by the UK public sector;
- whether CCS has achieved its principal objectives of helping the UK public sector get better value for money for the procurement of common goods and services; and
- what more CCS and the government need to do to secure greater efficiencies.

We did not examine the procurement of major programmes (for example, large infrastructure projects) and we did not look at how organisations outside central government undertake procurement, although we would expect many of our findings to apply across the public sector.

¹ Comptroller and Auditor General, *Crown Commercial Service*, Session 2016-17, HC 786, National Audit Office, January 2017.

Key findings

The central purchasing system in the UK

7 The government has made progress aggregating purchasing to get the benefit from collective buying of common goods and services for the public sector, but it has more to do. In 2016, GCF created a Government Functional Standard which set out steps for government organisations to maximise their purchasing power by aggregating demand and using collaborative procurement channels. CCS told us that it contributes to aggregation benefits because suppliers bid competitively for places on its frameworks in expectation of gaining a share of the anticipated overall scale of public sector business. CCS told us that since we last looked at its operations in 2017, it has enabled further aggregation benefits by negotiating pricing agreements with suppliers which secure volume discounts and by running events that pool customer demand in specific product categories, including on water, technology and fleet. CCS is yet to implement this aggregation on a wider scale. However, it is now developing five pilots to explore additional aggregation opportunities. During our fieldwork, commercial directors in government departments reported that there were practical difficulties in scheduling purchasing and that there were insufficient data to help make decisions on opting into collective buying (paragraphs 1.16 to 1.17).

8 The government does not have any oversight of the many frameworks or framework providers, leading to missed opportunities for greater efficiency. Public procurement in the UK is largely decentralised and involves a mix of public sector and private sector organisations offering many thousands of frameworks. Third-party market data providers have identified a range of 8,000 to more than 21,000 public sector frameworks, but there is no definitive list at this time. This fragmentation prevents the government from acting as a single buyer across numerous categories of common goods and services, resulting in duplication of effort and increasing bidding costs for suppliers. The framework providers benefit from higher levels of public expenditure as this increases their income from levies, commissions and charges. The government has proposed in its latest reforms to establish a register of commercial tools to capture information on the frameworks awarded under the Procurement Act 2023, with planned implementation from October 2024 (paragraphs 1.4 to 1.14 and 3.6, Figure 4 and Appendix Five).

9 The emergence of procurement frameworks hosted by small contracting authorities and operated by private sector organisations raises questions about how those frameworks contribute to value for money at a system level. We note with interest several instances of small contracting authorities, such as small health trusts or academies, 'hosting' frameworks operated by the private sector. These frameworks are marketed to a wide range of public sector buyers as a convenient route to market with proactive customer service. These frameworks operate separately from central initiatives to aggregate demand and improve category management and have not been subject to oversight or accreditation. Commissions charged to suppliers (and in some cases, buyers) for using these frameworks can be as high as 5% to 6% (compared to the average of 0.7% for CCS frameworks) and in some instances may incentivise direct awards over competition at call-off stage. Profits generated from commissions are not available to improve the public procurement system (paragraphs 1.6 to 1.15, 3.9 to 3.14 and Figure 4).

CCS's contribution to efficiency in central purchasing

10 CCS's objective and management targets have incentivised it to grow the volume of spend that goes through its commercial agreements. There is a risk that this leads it to prioritise growth over maximising value. CCS has more than doubled the annual value (in real terms) of the transactions through its agreements from £12 billion in 2017-18 to £25 billion in 2022-23. CCS told us that it saw growth in spend as a means to enable better value for money for procurement of common goods and services, because it meant more transactions were being undertaken using the terms, specifications and maximum price it sets through the framework procurement process and because greater spend through its commercial agreements gives it more influence with suppliers. There are still segments like local communities and housing and the NHS where CCS believes greater usage of its frameworks can help secure better value for money. However, growth on its own does not lead to an efficient central purchasing system, and there is a risk that incentivising growth means it is prioritised over maximising value. The majority of CCS's income is from the levy that suppliers pay to CCS as a proportion of the value of business they win through CCS's frameworks. CCS's levy is currently averaging 0.7% of spend through its frameworks. Other framework providers use a similar model. Many central government departments told us that they see CCS as the default organisation for buying certain categories of common goods and services, suggesting that they see benefits in using CCS's services. However, a number of departments alluded to inconsistencies in the quality of customer service provided by CCS (paragraph 1.3 and Figure 1, and paragraphs 2.2 to 2.6, 2.14 and 3.13 to 3.16).

11 CCS develops government-wide category management strategies for common goods and services and has improved since we last reported in 2017, but it still has more to do to effectively implement its approach.² It is good practice for organisations to categorise the goods they frequently buy and develop a strategy for each category. CCS has started to refresh its strategies for managing the categories of goods and services available via its frameworks in order to better engage with its markets. In March 2021, CCS reported that it had completed category strategies in its 76 categories of common goods and services. In September 2023, CCS developed a new categorisation approach with three top-level categories: ‘technology’, such as purchasing digital specialists or laptops; ‘estates’, which includes facilities management and construction, and ‘corporate’, which includes consultancy and temporary staff. Within those three top-level categories there are 49 subcategories. CCS told us that, under its new approach, it expects to revise its strategy for every category each year. As of March 2024, five subcategories (10%), had a refreshed strategy in place and 11 more (22%) were in progress (paragraphs 2.9 to 2.12 and Figure 7).

12 Departments consider that using CCS saves them money, although CCS’s calculation of commercial benefits is not well understood by its customers and is not aligned with departments’ own savings calculations. CCS reported commercial benefits from commercial agreements of £3.6 billion in its 2022-23 annual report and accounts (this excludes £0.2 billion of change related benefits). Some departments told us that they do not place much weight on CCS’s benefits calculation because they do not understand it, and that CCS’s methodology is not aligned with the way they calculate savings. However, their own internal calculations show that there are savings and benefits to using CCS, and so decisions to use CCS are made despite the differences. CCS does not currently collect data from public sector organisations on the prices of goods and services included in contracts awarded but relies on data from suppliers. CCS then uses its category specialists and third parties to identify reliable market comparators. However, it is not always able to obtain reliable market prices, so this picture is incomplete. A review of the process for calculating commercial benefits by the Government Internal Audit Agency (GIAA) in 2020 provided an overall substantial assurance opinion but reported that the calculations used to determine the overall commercial benefit, though consistent, did not align with current ways of working and recommended that CCS’s documentation of the process is reviewed and updated. CCS told us that this has now been completed (paragraphs 2.19 to 2.22 and Figures 11 and 15).

² Category management is a strategic approach to procurement. It allows more focus on categories that have opportunities for consolidation and efficiencies.

Opportunities for improving efficiency in central purchasing

13 Although no single supplier has more than 7% of the £25 billion public sector spend through CCS, its frameworks have created some highly concentrated markets. Competition among suppliers supports value for money. The average revenue generated by each supplier that reported spend through CCS frameworks was £6 million in 2022-23. Since we last looked at CCS in 2017-18, it has brought more suppliers onto its frameworks (there were over 9,500 suppliers with a place on CCS frameworks and 3,926 suppliers reported spend through CCS frameworks in 2022-23 versus 2,039 in 2017-18) but CCS could do more to expand access to a wider pool of suppliers. We used metrics adopted by competition authorities to assess whether buyers have a large choice of potential suppliers. To help with this determination, we analysed 308 lots within 107 frameworks with recorded spend above £100,000 in 2022-23.³ Our analysis showed that CCS frameworks had 24 single-supplier lots and a further 25 lots where all contracts were awarded to a single supplier even though other suppliers were available. This suggests that a number of frameworks have a few suppliers winning most of the work, creating highly concentrated markets. CCS told us that the number of suppliers it awarded places to on its frameworks and lots through its competitive procurement processes was determined by the commercial strategy for each category. For example, single-supplier frameworks are justified where the commercial strategy determines that the competition to win the only available place on a framework could lead to a better outcome (paragraphs 2.13 and Figure 8, and 3.2 to 3.4 and Figure 12).

14 The Procurement Act 2023 provides opportunities for the government to improve transparency and mechanisms for data collection once it is implemented in October 2024. Public sector organisations use different procurement systems which do not always allow for data to be easily shared with central purchasers or framework providers including CCS. Although CCS obtains data on spending through its commercial agreements from suppliers, it also relies on collecting published data and subscribing to data service providers to access the information they hold on public sector spending. The Cabinet Office established ‘Contracts Finder’ in February 2011 to open up opportunities for small and medium-sized enterprises and voluntary, community and social enterprises, and ‘Find a Tender’ service was introduced in January 2021, when the UK was leaving the European Union, to replace the system used for advertising opportunities. Most public sector organisations have been required by legislation and policy to publish procurement data using these systems, but compliance has been poor. The Cabinet Office told us that it has no mechanism for enforcing compliance. To meet the enhanced transparency requirements of the Procurement Act 2023, the Cabinet Office is introducing a central digital platform which requires contracting authorities to publish significantly more information about upcoming procurements and contracts (paragraphs 3.5 to 3.6 and 3.19 to 3.20).

3 A framework can be divided into lots.

15 CCS's average levy rate is 0.7%, double the rate it requires to achieve its financial objective of a 5% return on capital employed on average over a five year period, but it has insufficient incentives to reduce the levy. CCS's levy system has resulted in an unintended accumulation of surpluses somewhat to the dissatisfaction of some of the CCS customers that we spoke to. CCS generated income from levies of £177 million in 2022-23, nearly twice its operating cost of £94 million. CCS told us that, because of the rapid increase in spending through its commercial agreements – which it attributes to the active role it played in the COVID-19 pandemic – its income had grown faster than expected. CCS told us that it has been asked to pay a larger dividend to the Cabinet Office. CCS is introducing a payment scheme in 2024-25 to return part of its surplus to some of its customers. HM Treasury agreed the plan to reduce CCS's surpluses in September 2023 and also asked CCS to consider reducing the levy rate if surpluses continue to grow above current levels. We analysed CCS's projections and, if CCS manages to grow spend through its agreements in line with these projections, it could cut the levy by 50%, with the reduction phased in as frameworks are replaced. Based on our analysis, if the levy was halved, instead of distributing the surplus through dividends and the payment scheme, and if all of the savings were passed to CCS's customers through price reductions by suppliers, public sector organisations using CCS frameworks could avoid over £500 million in costs over five years to 2028-29 (paragraphs 2.3 to 2.4, 3.10 to 3.16 and Figure 13).

16 CCS could take a system leadership role in public procurement of common goods and services but is constrained by its operational capacity. CCS's purpose is to help the UK public sector get better value for money from its procurement of common goods and services. CCS has an ambition to increase the value it provides to the public sector. Some departments told us that CCS could do more to drive efficiency across the public sector. CCS is subject to Cabinet Office's headcount 'cap' and told us that it has implemented a 20% reduction in staff, which has made it more challenging to realise its ambition. A recent Board evaluation raised concerns over the potential conflict from the role of the Government Chief Commercial Officer, who is a non-executive director of CCS and is also the Cabinet Office sponsor for CCS. The report noted that the most obvious example during the period of the review was the handling of the surplus. The report also noted that it is entirely appropriate, given his executive role, for him to express a Cabinet Office view on how the surplus should be redistributed but any conflict needs to be managed. The dividends paid to the Cabinet Office by CCS are currently used to cover the cost of the central commercial teams which report to the Government Chief Commercial Officer. The Cabinet Office told us that from the next Spending Review onwards, the central commercial teams will be funded by HM Treasury and the Cabinet Office. CCS has proposed in its revised 2024 to 2026 business plan to update its purpose as follows: "to help the UK public sector to better extract value from its commercial and procurement activity" (paragraphs 2.2 to 2.6, 3.24 to 3.29 and Figure 6).

Conclusion on value for money

17 Public sector bodies spend around £125 billion each year on common goods and services but public procurement is largely decentralised, with many public sector and private sector organisations operating within the system. GCF, working in conjunction with CCS, should streamline the central purchasing system to deliver better value for money for the public sector. More broadly, the government needs to address the profusion of framework agreements. By reducing poor-quality frameworks and supporting CCS to make improvements to its offer, there is scope for the government to significantly improve the value for money for the £125 billion spent on common goods and services each year, of which around £25 billion was spent through CCS's frameworks in 2022-23.

18 Since we last looked at CCS in 2017-18, it has grown to become the largest framework provider, and central government departments regard CCS as the default organisation for buying certain categories of common goods and services. CCS is improving its offering but could make much better use of data and technology to increase transparency and promote competition. CCS should also deliver efficiency benefits through more aggregation of buying, better management of goods and services categories and improved understanding of its markets.

Recommendations

19 Both GCF and CCS have stated they are committed to bringing about the changes that are required to improve public procurement. These recommendations are intended to help both organisations as they develop their plans for change and improvement.

- a** We have previously recommended that GCF publishes a playbook or good practice guidance for framework agreements, and our findings from this study further support that recommendation and highlight an urgent need for this to be implemented. Through the playbook, GCF should set the standards for accrediting framework providers and ensure greater transparency over how frameworks are created and operated, including guidance on how and when direct awards via frameworks should be permitted – the aim being to achieve fewer frameworks, lower levies and commission rates and improve the quality of frameworks and framework providers.
- b** To help government make better decisions and encourage contracting authorities to be transparent about prices and the quality of goods and services, GCF should introduce a methodology that allows for consistency in data collection and reporting. The Cabinet Office should develop a mechanism for monitoring and addressing non-compliance.

- c** CCS needs to focus on its purpose which should be aligned with its strategy to maximise the wider benefits of central purchasing to the public sector. CCS's corporate performance metrics over the last several years have been set in line with its growth and commercial benefits strategy, with the assessment of the performance of some of CCS's management being set accordingly. As a result of its successful growth, CCS should now focus on delivering an efficient central purchasing system for the UK public sector.
- d** CCS, as the largest UK framework provider, should act as the system leader for the procurement of common goods and services. As part of this, CCS should put in place appropriate commercial capability, make better use of the data already available within the procurement system and identify opportunities for innovation and more effective competition in the wider market wherever feasible.