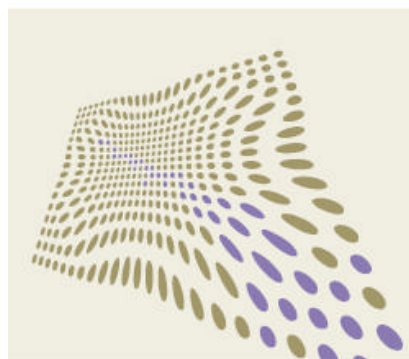
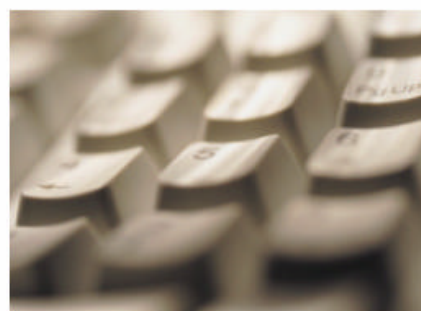


PUBLIC SECTOR AGGREGATION

Guidance Note General 1

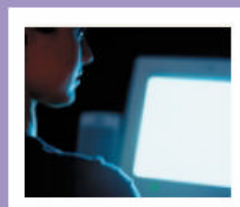
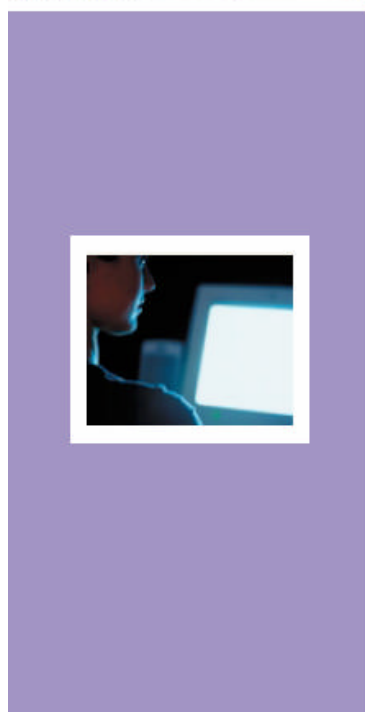
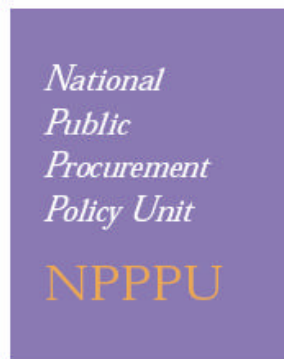


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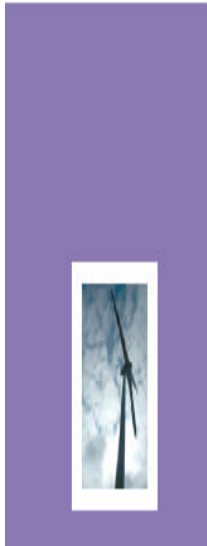



*National
Public
Procurement
Policy Unit*

NPPPU



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FOREWORD

Effective and efficient procurement policies, procedures and practices in public sector bodies can have a significant impact on obtaining value for money in the purchase of goods and services by the State.

In 2005 the NPPPU published the **National Public Procurement Policy Framework**. The policy requires that *procurement management reform* should be one of the key strategic priorities of the public sector in order to achieve value for money outcomes from procurement. *Procurement management reform* is to be achieved by encouraging public sector bodies to analyse their procurement structures and practices and through this process adopt improved procurement practices and procedures. Public bodies are required to achieve this policy objective through the development of Corporate Procurement Plans. The plans are expected to be underpinned by analysis of procurement expenditure and procurement practices, systems and structures. The plans should provide targeted and strategic direction to procurement planning in public bodies.

As part of the process of encouraging *procurement management reform* and the corporate procurement planning process, the NPPPU is committed to putting in place a suite of policy and guidance documents to support innovative and improved procurement practices. This series should help those who make strategic decisions on procurement, those who are responsible for developing their body's Corporate Procurement Plan and those who are responsible for implementing these plans.

This guidance has been developed to help procurers who want to put in place arrangements for the aggregation of demand for goods and services by public sector bodies.

WHAT IS AGGREGATION

Definition of aggregation

- Aggregation means public sector purchasers from within the same body (where purchasing is currently devolved or fragmented) and/or from different public sector bodies combining individual requirements to procure common goods and services from the market to achieve cost reductions and non-price value for money outcomes. Aggregation can achieve:
 - reduced and/or standardised costs/prices
 - improved non-price value such as enhanced service levels
 - reduced duplication of tendering, tender evaluation and supplier management effort
 - better quality of goods or services
 - greater purchasing expertise
 - improved whole of government outcomes (for example improved social or environmental standards)
 - cost reduction and improved benefits for small public sector purchasers who can benefit by being part of a bigger buying group

provided that the arrangement is properly developed, organised and managed.

- The scale of savings and other value for money benefits from aggregation varies from market to market and for individual goods and services. Reductions in prices are not possible on a continual basis, as the market may not be able to absorb repeated price cuts. Continual pressure on prices could lead to suppliers exiting the market leading to reduced competition. Where there is limited scope for reductions in price, the best strategy is to maintain control over price variations while seeking better quality goods or improved levels of service and support.

Levels for the development of aggregation

- Aggregation can be developed at a number of different levels:
 - National Aggregation: A supply arrangement from which all state bodies purchase
 - Sectoral Aggregation: A supply arrangement from which state bodies within known sectors purchase, for example central government, local government, health and education

- Cross sectoral aggregation: A supply arrangement in which different public sector bodies acquire goods or services common to all the bodies, for example food supplies to prisons and hospitals.
- Regional/Local Aggregation: A supply arrangement from which state bodies from within the same sector or from different sectors but from within a defined geographical area make purchases, for example specific local authority area or regional such as north west or south east.
- Group Aggregation: A supply arrangement for state bodies belonging to the same policy group e.g. justice group, enterprise group, and communications group. This will typically involve a central government department and its offices and agencies.
- Organisational Aggregation: A supply arrangement developed in order to purchase goods and services for all business units in the same body (e.g. single arrangement to purchase stationery).

Key Message

Aggregation can achieve value for money, including better prices and service outcomes from public sector purchasing but achieving these results requires careful planning. Aggregated arrangements can be set up on a geographical, sectoral or organisational basis.

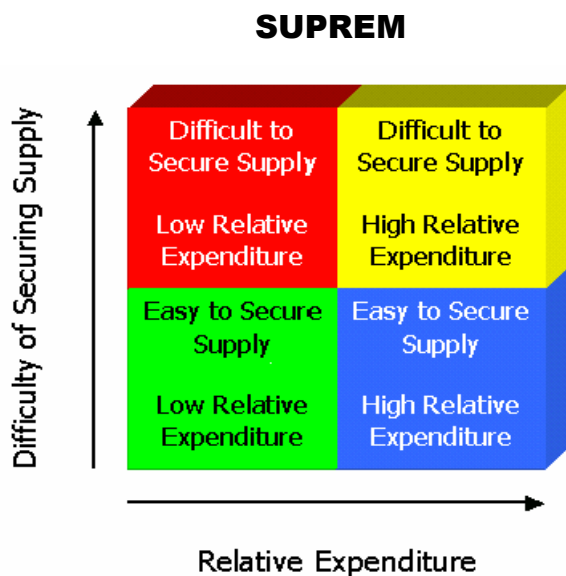
ENSURING BEST OUTCOMES FROM AGGREGATION

Introduction

- The decision to aggregate demand within a body or externally with other public sector bodies is a significant change in purchasing behaviour. The decision to aggregate should be driven by a good evidence-based case and be agreed and supported by management at all levels. An aggregated arrangement should be pursued where analysis shows that volume discounts can be achieved and additional value for money outcomes can be realised.
- Much of the initial analysis to determine when bodies should get involved in aggregation would normally be carried out as part of the analytical work for the Corporate Procurement Plan. Individual public sector bodies should decide when developing their Corporate Procurement Plan whether they intend to aggregate demand and whether this will be an internal process or carried out with other public sector bodies. Other analysis will also be required, but this should be proportionate to the potential size of the contract and the expected benefits arising.

Analysis of purchasing expenditure

- The basic expenditure analysis can be carried out using the SUPREM supply positioning software (www.suprem.gov.ie). SUPREM is a software analytical tool which can be used to determine opportunities for aggregation within an individual body.



SUPREM is used to segment procurement expenditure into four quadrants (Quadrant 1: Easy to secure supply, Low relative expenditure; Quadrant 2: Easy to secure supply, High relative expenditure; Quadrant 3: Difficult to secure supply, Low relative expenditure; Quadrant 4: Difficult to secure supply, High relative expenditure; as shown). This reflects the relationship between the two principal influences on the management of procurement: procurement risk and the relative level of expenditure. Procurement risk in this context means the difficulty of securing supply. This can occur, for example where there are a limited number of suppliers or difficulties sourcing a particular product or service.

- The type of procurement amenable to aggregation is expenditure on common goods and services in the two lower quadrants of the SUPREM matrix. The spend analysis which is derived from using SUPREM provides an initial

indication of whether there are goods or services amenable to aggregation in the body. Goods and services which are common to all state bodies include:

- IT hardware
 - Some consultancy services
 - Office furniture and equipment
 - Electricity
 - Building maintenance
 - Waste disposal
 - Advertising
- Some goods and services common to a number of state bodies include:
 - Road materials – local authorities
 - Uniforms – justice sector (prisons, Gardai, defence forces)
 - Medical products – health sector
 - Starting with the list of goods and services detailed in SUPREM together with analysis of suppliers and transactions, bodies should then consider the following issues.

Key message

The initial analysis can be carried out using supply positioning software. This gives an initial indication of whether it is possible to aggregate demand in a public sector body or between public sector bodies.

Demand and aggregation

- Individual public sector bodies should understand the quantities of goods or services purchased by them in order to determine whether there is a case for aggregation of one or more of these goods or services at the level of the body or between it and other public sector bodies.
- Individual public sector bodies need to consider their ordering patterns – is the good or service ordered on a predictable basis – annually or more frequently (e.g. once a month) or is demand occasional. Occasional or irregular purchases of goods or services may not be suitable for an aggregated arrangement.
- Public sector bodies should consider associated operational requirements such as the number of delivery locations and the amount of goods or services required at each location.

Supply markets and aggregation

- Bodies need to consider the type of supply market which exists for the goods or services. They need to understand how it is structured, the level and nature of competition, types of companies (e.g. multi-national, large, SMEs including micro businesses), the type of supply chain that exists (e.g. an overseas multi national company with distributors in Ireland or a company manufacturing in Ireland with its own distribution network). The market structure including number and type of suppliers can impact on the competitive environment with implications for prices paid and the levels of service received in respect of individual goods or services.

- Efficient aggregated arrangements can encourage participation by new suppliers, increase competition between suppliers and reduce the potential for monopoly outcomes. Aggregation can be used to widen the potential base of suppliers. In addition, aggregation can allow for better management of the various links within the supply chain.¹ Effective management of the supply chain has the capacity to deliver savings and broad value for money outcomes.
- Public bodies need to consider how they can prevent negative outcomes from aggregated arrangements since these have the potential to stifle competition and reduce value for money results for public purchasers. Large scale aggregation with significant value or volume of goods or services can discourage small business from tendering. Some aggregated arrangements may be over specified either in technical terms or in the standard of delivery required. Simpler specifications can often achieve the goals of the public service purchaser. Aggregation could lead to the creation of dominant or incumbent suppliers, who could use their contract experience to become the sole supplier for a public sector body for certain goods or services.
- Public bodies need to consider the size of their aggregation relative to the overall market. If public bodies' demand profile is relatively small, suppliers may consider the potential business marginal and not compete for it. Aggregation may not be viable in such circumstances.
- Public bodies should consider the cost effectiveness of locally supplied goods and services and whether aggregated arrangements would be better set up at local level compared to central or national aggregated arrangements. For example, it may not be economical to bring road building material over long distances limiting any potential arrangement to local suppliers only.
- There are no specific rules for determining how an aggregated arrangement will impact on individual supply markets. In some cases, public sector purchasing has no impact but in other cases such purchases can dominate the market. Individual public bodies need to develop their own understanding of the particular markets in which they purchase goods or services. Such information could also be shared with other public sector bodies where necessary and appropriate.

Numbers of public bodies in an aggregated arrangement

- There are no rules on the appropriate number of bodies which can participate in an aggregated arrangement. However agreement is more likely between bodies with common interests, similar external challenges and geographical proximity.

Stakeholder interest

- It is necessary to consider who buys or uses the good or service in the body and if the requirements of individual units or individual bodies determine both the actual purchasing method (e.g. centralised vs. decentralised) and the actual goods or services purchased

¹ The supply chain represents the flow of materials, information, and finances as they move in a process from supplier to manufacturer to wholesaler to retailer to consumer

- It is also necessary to determine whether individual units within a body will use an aggregated arrangement and what mechanisms exist to ensure that they will purchase the goods or services from an arrangement if it is established.

Purchasing and evaluation processes

- Public bodies should consider how they can streamline their tendering processes when they participate in an aggregated arrangement. The benefits involved are not exclusive to aggregated arrangements but are a useful outcome of the process. If the process is properly controlled and developed it can lead to standardised contract terms and conditions, evaluation criteria and agreed approaches to contract management across and between individual bodies.
- Common tendering and contract procedures are of benefit to suppliers since it allows them understand the requirements of the public sector bodies and allows for better responses by suppliers to different tender competitions. This reduces suppliers' costs and makes it more likely for them to participate in more tender competitions improving the competitive process.

Purchasing structures

- The structure of the purchasing system within public bodies is important in determining whether aggregation is a suitable procurement strategy. Decentralised purchasing systems make it more difficult to organise either an internal aggregated arrangement or establish arrangements with other public sector bodies. Changes in the way procurement is organised may be necessary in order to establish an effective arrangement.
- Public sector bodies need to consider also whether there are existing contractual arrangements in place which may have to be reviewed and amended if demand for goods and services is to be aggregated. It may not be possible to carry out an aggregated arrangement if there are other arrangements or contracts in place.

Relationships with other public bodies

- When public bodies are considering establishing arrangements with other public sector bodies the following issues need to be considered:
 - Whether other public bodies buy the same goods or services
 - Whether they have similar needs and specifications
 - Whether there are other public bodies which are likely to be suitable partners in an aggregated arrangement
 - Whether there are public bodies in the same geographical area or in the same activity which may be interested in aggregation

Key message:

Achieving an understanding of demand and supply market issues and the business environment in which suppliers operate, appreciating the interests of internal and stakeholders and understanding some of the procedural and process benefits are some the ways of achieving a successful aggregation.

STRATEGIES FOR DEVELOPING AND ACHIEVING THE GOALS OF AN AGGREGATED ARRANGEMENT

Introduction

- At this stage the public body should be satisfied that aggregation is an appropriate procurement strategy and identified goods and services appropriate for aggregation. It should also have considered the potential impact of the process on supply markets among other issues, and whether there is potential for aggregating demand with other public sector bodies.
- Consideration should now be given to setting specifications and service levels and establishing goals and targets to measure the outcomes of the aggregation. It is also necessary to consider the duration of the arrangement and how to develop and maintain communications with public service bodies and suppliers involved in the aggregation. The roles and responsibilities for individuals in the body involved in the aggregated arrangement should also be clearly delineated at this stage.

Specifications and service levels

- It is critical that common specifications are agreed that are appropriate to the characteristics of the specific market and which satisfy the participants in an arrangement. In addition, bodies may also want to consider how they could set specifications to achieve whole of government objectives such as positive social or environmental objectives. Examples could include reduced energy use by electrical equipment or use of recycled paper.

Establishing goals and targets and measuring outcomes

- The public sector body needs to establish and measure the goals and set expected outcomes for the aggregated arrangement. This is an ongoing process, which commences when the decision to develop an aggregated arrangement is being discussed. However, the goals and expected outcomes of the arrangement should be established before the arrangement starts but after the necessary analytical work has been carried out. Clear baselines are required to measure goals and outcomes properly.
- There are a number of different types of measurement which can be used. Some are financial and others are service orientated or refer to whole of government objectives. There can be more than one goal for each aggregated arrangement. Typical goals are:
 - unit cost reduction
 - transaction and administration cost reduction
 - improved service levels and/or supply conditions
 - improved quality products
 - other whole of government objectives (e.g. environmental, social)

How to measure savings:

- It is possible to measure savings, though this cannot be always carried out accurately. Savings achieved are often the best indicator the success of an aggregated arrangement. However where it is difficult to measure non-financial outcomes (for example environmental benefits such as reduced energy use which cannot be fully quantified) any savings achieved can act as a proxy or tangible indicator of the success of the aggregation.
- Ways of measuring savings include:
 - Group price compared to price paid by individual institutions
 - Group price compared to list price
 - Group price compared to price paid by other public bodies
 - Group price compared to last price paid
 - Year on year group price variances compared to published indices.
- Public sector bodies should also consider benchmarking and comparing prices for similar goods and services with other public bodies or with the private sector in order to determine whether they are achieving the best possible price. Benchmarking for goods or services involves comparison of one public body's performance with a group of other public bodies or private sector bodies on a group of measures which could include price, but could also include service performance such as delivery times. The best performing body is considered to have the best practice and other bodies may examine and adopt its methods.

Process Costs

- An aggregated arrangement should help reduce process costs by, for example, reducing the number of invoices or sending invoices electronically from the supplier to the public sector body.

Life Cycle Costs:

- Whole life costs can also be taken into account when determining the measures they wish to use in the tendering process. In effect this would involve evaluating the total cost of ownership² (TCO) as part of the aggregated arrangement

Key Messages

Establishing proper specifications is vital to achieving the benefits of aggregation. Measuring outcomes is an important element in delivering quantifiable value for money. The decision to pursue aggregation should be based on the desire to achieve clearly defined goals and targets that can be measured against a pre-established baseline, such as unit price or service levels. Public sector bodies should also benchmark their measures against private or public sector comparators. Measures should be appropriate for the type of procurement and should be as simple as possible and linked to the arrangement. Different measures are likely to be needed to measure outcomes for different goods and services.

² The cost to own a product throughout its life – e.g. with a printer TCO would involve the cost of the printer, toner, power and paper usage and disposal costs over its life.

Establishing roles and responsibilities

- A pre-requisite for success is that there is support at senior management for the development of aggregated arrangements.
- Aggregated arrangement requires the involvement of suitably skilled procurement staff. The staffing allocation and commitment of financial resources to any aggregated arrangement should be proportionate to the value of the procurement.
- At whatever level aggregation occurs, it is important that clear lines of responsibility are established; that participants, including users/customers, understand their role and obligations.
- The key roles in multi-body aggregation arrangements are:
 - A steering committee comprising representatives of buying bodies, to agree among other things, type of supply arrangement, terms and conditions specifications. This usually comprises representatives of all those public bodies that purchase goods or services from the arrangement. Where the buyers are represented on the committee they will be responsible for ensuring that the new arrangement is used within their body and, where possible and necessary, providing information to the contract manager.
 - A contract manager (either internal or external) should be appointed by the steering group, to monitor and report to the steering committee on supplier performance and buyer discipline and to manage relations with suppliers and purchasers.
 - In some cases and with large (national) arrangements it will not be possible to have all the purchasers represented on the steering group and in such cases they can be represented by parent or proxy public bodies. For example a central government department may be able to represent all the bodies under its aegis.
- A similar structure with a steering group could be used to develop and manage internal aggregated arrangements within public sector bodies.
- There is scope for variation of this model but it needs to be clear who is:
 - responsible for determining requirements
 - managing the contract
 - ensuring that it is delivering value for money.
- It is not always easy to agree and approve such arrangements but if properly structured and managed, the benefits should outweigh the effort involved.

Duration of arrangements

- The optimal duration for an aggregated arrangement is largely determined by the type of good or service, the likelihood of changes in the market which affect price and other value for money issues as well as the need to comply with EU procurement requirements. The nature of the market and the types of goods and services may change rapidly due to changes in the market (for

example personal computers and IT consultancy). There may be new and frequent technological developments and/or new entrants into the market and it is important that the aggregated arrangement is flexible enough to take account of these changes. The determining factor, other than legal ones as to whether an existing arrangement should be terminated is whether it is delivering value for money for the public sector body.

Key Message

Bodies should ensure the support of senior management before proceeding with aggregation. Bodies also need to establish roles and responsibilities for all those involved in aggregated arrangements. This is important for the development and on-going management of the arrangement.

Ongoing communication

- Communication at all stages of an aggregated arrangement is critical to its success. It enables trust to be developed and helps develop good working relationships between public sector bodies and between such bodies and private sector suppliers. Good information flows can be used to inform and improve future tender competitions. Innovative solutions to public procurement can also come about where public bodies communicate medium to long term plans to the market.
- Bodies should share information on price, specifications, service level requirements, tender documentation and related information during the planning and tendering phase and should share information about contract and supplier management when the particular goods or services are being delivered. All members of the steering group should be able to communicate their concerns and requirements at all times during the aggregation process so that issues of importance to them can be raised and resolved. There should also be a communication process with suppliers at all stages of the aggregation. This helps determine correct specifications and allows for opportunities for suppliers to market their goods or services.
- Ensuring effective flows of information between public sector purchasers and with suppliers requires planning and commitment from all those involved. This task should not be underestimated, but if carried out well there are significant benefits to be gained.

Key Messages

Successful aggregation occurs where there is:

- ***Initial analysis of purchasing expenditure***
- ***Careful selection of goods and services***
- ***Preliminary analysis of demand and supply market issues; stakeholder interests; purchasing processes, purchasing structures and relationships with other organisations***
- ***Establishment of goals and objectives***
- ***Clearly stated specifications and service level requirements***
- ***Clear roles and responsibilities for staff and management***
- ***Determination of the proper duration of the arrangement***
- ***Maintenance of communication during all periods of the process***

POSSIBLE AGGREGATION STRATEGIES

- The full value for money benefit of aggregation can only be realised if the right procurement strategy is identified and implemented. No one approach to aggregation fits in all circumstances. The following are a number of generic ways of addressing markets amenable to aggregation.

Volume based leverage

- This approach involves bodies combining to leverage their buying power to achieve better unit prices or service levels from a supplier. The contract is for a set term and typically a set product range and price structure. The key to achieving maximum discount from this type of arrangement is providing the market with an accurate estimation of demand and standardised specifications. This approach is suitable for markets where prices are stable or falling in real terms and the product is at the mature stage in the development cycle and has become a commodity item (e.g. stationery). This approach is applicable to all market types, i.e. monopoly through to fully competitive.

Key Messages

There are two types of contracts applicable to this approach: standard single supplier contract or single or multi-supplier framework.

Up to now, contracts based on volume based leverage using single suppliers were the normal arrangement. However it is also possible to use framework arrangements with either a single supplier drawdown or multiple numbers of suppliers based on mini-competitions within the framework

Successive competitions between pre-selected suppliers

- This approach is designed to allow the buyer to capture advances in technology and avail of the best prices as they fluctuate or fall. Following a competition, a number of suppliers capable of meeting particular requirements are selected and as demand arises, competitive quotes, usually based on price and delivery, are sought from among the pre-selected suppliers. The price and delivery outcomes often depend on the ability of these suppliers to deliver the public customer's requirements. The key to achieving maximum benefit from this type of arrangement is:
 - detailed market knowledge about technological developments
 - detailed knowledge of current price trends
 - planned purchasing and demand management (purchasers can anticipate volumes needed throughout the year and determine the most appropriate time to approach the market to meet these needs).

Key Messages

There are two types of contracts applicable to this approach: multi-supplier framework or multi-supplier dynamic purchasing system. In the context of successive competitions among pre-selected suppliers, the multi-supplier framework option involves pre-selecting a set number of suppliers for a set period. It is a closed arrangement in that no new suppliers are allowed to enter the arrangements until the end of the contract.

The dynamic purchasing system is different because it permits new suppliers to enter the framework at set periods if they meet the pre-selection criteria. The dynamic approach is beneficial in markets with a significant level of supplier change characterised by new entrants and mergers/takeovers. One example is the IT software market, where it is possible for a new company, with a new product, to emerge during the lifetime of a supply arrangement.

Brokerage

- A broker is an individual or a body which receives a commission for managing the purchasing of goods or services for public sector purchaser(s) from private sector supplier(s). The broker is usually appointed on the basis of a tender competition by the public sector body(ies). Brokers have been used to manage civil service air travel services and to acquire defence equipment.
- It is appropriate for public sector bodies to use this approach where transaction costs for the public sector purchaser in dealing with the market are high and where a broker can reduce these costs by providing a single point of interface between the purchaser and the market (for example air travel). It would also be appropriate where public sector bodies are seeking to acquire complex goods or services.
- This is not an appropriate strategy for all procurement. There is an extra cost in using a broker and this can take the form of a fixed or percentage fee. A percentage fee structure could create an incentive for a broker to acquire more expensive goods or services than if the goods or services were acquired directly by the public service body. Public sector bodies should therefore satisfy themselves that the cost involved in using the service of a broker can be justified in terms of achieving value for money from the procurement process.

Key Messages

There are benefits to using brokers to reduce transaction costs or to procure goods or services in complicated markets where the public sector customer lacks experience or competence.

Public sector organisations need to ensure that there is added value from using brokers – that the additional cost results in benefits over and above that could be achieved by individual organisations on their own.

Intelligence and strategy sharing

- This form of co-operation involves public bodies sharing information on their approach to particular markets (e.g. market intelligence and purchasing strategies) and may be used where it is not feasible to aggregate demand. Each body continues to make separate approaches to the market but best

practice and key information including price and service levels are shared to ensure that individual public bodies are getting better value for money.

Key Messages

Public sector purchasers are often reluctant to share information. This is a lost opportunity. It is important that public sector purchasers adopt a more pro-active approach to knowledge sharing to deliver better value for money for the State. There are significant advantages to be derived from public sector to public sector learning, especially in the procurement area.

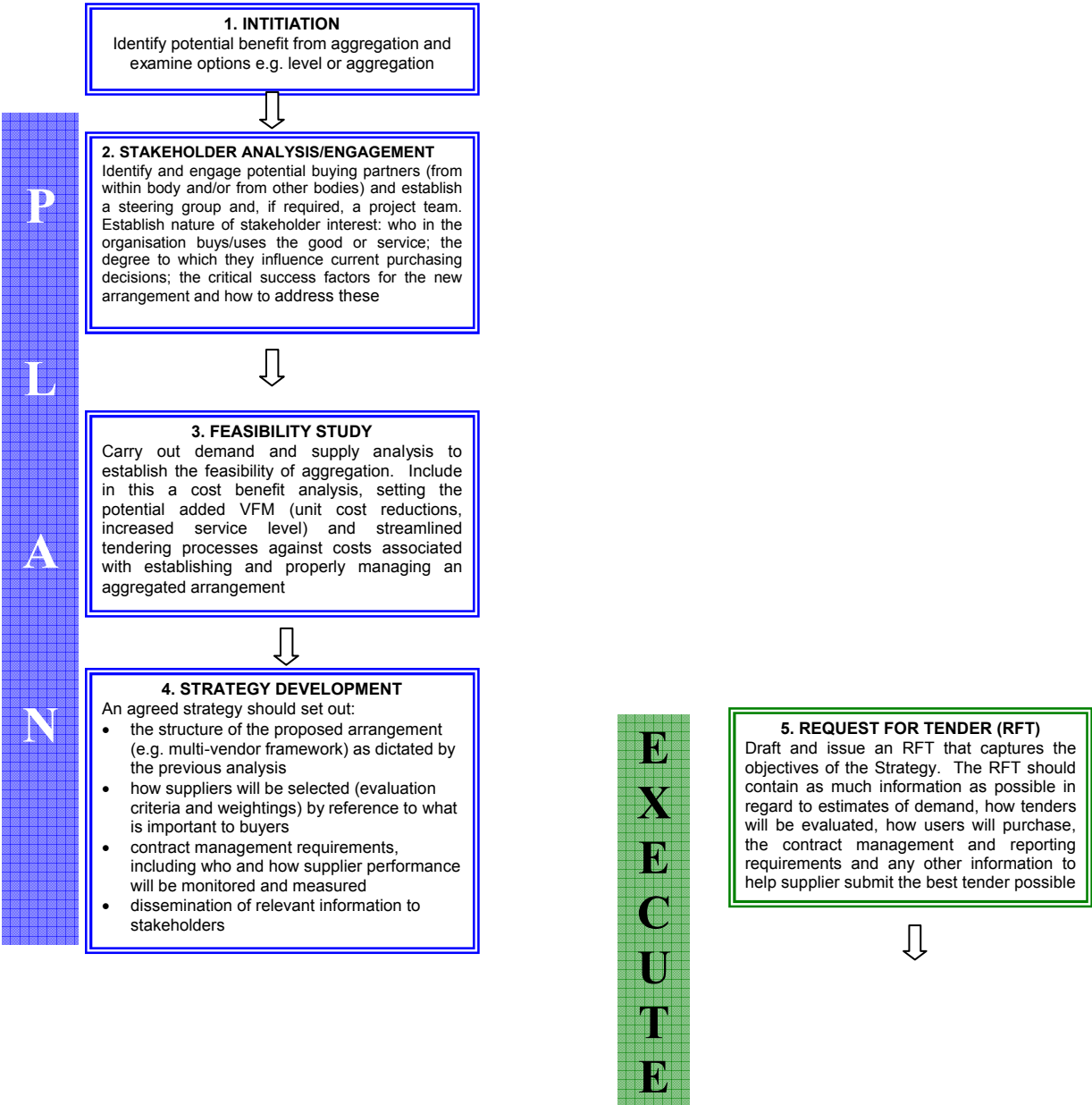
Overview

- No one form of aggregation is better or more efficient than another. The choice of approach depends on the nature of demand and the associated supply market. Careful analysis of each is necessary to identify the most effective procurement strategy and thereby the form of aggregation to be pursued. The indiscriminate application of any one form of aggregation will result in less than optimal and sometimes costly outcomes.

BEST PRACTICE APPROACH TO AGGREGATION

This diagram sets out a best practice approach to aggregation. The diagram illustrates how the key considerations outlined in this guide fit into the procurement cycle. In particular it illustrates the importance of:

- Analysis and planning prior to approaching the market
- Using information gleaned from the competition process to inform future strategy
- Monitoring the performance of arrangements; and
- Measuring the savings and other benefits achieved.



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7. MARKET AND COMMUNICATE

In accordance with the agreed Strategy, the Contract manager should ensure that all potential users are aware the arrangement is in place and provide guidance to them on how to get best value from it.

8. SUPPLIER PERFORMANCE AND MANAGEMENT

In accordance with the agreed Strategy, the Contract manager should implement mechanisms management and monitoring of the arrangement, including user feedback and periodic meetings with suppliers.



9. EVALUATION AND RECOMMENDATIONS FOR SUCCESSIVE ARRANGEMENT

The Contract manger should carry out a review after an agreed period of the initiative, including the degree to which objectives have been met and added VFM achieved. This evaluation, or review, should also identify opportunities for improvement for the next such arrangement.

6. EVALUATE AND AWARD CONTRACT

Again, in accordance with the objectives of the Strategy and the evaluation information provided in the RFT, evaluate tender returns. At this stage arrangements should be made to appoint a contract manager. Award contract in accordance with rules of EU procurement Directives. Transfer responsibility for launching the arrangement to the Contract Manager.