

D3/May 2015

Diploma in procurement and supply

Sourcing in procurement and supply

Date	Thursday 21 May 2015
-------------	-----------------------------

Time	Start 14:00	End 17:00	Duration 3 hours
-------------	--------------------	------------------	-------------------------

QUESTION PAPER

INSTRUCTIONS FOR CANDIDATES

This examination has **FIVE** compulsory questions worth 20 marks each.

1. Do not open this question paper until instructed by the invigilator.
2. All answers must be written in the answer booklet provided.
3. All rough work and notes should be written in the answer booklet.

[illegible]

BLANK PAGE

You are advised to allow 20 minutes to read carefully and analyse the information in the case study before attempting to answer the questions.

CASE STUDY – SCHOOLS

The procurement of products and services by government funded schools represents a significant sum of money spent in an important area of the public sector. Staffing typically amounts to around 70% of school costs. The remainder consists of operating and maintenance expenditures, such as gas and electricity, catering, stationery, buildings maintenance, cleaning and insurance. These are purchased from external suppliers and account for a sizeable proportion of any school's budget. There is a growing focus on the importance of procurement activity within schools, as they have often failed to comply with government procedures for procurement.

A report entitled 'Review of Efficiency in the Schools System' published in 2013 found that too many schools continue to purchase products and services individually. They have failed to realise potential economies of scale which might have been achieved by collaborating with other schools by using a consortium or group buying approach.

A survey of prices for routine items (such as stationery) showed how they varied hugely by supplier, depending on the supplier selected. The report also highlighted a sample of 23 schools, all based within a 15 mile radius of each other, with a combined spend on purchased goods and services of approximately £5m per year.

The following issues were identified:

- 1,828 different suppliers were used
- The annual spend with 1,524 of these suppliers was less than £500 each
- The schools in the sample were using the same suppliers, but on varying terms and conditions
- Schools were also paying different amounts for the same goods and services.

Where competition was sought, contracts were often awarded to suppliers purely on the basis of the lowest prices. This focus on price often created problems with the quality of product and service that were supplied. For example, in the case of catering, pupils could have been offered food with little nutritional value or a limited range of healthy options.

By contrast, in other categories of procurement, such as in the supply of energy and insurance of personnel and buildings, very little competition was evident.

When schools sourced from local small and medium sized enterprises (SMEs), it was rarely the case that the financial, commercial or technical capabilities of suppliers were assessed. As a consequence, construction companies employed to carry out work sometimes experienced cash flow difficulties and failed to meet key deadlines. Their working practices did not always comply with the required standards, with disruption caused to staff and pupils.

In addition, the schools placed little effort on developing sustainable or ethical procurement practices.

QUESTIONS

These questions relate to the case study and should be answered in the context of the information provided. You are advised to spend 32 minutes on each question.

- Q1** A report entitled 'Review of Efficiency in the Schools System' published in 2013 found that too many schools continue to purchase products and services individually.
- Describe **THREE** advantages and **TWO** disadvantages of schools adopting a consortium or group buying approach to sourcing their requirements from suppliers. **(20 marks)**
- Q2** The case study information states that contracts are often awarded to suppliers that submit the lowest prices.
- Suggest **FOUR** award criteria, other than price, that the schools could use to decide which suppliers should be awarded contracts. **(20 marks)**
- Q3 (a)** The case study information states that when schools source from local small and medium sized enterprises (SMEs) the financial standing of suppliers is only rarely assessed.
- Explain **TWO** reasons why the financial standing of suppliers should be assessed before the award of a contract. **(10 marks)**
- (b)** Describe **TWO** liquidity ratios that might indicate whether a supplier is able to meet its short term financial liabilities. **(10 marks)**
- Q4 (a)** Outline **FOUR** e-sourcing tools that could be used by the schools when sourcing requirements from external suppliers. **(8 marks)**
- (b)** Explain **THREE** benefits that the schools could achieve by using e-sourcing tools. **(12 marks)**
- Q5 (a)** Explain **THREE** benefits that the schools might gain by using competitive tendering when sourcing from suppliers. **(12 marks)**
- (b)** Explain **TWO** disadvantages that the schools might face when using competitive tendering when sourcing from suppliers. **(8 marks)**

END OF QUESTION PAPER

BLANK PAGE

[illegible]