

Transforming government procurement

January 2007



HM TREASURY



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FOREWORD BY THE FINANCIAL SECRETARY TO THE TREASURY

Good procurement is essential to ensuring good public services, from buying goods and services that work as they are supposed to, to achieving savings that can be ploughed back into front-line services. The public sector spends £125 billion annually on procuring a wide range of goods and services, from every day items such as pens and paper, to major construction such as schools and hospitals. All of us, as taxpayers who use and fund public services, have the right to expect government to meet the highest professional standards when it procures on their behalf.

The Government has already achieved a great deal. Substantial increases in public sector investment since 1997 have provided for vital improvements to public services, including the largest hospital building programme in history with 76 new hospital schemes open since 1997 and another 29 under construction. Increasing numbers of construction projects are completed on time and on budget, and we are now driving out efficiencies from the management of the government estate. The Government is also making better use of its collective buying power and new procurement methods, and the Government Procurement Card is making savings on a wide range of transactions in over 400 public sector organisations.

As well as increasing the scale of public sector investment, the Government has also worked hard to ensure public money is well spent. Following the publication of Sir Peter Gershon's report "Review of Civil Procurement in Central Government" in 1999 the Office of Government Commerce (OGC) was established as a central "one-stop shop" procurement organisation. It has since played a key role in delivering over £8 billion of efficiency savings from public procurement.

However, the pursuit of value for money for the taxpayer must remain uncompromising. The next Comprehensive Spending Review will put further priority on departments and procurers to exploit the opportunities that are available through innovative procurement methods and from the latest products and services, to ensure that procurement is built on the principles of value for money and sustainability.

The Government has declared its determination to be at the forefront of sustainable procurement, making the government estate carbon neutral by 2012. The OGC will help to deliver this commitment, and help departments develop the expertise to value whole life costs and benefits.

To meet these challenges and opportunities OGC will be given stronger powers to set out the high standards of performance required, monitor departments' performance against them, insist improvements are made where necessary and demand departmental collaboration where that improves value for money. More intelligent government procurement also has the capacity to shape the market in offering more innovative and effective products and services. To achieve these changes the OGC will have to reform. It will become a smaller, more focused, higher calibre organisation, with the skills and powers needed to drive through the necessary changes within central government.

This report sets out how this transformation will be delivered. It is a major challenge, which will depend on the contribution of dedicated procurement professionals and changes in government more broadly to bring it about. Recognition of the need for such reforms reflects our determination to ensure that procurement drives further improvement in our public services to match the public's rightly held high expectations of Government.



John Healey, MP Financial Secretary to the Treasury

SETTING THE SCENE

Box 1.1: Summary

The Government has improved its procurement capability in recent years, in particular with the establishment of the Office of Government Commerce (OGC) and OGCbuying.solutions in 2000, and a programme of Gateway reviews to foster better project management and delivery.

The nature and complexity of public sector procurement is at least comparable to that in the private sector, and must be given at least similar priority as a result. The challenge is to meet the public's demands for increasingly high quality public services at good value for money and in a sustainable way. To do this the Government needs to harness the benefits that businesses can offer through their commercial expertise and ability to innovate, through a procurement function, including property asset management, that is increasingly adaptable, flexible and knowledgeable about the commercial world. To bring about the step-change required:

- a higher calibre OGC will deliver the improved standards, focused on driving better value for money from procurement on a whole-life costing basis. The Chief Executive will become the professional head of the Government Procurement Service (GPS);
- the Government will focus its top talent on its most complex and critical procurement projects, with a GPS that is flexible and able to focus resources where they can best be deployed;
- recognising its importance to public service delivery and value for money, departments will strengthen their procurement capability with greater direction and support from the top;
- departments will collaborate more in the purchase of goods and services common across more than one department, to get better value for money; and
- a new Major Projects Review Group will ensure that the most important and complex projects are subject to effective scrutiny at the key stages.

To drive this transformation the OGC will have strong powers to:

- set out the procurement standards departments need to meet;
- monitor departments' performance against them, and ensure remedial action is taken where necessary;
- make sure that people with the right skills are in the right jobs with the right incentives;
- demand departmental collaboration when buying common goods and services; and
- work closely with the Major Projects Review Group to ensure that the most complex projects are subject to high standards of scrutiny and support when the business case is approved, and before proceeding to tender and contract signature.

So that it is properly equipped to exercise those powers and oversee the changes needed across government, the OGC will:

- focus on transforming procurement in central government;
- be a smaller, higher calibre organisation; and
- work closely with departments and suppliers to improve capacity and effectiveness.

Introduction

1.1 Procurement is the purchase of goods or services from third parties. This covers a wide spectrum, from commodities such as stationery or energy and contracted out services like building maintenance or security, to major IT systems and construction projects.

1.2 The procurement process formally starts from the point where the need to make a purchase to deliver an objective has been identified, and its success can only ultimately be judged when the product has been used up or sold on, or the service contract has been delivered in full.

1.3 The Government's overall procurement policy is centred on buying the products it needs under a fair and open competitive tendering process, guarding against corruption and achieving value for money. Indeed these principles are underpinned by EU law and World Trade Organisation agreements.

The importance of procurement

1.4 The public sector spends over £125 billion a year on goods and services bought from third parties. This is over half of discretionary spend, and is key to delivering the government's aim of world-class public services. Procurement plays a central role in delivering all government priorities – from health and education to policing and security. However, the positive influence of government procurement can go far beyond simply securing the goods and services it requires – it can also transform the market to the benefit of others.

1.5 The purpose of procurement policy is to support the Government's goal of delivering world-class public services that are value for money, and in a sustainable way. Effective procurement also has the capacity to drive the efficiency of suppliers and their supply chains, demonstrating the added importance of conducting procurement to the highest professional standards.

What is good procurement

1.6 Good procurement means getting value for money – that is, buying a product that is fit for purpose, taking account of the whole-life cost. A good procurement process should also be delivered efficiently, to limit the time and expense for the parties involved. Successful procurement is good for the public, good for the taxpayer, and good for businesses supplying government.

1.7 While there is no single method that will guarantee the delivery of those objectives for all procurements, the following general principles set out the key steps to successful procurement in most cases. A procuring authority should:

- be clear on the objectives of the procurement from the outset;
- be aware of external factors that will impact on the procurement such as the policy environment or planning issues;
- communicate those objectives to potential suppliers at an early stage, to gauge the market's ability to deliver and explore a range of possible solutions;

- consider using an output or outcome based specification, to give suppliers – who naturally know more about their business than potential buyers – more scope to provide innovative solutions to solve the underlying problem the procurement is designed to deal with, rather than deciding what the precise solution should be at the outset;
- follow a competitive, efficient, fair and transparent procurement process, and communicate to potential suppliers at the outset what that process will be. This will give suppliers greater certainty about the costs and benefits to them of submitting a bid, which should encourage effective competition. As all suppliers have the same knowledge going into the process, and will be assessed in the same way, the successful bidder can be chosen purely on its ability to provide the best solution;
- be clear about affordability – the resources available to spend on the particular good or service. The procurer has to select on the basis of whole-life value for money, but in setting budgets for individual projects departments also need to make decisions about relative policy priorities and needs. If more is spent on one project than originally allocated, that will mean less is available for other priorities. Conversely, if savings are achieved, then these can be redeployed into frontline services; and
- establish effective contract management processes and resources in good time to drive excellent supplier performance throughout the contract.

What has been achieved

1.8 The Government has put in place a number of reforms that have improved procurement performance since 1997.

1.9 It introduced Public Service Agreements in the 1998 Comprehensive Spending Review, setting out its key priorities and how its performance against them should be judged. These encourage departments to focus on delivering their key priorities rather than the means of delivery, and also signal to the marketplace those areas where the Government is a potential future customer if those priorities are to be met.

1.10 The two fiscal rules, against which the Government measures the performance of its fiscal policy, work together to promote capital investment while ensuring sustainable public finances in the long-term. These, when translated into the budgetary system and the creation of separate capital budgets, give departments the incentives to take a long-term view of value for money. Capital budgets can only be used for investment purposes, and not to meet short-term funding pressures as used to happen in the past; while the full costs of a project now impact on the resource (or current) budget. So any department that looks to save money at the investment stage will have to pay the longer-term additional costs of that false economy out of its resource budget.

1.11 Sir Peter Gershon carried out a review of central civil government procurement in 1999, described in more detail in Box 1.2.

Box 1.2: The Gershon review of civil procurement in central government

Sir Peter Gershon's key findings were:

- previous governments had delegated procurement responsibilities to departments, without any common framework within which they should operate;
- this led to a lack of consistency, and wide variation between the best and worst practice. Departments were paying significantly different prices for the same items;
- procurement activities at the centre of government were fragmented and uncoordinated;
- there was no common process for managing large, complex procurements;
- there was no arrangement for managing suppliers across government, which allowed some suppliers to enjoy differential pricing;
- there were no common systems across government for recording what was being purchased, at what prices and from whom; rating the performance of suppliers; or targeting and measuring year on year value for money improvements;
- the overall skill levels of the Government Procurement Service needed to be raised significantly; and
- while there was general agreement that UK government procurement was fair and open, and compared well with other countries, there were concerns about bidding costs.

1.12 In response to his findings, Sir Peter recommended setting up the Office of Government Commerce (OGC) as a one-stop shop central procurement organisation to catalyse best procurement practice within central civil government. Its remit was subsequently extended to cover the wider public sector in line with its lead role on the Government's efficiency programme.

1.13 The OGC has achieved some notable successes since it was set up in 2000. In particular, it has helped departments and local authorities to make annual efficiency gains of £13.3 billion by the end of September 2006, more than half way towards meeting the Government's ambition of over £20 billion of annual efficiency gains by 2007-08. Included in this are £5.5 billion of efficiencies attributable to procurement.

1.14 The OGC has also established Gateway reviews as a means to help departments improve their record in project delivery. Over 1,500 Gateway reviews have been completed since their introduction in 2001 on more than 700 separate projects and programmes in central government, resulting in over £2.5 billion value for money savings calculated using a methodology audited and approved by the NAO.

1.15 So the Government has improved the public sector's track record in project delivery and achieved over £13 billion of efficiency gains to the benefit of frontline services and other priorities, while undertaking large and sustained increases in public investment. Further OGC achievements are set out in Box 1.3.

Box 1.3: OGC achievements

The OGC has made progress in delivering Sir Peter Gershon's original vision through mainstreaming best practice in departments, improving professionalism, promoting the use of e-procurement techniques to deliver process and cost savings, and in making collaborative procurement a reality. Through these improvements the OGC has:

- helped realise £800 million worth of value for money gains during 2003 through Achieving Excellence in Construction as reported in the March 2005 NAO report due to an increase in projects coming in on budget (from 27 per cent in 1998 to 65 per cent in 2006), and an increase in projects being delivered on time (from 30 per cent in 1998 to 61 per cent in 2006);
- made collaborative procurement a reality by leading with departments on deals such as the Department for Work and Pensions fleet deal mentioned in Box 1.4. More collaborative deals are scheduled to be made available to public sector organisations by the end of the financial year, including a prison service led deal for temporary labour, NHS PaSA contracts for tyres and vehicle leasing, a police-led contract for vehicle windscreens, and an OGCbuying.solutions' framework for the purchase of electricity;
- introduced the BT Premier Value scheme offering BT's best permanent voice call rates to the public sector due to the guaranteed volumes that collaboration brings, where users save between 10 and 30 per cent on their telephone bills. Improvements in the mobile telephony framework contract have led to an increase in users from 250,000 to 700,000 since 2003, earning £16 million in savings this year;
- run 63 e-auctions to a value of nearly £1 billion, and e-tenders to a value of £2 billion with 14,500 suppliers and 1,100 buyers;
- managed the programme that has relocated over 10,000 civil servants from London and the South East of England, ahead of the target of 20,000 posts by March 2010, freeing up 136,000 square metres of office space and so reducing the Government's rent bill by £20 million a year. This is being made possible in part by the OGC e-PIMs information collection tool, which currently holds the details of 9,000 public sector land holdings; and
- PRINCE2 (a project management tool) and ITIL (an IT service management tool) are helping departments and local authorities manage programmes and projects, and follow IT best practice. These are supporting their efforts to deliver user requirements in a timely manner, and are increasingly being adopted more widely in the public and private sector around the world.

The need for further transformation

1.16 While real progress has been made in improving the standard of public procurement, government must deliver further improvements to meet new challenges.

Public service reform **1.17** The public demands ever-higher quality public services, driven in part by the transformation they have seen in the quality of goods and services provided by business, which they increasingly expect the public sector to match. The Government's aim is to deliver world-class public services through sustained investment matched by far reaching reform. The 2007 Comprehensive Spending Review will assess what further investments and reforms are needed to equip the UK to respond to the global challenges of the next decade. Procurement will be a key route through which such reforms are delivered.

Sustainable procurement **1.18** The Government also needs to ensure that it spends in a way that supports the achievement of its sustainable development goals as set out in the *UK Government Sustainable Development Strategy – Securing the Future* (March 2005). The business-led Sustainable Procurement Task Force, chaired by Sir Neville Simms, reported in June 2006 on how this could be achieved. The measures set out in this report are an essential component of delivering the Government's goals in this area. Further measures will be set out in a sustainable procurement action plan shortly. Together with this report, it will form the Government's response to the Task Force and ensure the Government delivers the ambitious sustainable operations targets it has set itself, which include:

- a carbon neutral office estate by 2012 alongside a 30 per cent reduction in carbon emissions by 2020;
- recycling 75 per cent of the waste by 2020;
- reducing waste generated by 25 per cent by 2020;
- reducing water consumption by 25 per cent by 2020; and
- increasing energy efficiency by 30 per cent per square metre by 2020.

1.19 The Chancellor announced in the 2006 Pre-Budget Report the intention to pilot school designs that achieve a level of excellence in carbon reduction. The Government is strongly committed to sustainable procurement, and the OGC will have a key role to play in taking it forward. Box 1.4 clarifies the Government's approach.

Box 1.4: Sustainable procurement

The initial construction or refurbishment costs of a building that incorporates energy saving features may cost more up-front than more standard buildings, but those costs will often be more than offset through lower energy bills over its useful life. Effective whole-life costing, including the costs of carbon, is essential for decisions that are good value for money and good for the environment.

There are many real life examples of this type of good procurement. The Department for Work and Pensions (DWP), with the help of the OGC, has signed a £1 billion contract for government vehicles that will save the taxpayer £100 million over the next four years. The deal involves 15 manufacturers, will initially cover 78,000 vehicles and 38 government organisations, and help meet the target for reducing carbon emissions from vehicles by 15 per cent by 2010-11 by allowing organisations to replace their existing fleets with greener, cleaner vehicles at reduced cost. DWP alone is forecast to save at least £5 million and to cut CO2 emissions by around 4,500 tonnes.

More of these kinds of approaches will be required to deliver the Government's sustainable development goals including the operational targets for the government estate, where the OGC will play a key role.

All departments will be expected to show how they are responding to the five long-term challenges – demographic change, global economic integration, technological innovation, global uncertainty, climate change and natural resources – as part of the Comprehensive Spending Review. This demonstrates how the Government is considering sustainable development in conjunction with other key challenges that cut across government activities.

Innovation in public service delivery

1.20 Innovation, science and technology have driven businesses' quality and productivity improvements. To bring about the transformation needed to deliver high quality public services at good value for money, the Government will need to harness that innovation. This will require the Government to be more open to adopting an outcome based approach to procurements where appropriate – working with suppliers to solve problems rather than attempting to specify the precise solution at the outset.

1.21 It is much easier to evaluate the costs and benefits of a tried and tested product, rather than something that may not have previously been used in practice, or may not even exist at the time the Government first considers using procurement as a means of solving a complex delivery problem. However, if a new and better solution is already developed or could be made available, this might provide better value for money than a tried and tested product.

1.22 To be successful at using innovation as a means to improve value for money and public service delivery requires a highly skilled procurement function within Government. Box 1.5 sets out a number of examples of where the public sector has already used innovative solutions successfully.

Box 1.5: Innovation to improve services and value for money

The Government is cutting carbon emissions with Whitehall's energy-saving district heating system. The Combined Heat and Power (CHP) system provides heat to 18 departments, and produces electricity for use across Whitehall. It is estimated that the energy-efficient plant will reduce carbon emissions by 2,600 tonnes and save taxpayers £140,000 a year.

The prison service buys around 60,000 flame retardant foam mattresses and pillows, disposing of around 40,000 a year to landfill with the remainder classed as clinical or hazardous waste, incurring high disposal costs. Using the Forward Commitment Procurement model, the prison service received over 35 detailed responses to a call for innovative solutions, submitted by multinationals, small and medium enterprises and social enterprises. These ranged from entirely new designs using smart materials that eliminate waste completely to alternative commercial and logistical arrangements, and community reuse and recycling schemes.

Recent advances in digital technology have increased the ways in which public services can be delivered, for example:

- several local authorities have implemented a mobile system for housing repairs and maintenance using personal digital assistants. These devices communicate to back office systems via the global packet radio service. By implementing a procurement process not solely based on cost but on outcomes, authorities can now deliver better services to 20 per cent (2,000) more homes, reducing waiting times for non-urgent repairs from twenty to seven days, and gaining efficiencies of £1.8 million a year;
- police identity parades are traditionally carried out in person with a witness, possible perpetrators, and dividing one-way glass. In 2005 over half of all police identity parades were conducted by video, saving on average 65 per cent of uniformed staff time and over 70 per cent of administrative staff time; and
- Leeds City Council social services used digital pens and paper to record services carried out in clients' homes, increasing staff time spent with patients and eliminating transcription errors. Police forces are buying the same devices to record statements or case details.

1.23 The Government is also using innovative procurement tools:

- E-auctions allow suppliers to bid online for business. Savings, typically 20-25 per cent of the project value, emerge from the price improvements produced by a transparent negotiation, which is instantaneous and electronic, and from simpler processes. OGC sponsored IT e-auctions have saved nearly £16 million on an expenditure of £54 million, involving more than 300 organisations;
- OGCBuying.solutions launched the Zanzibar e-marketplace in February 2006. This web-based procurement tool connects suppliers and their catalogues with government buyers and their demands. Buyers can easily compare prices and specifications and then operate the entire procurement process through the online system. Zanzibar has made procurement a paperless exercise and given its users a choice of 222 suppliers to buy from;

- procurement cards (similar to debit cards) provide an efficient means for authorised staff to conduct low value transactions quickly, and consolidate large numbers of invoices from multiple suppliers into a single, monthly invoice, removing process costs and improving management information. These cards are in use across the public sector, helping to minimise bureaucracy and inefficiency in the procurement process, resulting in a saving of £28 per transaction; and
- establishing Supply2.gov.uk to make it easier for small and medium size businesses to bid for government contracts valued under £100,000.

Technology Strategy Board **1.24** The Government needs to make the most of innovations being developed in the world-class UK science base. Departments will be encouraged to interact with them on major complex procurements where advanced technology can play a role. In particular, the TSB's innovation platforms can help to bring business and different parts of central and local government closer together to generate more innovative solutions to major societal challenges, develop new technologies, link research to government's needs, and facilitate closer collaboration. The TSB is already working with the Department of Transport and the Home Office to develop technology based solutions to intelligent transport systems and network security.

1.25 To take full advantage of innovation across public services will require a significant step-change in the Government's procurement capability in terms of skills, the framework in which procurement operates, and tools available to purchasers. Chapter 2 sets out the key steps the Government will take to deliver this transformation.

2

DELIVERING THE PROCUREMENT VISION

Defining what good looks like

2.1 There have been a number of recent studies and reports into various aspects of public procurement, including from the CBI, the National Audit Office, and an independent review conducted by Sir George Cox, as described in Box 2.1.

Box 2.1: Public procurement reports

As a demonstration of its increasing importance, over the last year the CBI has produced three reports covering various aspects of public procurement: *A fair field and no favours*; *Improving delivery – realising best practice in procurement and contract management*; and *Innovation and public procurement – a new approach to stimulating innovation*. There have been other recent examples including from the National Audit Office, which regularly examines specific procurement projects as well as considering more general aspects of procurement, and from Sir George Cox who looked at innovation in procurement as part of his *Review of Creativity in Business* in 2005.

These reports make a wide range of recommendations to government and the public sector more widely about how to improve public procurement to deliver better public services at good value for money from an efficient process. The Government agrees with much of the analysis and the recommendations in these reports, many of which are incorporated and have helped to shape the detailed plans set out in this document. In particular, the Government accepts that:

- there should be a clear framework setting out the standards that procurers and suppliers can expect the Government to uphold;
- each procurement should have a clear, fair and transparent process and evaluation criteria;
- there should be an informal complaints procedure where suppliers think that the Government has not met the standards it has set itself;
- complex projects should be subject to rigorous external scrutiny;
- an outcome-based and whole-life value approach should be the norm to encourage more innovative solutions to problems;
- there is scope for better early market signals to be sent and for more upfront thinking and discussion with suppliers about potential innovative solutions and approaches at the very outset of complex projects, before they reach the procurement stage; and
- procurers need to have better procurement skills at all levels to implement the new approach effectively.

2.2 These reports, and others, have helped to shape the Government's ideas about how best to make the transformation that is needed to deliver its vision for a procurement function that consistently delivers high quality public services at good value for money, and is better able to take advantage of business innovation to transform service delivery where appropriate (see Box 2.2). The Government conducts some of the most complex and challenging procurements anywhere in the world – including the integrated IT system for the NHS, aircraft carriers and other hi tech

military equipment. To meet the expectations placed upon it and take advantage of the opportunities that are available from suppliers to transform public services, the government procurement function itself needs to be world class.

Box 2.2: The government procurement vision

A fully working procurement function should have the following characteristics, many of which are already in place but need to be developed further:

- *procurement at the heart of delivering public service outcomes*, so that there is a strong link between policy (what is required), procurement (what is bought, how, on what terms, and how it is managed), and affordability. For policy and service delivery to be effective, procurement issues need to be integrated at an early stage into defining public service outcomes;
- *clear objectives*, so that procurers have a clear focus on delivering value for money on a whole-life costing basis from an efficient procurement process;
- *the right incentives* (performance evaluation, reward, career structures) for procurers that reinforce the importance of successful procurement in delivering the organisation's objectives;
- *the right contractual arrangements*, with a single coherent framework to assess how best to undertake particular types of procurement;
- *comprehensive procurement and supplier management information*, on what is being procured, with whom, for how much and how frequently;
- *the right skills at all levels within government*, with a career and pay structure that reinforces the recruitment and retention of high calibre professionals;
- *matching skills to projects*, ensuring that the most complex and important procurements have the best staff assigned to them;
- *access to specialist advice* (technical, legal or financial), where it is needed but is not cost effective to have in-house;
- *effective management of contracts in operation*, where the right objectives, incentives, people and support need to be in place for contract managers to deliver public services outcomes;
- *effective development of the supplier base*, with a good understanding and communication between the buyer and supplier before and during procurements, and consistent management of suppliers across different projects and sectors;
- *a commitment to continuous improvement*, resulting in an increasingly better performing procurement function;
- *welcoming of innovative solutions* where they can deliver the best whole-life value for money; and
- *disciplines and incentives on departments to deliver efficiency savings and sustainability, meet requirements and gain rewards*. Where departments achieve further savings than assumed within the budgetary levels set in the 2007 Comprehensive Spending Review, these will be retained by departments and redeployed into priority areas of service delivery.

Delivering the vision

2.3 The key elements of the Government's plans to deliver this vision are:

- raising the level of procurement skills across government;
- raising procurement capacity within departments;
- better scrutiny and support for complex projects, ensuring that the best, innovative solutions can be brought forward and adopted;
- making greater use of the Government's collective buying power and market engagement in collaborative procurement;
- giving the OGC strong powers to drive these improvements from the centre; and
- reforming the OGC so that it is properly equipped to exercise those powers and oversee the changes needed across government.

Raising skills 2.4 At the heart of any procurement are the people involved in carrying it out. To get goods and services that are consistently fit for purpose and value for money is challenging and requires people with specialist skills whether in the public or private sector. The Government needs to attract, develop and retain people in the Government Procurement Service (GPS) who:

- understand that procurement is directly linked with successful government and the delivery of services to the public;
- understand that good procurement is not just about driving down contract costs. The competitive process is a key driver of value for money, but does impose costs for buyers and suppliers. Developing longer-term relationships can allow suppliers better to meet buyers' requirements as they become more familiar with them; and
- do not retreat to the lowest price solution simply because it appears at first sight to be the most easily defensible. Government needs people who properly understand, and can apply, the principles of value for money on a whole-life costing basis.

2.5 These are not messages that should start and end with the GPS, but should also be taken to heart by senior managers throughout government. The Government will transform the GPS by:

- appointing the Chief Executive of the OGC as head of the service, to raise its status, in line with the approach taken in the Government Economic Service and Government Statistical Service;
- relaunching the service as the professional procurement body within government, extending from new entrants to the profession to the most senior procurement posts in government;
- identifying, as part of the new procurement capability reviews, those departments that should appoint procurement or commercial directors at board level or appropriately qualified non-executives;

- strengthening the links between the head of the service and the commercial directors and heads of procurement in departments, including involvement in their appointment and performance appraisal as appropriate;
- tailoring the professional services and membership of the GPS to align more closely with the requirements of those it serves;
- supporting those undertaking complex procurements by ensuring that the GPS is flexible enough to concentrate resource where it is best deployed, and by facilitating secondments within the public sector and between the public and private sectors;
- introducing new and flexible entry points into procurement roles in government, including a graduate entry scheme to be used across government, piloting a procurement option within the fast stream and developing a mid career procurement development scheme;
- raising the standards and status of procurement across government; and
- embedding common standards and skill sets across government procurers through a programme of training and development, to enable professionals who properly understand the principles of value for money on a whole-life costing basis to engage with the market in a sophisticated manner.

2.6 Work to develop the GPS and raise departmental procurement capability will be taken forward in close partnership with departments, alongside professional project management skills driven by the existing Professional Skills for Government programme. Integration between the disciplines of procurement and programme and project management typifies high performing organisations in the private sector.

Raising departmental capability

2.7 Government departments are responsible for buying the goods and services they need to carry out their business efficiently and effectively. Accounting officers, usually the operational heads of departments and other public organisations, are accountable to Parliament for delivering value for money from their departments' use of financial resources, including procurement. As well as having the right quality of procurement professionals, to maximise the effectiveness of their procurement functions in delivering the Government's objectives, public organisations will:

- give a clear direction from the top about the importance they attach to procurement in delivering departmental objectives;
- have a clear procurement framework, aligned with OGC best practice, setting out the standards and processes the department will adhere to in their procurement operations;
- ensure that procurement professionals are brought in at the earliest stages of projects, where their skills and knowledge are likely to have most impact;
- collaborate with cross-government procurement initiatives, such as acting as a single purchaser, minimum standards and data collection; and
- work within a flexible GPS structure, cooperating where resources and expertise need to be deployed on the most important or complex projects.

2.8 Procurement capability reviews will be piloted in early 2007 and rolled out across central government during the year. These will assess how far procurement in central government meets the demanding standards required to deliver value for money now and in the future. The reviews will involve the deployment of a small team of high quality experts engaging intensively with departments over a short period to assess their current operating capability within their procurement functions. Reports and departmental action plans, following the reviews, will be made public.

**Better
scrutiny and
support for
complex
projects**

2.9 The OGC has successfully introduced and established a programme of Gateway reviews. These reviews of significant procurement projects for the responsible department are carried out at key points in the procurement lifecycle by teams of experienced people independent of the programme or project team, to provide assurance that it can progress successfully to the next stage.

2.10 Gateways have made a significant impact on the success rate of these projects. They currently deliver £1 billion in cost savings annually by helping central government organisations deliver their projects and programmes on time and within budget. More needs to be done, however, to ensure that the success rate of programmes and projects rises further, particularly for the largest and most complex procurement projects. A stronger assessment of deliverability is needed at early stages, with stronger support to deal with any concerns those assessments raise. This includes allowing for more upstream thinking about, and scrutiny of, proposed approaches and the transfer of good practice from other projects. Where relevant there should be concept viability market soundings with potential suppliers and research on different potential solutions through demonstrator pilots.

2.11 A Major Projects Review Group will be established, based on the existing approach to the scrutiny of local authority PFI projects. It will be chaired by the Treasury and composed of commercial experts. It will ensure that departments' most significant projects are subject to an effective, enhanced Gateway review process. The OGC will select reviewers for these projects based on the relevance of their skills and experience to the projects concerned. The MPRG's own scrutiny will take place:

- when the business case is being developed, and there is the maximum scope to influence the outcome of a project and approach to procurement before too many issues become set in stone. This can examine if the project meets the business need, is achievable, with a wide enough range of options explored and likely to achieve value for money;
- before the project goes out to tender, to test if the specification of the requirement is clear and unambiguous, all the procurement options have been explored, and there is a realistic prospect of success; and
- following the assessment of bids, but before the award of the contract, to check that the contract decision is likely to deliver what is needed on time, within budget, and value for money.

2.12 The MPRG will be advised by the OGC on the deliverability of new acquisition programmes, and further supported by experienced people with relevant commercial expertise from within government. The MPRG will have the power to stop a procurement project from progressing to the next stage where it feels that there are issues that need urgent correction. But in most cases it will identify specific issues that need to be resolved by particular stages in its procurement. In these cases, the OGC will provide the department with additional support, or help it get specialist support from elsewhere, if necessary.

More collaboration

2.13 Acting collectively, rather than through separate departmental action, can be an important driver of value for money. Accounting officers have to take account of value for money for the Exchequer as a whole, rather than just the impact of a policy in achieving their own organisational objectives. This is particularly relevant in areas of common spend like commodity goods and services, the development of some critical markets and supplier relationships, and the management of the government estate (described in Box 2.3), as government looks to develop new, shared forms of face-to-face service provision and central services.

Box 2.3: Transforming the civil estate

The Government announced a new strategy for the civil estate on 9 November 2006 in *High Performing Property*, which defined central government's high level framework and direction to achieve excellence in property asset management. It focuses on the key actions that need to be taken at the centre and by individual organisations with milestones. The objectives for managing the government estate are closely aligned with those driving better procurement, and the measures set out in *High Performing Property* reflect this:

- a clear and comprehensive approach to the integration of property asset management in the organisation's strategic business delivery and resource management;
- clearly defined asset management responsibilities matched by skilled and capable staff, and board level representation where appropriate;
- performance measurement and management to deliver continuous improvement; and
- maximising the use and operation of an organisation's estate, including early identification and disposal of surplus accommodation, optimum use of buildings and workspace strategies, and delivery against the Government's sustainable operations targets.

The document sets out plans for work by the OGC and departments to transform the government estate through four key components:

- stronger leadership and integration;
- a major new programme of benchmarking and standard-setting;
- a drive to develop skills and capability; and
- increased powers of review and challenge to the work of departments.

Sir David Varney's review of service transformation has added to this a vision for the future of face-to-face service provision. The key elements are: a greater use of mobile service provision; an increase in cross-government one-stop shops; and use of intermediaries. The OGC will work with departments to develop an implementation plan for the relevant proposals in *High Performing Property* and the Varney Review, to be published next year.

2.14 The OGC will lead on these areas, with powers derived from the Treasury to require departments to comply or agree non-compliance. The OGC will:

- develop coherent strategies for the procurement of commodity goods and services across government;
- work with suppliers to develop the capacity of the market to supply government's demands, taking a more proactive approach, particularly in the ICT and professional services industries; and
- drive the establishment of more cross-government one-stop shops for the delivery of public services where face-to-face service delivery is required, as recommended in Sir David Varney's report on service transformation; and the achievement of value for money gains to be derived from collaborative use of short-term office accommodation.

Single approach to sourcing

2.15 The OGC will drive forward the single approach to sourcing that it has developed coupled with a pan-government category management process. The OGC will identify either OGCBuying.solutions (OGCb.s) or a relevant department – generally the one that has the largest spend for the category – to lead on behalf of the rest of government in buying a range of commonly procured goods and services, where that can provide good value for money.

A stronger OGC

2.16 To ensure the transformation required in government procurement to meet world-class standards, the OGC will work with the NAO who will be informed by OGC's standards and directions on best practice when reporting on the extent to which departments have maximised value for money from their procurements, and have tough powers derived from the Treasury to:

- set the procurement policy and best practice framework, standards and performance measures against which all departments will be judged;
- audit those standards through procurement capability reviews of departments' procurement functions, ensuring that departments meet the required standards, helping to build and increase professional procurement capacity where necessary;
- ensure that the right incentives are in place to attract and retain those with the relevant procurement skills in the public sector, able to lead on projects appropriate to their abilities regardless of institutional boundaries;
- set standard terms and conditions for procurement wherever possible, based on contracts that have already worked well for buyers and suppliers;
- require departments to take up centrally negotiated deals for certain goods and services to use the Government's collective buying power to get better value for money on a whole-life costing basis, or agree any alternative only where justified; and
- require departments to collaborate in their dealings with key suppliers and markets to drive performance improvements from its most critical markets.

A focused OGC 2.17 Establishing the 2004 Spending Review efficiency programme on a sound footing and ensuring its delivery has been one of the OGC's major achievements over the past two years. But going forward there needs to be a closer link between efficiency and financial controls. The OGC's success means that the Government can now mainstream efficiency as part of routine departmental financial management. As a result, responsibility for efficiency will transfer from the OGC to the Treasury later this year.

2.18 This means that in future the OGC will have a clear focus on its mission to transform public procurement. It will focus on procurement in central government, where its levers to effect change are greatest. But the OGC will continue to make its services available to the wider public sector where this can be done without detriment to its core work on central government.

2.19 In line with this sharper focus, the OGC will be a much smaller, higher-calibre organisation, able to lead and command the respect of the government procurement community.

2.20 As its executive agency, OGCB.s will align itself closely with the OGC and the Government procurement reform strategy. OGCB.s' successes to date demonstrate its future potential, and its new Chief Executive will produce a new strategy demonstrating clearly how this will be realised. Its experience in establishing government-wide procurement contracts means that it is well placed to become the Government's principal deliverer in its single approach to sourcing, but it will need further to transform itself to demonstrate that it offers the best option. Deals like OGCB.s' mobile phone framework and the DWP fleet vehicles contract must be more commonplace, with their usage more widespread and the subsequent savings more substantial. To meet this challenge, OGCB.s will further strengthen its own capacity in category and contract management, and supplier and customer relations, passing the resulting benefits back to its customers through a more efficient and effective service driven by procurement best practice.

A better deal for suppliers

2.21 Through the higher professional standards of all those involved in procurement, the Government will be a more intelligent client for suppliers and advisers to deal with. To offer a guarantee of these promises to suppliers the OGC will be an avenue of recourse should these standards not be upheld. Suppliers will be able to report any concerns to the OGC and, where complaints have merit, the OGC will pursue them with the relevant departments on their behalf to see that action is taken to improve their performance. Suppliers should look to the existing Government Procurement Code of Good Practice as well as the developing procurement policy and best practice framework for details of the standards they should expect from government customers.

Challenge to suppliers 2.22 As the Government improves the way it carries out procurement, so there is a challenge to suppliers to raise their game and commit themselves to meet high standards of fairness, openness, efficiency and professionalism that can bring mutual reward. Suppliers need to engage positively in early dialogue with government when approached, and respond proactively to the innovation challenge by proposing solutions to meet the Government's long-term goals. When contracts are signed, the Government expects suppliers to deliver what they have signed up to.

Conclusion

2.23 The Government is determined to step up its drive to deliver high quality public services that are good value for money and sustainable. Procurement is an important means of delivering those objectives. The reforms set out in this paper show how the Government will transform its procurement standards to be a better customer, harnessing the innovative and competitive benefits that suppliers can offer, for the benefit of the users of public services.

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