

Procurement Capability Review Programme

Tranche One Report



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The programme of Procurement Capability Reviews was announced in HM Treasury's publication *Transforming Government Procurement*, in January 2007. That document set out that:

the reviews will assess how far procurement in central government meets the demanding standards required to deliver value for money now and in the future. They 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 commercial functions. Reports and departmental action plans, following the reviews, will be made public.

The programme is central to the Government's aim to ensure that procurement drives public service improvements. Focusing on where a department's money is spent and how it achieves value from that spend, a Procurement Capability Review (PCR) provides an independent, strategic view of the overall procurement capability of the organisation and its wider family, identifying exemplars as well as areas for improvement.

Recommendations from PCRs will result in improvements to leadership, systems and skills, and ultimately to greater value from procurement. The potential gains are huge: the public sector spends £150 billion a year on procuring goods and services, so even proportionately small improvements in capability represent large sums of money which can be rerouted to providing better public services.

The reports from the first three reviews – of the Department for Education and Skills (as was¹), the Department for Communities and Local Government, and the Department for Work and Pensions – are now published with the departments' Improvement Plans. This completes tranche 1 of the programme. These departments deserve significant credit for volunteering to help pioneer this new process. All three departments have engaged positively and productively with the review teams throughout the process, and all have developed Improvement Plans that are robust and challenging. Some changes have already been made, and so the PCR programme is already enabling results.

This report draws out the high level common themes identified from the first three of 18 reviews. It is, clearly, too early in the programme to draw firm conclusions. Similarly, any attempt to compare departments is unrealistic and unhelpful at this point – and this report does not seek to do this. Indeed, the most obvious emerging feature of the programme is how different departments can be in the scope of the challenges they face, and the way in which their commercial functions are organised to meet those challenges.

¹ *Machinery of Government changes occurred shortly after the review that resulted in DfES splitting to form the Department for Children, Schools and Families and the Department for Innovation, Universities and Skills. Given this, the pilot review is still referred to as the DfES review, even though the work flowing from it is being co-ordinated by DCSF.*

I have committed OGC to delivering reviews of all the central government departments by the end of 2008. This is a challenging task, but one which I believe is absolutely crucial to our central task of driving up procurement performance in government. Until we understand how departments are currently performing, it is difficult to assess the impact of any efforts to help them improve. Once we have a full picture of the landscape across government, OGC will be better able to really focus its efforts on the common themes that matter most.

We have come a long way since January. I would like to thank the members of the review teams, as well as the three departments, for making the first tranche of the PCR programme a success. The real challenge, of course, still lies ahead: that is, to realise the benefits of the reviews in departments by building procurement capability and making an impact on delivery and value for money.



Nigel Smith

Chief Executive, OGC

December 2007

The aims of the programme

The programme of Procurement Capability Reviews (PCRs) was first announced in *Transforming Government Procurement* in January 2007. The programme is central to the Government's aim to ensure that procurement drives public service improvements.

The PCR process was modelled on that of the programme of Departmental Capability Reviews operated by the Cabinet Office. There are, however, important differences: the two programmes are looking at different aspects of departmental performance. Cabinet Office teams look at leadership, strategy and delivery across the totality of a department's activity, while the PCR focuses solely on its commercial activities.

PCRs look in detail at three main elements of a department's procurement capability: leadership, skills development and deployment, and systems and processes. The reviews cover the widest definition of procurement, from commodities to complex PFI projects. Procurement activities across the whole lifecycle, from policy and strategy to delivery and disposal, are included. Spend through the full length of the department's delivery chains is explored, from central departmental functions, through to agencies, Non Departmental Public Bodies (NDPBs), partners and end users. The focus is on high impact, large expenditure areas. The department's ability to act as an intelligent client both to assess commercial risk and influence procurement activity across their wider networks is critical.

The model

The PCR model is based on three major capability areas, with nine key indicators as follows:



The review process

OGC works with a high calibre cadre of procurement and commercial experts to conduct the reviews. Each review team comprises an Executive Director of OGC, an expert in public sector procurement and an experienced leader from the private sector. The depth and breadth of experience in each team ensures that it is able to reach a deep understanding of the commercial issues faced by the department, and that the department's Board and procurement director have full confidence in the report and recommendations.

During several months' preparation, information about the department is gathered from a variety of sources. An intensive forensic stage follows, lasting 3-4 weeks. During this time members of the review team meet senior management; staff in the central department, agencies and NDPBs involved in commercial activity; suppliers; and regulators – typically 50-80 individuals. The review team members work on a number of lines of enquiry, 'following the money' through the delivery chains.

The review team identifies the priority areas for improvement and provides feedback direct to the Permanent Secretary. Their report sets out the general context within which commercial matters are addressed in the department, the performance against the nine indicators in the PCR model, and recommendations for action. They award scores on a 5-point Red/Amber/Green (RAG) scale against each of the indicators. These scores are subsequently subject to a rigorous cross-tranche moderation process by an independent panel comprising representatives from the National Audit Office, CBI, HM Treasury and Cabinet Office Departmental Capability Review Programme.

Each department is expected to develop and implement an Improvement Plan in response to the review, with support from OGC's workstreams where appropriate.

After the review

The PCR process outlined above, however, represents only the beginning of a journey towards achieving real and lasting improvement in capability – a journey that the department undertakes supported closely by OGC. Rigorous post review follow-ups help to ensure that momentum is maintained.

OGC and the department will agree an Engagement Plan, based on assessed risk to delivery against the approved Improvement Plan. Follow-up plans will include self-assessment by the department six months after the approval of the Improvement Plan; a stocktake around 12 months after the first review to measure progress against the Improvement Plan; leading eventually to a second full review within 24 months.

The bigger picture

The challenge will be to ensure that the reviews and subsequent follow-up bring about real and meaningful changes in departments, leading to genuine improvements in value for money. Recommendations are designed to be robust and actionable and OGC will be resolute in working with departments to help them to realise those benefits.

Whilst PCRs will be the catalyst for VFM savings, it is the departments who are ultimately responsible for measuring and owning tangible benefits as part of their portfolio of VFM gains.

Background

The programme of PCRs is arranged in tranches of three or four reviews. This report covers the first tranche, comprising the pilot review of the Department for Education and Skills (DfES), the Department for Communities and Local Government (CLG) and the Department for Work and Pensions (DWP). These are some of the biggest spending departments in Whitehall.

It has always been envisaged that all central government departments would be subject to PCRs; 18 departments will be covered by the end of 2008. The first review, of DfES, was a pilot, followed quickly by the reviews of CLG and DWP. There was an acceptance by all involved that the PCR processes were still being established and fine-tuned during this tranche.

In order to understand the reports properly, it is essential to appreciate the different context within which each of the three departments works. The delivery challenges these departments face are demanding and diverse, and the way in which the commercial functions are organised to meet those challenges are correspondingly varied. The following section describes the context of each department, set alongside the headline findings (extracted from the respective reports).

The commercial landscape of the tranche 1 departments

DfES, at the time it was reviewed, was responsible for policy and strategic direction covering 23,000 schools, 384 further education colleges, 132 universities and a range of children's services delivered in conjunction with local authorities. The total departmental spend was over £78.5 billion annually, with around £21.4 billion of this accounted for by third party expenditure or procurement spend. Not only is the department's wider family very large, but it also works in a highly devolved fashion. Schools and colleges are independent entities and universities obtain around half their funding from non-DfES sources. The devolved structure and governance arrangements result in a very complicated procurement environment.

The department has been subject to a number of machinery of government changes in recent years, having variously gained and lost policy responsibility for employment, skills issues, universities, Social Services for children and other matters in the transformations from the Department for Education and Employment to the Department of Education and Skills and latterly to the Department for Children, Schools and Families. This instability of the landscape brings its own challenges.

The department's Centre for Procurement Performance was set up two years ago and a Director recruited. Its role is to assist the system to deliver procurement and shared services efficiencies. The Commercial Director's remit has now expanded to include DfES procurement, shared services across the system, NDPBs and estates and facilities management.

Headline Findings of the DfES Report:

- The department has made progress in recent years in terms of commercial awareness and capability, with the appointment of the Commercial Director and the initiation of many sensible procurement activities, some of which stretch beyond the department into the wider system
- The department is particularly strong on collaboration, and benefits from many skilled, enthusiastic and motivated staff at the centre

- However, there are still significant challenges in terms of procurement performance and capability building and the programme of activity needs to be focused and expedited. These challenges are magnified by the very complex procurement environment across the wider system resulting from the deeply-embedded devolved structure and governance arrangements
- Most importantly, there is no shared vision or strategy for the Commercial Group's activity across the education system or measures of success. Furthermore, whilst progress has been made in raising awareness of the importance of VFM in procurement in the spending areas of the department, more needs to be done to embed and incentivise a stronger VFM culture.

CLG has the government policy lead on social housing and regional development with a published vision of *"prosperous and cohesive communities, offering a safe, healthy and sustainable environment for all"*. Its complex devolved environment is arguably even more challenging than that of DfES: the route from policy to delivery involves complex relationships with four agencies, 19 NDPBs and nine Government Offices to deliver CLG's key programmes and distribute grant funding to local authorities for locally-managed regional programmes. Some £33 billion flows through CLG, of which the vast majority is grant funding to local government programmes and only about £300 million is for departmental procurement. The Permanent Secretary is accountable for all of this expenditure.

The department has been subject to significant machinery of government changes in recent years. Indeed, it is still in transition to a strategic centre that increasingly delivers its objectives through its arms'-length bodies. CLG uses a number of commercial bodies to provide goods and services, many of those supplying directly to the public. The department is both hugely influential in and critically dependent on commercial markets.

The department has a fairly small Corporate Procurement Division of 18 staff, which processes procurements and provides guidance on procurement regulations and policy. There are several other separate procurement functions across the wider family, but the remit of these is limited.

Headline Findings of the CLG Report:

- Recent changes to the CLG Board mean that it has acknowledged the need for greater commercial awareness. This is evidenced by the recent appointment of a new DG Finance and Corporate Service Delivery who understands the necessity of driving through procurement efficiency gains
- There are pockets of good procurement practice in CLG, its wider family of agencies and NDPBs and in the regional structures. But there is a general lack of heavyweight commercial capability across the department
- There is little evidence of a strong contract management capability, able to drive out VFM once contracts have been let
- The central procurement function has evolved into a guidance and process control organisation, which cannot optimise commercial benefits. This is exemplified by the failure to exploit e-procurement initiatives at the centre
- The department has systems in place to capture procurement data but there is a paucity of good quality management information
- Some issues can be traced to legacy structures and projects but there remain some that are persistent systemic problems.

DWP's aims are to eradicate child poverty, promote employment opportunity for all and ensure pensioners have a secure retirement. The department has a challenging policy agenda including Pension Reform, Child Support and Welfare to Work. The total running cost of the Department is over £7.8 billion annually, with £4.3 billion of this accounted for by third party spend. Bought-in goods and services are recognised to be vital to the success of DWP's client-facing operations, and hence commercial activities are considered very important to the department. The Commercial and Estates Directorate has direct responsibility or strong influence over the majority of the third party spend.

Although DWP has some very large contracts, its commercial environment is simpler: there is no significant network of NDPBs or other bodies through which procurement responsibility is devolved. The department has not been subject to machinery of government changes recently. The commercial function is, overall, much more stable and mature, although it has recently undergone its own restructuring exercise and broadened its responsibility (taking on, for example, responsibility for Welfare to Work procurement). It is also much bigger than those of DfES or CLG, with around 200 staff in the central team and a further 450 staff engaged in contract management in the wider business.

Headline Findings of the DWP Report:

- DWP is striving towards 'world class' commercial excellence; it is perceived by suppliers and peers to be amongst the best performing procurement and commercial organisations in the public sector. DWP are themselves aware of, and are acting upon, most of the issues identified in the review
- The DWP Board is highly commercially aware and involved. The Commercial Director and the function has strong credibility with senior colleagues, and has governance over/is involved with all major DWP third-party spend. The senior CED (Commercial and Estates Directorate) team is impressive but relatively new. The wider Commercial team is professional and well motivated. However, there are skills shortages
- Historically, IT procurement has presented DWP with significant challenge. However, Corporate IT's commercial strategies are now generally well considered. Structured 'supplier relationship management' has worked well in IT but has been limited elsewhere. DWP are leading cross-government supplier initiatives in the IT marketplace. In Estates and general goods and services procurement, there is again much to applaud. However, some of the major cross-functional contracting exercises have suffered from being managed as purely 'procurement' rather than 'business change' projects
- There are market issues for Welfare to Work procurement, where suppliers are highly dependent on DWP, and DWP's commercial strategies have been 'consistently inconsistent'; contracts have not always been sufficiently outcome-focused. DWP are aware of these legacy issues and are making plans to address them. However, it is not clear DWP currently has the commercial capacity, the management information or the appropriate organisational structure in place to manage providers and markets successfully. DWP has strong performance management and a potentially world-class 'purchase to pay' platform, which is driving better management information. The Commercial function has collaborated well in cross-government tactical deals and in opening up its own large deals to others, but has not taken a leadership role.

Introduction

It is early days in the PCR programme, so drawing out simple overarching messages or key themes is no easy feat. Any conclusions must be regarded with a good degree of caution, since there is no certainty that what appear to be themes within this small group will apply to other departments.

Perhaps the most striking thing about the reports is how differently procurement operates in the three departments, and how diverse are their challenges. Context is absolutely key: as already discussed, the three departments have very different organisational structures (including the shapes of their wider families of organisations), reflecting their different histories, roles and the environments within which they work. Given this, it is not surprising that the structure of the three departments' procurement functions, their role, positioning within the organisation, and the extent of their ability to influence spend down through the delivery chains should vary too.

The variable range of capability across the three departments is due to a number of factors and there is no single, simple solution to the issues they face. What works in one department may not work in another. The review teams were therefore conscious not to be prescriptive in setting out how a department should address the issues raised.

There is a recognition that procurement is an important prerequisite for effective delivery, and that there can be difficulty in measuring its impact. The review teams found a strong recognition amongst all three Permanent Secretaries and their senior management teams that effective procurement is crucial to successful policy delivery.

That these three departments volunteered to take part in the first tranche demonstrates their commitment to procurement issues. This commitment was further evidenced as the programme rolled out, with all three Permanent Secretaries engaging fully with the whole PCR process and encouraging their staff to co-operate. Although the messages from the reviews have not all been comfortable, all three have gripped the issues raised and all are committed to the implementation of robust Improvement Plans. The challenge that faces departments is in translating this recognition of the issues into effective business performance.

The key emerging themes

Theme: Influencing spend outside of the core department

All three departments face difficulty in effectively influencing spend outside of the core department. This is a key concern for CLG, because the majority of its expenditure is routed through its wide and disparate extended family. DfES's position is not dissimilar; it too has overall responsibility for a large network of organisations but limited control over spend in these areas. DWP is not immune to this problem: while that department's control over spend is generally firm, the review team found that this was not the case with respect to its Welfare to Work programme. DWP's response to this problem has been to recently bring accountability and responsibility for Welfare to Work procurement back within the core department.

The governance structures that departments have set up to oversee their wider families are all very different, but all tend to be overly complex. This creates difficulty in understanding the procurement landscape (not least for officials within the departments themselves). The lack of clarity in the system is a significant problem, particularly where it leads to confusion about roles and accountability of the various parties involved.

Developing more systematic treatment of commercial activity in the wider network of NDPBs and agencies represents a real and urgent challenge for the departments. Both the DfES and CLG reports recommend that the departments consider how governance structures and information flows could contribute to them having greater influence over their extended families (particularly where new agencies are being established).

Theme: The shortage of skilled and experienced procurement professionals, with sufficient visibility

Skills issues are central to many of the problem areas identified by all three reviews.

The review teams found a shortage of in-house commercial expertise. Particularly at senior levels, there is a lack of highly capable commercial people. One of the effects of this can be an increased dependence on the services of paid consultants, particularly in the IT arena. Whilst there is a place for consultants providing short-term critical expertise that cannot reasonably be sourced from within, longer-term deployments need to be controlled with better skills transfer and succession planning. All three departments are acutely aware of the need to reduce their use of and reliance on paid consultants, and some have developed processes designed to achieve this.

Another aspect of the skills issue is the value attached to specialist skills such as operational contract management. Contract management is treated very differently in the three departments: in DfES and CLG, some large-value contracts are being run by policy officials who often have little or no commercial training, and contract management is therefore weaker than it might otherwise be. Even in DWP, where CIPS membership is common amongst practitioners, more investment at appropriate levels (including post-CIPS continuing professional development) and better distribution of grade profiles is necessary to improve commercial capability.

Skills gaps are likely to be a theme across government; reflecting a growing perception that there is a shortage of appropriately qualified and experienced procurement professionals retained by departments. This is a wider issue for OGC, which is already being addressed by the reform of the Government Procurement Service (GPS). The GPS programme aims to enable departments to create a sustainable balance of appropriately skilled and suitably managed procurement professionals, to match their delivery agenda. It is developing a Skills Framework for procurement practitioners and leaders, together with a standard suite of role profiles and career paths. A portfolio of assured learning and development interventions will provide the means to develop current staff capability, whilst a range of recruitment schemes will provide a means to supplement and refresh their procurement function. Fourteen graduates, members of the Government Procurement Graduate Scheme, have been recruited this year and are currently undertaking on-the-job training within their parent departments; bids are now being sought for the 2008 scheme. A Fast Stream Procurement Placement scheme plans to raise the procurement skills of tomorrow's senior managers, whilst adding extra resources today, and the unique "Switch Track" scheme will be piloted early in 2008 to enable those employed on the periphery of procurement, but with relevant skills, to switch to the procurement profession.

A linked issue is that of the visibility of senior commercial staff in the organisation. The reviews show a clear link between effective commercial leadership and business delivery. Where the commercial function has a high profile and sound reputation, the commercial strategy and vision is embedded in the department. It follows that Ministers and officials are more inclined to seek the advice of the commercial function in developing policy and that the resulting policies will be better informed on commercial aspects; there is therefore less of a mismatch between policy imperatives and commercial deliverability.

Theme: The need for better data

Comprehensive, accurate and timely Management Information (MI) is critical for effective procurement. Without a thorough understanding of, and easy access to, information about how much is being spent, with whom and for what purpose, performance in the commercial arena will always be limited. MI processes and data vary across the three departments, but even in the best department could still be improved. OGC will be working with departments to help them develop plans to address specific spend data requirements. OGC is planning to adopt a phased approach to categorise spend against common standards and to agree a standard categorisation.

Theme: The need for more market shaping, strategic supplier engagement and relationship management

All three departments, to varying degrees, have problems with effective market building and shaping. They all suffer from some degree of supplier over-dependency and over-reliance on a small number of key suppliers. There is also a common problem of scope-creep of contracts extending well beyond their original aims over time. Evidence from DWP shows that a comprehensive programme of supplier engagement can reap significant benefits. Even in this department, however, more strategic shaping of the market earlier in the contract process is necessary (for example, to encourage competition for future contracts). OGC is working with departments to provide centralised management of some key markets (ICT, professional services and construction). A GPS Special Interest Group (SIG) has recently been established to share experience and best practice on supplier management.

Theme: The need for more, and more effective, collaboration

All three departments demonstrate a sound level of awareness of the need for and benefits flowing from collaborative procurement. Indeed, there is evidence of a good deal of collaboration happening at a tactical level. However, there is a need to translate awareness of the benefits of collaboration into a real commitment to collaborative category management. Full engagement in the four categories currently being piloted by OGC with key departments (fleet, energy, office solutions and travel) is essential. The potential for savings cannot be realised without a significant resource investment from departments. There is more to be done in terms of clarifying the role of those departments that lead on delivering collaborative opportunities, and the resources they need to do so effectively.

Theme: Measuring procurement performance

There is a general acceptance that there can be difficulty measuring (and therefore managing) the effectiveness of the central procurement function. So although departments recognise the importance of good procurement practice, it is not always easy for them to see the extent to which it is making a difference in terms of better performance and cost savings overall. The problem is more acute in the departments' wider families. It is worth noting, however, that this difficulty is not confined to the public sector.

Theme: The need for better knowledge-sharing

Knowledge-sharing is poor in all three departments. More needs to be done to ensure that information about suppliers, and about best practice, is used in the optimum way. This applies as much between departments as within them. OGC will be looking at this as part of its work on collaboration, and GPS Special Interest Groups are also being set up to facilitate knowledge sharing in some of the most pressing areas identified by departments. These groups are self standing, managed and coordinated mostly by departments and supported by OGC's GPS team.

The time from inception of the PCR policy to delivery of the publication of the first tranche of reports and Improvement Plans has been less than a year. It has been a fast-paced and dynamic environment, and credit must go to all those involved in making it a success. However, the challenge going forward is no less demanding.

The Improvement Plans published alongside the reports are a blueprint for action to be taken over the next few weeks and months. The reviews are the beginning of an ongoing process of measurement, self-assessment and stocktakes. While this process is now underway with the tranche 1 departments, as with the reviews themselves there is an element of refining the process as it becomes established.

Tranche 2 is well underway, with the forensic stages complete in the Department for the Environment, Food and Rural Affairs and the Department for Transport. The Department for International Development is the third department in the tranche, and the review team will begin the forensic stage in January 2008. Tranche 2 reports will be published in May 2008. A further twelve reviews, in the remaining three tranches, will all be complete by the end of 2008. It is expected that the process will roll forward, with a second wave of reviews beginning in mid-2009.

The tranche 1 reviews have highlighted a number of issues for the commercial landscape in government departments. As this report has demonstrated, there are some key themes that can be drawn out but the picture will become much clearer when more reviews have been completed. As the programme builds OGC will be looking carefully at the most pressing issues on a cross government basis, and developing strategies both to address the problems and make best use of the strengths that review teams find.



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Office of Government Commerce

Office of Government Commerce, 1 Horse Guards Road, London SW1A 2HQ
Service Desk: 0845 000 4999 **E:** ServiceDesk@ogc.gsi.gov.uk **W:** www.ogc.gov.uk

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You can contact the Service Desk 8am – 6pm Monday to Friday

T: 0845 000 4999

E: ServiceDesk@ogc.gsi.gov.uk

W: www.ogc.gov.uk

Press enquiries

T: 020 7271 1318

F: 020 7271 1345

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