

Purchasing Professional Services



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 400 Session 2000-2001: 25 April 2001

executive summary

- 1 This report is about how departments can get better value for money from the £600 million which they spend each year on professional services from a wide range of suppliers providing specialist expertise, advice and assistance. The report sets out how departments can improve the way in which they purchase professional services and achieve gains of at least 10 per cent (£60 million) (Figure 1). These gains could be used to deliver the same service and provide resources for departments to spend on other priorities or to obtain a higher quality of service from suppliers.



1 Potential savings from opportunities to improve the value for money from the purchase of professional services

Illustrates the potential gains for departments from better procurement practices identified in this report

Opportunity to improve value for money	Potential Savings £ million
More astute negotiation with suppliers Departments negotiating lower prices for consultancy services by using information to compare fees and understand suppliers' costs such as travel and subsistence	45 ¹
More collaboration between departments Departments collaborating to put combined requirements for work under a single contract and thereby obtain volume discounts	3 ²
Use of the appropriate form of procurement Using competitive tendering and appropriate forms of contract to get better deals and reduce internal processing costs	12 ³
Total	60

- Note: 1. Based on reducing fee rates by 8 per cent so that all fee rates are closer to the average in our survey.
 2. For example based on a 10 per cent saving on £31 million spent annually on financial services.
 3. Based on a 2 per cent saving on the £610 million spent annually by departments.

Source: National Audit Office

- 2 Departments acquire professional services in two ways: either from within government (staff they directly employ or from another department), and externally from the private sector.
- 3 Professional services is one of the areas of procurement expenditure which the Office of Government Commerce have identified as having potential to achieve price and efficiency savings quickly. This is in support of the achievement of a wider value for money improvement target of £1 billion by April 2003 from the estimated £13 billion which departments spend annually on civil procurement. Departments can obtain advice on purchasing professional services from the Office of Government Commerce.
- 4 Professional services cover a vast range of activities and specialist disciplines including the design, development and implementation of information systems, advertising for recruitment of staff, the delivery of contracted out services such as payroll administration, the provision of expert advice for instance on legal issues, research and development, and staff substitution. In this report we focus on those services which because they are in demand across departments and because there are many suppliers have the greatest potential to secure improvements in value for money. These are consultancy or advisory services in the areas of human resources, financial, legal and general management consultancy. Expenditure on the development of information systems and construction projects has been covered by other National Audit Office reports.¹
- 5 In 1994 a Cabinet Office Efficiency Scrutiny into departments' use of external consultants recommended how their procurement and management could be improved to achieve savings, mainly in consultancy fees of £65 million. Our examination which included a survey of 152 departments, agencies and non departmental public bodies (collectively referred to as departments throughout this report), discussions with eight departments found that while many departments have implemented some of the recommendations, for example by departments revising internal guidance and procedures, progress in doing so has not been uniform nor have departments monitored systematically the extent to which implementation has resulted in savings and efficiency gains.
- 6 We focus on three issues:
 - i) why departments purchase professional services;
 - ii) what they spend on them and how they are purchased; and
 - iii) how to unlock the potential to improve value for money, focusing on economy and efficiency in purchasing professional services.

Why departments purchase professional services (Part 1)

- 7 The growth in public-private partnerships and commercialisation, the drive for more electronic service delivery, the introduction of resource accounting, and the Modernising Government programme's commitment to more joined-up service delivery, are requiring departments to consider new ways of carrying out their business and to draw on a much wider range of skills. Departments often seek expert external advice and assistance because of the specialist expertise and independence of view which these can bring to issues.

¹ - *Committee of Public Accounts First Report 1999-2000 - Improving the delivery of Government IT projects which set out key factors which departments and agencies need to pay careful attention to in implementing new IT systems.*
 - *Cabinet Office 'Successful IT Modernising Government in Action' which set out measures to improve IT project delivery.*
 - *NAO Report Modernising Construction HC 87 2000-2001.*
 - *NAO Report (HC 411 1997-98): Ministry of Defence; The Defence Evaluation and Research Agency Review of Performance which looked at the Agency's role in providing scientific and technical services to departmental customers, its relationship with industry and the reporting of performance.*



What departments spend on professional services and how they purchase them (Part 2)

8 Our survey of 152 departments in October 2000 found that:

- **Expenditure.** Departments spent in total some £610 million² purchasing professional services in 1999-2000 a seven per cent increase in real terms compared to 1993-94. Thirty-eight per cent (£231 million) was spent on management consultancy; 11 per cent (£67million) on legal services; 5 per cent (£28 million) on financial; and 3 per cent (£21 million) on human resource advice and assistance. Departments were unable to allocate the remaining 43 per cent (£263 million) to particular categories.
- **Who spends the most.** Not surprisingly, the largest departments - Ministry of Defence, Department of Trade and Industry, Inland Revenue, Department of Social Security and Customs and Excise spend the most on professional services, accounting for 56 per cent (£344 million) of all departments' expenditure. This is in line with their share (53 per cent) of all departments' spending on goods and services. Fifty-five percent of all departments' spending on professional services was covered by contracts worth individually more than £149,000 and only 6 per cent of expenditure was for contracts less than £10,000. Twenty-five suppliers accounted for 37 per cent of all departments' expenditure.
- **How professional services are purchased.** Out of 468 examples of professional services contracts quoted to us by departments, fifty per cent (234 contracts) were awarded following full competition, 32 per cent (150 contracts) were on the basis of a single tender or informal³ price tendering, and for the remaining 18 per cent (84 contracts) the contracts were either carried out by in-house teams or were part of framework⁴ agreements which were established competitively.
- As with the purchases of all other goods and services, the procurement of professional services must follow the Treasury's Procurement Policy Guidelines⁵ which require that all public procurement of goods and services are based on value for money. They also make clear the need to ensure that services are acquired through competition unless there are convincing reasons to the contrary, for example the cost to the purchaser precludes a competitive tender. In addition public purchases must comply with the European Communities procurement rules which are consistent with the Government's procurement policy. Competition is sought normally by advertising the contract in the Official Journal of the European Communities. Unless the cost of going out to tender is disproportionate to the value of the contract, appointing suppliers through competition is the best means of ensuring that departments achieve value for money and benchmark the services offered by different suppliers. It is therefore surprising, that departments could not identify more than 50 per cent of contracts having been awarded through full competitive tendering, given that no more than 12 per cent of the 468 contracts were under £10,000. (The 1994 Efficiency Scrutiny found that there was too much reliance on single tendering by departments in appointing consultants). Our discussions with a number of departmental procurement officers and the Office of Government Commerce suggested that staff requiring professional services were often driven more by pressures of time

2 This includes some £21 million for the purchase of management consultancy provided in-house or by other departments.

3 A small number of potential suppliers are for example, telephoned to obtain an informal indication of the typical price they might charge.

4 A framework agreement is a contract awarded competitively which allows departments to call on one or more suppliers included in the contract without having to retender each (more detail is provided in paragraphs 2.12 and 2.13).

5 Procurement Policy Guidelines, published by HM Treasury in November 1998.

and a desire to renew existing arrangements in deciding on procurement methods, rather than a full consideration of value for money. Our discussions with private sector suppliers and the results of a survey of its members by the Institute of Management Consultancy also suggested that departments are driven by minimum cost rather than best value.

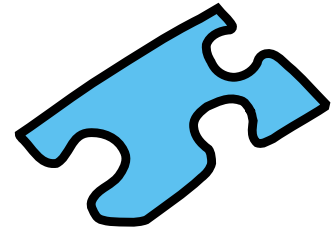
- **Fee rates and the potential to achieve financial savings.** One of the keys to getting a good deal from professional advisers is for the departments to have a clear understanding of the economic drivers of the supplier's business. Some suppliers will be driven by the need to keep teams occupied, others will want repeat business or to maximise fee rates charged for specialist staff, or be interested in the total price for the work. Firms will quote prices in different ways for example a fixed overall price, a fee rate for hours worked, or capped rates based on the amount of work done. To ensure departments get a good deal they need up-to-date and reliable information on prices paid to share this information and negotiate better deals when the fees which suppliers quote appear high in relation to that information. Professional purchasers in departments have a key role to play in advising on negotiation strategies.
- The average fee rate (covering all staff from partner to research assistant) which departments pay for management consultancy services is less than the consultancy industry average.⁶ But this average conceals a wide range in the fees which departments pay. While some of the range can be explained by the variety of services consultants provide, it suggests departments need to have a clear understanding of the skills and experience of the consultants they are purchasing. Suppliers informed us that they could have more room to negotiate and provide better value for money if departments concentrated less on the grade of the consultant and more on matching the service to the specific skills and experience required. Suppliers have standard rates, but in practice these are always negotiable if a firm wants to work for a particular client. If departments could reduce the extent of the range, so fees at the top end of the range were much closer to the average in our survey this would result in an 8 per cent reduction in overall average fees paid by departments - a saving of £45 million. Further savings could be achieved by developing partnerships with key suppliers, and by developing a better understanding of suppliers' costs and negotiating to reduce these or get the full benefit of any discounts the

⁶ *Consultancy industry average fee rates as published by the Management Consultancy Information Service which is an independent organisation which conducts surveys on fee rates and salaries.*



supplier achieves: for example, costs such as the printing and binding of reports and travel and subsistence, which are passed on to the customers and also incur an administrative charge. Departments also need to negotiate with suppliers the intellectual property rights of any product used or developed in carrying out the work, taking account of whether it will be used again and its commercial value.

- 9 Departments collectively put large amounts of professional service work out to contract non-competitively. Awarding work without competition makes it difficult for departments to compare suppliers' prices to ensure they get the best price. The wide range of fees paid also suggests that there are opportunities for departments to get better deals from suppliers. To do this departments need to have a better understanding of suppliers' costs and to drive up the amount of work awarded through competition.



- **Quality of departments' information and analysis of requirements.** The responses to our survey revealed considerable variation in the quality of departments' information on their expenditure on professional services. While departments know how much they spend in total on professional services many do not have sufficiently detailed breakdowns of expenditure on the different types of external assistance which they purchase. There is also a lack of data on the amount of business awarded to different suppliers and their fee rates, and also on the quality of service delivered by suppliers. This detail is needed to manage the contract and the supplier effectively. The lack of consistent classifications of departments' expenditure on professional services also does not facilitate information sharing within and across departments. Such information would be useful for identifying areas of collaboration in the purchase of common services.
- Our discussions with departments also showed a wide variation in the extent to which they analysed their requirements. There is evidence that departments now require business cases for proposed expenditure on professional services, but the extent to which these test whether the services have already been provided to that department or another is limited. The most common approach is ad hoc consideration of each requirement as it arises rather than a requirement based on a sound assessment of business need.





- 10 Departments' lack of sufficiently comprehensive analysis and information has major consequences. Firstly, it is more difficult for them to determine the value they are getting from their expenditure on professional services for example, by comparing prices and fees paid and also by undertaking evaluations of the performance of suppliers. Secondly, it makes it difficult for them to identify opportunities to collaborate and harness their collective purchasing power to get better deals for example, by packaging their requirements into one contract, or identifying the amount of business individual suppliers are receiving from departments collectively and negotiating lower fees and prices. Thirdly, it reduces the opportunities for departments to disseminate lessons learnt and ensure good practice is implemented.

Unlocking the potential to improve value for money (Part 3)

- 11 The National Audit Office report Modernising Procurement (HC 808 1999) emphasised the need for top-level commitment, better management information, active management of high-value contracts, the involvement of more professional procurement staff and collaboration with suppliers to achieve value for money. The 1994 Efficiency Scrutiny recommended a range of good practice to improve how departments purchase and manage consultants to achieve significant improvements in value for money. It also recommended that each department should prepare an action plan to monitor implementation and produce a report on progress by 1996. In some departments such as the Ministry of Defence, Department of Social Security and the Lord Chancellor's Department action plans were prepared and procedures changed, for example the Lord Chancellor's Department developed and issued guidance to purchasers of professional services and required an annual report on expenditure to be made to senior management. In departments generally there is little evidence that the Scrutiny's other recommendations have been implemented such as mounting collaborative projects between departments and use of performance-linked fees.
- 12 Some departments such as the Department of Social Security and Ministry of Defence have kept their procurement approach to professional services under constant review since 1994 and taken action to improve their approach as appropriate. Departments generally have not monitored progress or questioned why implementation has been slow. Organisational changes have made it difficult to track expenditure on professional services and responsibility for the Scrutiny's recommendations was often delegated to line managers who lacked the skills or expertise to implement them. Other powerful incentives to encourage implementation appear to have been lacking since the Efficiency Scrutiny report in 1994. Apart from the Treasury issuing a statement of Best Practice on establishing effective working relationships, jointly with the Institute of Management Consultancy, and the Management Consultancies Association in 1999 and the Office of Government Commerce's proposed Code of Good Customer Practice which will be issued later this year and sets out core values for working with suppliers such as fairness, honesty, efficiency and professionalism, we found little evidence of follow-up from central departments to implement the recommendations. For instance there are no communication networks for departments to share best practices and information. We held a focus group of departmental staff who commented that this was the first opportunity they had had to talk to staff in other departments and share experience and good practice in purchasing professional services. Departments commented that achieving better value for money depended on more guidance on good practice backed up by concrete examples of what worked well and what had been achieved.

Why the recommendations of the 1994 Efficiency Scrutiny of the Government's use of external consultants were not fully implemented

- lack of follow-up by departments to monitor progress and to question why implementation was slow;
- greater priority was given to other initiatives;
- organisational changes within departments made it difficult to track expenditure; and
- responsibility for expenditure on professional services was delegated to line managers who lacked the expertise or detailed understanding to implement the Scrutiny's recommendations.

Source: NAO interviews with six departments

Incentives needed to identify savings

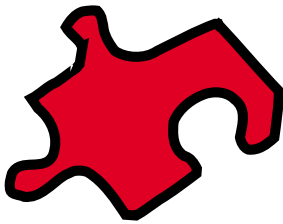
- 13 Incentives can help departments to identify savings through negotiating better deals individually or collectively and thereby uncap their potential purchasing power. Private sector firms recognise the need for incentives to encourage staff to identify savings and implement good practice. They also have a clear profit motive for identifying savings through collaboration or more astute negotiations and ensuring good procurement practice is adopted. Although the private sector do not have to operate under the same procurement rules as central government departments, their approach involves developing a more effective working relationship with suppliers - for example by involving them in framing the work and ensuring good procurement practice is disseminated to staff involved in purchasing external assistance such as on a company's intranet. In the private sector good performance is often rewarded by the continued use of the supplier without the need for tendering. That can be done in the public sector through the use of panels of advisers who are appointed competitively.

Private sector companies' approach to purchasing professional services

- maintaining a database on recent external professional services and on the performance of suppliers using the company's intranet;
- nominating "gurus" or "champions" within the company who fully understand the market for particular types of professional service;
- avoiding duplication and not paying twice for work;
- being aware of the internal cost of any kind of professional service in terms of their own staff's time in providing information;
- being aware of their own strengths as a client and the benefits which suppliers gain from working with them;
- ensuring that they use their own staff for work as appropriate, and providing the opportunity for their staff to learn from the supplier by creating mixed teams;
- managing relationships with suppliers on a corporate basis to ensure that there is no duplication of work; and
- conducting regular benchmarking exercises to establish indicative fees with companies.

Source: GlaxoSmithKline (previously Glaxo Wellcome) and Unilever





- 14** Developments in the public sector provide new incentives for departments to apply good procurement practice and thereby achieve value for money. The creation of the Office of Government Commerce provides a central focus for driving forward and monitoring improvements in procurement practices. The Spending Review 2000⁷ has provided departments with an incentive by allowing them to retain any value for money improvements generated from their own or the Office of Government Commerce sponsored initiatives related to better purchasing during the Spending Review 2000 period. This should have the added benefit of encouraging effective planning of the use of all resources including external professional services. The Office of Government Commerce is well placed to raise departments' awareness of incentives. It has involved departments' senior management in the development of better procurement practice, negotiated better deals (for example in September 2000, the Office of Government Commerce announced the re-negotiation of an existing arrangement with Vodaphone which will lead to an estimated £38 million of value for money improvements from departments and the wider public sector's use of mobile phones) and promoted better training of procurement staff through conferences and seminars.
- 15** There is considerable potential to secure improvements in the value for money from the purchase of professional services. Our discussions with departments suggest that the full benefits of the Efficiency Scrutiny's recommendations have not been realised. Incentives for departments to secure savings exist but are not being used. Staff at all levels in departments need advice on how incentives can be used so that in purchasing professional services they follow good practice as set out in this report and so realise the significant potential to improve value for money. The Office of Government Commerce is best placed to work with departments to help secure the significant potential value for money gains. Departments also need better networks for sharing good practice and practical examples of how value for money can be improved.
- 16** In the Annex to this executive summary we have set out some of the questions which departments need to consider to ensure that in purchasing professional services they are getting value from their expenditure.

⁷ www.hm-treasury.gov.uk :Spending Review 2000: New Public Spending Plans 2001-2004 Paragraph 2.11 (18 July 2000).

Recommendations

- 17 The recommendations of the 1994 Efficiency Scrutiny into their use of external consultants identified the potential to achieve savings in consultants' fees of up to £65 million. This report confirms that value-for-money improvements of at least £60 million are achievable. To realise this potential we recommend:

For the Office of Government Commerce

1 Work with departments to take advantage of their considerable buying power

This report shows that in purchasing professional services one of the ways in which departments can achieve better value for money is by co-ordinating their purchasing and exercising their considerable buying power to negotiate better deals (**paragraphs 8, 9 and 10**). There is some evidence of departments starting to do this internally but nothing to support that it is happening between departments. The Office of Government Commerce are well placed to help make this happen by:

- a) developing a central database which can be accessed through the Government Secure Intranet which holds details of departments' expenditure on professional services detailing the type and value of projects, the suppliers and a contact point who can supply more information;⁸
- b) using this database to identify:
 - i) key suppliers to government so that the Office of Government Commerce can take the lead in managing the relationships to negotiate better deals for example with those suppliers who get a significant amount of business from departments (paragraph 8); and
 - ii) common requirements and opportunities for departments to collaborate.
- c) ensuring departments achieve value-for-money gains by requiring them to report on savings achieved for example using methodologies developed by the Office of Government Commerce to do so (**paragraph 8**); and
- d) encouraging departments to develop more effective working relationships with suppliers by reviewing the Statement of Best Practice and the Office of Government Commerce's proposed Code of Good Customer Practice which will be issued later this year (**paragraph 12**) and considering how both can be strengthened through the use of practical examples and development of good practice networks to change client behaviour so that better value for money can be achieved, for example by setting up a group of procurement professionals from departments to assess the opportunities for collaborative purchasing.



⁸ In developing any database which includes comments on supplier performance departments must have due regard to the Freedom of Information Act 2000, the Data Protection Act 1998, civil tort on negligent misstatement (House of Lords 1963) and any confidentiality clauses within individual contracts.

How departments can exercise their considerable buying power to secure the best service and price, for example by collaboration within and between departments

Illustrated by: Ministry of Defence

The Ministry of Defence have recently reviewed external assistance purchased by the whole of the department and its agencies. At present external assistance is purchased locally by 11 budget commands within the department and in over 40 agencies. The review has concluded that there is evidence of the same external services being purchased by different parts of the department and there are opportunities to collaborate on the purchase of external services across the department and share the outputs from external advice. To address this the department is creating a central unit which will monitor expenditure and build up a data-base of the department's usage of external assistance. All units purchasing assistance through projects over £100,000 will have to submit copies of their business case to the unit and supply post-project evaluations. The unit will also consider how in-house specialists can work with external suppliers to ensure skills transfer takes place and thus reduce the need for repeat work.

Benefits:

The information collected will identify: who buys external services; the types of services purchased; the outputs from these services; the value of contracts; and the department's key suppliers. This will allow the department to encourage collaboration between end users in developing solutions to external assistance requirements; take steps to manage the relationship with key suppliers; aggregate requirements and negotiate better deals with suppliers.

For departments

2 Carry out robust and thorough analysis and definition of their requirements for professional services

Ineffective analysis of requirements leads to unnecessary expenditure for example, through different business units purchasing duplicate work or not using available internal resources (paragraphs 9 and 10). It also leads to poor specification and briefing which lessens the value that professional service providers can add. Departments must analyse and define their requirements at:

- i) departmental level to ensure that long-term and departmental-wide requirements are identified and met appropriately; and
- ii) individual project level to ensure the need cannot be met internally or has not already been met; the requirement is clearly defined and expressed to potential suppliers; the mechanisms are set up for skills transfer so that departments gain maximum value from the suppliers' expertise; and all parties have a clear understanding of the intended outcomes.

How departments can analyse their needs for professional services to make the most of the services bought and to achieve savings

Illustrated by: Department of Social Security

In 1999 the Department of Social Security carried out a study of its requirements for external professional resources. This enabled the Department to identify its key requirements, develop a plan for how those requirements could be met from either internal and external suppliers, develop a procurement approach for the purchase of external services, and determine what skills, expertise and information it needs to manage cost effective procurement of professional services. The Department has set up an External Resources Unit to monitor and co-ordinate its spend on external resources and keep the procurement approach relevant to operational needs. The Unit's responsibilities include working with end-users to define the requirement, checking with internal providers of services and with Human Resources whether the requirement can be met internally, and where external services are required ensuring that a clear specification is drawn up and that staff adequately brief suppliers about the Department's needs.

Benefits:

By carrying out the review and developing a procurement approach to meet its needs cost effectively, the Department estimates that it has made a one-off saving of £86,000 and is saving £136,000 each year in internal costs through economies of scale and the better use of work. The Department believe that further savings can be achieved through:

- not purchasing unnecessary professional services by checking whether internal resources could be used instead before external services are sought; and
- deriving maximum value from those services that are purchased as the Unit will be able to direct end-users to existing reports and users who have similar needs.



3 Use the most cost-effective form of procurement which is appropriate for the types of services they are purchasing

Departments still make too much use of single and informal tendering, largely because they want to appoint suppliers quickly or want to reappoint existing suppliers. The absence of appropriate forms of competition in appointing suppliers can put value for money at risk (**paragraph 8**). Departments should ensure that they use the appropriate form of procurement with decisions on the procurement method based on:

- i) improving value for money for example by packaging together requirements into one contract to negotiate a better fee rate;
- ii) ensuring the procurement processing costs are proportionate to the cost of the contract;
- iii) enabling departments to identify potential opportunities to build partnerships with key suppliers while ensuring through competition that the price they pay is reasonable compared to market rates and that propriety is maintained; and
- iv) choosing a contract which meets operational needs for example for services which are required regularly at short notice a call-off contract or term consultancies panel would be more appropriate and cost-effective than letting individual contracts each time. Such contracts still require testing with regular competition. Putting them out to tender every two to three years helps to ensure this.

How different procurement strategies are used to reduce internal processing costs and prices

Illustrated by: English Partnerships

English Partnerships require a broad range of ad hoc professional advice including legal; engineering; property; economics and business appraisal. To meet these needs it has set up a series of term consultancy panels in each professional area which run for two to three years. Each panel consists of a small number of suppliers selected through competition, who collectively provide the full range of services required across all the department's regions. Managers can draw upon the most appropriate panel member (by specialism or location) as required. The rates charged for services are agreed at the start of the contract. Lead contacts for each panel within the department monitor the quality of service received and the amount of work placed with suppliers. Managers are required to keep the lead contact informed of any work they propose to give to panel members.

Benefits:

English Partnerships has found that the panels:

- facilitate access of managers to required services;
- reduce processing costs; and
- allow better control of costs as suppliers are required to provide information on a monthly basis.





4 Hold up-to-date and reliable management information on what they spend on professional services and disseminate this information with guidance on best practice to purchasers

Departments need to ensure that they have in place systems for collecting, analysing and disseminating information to manage all purchasing expenditure including that on professional services for example by the intranet. Comprehensive information is needed by departments to determine the value they are getting from their spending by benchmarking prices and fees paid and evaluating suppliers' performance and to assess the amount of business suppliers are receiving from departments collectively.⁹ Once such information is available and easily accessible departments can identify opportunities to collaborate to secure better prices and reduce the need to use external assistance where similar advice has already been supplied and paid for. Much of the information on prices, suppliers and services is already held in departments but it is not routinely collected and analysed nor is it readily accessible to purchasers. More effort also needs to be put into specifying and collecting information on suppliers' performance so that this can be monitored and used in future decisions about which suppliers to appoint. This information can then be used by departments to report on a regular basis to the Office of Government Commerce progress in achieving value-for-money improvements (paragraphs 9 and 10).

How robust management information supports purchasing decisions by tracking expenditure and providing purchasers with information on the success of projects taking account of the performance of both the supplier and the department

Illustrated by: GlaxoSmithKline and Unilever

Both companies have invested in developing intranet based information systems to support their purchasing on professional services. For example, Unilever's intranet based information system cost under £100,000 to develop and gives details of projects over £50,000, including the suppliers, expenditure, resource days used, commentary on the work done, and a named contact who can give more information.

GlaxoSmithKline have introduced a number of different mechanisms to evaluate its performance and that of its suppliers. These are aimed at assessing not just the quality of the output from the service provider but also how well the project is managed by both parties. For example on large projects, both client and supplier project leaders give a joint quarterly presentation on the running of the project to senior managers in the client and supplier organisation.

Benefits:

At a corporate level the companies now have information about what they are buying, who buys it and from whom and the amount of money spent. This enables them to manage the relationship with key suppliers, ensure that duplicate work is not carried out and that proper protocols and procedures are being followed. Individual managers buying professional services have access to more information and contacts which can help them to make better-informed decisions.

GlaxoSmithKline appraisal of performance has the added benefit of providing information to both the client and suppliers so that they can improve their performance whilst the project is being carried out and so prevent problems afterwards as well as providing lessons which can be applied to future projects.

⁹ In developing any database which includes comments on supplier performance departments must have due regard to the Freedom of Information Act 2000, the Data Protection Act 1998, civil tort on negligent misstatement (House of Lords 1963) and any confidentiality clauses within individual contracts.

5 Develop a more effective working relationship with key suppliers

Departments developing a better working relationship with suppliers and their skills as intelligent customers would allow both departments and suppliers to promote maximum value from the assignment for example, by identifying opportunities to reduce costs and adopt innovative approaches for mutual benefit. Departments should identify their key suppliers and manage the relationship so they achieve good value for money. This could involve departments nominating senior managers with responsibility for programmes which regularly need external professional assistance as "procurement champions" to deal with key suppliers, and encouraging more discussions with suppliers before they put forward proposals. It does not necessarily mean increasing the risk of financial impropriety if appropriate oversight mechanisms are in place for example for clear specification of requirements and proper monitoring of supplier performance (see recommendation 3 above) and the involvement of procurement professionals is sought at an early stage. Departments should also take opportunities to incentivise suppliers by linking their remuneration to their performance when appropriate (paragraph 10).



How to use incentives to improve suppliers' performance

Illustrated by: the Defence Procurement Agency

- 1 The Defence Procurement Agency has a contract with KPMG consultancy to assist them in developing client service plans and identify potential for financial savings through efficiency improvements. The Agency also lacked in-house resources and skills to implement the major change programme they wished to achieve.
- 2 The Agency negotiated a variable fee contract based on risk sharing dependent on KPMG achieving a baseline level of performance such that any payment above the baseline fee would require substantially greater savings in operational costs to be achieved. The Agency's aim was to have a firm price assignment with no scope for the terms of reference to expand beyond what was agreed at the outset.

Benefits:

Linking remuneration to carefully monitored performance has achieved:

- a reduced fee-initially KPMG offered a fixed fee for the development programme. Following negotiations it was agreed that a fee within a set range (the lower end being less than the original fixed fee offered) would be applicable, depending upon results; and
- fee was dependent upon results-KPMG receives their "fixed fee" price if the Agency can develop plans which show aggregate operating cost savings of a certain per cent greater than the existing budget savings. If the aggregate savings identified are less than existing budget savings, KPMG's fee will be reduced. If even greater savings are achieved KPMG earns a bonus up to the maximum of the range if savings are above a set level.



6 Sharpen their approach to negotiations to ensure that they get a good deal from suppliers

The key to getting a good deal from suppliers is to negotiate from a position of strength while understanding the market from which the services are being purchased. Professional procurement staff can play a key role in this. Departments should act as intelligent customers by discussing constructively with suppliers all the elements of the contract price they are to be charged, including the level of service, the timescale for the assignment, the proposed skills mix of the supplier's team and the intellectual property rights of any product of the work which all impact on price and how associated costs such as travel and subsistence are to be remunerated. This means at the post-tender stage clarifying what the price includes and specifying for suppliers exactly what is expected from them. Departments would then be in a better position to negotiate appropriate deals which meet their needs in the most cost-effective way. Departments should avoid discussing at the post-tender stage the scope and nature of the work and fee rates. (paragraph 8).

How purchasers' understanding of the market and suppliers' cost base supports a more astute and robust approach to negotiations with suppliers

Illustrated by: GlaxoSmithKline

GlaxoSmithKline has found that understanding the costs involved in providing professional services is essential for clients who want to pay an appropriate price for the services they receive and to get maximum value from the money paid. GlaxoSmithKline negotiate fee rates with its main suppliers annually and do not negotiate further on these when individual contracts are being agreed. Instead they concentrate on reducing other costs which suppliers pass onto customers such as travel and subsistence, administrative costs and printing of reports. For example they insist that GlaxoSmithKline make all travel and hotel bookings for consultants using its own deals which are cheaper and have the added advantage of avoiding the fifteen per cent administrative charge usually made by consultants.

Benefits:

GlaxoSmithKline aim to save seven per cent on the costs of professional services through concentrating on reducing the suppliers' costs. It also seeks to increase the value gained from use of such services by insisting that suppliers only use good quality and experienced staff on its projects.

Annex 1

Key questions for departments to consider to promote value for money in their expenditure on professional services

- 1 **Are the department's requirements for external professional services clearly identified and specified?**
 - has the need for professional services been rigorously assessed and checked that it cannot be properly met internally?
 - if the need is justified, has the need been clearly defined?
 - have all those invited to tender been briefed about what the work will involve?
 - are both the department and the appointed supplier clear on the intended outcomes from the work and when the work has to be delivered?
 - is payment of suppliers based on achievement of key milestones?

- 2 **Is the department using the most appropriate and cost-effective form of procurement?**
 - is the form of procurement appropriate to the department's business needs, taking account of the intended outcomes and the volume, value and urgency of the requirement?
 - have the internal processing costs been taken into account in determining the appropriate form of procurement?
 - does the form of procurement provide sufficient competition and comply with European Communities' regulations and rules?

- 3 **Are opportunities for internal and external collaboration with other departments being taken?**
 - does the department regularly identify and review their likely requirement to purchase professional services over the coming six months to a year?
 - is information on what professional assistance and advice has been provided readily available throughout the department on its Intranet and easily accessible?
 - has the department emphasised to its staff the advantage of taking opportunities for joint purchasing of similar services with other departments and sharing of information with them to get better deals?
 - has the department questioned the justification for repeat business when the results and advice arising from earlier assignments are available within the organisation or another department?

- 4 **Is the department's approach to negotiations astute and robust?**
- are discounts negotiated for high-volume work or where there are opportunities to carry out repeat work?
 - does the department question whether and how much travel and subsistence costs are to be reimbursed?
 - has the supplier been consulted about how the service it is providing might be delivered more cost-effectively (for example, by changing the mix and cost of the staff which it allocates to assignments)?
 - is the trade-off between cost, time and quality reviewed (for example where work is not time critical taking a little longer to complete can improve quality)?
 - has the ownership of intellectual property rights been considered and negotiated?
 - are professional procurement staff involved in negotiations with suppliers?
- 5 **Does the department have management information on suppliers' and departments' performance?**
- is the information which is needed to assess suppliers' performance determined at the beginning of the assignment?
 - are regular evaluations of the suppliers' and the department's performance undertaken once an assignment has started?
 - has the department considered linking suppliers' remuneration to achieved performance where this is cost-effective (while ensuring that reliable and unbiased data will be available to demonstrate performance)?
 - are the lessons learned from evaluations disseminated within the department and to other departments and implemented by staff?
- 6 **Is the department disseminating good practice and guidance to those responsible for procurement?**
- are staff aware of good practice and the tangible benefits it can achieve?
 - has the department considered appointing 'champions' - senior managers whose responsibilities involve using professional services-to promote improvements in procurement practice and to liaise with key suppliers?
 - has the department established or have access to an electronic database of good practice which includes practical examples to which staff can refer?
 - does the department monitor its compliance with good practice and investigate when this does not happen?
 - does the department maximise the opportunities offered by government wide arrangements to achieve value for money from expenditure on professional services?
 - what steps has the department taken to ensure that its agencies and non-departmental public bodies are implementing good practise and guidance?