



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL**

**HC 962  
SESSION 2008–2009**

**6 NOVEMBER 2009**

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# Commercial skills for complex government projects

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National Audit Office

# Commercial skills for complex government projects

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Amyas Morse  
Comptroller and  
Auditor General

National Audit Office

30 October 2009

This report is part of a series of NAO reports examining the Office of Government Commerce (OGC)'s support to departments on procurement and contract management. It examines the current level of commercial skills and experience in Government, and whether the OGC and departments are being successful in improving them.

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The National Audit Office study team  
consisted of:

Oliver Anderson, Manuel Llorca and  
Jon Riley, under the direction of  
David Finlay

This report can be found on the  
National Audit Office website at  
[www.nao.org.uk](http://www.nao.org.uk)

For further information about the  
National Audit Office please contact:

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

# Summary

**1** The value of the Government's Major Projects Portfolio (**Figure 1**) is approximately £200 billion. To achieve value for money the Government needs to ensure that these and other complex projects are being:

- delivered by project teams with the required commercial skills. We define commercial skills as the ability to interact on equal and professional terms with the private sector; and
- approved, led and governed by commercially aware senior civil servants and departmental boards.

**2** The National Audit Office (NAO) and the Committee of Public Accounts (PAC) have consistently identified cases of problem government projects involving a lack of public sector commercial skills and experience. This has slowed the delivery and reduced the value for money of complex government projects. Appendix 2, which is published separately on our website [www.nao.org.uk/commercialskills09\\_examples](http://www.nao.org.uk/commercialskills09_examples), provides examples from previous NAO and PAC reports.

**3** Government has long been aware of the need to improve its commercial skills. In 1999 a report by Sir Peter Gershon, *Review of civil procurement in Central Government*,<sup>1</sup> concluded that commercial skills levels needed to be raised significantly. In 2000, partly in response to the report, the government created the Office of Government Commerce (OGC). Since then, the demand for commercial skills has grown. This has been influenced by an increase in the number and complexity of the contracts that the government has entered into.

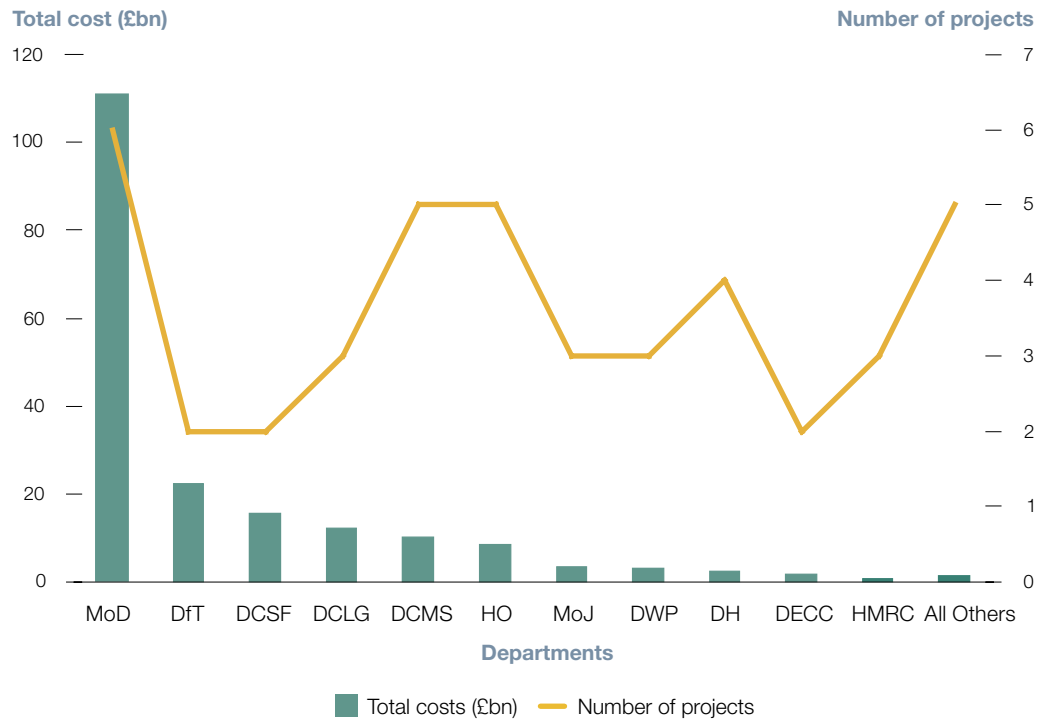
**4** Many parts of Government contribute to the development of commercial skills for complex projects (Figure 2, page 15). Departments and the OGC play the most important roles. In particular:

- Departments have ultimate responsibility for ensuring their staff have the commercial skills appropriate for their projects; and
- the OGC has developed a significant programme of initiatives to support departments in improving commercial skills. These initiatives cover both the activities that lead to contract award, and subsequent contract management.

<sup>1</sup> Sir Peter Gershon, *Review of civil procurement in Central Government (2009)* <http://archive.treasury.gov.uk/docs/1999/pgfinalr.html>.

**Figure 1**

The Major Projects Portfolio (43 of the most complex government projects)



MoD = Ministry of Defence

DfT = Department for Transport

DCSF = Department for Children, Schools and Families

DCLG = Department for Communities and Local Government

DCMS = Department for Culture, Media and Sports

HO = Home Office

MoJ = Ministry of Justice

DWP = Department for Work and Pensions

DH = Department of Health

DECC = Department of Energy and Climate Change

HMRC = HM Revenue &amp; Customs

*Source: HM Treasury Major Projects Portfolio as at September 2009***NOTE**

Based on departments' total estimated programme costs or, where cost total has not yet been formally approved, the departments' best estimate of the total programme cost.

**5** This report is part of a series of reports examining the OGC's support to departments on procurement and contract management. It examines the current level of commercial skills and experience in Government, and considers whether the OGC and departments are being successful in improving them. A description of the methods used in the study is set out at Appendix 1. A glossary can be found at Appendix 4 on the NAO website at [www.nao.org.uk/commercialskills09\\_glossary](http://www.nao.org.uk/commercialskills09_glossary).

## Key findings

### Commercial skills gaps

**6** **Departments continue to experience a shortage of staff with the necessary commercial skills and experience to successfully deliver complex projects.**

*Commercial leadership:* The OGC's recent Procurement Capability Reviews (PCRs) found that only eight out of 16 government departments had effective commercial leadership from their commercial director (or equivalent).

*Commercial awareness amongst senior civil servants:* A 2009 OGC review found that only 10 out of 18 Senior Responsible Owners (SROs) on major projects had substantial commercial experience.

*Project Teams:* Eight of the 12 complex projects assessed by the Major Project Review Group (MPRG, see Glossary) had commercial skills and experience gaps.

**7** **Government departments have attempted to fill this commercial skills gap with interim staff and advisers.** There is a wide variation in individual departments' reliance on both interims and advisers. Thirteen departments have provided information showing that 35 per cent of their commercial directorate's staff spend is on interims. Often these are roles that would otherwise be carried out by civil servants. Some departments also depend heavily on the support of specialist advisers. Whilst both interims and advisers can make a valuable contribution, particularly those with highly specialist skills, an over reliance on them can lead to: higher project staff costs; departmental staff failing to take proper responsibility for commercial decisions; and a loss of commercial knowledge when the interims or advisers leave. Following the OGC's *Building the procurement profession in government* report,<sup>2</sup> permanent secretaries have committed to reducing the number of interims holding posts in core procurement teams to no more than 10 per cent. The OGC plans to support and monitor this process.

<sup>2</sup> *Building the procurement profession in government, GPS reward strategy* (December 2008).



**8 Departments have significant weaknesses in a number of the commercial skills critical to the delivery of complex projects.** The shortcomings identified by NAO and PAC reports have been confirmed by the OGC's PCRs. The OGC's reviews found that commercial skills were generally weak across all 16 central government departments. Feedback provided by departments' commercial directors and private sector companies underlined these skills deficits. The biggest gaps are in contract management, the commissioning and management of advisers, risk identification and management, and business acumen.

### Barriers to developing commercial skills

**9 Pressure to reduce public spending and the frequency with which commercial staff move, both impact on the commercial experience of project teams.** Departments have to work within spending limits. In May 2009 HM Treasury's Operational Efficiency Programme (OEP) recommended that the cost of back office operations, including procurement teams, should be reduced by 25 per cent. This could, however, potentially conflict with the need to invest in staff with the commercial skills to deliver complex projects. SROs on complex projects believe their inability to pay market rates affects their ability to recruit experienced commercial staff. The OGC believes, however, that the overall package can still be attractive. In addition, civil servants in commercial roles often move positions frequently. Rotation of staff can cause commercial knowledge to be lost to a project and prevent Government getting best use of an individual's commercial expertise.

**10 The Government is not using its scarce commercial skills and experience to best effect.** There is a lack of management information on the skills, experience and availability of commercial staff and on skills gaps in project teams. There is also no formal mechanism to allocate staff across departments. The Government is therefore unable to deploy its scarce commercial staff resources in a way that will best meet the needs of projects and the development of individuals.

### Tackling skills gaps

**11 The OGC and departments have recently taken steps aimed at improving commercial skills but some important issues have not been addressed fully.** Departments have recruited commercial directors, established commercial units and introduced skills initiatives. The OGC has introduced a number of initiatives including: skills assessment through PCRs; a graduate training programme; and commercial skills frameworks. It has also produced a skills strategy *Building the procurement profession in government* that has been largely endorsed by departmental permanent secretaries. There remain, however, some important issues that are not being addressed fully. In particular, the loss of commercial expertise through the regular rotation of civil servants, and the need to allocate commercial expertise where and when it is needed most.

**12 Current OGC and departmental initiatives have so far had limited impact.**

The OGC and departments have performed limited measurement of the impact of their commercial skills initiatives against their objectives. Fourteen of 16 departmental commercial directors believe, however, the OGC has done little to address commercial skills gaps in their own departments. The OGC has developed initiatives to support the improvement of commercial skills, but the ultimate responsibility for ensuring staff have the commercial skills rests with departments. Our analysis shows that there has been a lack of departmental engagement with some OGC initiatives. A proposed virtual skills academy and a mid-career development programme were abandoned due to a lack of support and some departments continue to run initiatives which duplicate those of the OGC. The OGC considers that, with greater departmental engagement, its initiatives will be effective in the long term.

Other approaches to addressing gaps in commercial skills

**13** Some areas of Government and other organisations have adopted effective approaches to addressing commercial skills gaps, but these are not as widely used across central government as they could be. For example:

- in certain important areas of procurement, the standardisation of contract terms and procedures by the OGC and Partnerships UK (PUK), HM Treasury and the Ministry of Defence (MoD) has reduced the level of input required from commercial experts;
- centralised commercial support from PUK or local authority adviser Local Partnerships (formerly 4ps) can be of particular value when critical commercial decisions are being taken; and
- focusing on the career development of commercial staff by ensuring a logical progression from project to project and through mentoring, can help staff gain valuable experience and achieve promotion to senior positions.

**Value for money conclusion**

**14** Our past reports on complex government programmes and projects have demonstrated that value for money has often been compromised by a lack of commercial skills and experience. Further evidence set out in this report, confirms that there are still shortfalls across government in the commercial skills needed to deliver these projects.

**15** The OGC and departments share responsibility for developing the commercial skills and experience needed across government, a priority recognised since 2000. Progress has been made particularly on the identification of skills gaps within departments and project assurance. The OGC and departments have not, however, always worked together effectively. Some important issues have not been addressed fully and the initiatives that have been taken forward have so far had a limited impact. As a result, value for money is at risk for approximately £200 billion which will be spent on the 43 projects and programmes in the Government's Major Projects portfolio. While close monitoring of these projects goes some way towards mitigating this risk, there is a greater risk to value for money on many other complex government projects where skills shortages are not being assessed as systematically.

**16** There has been duplication of spending by the OGC and departments on similar initiatives and a lack of uptake of other OGC initiatives by departments. As a result, the value for money of the £1.5 million a year that the OGC has been spending on initiatives primarily aimed at improving commercial skills, is also at risk (Figure 6). The OGC and departments need to agree and then carry out a coordinated, coherent and targeted strategy addressing these issues.

## **Recommendations**

Our recommendations are aimed at helping the OGC and departments obtain better value for money from projects, without increasing departments' overall costs.

**a** **Government has yet to develop an optimal strategy for building, retaining and effectively deploying commercial expertise or raising commercial awareness.**

The OGC and departments should evaluate and revise their current commercial skills strategy by October 2010. This should address:

- effective models of commercial leadership;
- raising the commercial awareness of the boards and senior responsible owners;
- key barriers to efficiently deploying commercial expertise;
- departments' reservations about participating in the OGC initiatives; and
- unnecessary duplication between the OGC and departmental initiatives.

**b The government does not have the necessary information or mechanism to place people with commercial experience and skills onto the complex projects where and when they are most needed.**

Departments should by the end of July 2010:

- put in place project assurance processes that will identify commercial skills gaps in individual project teams; and
- produce an analysis of the commercial skills required across their future complex project procurements, and identify the contract management skills that are required to prevent value for money being eroded during the delivery phase of complex projects.
- The OGC and departments should by October 2010:
- use these plans to establish an optimal cross-government commercial staff plan; and
- work together to make it possible for commercial staff to be seconded quickly between departments, addressing barriers preventing this. The OGC should act as a broker of such secondments where they are in both the government's and the individual's best interests.

**c Commercially experienced staff can provide valuable short term interventions at critical times during projects.**

As a key part of the cross-government staffing plan, the OGC should explore how to establish a cadre of experts that can be deployed if a project runs into difficulty. Currently options include:

- the coordination of central resources of commercial experts from the OGC, Partnerships UK, HM Treasury, and the Shareholder Executive;
- the identification of mechanisms for the short term release of commercially experienced individuals from other departments; and
- the use of quality assured individual consultants.

- d Public spending constraints have affected the recruitment of commercial staff. Where opportunities for recruitment do arise, however, government departments should be flexible in how they recruit high calibre staff.**

Departments should:

- Ensure adequate budgetary provision for individuals who have the commercial skills to support complex project teams. Departments should be flexible in determining the number, calibre and pay of the commercial staff needed to ensure successful project delivery.

The OGC should:

- Set out guidance on the factors to consider in the recruitment of, and remuneration for, appropriately skilled commercial staff.

- e Commercial experience is being lost to projects due to commercial civil servants moving position frequently. The retention of commercial expertise within government departments should be given higher priority.**

Departments should:

- produce strategies which set out how they intend to develop, retain and fully utilise commercial staff in critical posts on projects. These strategies should be produced in line with the recommendations set out in the OGC's *Building the Procurement profession in the Future*. The strategies also need to investigate other options for improving the retention of commercial staff, such as allowing project staff to be promoted in their current post.

- f Given the scarce commercial staffing resources in government departments, project teams need tools which will help them to address commercial issues and reduce the risk of poor commercial decisions.**

The OGC and departments should:

- Establish a comprehensive set of best commercial practice and standard approaches to be applied across government wherever appropriate. Its adoption should be supported with guidance, training events, and access to experts. This work should draw on the contractual standards already developed for private finance projects, information communication technology, and construction.
- The OGC and departments should further develop information sharing on:
- learning and development opportunities; and
- individuals' experiences of interacting with different private sector companies.

- g** PCRs continue to be a useful indicator of the commercial skills of departments. But the OGC does not have an adequate ongoing performance management system to measure the success of its individual initiatives.

The OGC should:

- collect data from commercial directors, to assess the impact of OGC's commercial skills initiatives against their objectives. This could include tracking the impact that initiatives have had on the future retention of commercial staff, their career progression, and confidence in dealing with commercial challenges; and
- establish by October 2010 a performance measurement framework, with key performance indicators for commercial skills capability across government. The OGC should coordinate the collection of relevant data from departments and make use of existing sources such as the Government Procurement Service (GPS) annual survey and PCRs.

# Part One

## The importance of commercial skills for complex projects

**1.1** This part sets out why government departments need commercial skills on complex projects, and how their approach to developing these skills has evolved in recent years.

### **Project complexity**

**1.2** We define a complex programme or project as one where either:

- at the outset there is uncertainty over the route to delivering the project outcome, or the project has aspects that have not previously been encountered; or
- there is a high level of change in the outcome required during the project's lifetime.

**1.3** Many factors contribute to a project's complexity. These include:

- a significant number of stakeholders are involved in the delivery of a project or its outcome;
- the scale of the project, particularly if there is a significant number of linked procurements;
- the duration of the project, which can increase the risk that internal or external events will impact on the project;
- the use of unproven technology, or the development of a bespoke technological solution;
- a project being financed in a novel manner; and
- a tight delivery timetable.

## Demand for commercial skills

**1.4** Complex projects comprise a major element of government spending. The Major Projects Group's portfolio (see Glossary), which contains 43 of the most complex government projects and programmes, is worth approximately £200 billion. There are, however, many other complex projects also being undertaken.

**1.5** For a complex project, which involves a third party supplier, to be successful it requires:

- commercially aware senior civil servants and departmental boards to approve, lead and govern the work; and
- project teams with the commercial skills and experience to ensure that the right contract is placed with the best supplier and manage the contract through to its conclusion.

**1.6** The level of specialist commercial skills required by each department will, however, vary with the number and size of complex projects it undertakes (Figure 1).

**1.7** Whilst government departments have always carried out complex projects, three factors have added to the demand for commercial skills in recent years. These are:

- the involvement of third party contractors in the delivery of projects has increased;
- the growth in both the sophistication and number of different models now used by Government to contract with the private sector has increased the need for awareness of the pros and cons of each approach; and
- growing use of private finance to support programmes within local authorities, under central government oversight, has resulted in scarce commercial skills in the public sector having to be stretched across a larger number of projects.

## Commercial skills needed for complex projects

**1.8** There are a number of commercial skills required by project teams to deliver complex projects and we have developed a framework that captures those (See **Figure 3** on pages 16 to 17).

**1.9** We have used this framework to:

- evaluate commercial skills in government departments (Part Two); and
- assess the completeness of the OGC's procurement skills frameworks (Part Three).

**1.10** The OGC has agreed with departments a new definition for a procurement professional, which includes those who engage and select suppliers, develop the contractual agreement and manage the contract through to delivery. There are other professionals whose broader commercial skills are also relevant to complex projects who fall outside the OGC's remit, for example, those with knowledge of legal issues or with the ability to perform financial modelling.



## Government's approach to commercial skills

**1.11** The importance of developing the commercial skills required to deliver complex projects has been recognised within government for over 10 years. In his 1999 report *Review of civil procurement in Central Government*,<sup>3</sup> Sir Peter Gershon concluded that the level of commercial skills across the procurement profession needed to be raised significantly. The report triggered the creation of OGC in 2000, and soon after the creation of the GPS and new professional standards for commercial professionals. In 2007, HM Treasury's publication of *Transforming Government Procurement*<sup>4</sup> outlined a significant programme of initiatives to both assess and improve the commercial skills in government (See Part Three). A high level timeline of public sector commercial skills development is set out in **Figure 4** on pages 18 to 19.

**1.12** There are currently many parts of government contributing to the assessment and development of commercial skills (**Figure 2**).

### Figure 2

Roles and responsibilities of stakeholders involved in developing commercial skills in the Government

Organisation	Responsibilities
HM Treasury and the Office of Government Commerce	<ul style="list-style-type: none"> <li>Dissemination of good practice across government.</li> <li>Project assurance (MPRG, Project Review Group for approving PFI Credits to local authority projects, Gateway Reviews).</li> <li>Central initiatives, such as the Government Procurement Service Reform Programme, to assist departments' development of procurement and contract management skills.</li> <li>Supporting departments and projects (directly by the OGC and through the advisory body Partnerships UK, which is part owned by HM Treasury).</li> <li>Development of standard contract terms and other guidance.</li> </ul>
Departmental Commercial Units and Private Finance Units	<ul style="list-style-type: none"> <li>Management of national programmes, e.g. schools, hospitals, waste treatment (including planning programmes and developing markets with the private sector).</li> <li>Sharing good practice and giving advice to individual project teams on commercial issues.</li> <li>Assessing and improving commercial skills capabilities and staffing levels across the department.</li> <li>Project assurance.</li> <li>Placement of commercially skilled staff into project teams.</li> </ul>
Departmental project teams	<ul style="list-style-type: none"> <li>Procuring and managing individual projects.</li> </ul>
Shareholder Executive	<ul style="list-style-type: none"> <li>Uses its commercial skills to support the boards and management teams of Government owned businesses to create long-term shareholder value.</li> </ul>
Local authorities, schools and primary care trusts	<ul style="list-style-type: none"> <li>Procuring and managing individual projects which are often part of national programmes overseen by central government departments.</li> </ul>
Local Partnerships	<ul style="list-style-type: none"> <li>Offering local public bodies programme and project support and capability and capacity building through skills development and training.</li> </ul>

Source: National Audit Office

<sup>3</sup> Sir Peter Gershon, *Review of civil procurement in Central Government* (1999).

<sup>4</sup> *Transforming government procurement*, HM Treasury (January 2007).

**Figure 3**  
NAO’s Commercial Skills for Complex Projects Framework

**Key commercial skill or behaviour**

- Understanding the policy and political environment and how it affects the project

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- Understanding end user needs, and ability to describe outcomes and terms of contract succinctly

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- Leading and managing commercial activity

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- Scenario analysis and planning

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- Understanding of different procurement options, and ability to sound out potential suppliers

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- Ability to identify, define, communicate, and test the requirement

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- Options identification, validation and refinement

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- Understanding strategic context

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- Business acumen – ability to take sound commercial decisions based on an understanding of the motivations of private sector counterparts

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- Ability to identify, evaluate and take controlled risks

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- Ability to analyse, synthesise, interpret and communicate financial data

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- Understanding of the supply side, specifically market maturity

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- Ability to commission and manage advisers

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- Understanding of the incentives for suppliers and their staff

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- Understanding of government procurement policy, guidance and legal framework

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- Ability to determine and deploy a negotiation strategy, including core negotiation skills and techniques

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- Supplier management – development of effective contractual relationships

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- Ability to evaluate suitability of bids

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- Ability to retain competitive tension for as long as possible

*Source: National Audit Office*

**NOTES**

- 1 Producing a strategic business case – converting a policy goal into a commercially viable set of options. Setting out business justification prior to approval for development.
- 2 Producing outline business case before formal approach made to suppliers or delivery partners. Engaging with the market to test the feasibility of the options and decide on a specification.
- 3 Taking the specification out to tender, negotiation with suppliers, ending with contract award.
- 4 Managing the contract post-award to ensure benefits of the project are realised.
- 5 Benefits realisation and final evaluation of the project.

Stages in the project lifecycle

Stage 1 Project initiation <sup>1</sup>	Stage 2 Feasibility testing <sup>2</sup>	Stage 3 Selecting a partner <sup>3</sup>	Stage 4 Post contract award <sup>4</sup>	Stage 5 Contract completion <sup>5</sup>
✓	✓	✓	✓	✓
✓	✓	✓	✓	✓
✓	✓	✓	✓	✓
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		✓	✓	✓
		✓	✓	✓
		✓	✓	
		✓		

**Figure 4**  
Timeline of the Government approach to commercial skills

1997	1999	2000
<p data-bbox="124 636 331 853">First report by Sir Malcolm Bates (<i>Review of PFI</i>) on PFI finds commercial knowledge needed for PFI transactions is in short supply.</p> <p data-bbox="124 898 331 976">HMT PFI Taskforce created in response.</p>	<p data-bbox="379 636 608 1128">Sir Peter Gershon's Report on government procurement finds overall levels of skills and capability within the government need to be raised significantly, and highlights the need for further involvement of procurement teams in business critical procurements. Proposes the creation of both the OGC and Gateway Reviews.</p> <p data-bbox="635 636 858 1072">Second Bates's Report (<i>Second Review of the PFI</i>) says that secondees are not the long term solution to the structural weakness in public sector procurement. Also highlights a shortage in the skills needed to set up effective partnerships with the private sector.</p>	<p data-bbox="906 636 1023 714">OGC created.</p> <p data-bbox="906 736 1182 909">Partnerships UK created, with the aim of providing commercial support for partnerships with the private sector.</p> <p data-bbox="1209 636 1437 909">Government Procurement Service (GPS) created to represent and support central government procurement specialists.</p> <p data-bbox="1209 931 1406 1010">OGC launches Gateway Reviews</p>

Source: National Audit Office

2006	2007	2008
<p data-bbox="161 636 352 882">Chief Executive Procurement Advisory Group (CEPAG) created to provide senior departmental input on OGC's procurement work.</p> <p data-bbox="379 636 587 1084">HMT's <i>PFI: strength in long-term partnerships</i>, recommends the development of a secondment model that will allow public servants with experience of complex procurement to be retained and deployed on other similar government projects.</p>	<p data-bbox="635 636 804 882">HMT's <i>Transforming Government Procurement</i> says that government procurers need better skills.</p> <p data-bbox="635 920 804 1048">GPS is reformed and new initiatives launched.</p> <p data-bbox="831 636 1000 792">Procurement Capability Reviews of departments launched.</p> <p data-bbox="831 831 1000 1196">Major Projects Review Group established to improve the performance of major projects and advise Treasury Ministers on whether projects should proceed.</p>	<p data-bbox="1051 636 1236 927">GPS Council is created, replacing CEPAG, where the Head of the GPS meets with the heads of the procurement profession from each government department.</p> <p data-bbox="1264 636 1465 972">GPS's <i>Reward Strategy</i> highlights insufficient development of the procurement profession, and a shortage of capable commercial people and in Government.</p>

# Part Two

## Gaps in commercial skills and the barriers to addressing them

**2.1** This part sets out:

- the key gaps in commercial skills in government departments and their impact; and
- the main reasons why those gaps exist.

### Key gaps in commercial skills

**2.2** To deal effectively with commercial issues in their complex programmes and projects, government departments need:

- sufficient people with the right commercial skill sets;
- commercial leadership from commercial directors (or their equivalents); and
- commercial awareness amongst SROs, programme leaders, and at Board level, which are critical to a department's delivery of complex projects and programmes.

### General weaknesses in commercial skills

**2.3** The OGC's PCRs found general weaknesses in commercial skills across all central government departments, although with some degree of variation. Similarly, the NAO and the PAC have regularly reported that a lack of commercial capability and capacity in project teams has put at risk value for money on complex government projects. We are publishing separately on the NAO website a summary of references by the NAO and the PAC on commercial skills issues (Appendix 2: [www.nao.org.uk/commercialskills09\\_examples](http://www.nao.org.uk/commercialskills09_examples)). We have used some of these examples to illustrate the way that a shortage of commercial skills can impact on the value for money of a complex project. In many cases, departments have subsequently taken steps to address the weaknesses identified by the NAO, the PAC or in their PCRs.

**2.4** We have used a number of methods to gather further evidence on the current extent to which commercial capability and capacity impact on the value for money of complex government projects. These include a survey of all 16 departmental commercial directors (or equivalents) and interviews with advisors and private sector partners (Appendix 1).

## Commercial skill sets

### Contract management

**2.5** The successful delivery of long term projects depends heavily on effective contract management. The NAO and the PAC have identified a number of programmes and projects where poor contract management has adversely impacted on value for money.<sup>5</sup> For example, our 2008 report on managing service contracts found that central government organisations do not always allocate appropriate skills and resources to the management of their service contracts.<sup>6</sup> Our 2007 report *Making changes in PFI operational projects* highlighted that value for money was often put at risk by insufficient attention to the negotiations for contract variations.<sup>7</sup>

**2.6** In our survey of commercial directors, 13 out of 16 identified contract management as an area where commercial skills needed to be improved. PCRs found a shortfall in contract management skills in nine out of 16 departments.

### Commissioning and management of advisers

**2.7** The commercial experience of external consultants can often add considerable value to projects. But there have been numerous examples of poor commissioning and management of advisers.<sup>8</sup> For example, the PAC report on the procurement of the National Roads Telecommunications Services<sup>9</sup> (NTRS) found that the Highways Agency spent £15.5 million on advisers, five times its original budget. This occurred partly because NRTS underestimated the degree of effort required to deliver the complex contract, but also because they had only two full time staff working on the project, and did not sufficiently incentivise the advisers to deliver to budget.

**2.8** Nine out of 16 commercial directors said their department lacked the required skills in managing advisers. Interviews with both the private sector and advisers themselves also confirmed this as an area of weakness.

<sup>5</sup> See *The Warm Front Scheme*, NAO (HC 126, 2008-9) and *PFI: The STEPS deal*, NAO (HC 530, 2003-4). For other examples, see Appendix 2, [www.nao.org.uk/commercialskills09\\_examples](http://www.nao.org.uk/commercialskills09_examples).

<sup>6</sup> *Central government's management of service contracts*, NAO (HC 65, 2008-9).

<sup>7</sup> *Making Changes in Operational PFI Projects*, NAO (HC 205, 2007-8).

<sup>8</sup> *The cancellation of Bicester Accommodation Centre*, NAO (HC 19, 2007-8); *Central government's use of consultants*, NAO (HC 128, 2006-7). See Appendix 2 for further examples, [www.nao.org.uk/commercialskills09\\_examples](http://www.nao.org.uk/commercialskills09_examples).

<sup>9</sup> *The Procurement of the National Roads Telecommunications Services*, PAC (HC 558, 2007-08).

## Commercial risk identification and management

**2.9** The ability to identify, understand, transfer and manage commercial risk is crucial to achieving value for money and the timely delivery of a project. It is also key to protecting the taxpayer from the consequences of failure. Several government projects have failed to manage these commercial risks successfully.<sup>10</sup> For example, the PAC report<sup>11</sup> on the Channel Tunnel Rail Link project found that the Department for Transport (DfT) failed to recognise that its private sector partner did not have the financial strength or equity capital to sustain a high level of commercial risk if the project encountered difficulties. This left the DfT to provide an increasing level of support to its partner, while still trying to ensure that private sector disciplines were maintained.

**2.10** Ten out of 16 commercial directors identified management of commercial risk as a problem in their department, and the OGC has identified risk management as a common weakness in major projects subject to Gateway Reviews. PCRs also highlighted weaknesses in the way that the Ministry of Justice (MoJ), HM Treasury, Cabinet Office and the Department for Environment, Food and Rural Affairs (Defra) manage commercial risk on their own projects although, as previous NAO reports have shown, the scope for improvement in managing commercial risk is not solely restricted to these departments.

## Business acumen

**2.11** Business acumen is the ability to take sound commercial decisions based on an understanding of the motivations of private sector counterparts. There are numerous examples of poor commercial decision-making caused by a lack of business acumen within teams.<sup>12</sup> In 2007, the PAC's report on improving tendering of PFI projects<sup>13</sup> found that PFI teams had not fully understood that lengthy tendering periods and delays were leading to fewer serious bids.

**2.12** Nine out of 16 commercial directors told us that business acumen is an area of weakness within their departments. Private sector partners agreed. PCRs also highlighted a shortage of people with business acumen in: the MoD, DfT, the Foreign and Commonwealth Office, and the former Department for Business, Enterprise & Regulatory Reform.

## Commercial capacity in project teams

**2.13** Commercial staff within departments who have the skills to deliver complex projects are in short supply. Of the first 12 complex projects assessed by the MPRG, eight project teams were identified as having a shortage of the necessary commercial skills.

<sup>10</sup> *The National Offender Management Information System*, NAO (HC 292, 2008-9) and *The termination of the PFI for the NPL*, NAO (HC 1044, 2005-6). Further examples listed at Appendix 2 [www.nao.org.uk/commercialskills09\\_examples](http://www.nao.org.uk/commercialskills09_examples).

<sup>11</sup> *Channel Tunnel Rail Link*, PAC (HC 727, 2005-6).

<sup>12</sup> *Delivering successful IT-enabled business change*, NAO (HC 33, 2006-07), *Improving the PFI tendering process*, NAO (HC 149, 2006-07). Further examples listed in Appendix 2, [www.nao.org.uk/commercialskills09\\_examples](http://www.nao.org.uk/commercialskills09_examples).

<sup>13</sup> *Improving the PFI tendering process*, PAC (HC 754, 2006-7).



**2.14** This reflects a general under supply of commercial skills across departments. In 2008, OGC estimated that approximately ten per cent of procurement positions across central government were vacant at that time.<sup>14</sup> There is a wide variation in individual departments' reliance on both interims and advisers. Thirteen departments have provided information showing that 35 per cent of their commercial directorate's staff cost is on interims.<sup>15</sup> Often these are roles that would otherwise be carried out by civil servants. Some departments also depend heavily on the support of specialist advisers. Recognising this risk, departmental permanent secretaries have committed to reducing the number of interims holding posts in core procurement teams to no more than 10 per cent. This followed a recommendation by the OGC in the *Building the procurement profession in government* report. The OGC plans to monitor and support this process.

**2.15** Consultants and interim staff often provide valuable skills to a department that would otherwise be difficult to obtain. Overreliance on them can, however, lead to:

- **greater project staff costs:** for example, in 2009 the PAC criticised the Department for Children, Schools and Families and Partnerships for Schools for excessive spending on consultants to make up for shortfalls in the organisations' skills and resources. One consultant employed over a three-year period had cost £1.35 million.<sup>16</sup> The 17 interims working within another major government department's commercial directorate in early 2009 cost on average 140 per cent more than civil servants;
- **a lack of proper accountability in decision-making:** reliance on external commercial staff means departments' staff are not always fully engaged in important commercial decisions. For example, our 2007 report on central government's use of consultants found that in May 2005, the Home Office's Identity Programme's procurement, marketing, business requirements, resilience and security teams were all led by consultants. The Home Office has now replaced them with civil servants to regain greater control and accountability in this project;<sup>17</sup>
- **continued dependence on consultants:** reliance on external staff also means that there are instances of departmental staff not receiving the opportunity to build up commercial experience and skills to take a leading role in future projects. It can also lead to the understanding of projects that resided with the consultant being lost.

**2.16** Some departments have taken steps to ensure that there is a strong departmental commercial presence on project teams. For instance, the MPRG found that the Department for Work and Pensions (DWP)'s Enabling Retirement Saving Project used secondees from its commercial unit alongside interims and consultants to good effect. The DWP Commercial Director also sits on both the project Board and the procurement Board of the Personal Accounts Delivery Authority, the body created to deliver the project.

<sup>14</sup> *Building the Procurement Profession in Government, GPS Reward Strategy* (December 2008).

<sup>15</sup> Based on 2007-08 data which was the latest available when we requested information from departments. Excludes figures for the Ministry of Defence, the Ministry of Justice and the Department for Business, Enterprise & Regulatory Reform, who were unable to provide this data.

<sup>16</sup> *Building Schools for the Future: renewing the secondary school estate*, PAC (HC 274, 2008-9).

<sup>17</sup> *Central government's use of consultants*, NAO (HC 128, 2006-7).

**2.17** Many capital projects are delivered as part of nationwide programmes, such as schools, hospitals and waste treatment centres. These programmes are now generally led by officials with commercial experience who are also able to draw upon private sector experience of individuals within their senior management teams. Programme leaders play an important role in planning the rollout of projects and developing good practice.

### Commercial leadership

**2.18** Commercial leadership from a commercial director or equivalent within a department is important to the success of complex projects. A commercial director is responsible for ensuring commercial awareness amongst their SROs and Board. Where a commercial director is a visible and influential figure, this should improve the likelihood of sound commercial decision-making within the organisation. PCRs found, however, that only eight out of 16 government departments had effective commercial leadership. The main failings in commercial leadership were that some departments were without a head of profession and, in other cases, the commercial leader did not have a strong profile or interaction with the department board.

### Commercial awareness

#### SROs

**2.19** Commercial experience has not been seen as essential for SROs. Without this knowledge, or the support of a team member with this knowledge, they are less likely to be able to decide upon the optimal procurement route, or put together and lead a team with the appropriate legal, financial and technical skills. It can be a particular problem at the outset of the project when a SRO without commercial experience might fail to engage and take advice from professionals with the required commercial skills. A 2009 OGC review found that only ten out of 18 SROs on major projects had substantial commercial experience. Similarly, the PAC's report on delivering successful IT-enabled business change<sup>18</sup> found that over half of SROs on major IT-enabled programmes and projects were in their first SRO role, adding risk to the management of IT-enabled change.

**2.20** The Home Office has taken steps to increase the commercial awareness of its SROs. In 2008, it launched a training course for SROs, which can lead to a qualification in programme and project sponsorship. This covers an appreciation of commercial issues and the need to seek commercial advice.

<sup>18</sup> *Delivering successful IT-enabled business change*, PAC (HC 113, 2006-7).

## Departmental boards

**2.21** Commercial awareness of departmental boards is generally low. PCRs found a low level of engagement with commercial issues at board level in nine of 16 departments, with only the Boards of the Home Office and the DWP displaying high commercial awareness. The DWP has taken steps to increase commercial awareness at the top of its organisation, as 50 per cent of its service requirements are outsourced. Each of its key suppliers is given a Director General level sponsor, and its commercial director meets regularly with both the departmental Board and the Permanent Secretary.

## Barriers to addressing commercial skills gaps

**2.22** There are a number of barriers that prevent government departments from putting together project teams with the right mix of commercial skills. These barriers impact on the:

- recruitment and retention of good quality commercial staff;
- the development of commercial staff; and
- the allocation of commercial staff to the most appropriate project.

## Recruitment and retention

**2.23** Twelve of fifteen commercial directors told us that a lack of flexibility in recruitment procedures is a significant barrier to putting project teams together. Commercial directors note that the length of time to make a permanent appointment in the public sector can deter departments from moving quickly to secure commercial staff. Our report on recruiting civil servants found that recruitment can typically take an average of 16 weeks.<sup>19</sup>

**2.24** Civil service pay structures may limit the number of commercial staff that can be employed and the salaries that they can be paid. SROs and commercial directors have told us that they are not able to offer market rates when recruiting commercial staff. In May 2009 HM Treasury's Operational Efficiency Programme (OEP) recommended that the cost of back office operations, which includes procurement, should be reduced by 25 per cent.<sup>20</sup> Such factors could potentially prevent the recruitment and retention of staff with the commercial skills to deliver complex projects.

<sup>19</sup> *Recruiting civil servants effectively*, NAO (HC 134, 2008-9).

<sup>20</sup> *Operational Efficiency Programme: back office operations and IT*, HMT (May 2009).

**2.25** The OGC considers that public sector benefits packages can attract private sector staff. Its data appears to indicate comparability between the cash salaries that public and private sector procurement staff earn (**Figure 5**). The experienced commercial staff the public sector needs to recruit for complex projects are not, however, conventional procurement staff, but professionals with recent experience in participating in commercial bids. These staff tend to attract higher salaries. In addition, the comparison set out in Figure 5 does not take into account benefits such as company cars or pensions.

### Figure 5

2008 median total annual cash salaries in the procurement sector

Civil Service Grade (or equivalent)	Central Government (£)	Private Sector (£)	Difference (%)
Senior Civil Service	78,300	80,000	2
Grade 6	59,000	66,000	12
Grade 7	46,000	50,000	9
Senior Executive Officer	35,300	37,000	5
Higher Executive Officer	28,000	29,000	3

Source: GPS's Reward survey, September 2008 (for central government) and Croner's report on Purchasing and Supply Rewards, March 2008 ([www.croner-reward.co.uk](http://www.croner-reward.co.uk)) (for private sector)

**2.26** There is some inconsistency between government departments on pay for commercial staff. For instance, the median salary is approximately eight per cent more for Grade 6s and 11 per cent more for Grade 7s within the DWP, as compared to the Department of Health.<sup>21</sup> The OGC and departments agree this could potentially lead to movements in commercial staff between departments, in a manner inconsistent with where the need for their skills exists.

**2.27** Despite the limitations on funding, the government has had some success in recruiting commercial staff with private sector experience. Three current departmental commercial directors have been recruited from the private sector. The Home Office's PCR reported that it had been successful in attracting talented commercial leads from the private sector, helping it to meet significant delivery challenges.

**2.28** There are some cultural barriers to government's recruitment and retention of high quality commercial staff. Senior commercial staff in advisory firms told us they considered that there were low levels of decision-making autonomy and restrictions on career paths in the public sector, which would put them off a career in government. Research on 50 senior civil servants recruited from the private sector found that they had been attracted into the public sector by the possibility of working in a complex and challenging environment and by making a contribution to society. Many of them felt, however, that they were not able to 'play to their strengths' and that they could not achieve what they had been brought in to do.<sup>22</sup>

<sup>21</sup> The Department of Health and DWP have been compared because they have a similar proportion of procurement staff based in London (nine per cent and 11 per cent, respectively).

<sup>22</sup> *Transfusion: private to public. Views on the delivery challenge from senior civil servants recruited directly from the private sector*, Deloitte (2008).

## Career development and turnover

**2.29** Insufficient emphasis on the career development of government commercial staff has limited not just recruitment but, more broadly, the development of commercial skills across government. Frequent movement of civil servants may result in experience and expertise being lost to project teams. Our focus group of SROs reported the lack of career development support for commercial staff in departments as a key weakness.

**2.30** The OGC found that the average duration for SROs on major government projects was only 18 months, while the length of projects varied between three and ten years.<sup>23</sup> The OGC also highlighted one high risk project, the Home Office's Schengen Information System II, that had five different SROs between June 2005 and August 2007, a period of reorganisation at the Home Office. Similarly, our 2008 report on the Future Nuclear Deterrent Capability<sup>24</sup> found that the project had three SROs in its first 18 months. Private sector contractors and advisers said they are frequently frustrated by the short length of time that their public sector counterparts spend on project teams before they move to a different job within the same department.

## Allocation of commercial staff to projects

**2.31** Government is not generally making best use of its scarce commercial skills. There is a lack of management information available to the OGC and departments on the commercial skills, experience and availability of commercial staff. Furthermore, there is no formal mechanism to allocate staff across departments. This restricts the planning of projects, and prevents government moving commercial staff across departments, where this would best suit the needs of projects or the individuals concerned.

**2.32** Ensuring that complex projects being transacted and managed at local levels are receiving support from those with the appropriate skills and experience, is a particular challenge for government. Our report on the Norfolk and Norwich Hospital PFI contract<sup>25</sup> found that commercially inexperienced NHS Trust officials accepted a level of termination liabilities higher than in other comparable deals. A noteworthy initiative to address local skills has been Defra's establishment of a central pool of staff with commercial experience, who are seconded to local project teams in the Waste Management PFI programme.<sup>26</sup>

<sup>23</sup> *Lessons Learned: the SRO role in Major Government Programmes*, OGC (September 2009).

<sup>24</sup> *Ministry of Defence: The United Kingdom's Future Nuclear Deterrent Capability*, NAO (HC 1115, 2007-8).

<sup>25</sup> *The Refinancing of the Norfolk & Norwich PFI Hospital*, NAO (HC 78, 2005-6).

<sup>26</sup> *Managing the waste PFI programme*, NAO (HC 66, 2008-9).

# Part Three

## Tackling commercial skills gaps

**3.1** This section of the report examines the OGC's efforts to address skills gaps.

### **OGC initiatives aimed at improving commercial skills**

**3.2** The OGC has three main categories of initiatives in place, or under development, to improve the commercial skills within departments. These are:

- assessing departmental capabilities;
- project assurance; and
- improving recruitment, retention and development of commercial expertise.

**Figure 6** sets out the amount that OGC spent on its initiatives in 2008-09. While the Major Projects Portfolio and Gateway Reviews are not primarily aimed at improving commercial skills, they are listed because they can help to identify skills shortages within project teams.

### Assessing departmental capabilities

**3.3** PCRs were designed by the OGC to independently assess departments' procurement leadership; skills development and deployment; and systems and processes of a department commercial unit. The assessments were performed by independent teams, based on interviews with commercial staff and senior civil servants within a department. On completion, the department must produce an improvement plan setting out how it intends to address any weaknesses identified. The result of the PCR and the department's proposed response are then published. All government departments were assessed between January 2007 and April 2009.

**3.4** Commercial directors have told us that PCRs have successfully assessed skills levels within their departments and raised awareness of commercial issues at board level within departments. The OGC proposes that the second wave of PCRs will be conducted by departments themselves. Some commercial directors, however, are concerned that the absence of objective rigour would reduce the PCR's impact on departments' senior management.

**Figure 6**

OGC's spend on commercial skills related initiatives (2008-09)

Initiative	Spend during 2008-09 (£'000)
<b>Assessing capability</b>	<b>1,700</b>
Procurement capability reviews	1,700
<b>Project assurance</b>	<b>3,500</b>
Major Projects Portfolio and Gateway Reviews	3,500 <sup>1</sup>
<b>GPS initiatives aimed at improving recruitment, retention and development of commercial expertise</b>	<b>1,470</b>
Building the procurement profession in government strategy	315
Skills frameworks	35
Online skills directory	20
Procurement entry schemes	465
Career Management Scheme	180
Other GPS work <sup>2</sup>	455
<b>Total</b>	<b>6,670</b>

*Source: OGC***NOTES**

<sup>1</sup> This figure is net of income received from departments for the MPRG service.

<sup>2</sup> Includes GPS membership and contract management work, as well as other management activities.

**Project assurance**

**3.5** The MPRG is a scrutiny panel for major central government projects, assessing deliverability, affordability and value for money, prior to HM Treasury's approval. It has highlighted commercial skills gaps in eight of the 12 projects that have been assessed so far. Project teams have then been required to respond with a plan for improving their approach to commercial skills. For example, following concerns on the commercial skills of the Carbon Capture and Storage demonstration project, a SRO and a Project Director with considerable commercial private sector experience were appointed.

**3.6** The OGC Gateway Review process examines a wider population of projects at key stages in their lifecycle. The reviews examine the progress and likelihood of successful delivery of the project, including whether a team has adequate resources to move forward. This sometimes highlights commercial skills shortfalls. Only five out of 16 commercial directors stated that they thought Gateway Reviews have had a significant impact on improving commercial skills levels within their department. There is scope for the OGC to make better use of systemic lessons on commercial skills from Gateway Reviews.

**3.7** We shall be reporting further on the subject of project assurance in a separate report.

## **Government Procurement Service initiatives to improve recruitment, retention and development of commercial expertise**

### Building the Procurement Profession in Government Strategy

**3.8** This strategy seeks to attract, retain and develop commercial staff with the necessary skills, knowledge and experience to manage the government's future procurement activities.<sup>27</sup> It aims to do this by eliminating discrepancies between government departments in pay, allowances, bonuses, and recognition of qualifications for commercial staff.

**3.9** Eight of the ten recommendations made in this strategy were endorsed by departmental Permanent Secretaries in January 2009. The two recommendations aimed at equitable pay for procurement posts across government have yet to be agreed, pending further analysis. Commercial directors consider them an important step towards preventing staff moving from one department to another for better pay. Permanent Secretaries have asked for further detailed work to be performed on their proposed impact.

### Skills frameworks

**3.10** In 2007, GPS developed two procurement skills frameworks aimed at procurement and contract management staff, which we have compared to our own skills framework (Figure 3 on pages 16 to 17). They capture the key skills needed to deliver complex projects with one exception: the management of advisers. Most departments have told us that they are using the frameworks either for recruitment, staff development or appraisals.

### Online Skills Development Directory

**3.11** The Online Skills Development Directory provides a list of procurement and contract management related learning and development opportunities that are available across government. To work successfully, it requires the active participation of departments, which are asked to submit details of the courses that they are running. The OGC has told us that few departments have done so.

<sup>27</sup> Building the procurement profession in government, *GPS reward strategy* (December 2008).



## Procurement Entry Schemes

**3.12** The OGC has two procurement entry schemes. These are:

- the Government Procurement Graduate Scheme, which is a two-year programme aimed at equipping graduates for a career in procurement and contract management, through a combination of work experience and formal learning and development. The OGC anticipates that it will raise the profile of the procurement profession and bring in graduates with leadership potential. Since its launch in 2007, there have been 47 graduates recruited. So far, the scheme's impact has been limited. The MoD and DWP continue to run their own graduate schemes, in parallel, whilst commercial directors of departments with small commercial teams have told us that they struggle to take on graduates because of headcount restrictions and the training commitments involved. The OGC considers the scheme to be a long term measure to improving commercial skills that needs more time to be seen as being fully effective; and
- the Fast Stream Procurement Placement Scheme, which began in January 2009, aims to equip future senior civil servants with better commercial awareness. This is done by offering civil service fast streamers the opportunity of a six to 12-month placement in the commercial function of a department. To date, twenty fast streamers have taken part.

## Other initiatives begun but discontinued or on hold

**3.13** The OGC began work on two initiatives that were proposed in 2007 but were subsequently abandoned. The OGC proposed a Mid-Career Development Scheme for commercial staff, which was discontinued in 2008-09 due to lack of demand. The OGC's Virtual Skills Academy was discontinued due to a lack of demand from departments and resource pressures. In addition, the OGC plans to set up a Career Management Scheme to improve the retention and development of commercial staff, who have potential for progression and promotion. This is currently under development.

## Departments' initiatives aimed at improving commercial skills

**3.14** All departments have taken some steps to improve commercial skills in recent years. But there is considerable variation in the steps they have taken, which cannot be explained by the difference in departments' commercial workloads.

**3.15** All departments have set up commercial units, established heads of profession for procurement, and offer commercial staff the opportunity to train for a qualification with the Chartered Institute of Purchasing and Supply (CIPS).

**3.16** There are some good examples of commercial skills training within departments, although the training provision varies. Positive examples include:

- HM Revenue and Customs' talent management programme for commercial staff and DWP's commercial leadership scheme;
- Defra's contract management centre of excellence;
- the Home Office's commercial skills training for SROs;
- DWP's mid-career development scheme for procurement staff;
- DWP and MoD's departmental procurement graduate schemes; and
- MoD's development of e-learning materials for commercial staff.

Other training and guidance on commercial skills is available through the National School for Government and Partnerships UK. There is also training for local authorities, available from Local Partnerships.

### **Positive initiatives undertaken to improve commercial skills**

**3.17** We have identified a number of positive approaches that organisations, both within and outside government, have taken to improve commercial skills. These approaches are not being used widely across government.

#### **Attracting Skills**

- The Pensions Regulator (TPR) and Partnerships for Schools pay market rates to recruit private sector staff with strong commercial skills; and
- the Shareholder Executive and TPR make use of secondees from private sector organisations who bring valuable perspectives from their private sector work.

#### **Developing Skills**

- BT and Siemens offer mentoring and coaching schemes so that commercial experience can be passed from senior executives to newer, more junior staff;
- TPR offers a management diploma which incorporates modules on business finance and corporate awareness; and
- Partnerships Victoria, part of the Department of Treasury and Finance in Victoria (Australia), has launched a five-day course on contract management in conjunction with Melbourne University, which is mandatory for contract management staff.

### Creating a career path

- HM Treasury's finance professionalism unit operates a database for all its senior civil servants, which contains previous work experience of the staff and areas where they need more experience. This helps the unit to identify job opportunities to develop its staff; and
- private sector contractors told us that they move commercial staff from project to project to gain valuable experience and promotion to senior positions.

### Support to projects

- Local Partnerships, a body that assists local authorities and other public sector bodies with partnership and project management, has developed a skills audit which can be undertaken at any stage of a project.

### Allocating Staff

- Partnerships UK (PUK) has run the Operational Taskforce, funded by HM Treasury, to support contract management of PFI contracts. The Taskforce provides a combination of helpdesk, training, guidance, and on the ground support to teams; and
- Defra's Waste Infrastructure Delivery Programme provides staff with strong commercial experience, known as transactors, to local project teams who are carrying out PFI deals.<sup>28</sup>

### Standardisation of approach

- The Treasury Private Finance Policy Section developed standard contract terms and other guidance to standardise the approach to private finance contracts across government. This has been supplemented by guidance from departments' Private Finance Units on commercial issues relevant to their departments' private finance projects. The OGC has developed contractual standards in information communication technology, alongside PUK, and construction. The MoD has also standardised its approach to many commercial issues, including the use of standardised terms and conditions where it considers appropriate. This approach restricts the need for negotiation on contractual issues, reduces the input needed from highly skilled commercial practitioners or advisers, and helps to spread good practice in contractual issues. Although complex projects may have aspects that have not previously been encountered, there are likely to be other aspects where this type of standardised approach will still be useful.

<sup>28</sup> *Managing the waste PFI programme*, NAO (HC 66, 2008-9).

## Measuring the impact of commercial skills initiatives

**3.18** Measuring the impact of commercial skills initiatives is difficult: it is hard to differentiate between the impact of the OGC and departments' actions; and it is not easy to measure the impact of initiatives on commercial staff or their contribution to achieving value for money. There has, nevertheless, been inadequate measurement of the performance and costs of the commercial skills initiatives carried out by both the OGC and departments against the objectives of their initiatives.

### OGC performance measurement

**3.19** The OGC has an organisational objective of raising the capacity and capability of procurement and contract management staff in central government<sup>29</sup> through a focus on improving commercial skills. The OGC has set a number of goals<sup>30</sup> that are aimed at delivering their high level objective, such as raising the profile of the profession and providing a career management programme.

**3.20** The OGC does not yet have an overall performance measurement framework on supporting commercial skills development. To date, it has not measured the impact of its commercial skills initiatives against their objectives or their contribution to the OGC's high level goals. The OGC has, however, made some progress in measuring the impact of its initiatives: PCRs have created a baseline that future departmental capability can be measured against; the OGC has set targets for staff completing the graduate and fast stream entry programmes; and the OGC monitors the number of times their Skills Development Directory is accessed online.

### Departments' performance

**3.21** PCRs have enabled the OGC to assess departments' approaches to developing commercial skills. Few departments, however, have taken steps to set targets to measure the impact of their own commercial skills initiatives. DWP, the department which appears to be the most advanced in this respect, monitors: the number of procurement specialist posts filled by interims and permanent staff; the number of these with a procurement qualification; and the technical competence and experience of these staff.

29 HM Treasury Group Departmental Strategic Objectives, 2008-2011 ([http://www.hm-treasury.gov.uk/d/hmt\\_strategic\\_objectives\\_pu704.pdf](http://www.hm-treasury.gov.uk/d/hmt_strategic_objectives_pu704.pdf)).

30 OGC's 2008 annual report ([http://www.ogc.gov.uk/documents/OGC\\_Annual\\_Statement\\_2008.pdf](http://www.ogc.gov.uk/documents/OGC_Annual_Statement_2008.pdf)).

## Our assessment of the overall impact of the OGC and departmental initiatives

**3.22** The OGC has developed a significant programme of initiatives to support departments in improving commercial skills, but departments have ultimate responsibility for ensuring their staff have the commercial skills appropriate for their projects. Although departments were involved in the development of OGC's programme of initiatives, they are not making full use of them, with a number of OGC initiatives stalling due to a lack of departmental cooperation.

**3.23** Fourteen of 16 departmental commercial directors believe that, overall, the OGC's initiatives have done little to address commercial skills gaps within their departments. The OGC considers that many of its current initiatives are focused on bringing benefits in the longer term.

**3.24** The OGC has put in place a number of initiatives that could have a long term impact on commercial skills in government. The pay-related recommendations from *Building the procurement profession in government*, if implemented, should help to tackle movement of commercial staff between government departments. The proposed talent management programme could help to create a career path for commercial staff who will tackle future complex projects. There are also some good examples of commercial skills training initiatives within departments. There are, however, examples of departments carrying out initiatives that duplicate the OGC's. For instance, the OGC's graduate scheme, which costs £450,000 per year to run has spare capacity, while the MoD and the DWP continue to run their own schemes.

**3.25** Our analysis shows that there are still a number of skills gaps and barriers that, between the OGC and departments, are not being addressed. Government is not in the position to deploy staff with the most suitable commercial experience to the most suitable project due to a lack of management information or a mechanism for doing this. There is also more that can be done to improve commercial awareness of Senior Civil Servants in the short term. While the fast stream procurement initiative may be effective in the long term, the Home Office's SRO training and DWP's use of Director General level sponsors for suppliers, could have a short term impact if rolled out in other departments.

# Appendix One

## Methodology

The following table provides a brief description of the methods used in the study. Full details of our methodology can be found at Appendix 3 published on the NAO website [www.nao.org.uk/commercialskills09\\_scope](http://www.nao.org.uk/commercialskills09_scope).

Methodology	Use of evidence in report
Development of a commercial skills framework.	Identification of commercial skills needed to deliver complex projects and assessment of OGC skills frameworks' completeness.
Analysis of over 50 NAO and PAC reports on complex projects published between 2001 and the present.	Identification and understanding of commercial skills gaps in central government, and the barriers to addressing them.
Analysis of 16 PCRs and 12 MPRG reviews.	
A focus group with seven SROs of complex projects.	
Semi-structured interviews with 14 senior executives of major private sector contractors, and four consultancies.	
Discussion forums with the CBI and the Major Projects Association.	
A review of academic and government literature on commercial skills and complex projects.	
Interviews with seven complex government project teams.	Understanding the challenges in putting together complex project teams in government.
Survey of all departments' commercial directors or heads of procurement, followed by a focus group with six of the 16 and three in-depth interviews.	Identification and understanding of commercial skills gaps in central government, and the barriers to addressing them.  Gathering evidence on departmental and OGC initiatives aimed at improving commercial skills, and empirical data on departments' commercial units.
Meetings with OGC and review of GPS council minutes.	Understanding and assessing the OGC's initiatives, programmes, frameworks, and performance measurement.
Review of empirical data on commercial staff salaries from Croner, OGC and ONS.	Calculation of the difference in salary between different government departments and the public and private sector.
Interviews with Siemens, BT, Local Partnerships, Shareholder Executive, TPR, Regional Development Agencies, and public bodies in other countries.	To explore other organisations' efforts to improve commercial skills.



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