



National Audit Office

Commercial skills for complex government projects

Appendices Two, Three and Glossary

Contents

Appendix Two
Examples of commercial
skills shortages in complex
government projects **1**

Appendix Three
Study scope and methodology **5**

Glossary **9**

Appendix Two

Examples of commercial skills shortages in complex government projects

1 In the course of our fieldwork we have reviewed a number of past National Audit Office (NAO) and Committee of Public Accounts (PAC) reports on major projects and programmes, to identify examples where a shortage of commercial skills has impacted on the delivery or value for money of a project.

2 We have found significant weaknesses in a number of the commercial skills that are critical to the delivery of complex projects. The biggest gaps are in:

- contract management;
- use and management of advisers;
- risk identification and management;
- business acumen; and
- commercial awareness amongst senior civil servants.

3 This appendix sets out the examples that we found that fall into these categories, some of which are already mentioned in the main body of our report. Many departments have taken steps subsequently to address the weaknesses identified.

Contract management

- a** **The Warm Front Scheme, NAO (HC 126, 2008-09)** found that the department did not have adequate contract management arrangements in place from the outset.
- b** **Central government's management of service contracts, NAO (HC 65, 2008-09)** found that central government organisations do not always allocate appropriate skills and resources to the management of their service contracts.
- c** **Making Changes in Operational PFI Projects, NAO (HC 205, 2007-08)** found value for money was often being eroded by insufficient attention to the negotiations for contract variations.

- d Allocation and management of risk in Ministry of Defence PFI projects, NAO (HC 343, 2007-08)** found that there was a lack of staff continuity in some of the case study projects we examined, which meant that it was harder to achieve a high standard of contract management.
- e PFI: the STEPS deal, NAO (HC 530, 2003-04) and its associated PAC report (HC 553, 2003-04)** recommended that departments should avoid moving contract management staff unnecessarily.
- f Managing the relationship to secure a successful partnership in PFI projects, NAO (HC 375, 2001-02) and its associated PAC report (HC 460, 2001-02)** concluded that some authorities provide little or no training on contract management, and that there appear to be significant shortcomings in authorities' approach to managing PFI contracts.

Use and management of advisers

- a The PAC report on Building Schools for the Future: renewing the secondary school estate (HC 274, 2008-09)** criticised the Department for Children, Schools and Families and Partnerships for Schools for excessive spending on consultants to make up for shortfalls in skills and resources. One consultant employed over a three-year period had cost £1.35 million.
- b The PAC report on the Procurement of the National Roads Telecommunications Services (HC 558, 2007-08)** found that the Highways Agency spent £15.5 million on advisers – five times its original budget. This occurred partly because the Agency underestimated the degree of effort required to deliver the complex contract, but also because it had only two full time staff working on the project, and did not sufficiently incentivise the advisers to deliver to budget.
- c Central government's use of consultants, NAO (HC 128, 2006-07) and its associated PAC report (HC 309, 2006-07)** concluded that: both departments and the Office of Government Commerce (OGC) do not routinely know how much money is spent on consultants; consultants are often used when in-house staff have the necessary skills and are less expensive; departments do not routinely assess the value of the work they receive from consultants; the capability of departments to be intelligent customers is weakened by insufficient sharing of information on consultants' performance; and departments do not regularly plan for, or achieve, the transfer of skills from consultants to their staff to build internal capabilities.
- d Improving the PFI tendering process, NAO (HC 149, 2006-07)** found that local authorities had not demonstrated the ability to appoint advisers.
- e The renegotiation of the PFI-type deal for the Royal Armouries Museum in Leeds, NAO (HC 103, 2000-01) and its associated PAC report (HC 359, 2001-02)** concluded that the department should have ensured that it had a clear understanding of its consultants' forecasts of future visitor numbers.

Risk identification and management

- a **The cancellation of Bicester Accommodation Centre, NAO (HC 19, 2007-08) and its associated PAC report (HC 316, 2007-08)** concluded that the business case for the Bicester Centre did not recognise explicitly the inherent risk of planning delays, nor the changes to the asylum system and external events, on the potential cost and delivery of the project. In addition, the Committee was surprised that the business case did not fully recognise these planning risks, given that the Home Office bought in specialist planning consultancy advice.
- b **Thames Gateway: laying the foundations, NAO (HC 526, 2006-07)** concluded that the Department for Communities and Local Government should have performed better in its risk analysis and management.
- c **The termination of the PFI for the National Physical Laboratory, NAO (HC 1044, 2005-06)** found that some risks that were transferred to the contractor should not have been. The Department of Trade and Industry transferred the risks of technically challenging requirements to the contractor, which the contractor eventually failed to deliver. The report concluded that the department should have scrutinised more thoroughly the technical capabilities of the contractors.
- d **Channel Tunnel Rail Link, NAO (HC 727, 2005-06)** found that the Department for Transport (DfT) failed to recognise that its private sector partner did not have the financial strength 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.
- e **Risk Management: the nuclear liabilities of British Energy plc, NAO (HC 264, 2003-04)** found that the department did not have an effective risk management system capable of evaluating the changing nature of risk.

Business acumen

- a **The procurement of the National Roads Telecommunications Services, NAO (HC 340, 2007-08)** found that the Highways Agency did not have sufficient understanding of the factors that influence the willingness of private sector firms to participate in bidding competitions.
- b **Making changes in operational PFI contracts, NAO (HC 205, 2007-08)** concluded that local authorities should have shown a better understanding of commercial bidders.
- c **Improving the PFI tendering process, NAO (HC 149, 2006-07) and its associated PAC report (HC 754, 2006-07)** found that one-third of procuring authorities had insufficient resources or in-house expertise for part or all of the PFI tendering process. It also found that departments needed to show a better understanding of commercial bidders to encourage competition.

- d Delivering successful IT-enabled business change, NAO (HC 33, 2006-07)** found that in the public sector, commercial skills and market awareness of the information communication technology sector still lags behind that of the private sector.
- e Thames Gateway: laying the foundations, NAO (HC 526, 2006-07)** concluded that the Department for Communities and Local Government should have shown a better understanding of private sector investors.
- f Risk management: the nuclear liabilities of British Energy plc, PAC (HC 354, 2003-04)** concluded that the Department for Trade and Industry erroneously placed too much emphasis on British Energy's dividend payments as an indicator of its financial position.
- g New IT Systems for Magistrates' Courts: the Libra Project, PAC (HC 434, 2002-03)** stated that the Lord Chancellor's Department had a poor understanding of commercial bidders.

Commercial awareness amongst senior civil servants

- a Delivering successful IT-enabled business change, NAO (HC 113, 2006-07)** found that over half of Senior Responsible Owners (SROs) on major IT-enabled programmes and projects are in their first SRO role, adding risk to the management of IT-enabled change.
- b Improving IT procurement: the impact of the Office of Government Commerce's initiatives on departments and suppliers in the delivery of major IT-enabled projects, NAO (HC 877, 2003-04)** found that departmental boards need to provide leadership and commitment to the acquisition of commercial skills throughout their organisations.

Appendix Three

Study scope and methodology

Study Scope

1 This report focuses on whether the Office of Government Commerce (OGC)'s commercial skills initiatives, together with departments' actions, will enable better value for money to be secured in the procurement and contract management of complex government projects.

2 In order to assess the impact of the OGC's and departments' actions, we have attempted to answer the following questions:

- Does the OGC have a framework which identifies the main commercial skills needed by departments to deliver complex projects?
- Are there adequate processes, either within the OGC or departments, to identify gaps in departments' commercial skills for complex projects, and the barriers to addressing them?
- Do the OGC and departments have established programmes for commercial skills' improvement which address skills gaps and barriers?
- Does the OGC have evidence that both the departments' and its own initiatives are improving commercial skills?

Methodology

3 The methodologies we employed to answer our main questions were:

- a** **NAO skills framework.** We developed a framework that set out the key commercial skills needed to deliver complex projects. This framework was developed after organising two workshops with experts from government departments, consultants, private sector partners and a review of academic literature on commercial skills and complex projects.¹ Once our framework was completed, we used it to test the completeness of OGC's Procurement Leaders and Procurement Practitioners frameworks.

¹ The panel experts were from the following organisations: Ernst & Young, Partnerships UK, Local Partnerships, Major Projects Association, Confederation of British Industry, Highways Agency, Department for Transport, Chartered Institute of Purchasing and Supply, KPMG, OGC, Moorhouse Consulting and PWC. We are very grateful for their cooperation.

- b Analysis of OGC's Procurement Capability Reviews (PCRs).** Between 2007 and 2009 the OGC published independent reviews of procurement capabilities of all central government departments. PCRs assess a department's capability to perform all forms of procurement, including complex procurement. We therefore reviewed the PCR for every government department to identify key gaps in commercial skills and the barriers to addressing these gaps.
- c Analysis of reviews by the Major Project Review Group (MPRG).** The MPRG is a scrutiny panel for major central government projects, sponsored by HM Treasury. Its aim is to deliver better value for the taxpayer by challenging projects on deliverability, affordability and value for money. We examined all 12 reviews carried out by August 2009, to identify commercial skills gaps and to gain in-depth knowledge of specific complex government projects and the challenges faced by teams.
- d Analysis of OGC data.** In September 2008 the Government Procurement Service (GPS) released its first 'Procurement Reward Survey', which GPS intends to repeat annually. The survey is sent to the entire commercial community within central government, including procurement and contract management staff. The survey collects data on their perceptions and attitudes to their jobs, salaries, benefits, length of service, qualifications, age, gender and union membership. It also benchmarks public sector and private sector pay for procurement staff. We have analysed the survey results to identify the key barriers to addressing gaps in commercial skills, and to compare the salaries paid to commercial staff in different departments.
- e Analysis of Croner salary data.** GPS compared the salaries paid to government commercial staff with the wider market for procurement professionals, using data from Croner's 'Purchasing & Supply Rewards, 2008' (www.croner-reward.co.uk), which was undertaken for the Chartered Institute of Purchasing & Supply (CIPS). We were kindly provided with a copy of this report by CIPS.
- f Meetings with the OGC and review of OGC publications and documents.** We held several meetings with the OGC, in particular with staff within the GPS, and analysed relevant OGC publications. This allowed us to gather information on all OGC's initiatives and programmes to improve commercial skills, and to review the OGC's approach to measuring the performance of its programmes.
- g Survey of departments' commercial directors or heads of procurement.** We prepared a survey containing both opinion-based and factual questions, which was sent to a commercial director from each government department, achieving a 100 per cent rate of response. The census was split into five parts: commercial skill levels within departments; barriers to obtaining staff with necessary commercial skills; OGC and departments' guidance, initiatives and support on departments' commercial skill levels; OGC's performance measurement; and factual questions on departments' commercial directorates.

- h Focus groups with central government departments' commercial directors or heads of procurement.** Further to our survey of departmental commercial directors, we organised a focus group with six of these commercial directors to clarify the results obtained from our survey, as well as to gather further evidence on the barriers to tackling commercial skills gaps.
- i Interviews with Senior Responsible Owners (SROs) on complex government projects.** We carried out interviews with the SROs on seven complex projects to gain a better understanding of the challenges involved in putting together complex project teams in government, and the role played by both the OGC and departments in the projects. The projects selected were: the National Roads Telecommunications Services; the National Physical Laboratory; the National Identity Scheme; the Enabling Retirement Savings Programme; M25 widening; Carbon Capture Storage; and Preparedness for a Flu Pandemic.
- j Analysis of previous NAO and Committee of Public Account (PAC) reports.** We analysed over 50 NAO's reports from 2001 to the present, as well as their associated PAC reports. We identified areas where commercial skill sets are lacking within central government departments (Appendix 2).
- k Interviews with selected central government departments' commercial units.** We held interviews with senior staff from the commercial units of the Department for Work and Pensions, HMRC, and the Home Office, as these were the departments which obtained the highest scores in their PCRs. The intention was to explore the reasons behind this performance further.
- l Focus groups with SROs of complex government projects.** We organised a focus group with seven SROs² (or their deputies) of complex projects to explore the barriers to developing project teams with strong commercial skills in government.
- m Semi-structured interviews with private sector partners and advisers.** We conducted 14 semi-structured interviews with senior executives of major private sector companies who work in partnership with central government,³ as well as with four central government advisers.⁴ These interviews covered the following areas: background and commercial experience of the interviewee; commercial skills within their companies; experience and qualifications within their companies; how consultants and interims are used; and perceptions of the OGC and departments work to improve commercial skills.

2 The SROs were from the following departments: Department of Energy and Climate Change (2), Department for Children, Schools and Families, Department for Transport, Department for Work and Pensions, Department for Culture, Media and Sports and the Ministry of Justice. We are very grateful for their cooperation.

3 The executives interviewed were from the following companies: Atkins, Balfour Beatty, BAM-PPP, Cable & Wireless, Capita, Carillion, Fujitsu, Interserve, Kier Group, Regenter, Serco, Sir Robert McAlpine, Trillium, and Wates Group. We are very grateful for their cooperation.

4 The executives interviewed were from Deloitte, KPMG, PA Consulting and PWC. We are very grateful for their cooperation.

- n Other discussion forums with private sector organisations.** We held discussion forums with both the CBI and the Major Projects Association to consider the commercial skills needed to deliver complex projects.
- o Consultation with representatives of other professions within government.** We met HM Treasury’s Head of Finance Professionalism and the Government Economic Service to explore lessons to be learnt by the Government Procurement Service from these comparable organisations, as far as career development and improvement of skills was concerned.
- p Evidence from other organisations.** We held semi-structured interviews with a number of organisations to examine the programmes and initiatives they have developed to improve commercial skills and to measure performance. As part of this exercise, we met representatives from BT, Siemens, Local Partnerships – formerly 4ps, the Shareholder Executive, the Pension Regulator, and Regional Development Agencies. We also conducted telephone interviews with Partnerships Victoria (Australia), Partnership British Columbia (Canada) and with partners of PWC in Canada and Singapore, to explore international examples of good practice in the procurement and contract management of complex projects.
- q Literature review.** We commissioned the Centre for Public Service Partnership (Birmingham University) to carry out a systematic review of the literature on commercial skills for complex projects and the implications for the public sector. This review allowed us to identify key articles, books and government publications dealing with commercial skills and complex government projects. A selection of key references were subsequently read and analysed by the study team.

Study governance

- 4** We also drew on the expertise of a Governance Panel made up of senior colleagues from within the NAO who have been involved in previous reviews of major projects, cross-government studies or were experts in methodologies. The panel reviewed the study design, the study findings and the initial draft report.

Glossary

Chartered Institute of Purchasing and Supply (CIPS)	International organisation, based in the UK, serving the purchasing and supply profession. It provides training and qualifications for procurement staff. Some of its courses are specially designed for the UK's public servants.
Commercial Director	Head of the commercial function in a government department. Position created to strengthen departments' commercial functions and to enhance commercial leadership.
Commercial skill	Ability to interact on equal and professional terms with the private sector in the procurement and management of programmes and projects.
Complex project	Project where, at the outset, there is no obvious route to delivering the project outcome, or the project has aspects that have not previously been encountered. It could also be a project where there is a high level of change in the outcome required during the project's lifetime.
Gateway Reviews	The Office of Government Commerce (OGC)'s project assurance process, which examines programmes and projects at key decision points in their lifecycle. It looks ahead to provide assurance that the project can progress successfully to the next stage.
Government Procurement Service (GPS)	The GPS represents and supports procurement professionals across government. It is based within the OGC. The Head of the GPS is also the Chief Executive Officer of the OGC.
GPS Council	Provides a forum where the Head of the GPS can meet with heads of the procurement from across central government.
Local Partnerships (formerly 4ps)	Set up in 1996, works in partnership with local authorities to secure funding and accelerate the development, procurement and implementation of PFI schemes, public private partnerships, and other complex projects and programmes.
Major Project Review Group (MPRG)	Scrutiny panel for major central government projects, sponsored by HM Treasury and managed by the OGC. Its aim is to deliver better value for the taxpayer by challenging projects on deliverability, affordability and value for money.
Major Projects Portfolio (MPP) report	Joint OGC and Cabinet Office initiative which provides quarterly reporting on the Government's top 40-50 major projects.

Office of Government Commerce (OGC)	Independent office of HM Treasury, established in 2000 to help central government deliver best value from its spending. The OGC works with government departments and other public sector organisations to ensure the achievement of six key goals: delivery of value for money from third party spend; delivery of projects to time, quality and cost, realising benefits; getting the best from the government's estates; improving the sustainability of the government estate and operations; helping achieve the delivery of further government policy goals, including innovation, equality, and support for small and medium enterprises; and driving forward the improvement of central government capability in procurement, project and programme management, and estates management through the development of people skills, processes and tools.
Operational Efficiency Programme (OEP)	Launched by HM Treasury in 2008 to achieve greater efficiency in a number of cross-cutting areas in central government: back office operations and IT; collaborative procurement; asset management and sales; property; and local incentives and empowerment.
Partnerships UK (PUK)	Established by the UK government in 2000 to support public authorities undertaking large or complex procurements and programmes, particularly those undertaken as Public Private Partnerships (PPPs), including under the Private Finance Initiative. PUK supports public bodies at central, devolved and local authority levels.
Procurement Capability Reviews (PCRs)	Programme announced in 2007 by HM Treasury. It provides an independent, strategic view of the overall procurement capability of government departments, identifying exemplars as well as areas for improvement.
Regional Development Agencies	Launched in 1999. Their mission is to spread economic prosperity and opportunity to everyone in the nine regions of England.
Shareholder Executive	Created in September 2003 to improve the Government's performance as a shareholder in businesses. It has a portfolio of businesses in which the Government has a shareholding.
Waste Infrastructure Development Programme (WIDP)	A special delivery unit within Defra's Waste Implementation Programme, set up in 2006 to accelerate the delivery of waste infrastructure and support local authorities undertaking projects.
