



National Audit Office

Opinion pieces on improving commercial skills for complex government projects

This volume is being published following the publication of the Comptroller and Auditor General's report – Commercial Skills for Complex Government Projects HC 962 Session 2008-2009, 6 November 2009

This volume of opinion pieces is intended to offer a flavour of the debate on the level of commercial skills in government and encourage further discussion. These opinion pieces are being published in addition to the National Audit Office report Commercial Skills for Complex Projects HC 962 Session 2008-2009.

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Foreword

The level of commercial skills in Government has attracted significant discussion and debate from a wide range of individuals and organisations. These include private sector partners, academics, think tanks and the management consultancy community. The Chairman of the Committee of Public Accounts, Edward Leigh, has regularly spoken of the need for a greater body of people within the Civil Service with the commercial skills necessary to take forward complex projects. It is also a subject I grappled with in my previous role as Commercial Director at the Ministry of Defence.

This volume of opinion pieces is intended to offer a flavour of this debate and encourage further discussion. These opinion pieces are being published in addition to the National Audit Office report *Commercial Skills for Complex Government Projects* HC 962 Session 2008-2009, on 6 November 2009.

We invited our contributors to answer the following question: **How do you think Whitehall could improve central government departments' commercial skills to deliver complex government projects?**

In particular, we asked for evidence-based answers that considered:

- definitions of the proposed change;
- explanations of why the change was needed;
- what benefits could be achieved;
- the practicalities of how the change would be implemented; and
- the specific recommendations that would allow the change to occur.

The views expressed here are a range of perspectives on how government could improve commercial skills. They are not part of the formal audit findings of our report on *Commercial Skills for Complex Projects*, nor are they necessarily the views of the National Audit Office. We hope, however, that the opinion pieces will stimulate debate on this important topic.

I would personally like to thank the contributors for their opinion pieces.

Amyas Morse

Comptroller and Auditor General

Summary

'A holistic approach'

By **Sir Peter Gershon**, CBE, FREng

While further improvements in commercial skills will help to enhance the success of complex projects in the UK public sector, there is a case for a much more holistic approach in order to tackle waste in public expenditure, according to Sir Peter Gershon. The key to achieving this is a much stronger focus on the relationship between risk and client capability to commission and manage a portfolio, programme or project. Procurement and project management functions have an important role to play in achieving holistic organisational capability. But other parts of the organisation such as the policy makers, Senior Responsible Owners, and top political and official leadership also have key roles to play in areas such as stakeholder management, determination of overall risk appetite, benefits realisation and resource allocation.

'How to generate the optimal performance of the people and the team'

By **Colm Reilly**, Head of Government Practice at PA Consulting

For Colm Reilly, the answer to improving commercial skills is to create the practical conditions that allow a rigorous and consistent focus on the basics of project management and their implementation. All organisations need to make individual employees aware of how they contribute to overall performance and ensure that individuals do not leave a project until outputs, outcomes and business benefits are successfully delivered, or the project has moved to a stage where different personal characteristics or capabilities are required. While ensuring that these conditions are in place, the Government should extend capability. This starts with increasing the quality of training, but also acquiring real experience to hone what would otherwise be essentially academic skills.

‘Improving Government commercial skills to deliver complex projects’

By **Patrick Smith**, Market Director, Capita plc

Patrick Smith says that a common theme in the successful delivery of complex government projects is that project success has been clearly defined. It falls on project initiators to promote simple and clear criteria for success at the outset, without which a project will inevitably bear higher levels of risk. The likelihood of success can also be improved by deploying sufficient and appropriate commercial management expertise that can identify and resolve, or simply anticipate and mitigate, problems that invariably surface in complex projects. Such expertise comes from having an aptitude to work ‘horizontally’ across complex projects, and relevant prior project experience and training in basic commercial principles and realities.

‘Intelligent clienting’

By **Mike Nichols**, Chairman of the Association for Project Management, Director of the Major Projects Association and Chairman of the Nichols Group

Mike Nichols argues that sustained, intelligent project sponsorship is crucial to increasing the likelihood of project success. The most common reason for a project failing or struggling to achieve its expected outcomes is a weakness in sponsorship. A project needs a named, suitably competent and credible project sponsor who can define high level requirements, develop a business case, and manage stakeholders and strategic risk.

‘Procurement in the Public sector’

By **Tim Stone**, Chairman of the Global Infrastructure and Projects Group at KPMG and non-executive member of the Board of the European Investment Bank (writing in a personal capacity)

Tim Stone writes that since 1997 there have been a number of different attempts to improve government procurement radically, but while there have been some improvements, in general, government procurement has not undergone any great sea-change for the better. The procurement process is rarely ‘owned’ from specification to delivery, with personnel changes destroying corporate memory and personal accountability. To address these flaws requires a focus on improving the incentives on individuals within the specification, approval and procurement/deal teams. It also requires public accounts that make the long term costs of projects clearer.

‘Samuel Bentham, two hundred years on’

By **Gary L Sturgess**, *Executive Director of the Serco Institute*

Gary L Sturgess argues that improving commercial skills in government is a necessary but not a sufficient condition for enhanced delivery of complex projects. His view is that no matter how much is done with recruitment and training, commercial skills will not be applied to their best advantage unless the environment they are exercised in, also changes. Delays and renegotiations of projects due to poor planning and gaming behaviour lead to significant cost overruns for complex projects. PFI has gone some way towards addressing this by providing an incentive to push back against fuzzy requirements and uncertain funding. PFI does not, however, have universal application because it is difficult to transfer risk to the same extent on more uncertain and complex projects. In these circumstances it is important to: strengthen the mission and culture of officials charged with commissioning; provide expanded time horizons for financial planners; and give officials clear responsibility for the robustness of their forecasts.

‘A clear sense of purpose, accountability and risk ownership’

By **Rebecca George** and **Richard Porter**, *partners in Deloitte’s Public Sector Practice*

Rebecca George and Richard Porter argue that it is not possible or desirable for Government to recreate the private sector’s commercial skills and capabilities, and that to succeed the Civil Service needs to build on its own strengths, adding relevant capabilities from the private sector. The article sets out the commercial capabilities that are key to the successful delivery of complex government projects. These include: clarity at the outset on what needs to be achieved; an understanding of how commercial levers work; promoting an environment where accountability and ownership of risk are clear; and the effective management, motivation and integration of multiple suppliers.

‘Partnership - the key to improving commercial skills’

By **Susan Anderson**, *Director of Public Services and Skills, Confederation of British Industry*

Susan Anderson shows that forming and maintaining strong partnerships between the public sector and its service providers is the key to both improving commercial skills in government procurement and ensuring that complex projects produce value for money. To ensure the delivery of high-quality public services, procurement must be founded on a partnership ethos that facilitates good working relationships. The key skill that underpins this mode of engagement is effective communication, without which projects can become crippled by indecision and error, resulting in poor outcomes and wasted public money.

'Better knowledge transfer and a more hands-on approach to complex projects'

By **Dr Stephen Pryke**, *Director of Postgraduate Studies at University College London and joint editor of 'The Management of Complex Projects' published by Blackwell*

For Dr Pryke, much of the complexity that occurs in projects arises downstream in the supply chain. It therefore follows that government project teams need to engage in detailed commercial scrutiny. In order to achieve this, Dr Pryke recommends Government implements knowledge management initiatives, establishes communities of practice, and removes layers of hierarchy in procurements that can inhibit the flow of information and knowledge. He urges a more hands-on approach by the public sector and advocates a change of culture that rewards experimentation and risk taking.

'How local public bodies could improve their commercial skills to deliver complex projects and the challenges they face in achieving this'

By **David Locke**, *Director of Local Partnerships*

Commercial awareness is not generally as well embedded in public sector organisations as it is in the private sector, according to David Locke. This is because the public sector is typically focused on probity and best value obligations to protect the public purse. In future, commercial skills and business acumen should be a core part of public sector leaders and managers' competencies. A number of steps could be taken to address this, including: sending commercial staff on secondment to private sector service providers; improving skills transfer from commercial advisors when commissioned; and the promotion of networking between public and private sector.

'A local perspective'

By **David Outram**, *Chief Officer, Public Private Partnerships Unit, Leeds City Council*

David Outram sets out the key factors involved in improving commercial skills to deliver complex projects. These include: strong leaders who can articulate a vision; allocation of ownership and responsibility; the effective use of independent scrutiny to challenge project teams; and the promotion of structures and incentives that encourage and reward learning, innovation and particularly success.

'The improvement of commercial skills to deliver complex projects means radical change for Whitehall'

By **Andrew Haldenby**, *Director of Reform*

Andrew Haldenby says that major programmes need specific management skills that Whitehall has been poor at developing until now. In order to develop world-leading skills, Government needs to increase both competence and accountability. It also needs to capture the knowledge and practical experience that has been developed by those working on complex projects and redeploy it more effectively to other similar projects.

Sir Peter Gershon

A holistic approach

By Sir Peter Gershon CBE FREng

Short biography of the author: Graduated at Cambridge University in 1969, after which Peter held management positions in both the computer and telecommunications industry. In 1994, Peter became the main board director in GEC plc. He joined the Civil Service in April 2000 as the first Chief Executive of the Office of Government Commerce. He was awarded the CBE in 2000 for services to industry and knighted in 2004 for his work on public procurement. He is the author of 'Releasing resources to the front line: Independent review of public sector efficiency' (2004). After more than four years of public service, Peter returned to the private sector.

1 While further improvements in the traditional areas of commercial skills will help to enhance the success of complex projects in the UK public sector, this short paper sets out the case for a much more holistic approach to tackle what is now an unaffordable waste of public expenditure.

2 The last 10 years have seen a number of significant initiatives taken by the UK Government to help achieve more success in terms of cost, time and benefit realisation on complex programmes and projects. These include: Gateway Reviews;¹ improving the professionalisation of the Project & Programme Management and Procurement communities; the introduction of the HM Treasury's Major Projects Review Group;² Achieving Excellence in Construction;³ the establishment of portfolio, programme and project offices; the Smart Acquisition reforms in defence procurement;⁴ introducing a focus on optimism bias in the HM Treasury Green Book; greater focus on the management of risk; and the definition and promulgation of a wealth of best practice and lessons learned by bodies such as the National Audit Office (NAO) and the Office of Government Commerce (OGC).

¹ http://www.ogc.gov.uk/what_is_ogc_gateway_review.asp.

² http://www.ogc.gov.uk/programmes___projects_major_projects_review_group.asp.

³ http://www.ogc.gov.uk/guidance_achieving_excellence_in_construction.asp.

⁴ See for example *Smart Acquisition Handbook*, Fifth Edition, Director General Smart Acquisition Secretariat, Ministry of Defence (2004).

3 The performance of some complex programmes and projects has been good, as illustrated by the NAO's 2006 report on delivering successful IT-enabled business change:⁵ for example, congestion charging in London, the Department for Work and Pension's Payment Modernisation Programme, and The Pension Service's implementation of Pension Credit. However, the performance of some other large complex programmes and projects continues to be challenging, as illustrated by the NAO's 2008 report on Major Defence Projects⁶ and its reviews of the National Programme for IT in the NHS,⁷ the Rural Payment Agency's Single Payment Scheme,⁸ the project for shared services in the Department for Transport,⁹ and the budget for the London 2012 Olympic and Paralympic Games.¹⁰

4 This is not an issue which is unique to the UK public sector. CHAOS reports by the US-based Standish Group have consistently shown that success on IT projects is not the norm.¹¹ A study of major projects in 20 countries found that nine out of 10 projects had cost overruns.¹²

5 However, the current state of UK public finances places additional urgency and pressure to eliminate the huge waste caused through a combination of cost overruns, delayed benefits from schedule slippages, and reduced benefits arising from poor specification of requirements or weak management of benefits realisation. Constraints on public expenditure can help to create an environment where there will be much stronger incentives to meet new requirements by smaller incremental investments to existing infrastructure, assets and systems with fewer higher risk, higher cost 'greenfield' programmes and projects. These constraints may also help to foster a sharper focus on the essential outcomes and outputs that need to be achieved, and reduce the complexity, risk and costs that arise when a broader range of requirements are specified.

6 While such an environment should help to reduce the waste, it will not be sufficient. Key to a sizeable reduction of this waste is the need to find a way in which there is a much stronger focus on the relation between risk and client capability to commission and manage a portfolio, programme or project. The level of risk is determined by many factors such as scale, complexity, degree of innovation, level of stakeholder buy-in, amount of business process and/or cultural change, appropriateness of proposed contracting arrangements, supplier capability, and the consequences of failure. Client capability covers the whole life cycle from policy formulation and definition of outcomes/ outputs through planning, procurement, implementation and benefits realisation, as well as the ability to manage a portfolio of programmes and projects. This is a holistic

5 *Delivering successful IT-enabled business change*, NAO (HC 33-I, 2006-07).

6 *Ministry of Defence: Major Projects Report 2008*, NAO (HC 64, 2008-09)

7 *National Programme for IT in the NHS: progress since 2006*, NAO (HC 484-I, 2007-08).

8 *Department for Environment, Food and Rural Affairs, and Rural Payments Agency: the delays in administering the 2005 Single Payment Scheme in England*, NAO (HC 1631, 2005-06).

9 *Shared services in the Department for Transport and its agencies*, NAO (HC 481, 2007-08).

10 *The budget for the London 2012 Olympic and Paralympic Games*, NAO (HC 612, 2006-07).

11 Editorial note: The Standish Group International, is a market research and advisory firm specialising in mission-critical software and electronic commerce (www.standishgroup.com). Its products include CHAOS University, an annual retreat in which IT executives come together to share their experiences and find solutions to common problems.

12 B. Flyvbjerg, M.S. Holm, and S. Buhl, 'Underestimating Costs in Public Works Projects: Error or Lie?', *Journal of the American Planning Association*, 68(3): 279-295 (2002).

organisational capability, in which the procurement and project management functions have an important role to play, but where other parts of the organisation such as the policy makers, Senior Responsible Owners, and top political and official leadership have key roles to play in areas such as stakeholder management, determination of overall risk appetite, benefits realisation, and resource allocation.

7 This relationship is illustrated in the following diagram:

Figure 1
Likelihood of success

Level of risk

| | | | |
|--------|-----------|-----------|-----------|
| High | ● Weak | ● Weak | ● Average |
| Medium | ● Weak | ● Average | ● Strong |
| Low | ● Average | ● Strong | ● Strong |
| | Low | Medium | High |

Client Capability to Commission and Manage

Source: Sir Peter Gershon

8 The OGC's Portfolio, Programme & Project Management Maturity Model (P3M3) already exists to help facilitate the determination of this capability. However, it is how the tool is used and the consequences of its application that may cause real challenges to the status quo.

9 To be effective, the tool needs not only to be used in self assessment but also in periodic external evaluations, and to be used consistently across the public sector so that there is a common language for describing capability. For example, in discussions between an individual organisation and the centre of Government, or in considering projects or programmes that span multiple public sector organisations.

10 Capability needs to be related to the profile of the programmes and projects that an organisation is likely to be undertaking to meet the Government's needs and its key strategic priorities.

11 Action must be taken through a combination of risk reduction and capability enhancement where there is an adverse mismatch between risk and capability. This may not be as simple as appointing a small number of high calibre individuals to key positions; instead it may involve much more widespread longer term changes to processes, systems and culture.

12 Will future Governments accept that maximising the likelihood of programme and project success (cost, schedule and benefits realisation performance) and minimising the waste arising from poor planning and execution may change the dynamics of the political process in terms of the scale, scope and timing of what can be achieved, and require individual Ministers to take more account of the capability of the organisations they are responsible for?

13 This approach, focused on rigorous assessment of holistic capability and targeting improvement plans to meet future strategic priorities, is now being progressed by the Australian Federal Government following an independent review I led in 2008 of its use of Information and Communication Technology.¹³

14 The evidence of many unsuccessful UK public sector programmes and projects indicates a significant mismatch between risk and capability, leading to substantial waste of public expenditure. Now is the time for a much more rigorous disciplined approach. Is this a step too far for a UK Government?

¹³ *Review of the Australian Government's use of Information and Communication Technology*, August 2008.

How to generate the optimal performance of the people and the team

By Colm Reilly, Head of Government Practice at PA Consulting

Short biography of the author: Colm's background is in science, technology and innovation. During the last eight years, Colm has worked in the consulting business, and has been involved in significant programmes of change and delivery within the government sector relating to fundamental change leveraged by technology.

Introduction

1 For many years, Whitehall has been exhorted to adopt a more commercial approach to its project management as a way of avoiding some of the well-publicised pitfalls that have beset public sector projects. There is no agreed definition of what these commercial skills might be. They are subject to a wide variety of definitions,¹⁴ and much time is devoted to worrying about what a commercial approach might be.

2 The focus instead should be on answering the one question that relates to the successful delivery of complex projects in the public sector: *How to generate the optimal performance of the people and the team to deliver faster, cheaper and better?*

3 Sharpening skills and learning from the commercial sector are, of course, a necessary condition to achieving that performance, but they are not a sufficient one. It is important to ensure that conditions for success are set alongside the relevant knowledge and skills at the centre of the management of projects, to ensure that a comprehensive commercial approach to projects can take place.

¹⁴ Christopher Stoakes defines it as: 'being able to talk to clients, finding out what they want, why they want it, what they will do with it, and what they are prepared to pay, and then delivering it in the way they want', in *All you need to know about commercial awareness*, Longtail Publishing Limited (2006). The Chartered Institute of Purchasing and Supply offers a training course in 'Commercial Awareness' that promises: 'You will understand why sellers select customers and also that they can be conditioned into making decisions which are not necessarily in their interest' (www.cips.org). Given the breadth of these definitions a more balanced perspective is required.

The Conditions for Success

4 Before discussing the specific skills required, it is important to define the conditions that enable or facilitate commercial skills to be used. There are two levels in my view:

Creating a personal understanding of contribution and cost

5 All organisations have a poor record of making individual business units and employees aware of how they contribute to overall performance. In Government, for example, Public Sector Agreement targets rarely penetrate or have an impact at much below Grade 5 level (or equivalent). The same is true for staff working on projects¹⁵ who provide services to a project teams. They often have little awareness of the objectives or outcomes that a team is pursuing, nor do they understand how they can make a personal contribution to those objectives. That ignorance means that they will not do their jobs effectively, and no amount of 'commercial awareness' is likely to change that. The focus therefore needs to be on helping everyone involved, at whatever level, to understand exactly how they can make a difference. Once that clarity is in place, that understanding can lead to better planning, and performance assessments can be sharpened to galvanise motivation and direct activity to the right objectives.

Creating commitment, drive and ambition

6 Sustained commitment to a project is essential to its success. For the most ambitious civil servants, a personal involvement in a current 'top priority' initiative¹⁶ is what matters. However, that does not – necessarily – mean driving that initiative to completion. While there are different phases of a project lifecycle where different skills will be required, everyone involved needs to be committed to the delivery of the project. That means staffing projects on the basis that 'nobody leaves' until:

- outputs, outcomes and business benefits are successfully delivered; and
- an individual is deemed to be surplus to requirements because the project has moved to a stage where different personal characteristics or capabilities are required.

7 If staff are committed to projects and understand that rewards for success are only for those that see the task through to a successful conclusion, they will focus on that delivery.¹⁷

¹⁵ Particularly support staff (e.g. finance, procurement and human resources).

¹⁶ This may be a programme, project or policy development area.

¹⁷ It is, however, worthwhile to note that Whitehall is not alone in this regard. PA Consulting's research suggests that of the organisations we surveyed 75 per cent had objectives that are linked to strategy and vision, but only: (i) 20 per cent had broken high level objectives down to individual levels; and (ii) 50 per cent believed that their employees had a very good or good knowledge of their objectives. Similarly, while more than 90 per cent of organisations claimed that setting targets for employees was important, only 13 per cent of their employees thought that their top management emphasised target-setting to any great extent. *Delivering results survey*, PA Consulting (2006).

Creating relevant knowledge and skills, the application of which will turn understanding, drive and ambition into results

8 Having established the conditions outlined above, the particular knowledge and skills that are needed to make the project a success cover three areas. These are:

- **Stakeholders:** *finding out what they want, why they want it, what they will do with it and what they are prepared to pay.* This is about understanding the outcome – and hence business benefit – and the nature of the outputs that will facilitate that delivery.¹⁸ These are skills that should be common, in one degree or another, to all members of a project team in the future;
- **Technical delivery:** *delivering it in the way they want.* These skills will be role-specific and do not need to be common to all members of a team, although all teams will need to ensure that they have access to the specialist skills and knowledge in the quantities and of the quality that the project requires;¹⁹
- **Power and influence:** *making decisions which are not necessarily in their immediate interest.* This means understanding both how to make a positive personal contribution effectively, and how to counter the other person's negative contribution diplomatically. Just making a team work together more effectively can do much to enhance the overall outcome. These skills should be common to all team members. Taken together, these are probably the skills that can be found in commercially aware teams and need to be replicated in the public sector.

What should be done?

9 The first priority is to extend capability. That starts with training, although again this is a necessary but not sufficient contributor. Training creates knowledge and understanding, but it takes experience to turn knowledge into skill. Whitehall is already doing a lot of training, but it could do more of it and increase its quality.

10 In essence, this could involve:

- building on existing 'Centres of Excellence', particularly for role specific capabilities and consolidating knowledge acquisition around the Office of Government Commerce (OGC); and
- focusing on those in the National School of Government to develop the broader stakeholder capabilities. The aim should be to continue to develop that institution so that it comes to rival the *École Polytechnique*²⁰ and the *École Nationale des Impôts* and similar institutions.

¹⁸ Subject to the overriding constraint of what can be afforded and what offers the best value for money.

¹⁹ This is where the particular abilities of designers, engineers, software developers, procurement specialists, accountants, lawyers, sociologists, and project managers play strongest.

²⁰ Editorial note: French state-supported institution of higher education and research, founded in 1794 (www.polytechnique.edu).

11 The challenge then is to add real experience to the training to hone what are otherwise essentially academic skills. There are two options for acquiring that experience: recruitment or secondment into the civil service on contracts that are project specific rather than time based; and secondment out of the civil service on project-based contracts. These are not complete solutions and they need to be carefully targeted as there are limited opportunities to make these work.²¹

Conclusion

12 It is clearly important to enhance commercial skills in public sector projects, but that is unlikely to have much impact unless the conditions for success spelled out earlier in this piece are met, i.e. understanding costs and benefits and creating committed teams who see the project through to completion.

13 None of this is novel thinking. There are legions of experts and lots of bookshelves devoted to the ways and means in which they can be achieved. These all involve a focus on corporate objectives that can then be used to derive SMART²² targets for business units, programmes, projects and individual members of staff. This allows clarity over costs and benefits and then personal performance can be managed in a way that brings together achievements against objectives and costs against budget.

14 The problem is not that no one knows what to do. It is well known. It is just not done systematically or, sometimes, not done at all. The answer to improving commercial skills is to create the framework of conditions that allow a rigorous and consistent focus on the basics of project management and their implementation.

²¹ In either case, it is essential that secondments in both directions are planned against longer term requirements, are accurately targeted and anything that can be done to speed up the process is to be welcomed.

²² Editorial note: The acronym SMART has a number of variations. Where **S** is used for specific or significant; **M** for measurable or meaningful; **A** for agreed upon or achievable; **R** for realistic or relevant; and **T** for timely or tangible.

CAPITA Patrick Smith

Improving Government commercial skills to deliver complex projects

By Patrick Smith, Market Director, Capita plc

Short biography of the author: Patrick oversees the group's business with clients across central government. Capita is an established FTSE 100 business and is ranked by Ovum as the UK's leading business process outsourcing company. Patrick's own career spans a short service commission in the Armed Forces, in industry and in business consulting. Prior to Capita, he was a partner at Atos Consulting where he led its central government practice. He also held senior roles at Vantagepoint and Andersen Consulting. Patrick also worked in De La Rue's banking, and identity & electoral services divisions, where he helped national and international agencies deliver the first fully democratic elections held in South Africa, Yemen, Mozambique, Cambodia and Malawi.

Introduction

1 *“Good commerce exists when two parties each secure their expected level of value from an agreed exchange of goods and/or services for, in most instances, money.”*

2 If the above statement provides a suitable definition, then logic suggests that it also offers a suitable framework for any debate about how commercial skills can be improved. This truism applies for simple and complex projects as well as for improving skills in complex project delivery, regardless of whether the skills are needed by public or private sector enterprises.

Skills development – aligning training with experience and aptitude

3 Good commerce, and the development of skills that will underpin this, should always keep a tight focus on securing the ‘win-win’ scenario. This also means managing the risks that can lead to any of three other possible scenarios of ‘win-lose’ ‘lose-win’ and ‘lose-lose’. Therefore, an essential component to any commercial skills set held by an individual or by a corporate entity is the ability to understand as fully as is practical the commercial counter party's capacity and commitment to secure project delivery success.

4 Across the private sector, irrespective of the size of the businesses, the role of the 'commercial department' or 'commercial manager' can conjure up many different connotations. The precise role and remit of commercial professionals vary from firm to firm, as does the training of those individuals who bring their expertise to help deliver complex projects. Commercial departments can be led by lawyers, accountants, buyers or by people who have just acquired a wealth of project experience on the back of little or no formal training.

5 However, what will invariably make a great commercial manager stand out and be valued by a private sector business is the talent to identify and resolve, or simply anticipate and mitigate, problems that invariably surface in complex projects. These problems can be legal, financial, technical or operational, which may well have been overlooked by the relevant functional experts. The commercial expert is therefore usually someone who can understand the 'Big Picture' and the principles of cause and effect in terms of how any one issue, large or small, can impact upon the previously set expectations about delivering a project to time, budget and specification.

6 Good commercial skills are usually acquired by people with enquiring minds; individuals who need to be comfortable absorbing and analysing information across the breadth of a project and at any stage of a project's lifecycle. Commercial experts need to be confident in being able to communicate and challenge colleagues who are expert in the subject matter, as well as their counterparts in client organisations.

7 To their credit, both the Department for Work and Pensions and the Ministry of Defence have recognised the importance of reinforcing commercial disciplines by incorporating relevant training within their graduate programmes, as well as those in programme and project management. While there is no substitute for experience gained from delivering projects, basic commercial principles and realities do need to be embedded and refreshed throughout the careers of individuals tasked in project delivery.

Recognising Good Practice

8 As a leading service provider to public bodies, which have either supported or delivered many high profile projects, Capita is well aware of the scrutiny that public sector organisations invariably face through their lifecycles. The nature of this scrutiny does unfortunately tend to promote awareness of bad practice at the expense of good practice. However, there is good practice out there.

9 For example, one of the most technically challenging and high profile projects that Capita has ever had to deliver, was the implementation and subsequent operation of the London Congestion Charge service. One of the commercially astute decisions made by the client, Transport for London (TfL) was to insist upon paying its client-side advisors a portion of fees upon successful 'go live'. This success-fee approach gave Capita and TfL the necessary assurance that all key parties were united in putting the common goal of delivering a successful service 'go live' on the due date ahead of any other project preoccupations.

10 In March 2009, the NAO reviewed the BBC's management of five of its strategic contracts and highlighted much good practice.²³ When compared with private and public sector organisations, the BBC's relationship management was assessed as being above average in terms of securing flexibility, innovation and added value.

11 Capita's separate contracts to administer the BBC TVL (TV Licensing) operation and to manage the BBC's Audience Services have proven to be flexible in promoting rather than hindering innovation in service delivery and in supporting close collaboration between the client and service provider. This has been evidenced by the increasing customer take-up of the more convenient and cost effective online channels for customers to pay their licence fees and register their views about the Corporation's broadcast output.

Managing complexity, risk and accepting reality

12 If there is a common theme to the above examples and to all other complex projects successfully delivered by Government, it is usually that project success has been simply and well defined. For Government, putting policy success in simple terms is not always easy. However, the importance of setting clear objectives is of paramount importance.

13 *"First, I believe that this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to the earth".*

14 This famous quote from John F Kennedy's 1961 speech to Congress paved the way for NASA to embark on what became perhaps the most complex programme ever undertaken by a government. With such an unambiguous goal underpinning the project, NASA got to work in creating and then collaborating with an immense supply chain that had to, in many cases, invent new technologies and materials to deliver success in 1969.

15 In both public and private sectors, good commercial people have proven themselves to be capable of handling complexity but it falls on project initiators – be they politicians, policy officials or Senior Responsible Owners – to promote simple clarity of purpose and the criteria for success. The private sector has a responsibility to challenge or reject any unclear project brief but no expectation should be set that the private sector offers a fail safe mechanism. Without clarity being in place at the outset, a project will inevitably bear higher levels of risk. Typical risks that arise include inconsistent understanding across the public and private sector teams tasked with procuring, bidding and managing contracts that impact project delivery. Such risks only promote further complexity, which provides fodder to scrutineers.

²³ *The BBC's management of strategic contracts with the private sector: review by the Comptroller & Auditor General presented to the BBC Trust's Finance and Strategy Committee, NAO (March 2009).*

And finally one other truism...

16 Some of the scrutiny given to complex public projects does tend to inculcate readers to a mindset that believes projects can be delivered free of risk. Donald Rumsfeld may have been on to something when he talked about “known-knowns”, “known-unknowns” and “unknown-unknowns”, but Eisenhower was perhaps more succinct.

17 *“In preparing for battle, I have always found that plans are useless but planning is indispensable”.*



Mike Nichols

Intelligent clienting

By Mike Nichols, Chairman of the Association for Project Management, Director of the Major Projects Association and Chairman of the Nichols Group



Short biography of the author: Mike currently specialises in large and complex infrastructure projects and major business change initiatives. He has directly managed or advised on numerous mega projects and programmes for the transport, telecommunications, energy and finance sectors in the UK and Far East. He has introduced improved project management to more than a hundred organisations. Mike has also advised on PFI projects, outsourcing, franchising, placement of concessions and the Government's Strategic Defence Review (1998). In 2007, Mike wrote the Nichols Report on the Highways Agency's Major Roads Programme.



Introduction

- 1 Throughout government, there is a strong focus on developing policy, but rather less on its delivery. Government policies, related initiatives and projects are all too often committed to and announced before their economic viability and feasibility have been adequately assessed.
- 2 Complex projects and programmes resulting from such policies tend to fail or disappoint for a small number of common reasons. Conversely, if the causes are avoided or eliminated at an early enough stage and effective project governance is applied, there is no reason why any project should not be wholly successful. Part of the problem is that too often it is considered politically inconvenient to take required actions to establish sound governance arrangements at the right time.
- 3 What is really needed is sustained, intelligent 'clienting', the most crucial component of project governance. That involves appointing a named, suitably competent and credible Client (or Sponsor) for every project and programme from the outset. If established and performed effectively, intelligent clienting will significantly increase the likelihood of project success – probably more so than any other single measure. Unfortunately, the Client (or Sponsor) role is still widely misunderstood and poorly practised. It is often completely lacking, short lived or put in place far too late.

4 The designation of Senior Responsible Owner (SRO), as recommended by the Office of Government Commerce (OGC), has the virtue of establishing single point of responsibility, which is intended essentially to be the Client role. However, in some cases this does not include financial responsibility and it is often assigned to executives who do not fully understand the role, lack the necessary competences, or have such a demanding 'day job' that they can devote little attention to their SRO duties. Another shortcoming is that, although the role is taken seriously at the outset of a project or programme, the SRO soon loses focus and commitment, or even engagement, as the initiative progresses to subsequent stages.

5 One of the problems is that effective clienting requires a skill set that most people in general management do not have. This set includes, for example, high level requirements definition, business case development, stakeholder management, and strategic risk management.

Strategic role of Client

6 The Client role is sometimes described in other ways – including Sponsor, SRO, or simply with a job title (e.g. Development Director). These role titles are largely synonymous, but occasionally have some differences in scope and emphasis.

7 The Client acts as a bridge from policy into and through delivery, and has accountability for the investment and its outcomes – i.e. where the buck stops. If appropriately selected and empowered, the person assigned will understand the role, know how to perform it, and be strongly committed to achieving overall success. They will not give up the role without ensuring another suitably qualified and motivated person is ready to take it on.

8 In fact there is a cascade of client/deliverer relationships right down the supply chain.

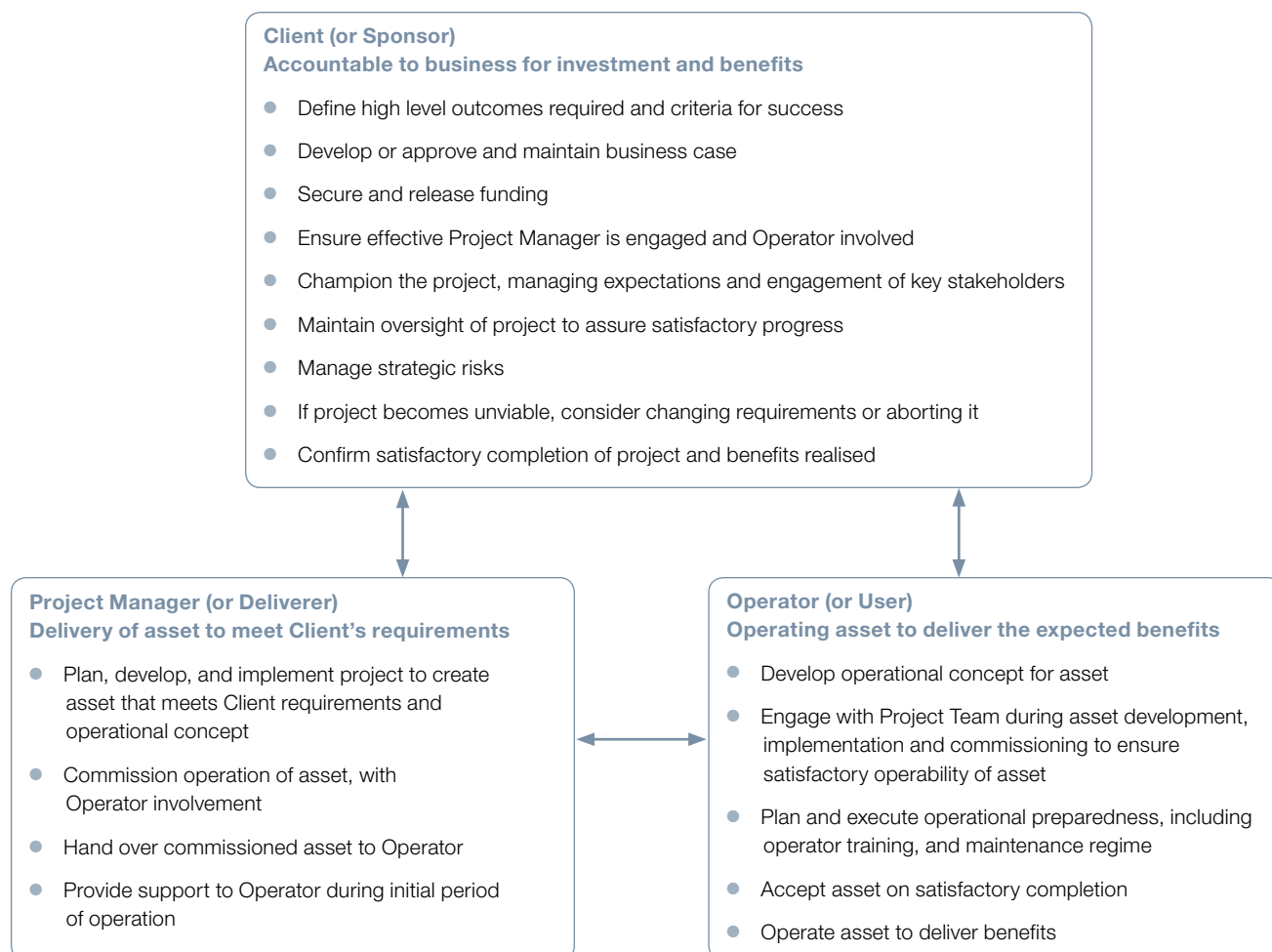
One of three key roles in project management

9 The Client role, often described as Sponsor, is one of the three key roles in project management – the other two being Project Manager (or Deliverer) and Operator (or User). The Client (or Sponsor) is accountable for the investment, defining the high level requirements and ensuring the promised benefits are achieved; the Project Manager (or Deliverer) manages delivery of the asset or other major change to meet the Client's requirements; and the Operator (or User) operates the asset to provide the expected benefits. The scope of each role is described in more detail in **Figure 2**.

10 Important though the other two roles are, the Client role is of pivotal importance in achieving success in any project. In my experience, most projects which fail or struggle to achieve their expected outcomes, do so more from weaknesses in clienting than in project management or operation.

Figure 2

Key roles in project management



Source: Mike Nichols, from a strategic review of a client organisation's approach to programme and project management by the Nichols Group.

Why split the roles?

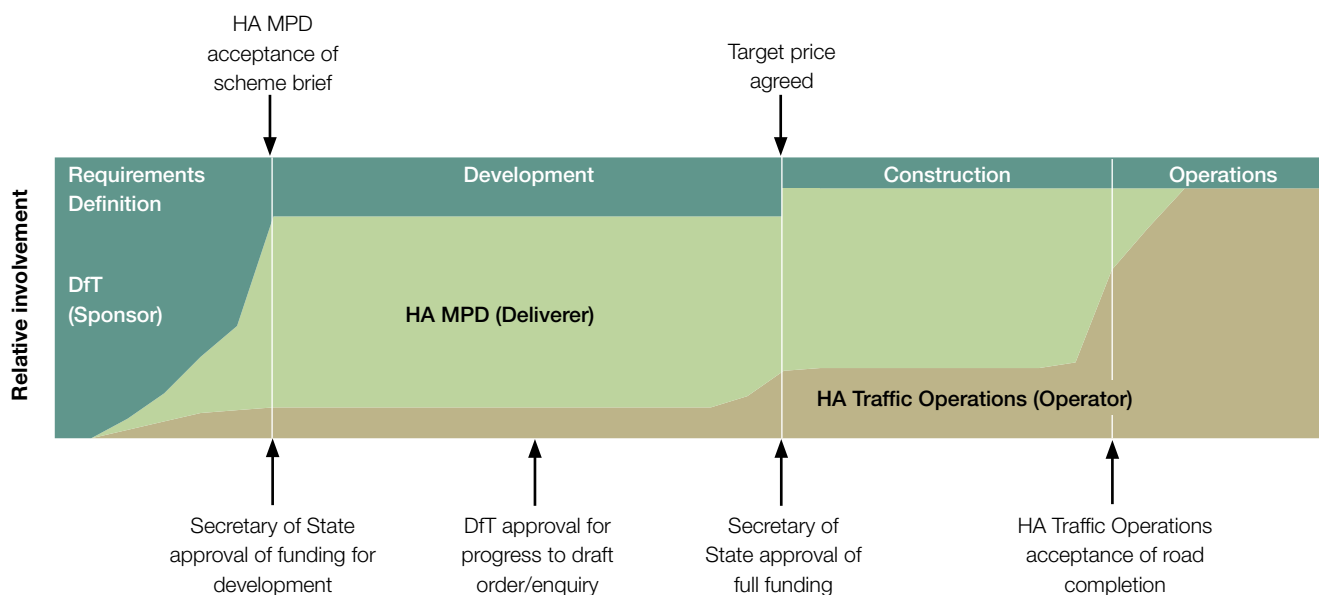
11 Each role requires different skills that are rarely found in one person. There are also conflicts of interest between the roles. For example, the Client needs to focus on overall investment or they will interfere in delivery, thus unnecessarily constraining design and construction; the Project Manager tends to want to continue with the project even if it becomes unviable; and, faced with delays or cost overruns, may be tempted to reduce scope or performance; and the Operator may find dealing with the project too much of a distraction from the core operating role. Therefore, it is advantageous to have constructive challenge between the roles.

Relative involvement over project life cycle

12 As shown in **Figure 3**, each of the three key roles in project management need to be engaged throughout a project, although the Client/Sponsor starts earlier than the other two.

Figure 3

Relative roles over project life cycle (based on a road building scheme)



Source: Mike Nichols, Report to Secretary of State for Transport, Review of Highways Agency's Major Roads Programme (March, 2007), p17

NOTE

DfT – Department for Transport
 HA – Highways Agency
 MPD – Major Projects Division

Benefits from better clienting

13 Effective clients have clearer accountability for: ensuring policy is successfully implemented; that the investment involved is well justified and directed; and that the promised benefits are realised. As a consequence of effective clienting, there is a substantially increased likelihood of intended outcomes being achieved.

14 The Department for Transport is a good example of a government department which has been making good progress towards improving its clienting, particularly on its rail and roads portfolios.

15 A number of professional organisations are recognising the vital importance of the client/sponsor role in major projects and programmes – as evidenced by the guides to clienting/sponsorship published by the Association of Project Management and the Institution of Civil Engineers.²⁴

Specific recommendations

- Every central government department should set up a Client/Sponsor function for each area of policy implementation.
- Establish a Task Force to undertake an initiative to enhance clienting across all government departments, including developing a toolkit, guidelines and a training programme for Clients/Sponsors.
- Create a centre of excellence for sponsorship in government.
- The National Audit Office should undertake an annual review of sponsorship in Government, with external support if required.

²⁴ *Sponsoring Change – a guide to project sponsorship*, Association of Project Management (October 2009) and *Client Best Practice Guide*, Institution of Civil Engineers (October 2009).

Tim Stone

Procurement in the Public Sector

By Tim Stone, Chairman of the Global Infrastructure and Projects Group at KPMG and non-executive member of the Board of the European Investment Bank (writing in a personal capacity)²⁵

Short biography of the author: Tim advises the Government on matters relating to the development of new nuclear power and wider low-carbon energy policy in the UK. He is also Chairman of the Welsh Assembly Government's Strategic Capital Investment Panel, and the advisor to the Deputy Premier of one of the Australian States on its infrastructure programme. Prior to joining KPMG to build its debt and projects business, he was a Director of S.G. Warburg & Co. in London and New York. Before that he ran one of Chase Manhattan Bank's international businesses in New York. He has a doctorate in physical chemistry from Oxford University.

Misunderstandings

1 Since 1997, there have been a number of different attempts to improve government procurement radically. Efforts include the creation of the Office of Government Commerce and all the systems it has introduced, many years of training by competent bodies such as Partnerships UK and Local Partnerships (formerly 4ps) and endless seminars, conferences and commercial training courses. While there have been some improvements, it would be fair to say that in general, government procurement has not undergone any great sea-change for the better. The media is still full of stories of helicopters that cannot fly years after they were delivered because the government procurement system thought it knew better than the manufacturers. The much-needed Building Schools for the Future programme is getting there but, when compared to the original intent, with a marked emphasis on 'the future'. There seems to be a systemic belief that because 'procurement' often works slickly and efficiently in the private sector, it must be fixable in the public sector as well. Well maybe not...

2 Probably the biggest tacit misunderstanding around government procurement is related to the way that much of government works. Since the end of the Second World War and the Beveridge reforms, government has focused on structure, ownership, form and regulation. There has been relatively little focus on delivery – even the great North Sea developments could be argued to be government doing little more than

²⁵ **Disclaimer:** The views and opinions expressed herein are those of the author and do not necessarily represent the views and opinions of KPMG LLP (UK) or the European Investment Bank. The information contained is of a general nature, and is not intended to address the circumstances of any particular individual or entity.

selling licences and taxing the proceeds. Government, particularly after the privatisation generation, does not 'do', it runs processes. Government has become a machine focused on process and, even after the Blair's years of public service reform, still too little on outcomes. Government procurement is still seen as a large system to be oiled, maintained, upgraded and polished. That is the problem.

3 Procurement does not stand alone. Children are not educated, patients made well, and the economy grown by procurement. It is simply one part in a chain for delivering outcomes. The idea that procurement is a standalone process has somehow emerged; until this notion is permanently removed, helicopters will continue to be delivered too late, and large IT programmes will continue to fail.

Systems failures

4 What has been forgotten is that procurement is but one part of a wider system that begins and ends with someone, somewhere, who has a need for something to happen. Too often the procurement process is seen to start with a specification for a (possibly very complex) widget whereas in truth there is an inseparable blend of capacity and capability requirements and their delivery. The truth is that capability requirement and procurement are not orthogonal,²⁶ and the simplification that assumes they are is fatally flawed.

5 This is becoming all too evident in the recently published report by Bernard Gray²⁷ on defence procurement, but it is obvious elsewhere from the lack of joining-up between the ultimate customer, and the procurement and deal teams. A procurement process is hardly ever 'owned' from specification to delivery, and time-scales (often dragged out by far too many lumbering approval stages) allow personnel changes to completely destroy corporate memory and personal accountability. Worse still, there is a mechanism with appallingly flawed incentives, whereby the specifier of the capability is motivated to downplay the likely cost of the eventual procurement in order to have the request approved; this is exacerbated when the bidder bids in the knowledge that the specification will be changed – thus excusing all manner of increased costs.

6 The analogue, certainly in defence, is nearer to 'fire-and-forget' than a properly thought-through system.

7 Meanwhile, from a government perspective, the PFI/PPP model has not moved beyond a pilot project and the knowledge gained about the meta-process has not been distilled and applied to the creation of the next version of the model. Data is still largely missing for the comparison with alternative options and with a few specific honourable exceptions, most 'data' is little more than opinion surveys which have been subject to capture by vested interests. Further, the enforced standardisation of inflexible procurement processes – administered blindly, overseen by inexperienced generalists,

²⁶ Editorial note: In geometry, orthogonal means 'involving right angles'. The term has been extended more widely in a scientific context and into general use, meaning the characteristic of a number of entities being absolutely independent of each other.

²⁷ *Review of Acquisition for the Secretary of State for Defence. An independent report by Bernard Gray (October 2009).*

and watched over by hawk-like lawyers – is one of the reasons PFI/PPP remains in the ‘pilot’ phase. The ropes are bound so tightly at the start of a process that there is little room for innovation and creativity further down the line.

8 There are two other problems; first the Augustinian problem of technology where there is always assumed to be a better solution just around the corner. This seductively lures decision makers to dream of these magical alternatives tomorrow rather than pursue perfectly adequate and workable solutions today. Secondly, there is scant understanding of sunk cost, and too often there is a temptation to throw another few hundred million after the first billion in pursuit of a sub-standard solution.

9 To add to this, there are aspects of public accounts which do not paint an accurate picture of the financial position of government bodies from the perspective of a good financial manager. When ministers and senior civil servants make decisions, those decisions often create inescapable consequences and obligations that endure for generations. Think of the consequences of the decision to build a railway line; in all probability, the great-grandchildren of the builders will be paying for maintaining it, yet the data around the costs and expected benefits of doing so are not built into some great national plan. Nowhere is there a great book with line-items for each decision, setting out the cash spend required and the benefits to be delivered as a consequence of that decision, around which to plan and to capture changes in those plans. Without that book, the nation cannot see just what the politicians have signed up to on behalf of the electorate who appointed them. The focus is still on the short-term even though, in the case of that railway line, Government is as committed to paying for the maintenance of it as the proverbial pig is committed to breakfast.

Prescription

10 Probably the most critical aspect of any prescription is to look at procurement as part of a complete system starting with capability requirements and ending with operational outcomes. But even before starting down that road, the word ‘system’ needs to be properly understood, and in this context the work of Jake Chapman²⁸ is an important primer for non-engineers. In treating procurement as part of a system, proper focus has to be given to the incentives on the individuals within the specification, approval and procurement/deal teams themselves. Just as the impact of incentives is vital to the creation of a good deal itself, so are incentives vital for the system that creates that deal.

11 We need transparency in procurement decision-making and individuals accountable for their decisions. But public accounts continue to avoid spelling out the long-term consequences of decisions. Also, government departments and bodies do not tend to keep zero-based budgets, in which each year’s budget is fully justified from scratch.

12 Part of the solution is the creation of zero-based budgets, with individuals (not a job-title) responsible for budget lines and their performance during their time as budget managers following them throughout their careers. Where their professional judgement is overridden by higher authority, that must be visible and the individual responsible for denying professional judgement must also be held accountable. There is currently no real cost to individuals for fudging procurement decisions, and no real transparency around the costs of doing so, or the decisions themselves. Reform of public accounts is fundamental to fixing government procurement and to the delivery of better value for money for the taxpayer in general. Until that happens and personal accountability is made transparent and robustly effective, procurement will continue to provide front-page stories for the newspapers and, too often, appalling consequences for taxpayers.

Samuel Bentham, two hundred years on

By Gary L Sturgess, Executive Director of the Serco Institute

Short biography of the author: Gary has been Executive Director of the Serco Institute since 2003. He played a key role in the establishment of the Public Services Strategy Board at the Confederation of British Industry and the Services Forum of Infrastructure Partnerships Australia. He is a former Cabinet Secretary in the New South Wales State Government in Sydney. He was awarded the Order of Australia for services to government. Gary was a non-executive director of Serco Group plc from 1993 until 2000, when he moved to the UK and joined the company as a senior executive.

1 Britain's first public management guru was a naval engineer named Samuel Bentham, who served for 17 years as an adviser to the Admiralty. Bentham sought to implement a reform agenda based on the clarification of outcomes; the separation of commissioning and delivery; letting (and making) the managers manage; joining up responsibilities across fragmented departments; introducing cost-benefit analysis, based on the time-adjusted value of public funds, for major projects; and widespread use of benchmarking.

2 Today we recognise these as some of the defining characteristics of the 'New Public Management'; what is notable about Samuel Bentham is that he retired from public service in 1812. Consider, for example, the following passage on joined-up government, written at a time when the public sector was much smaller and simpler than it is today:

*"Many are the occasions when the personnel of one of these departments might most advantageously be made to assist another of them; but now those several departments being under the management of as many separate authorities, independent of each other, and acting without one general superintending authority to direct the whole, neither men, nor materials, nor accommodations of the one branch can be made to render assistance to the others."*²⁹

²⁹ M.S. Bentham, *Suggestions for the Better Management of the Civil Concerns of the Navy, Taken from the Papers of the Late Brigadier-General Sir Samuel Bentham, K.S.G.*, London: Longman, Brown, Green and Longmans, (1850), pp.43-45.

3 Bentham's writings are profoundly challenging for those charged with improving commercial skills in government, since they suggest that the problem for the past 200 years has not been a want of understanding, but a lack of appropriate incentives. No matter how much is done with recruitment and training, commercial skills will not be applied to their best advantage unless the environment in which they are exercised also changes.

4 There is perhaps no area of public administration more complex than the procurement of new defence technology. Two recent defence reviews have addressed the question of incentives in this area – the Gray Report here in the UK³⁰ and the Mortimer Report in Australia (released late last year).³¹ Bernard Gray found cost overruns averaging 40 per cent in major defence projects, but more significant for present purposes, was that he and his team identified £900 million to £2.2 billion a year in frictional costs.

5 Frictional costs are caused by the delay and renegotiation of projects due to poor planning and gaming behaviour. They are a deadweight cost to the system as a whole, but make sense to the individual players within the system, since they increase the likelihood that their programmes will survive, and perhaps be properly funded at some future time.

6 Whilst immediately concerned with defence procurement, Gray and Mortimer have addressed the challenges involved in the management of large and complex projects in every part of government – effective requirement capture; joining up multiple agencies with different missions and cultures; prioritising competing demands given scarce resources; and delivering honest and effective financial planning and robust cost-benefit analysis – much the same issues that Samuel Bentham identified some 200 years ago.

7 It would be wrong to say that no improvements have been made in the interim. The Private Finance Initiative was explicitly designed to change the incentives associated with the procurement of public infrastructure. Steve Robson, the Second Permanent Secretary to the Treasury charged with the development of PFI in the early 1990s, explained at the time that the objectives of the policy were: (i) to reduce optimism bias; (ii) to introduce whole-of-life asset management; and (iii) to create incentives to explore the optimal allocation of risk.³²

³⁰ *Review of Acquisition for the Secretary of State for Defence. An independent report by Bernard Gray* (October 2009).

³¹ David Mortimer, 'Going to the Next Level: The Report of the Defence Procurement and Sustainment Review', *Commonwealth of Australia*, 18 September 2008.

³² Personal conversations with the author, 1995.

8 PFI transforms the environment within which project planning occurs because of the significant risks that the provider is obliged to bear, and the incentive that this provides to push back against fuzzy requirements and uncertain funding. Of course, this has created a demand for new capabilities on the part of public officials (which government has sought to address), and the clarity associated with PFI procurement has sometimes exposed other perverse incentives. However, the evidence is clear that PFI has profoundly altered the incentives associated with the procurement of large-scale infrastructure and the associated services.

9 However, PFI does not have universal application. It has proved to be of limited use in major defence procurements, where uncertainty and complexity make it difficult to transfer risk to the same extent. In such cases, we are obliged to fall back on less elegant solutions.

10 For example, Gray and Mortimer have tried to encourage push-back against poorly defined outcomes by building a higher fence around the commissioning function. In Australia, Mortimer suggested that the Defence Materiel Organisation be established as an Executive Agency, separate from the Department of Defence. Gray has recommended outsourcing some of the procurement function. In both cases the intention is to strengthen the mission and culture of officials charged with commissioning, based on the principle that good fences make good neighbours. Since fencelines are places of high visibility, such an approach would also increase transparency.

11 These reports have also attempted to expand the time horizon of financial planners, and give identified officials clear responsibility for the robustness of their forecasts. They have grappled with the challenge of coordinating the disparate priorities of the various defence agencies, of operational and support staff, and of those responsible for procurement and sustainment.

12 Thus, improving commercial skills in government is a necessary but not a sufficient condition for enhanced delivery of complex projects. In 1854, the then Secretary of the Treasury, Sir Charles Trevelyan delivered a review of the Office of Works to accompany his much more famous report on the civil service, co-authored by Sir Stafford Northcote. Among other findings, he raised concerns about both the quality and quantity of those engaged in commissioning. The 'invariable tendency' of public works contractors to overrun their estimates, he wrote, demanded a high standard of monitoring, and salaries high enough to retain the services of officials who acquired commercially valuable experience.³³

13 If, a century and a half later, we are returning to these same issues, then the question must be asked whether it is only a question of capability, or whether we do not also need to pay some attention to the environment.

33 'Report of Committees of Inquiry into Public Offices', House of Commons Parliamentary Papers, 1854, pp.319-332.



Rebecca George and Richard Porter

A clear sense of purpose, accountability and risk ownership

By Rebecca George and Richard Porter, partners in Deloitte's Public Sector Practice

Short biography of the authors: Rebecca George OBE joined Deloitte as a Partner in September 2006, from IBM. She has advised across Central Government since 2001. Rebecca has practical experience of business process re-engineering projects and implementing new business models. During her time working with the public sector, she has chaired the BCS Strategic Women's Forum, the Intellect Shared Services Working Group, and the Skills Group for the Egan Review of Sustainable Community Skills. She is currently Chair of the BCS Strategic Women's Forum.

Richard Porter is a partner in Deloitte's Public Sector Practice and a key member of the firm's business critical programmes team. Richard has led some of Deloitte's most complex and challenging technology-rich transformation engagements in the public and private sectors. Richard typically works at board level, leading substantial teams of mixed client and consulting resources, through which he has helped many clients to build key skills and capabilities within their own organisations.

Introduction

1 In the public sector it is not possible, nor desirable, to create identical skills and capabilities to those in the private sector. To succeed in the new world, where a quarter of UK Government expenditure is on goods and services provided by private and third sector suppliers, the Civil Service needs to build on its own strengths, and add relevant capabilities from the private sector.

2 When Deloitte interviewed new senior civil service hires from the private sector as part of its Transfusion study,³⁴ a lack of commercial skills came up repeatedly with comments like: 'The biggest, most obvious gap is the commercial understanding. It is confused with the ability to procure and it does not mean that.' One interviewee said: 'I do not see very often an ability to see across the portfolio.' Another said: 'Projects could be conceived and delivered so much better if there were a real understanding of commercial issues.'

³⁴ *Transfusion: private to public. Views on the delivery challenge from senior civil servants recruited directly from the private sector*, Deloitte (2008). www.deloitte.co.uk/transfusion.

3 The most senior civil servants, usually great leaders in developing policy, are challenged by delivering continuous service to the UK population. But they also need to understand the value of commercial skills so they can manage their mixed economies to deliver complex projects more successfully. This is part of a wider journey towards professionalism for the public sector involving standards, externally recognised qualifications, career paths which already encompass HR, finance, IT and procurement. Professionalising the Civil Service is an evolution and commercial capability needs recognition, inclusion and leadership.

4 Here we look at a number of simple but powerful commercial capabilities. Understanding, implementing and experiencing them will increase the project success rate of large scale complex projects, and build commercial skills in the public sector.

Keep a sense of purpose front of mind

5 Firstly, a clear sense of purpose is paramount to the success of any large complex project. Be absolutely clear from the outset about exactly what it is that you want to achieve. That purpose should be presented in the most comprehensible terms and then communicated powerfully and at regular intervals throughout the duration of the project, to keep it front of mind. Whenever a major project is facing difficulties, the first question to put to those responsible for managing it, is: 'when did you last check your terms of reference?' They should be close to hand at all times. This continual focus ensures that the project does not morph into something unintended and the means or processes do not begin to dictate the ends.

6 Whilst being sufficiently aware of the ends, commercial and contractual arrangements should be put in place early on, and designed in such a way that they do not limit flexibility and agility when circumstances change. At the heart of the challenge is the need to recognise the difference between process, output and outcome performance indicators. By focusing on service outcomes, positive influence of supplier behaviour becomes possible. If obligations are limited to a series of process or input targets, leverage is limited. A key commercial skill, therefore, is understanding how commercial levers work, and being aware of the implications of any changes on the commercial aspects of the programme.

Accountability and ownership of risk

7 During the design phase of the operating model, the role of every organisation and the individuals within those organisations have to be clearly defined without leaving any room for doubt or misunderstanding, thereby managing risk early on. Promoting an environment where accountability and ownership of risk is clear, produces a level of visibility and a chance for any structural failures to be manifest and addressed before they become problematic. This level of planning and definition required is painstaking but it is the best way to avoid failure further down the road.

8 Then, once an operating model and a regime for the project have been defined, everybody should work together to reinforce it. This is achieved through the development of a collaborative environment where the fact that there will, undoubtedly, be problems is accepted and the emphasis is on every organisation supporting each other to resolve problems. The best way to achieve this is by being open and transparent about the commercial aspects of the programme, thereby making them a shared issue. The project's stakeholders will then take a keen interest in the commercial implications of any actions.

Supplier management and supplier integration

9 Multiple suppliers are usually involved in the delivery of large complex projects. To rigorously manage, motivate and integrate these disparate organisations, requires a range of sophisticated skills and capabilities.

10 Decisions about what to buy in and what to do in-house, that are made at the beginning of the project, are crucial. It is important that those decisions are made purely on the basis of what is appropriate for specific tasks – an agnostic approach, free from ideology. The right balance between cost and risk needs to be struck. Too much of a focus on cost will lead to an unmanageable level of risk within the delivery organisation.

11 A key commercial skill in supplier management is the role of assurance in reviewing design deliverables. Contractual requirements need to be reviewed and then assured to make sure they are watertight. Commercial negotiations must conclude with a very clear definition about exactly what is expected from each supplier. A lack of clarity could be exploited by suppliers.

Symmetry on risk and reward

12 Supplier management also involves finding the right mechanisms to motivate suppliers constructively. A balance of penalty for failure and positive reinforcement for success is necessary to produce symmetry on risk and reward. For example, if you have a series of outcomes on a range of one to 10, with 10 being optimal, you need to recognise that an outcome of eight is still acceptable and reward it accordingly. Targets should also be extendable to reward over-achievement that goes beyond the contractual expectations. Once again, the need for commercial flexibility is apparent.

Commercial skills

13 Having clear links between the project's purposes, the operating model and the commercial incentives, will help to ensure that the project functions correctly.

14 Once the challenges of defining the project's purposes, risk ownership, accountability and supplier management models have been addressed, then training should be developed to communicate and enforce the regime across the programme.

15 An understanding of how commercial levers work, how private sector suppliers behave and an awareness of the commercial implications of any actions will result in a more pragmatic approach to delivery. Commercial skills of this kind can only come through experience of directly managing such issues, training can only go so far, and collaboration with other departments or external advisers who can transfer their skills is beneficial.

16 The growing recognition that the Civil Service needs a broader set of commercial skills could result in a number of initiatives. One step that would significantly bolster progress in this area is the appointment of a commercial director for each central government department, with explicit responsibility for procurement, supplier management and integration. Teams with specific commercial skill sets, such as legal specialists, for example, could be set up to provide services to departments as and when they need them, moving on once their job is complete.

17 One trait that characterises organisations with strong commercial capabilities is board level engagement with suppliers, and an honest dialogue about how to improve the relationship between the parties.

18 Central government projects face high levels of public scrutiny and deliver outcomes that affect millions of people; this leads to levels of complexity rarely seen elsewhere. The challenge now for the public sector is to adapt its skills and capabilities to manage these dynamics and interface with the private sector effectively.



Susan Anderson

Partnership – the key to improving commercial skills

By Susan Anderson, Director of Public Services and Skills, Confederation of British Industry (CBI)

Short biography of the author: Susan Anderson studied English at Loughborough University and took an MSc in Social Policy and Planning at the London School of Economics. After leaving University, Susan worked in retail management before joining the CBI. She has worked on pension policy and health & safety policy, and was appointed head of Employee Resourcing in 1995. Susan became director of Human Resources Policy in June 2000, taking responsibility for education and training issues, pay and benefits, employee rights and relations, and Social Europe. Susan moved to take responsibility for education and skills, and public services in July 2008.

1 Forming and maintaining strong partnerships between the public sector and its service providers is the key to improving commercial skills in government procurement, and ensuring that complex projects produce value for money and quality services for users and taxpayers alike. Competition has transformed the public services market over the last 15 years; public sector bodies have had to move from designing and providing services solely by themselves, towards commissioning them in collaboration with a range of providers from the private and voluntary sectors. To get the most from providers in this market and to achieve the outcomes that public policy requires, procurement must be founded on a strong partnership ethos that facilitates communication and trust. Indeed, as spending is restrained in the next fiscal period, partnership becomes ever more fundamental to delivering good public service projects and ensuring objectives are met in areas such as health, education and welfare.

A partnership approach enables early collaboration

2 By forming a partnership, the procurer and the provider can collaborate effectively from the project's beginning, ensuring that service design and delivery are seamlessly joined. They can allocate risk and resources on the basis of who is best equipped to manage them. They can also raise user satisfaction by working closely together to consult users and address their recognised needs. The skill that underpins this mode of engagement is communication. Without communication, complex projects become crippled by indecision and error, resulting in poor quality outcomes and wasted public

money. Conversely, communicative partnerships encourage all parties to express their strategic priorities clearly, work effectively through any difficulties, and challenge one another to ensure that strategic objectives are achieved.

Partnerships secure continuity...

3 Complex projects need continuity to ensure that a focus on outcomes does not become lost in the short-term needs of technical detail. Partnership models are the vehicle that can drive this continuity throughout the project, from the earliest stage of planning and design, right through to ultimate service delivery. To embed continuity in a project, the Office of Government Commerce (OGC)-National Audit Office (NAO) *Good Practice Contract Management Framework*³⁵ rightly emphasises the importance of strong internal and external relationships between stakeholders, and regular communication, both structured and informal, between the contract manager and the supplier. Dispute resolution processes are essential, as they can avoid a blame culture, allowing projects to progress without delay. Partnership does not mean partners should not challenge one another; rather a strong relationship provides a platform from which challenge is constructive.

...While allowing for change

4 Whilst continuity is important, flexibility to adapt to change is equally important for complex projects, particularly those with a long lifespan. The flexibility accorded to both procuring authorities and providers by a strong partnership can be crucial in making a complex project work under changing circumstances. In the Government's Flexible New Deal programme, for example, a strong relationship between parties was established in the pre-procurement stage. This allowed the Department for Work and Pensions Commissioners to come to an agreement with preferred bidders (a range of providers from the private and third sectors such as A4e, Serco and Working Links) on the contract payment structure, to reflect the impact of the recession on the labour market and ensure that targets were appropriate and achievable.

Wider policy objectives are being achieved

5 Public service projects are becoming increasingly sophisticated: delivering carbon reductions that help the government meet its international obligations; reflecting the diversity of both service users and the wider population; and helping to ensure that the value of small and medium enterprises can be harnessed. Strong partnership and good channels of communication between procurement partners will help the public sector achieve these wider economic and social objectives. The Great Ormond St Hospital redevelopment project is a good example of this. The procurement team communicated its needs very clearly in the tender, stressing sustainability as a key outcome that it wanted to achieve. Demonstrable technical competence won the bid for BAM Construction, but it has been the formation of a partnership founded on regular communication between contract partners and also with hospital staff, patients and the local community, that is realising wider social and economic outcomes from this project.

³⁵ http://www.ogc.gov.uk/documents/Management_Framework_Good_Practice_FINAL.pdf.

Best practice is being disseminated

6 And of course with all partnerships, learning from experience is a key component of success. Being able to recognise where improvements could be made and addressing problems in a collaborative way is the hallmark of an excellent partnership. Instead of dwelling on mistakes, commissioners and service providers in strong partnerships can iron out difficulties and identify compelling solutions to problems that may emerge in the design, construction and operation of public services. In the Building Schools for the Future programme, early delays in the procurement process that resulted from lack of experience from some local authorities were overcome by sharing good practice between projects. Partnerships for Schools, the government body set up to help coordinate the procurement programme, has been instrumental in disseminating best practice and helping to sustain projects that suffer difficulties. This type of high-level support can be of great benefit to complex projects.

A commitment to strong partnerships is needed at all levels of Government

7 There are plenty of good examples of effective partnership-working on complex projects. If this was evident across the board, public services would be more efficient and effective. The service delivery partnerships that have emerged over the last 15 years, in which private providers have become more involved in designing the services that they had formerly only delivered, have helped to reduce the adversarial relationships that had troubled some more traditional contracting arrangements. But as the need to reduce spending looks set to dominate public procurement, there is a risk that the gains made could be lost. A focus on forming and maintaining good partnerships must continue.

8 For all complex projects, a commitment to partnerships needs to be established early and maintained at a strategic level. Buy-in needs to come from the top, starting from the highest levels of Government and filtering right down to individual project managers. Corporate plans should reflect this approach, and commercial directors in all spending departments should be responsible for implementation. Without partnership, projects will suffer from a lack of coherence, limited flexibility and less opportunity to support wider social and economic policies. They will also fail to solicit the opinions of those whose lives are affected by the project outcome – the service users. If instead the government wants well-planned, flexible and effective public service projects that address user needs and can be adapted to meet wider policy goals, it needs to commit itself publicly and consistently to procuring and delivering in partnership.



Dr Stephen Pryke

Better knowledge transfer and a more hands-on approach to complex projects

By Dr Stephen Pryke, Director of Postgraduate Studies at University College London, joint editor of 'The Management of Complex Projects'; and editor of 'Construction Supply Chain Management' both published by Blackwell.

Short biography of the author: Stephen joined the Bartlett School of Graduate Studies (UCL) in early 2003, having previously held the post of Director of Postgraduate Studies at another of London's academic institutions. Prior to entering academia, Stephen was Chief Surveyor for a major public sector client organisation and practiced as a quantity surveyor and construction project manager. He also worked as a consultant with Durland Consulting in Chicago Illinois, a management consultant specialising in social network analysis. He is Series Editor of the Wiley-Blackwell /RICS Research Series, and a referee for the *Construction Management and Economics* research journal.

How are complex projects different to others?

1 Complexity can arise from a number of project or programme characteristics and can involve: complexity in the business environment through which the project must be delivered; complexity arising out of the functions of the facility; the process of production; and new materials or the systems of management and governance employed. Quite frequently complex projects may create, or arise from, a difficulty in matching strategic organisational objectives with more tangible project objectives.

What are the implications of complexity for those managing projects in central government?

2 It is so much easier to get it wrong with a complex project. Complex projects are very often late, or fail to create delight for sponsors and end-users, involve cost overruns and most fundamentally of all an inability to accurately define the project and its objectives before implementation (construction) begins.³⁶ Complex projects are often very large and often suffer from optimism bias on the part of decision makers. Optimism bias involves the suspension or perversion of rational analysis prior to the decision to proceed with a project. This may manifest in an exaggeration of the likely benefits of the project.³⁷

³⁶ See, for example, B. Flyberg, N. Bruzelius, and W. Rothengatter, *Mega Projects and Risk: An Anatomy of Ambition*, Cambridge University Press (Cambridge, 2003).

³⁷ D. Lovallo and D. Kahneman, 'Delusions of success: how optimism undermines executives' decisions', *Harvard Business Review*, July 81(7): 56-63 (2003).

3 It follows from the issues above, that those involved in managing these projects experience the following problems:

- difficulty in identifying accurately and managing risk, which would include opportunity management, as well as more traditional risk management issues;
- an increased need for more detailed knowledge of technical issues – processes, products and materials, relating to projects;
- a lack of experience because of novelty – being a trail blazer requires high levels of knowledge acquisition, and often some failure associated with poor knowledge and information;
- a need to make decisions later in the design and production cycles than might typically be necessary in order to accommodate assimilation and exploitation of rapidly changing project environmental factors;
- an increase in the number and diversity of specialists contributing to the project – these can be professional service providers as well as specialist contractors and component manufacturers; and
- the financial management of projects is a function of the management of design, and the relationship that the design has to the organisational strategy: the management of design is frequently problematic in complex projects.

What are the changes that are needed then?

4 Much of the complexity that occurs in project content and processes involved in delivery, arises downstream in the supply chain. It follows that the very detailed knowledge that government project managers need to acquire to manage these projects effectively is not located in the first or second tiers with which their contracts and closest relationships lie. As projects increase in complexity the potential for failure, however defined, lies at increasingly lower tiers within the supply chains; the risk management and key decision-making becomes more bottom-up than top down out of necessity. The commercial skills that public sector project and programme managers need to acquire can be achieved through the projects themselves (over time), through interaction with colleagues, and through programmes of knowledge exchange involving downstream specialist subcontractors and manufacturers.

5 How might these changes be implemented?

- Government departments might like to give consideration to having very explicit knowledge management initiatives, to enable lessons learned both within and outside of government to be transferred and disseminated.
- Communities of practice³⁸ might be implemented to help provide a more commercial culture to flourish.

³⁸ E. Wenger, *Communities of practice: learning, meaning and identity*, Cambridge University Press (Cambridge, 1999).

- The culture within the public sector tends, simplistically, not to reward experimentation (and therefore) innovation, and is intolerant of failure. This culture tends to mean that those taking relatively few risks flourish and those who have learnt a lot through innovative practices tend to leave the Service and take the knowledge acquired, possibly through failure, elsewhere.
- Procurement affects communication path lengths³⁹ and the ability for the procuring staff to learn from downstream specialists. Traditional procurement, design and build, PPP and PFI involve tall contractual hierarchies which inhibit the flow of information and knowledge. These procurement methods have *long path lengths*⁴⁰ and are popular in the public sector. Construction management (particularly) and management contracting (found more commonly in the private sector) involve short path lengths, meaning that project managers have much closer links with specialist service providers and manufacturers. Some might argue that management forms of procurement transfer risk to the public sector unacceptably. Yet risk, control and knowledge are surely inextricably linked. If we wish to transfer knowledge to government staff there must (and should) be an inward transfer of risk and the decisions associated with that risk – this is not a bad thing! Risk internalised to client organisations can frequently be more effectively managed, leading to project cost reductions.⁴¹ Many client organisations instinctively and routinely *externalise* risk⁴².
- Resources need to be allocated to: the acquisition of knowledge and experiential learning; those organisations that allocate resources to managing projects; and mapping and managing supply chains provide themselves with the skills and capacity to manage increasingly complex projects. Those that do not commit the necessary resources and fail to ensure that the knowledge acquired is secured and managed, are condemned to repeat the failures of the past. Achieving more resources can be difficult where government departments will need to make significant savings in the coming years. It can be argued that the investment is self funding and would provide significant benefits.

6 Specific Recommendations

- Government departments need to transfer knowledge through the employment of staff previously employed within the private sector, and need to provide careers that are attractive to those contemplating such a move. Relatively stable staff groups with low churn prevent the importing of knowledge and information from other firms within the supply chains serving Government.

39 The path length in a communication network relates to the number of individuals through which information must flow from source to destination.

40 Long path lengths in contractual relationships refer to supply chain tiers; the number of contracts between the client and the smallest sub contractor, for example.

41 S.D. Pryke, *UK's construction in transition: developing a social network approach to the evaluation of new procurement and management strategies*, PhD in Building Management, The Bartlett School, UCL (2001); and S.D. Pryke, *Supply chain management in construction: concepts and case studies*, Wiley Blackwell (Oxford, 2009).

42 It is, for example, considered good practice in many client organisations to routinely externalise risk down through the supply chain, even where a particular risk might be more effectively or more economically managed by the client organisation or one of its consultants. See previous footnote for reference.

- There needs to be a change of culture implemented through management change programmes that encourage the acquisition of specialist knowledge from supply chains and some measure of experimentation and innovation – these activities enable assimilation of specialist knowledge within a complex project environment.
- Short path lengths and their benefits are available to the public sector providing that a more *hands-on* approach to project management is allowed and the resources to do this are allocated. A review of procurement approaches, along with an explicit knowledge management system, would help government departments to acquire better commercial skills through the assimilation of specialist knowledge from within the supply chains serving these departments. Some might argue that government departments acting as construction clients will never be, or want to be, as hands-on as a private sector client. Well, government cannot have it both ways. Arms-length procurement will always severely inhibit knowledge transfer to government staff. But...
- Knowledge transfer partnerships and staff secondment (both up and down the supply chain) could provide some increase in the necessary skills and knowledge, if shifting procurement strategies were unpalatable.



David Locke

How local public bodies could improve their commercial skills to deliver complex projects, and the challenges they face in achieving this

By David Locke, Director of Local Partnerships

Short biography of the author: David Locke leads a team of project directors and executives in Local Partnerships who provide transaction and project advisory support, and skills development support to local authority PFI and PPP schemes. David has supported the project delivery boards of a large number of local authority schemes, helping them to procure new services through PFI and public private partnerships. He has written a number of guidance notes on key aspects of the development and procurement of local authority PFI/PPP projects.

- 1** Commercial skills are typically attained over time and through a combination of professional learning and development, and hands-on experience of key business activities such as negotiation, risk management, project procurement, contract management, bidding, and relationship management. Many of these skills are typically more aligned to the business activities of a private sector company than they are to a public sector organisation.
- 2** In the private sector, commercial awareness is something that is developed from an early stage, and honed as an individual's career develops. Private sector companies require leaders and managers with strong commercial skills if they are to remain profitable, to be market competitive, and to meet shareholders expectations for growth. Many private sector companies are also required to have the flexibility to meet changing market conditions, and this requires leaders and managers to be able to react to emerging market opportunities.
- 3** Leaders and managers in the private sector, with strong commercial skills, are likely to have had exposure to a number of different sectors, and disciplines, and have some form of professional qualification that has provided structured training in key aspects of commercial business activities.

4 Public sector organisations typically have a different ethos; to provide high quality and well regarded public services to a client base that typically does not pay for those services at the point of use. Whilst cost and value for money considerations are a key part of the commissioning and procurement decisions taken by public sector organisations, in the public sector commercial awareness is not generally as well embedded throughout organisations as it is in the private sector, and commercial learning and development is typically only incorporated into certain professions.

5 The public sector ethos is typically focused on probity and best value obligations to protect the public purse rather than a commercial focus based around issues such as risk management, whole life costing and whole service considerations.

6 The accountability and decision-making structures in local public bodies also mean that typically, there is no lead commercial director for organisations, albeit we are now starting to see the introduction of these posts in local government (research commissioned by Local Partnerships predecessor body earlier this year identified some 15 per cent of local authorities already have a commercial director in place).⁴³

7 Local authorities are responsible for procuring some £42 billion of goods and services annually,⁴⁴ and it is important that local authorities have in place leaders and managers with the right commercial skills, and also an understanding across all directorates in an organisation of the commercial skills necessary at the market interface.

8 Local Partnerships believe that commercial skills and acumen should be a core part of the competencies framework for leaders and managers in local public bodies. These competency frameworks clearly need to be geared to the sorts of activities the organisation is engaged in, but is likely to include as a minimum:

- negotiation and dialogue skills;
- embedding a culture of efficiency and value for money;
- risk identification, management and mitigation techniques;
- core aspects for good programme and project leadership and management;
- key aspects for strong contract management and governance;
- an understanding of key financial and contractual aspects of their service area; and
- relationship management for suppliers and service providers.

9 Local Partnerships has previously suggested that the larger local authorities should consider appointing a commercial director, and we are encouraged by the fact that about a fifth of these authorities either intend to appoint one or would like to. It is important to note that based on the survey we undertook, some 73 per cent of local authorities agreed that a commercial director could help to achieve greater efficiency gains.⁴⁵

⁴³ Research carried out by 4ps in early 2009 (predecessor body to Local Partnerships).

⁴⁴ *The National Procurement Strategy for Local Government – Final Report* (April 2008).

⁴⁵ Unpublished research carried out by 4ps in early 2009 (predecessor body to Local Partnerships).

10 Local Partnerships has also developed, in conjunction with University College London, the 'Project Directors' Development Programme' to develop the leadership, team building, commercial, and negotiation skills of those officers leading the delivery of complex programmes and projects. The Project Directors' Development Programme is a twelve month long programme split over six modules and incorporates a number of learning and development sessions from private sector service providers.⁴⁶

11 Other opportunities for developing the commercial skills of emerging leaders in local government might include the following:

- secondments to private sector service providers – this is likely to help develop understanding and trust;
- ensuring that where commercial advisors are appointed to assist with the delivery of programmes or projects there is a clear commitment for skills transfer built into the assignment; and
- encouragement by leaders and managers in local government for their staff to attend training courses with delegates from the private sector, to help improve networking and understanding of alternative views.

12 Local public bodies could also 'import' these commercial skills from the private sector. If this is the chosen option, it is important to make sure that the democratic and accountability responsibilities are clearly understood and appointments are based on this understanding.

13 In summary, all local public bodies have greater engagement than ever before with the private and third sectors, and it is important that leaders and managers in those organisations have a strong commercial awareness and acumen to negotiate and partner with those organisations. This is important not only for probity and risk management reasons, but also to ensure we see transformation and efficiency opportunities developed and implemented.



David Outram

A local perspective

By David Outram, Chief Officer, Public Private Partnerships Unit, Leeds City Council

Short biography of the author: David graduated at the Leeds School of Town Planning, after which he secured a post within Leeds City Council's Planning Department, before taking a role in the regeneration of the city. Leading a project development team through the 1990s, he supported the delivery of a number of joint public and private infrastructure projects. In 1999 David developed and led a small team to deliver the city's first PFI scheme, the Leeds 7 Schools Project. He has since gone on to establish and lead the Council's Public Private Partnerships Unit. With the cooperation and support of members and client departments, the unit manages a portfolio of over a dozen PPP/PFI projects in Leeds, with a capital value of close to £1.5 billion.

1 Leeds City Council's (LCC) success in complex procurement and project management, particularly in the PFI sector, took root in the late 1980s.⁴⁷ By working in partnership with local businesses, engaging in joint ventures, and eventually with the PFI sector, we were able to gain a better understanding of the commercial world. We took the following important steps to create an environment where commercial skills can flourish:

- **Leadership** – We put in place leaders who were able to clearly articulate their vision, and who were willing to take considered risks.
- **Creating a culture of 'Ownership'** – We tried to ensure that individuals were rewarded and held accountable for their performance and decision making.
- **Avoiding jargon** – Effective partnerships are achieved through open and honest relationships built on mutual trust and clear understanding. We have tried to prevent the use of jargon on both public sector and private sector sides which can be used as a smokescreen to disguise a lack of detailed thinking or knowledge.
- **Clear timescales** – We have attempted to set clearly defined and carefully considered timescales, incentives for achieving them, and penalties for failing to meet them.
- **Governance** – We have attempted to put in place governance procedures that challenge project teams, but avoid delaying progress.

47 Editorial note: According to HMT database of signed PFI projects, LCC is the local authority that has procured more PFI projects in England (http://www.hm-treasury.gov.uk/ppp_pfi_stats.htm).

2 LCC has long held a vision to regenerate Leeds into a vibrant, attractive place to live, work and learn, that competes across Europe. The City's Public Private Partnership Unit (PPPU) has played a significant role in this. Its remit is to identify and secure sources of capital funding and to procure and deliver major capital and infrastructure projects across the city. It was the first unit of its kind in the country and has a national reputation for excellence.

3 The Unit operates on a commercial basis, with client sections within LCC paying for the resources they require. This means that the PPPU must constantly demonstrate that it is value for money. The Unit must produce a surplus each year and constantly seeks to learn from the private sector (such as our Local Education Partnership) to reduce costs, share expertise and diversify to secure new business from within the region.

4 PPPU has built its commercial reputation by taking the following important steps:

- **Building in-house capability** – complex procurement and funding requires specialist advice, and the Council has entered into specific relationships with legal, technical and financial advisors. Because the Council has a long-term obligation to manage and monitor complex contracts, it has put together a small team of internal experts. The teams's knowledge allows them to carry out many tasks that would previously have been handled by advisors and also enables more effective management of the advisors that are used. Staff have been attracted to join, and remain with the unit on standard salary levels, though supported by a modest package of training, retention and performance incentives.
- **Learning lessons** – We place a considerable emphasis on learning and development for employees within the PPPU. We have put in place a robust process for learning from work undertaken with partners and advisors, and sharing the lessons learned.
- **Effective use of independent scrutiny** – LCC believes it is the biggest supporter of Local Partnerships' independent 'Gateway Review' process. We have commissioned 20 of these reviews over the last four years, on a variety of projects, and, at the same time, provided training, and then released senior staff to support the review of other Local Authority projects across the country. We consider peer review to be critical to the progression of each project. By reviewing projects and performance in an open and non-adversarial manner all parties involved learn from the process to the mutual benefit of the project, and ultimately the whole of the sector.

5 Our approach has produced clear evidence of success. For example, in procuring the Leeds Local Education Partnership (LEP) as part of the Building Schools for the Future programme, we demonstrated considerable foresight by ensuring the services specified within the OJEU Notice were sufficiently broad to enable other PFI developments such as the New Leaf Leisure facilities to be procured through the Leeds LEP. This reduced the procurement timescales and costs for the developments. We have estimated that the net impact of establishing the Unit, and the LEP, has produced a combined saving approaching £40 million with further savings to follow.⁴⁸

48 Calculations from: [http://democracy.leeds.gov.uk/Published/C00000102/M00003377/\\$ADocPackPublic.pdf](http://democracy.leeds.gov.uk/Published/C00000102/M00003377/$ADocPackPublic.pdf), p. 147 and [http://democracy.leeds.gov.uk/Published/C00000102/M00003383/\\$ADocPackPublic.pdf](http://democracy.leeds.gov.uk/Published/C00000102/M00003383/$ADocPackPublic.pdf), p. 263.



Andrew Haldenby

The improvement of commercial skills to deliver complex projects means radical change for Whitehall

By Andrew Haldenby, Director of the independent think tank Reform (www.reform.co.uk)

Short biography of the author: Andrew Haldenby studied History at Corpus Christi College, Cambridge. He has held policy positions at the Confederation of British Industry, the Conservative Party, and the Centre for Policy Studies, where he was Director of Studies. Andrew co-founded Reform with Nick Herbert in 2001, and he became its Director in May 2005. He has recently completed an MSc in Economics at Birkbeck College, with a dissertation considering the impact of fiscal policy on growth.

1 Reform's work on complex public sector projects has been informed by experts such as Patrick O'Connell, the managing director of BT Health & Major Programmes and former leader of transformational IT projects for NATO, NASA and the US Government. His basic point is that major programmes need specific management skills and tools versus general management skills and tools, which are best developed from practical experience supported by some specialised studies. Those skills are now the subject of academic study, in particular by the Said Business School of Oxford University, which has recently introduced an MSc course in major programme management that will combine academic rigor with seasoned practitioner skills.⁴⁹

2 Whitehall has been poor at developing these skills. The hospital building programme undertaken in the first part of the current decade is a good example. During Reform's research on the programme, experts in construction noted that the NHS and the Department of Health did not learn from experience. A stream of projects was handled separately, by different teams, rather than becoming systematised. As a result, each construction incurred costs and delays associated with one-off projects.

3 The best recommendation would be to import those skills into Whitehall in the form of managers who can then be held accountable for performance. It is not so much a question of bringing in skills from the private sector; complex projects and major projects will tend to bridge the public and private sectors. It is instead a question of focusing on **empirical competence, results and accountabilities.**

⁴⁹ <http://www.sbs.ox.ac.uk/centres/bt/Pages/About.aspx>.

4 This challenge then becomes a subset of the wider challenge to reform Whitehall in order to increase its accountability. In a paper published earlier this year⁵⁰ Reform argued that the doctrine of Ministerial responsibility should be abolished. It not only shields officials from taking personal responsibility for their actions, but also draws Ministers into the process of delivery. Instead we argued that Ministers should be responsible for the strategic direction of policy and its communication and Officials should be personally responsible for the construction of policy and the use of resources. We also called for all Civil Service vacancies to be advertised openly; discrimination in favour of 'internal' over 'external' candidates and the system of grades to be abolished; and recruitment led by individual line managers to supersede centrally approved appointments. What matters is the quality and cost of appointees. We believe reform of this kind would see a much greater flow of personnel between the private, voluntary and public sectors, and the recruitment of officials with direct experience in the policy areas that they cover.

5 There is cross-party interest in these ideas. Liam Byrne, then Minister for the Cabinet Office, spoke at the launch of our research paper. He praised the growing trend of external appointments into Whitehall. Speaking at the Conservative Party conference in October 2009, Francis Maude, shadowing that department, set out his own proposals. The most important of those was the conversion of the top two tiers of departments to fixed term contracts, tied to performance.⁵¹

6 Civil service reform is set to be a key issue at the forthcoming general election. Having been put in the 'too difficult' box by successive governments, early legislation seems likely in the next Parliament regardless of the election result.

7 These ideas offer the exciting prospect of a dramatic increase in Whitehall performance based on higher competence and accountability. For complex projects, it offers the prospect of teams of Whitehall experts capturing their knowledge and practical experience on some projects and applying it to others. It would mean the development of world-leading skills.

8 Some might say that such a change would represent a challenge to Whitehall culture, because the performance of officials would become visible, and because officials themselves would be accountable, contrary to the doctrine of ministerial accountability. But that challenge is long overdue, and is particularly pressing given the need to tackle the public sector deficit.

50 A. Haldenby, L. Parsons, G. Rosen and E. Truss, *Fit for purpose, Reform* (March 2009).

51 Full speech available in http://www.conservatives.com/Get_involved/Conference/Webcast.aspx