



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL**

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# Commercial skills for complex government projects

# Summary

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

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

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

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

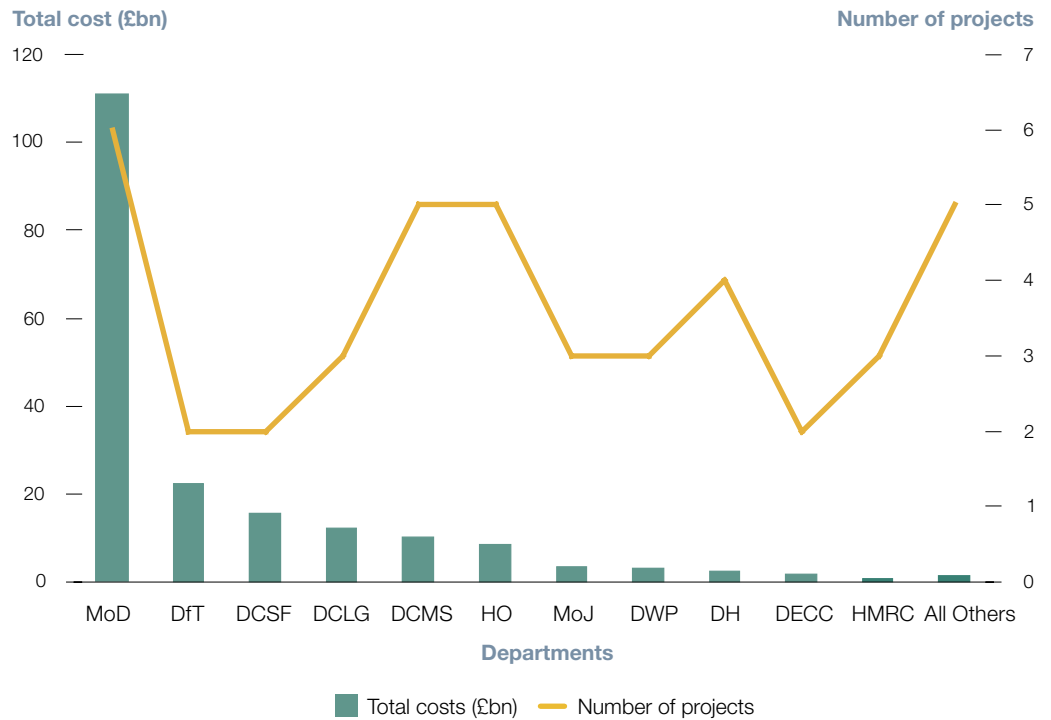
**4** Many parts of Government contribute to the development of commercial skills for complex projects (Figure 2, page 15). Departments and the OGC play the most important roles. In particular:

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

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

**Figure 1**

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



MoD = Ministry of Defence

DfT = Department for Transport

DCSF = Department for Children, Schools and Families

DCLG = Department for Communities and Local Government

DCMS = Department for Culture, Media and Sports

HO = Home Office

MoJ = Ministry of Justice

DWP = Department for Work and Pensions

DH = Department of Health

DECC = Department of Energy and Climate Change

HMRC = HM Revenue &amp; Customs

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

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

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

## Key findings

### Commercial skills gaps

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

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

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

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

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

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

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

### Barriers to developing commercial skills

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

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

### Tackling skills gaps

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

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

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

Other approaches to addressing gaps in commercial skills

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

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

**Value for money conclusion**

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

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

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

## **Recommendations**

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

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

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

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

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

Departments should by the end of July 2010:

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

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

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

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



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

Departments should:

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

The OGC should:

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

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

Departments should:

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

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

The OGC and departments should:

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

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

The OGC should:

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