



National Audit Office

**REVIEW**

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# Industry perspective on the Government ICT Strategy

**Summary of a workshop hosted by Intellect for its IT, telecoms and electronic industry members in July 2011**

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# Contents

<b>Overview</b>	<b>4</b>
Introduction	4
Key messages	4
<b>Breakout session 1</b>	<b>6</b>
Principles and direction of the strategy	6
Practical challenges	7
Behaviour change by suppliers and government	8
<b>Breakout session 2a</b>	<b>10</b>
The current procurement landscape	10
New commercial models	11
On large companies	11
<b>Breakout session 2b</b>	<b>12</b>
On the ICT strategy	12
Issues for SMEs supplying to government	12
Recommendations for improving procurement and increasing SME participation in the market	13

# Overview

## Introduction

1 This paper provides a summary of the views of suppliers on the Government ICT Strategy as expressed at a workshop hosted by Intellect on 25 July 2011. It includes an overview and more detailed responses to questions posed by the National Audit Office from breakout discussions. The workshop included representatives from the NAO and Intellect member companies.

2 Intellect is the trade association for the UK's technology sector which includes the IT, telecoms and electronics industries. Intellect has over 800 member companies ranging from major multinationals to small- and medium-sized enterprises (SMEs) which account for approximately 10 per cent of UK gross domestic product.

## Key messages

- Despite reductions in government spending, the public sector ICT market is still worth around £18 billion per annum. The Government ICT strategy is therefore of real significance to suppliers of all sizes as they seek to identify future investment decisions.
- The Government ICT Strategy is currently at a very high level. Suppliers felt that the next level of detail which is expected to be published in the forthcoming implementation plans would be crucial for allowing them to ascertain how the strategy will align with the market. Broadly speaking, however, the strategy appears to follow the right principles and is in line with the industry's direction of travel.
- Radical change across government is needed to meet the government's policy aims and financial objectives. Suppliers felt that the Efficiency and Reform Group (ERG) will have a substantial impact on central government due to its ability to mandate new ways of working. ERG should also help ensure that central government complies with the tenets of the ICT strategy. However, as many citizens access public services at a local level, the central government focus of the strategy limits its wider impact. Greater value could be found by reforming the end-to-end delivery of services and by re-engineering current processes; although this would be a much greater challenge and would require substantial collaboration across the wider public sector. More needs to be done to ensure that the wider public sector aligns itself with and links to Government ICT Strategy as much as possible.
- The scope of reform implied by the Government ICT Strategy is extensive. The degree of culture change required for a move to new ways of working is a

significant barrier. Suppliers were keen for the overall pace of change to be increased, and suggested a phased implementation to enable civil servants and government bodies to effectively manage the required change. Strong leadership from and clear accountability for those at the helm of delivering the strategy were therefore seen as necessary conditions of success.

- Suppliers of all sizes felt the procurement process needed to be reformed to ensure the benefits of the Government ICT Strategy are achieved. Different approaches to risk, new commercial models, simpler contract terms and conditions and culture change are necessary, especially with a move to a utility services model. SMEs in particular felt that early visibility of upcoming government tenders and opportunities to form partnerships with potential bidders would increase their chances of winning public sector business.
- Suppliers are already beginning to align themselves with the Government ICT Strategy, but noted that their experience was that buying behaviours within government were changing gradually. For the time being, suppliers see the ICT strategy to some extent as a 'wish list' and are having to second guess the government's intentions. Further clarity and prioritisation in the upcoming implementation plans should give companies the ability to develop their investment plans to a much greater extent.

# Breakout session 1

**1.1** This part of the workshop summary contains the combined feedback from three discussion groups, consisting of a mix of large companies and SMEs, on the ICT strategy and challenges of implementation.

## Principles and direction of the strategy

- While the political drivers are different, the Government ICT Strategy shares many similarities with previous strategies. The government's fiscal challenge is clear, and much of the ICT strategy makes sense as a means of cutting costs (for example, consolidating data centres). However, short-term fiscal pressures conflict with the need for long-term reform of end-to-end services and business process re-engineering. While the ICT strategy states that it is focused on outcomes and value for money, it seems to be primarily aimed at reducing costs. Real change requires the overhauling of end-to-end service delivery. ICT should inform the design of new services, but then be just one part of how the government implements wider change.
- The ICT strategy focuses on central government, but citizens access many public services locally. There is often more room for innovation in local government, for example through data mashing and locally-created services, whereas central government can be constrained by higher security requirements and systems architectures. Again, a true end-to-end service delivery model would be valuable, and would require more strategic linkage between central and local government.
- The move to a common infrastructure was considered sensible. Along with mobility and re-use of common process components, this was seen as an area that is generating new innovations. The Public Services Network (PSN) programme was seen as a positive step in this direction, and one that has now developed some traction. PSN has an active steering board which has proven vital to delivering the progress to date, and it was felt that the same level of drive was needed to ensure the success of the cloud and apps store agendas. Suppliers expressed a willingness to help accelerate the pace of change where possible.
- Open standards are extremely important for enabling interoperability and joined-up information. Open source software is also an excellent tool that can be used where appropriate. More broadly, much greater efficiency will be generated if the government can adopt standards and services that are common with those in the private sector – for example security requirements in banks.
- Where government is clear on the standards and architecture that it requires,

industry will invest and propose solutions. Standards-led consolidation of government services should be more effective than physical consolidation of services, as this facilitates much greater flexibility. The Public Services Network was again seen as a good model of how government can set standards that the industry follows. However, care must be taken to ensure that standardisation does not lead to a compliance culture and encourage more 'red tape' and 'box-ticking' behaviour.

- Community engagement and citizen empowerment are clear aims of the Government ICT Strategy. They have long been aims of government and there is some alignment here with the private sector, where it is a competitive advantage to put consumers in as much control as possible regarding their engagement and interaction with services. It was also seen as positive that one of the aims of the government's digital by default agenda was online accessibility for all services, though this was not included per se in the ICT strategy.
- There is some tension between the collective purchasing and SME agendas. Economies of scale have their limits, for example once you fill up one warehouse then you need to build or use another warehouse at additional cost. Value delivered to the end user through agile methodologies may on aggregate be more efficient, though this will lead to further integration challenges.
- Suppliers would be especially keen to work under an incentive scheme, where they could receive a percentage of any savings they generate for government. Government buyers often recoil from the idea of compensating suppliers well, even for achieving demonstrably higher savings for government. Contractual arrangements that include an incentive scheme could generate much greater innovation.
- Ultimately, industry needs clarity and certainty in order to invest. At the moment there is not quite enough detail available to suit suppliers' needs, but the industry remains hopeful that the forthcoming implementation plans and ERG's 'roadmap' event will provide this.

## Practical challenges

- The creation of the ERG was cited as a promising development as it may lead to increased power at the centre and more mandation. However, departments will still make the majority of their own investment decisions. The challenge will be to ensure departments align themselves with the strategy and direction of travel. Additionally, ERG's mandate only extends across Whitehall. Another mechanism to ensure consistency across the wider public sector should be established or there should be a review of the relevant legislation.
- There was a question of how funding arrangements will work. Will industry be expected to stand up solutions or will government look to commission development? What are the plans for allocation of risk?

- Business process re-engineering will result in fewer civil servants being required to deliver certain public services, and indeed the need for efficiency savings makes this necessary. Of course, a reduction in costs should also mean greater resources to invest in front-line services.
- Some standards are so embedded in departments that it will be a challenge to adopt common standards across government.
- The relationship between industry and government needs to be improved. There is currently an 'us and them' dynamic which gets in the way of progress. True partnerships across industry and with government will be key to successfully delivering the ICT strategy.
- While breaking projects into smaller chunks can increase flexibility, this creates a greater integration challenge. This will require support from service integrators as opposed to systems integrators, and it was felt that the challenge for government of moving to such a model was not necessarily reflected in the strategy.
- Lead departments have been selected to own various elements of the ICT strategy. But while Francis Maude is accountable for delivery of the ICT strategy as a whole, who will be accountable if various parts of the strategy fall behind schedule or fail to deliver? Civil servants in the centre or in departments, or politicians? Additionally, little has been published about the work that departments are doing on the various strands – for example SROs have not been publicly stating the initiatives that they own. Internal divisions within government and problems around ownership are likely to hinder progress.
- Ultimately, successful delivery will depend on strong leadership from the centre. David Pitchford and John Collington were identified as examples of senior civil servants who are successfully driving ahead their respective agendas. However, the way in which the public sector is structured and the way in which decisions are made can make it difficult for civil servants to take ownership of cross-government activities.
- Given the extent of the changed behaviours that are required to deliver the Government ICT Strategy new services should be rolled out incrementally to build confidence.

## Behaviour change by suppliers and government

- While government's culture change record is improving, there remain questions about how departments will respond to new pressures, and how much the centre will be able to influence their behaviour over the long-term.
- Departments are currently focused on "pinching pennies" rather than looking at more innovative ways of working that hold the potential for much greater savings.



- The appointment of non-executive directors to departmental boards was seen as a positive move, but it is not yet evident whether they have made any impact.
- Besides Martha Lane Fox, there are few champions of cross-government initiatives. For example, there is no champion for reducing fraud. There are a number of 'mini-champions' in departments doing excellent work on smaller initiatives. However, there needs to be a way of coordinating work across government on the big issues as a means of driving change.
- As government serves the whole population, it often aims to find 100 per cent of the solution before acting. A general principle could be to aim to do 80 per cent of the solution in a standard one-size-fits-all manner and allow departments to do the other 20 per cent by exception.
- In the past government has tended to prefer large outsourced arrangements, with large companies managing supplier ecosystems. A different skill set would be required to manage a range of suppliers and services as per the government's current plans. Suppliers questioned whether the appropriate skills were available across government to consistently move to new delivery models, particularly given the skills lost due to government cuts.
- A Pay-As-You-Go model would be much more attractive to suppliers if other users were allowed to take advantage of government facilities or services during down times. This would lower the end cost to the government of the services they use and stimulate the market to innovate.
- Suppliers are keen to see that reality matches political rhetoric in terms of buying behaviour on the ground. Consolidation of consultancy frameworks and a couple of large, new framework agreements were seen as examples of where there is a tension between cutting costs and giving SME's access to public sector business. Some SMEs felt that they had seen fewer business opportunities over the last year or so.
- Large companies and government bodies are talking directly to SMEs more. Systems Integrators in particular are starting to bring more SMEs in as knowledge partners. In addition, SMEs are changing their behaviours; exploring more consortia arrangements and taking on new hires to build relationships with potential supplier partners and government.

## Breakout session 2a

**2.1** This part of the workshop summary contains combined feedback on commercial issues from two groups consisting of representatives of large companies.

### The current procurement landscape

- Little appears to have changed over the last 20 years in terms of government's buying practices, although recently there seem to have been fewer legal challenges. However, market conditions are getting tougher and some companies are becoming reluctant to invest.
- Government is still rushing to contract without looking carefully at its existing assets and there is little or no evidence of the re-use of existing services. It would be useful, for instance, to have a register of the spare licences that departments have since they could potentially be used by other departments.
- The ERG's work on centralising commodity spend was seen as positive, though with ICT the government needs to have a better understanding of what is on offer and the nuances of what it is buying.
- The Major Projects Authority was seen as a force for good, especially where it can advise at early stages before projects go off track. The key to ensuring projects are successful is to get them right at the outset.
- Overall, EU procurement rules do not act as a major barrier to effective procurement. It is the way in which the regulations are perceived and then implemented which acts as the major obstacle.
- Standardised pre-qualification questionnaires (PQQs) are a useful step. A PQQ portal that included questions on suppliers' capabilities to use various technologies would be even better.
- Procurement officials often do not understand the technology (open source in particular) or services they are purchasing and focus is purely on cost. Suppliers would like to interact more with business change professionals in departments but are currently kept at arm's length. A more consultative approach to procuring is necessary with industry engagement at the earliest stage in the pre-procurement phase, for example through Intellect's Concept Viability service.
- A cross-government asset register (currently being developed) and a repository of data on the various contracts that government holds and when they are due to expire would be useful.
- Onerous contract terms and conditions can make it much more difficult for

companies (and in particular SMEs) to do business with government. The old range of Central Computer and Telecommunications Agency(1970s to 2000) contracts was seen as a good model.

- Even where government effectively looks to outsource risk, departments must take clear ownership of business transformation.

## New commercial models

- Government is keen for agile methodologies, although there are no examples of new procurements that will allow for this. Traditional contracting behaviours are still present and new contracting models are not being used.
- Risk requirements by government, such as unlimited liability or authority termination for convenience, do not lead to value for money as suppliers have to price this in to their bids. More investment could be made by government in proof of concept pilots; testing ideas as opposed to insuring against their potential failure. A fundamentally different approach to risk is needed, especially to further the SME agenda.
- The new service integrator model requires a complex risk-sharing model between government and suppliers. In a 'vendor marketplace', where government is knitting together services the flow of risk becomes much less clear. The BBC's digital media service is a good example of how this can be done in practice, as it manages 47 separate suppliers. While this process is difficult to manage it would be more attractive to smaller companies.
- A utility services model requires suppliers to bear the cost and risk of development. The industry is happy to do this, but the government has to be prepared to buy 'black boxes' as a result. If government bodies insist on unique, bespoke requirements, it would not be feasible for industry to accept the costs of development and this would mean that the government was effectively reverting to the previous model.

## On large companies

- It was questioned whether there was really an oligopoly of suppliers, as the government has recently been renegotiating contracts with its 35 top suppliers.
- Large companies will still be needed to deliver wholesale change programme. For example, the Department of Work and Pension's Universal Credit programme and large companies already work with significant numbers of SMEs within their supply chains.

## Breakout session 2b

**2.2** This part of the workshop summary contains combined feedback on commercial issues from two groups of representatives from SMEs.

### On the ICT strategy

- The Government ICT Strategy is currently at a high level and as such it remains difficult for SMEs to see where business opportunities from the strategy will come from.
- There is a real danger that the strategy could be left behind by market forces before it is implemented. The strategy needs to outline the citizen service of the future and which both government and suppliers we will work towards over the next three to five years. SMEs can then determine which opportunities they want to position themselves for.
- Certain aspects of the ICT strategy cause problems for SMEs, for example standardisation, common infrastructure and legal aspects that are implicit with doing business with government.
- Some government buyers will be less than keen to engage directly with SMEs to deliver the ICT strategy, preferring for them to work solely as subcontractors. If the government's aim is for more contracts to go directly to SMEs, a change of mind set is needed across the civil service.

### Issues for SMEs supplying to government

- There was a question on the aspiration for government to place 25 per cent of contracts with SMEs. There are no clear statistics on the current state of play, so taking into account sub-contracting arrangements SMEs could already have more than 30 per cent of government business. Will the 25 per cent aspiration potentially mean less business for SMEs?
- There is now an increased appetite from government and larger companies to work with SMEs. However, there are thousands of companies out there and government cannot effectively engage with them all, as demonstrated by the Cabinet Office Innovation Launch Pad initiative. While the desire to engage is genuine, in practice it is difficult to learn about all the different types of SMEs and their capabilities.
- Onerous contract terms and conditions make it difficult for SMEs to do business with government. Large companies have entire teams looking at contract terms; this is hard for an SME to compete with. The Office of Government Commerce's Strategic Supply Board Tiger Teams which were supported by Intellect and the

wider industry worked collaboratively on simplifying contracts; government should review this work. More broadly, the perception of risk in the public sector needs to change for SMEs to gain more business.

- Framework agreements were seen as both positive and negative. They allow SMEs to place direct contracts with government, but they have also locked SMEs out of the market for extended periods.
- The moratorium on central government spending was a problem for SMEs that cannot survive without regular cash-flow. Large companies should also ensure they pay their sub-contractors within 30 days.
- Online platforms could be a way of moving beyond the systems integration approach. System Integrators do create an ecosystem and bring SMEs together in various ways, but it was felt that an online platform could enable this to happen naturally.
- SMEs may enter the market via single tenders below the Official Journal of the European Union (OJEU) procurement threshold. But as the value of the contract increases over time, companies can find themselves involved in a tender for something they are already delivering. Success is therefore effectively punished. The government apps store initiative is likely to face similar issues.
- Government has traditionally looked to transfer risk to the industry, which is very difficult for small companies to bear.
- Government procurers often do not understand their business requirements well enough to appreciate the value of new technologies but are focused on following the rules. Commercial skills need to be improved in departments so that they are able to assess the true value SMEs can bring.

## Recommendations for improving procurement and increasing SME participation in the market

- a. Raise the OJEU thresholds.
- b. Allow SMEs to engage directly with government buyers as much as possible, rather than just through large companies.
- c. Provide forums for SMEs to view opportunities and form partnerships. The Ministry of Defence, for example, publishes its projects on the Intellect supported Information Superiority website. Concept Viability is another good mechanism for involving SMEs, giving smaller companies early insight into upcoming procurements and allowing them to decide whether to invest in bidding. It would also be helpful if registered lists of those interested in bidding could be compiled so that supplier ecosystems can be built at a very early stage.
- d. Set pre-approved contract terms and conditions.

#### 14 **Breakout session 2b** Industry perspective on the Government ICT Strategy

- e. Ensure senior responsible owners and end users are involved in procurement teams.
- f. Provide clarity on open source technologies and where they can be used.
- g. The Technology Strategy Board has a good electronic process for giving out funding. This type of system could potentially be used for procurement.
- h. Publish relevant standards, such as the National Policing Improvement Agency's Policing Activity Glossary.