



National Audit Office

REPORT BY THE  
COMPTROLLER AND  
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Cabinet Office

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# Improving government procurement

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## Key facts

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**£45bn**

central government  
procurement expenditure  
2011-12

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**£3bn**

estimated spending  
through central contracts  
in 2011-12

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**£426m**

estimated savings from  
reductions in price  
due to centralised  
procurement in 2011-12

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**£5 billion**

2011-12 Cabinet Office target for central government  
spending through central contracts

**25 per cent**

government aspiration for expenditure with Small and Medium-sized  
Enterprises by 2015

**10 per cent**

direct central government expenditure with Small and Medium-sized  
Enterprises 2011-12

# Summary

## Background and scope

**1** Central government, excluding the National Health Service, spent around £45 billion buying goods and services from third parties in 2011-12. This has fallen from £54 billion in 2009-10, adjusting for inflation. The goods and services range from items common across departments, such as energy, office supplies, and travel, through to specialist areas such as defence equipment and welfare to work services.

**2** Since 2010, the government has made a number of changes to the governance structures around procurement, and has developed a procurement reform strategy, led by the Cabinet Office and to be implemented in collaboration with government departments. The fundamental aim was to improve the management of total procurement spending across central government by delivering a centralised procurement service through a newly-created body, the Government Procurement Service (GPS). This sought to achieve savings on the £13.18 billion spent on common goods and services in 2009-10 (some £13.88 billion at 2011-12 prices), in terms of price savings, reduced resource requirements and falling demand. The strategy also sought to fund improvements in procurement capability, and to support the wider growth agenda. This includes an aspiration for 25 per cent of central government expenditure (direct and in the supply chain) to go to Small and Medium-sized Enterprises (SMEs) by 2015.

**3** This report will provide an overview of the procurement reform strategy, reviewing the governance and accountability arrangements in place, and examining progress in its implementation. We recently reported separately on the impact of reform initiatives specific to ICT procurement.<sup>1</sup>

<sup>1</sup> Comptroller and Auditor General, *The impact of government's ICT savings initiatives*, Session 2012-13, HC 887, National Audit Office, January 2013.

## Key findings

### Strengths of the procurement reform strategy

#### **4 Government has previously taken steps to centralise procurement.**

The Collaborative Procurement Programme, set up in 2007, led to some improvements in the purchase of goods and services. However, as we reported in our 2010 study, *A review of collaborative procurement across the public sector*,<sup>2</sup> there were a large number of central framework contracts with overlap in what they provided, there was little standardisation of specifications, and organisations were not aggregating volumes to get the best prices. In addition, there was no mandate requiring departments to sign up to central contracts (paragraph 1.6).

#### **5 The current procurement strategy is the most coherent approach to reform to date.**

The creation of a Chief Procurement Officer and associated positions has formed clearer lines of responsibility at the centre, and there is now a mandate for departments to use central contracts. The Government Procurement Service has improved capability and functionality as the delivery body for centralised procurement, having undergone positive changes from its legacy organisation, Buying Solutions (paragraphs 1.10 to 1.13 and 1.17).

#### **6 There will be significant benefits to government if this approach is implemented successfully.**

The strategy outlines potential savings for government through better-negotiated central deals, aggregation of demand and standardisation of requirements. Centralisation should also enable procurement resource savings in departments. A wide range of methods were used to estimate data for the baseline year, which makes it difficult to have certainty over the accuracy of valuation; as such, some departments are unable to recognise the amount GPS estimates to have saved them. Overall, however, we have confidence in GPS's reported £426 million savings for central government in 2011-12 through reduced prices (paragraphs 2.22 to 2.27).

#### **7 The reform strategy has also encouraged activity in departments and in the Cabinet Office to increase SME participation in government business.**

The government aspiration to achieve 25 per cent of spending with SMEs by 2015 has opened up opportunities; the proportion of expenditure with SMEs has increased from 6.8 per cent in 2010-11 to 10 per cent in 2011-12. However, the poor quality data on SMEs means that these figures are difficult to verify (paragraphs 2.39 to 2.42).

<sup>2</sup> National Audit Office and Audit Commission, *A review of collaborative procurement across the public sector*, May 2010.

## Limitations of the procurement reform strategy

**8 Government is not maximising the potential for savings through centralised procurement.** Government succeeded in increasing common expenditure through central contracts from £2.6 billion in 2009-10 to £3 billion in 2011-12. Recent GPS forecasts estimate that centrally managed expenditure will total £5.3 billion in 2012-13. However, expenditure on common goods and services in 2011-12 was forecast at £7.5 billion,<sup>3</sup> indicating that there is more work to do to close this gap (paragraphs 2.4 to 2.5).

**9 The Cabinet Office set departmental targets for spending through central contracts in March 2011 without sufficient analysis or consultation.** The Cabinet Office did not analyse the profile of departments procurement expenditure to understand issues such as when existing contracts would be coming to an end, specific operational risks, or the actual proportion of expenditure which could be addressed by the central contracts. It did not consult with departments to ensure that the targets were realistic, and to agree a plan to transition spending to the central contracts. The Cabinet Office considers that this was also in part due to the quality of data provided by departments. However, more recently, GPS has been working with departments to analyse expenditure profiles and develop more accurate forecasts (paragraphs 1.28 to 1.31).

**10 There are some operational issues with GPS's management of the central contracts.** Departments have raised concerns about the inconsistency of contract management across the categories of common goods, and the quality of customer service. Roles and responsibilities for day-to-day contract management are unclear. While departments need to make compromises and adapt to a more standardised approach, there are cases where the central contracts do not meet departments' operational needs, in part due to a lack of consultation when developing the specifications. This has sometimes required a different solution outside the contract, further negotiation with the supplier, and time spent dealing with queries from the business (paragraphs 2.12 to 2.20).

**11 Weaknesses in implementation mean that the centralised approach is not releasing procurement resources in departments as originally expected.** Although overall staff numbers have reduced as a result of wider cost reduction activities, departments have not been able to free up procurement resources to focus on more strategic procurements, as planned. Furthermore, neither the Cabinet Office nor departments have a detailed operating model of what mix of skills are needed following the reforms (paragraphs 2.27 and 2.32).

<sup>3</sup> Some caution should be attached to this figure as this forecast was based on department returns to the Cabinet Office. The intended scope of returns is spend on the categories of common goods and services as set out by the Cabinet Office. However, the application of this definition may vary by department.

**12 There are inadequate mechanisms by which departments and the centre of government can hold each other to account.** Current mechanisms do not address the inherent tension between the mandate for government departments to use central contracts, and departmental accountability for expenditure and operational risk. The mandate is not enforced, and there are no sanctions in place if departments do not comply. The Cabinet Office does not hold departments to account for transferring expenditure to the central contracts, and for reducing their own procurement resources. As service users, departments are largely unable to hold the Government Procurement Service to account for performance. Governance structures have grown organically, resulting in duplication between groups and boards, and their purpose and remit are unclear (paragraphs 1.15 and 2.21).

**13 This is exacerbated by gaps and inconsistencies which remain in data management systems at the centre of government.** The Cabinet Office has improved data management systems, and now has a firmer grip of procurement expenditure. However, there are still limitations. The way departments report data to the centre is inconsistent, particularly in the inclusion of arm's-length bodies. Departments report variations between their own data and data collected by GPS from suppliers. Where this is the case, GPS is working with all parties to address the variation. Departments also consider that the requirements for reporting data have created additional work, but this should largely be an up-front investment to establish effective systems, and we expect this to fall over time (paragraphs 1.20 to 1.26).

### **Conclusion on value for money**

**14** The procurement reforms are a major change programme and will require the Cabinet Office to lead a significant cultural shift across government. There is now a mandate for departments to comply with the centralised approach, but this is not enforced in practice, with no sanctions for non-compliance. Either the Cabinet Office will need to create more potent levers, or it will have to win 'hearts and minds', and demonstrate that it has the capability and capacity to deliver a high-quality central procurement function. There are signs of good progress in the key areas of reform: expenditure on common goods and services is more centralised; SME participation has increased, and the Government Procurement Service is an improvement on its predecessor. However, there have been problems in implementing the reforms: ineffective governance structures, unrealistic targets, incomplete data, and weaknesses in the management of the central contracts.

**15** The Cabinet Office and the Government Procurement Service need to make rapid progress in addressing these issues. However, the success of the reforms cannot depend on whether departments choose to cooperate. Departments must commit as much expenditure to the central contracts as possible and GPS must be held accountable for its performance, for the reforms to deliver long-term value for money for government as a whole.

## Recommendations

**16 Departments are outsourcing part of their procurement function to GPS. Under this model, there needs to be defined roles and strong accountability on both sides.** It is essential that service providers and their customers have a clear contractual understanding of the expectations on each side, and that they are held to account for this. From GPS, there needs to be assurance that the contracts provide good value for money and an acceptable level of service, and redress for departments if this is not the case. Departments need to be clear where it is acceptable to undertake their own procurement, and where the mandate is not flexible. Where the latter is the case, there should be strong mechanisms whereby they are required to comply or provide a robust explanation, and there should be a requirement to remove resources where the service is provided by GPS.

For the Cabinet Office

- a The Cabinet Office should strengthen mutual accountability within this model of centralised procurement.** Areas for consideration to enhance departmental accountability may include more formal reporting lines to the Chief Procurement Officer, sanctions for non-compliance, or holding departmental budgets for common goods and services at the centre. To improve the centre's accountability to departments, the Cabinet Office should simplify governance structures, and clarify how it will deal with performance issues.
- b The Cabinet Office should be more sophisticated in setting procurement targets.** It should work closely with departments to review the current targets, to ensure that they are appropriate and challenging, and should focus its efforts on where there are greatest potential gains. For example, given that it is the largest spender, the Ministry of Defence is of strategic importance to the success of the reform strategy.
- c The Cabinet Office should strengthen the quality and consistency of the data it collects, to improve its oversight of procurement expenditure, and to ensure the data is useful to departments.** The Cabinet Office and GPS have improved the quality of procurement data across government. However, the current system has limitations, and departments report inconsistencies between their own data and data reported by GPS. GPS should continue to work with all parties to address the variation.

### For the Government Procurement Service

- d GPS should provide robust evidence to departments, to give ongoing assurance that the central contracts provide value for money.** Departments consider that GPS is not always clearly demonstrating the benefits of signing up to central contracts. GPS should improve its price benchmarking data and market intelligence, and regularly communicate this to departments.
- e GPS should be accountable to departments for underperformance, and should address a number of weaknesses in its management of the central contracts.** GPS should put in place a formal, detailed agreement with departments and suppliers to define the roles and responsibilities for managing central contracts, and to agree clear expectations for service quality. GPS should also ensure that there are appropriate forums where departments can provide input into the development of contract specifications, continue to build capability in its Customer Relationship Management function, and improve the consistency of service across all categories.

### For departments

- f Departments should comply with the central mandate to sign-up to central contracts.** Some departments continue to resist signing up to central contracts, as they are not convinced that they provide a better deal than their existing arrangements. While GPS could do more to communicate the benefits of the central contracts, the centralised approach to buying common goods and services is a cross-government policy, agreed and mandated at ministerial level.
- g Departments should remodel their procurement functions to adapt to a centralised model.** Departments need to respond to the reforms by making strategic decisions about how their own procurement functions will operate.
- h Departments should improve the quality of their procurement data, and should work with the Cabinet Office and GPS to ensure consistency.** Departments should ensure that they provide details of their own particular circumstances, such as expenditure profiles and existing contractual agreements, to the centre of government. This will help to ensure that proper comparisons can be made across government and effective and realistic targets can be set.