



National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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Cabinet Office

Improving government procurement

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National Audit Office

Cabinet Office

Improving government procurement

Report by the Comptroller and Auditor General

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Amyas Morse
Comptroller and Auditor General
National Audit Office

25 February 2013

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.

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This report can be found on the National Audit Office website at www.nao.org.uk/government-procurement-2013

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Key facts

£45bn

central government
procurement expenditure
2011-12

£3bn

estimated spending
through central contracts
in 2011-12

£426m

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

£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.¹

¹ 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*,² 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).

2 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,³ 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).

³ 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.

Part One

The reform strategy and its governance

1.1 In this part we set out the scale of procurement across central government departments, review the Cabinet Office's strategy to reform procurement, and examine the governance structures in place to coordinate activities. We also consider the effectiveness of management information and target-setting in supporting the strategy.

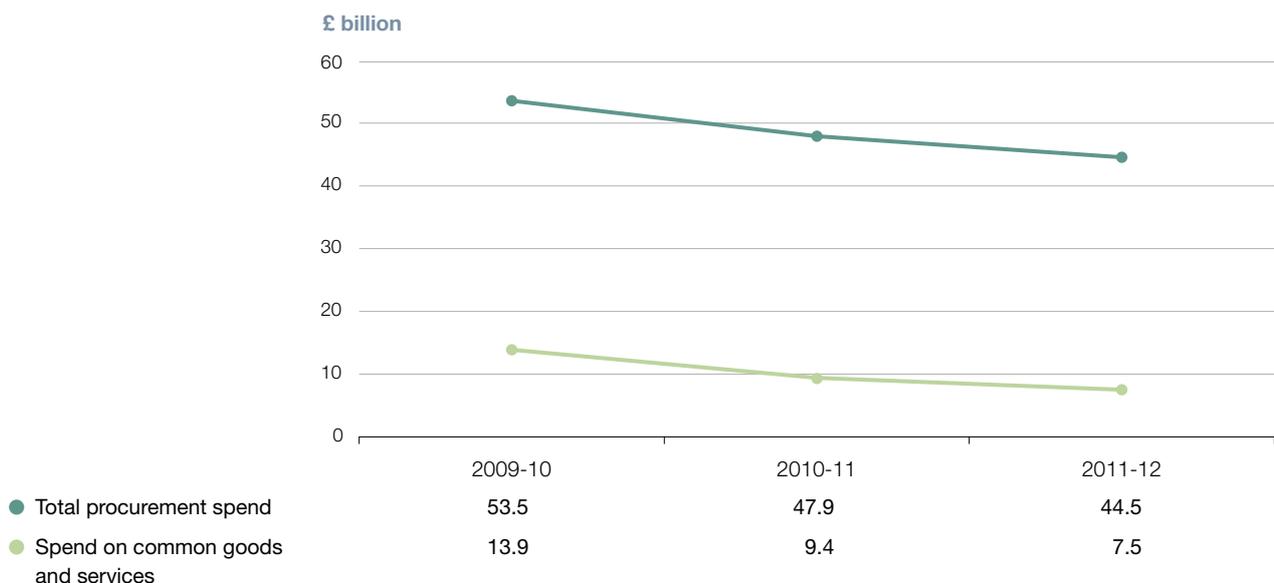
The procurement landscape

1.2 The scope of this report is procurement expenditure in central government. This has fallen to an estimated £45 billion in 2011-12 from £54 billion in 2009-10 (**Figure 1**).

Figure 1

Central government procurement expenditure (£ billion)

Total procurement expenditure in central government has fallen



NOTES

- 1 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.
- 2 Expenditure is expressed in 2011-12 prices.

Source: Departmental data collected by the Cabinet Office. See Appendix Three for full details of coverage

1.3 Government procurement spending can largely be grouped as:

- **Common procurement** – goods and services that are purchased by all or most departments. These are divided into ten categories, such as office solutions, energy and travel.
- **Strategic procurement** – areas of expenditure that are unique to that Department's operations, such as military hardware for the Ministry of Defence or transport infrastructure for the Department for Transport.
- **Non-strategic procurement** – areas of expenditure common to a limited number of departments, such as administrative IT systems.

1.4 Expenditure on common goods and services in central government was forecast to be around £7.5 billion in 2011-12,⁴ or one sixth, of the £45 billion total procurement expenditure during the same year.

1.5 Total procurement expenditure in central government is dominated by the larger departments (**Figure 2**). The Ministry of Defence alone spent £20.1 billion in 2011-12, 45 per cent of central government procurement expenditure, much of which is high value, highly specialised defence procurement.

The procurement reform strategy

1.6 Government has previously taken steps to develop a more collaborative approach to government procurement. As we reported in our 2010 Review of collaborative procurement in the public sector,⁵ the Office of Government Commerce's Collaborative Procurement Programme, set up in 2007, led to some improvements in the purchase of goods and services. However, there was still potential for government to maximise its significant buying power by rationalising the number of framework agreements, further aggregating volumes, and standardising product specifications.

1.7 In March 2011, the Ministerial Public Expenditure Committee approved the procurement reform strategy, which set out plans to make savings on the estimated £13.18 billion spent on common goods and services in central government in 2009-10 (some £13.88 billion at 2011-12 prices). The three main benefits to departments would be:

- savings from better negotiated commercial arrangements through aggregating and standardising departments' requirements;
- resource savings by decreasing the need for staff in departments to manage the agreed centralised categories; and
- reinvesting surplus funds back into departments to invest in training their procurement staff in more efficient 'Lean' processes, a set of principles which seek to minimise wasteful practices.⁶

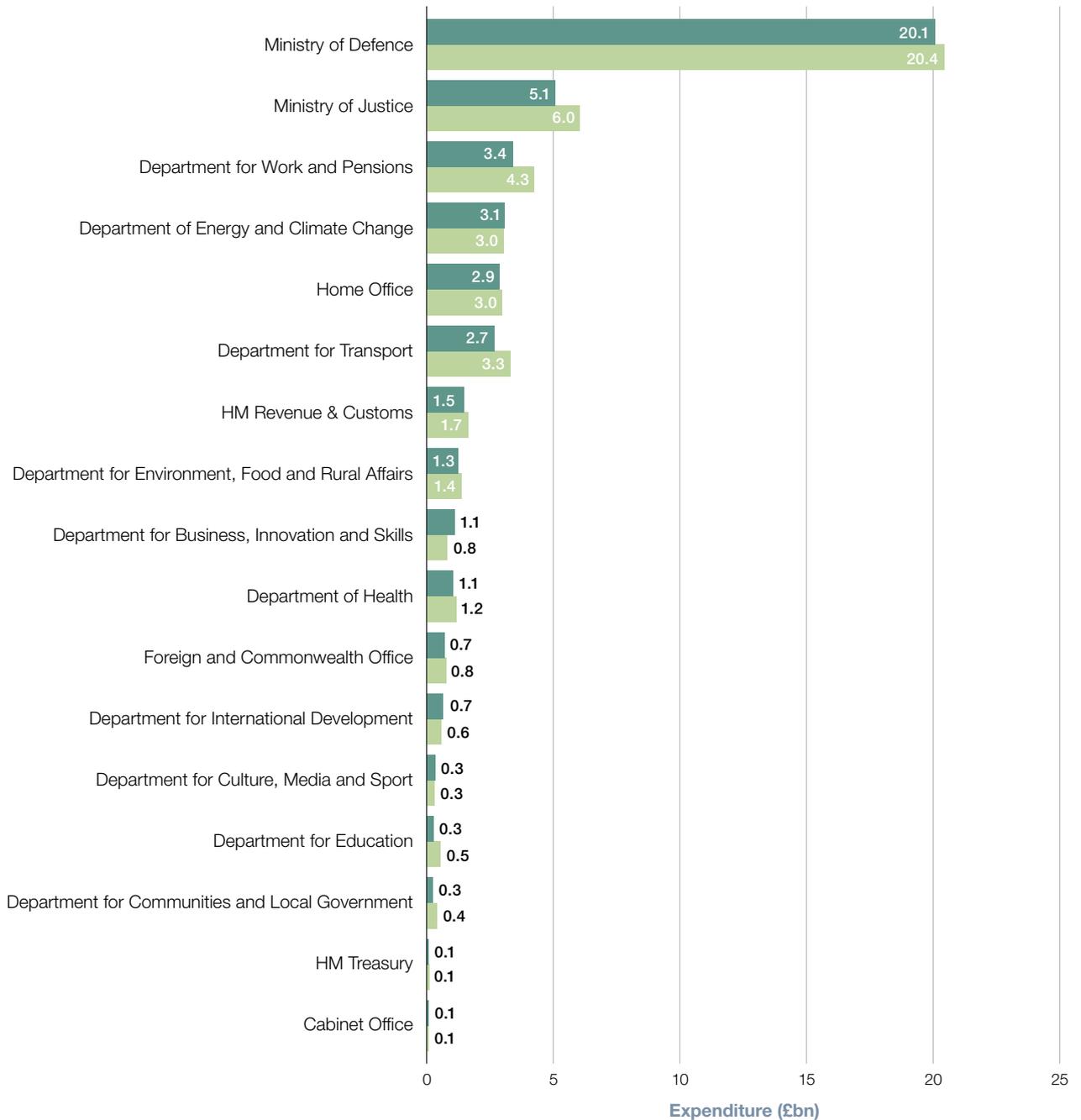
4 Some caution should be attached to this figure as this forecast was based on department returns to the Cabinet Office. The intended scope of returns is spend on the categories of common goods and services as set out by the Cabinet Office. However, the application of this definition may vary by department.

5 National Audit Office and Audit Commission, *A review of collaborative procurement*, May 2010.

6 Ministerial Committee on Public Expenditure: Subcommittee on Efficiency and Reform, *Delivering centralised procurement: Government procurement services and the role of a transformed Buying Solutions*, March 2011.

Figure 2
Total procurement spending by departments in £ billions

Procurement expenditure is dominated by the Ministry of Defence



■ Total procurement expenditure 2011-12 ■ Total procurement expenditure 2010-11

NOTE

1 Expenditure is expressed in 2011-12 prices.

Source: Departmental data collected by the Cabinet Office. See Appendix Three for full details of coverage

1.8 The strategy set out plans for departments to channel expenditure through central contracts managed by a new body, the Government Procurement Service (GPS). GPS was created from the former Buying Solutions organisation within the Office of Government Commerce; it is an executive agency of the Cabinet Office with trading fund status. Its operations are funded by a levy on expenditure from suppliers of no more than 0.5 per cent. The strategy emphasises that the benefits outlined in paragraph 1.7 would only happen if government departments committed all of their expenditure on common categories to the central contracts. As such, the Cabinet Office secured a mandate by which departments are obliged to direct spend on common goods and services through central contracts.

1.9 The government also laid out a wider agenda for procurement in its December 2011 update to the procurement reform strategy. This included streamlining processes and improving the capability of the government procurement function. It also set out a government aspiration for 25 per cent of central government procurement to be through Small and Medium-sized Enterprises (SMEs) by 2015.

1.10 The current strategy is the most convincing set of reforms to date in the move towards more coordinated procurement across government. We are supportive of its aims, which address many of the recommendations of our 2010 report on collaborative procurement⁷ as well as those of the Green review⁸ of the same year. However, it is a major programme of change for central government, with considerable shifts in behaviour required within departments to ensure it meets its objectives. Its success will depend on full participation among central government bodies, and it is important that the Cabinet Office has in place appropriate governance structures to enable this shift in behaviours.

Procurement structures across government

Cabinet Office

1.11 The Cabinet Office established the Chief Procurement Officer (CPO) role to have responsibility for procurement policy across central government and to oversee GPS. More recently, the Cabinet Office has expanded the CPO role to include responsibility for the Crown Commercial Representatives.⁹

1.12 Changes made by the Cabinet Office over the last two years have given it clearer responsibility, with ministerial accountability, for procurement across government, and there is clear oversight through the CPO. Previously, the procurement function, which deals with letting contracts and buying goods and services, and the commercial function, which is concerned with supplier management and market intelligence, were separate parts of the Cabinet Office. Bringing the two together gives government the potential to operate more effectively as a single customer, leveraging buying power and managing the performance of suppliers.

⁷ National Audit Office and Audit Commission, *A review of collaborative procurement*, May 2010.

⁸ Sir Philip Green, *Efficiency Review*, October 2010, available at www.niepbuiltenvironment.org.uk/documents/EfficiencyReviewbySirPhilipGreen.pdf.

⁹ The nine Crown Commercial Representatives are senior individuals who are responsible for leading the relationship with government's strategic suppliers.

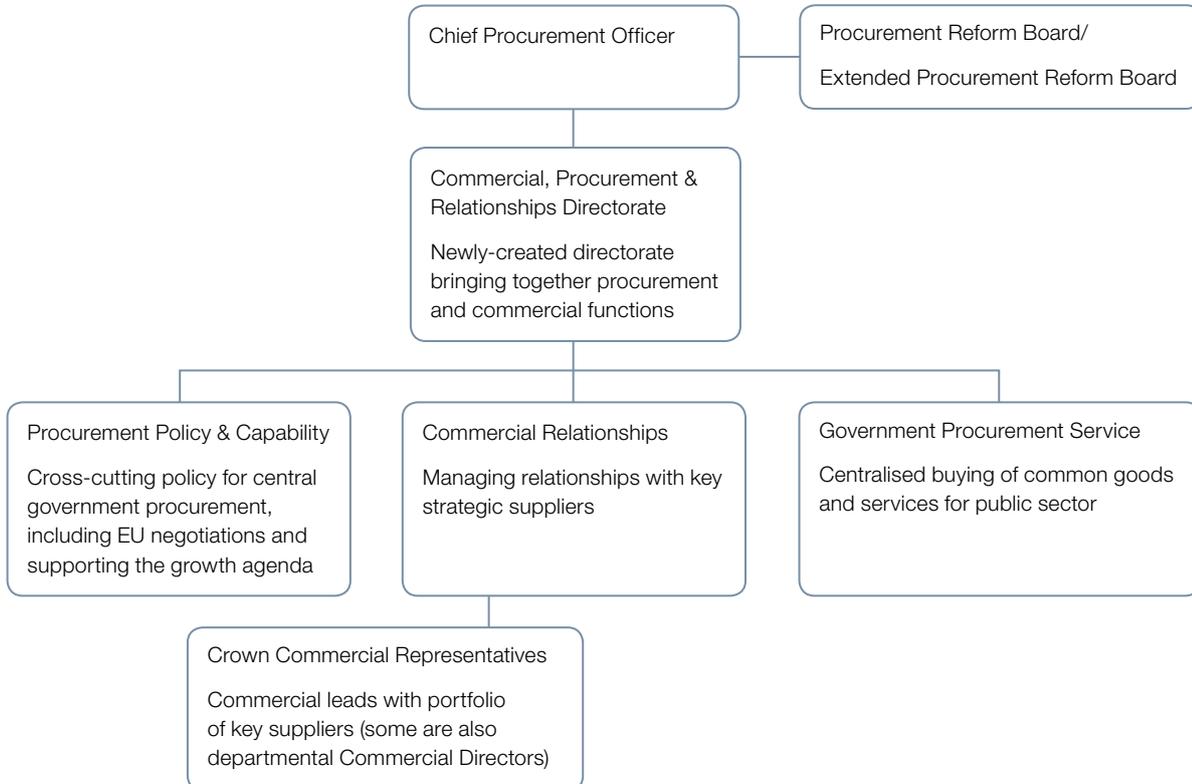
1.13 Departments do not report directly to the CPO, but link to the centre through the Procurement Reform Board (PRB), which is chaired by the CPO (**Figure 3**). The PRB includes commercial or procurement directors from the six departments with the largest procurement expenditure,¹⁰ with the remainder of departments represented at the Extended Procurement Reform Board (EPRB). The Procurement Reform Boards' intended role is to agree actions and review progress against the strategic goals of the reform strategy.

1.14 The Cabinet Office also established a range of other boards and working groups to help implement the reform agenda across departments. These include groups which are intended to discuss and agree areas of policy, such as the Capability Sub Group and the e-enablement Strategy Advice Board. The cross-government Procurement Policy Working Group was established in 2011 to provide input to emerging policy, and assistance with feedback on practical implementation. There are also eight category boards, run by GPS, which are intended as forums to discuss delivery issues specific to those common goods and services.

Figure 3

The Cabinet Office: Government procurement

The Cabinet Office has restructured responsibility for procurement at the centre



Source: The Cabinet Office and the National Audit Office

¹⁰ Ministry of Defence, Department for Work and Pensions, Ministry of Justice, Home Office, HM Revenue & Customs, Department for Transport; these account for 80 per cent of central government procurement.

1.15 These governance structures were designed to perform important functions, but developed organically since 2010 and without any overarching plan. As such, it was not clear that the arrangements in place were optimal for delivering the reforms. Most notably, PRB and EPRB should also have been forums where departments were held to account for channelling expenditure through central contracts, and where departments held the Cabinet Office and the Government Procurement Service to account for the provision of that service. However, this did not happen in practice, and there were no sanctions in place on either side where expectations were not being met. Furthermore:

- there is some degree of overlap between the boards and groups, so some may now be unnecessary;
- these structures should be the mechanism by which the Cabinet Office discusses policy with departments, so that an understanding is gained of their implications 'on the ground' before implementing. Departments do not consider that this is currently the case;
- departments do not consider that these structures, particularly the Procurement Reform Boards, are fulfilling their remit as forums where the actions of the reform agenda are agreed; and
- despite the number of forums, departments consider that communicating policy developments has not always been timely or coherent.

1.16 The Chief Procurement Officer is in the process of restructuring and realigning all procurement and commercial related governance boards following the integration of these two functions within the Cabinet Office.

The Government Procurement Service

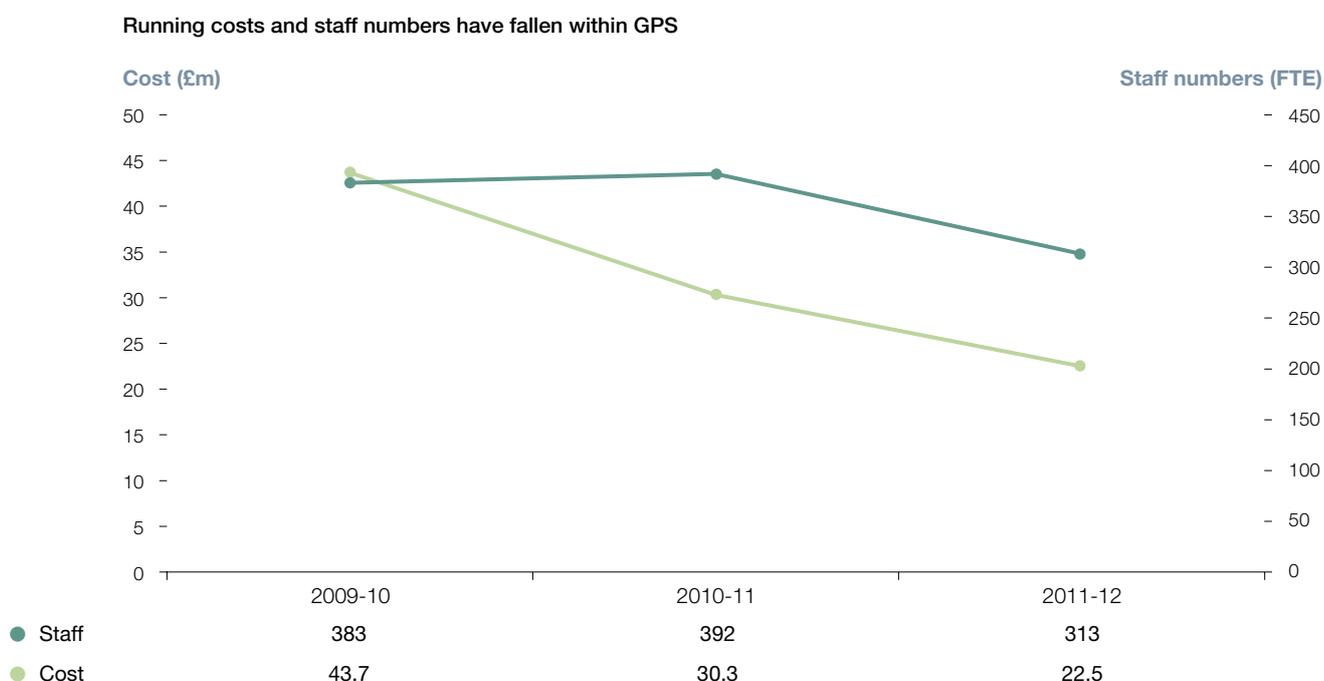
1.17 The establishment of GPS from Buying Solutions is an advance in government's ability to deliver a centralised procurement strategy. Departments report better engagement and enhanced capacity in the new organisation; feedback also echoed by the suppliers interviewed. Furthermore, unlike previous arrangements, there is a mandate for departments to sign up to the central contracts. The improvements reported by departments have been achieved against a backdrop of a fall in running costs of the organisation, from £43.7 million in 2009-10 to £22.5 million in 2011-12 (**Figure 4**).¹¹ This has been partly driven by staff costs, with overall numbers falling from 383 to 313 full-time equivalents (FTE) in this time.

1.18 However, the concerns raised by departments and suppliers about the management of central contracts and customer service (paragraphs 2.12 to 2.20) indicate that gaps remain in GPS's capability. GPS is taking steps to upgrade its operational capability. For example, it has recently taken over the Home Office's Procurement Centre of Excellence in Newport. This has enabled GPS, through the Centre of Excellence, to undertake smaller consultancy procurements on behalf of departments, up to a threshold of £2 million.

¹¹ Expenditure is expressed in 2011-12 prices.

Figure 4

Cost and staff reductions in GPS

**NOTES**

- 1 Expenditure is expressed in 2011-12 prices.
- 2 GPS running costs taken from page 11 of GPS Annual Report and Accounts 2011-12, and comprise total operating costs excluding restructuring (redundancy costs), the Procurement Investment Fund, and Whitehall depreciation.

Source: Government Procurement Service

Monitoring progress of the reform strategy

1.19 In order to monitor the progress of the reforms, government needs good quality management information and effective targets.

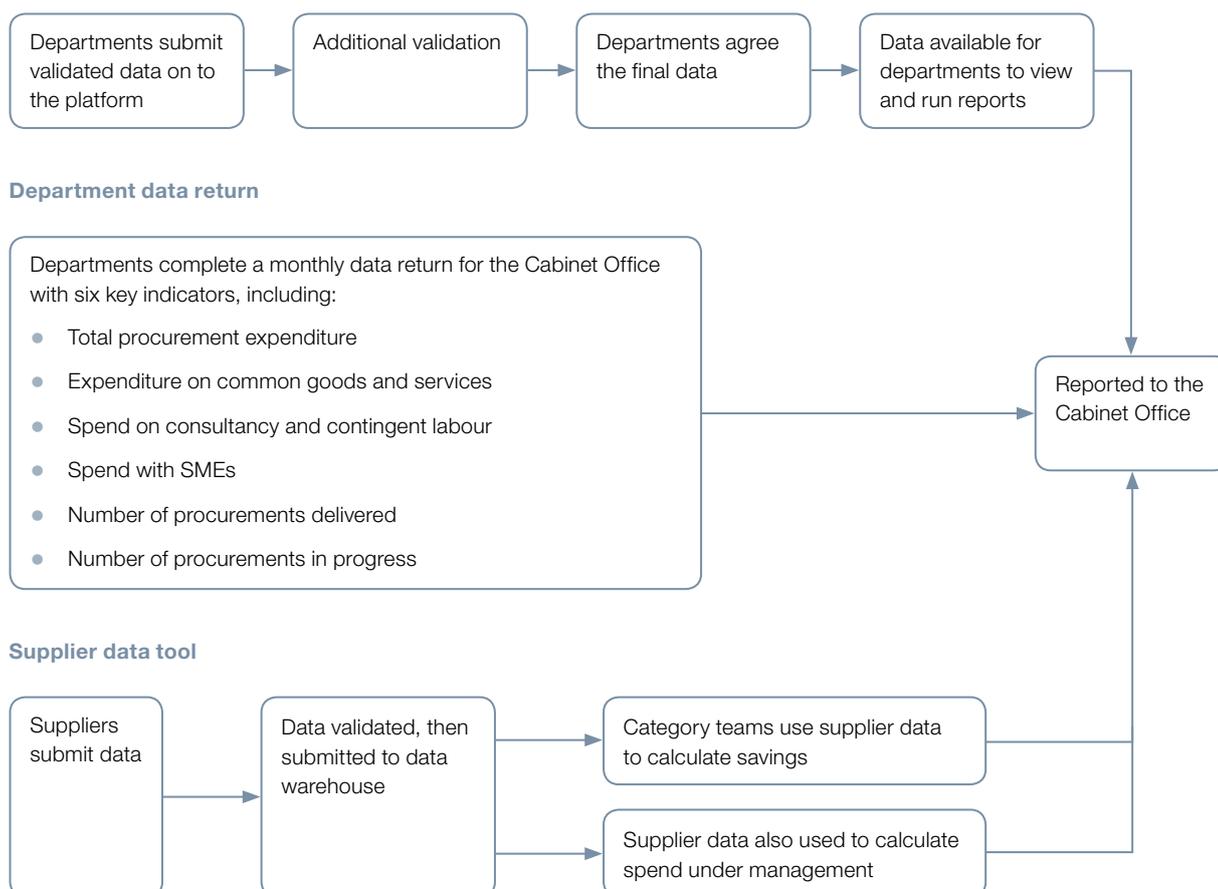
Management information

1.20 The Cabinet Office recognised that there were major deficiencies in this area when drawing together the reform strategy. Expenditure data was inconsistent, hard to verify and needed to be improved through the creation of a single government procurement data warehouse. The Cabinet Office and GPS now receive data through a number of sources, including a departmental spend analysis tool, a monthly data return, and a supplier data tool (**Figure 5** overleaf).

Figure 5

Data management systems

GPS has implemented data collection tools for departments and suppliers

Departments' spend analysis tool

Source: National Audit Office and the Government Procurement Service

1.21 In terms of departmental data, GPS has introduced a spend analysis tool that draws data monthly from departments' financial systems to build a central picture of procurement expenditure across government. These improvements in data management systems give the clearest picture yet of procurement patterns across government. However, there are limitations; most notably, it currently only covers around 80 per cent of central government expenditure because many smaller arm's-length bodies are not providing their data. There are also issues with cleansing data and identifying individual suppliers. This is particularly important for the classification of Small and Medium-sized Enterprises (paragraph 2.41). This tool is used by GPS and departments to identify areas of expenditure which may be brought under management. The Cabinet Office uses the data to gain a picture across government, including breaking data down by supplier to inform key relationships and support the work of Crown Commercial Representatives (paragraph 1.11).

1.22 There is a mixed picture among departments as to the added value of the spend analysis tool. Those with less developed systems have found it to be a useful tool, while those departments with their own established data systems have preferred to use these.

1.23 The Cabinet Office also collects six key metrics from departments to monitor progress against the reform agenda, including expenditure with SMEs. This is collected separately as it is not currently included in the spend analysis tool.¹²

1.24 From a supplier perspective, GPS now requires most of its suppliers to provide data on departmental expenditure on framework contracts through data feeds into a central system. This should eliminate manual returns and provide valuable data to identify where departments have and have not centralised their expenditure. This is an improvement over the data available to GPS in the past. The trading fund model, whereby GPS is funded by a levy charged to suppliers, creates a possible incentive for suppliers to under-report their sales figures. To prevent this, GPS adopts a risk-based approach to supplier audits; GPS sampled 55 audits for transactions in 2011-12 worth £209 million in total. Among this, GPS identified a net value of £10.6 million of undeclared expenditure.¹³ An internal GPS Audit and Assurance report concluded that under-reporting of sales remains a key risk for GPS. However, GPS has initiated a programme to increase the accuracy of supplier reporting, and the internal Audit and Assurance report states that the implementation of supplier audit recommendations has continued to improve.

1.25 The Government Procurement Service uses these sources of data to identify further opportunities for departmental expenditure on common goods and services to be transferred to GPS. However, this is undermined by inconsistency in GPS's data derived from supplier returns and that reported by departments. In the case of the latter, some departments have undertaken considerable data cleansing exercises, while others have not, which again contributes to the inconsistent picture.

1.26 It is essential for the Cabinet Office and GPS to gain a better grasp on management information. This has created additional work for departments and suppliers, but this should largely be an up-front investment to establish effective systems, and we expect this to fall over time.

¹² Departments also report to the centre through the Quarterly Data Summary, which includes a number of indicators such as procurement expenditure by category, average procurement timescales, and spending with SMEs.

¹³ This is comprised of previously undeclared spending, minus over-reported spending.

Developing targets

1.27 The strategy aimed to increase 'spend under management' from £2.6 billion in 2009-10 to £5 billion by 2011-12, and to £10 billion by 2012-13 (**Figure 6**). The Cabinet Office set these overall targets in 2011, and broke these down into individual departmental targets for expenditure through the central contracts (spend under management). Departments are required to report monthly on progress against these.

1.28 However, the Cabinet Office did not consult with departments in developing these targets. As a result, it had little knowledge of departments' circumstances and little or no account was taken of the feasibility of transferring expenditure to the central contracts, and the time required to make the transition. The targets also did not take into account the wider context of departments reducing overall procurement expenditure. The targets were therefore not always appropriate; in some cases targets were too high while in others they may not have been sufficiently challenging.

1.29 Each department has particular circumstances which will mean that not all of its procurement expenditure is 'addressable' by the central contracts. This will vary according to:

- The nature of the department's expenditure; the proportions spent on genuinely 'common' goods and services and how much of what they buy is specific to that department.
- The department's governance arrangements; whether a department has a strong level of control over the purchasing activity of its arm's-length bodies, or whether a more devolved model is in place.
- The department's position in relation to existing contractual agreements; its commitment to existing contracts, the time remaining on those contracts, and the ability of departments to extricate themselves from them.

1.30 In a December 2011 paper to the Ministerial Committee on Public Expenditure, the Minister for the Cabinet Office acknowledged that the targets may have been too high. This is largely attributed to the fact that much of the targeted expenditure is tied into long-term ICT and property contracts that are difficult to break, and that, in some cases, departments do not have control over expenditure in their agencies and arm's-length bodies.¹⁴ The Cabinet Office should have anticipated these factors and consulted with departments to develop realistic targets. The Cabinet Office considers that this was also in part due to the quality of data provided by departments.

¹⁴ Ministerial Committee on Public Expenditure: Subcommittee on Efficiency and Reform, *Update on Procurement Reform Strategy*, December 2011.

Figure 6

Departmental targets for managed expenditure

The original target for managed expenditure in 2012-13 has been reduced by a half

Department	Cabinet Office target for managed expenditure	Cabinet Office target for managed expenditure	GPS forecast for managed expenditure
	2011-12 (£m)	2012-13 (£m)	2012-13 (£m)
Ministry of Defence	966	3,380	1,555
Department for Work and Pensions	746	1,194	321
Home Office	680	1,088	626
HM Revenue & Customs	629	1,006	137
Department for Transport	457	731	123
Ministry of Justice	353	565	422
Department for Business, Innovation and Skills	313	391	256
Department of Health	204	326	144
Department for Environment, Food and Rural Affairs	191	438	140
Department for Culture, Media and Sport	141	306	125
Department for Education	100	109	132
Department for Communities and Local Government	92	200	29
Foreign and Commonwealth Office	69	92	102
Cabinet Office	65	86	76
HM Treasury	48	95	32
Department for International Development	29	58	13
Department of Energy and Climate Change	5	5	248
Total	5,087	10,069	5,008

NOTE

1 Targets were set in cash terms and have therefore not been adjusted for inflation.

Source for original targets: Ministerial Committee on Public Expenditure: Subcommittee on Efficiency and Reform, March 2011 (Cabinet Office). Source for agreed forecasts: Government Procurement Service

1.31 More recently, the Government Procurement Service has been undertaking an exercise to engage with departments to develop forecasts for 2012-13. This followed a period of consultation and took into account 2011-12 performance and an initial analysis of departmental expenditure. GPS is working with departments to examine what expenditure is in the process of transition, which are potential areas for transfer, and which are out of scope. Reasons for the latter may include expenditure being inaccessible due to their arrangements with arm's-length bodies, or outside of common categories due to the niche nature of their operations; for example, flood defences in the case of the Department for Environment, Food and Rural Affairs.

1.32 Departments have also raised concerns about government's 25 per cent SME aspiration. This is a cross-government figure and when it was set, it did not take into account the circumstances of each organisation. The Cabinet Office acknowledges that some categories, such as ICT, Professional Services, and Facilities Management, are more suitable for SMEs in the supply chain than others. More recently, the Cabinet Office has started to work with departments to develop more tailored SME targets by department, within the overall government aspiration of 25 per cent.

Part Two

Implementation of the reform strategy

2.1 The core aim of the strategy is to aggregate and standardise expenditure on common goods and services, and to deliver price savings on those goods for the taxpayer. This is supplemented by a wider reform agenda, which aims to boost economic growth and improve government's procurement capability. This part of the report analyses the delivery of these policies, and the realisation of benefits.

Delivering centralised procurement

2.2 The Cabinet Office identified eight categories of common goods and services which would form the initial focus of the centrally managed contracts.¹⁵ The intention outlined in the original strategy is that GPS would expand its service to further categories at a later stage.

- Professional Services (e.g. consultancy);
- Information and Communications Technology;
- Advertising and Media;
- Energy;
- Travel;
- Office Solutions, Print and Print Management;
- Fleet; and
- Learning and Development.

¹⁵ Ministerial Committee on Public Expenditure: Subcommittee on Efficiency and Reform, *Delivering centralised procurement: Government procurement services and the role of a transformed Buying Solutions*, March 2011.

2.3 Responsibility for delivering centralised procurement lies with a number of parties:

- The **Cabinet Office** sets the policy and associated targets.
- **Departments** are mandated at a ministerial level to commit expenditure to the centralised contracts. They are required to report monthly on progress against Cabinet Office targets.
- The **Government Procurement Service (GPS)**, an executive agency of the Cabinet Office, is responsible for putting in place and managing the centralised contracts, as well as monitoring performance against Cabinet Office targets. There may be several contracts under each of the eight categories outlined earlier. These categories are managed by category teams within GPS (with the exception of 'Office Solutions, Print and Print Management', which is managed on its behalf by HM Revenue & Customs).

Performance against target for centrally managed expenditure

2.4 Monthly monitoring by the Cabinet Office shows that the policy is having an impact; central government procurement expenditure managed by the Government Procurement Service increased from £2.6 billion in 2009-10 to £3 billion in 2011-12. This represents a change from 5 per cent of total central government procurement expenditure in 2009-10 to 7 per cent in 2011-12, or from 20 per cent to 40 per cent of total expenditure on common goods and services (**Figure 7**).

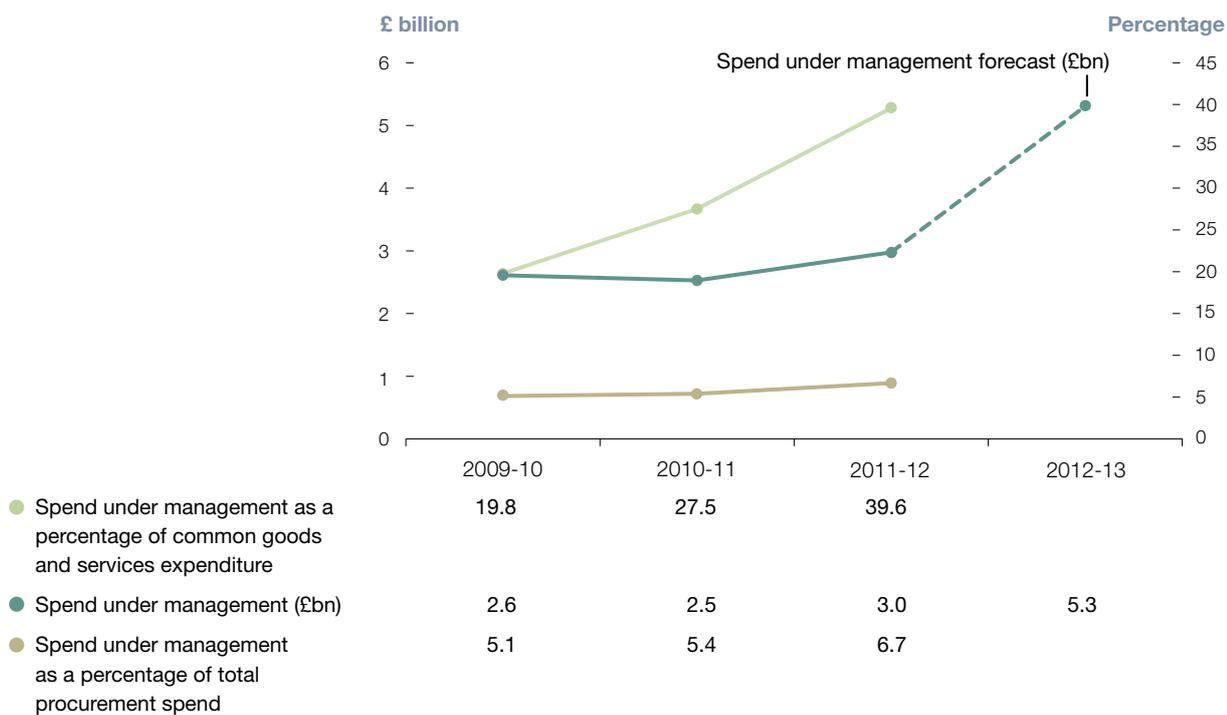
2.5 The £3 billion managed expenditure in 2011-12 did not meet the overall Cabinet Office target of £5 billion, and there was considerable variation between departments (**Figure 8** on page 26). However, there were weaknesses in the development of departmental targets (paragraphs 1.27 to 1.29). Recent GPS forecasts estimate that centrally managed expenditure will total £5.3 billion in 2012-13. However, in 2011-12 total expenditure on common goods and services was forecast at around £7.5 billion.¹⁶ It is likely, therefore, that opportunities for price savings from aggregated volumes are not being fully realised. Some caution should be attached to the figures for spend under management, as they are derived from supplier data, which has been found to be inaccurate in places (paragraph 1.8).

¹⁶ 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.

Figure 7

Central government spend under management: trends

Spend under management has increased since 2009-10



NOTES

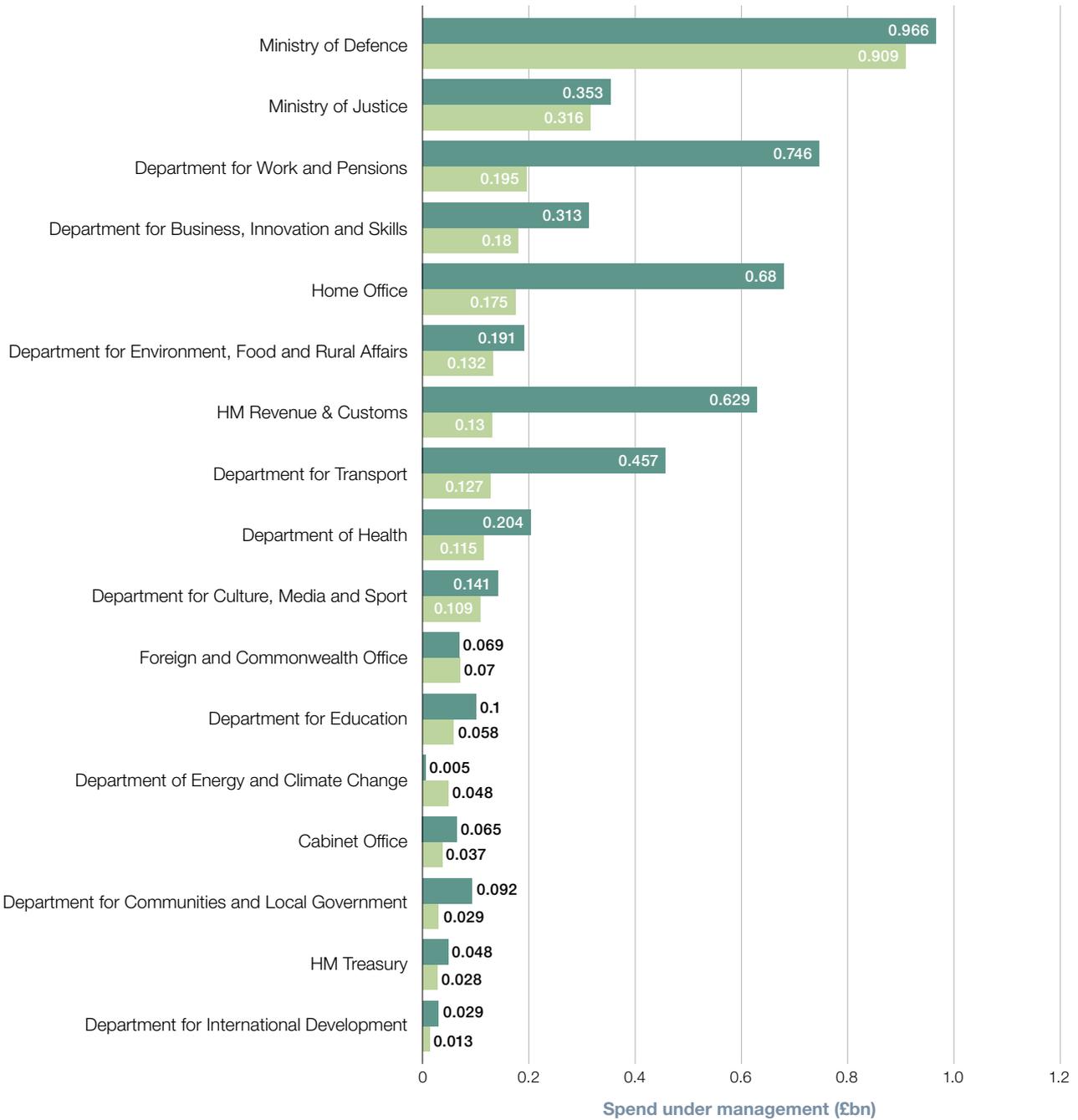
- 1 Targets were set in cash terms and figures have therefore not been adjusted for inflation.
- 2 Spend under management figure for 2012-13 is a forecast based on GPS estimates.
- 3 Some caution should be attached to the forecast for expenditure on common goods and services in 2011-12, as this forecast 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.

Source: Supplier data collected by the Government Procurement Service

Figure 8

Spend under management by department: performance against target 2011-12

There is variation by department, with many not meeting Cabinet Office targets



■ Cabinet Office target 2011-12 ■ Spend under management 2011-12

NOTE

1 Targets were set in cash terms and figures have therefore not been adjusted for inflation.

Source: Supplier data collected by the Government Procurement Service

2.6 As a centrally mandated policy, it is the responsibility of departments to adhere to it. Departments are supportive in principle of the drive to centralise the procurement of common goods and services. However, in practice some departments are a considerable distance from achieving their targets; there may be a number of reasons for this.

2.7 In terms of governance and accountability, it is not clear how departments are held to account where targets are not met. As outlined in Part One, the Procurement Reform Board does not appear to act as an adequate forum for challenging departments on the level of committed expenditure, nor are there any sanctions in place for non-compliance. In reality, therefore, departments are able to choose where to commit expenditure. Given one of the aims of the strategy is to decrease the need for departments to retain staff managing the centralised categories, there may be a fear of redundancies within their own department if functions are removed.

2.8 Departments also cite a tension between their obligation under the central mandate and their own activities. Many departments are delivering their own change programmes, and there may be tensions between the long-term aims of these, and the aims of the wider procurement strategy, which will need to be resolved.

2.9 It is also the responsibility of departments to seek best value and mitigate their own risk. Departments would like more robust evidence to demonstrate the value for money of the central contracts. This issue is exacerbated because the concept of aggregating expenditure is not new for departments. In many cases, departments were already achieving economies of scale by signing up to larger departments' contracts. For example, a number of bodies used the Department for Work and Pension's consultancy services framework. Another issue is that some departments consider GPS's trading fund model creates a possible incentive to prioritise volume through the central contracts because that determines its income.

2.10 As well as governance issues at the centre, there have been a number of issues in the implementation of the central contracts by the Government Procurement Service which departments cite as barriers to further participation.

The implementation of central contracts

2.11 The implementation of a centralised procurement model places requirements on both sides. Departments need to adapt to a more standardised approach, and make appropriate compromises on product lines. The Government Procurement Service needs to ensure that the central contracts meet departments' needs as much as they can.¹⁷ Feedback from departments and suppliers suggests that there are improvements in the way the centralised service has been delivered when compared with GPS's predecessor, Buying Solutions. Departments tell us that GPS has benefited from improved leadership, and recognise that it has improved its capability in terms of commercial skills. GPS's capability should be further bolstered by the establishment of the new Procurement Service Directorate. This incorporates the Procurement Centre of Excellence (PCoE), formerly part of the Home Office, and the Customer Service Desk and Business Intelligence teams. Some departments have also said that GPS is better at communicating with departments than its predecessor. Each department now has its own Relationship Manager, the aim of which is to provide departments with a single customer interface in GPS, thereby improving customer service. These changes have been achieved against a background of falling costs (paragraph 1.16).

2.12 However, GPS recognises that there have been some weaknesses in the implementation of the central contracts, and departments' expectations have not been met in all cases. This does not provide an incentive for departments to undertake the extensive change in behaviours required to meet targets; some departments say that these weaknesses have, in part, contributed to the shortfall in committed expenditure.

2.13 Departments have certain expectations of the quality of category management, including:

- departmental consultation in developing contracts;
- a strong understanding of the market;
- sufficient staff in place with experience in the sector;
- strong relationships with suppliers;
- the ability to secure good value in the original contracts; and
- ongoing monitoring of market conditions to ensure government still has a good deal.

2.14 All categories have category strategies, but they are at different stages of development and departments report a varied level of involvement. Most categories have governance boards with departmental representation; some of these are more established than others. Energy, for example, is at an advanced stage, with GPS running its own trading function on behalf of most of government. Others may be less well-developed and participation by departments is at lower levels. The approach in the fleet category

¹⁷ GPS manages all the categories, with the exception of 'Office Solutions, Print and Print Management', which is managed on its behalf by HM Revenue & Customs.

has been well-received by departments, while there have been a number of issues in consultancy and contingent labour. One framework within this category was delayed by several months due to the extended time taken to agree a single approach across all departments and because of limited resources to evaluate pre-qualification questionnaires from interested parties.

Developing and letting contracts

2.15 One of departments' concerns is the development of some of the central contracts. Departments expect a demonstration that these represent value for money. Limited management information in this area has caused issues; GPS does not always have access to the data to assess value for money, and departments do not always have the benchmarking data that GPS needs to conduct the analysis.

2.16 Furthermore, departments do not always consider that they have been consulted in building the specifications, and therefore the contracts do not always meet their needs regarding the products or delivery options available. Departments described examples where this has caused them problems, including:

- a lack of options for travel between international destinations on the new travel contract; and
- multiple deliveries under two stationery contracts to secure sites, incurring additional cost.

Management of contracts

2.17 Departments also raise concerns with the management of some contracts once they have been let. Effective contract management requires clear roles and responsibilities between GPS, suppliers and departments. However, there is considerable variation in this respect by category, and by department. Each department has an overall service level agreement between GPS and themselves, but these documents lack detail around:

- the level of assurance departments can take that contracts will meet their needs;
- how GPS will go about ensuring best value in the contract;
- who will be responsible for dealing with issues during the course of the contract, ranging from the day-to-day to the systemic;
- what departments can expect from GPS in terms of management information;
- what will be expected of departments in terms of data requests from GPS; and
- variation by category, for example, which issues are considered 'day-to-day' and can be managed by departments, and which are more strategic and should be the responsibility of GPS.

2.18 As such, GPS has not met some departments' expectations, limiting the management burden removed as a result of signing up to central contracts. For example:

- on occasion, GPS has not informed departments of changes to products and prices, creating additional work for procurement teams;
- where there have been issues with suppliers, departments have often had to deal with these themselves; and
- management information provided by GPS has not been at a level which is useful to departments.

Customer service

2.19 Departments and suppliers raise some issues with the service received from GPS under the centralised contracts. Both cite difficulties in accessing the GPS team at a working level, relying instead on relationships with senior staff to resolve issues. On some occasions, departments do not consider that they have received an adequate response to concerns over the performance of contracts.

2.20 GPS acknowledges that it can do more to manage relationships with departments. Its customer relationship management function is at an early stage of development, having only been introduced since the change from Buying Solutions. GPS also acknowledges that there are gaps in how category management teams and the customer relationship management team work together. Each department now has a Relationship Manager to provide a liaison point with GPS.

Accountability

2.21 The Procurement Reform Board and the Extended Procurement Reform Board were intended to be the governance structures through which departments set expectations with GPS, discuss specifications, and subsequently challenged them where there were performance gaps. In practice, however, these forums were not used for this purpose (paragraph 1.15), and it is unclear how departments' concerns about performance issues were addressed.¹⁸

¹⁸ The Chief Procurement Officer is in the process of restructuring and realigning all procurement and commercial related governance boards following the integration of these two functions within the Cabinet Office.

Delivering savings through centralised procurement

2.22 The Government Procurement Service claimed¹⁹ an estimated £426 million of savings for central government in 2011-12 through reductions in the average prices paid in real terms on its contracts, and savings of £1,810 million through reductions in the quantities being purchased as a result of demand management initiatives.²⁰ Of these demand savings, £1,745 million was due to reductions in demand for consultancy and contingent labour, the process for which was managed by GPS and delivered by departments.²¹ The remaining £65 million related to demand savings across various categories of spending. These figures do not include reported savings from the renegotiation of contracts with major suppliers, conducted by the Crown Commercial Representatives.

2.23 The Cabinet Office requires GPS to follow strict guidance regarding savings calculations to ensure consistency across its different functions. There is an internal approvals process for category teams to obtain senior management sign-off of proposed methodologies for calculating savings. Savings are then reported monthly using the agreed methodology. Price savings represent the prices paid now against prices paid in 2009-10. Demand savings measure volumes now compared to 2009-10 volumes, using 2009-10 prices.

2.24 We tested a random sample of 40 savings, with a combined value of £242 million, against criteria for accurate public reporting of savings, excluding sustainability (see Appendix Two for more details).²² 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. However, overall we have confidence that the sampled savings represent genuine savings.

2.25 The quality of savings reporting was high compared to previous initiatives assessed by the NAO, including the Gershon Review²³ and the Comprehensive Spending Review 2007.²⁴ Our analysis of savings in 2010-11 confirmed that departments have reduced spending in the areas where the Government Procurement Service is claiming price and demand savings, by broadly the amounts claimed. We are carrying out a similar analysis of the 2011-12 departmental accounts.²⁵

19 GPS Annual report page 10.

20 Only £422 million of these were reported by the Efficiency & Reform Group as savings from centralised procurement.

21 We did not examine the claimed consultancy and contingent labour savings, as they were covered in our report *Cost reduction: A summary of progress* (February 2012).

22 Sample taken from GPS internal 'savings reporter' tool.

23 Comptroller and Auditor General, *The Efficiency Programme: A second review of progress*, Session 2006-07, HC 156 I & II, National Audit Office, February 2007.

24 Comptroller and Auditor General, *Independent reviews of reported CSR07 value for money savings*, Session 2009-10, HC 86, National Audit Office, December 2009.

25 Comptroller and Auditor General, Cabinet Office and HM Treasury, *Cost reduction: A summary of progress*, Session 2010-2012, HC 1788, National Audit Office, February 2012.

2.26 We noted that the sustainability of procurement savings may be uncertain. For example, some price savings may be the result of suppliers dropping prices during the recession and prices may rise again as the economy recovers. Similarly, some savings, such as tougher travel policies, may not be sustained when the pressure on individual budgets reduces. For example, although total business travel expenditure in 2011-12 was below 2009-10 levels we noted an upward trend in departments' monthly travel expenditure through the GPS central contract during 2011-12, with the result that this saving may be substantially lower in 2012-13.

2.27 The measurement of savings against a 2009-10 baseline provides a consistent basis of reporting to the Cabinet Office and prevents double reporting of savings against different initiatives. However, if GPS relies on this measure alone it will not be able to communicate to departments what savings are being achieved compared to what they would be able to achieve in the market themselves. This factor contributes to some departments not recognising the amount GPS estimates to have saved them. At a departmental level, there is some scepticism that the central contracts are producing savings, particularly as the operational issues with the central contracts can create 'hidden' costs for departments (paragraphs 2.12 to 2.20).

Delivering centralised procurement in the wider public sector

2.28 The focus of the procurement reform strategy is on central government. However, the majority of third-party expenditure in government is in the wider public sector, and the potential for savings may be significant. In the wider public sector, organisations opt in to GPS contracts voluntarily. With no mandate, public bodies may also choose to use regional buying organisations such as the Yorkshire Purchasing Organisation (YPO) or the Eastern Shires Purchasing Organisation (ESPO) (GPS contracts can also be accessed through these buying organisations), develop consortia among similar or neighbouring bodies, or they may opt for a bespoke solution. The appropriateness of each depends on the category and local circumstances.

2.29 Despite the voluntary nature of participation and falling total procurement expenditure in the public sector, GPS has increased its business with the wider public sector by 23 per cent from 2009-10 to 2011-12. This has risen from £4.4 billion in 2009-10 to £5.4 billion under central management in 2011-12, and is forecast to rise further to £5.8 billion in 2012-13.²⁶

²⁶ Figures are in cash terms.

Delivering the wider reform agenda

2.30 In addition to generating savings through aggregating expenditure, Cabinet Office reforms are designed to improve procurement capability across government and support economic growth.

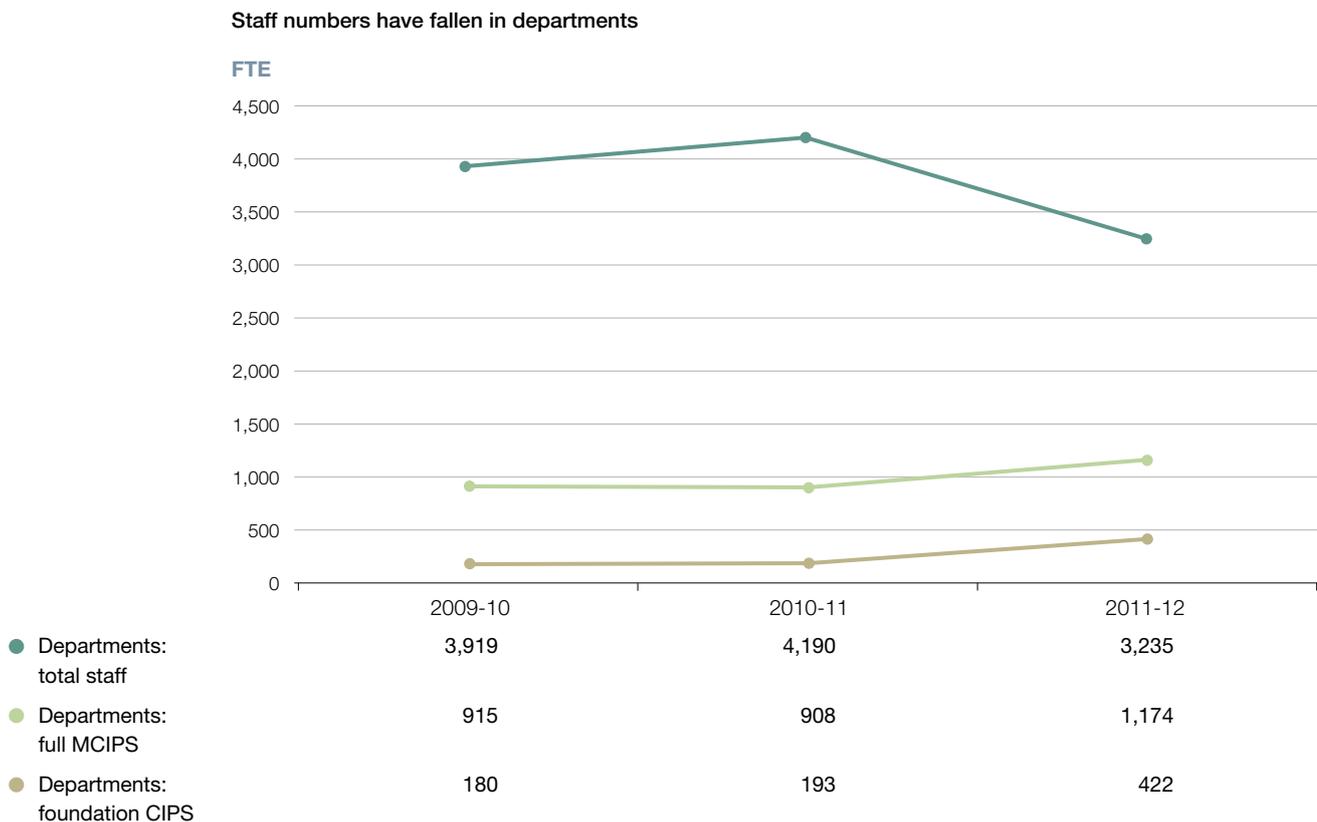
2.31 Government also seeks to support a range of other policies through procurement such as environmental sustainability and local redistribution. There can be additional challenges in achieving these aims. For example, in relation to environmental sustainability the Cabinet Office works with the Department for Environment, Food and Rural Affairs, which leads on the government's commitment to buy more sustainable and efficient products and engage with its suppliers to understand and reduce its supply chain impacts. This involves addressing weaknesses in management information on factors such as energy in use and end of life costs, as well as pollution impacts. The *Greening Government Commitments* published in February 2011 set out this commitment to procure sustainably, and we published a briefing for the Environmental Audit Committee reporting on the progress made in meeting these commitments.²⁷

Improving procurement capability

2.32 The reform strategy outlined in broad terms plans to reshape procurement capability across government. The Government Procurement Service would deliver expert sourcing and category management for centralised procurement and would generate a surplus fund from the levy charged to suppliers (paragraph 1.8) to invest in capability across departments. If the aims of the strategy are realised, departments will need fewer staff managing common commodities. This means that the shape of procurement across government will be a significant shift from the current model, with a different set of skills required. However, neither the Cabinet Office nor departments have a detailed operating model of what skills are needed following the reforms.

2.33 The Cabinet Office does not hold data on levels of procurement staff in departments, or on how numbers have changed in recent years. In the absence of centrally-collated data, we collected information from departments and from GPS about their staffing levels. This shows that numbers have fallen in procurement departments across government from 3,900 in June 2010 to 3,200 in June 2012 (a fall of 17 per cent), although numbers with formal Chartered Institute of Purchasing and Supply (CIPS) qualifications have increased (**Figure 9** overleaf). We cannot attribute this to the release of resource through the procurement reforms, as it may be the result of wider headcount reduction activity in departments.

Figure 9
Capability in departments over time



NOTES

- 1 The National Audit Office asked for data to include core department plus executive agencies. There is some variation from this.
- 2 Core department only: Department for Communities and Local Government, Department for Culture, Media and Sport, Department of Energy and Climate Change, Department for Education, Department of Health, HM Revenue & Customs, Home Office, Department for Environment, Food and Rural Affairs.
- 3 Ministry of Justice: Core MoJ Procurement Directorate only (Commercial and Contract Management).
- 4 Ministry of Defence: Commercial function within the core department only.
- 5 Foreign and Commonwealth Office: Core department, UK-based only.
- 6 HM Treasury: Core department plus arm's-length bodies including the Asset Protection Agency and Debt Management Office, the Office for Budgetary Responsibility, and UK Financial Investments.
- 7 Department for Transport: Core department plus Driving Standards Agency, Vehicle and Operator Services Agency, Government Car and Despatch Agency, Vehicle Certification Agency, Driver and Vehicle Licensing Agency and the Maritime and Coastguard Agency.
- 8 Department for Business, Innovation and Skills: Core Department plus Insolvency Service, Companies House, Intellectual Property Office, Met Office, National Measurement Office, Ordnance Survey and Skills Funding Agency, Core and UK Space Agency.
- 9 MCIPS refers to full membership of the Chartered Institute of Purchasing and Supply (CIPS). Foundation is a lower level of qualification under the same scheme.

Source: Departmental data returns

2.34 The Cabinet Office, through its procurement reforms, has generated surplus funds to invest in developing departmental procurement staff.²⁸ The Procurement Investment Fund Board, with representatives from GPS and departments, administers these funds, which totalled £2.2 million in 2011-12. The PIF board considered business cases for proposals before allocating funds. However, the Procurement Investment Fund was suspended in 2012. The Cabinet Office will continue to meet PIF contractual commitments for projects underway for 2012-13, and beyond where appropriate.

Staff capability: 'Lean' training

2.35 The Cabinet Office, through consultation, has developed a new procurement standard across government, based on a 'Lean' approach. Partly as a result of training in 'Lean' processes, the government aims to reduce the time from advertising the competition to awarding the contract to less than 120 days for all but the most complex procurements. This target has been included in bilateral agreements between the Minister for the Cabinet Office and Permanent Secretaries. In the first half of 2012, the Cabinet Office reported that average procurement times had fallen to 168 days from 199 days in 2011.

2.36 To this end, 'Lean' training is being rolled out across government, administered by a training delivery centre within GPS. This is funded by the Procurement Investment Fund, so is available free to departments. Two levels of training were developed – a one-day awareness session on the principles of Lean sourcing, and a three-day simulation workshop. Subsequently, an eLearning package was developed as an alternative to the one-day course. The training delivery centre aimed to put 1,000 delegates from central government through its three-day course during 2012-13. The forecast for 2012-13 is that 700 staff will have been trained on the three-day course and 1,800 on the one-day course.

Technical capability: the e-enablement strategy

2.37 Underlying the procurement reform agenda is an e-enablement strategy which describes the technologies that GPS has introduced to underpin the strategy (**Figure 10** overleaf). GPS has implemented all of these systems, and departments feel that they improve the technical capability of the sector. For example, our interviews with departments show that the spend analysis tool has helped some smaller bodies that had limited resources in this area.

²⁸ Ministerial Committee on Public Expenditure: Subcommittee on Efficiency and Reform, *Delivering centralised procurement: Government procurement services and the role of a transformed Buying Solutions*, March 2011.

Figure 10

E-enablement modules

The Government Procurement Service has introduced a number of e-enablement tools

Module	Purpose
Contracts Finder	Captures all new government contract opportunities above £10,000
eMarket Place	For procurements <£100,000 – allows simple bidding for suppliers Central hosting of all centrally negotiated contracts and catalogues
eSourcing tool	For procurements >£100,000, allows procurement professionals to manage processes including e-Auctions and contract management of suppliers
Spend analysis tool	Monthly reporting on departmental procurement expenditure by category and supplier
Government Procurement Portal	Single website that signposts suppliers and procurement professionals to the above tools

Source: *The Cabinet Office and National Audit Office*

2.38 However, departments have concerns around governance arrangements and inconsistency of approach. For example, departments were not sufficiently involved in the development of technical specifications for the central contracts meaning that not all new systems have been compatible with departmental software (for example, Internet Explorer 6). This has created an additional burden for departments in adapting to accommodate multiple platforms.

Supporting growth

2.39 The procurement policy team in the Cabinet Office worked with government departments in 2011 to agree commitments designed to support growth.²⁹ These initiatives include:

- increasing expenditure with Small and Medium-sized Enterprises (SMEs);
- streamlining processes to reduce procurement times; and
- publishing future procurement timetables.

²⁹ Ministerial Committee on Public Expenditure: Subcommittee on Efficiency and Reform, *Update on procurement reform strategy*, December 2011.

Increasing SME participation

2.40 In May 2010, the government set out its aspiration that 25 per cent of central government expenditure – both direct and in the supply chain – should go to SMEs³⁰ by 2015.³¹ In February 2011, the government announced measures designed to enable SMEs to compete for government business.

2.41 There are some signs that opportunities may have improved for SMEs. The Cabinet Office reports that direct spending with SMEs has increased from 6.8 per cent in 2010-11 to 10 per cent in 2011-12 (**Figure 11** overleaf). However, the poor quality data on SMEs mean that these figures are difficult to verify. Furthermore, the basis of the figure has changed over time, as not all departments were able to provide accurate data on their expenditure with SMEs prior to 2012.³² Obtaining accurate data on SME expenditure is challenging for two main reasons:

- **Classification:** While there is an accepted definition of an SME, most organisations do not know which of their suppliers are SMEs. Turnover and staff numbers change year-on-year and can change an organisation's status. The Government Procurement Service has engaged Dun & Bradstreet to cleanse the data on SMEs. However, departments are not always able to uniquely identify their suppliers from information on their systems, leading to considerable manual exercises.
- **Supply chain:** It is in the supply chain where a significant proportion of SMEs are likely to act as suppliers, rather than as direct prime suppliers to central government. Most primary contractors do not routinely identify SMEs within their supply chain. The Cabinet Office has requested data from a sample of suppliers but responses vary in quality. The 58 suppliers who have replied to the Cabinet Office identify £2.88 billion of expenditure with SMEs in their supply chain,³³ some 6 per cent of total central government procurement expenditure.

30 Defined as a business with fewer than 250 employees, and either less than 50 million euros turnover or less than 43 million euros on the balance sheet. http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm

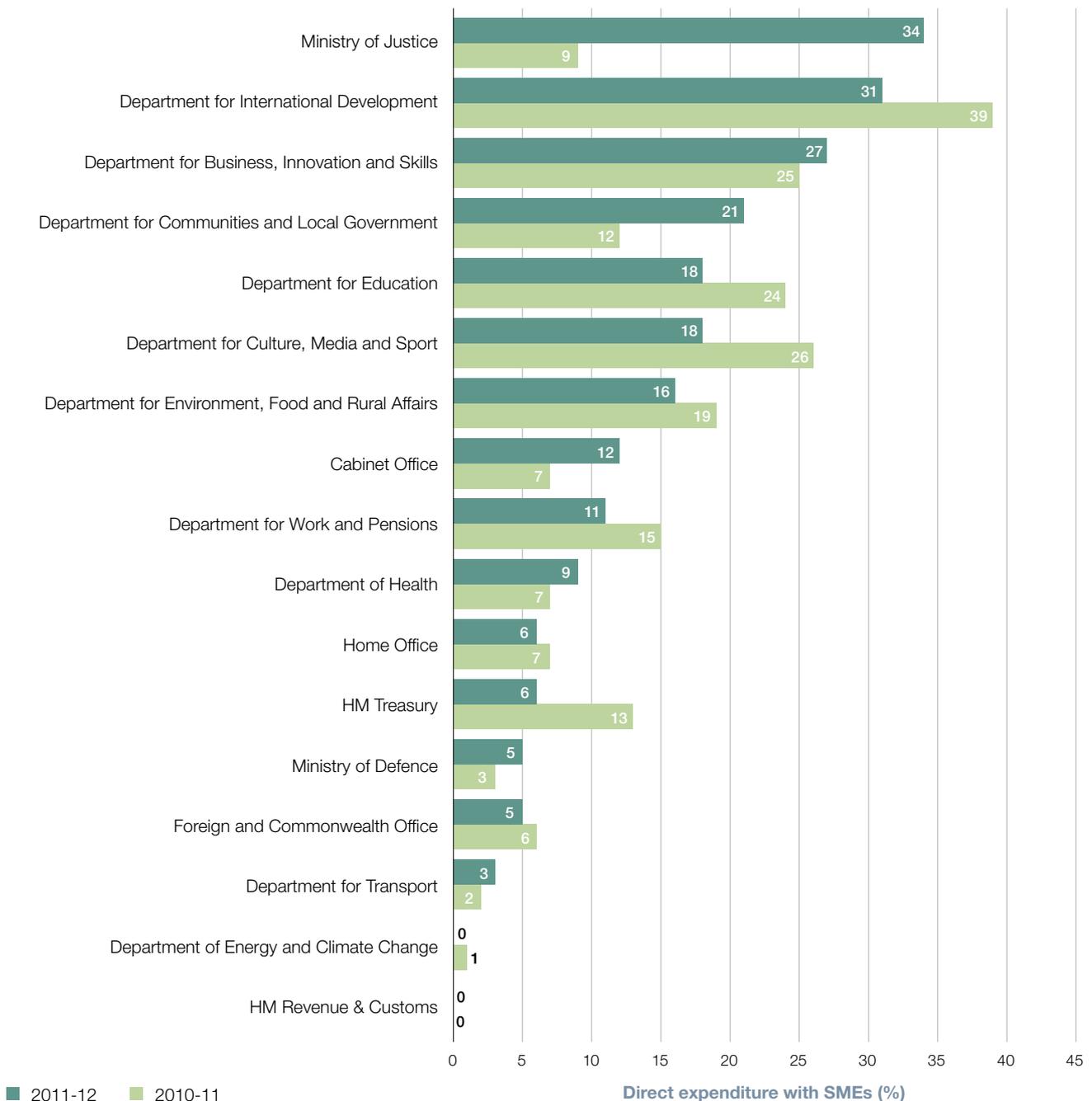
31 Cabinet Office, *Making government business more accessible to SMEs – One Year On*, March 2012.

32 See Footnote 31.

33 These 58 suppliers make up £20.5 billion of the £45 billion total central government procurement expenditure.

Figure 11
Reporting by department on SME participation

Direct expenditure with SMEs has increased but varies by department



NOTES

- 1 Within HM Revenue & Customs, direct SME expenditure is limited due to the contractual model: in 2011-12, around 75 per cent of spending was through two large estate and ICT contracts.
- 2 Over seventy per cent of the Department for Transport's procurement expenditure is in construction where SME participation is in the supply chain, and therefore not included in direct expenditure
- 3 For the Foreign and Commonwealth Office, the data has been calculated as spend with UK-based SMEs, compared with global total spend on third party goods and services, thereby understating the total SME proportion.

Source: Departmental data collected by the Cabinet Office. See Appendix Three for full details of coverage

2.42 However, our engagement with departments and the Cabinet Office suggests that the profile of SMEs has been raised as a result of the reforms, which include:

- the appointment of a Crown Commercial Representative for SMEs;
- the introduction of SME champions within departments;
- the Contracts Finder website now publishes all procurement opportunities greater than £10,000;
- the Mystery Shopper initiative, where suppliers can anonymously comment on elements of process that have been a barrier to them;
- the abolition of pre-qualification questionnaires for procurements below £100,000 in most departments;
- government aims to streamline procurement processes, reducing the time from advertising the competition to awarding the contract to less than 120 days. One step in this respect has been the introduction of training in 'Lean' processes (paragraphs 2.35 and 2.36); and
- departments have also developed action plans to open up opportunities for SMEs (**Figure 12** overleaf).

2.43 SMEs interviewed as part of this study feel that some barriers remain. These include the requirement for an annual audit of accounts and the unduly burdensome bidding process. Furthermore, centralised frameworks can exclude SMEs, for example where there is a requirement for broad capability and national coverage. Breaking contracts into smaller lots can make them more accessible to SMEs. However, there is a trade-off, with the additional procurement resources needed to manage multiple lots.

Publishing procurement opportunities

2.44 In November 2011, the government announced its intention to publish procurement opportunities (pipelines), to give suppliers advance notice of forthcoming government business. The first pipelines were introduced in November 2011 and launched formally in April 2012 as part of the Government Procurement Pledge. They are to be updated every six months. In November 2012, the government's website contained opportunities to March 2015 worth around £84 billion,³⁴ with contributions from all departments.

2.45 There is evidence that pipelines may be beneficial, with 60 per cent of CBI members taking part in a survey saying that they could be useful to their business in future.³⁵ Suppliers we spoke to as part of this study have generally welcomed the initiative but some have found the information difficult to find or lacking in detail. Some suppliers felt that the pipelines did not tell them anything new, and that they rely on relationships within government procurement staff. Many of the opportunities have yet to go to market, so it is too early to fully evaluate the impact of pipelines.

³⁴ Available at: www.cabinetoffice.gov.uk/news/growth-boost-business-government-shares-future-buying-needs-worth-84bn

³⁵ Confederation of British Industry, *Buying a brighter future*, November 2011.

Figure 12

Case study: Activities by HM Revenue & Customs to encourage SME participation

Departments have implemented a number of activities to encourage SMEs

Action	Intended outcome
Appoint SME champion	Dedicated resource to drive change
Develop and maintain relevant information for SMEs on Department's website	Give SMEs greater understanding and knowledge required to bid for work
Single point of contact	Increase day-to-day contact with SMEs
SME surgeries for those already working with HM Revenue & Customs	Category leads to understand further the barriers faced by SMEs
Engage with SME representative groups	Gain access to SME suppliers and increase the number of SMEs bidding for work
Break down larger contracts where possible	Create new opportunities for SMEs
Review all contracts for SME appropriateness, and publish opportunities on the SME area of the Department's website	Publicise opportunities for SMEs
Apply Lean procurement processes	Increase the number of SMEs bidding for work
Work with top suppliers to identify SMEs, and further opportunities for SMEs, in the supply chain	Enhance measurement of SME participation and create new opportunities
Enhance processes for measuring and reporting SMEs	Provide robust evidence to evaluate current practices

Source: HM Revenue & Customs

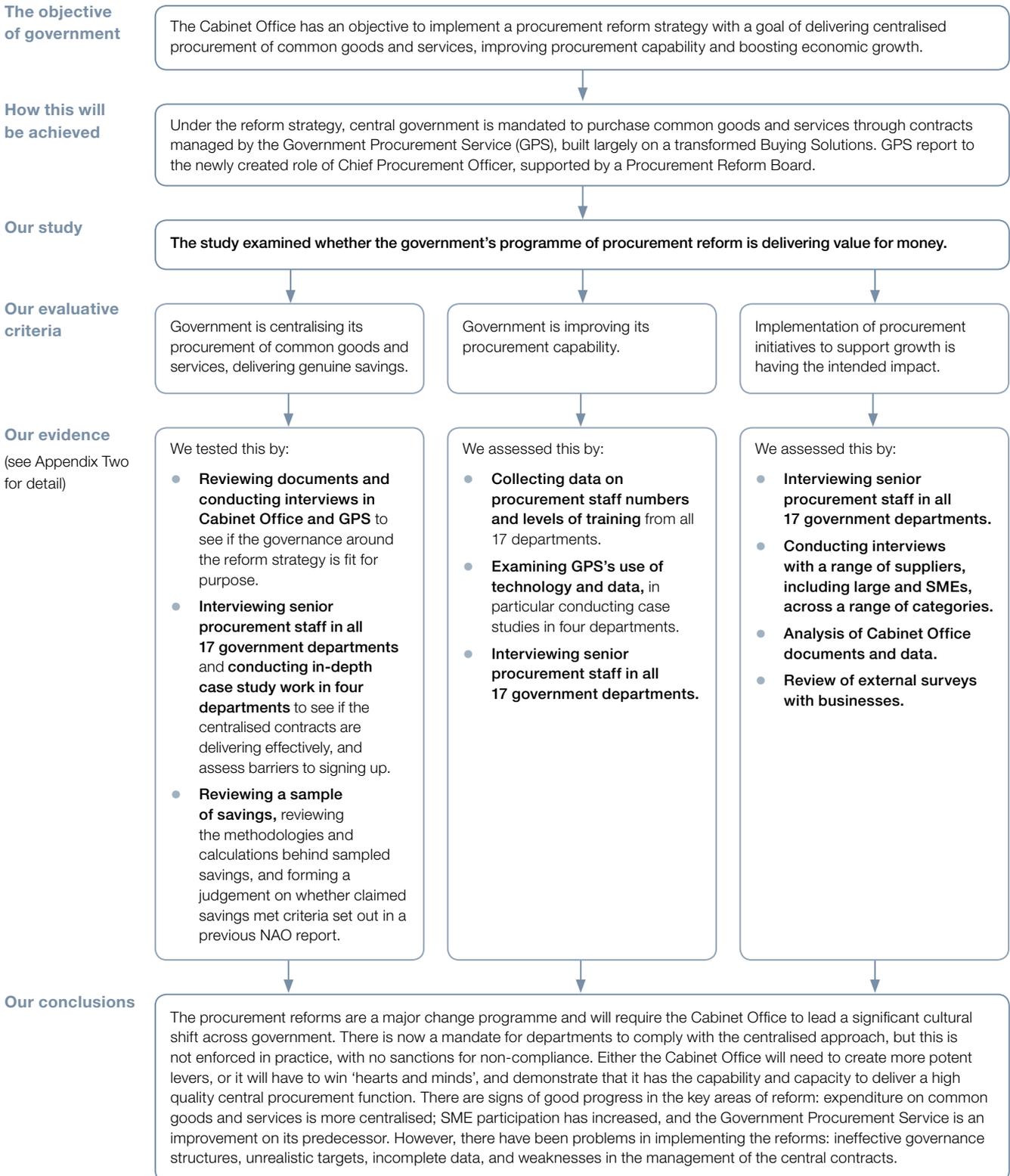
Appendix One

Our audit approach

1 This study examined progress in implementing the government's procurement reform strategy since 2011. The strategy set out how a Government Procurement Service (GPS), reporting to the newly-established role of Chief Procurement Officer, would be principally responsible for driving reform of procurement within central government and delivering significant cashable savings against a 2009-10 baseline. We also examined changes in governance which the strategy brought in:

- We established the extent to which procurement had been centralised, and whether this was generating the level of savings claimed by GPS. We examined the impact of initiatives which had been introduced to support growth and to open up government procurement. We also assessed what changes there had been in government procurement capability since the strategy was brought in.
- Our audit approach is summarised in **Figure 13** overleaf. Our evidence base is described in Appendix Two.

Figure 13
Our audit approach



Appendix Two

Our evidence base

1 Our independent conclusions on whether the government's programme of procurement reform is delivering value for money were reached following analysis of evidence collected between July and November 2012. We applied an analytical framework with evaluative criteria, which consider what arrangements would be optimal for delivery of government procurement services. Our audit approach is outlined in Appendix One.

- **We examined whether the structural changes brought in under the reforms are likely to be appropriate to deliver the expected objectives, and whether there is adequate governance.**
 - We reviewed documents including Cabinet committee papers, business plans and internal minutes to identify the original intention of the reforms, and provide evidence of the extent to which they had been brought in. The document review also allowed us to identify what metrics should be used in this study to measure the Cabinet Office and the Government Procurement Service's (GPS) success in delivering reforms.
 - We conducted interviews with senior Cabinet Office and GPS staff, and the category managers for all categories of spend which GPS have responsibility for. This allowed us to build understanding of the reforms which had been implemented to date, together with planned future developments. It also provided us with details of governance structures in place over procurement.
 - We conducted interviews with the Commercial Directors of the 17 core government departments, some of whom are Crown Commercial Representatives. We also carried out in-depth case studies with four departments: the Department of Energy and Climate Change, HM Revenue & Customs, the Ministry of Defence, and the Ministry of Justice. These we selected to provide a range of department size, function, and procurement activity. This provided information on the extent to which the rest of government had bought into the Cabinet Office's reform plans. It also provided evidence of departments' practical experience of working under the new arrangements, such as their interaction with the Procurement Reform Board, use of GPS contracts and the requirement to respond to data requests from the centre.

- We held interviews with two local authorities (one county council and one London borough), a regional purchasing organisation and the Local Government Association. While these should not be used to extrapolate the view of the wider public sector, they do provide some useful context of the procurement landscape.
- We engaged a procurement expert as a consultant to provide context on the public sector procurement landscape and help identify areas of enquiry.
- **We validated a sample of 2011-12 central government savings claimed by GPS.**
 - We reconciled savings totals reported by GPS to underlying lists of individual savings.
 - We selected a statistical sample of 40 claimed savings with a combined value of £242 million. Our sample was selected to take in savings considered high value and high risk, and other savings.
 - We reviewed the savings methodologies and calculations behind each of the sampled savings. This was informed by interviews with the GPS category staff responsible for developing the methodologies and recording savings.
 - We formed an assessment of whether claimed savings met criteria for accurate public reporting of savings set out in a previous NAO report.³⁶ Ten savings within the sample were also tested as part of another NAO study.³⁷
- **We examined whether the reforms were achieving their objective of improving the procurement capability within central government.**
 - We sent a data return to the 17 core government departments and the Government Procurement Service to collate data on procurement staff numbers and changes in the levels of staff who hold Chartered Institute of Procurement qualifications. All 17 departments sent a response.
 - We examined GPS's use of technology and data. This was informed by interviews with GPS staff responsible for data, interviews with central government departments and with suppliers. We also gained first-hand experience of using GPS's spend analysis tool.
 - We looked at the level of surplus generated for the Procurement Investment Fund by GPS, and considered how this had been used.

36 *Good practice for accurate public reporting of savings*, published as Appendix Two of *The Efficiency and Reform Group's role in improving public sector value for money*, March 2011.

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

- **We considered whether procurement reforms were having the intended effect in helping to deliver growth.**
 - We analysed Cabinet Office and GPS data to assess progress that was being made in reducing the time it took to procure, in delivering EU procurement reform, and against an aspiration for 25 per cent of procurement spend to go through SMEs.
 - We held interviews with a range of suppliers to gather views on the impact of procurement reforms on them. These included large suppliers as well as SMEs, from a range of categories. We asked them about the role of Crown Commercial Representatives, the 120 days procurement target and the introduction of procurement pipelines. We also enquired about their experience of acting as a supplier on a GPS contract, and about difficulties experienced by SMEs in accessing government contracts.
 - We conducted a review of recent surveys on procurement carried out by Federation of Small Businesses and Confederation of British Industry.

Appendix Three

Data coverage

1 Where data has been collected from departments by the Cabinet Office, there are some inconsistencies in terms of coverage. The following table summarises the Cabinet Office's understanding of the coverage of departments' agencies and arm's-length bodies.

Department	Agencies and arm's-length bodies covered	Agencies and arm's-length bodies not covered
Department for Business, Innovation and Skills (BIS)	Student Loans Company (SLC), Land Registry, Met Office, Ordnance Survey, National Measurement Office (NMO), Companies House, UK Trade Investment (UKTI), Skills Funding Agency, Advisory, Conciliation and Arbitration Service (ACAS), Culham Centre for Fusion Energy (CCFE), UK Commission for Employment and Skills (UKCES), Insolvency Service, Intellectual Property Office (IPO), Engineering Construction Industry Training Board (ECITB), Capital for Enterprise, Technology Strategy Board (TSB), Consumer Focus, Competition Service (Competition Appeal Tribunal), RCUK SSC, Core BIS	Higher Education Funding Council for England (HEFCE), National Endowment for Science Technology and the Arts (NESTA), Learning and Skills Improvement Service (LSIS)
Department for Communities and Local Government (DCLG)	HCA, PINS	Ordnance, FSC, QEII, LTGDC, Firebuy, Audit Commission, VTS, TTGDC, WNDC, TSA
Cabinet Office (CO)	Core CO	NSG, COI, GPS/Buying Solutions, GPU
Department for Culture, Media and Sport (DCMS)	ACE, British Library, DCMS Core, Gambling Commission, Horniman, NG, NHMF, NLC, NMM, NMSI, NPG, TPR, UK Sport, Visit Britain, PLR	N/A
Department of Energy and Climate Change (DECC)	Committee on Climate Change, Nuclear Decommissioning Authority, Coal Authority, Civil Nuclear Constabulary	N/A
Department for Environment, Food and Rural Affairs (DEFRA)	Animal Health Veterinary, Laboratories Agency, Food & Environment Research Agency, Environment Agency, Consumer Council for Water, Marine Management Organisation, Veterinary medicines Directorate, Centre for Environment, Fisheries & Aquaculture Science, Centre for Environment, Gangmasters Licensing Authority, Joint Nature Conservation Committee, Natural England, National Forest Company, Royal Botanic Gardens Kew, Rural Payment Agency	N/A
Department for Education (DfE)	Extensive change throughout due to machinery of government changes	

Department	Agencies and arm's-length bodies covered	Agencies and arm's-length bodies not covered
Department for International Development (DfID)	N/A	
Department for Transport (DfT)	DfT Core, DSA, DVLA, GCDA, HA, MCA, VCA, VOSA, British Transport Police, Passenger Focus, Directly Operated Railways, Northern Lighthouse Board, Trinity House, High Speed 2	N/A
Department of Health (DoH) ¹	NHSBT, MHRA, HTA, HPA, CQC, NTA, NPSA, NICE, NHSBSA, NHSLA, NHSI, NHSIC, Monitor	HFEA, CHRE
Department for Work and Pensions (DWP)	DWP, Jobcentre Plus, Pension Disability and Carer Service, HSE, CMEC, PPF, TPR, ILF, NEST, Remploy and other advisory bodies	N/A
Foreign and Commonwealth Office (FCO)	Core FCO only	BBC Worldwide, British Council, Foreign Compensation Commission, Great Britain and China Centre, Marshall Aid Commission, Westminster Foundation for Democracy, Wilton Park, FCO Services
HM Revenue & Customs (HMRC)	VOA	N/A
HM Treasury (HMT)	HMT and ALBS, (UKFI, APA, OBR, DMO)	N/A
Home Office	Home Office, UKBA, IPS, CRB, ISA, SIA, IPCC, NPIA and SOCA	N/A
Ministry of Defence (MoD)	None	All
Ministry of Justice (MoJ)	Ministry of Justice HQ; HM Courts Tribunal Service; National Offender Management Service; Legal Services Commission; HM Inspectorate of Prisons; HM Inspectorate of Probation; Prisons and Probation Ombudsman's office; Judicial Appointments Commission; Office for Criminal Justice reform; Privy council office; Court funds, Official Solicitors and Public trustee; Probation Trusts; Criminal Case Review Commission; Criminal Injuries Compensation Appeals Panel; Criminal Injuries Compensation Authority; Information Commissioners Office; Legal Services Board; Office of Information Commissioner; Office of the Legal Services Complaints Commissioner; Office of the public guardian; Parole Board; Youth Justice Board	N/A

NOTE

1 For 2011-12



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