



National Audit Office

Memorandum

for Parliament

Cabinet Office

Managing government suppliers

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National Audit Office

Cabinet Office

Managing government suppliers

Report by the Comptroller and Auditor General

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National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

Amyas Morse
Comptroller and Auditor General
National Audit Office

8 November 2013

This memorandum covers the Cabinet Office's progress in improving how the government manages its relationship with its strategic suppliers.

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

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Key facts

£40bn

estimated central government expenditure with third parties in 2012-13

40

strategic suppliers to government, as identified by the Cabinet Office

£10bn

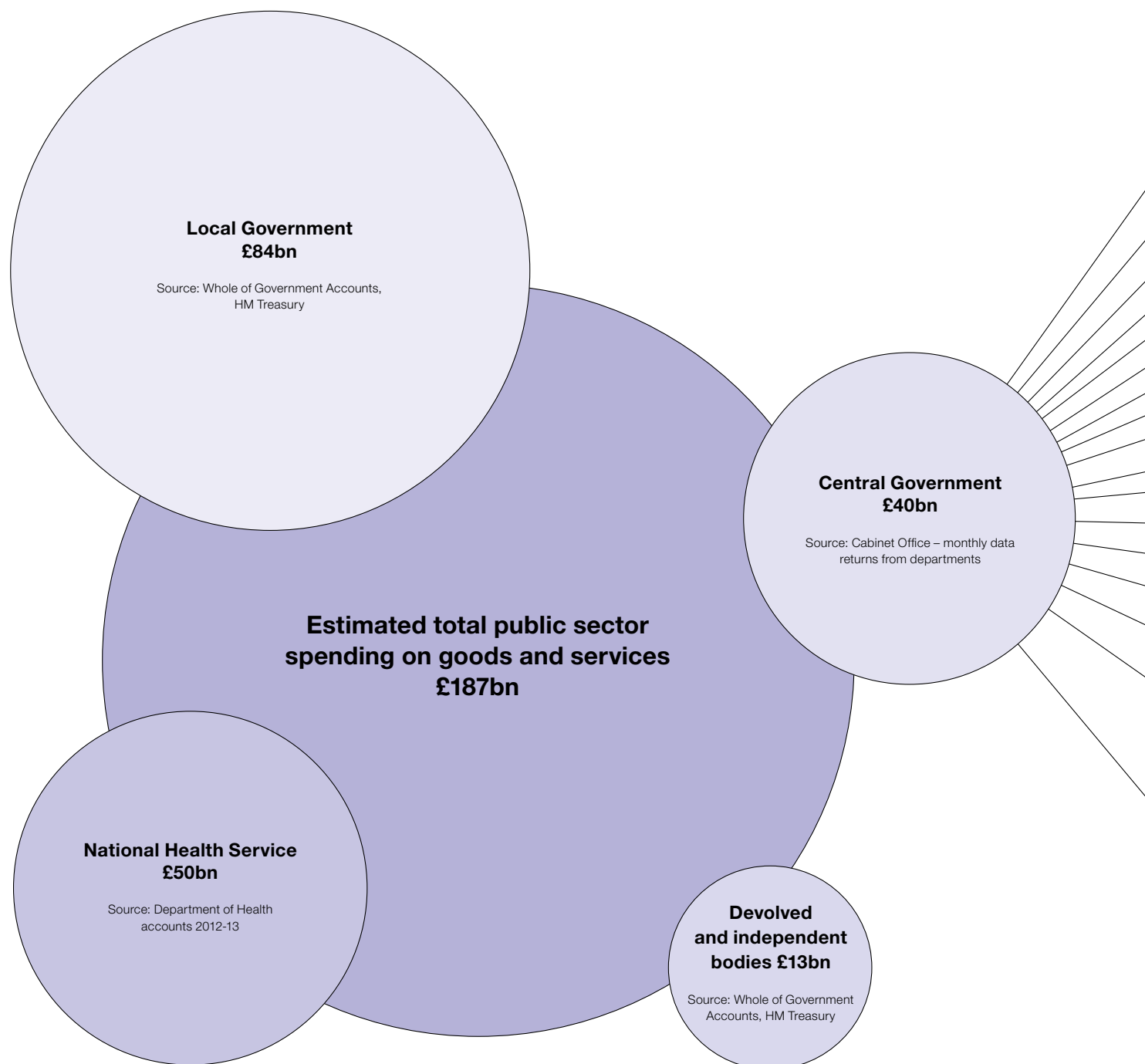
estimated central government expenditure with strategic suppliers in 2012-13

25 per cent estimated proportion of central government spending with strategic suppliers

£840 million savings reported by the Cabinet Office with strategic suppliers in 2012-13

Figure 1

Estimated expenditure with third parties across the public sector



Notes

- 1 Cabinet Office – monthly data returns from departments: The Cabinet Office estimates that departmental returns cover approximately 90 per cent of central government expenditure. Data taken from department returns to the Cabinet Office include direct expenditure only. For full details see Appendix Three.
- 2 Whole of Government Accounts: figures are for financial year 2011-12. The remainder of expenditure shown is for 2012-13.
- 3 NHS: This is a combination of NHS trusts, foundation trusts, Strategic Health Authorities and Primary Care Trusts
- 4 The total figure of £187 billion is the sum of different sources and should be seen as an estimate only.

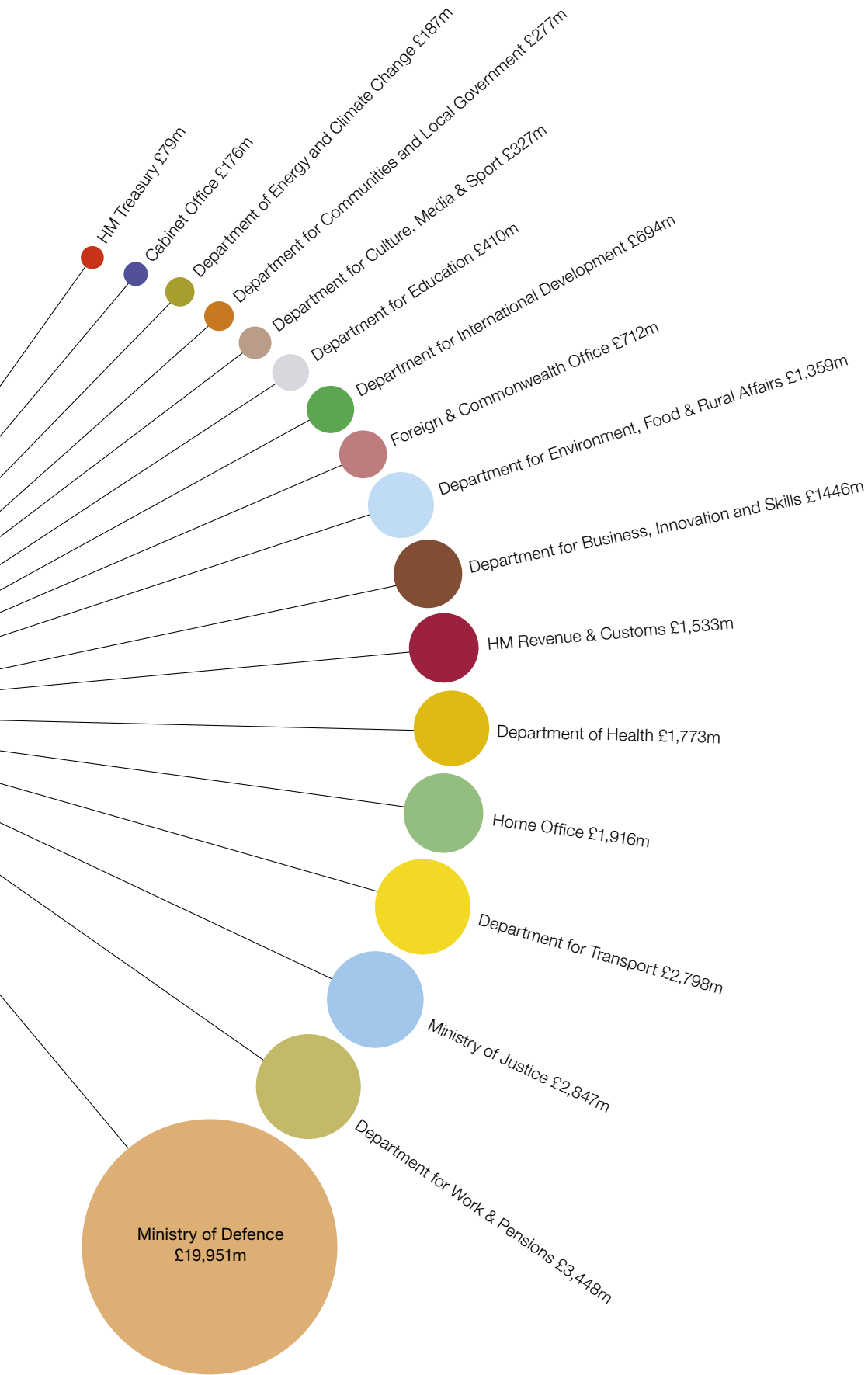
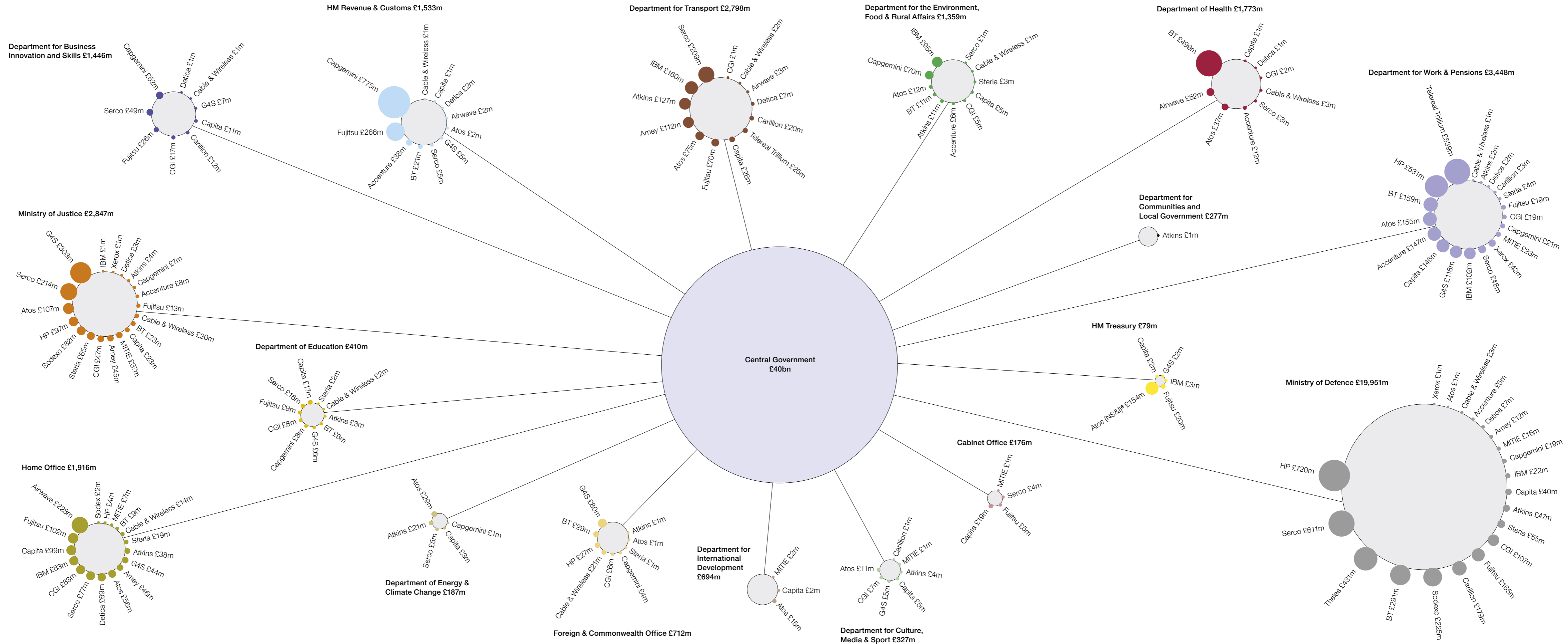


Figure 2
 Estimated central government expenditure with third parties, showing strategic suppliers



Sources and notes to figure 2

Sources

Source for department totals: Cabinet Office – monthly data returns from departments: The Cabinet Office estimates that departmental returns cover approximately 90 per cent of central government expenditure. Data taken from department returns to the Cabinet Office include direct expenditure only. For full details see Appendix Three.

Source for strategic supplier expenditure: Cabinet Office quarterly data returns from strategic suppliers 2012-13 (coverage is for 24 of the 40 strategic suppliers).

Notes

- 1 Supplier revenue figures have not been validated by departments and may differ from departmental published information.
- 2 Supplier expenditure data includes direct revenue and revenue earned through subcontracting. There may therefore be some double-counting across different suppliers.
- 3 There may be some misallocation of supplier revenue where arm's-length bodies have been incorrectly assigned to a departmental family.
- 4 Suppliers are not expected to report on low value contracts. In some cases, suppliers have included information on smaller value contracts in aggregate form. Where this has been allocated to a department, this has been included.
- 5 Some expenditure from within the wider health system could be included in the Department of Health expenditure figures.
- 6 Atos revenue of £154 million against HM Treasury is a contract with NS&I. NS&I is a non-ministerial department of HM Treasury and this figure is not included in HM Treasury's total expenditure

Summary

The government's commercial relationships strategy

1 Government uses private sector providers for a range of purposes, from procuring basic commodities to providing front-line services to the public. Many of government's suppliers work across different departments and agencies, with suppliers dealing independently with a number of contracting authorities.

2 Since 2010, the Cabinet Office has tried to establish a firmer grip on supplier management across central government. Its main objectives are to gain control over spending in departments, to share intelligence on suppliers across departments and to make savings. The Cabinet Office focused on 40 '**strategic suppliers**', selected based on the extent and profile of expenditure across central government. It has introduced a number of initiatives with these suppliers to achieve its objectives:

- **Renegotiated key contracts** with suppliers, identifying immediate savings and agreeing memoranda of understanding.
- Established the **Crown Representative** role – senior government officials responsible for leading the government's relationships with a portfolio of strategic suppliers.
- Implemented a new **spending control**, which requires Cabinet Office approval for new contracts, extensions and major changes to contracts with strategic suppliers.
- Developed a system of **strategic supplier performance management**, collating performance information from departments, agreeing overall supplier performance ratings and introducing new policies such as formally designating poor performers as 'high risk'.
- Collected a range of **management information** on strategic suppliers to inform its understanding of activity across government.

Two NAO memoranda on government contracting

3 The NAO is today publishing two memoranda to Parliament on government contracting (**Figure 3**). This memorandum covers the Cabinet Office's progress in improving how the government manages its relationship with its strategic suppliers, including:

- considering the challenges for government in managing its suppliers, setting out the initiatives put in place by the Cabinet Office, and examining how it has organised itself to deliver them (Part One); and
- assessing whether the government is getting value from its suppliers in terms of performance and savings, as well as by managing markets and delivering the government's wider commercial aims (Part Two).

4 The second memorandum gives an overview of four particular contractors to illustrate questions about the risks of over-dependency, ensuring profits reflect a fair return, and securing appropriate standards of delivery.

Figure 3

The two National Audit Office memoranda

How the issues covered by each memorandum relate to the overall themes

Theme	The role of four contractors in the delivery of public services	Managing government suppliers
Managing the relationship with strategic suppliers	Is there sufficient competition in contracted-out public services?	What is government doing to manage its suppliers more effectively?
Getting value for money from contractors	Can we see whether contractors' profits reflect a fair return?	Is government securing value from its strategic suppliers?
Managing contractors' performance	How can we know whether contractors are delivering?	Does government have an overall view of supplier performance?

Source: National Audit Office

Main findings

5 The government has not traditionally behaved as ‘one customer’, and has not made the most of its collective buying power to get maximum value from its suppliers. It makes sense for the centre of government to have a role in overseeing relationships with suppliers who are providing goods and services to a number of departments. Before 2010, government did not have central oversight of its business with suppliers, which is in stark contrast to the way suppliers manage their own business with the public sector. A central overview of the government’s portfolio of contracts allows for an understanding of the government’s dependence on particular suppliers, and comparative analysis of prices, incentives and performance. It also has the potential to improve supplier performance more generally.

6 We welcome the Cabinet Office’s focus on improving the way the government manages suppliers. It is right that the Cabinet Office should use the government’s strong negotiating position to get more value from these relationships, and it has made progress towards this. Specifically, the Cabinet Office’s actions have:

- **Enabled the government to get greater value from contracting.** The Cabinet Office now has a far better idea of what government is spending and with whom, and has put in place senior commercial individuals to lead the government’s relationship with strategic suppliers. This central overview and enhanced capability means it can identify savings by bringing the government’s collective pressure to bear in renegotiating existing contracts, and by challenging departmental bids for new work. Through the controls process, the Cabinet Office can challenge departments on factors such as the way contracts are let, the size of contracts, and the commercial reasons for extending contracts. It can also ensure that other commercial priorities for government have been considered. The Cabinet Office reported £840 million of savings in 2012-13, and previously reported £437 million for 2011-12 and £806 million for 2010-11 as a result of the commercial controls process and contract renegotiations led by the Cabinet Office and departments.
- **Sent signals that government is willing to be tough on underperformance.** The Commercial Relationships Board enables the Cabinet Office, departments and Crown Representatives to share information about suppliers, discuss performance issues on particular contracts, and agree overall supplier performance ratings. There are agreed actions to bring about improvement or influence supplier behaviour, and if they cannot be dealt with at that level, there is a clear process of escalation towards designating a supplier as ‘high risk’. This formal process has real consequences for the supplier’s future business with government, and its market position. Recent high-profile allegations of poor performance on some contracts have highlighted weaknesses in government’s ability to manage contracts, but the new processes are providing greater visibility of these issues.

7 This is a large and complex area and the Cabinet Office is still in transition to a new system of cross-government supplier management, so it is to be expected that its approach will not yet be fully developed. However, having gained some initial benefits in terms of savings and oversight of government spending with suppliers, the Cabinet Office now faces a number of challenges in developing a more mature approach. Tackling these issues is important given the Cabinet Office's ambitions to take greater control of procurement and bring commercial activity and decision-making into the centre of government from departments. This is illustrated by its plans to merge its commercial function with the Government Procurement Service to become the Crown Commercial Service.¹ In order for this approach to be successful, there are a number of issues the Cabinet Office needs to address:

- **There is some tension and uncertainty between the Cabinet Office and departments.** Central oversight and control, such as interventions through the controls process and management of supplier relationships, challenges existing accountability structures. Departments and suppliers are currently unclear where accountability lies and this has placed a strain on some relationships. It may be necessary to challenge traditional structures in order to change the system, but longer-term goals may be at risk if departments are not on board. To achieve its ambitions, the Cabinet Office will need to have clearer accountability with departments for its own performance. Clarifying the operating model for the centre and departments will also allow departments to determine how their own commercial functions should operate.
- **The Cabinet Office's commercial relationships strategy is currently focused on short-term savings, which could pose a risk to value for money in the longer term.** Its primary aim so far has been to reduce costs. In doing this, it has taken a robust approach with departments and suppliers which has yielded short-term results in terms of savings. However, this approach will become harder over time and risks missing out on longer-term value through innovation and investment. There is a balance to be struck between tough negotiations and maintaining relationships with suppliers in the longer term. Unless the risks are understood and mitigated, this may have implications for competitiveness in certain markets if it leads to suppliers exiting areas of public sector business, or deters new entrants.
- **There is a risk that the Cabinet Office's ambitions for the centre of government are not matched by the right resources, capability and information.** Taking on more responsibility at the centre creates an obligation to perform. The Cabinet Office does not currently have the right resources in place, with gaps in commercial experience and expertise below senior levels. This has restricted the extent to which the Cabinet Office has been able to build industry knowledge, and limited its credibility with departments and suppliers, who tell us that their working level contacts do not fully understand their operating environment. Focusing on 40 strategic suppliers is a sensible start but information and knowledge on this group of suppliers is inconsistent and incomplete, and scaling up this approach in future will require greater discipline.

¹ Available at: www.gov.uk/government/news/new-whitehall-central-buying-service-to-save-more-for-taxpayers

8 In implementing its commercial relationships strategy, the Cabinet Office has challenged the status quo with departments and has pushed suppliers hard in negotiations. This has created tensions, but may have been necessary to shock the system and start the process of change. However, the issues outlined above are very real risks to the government's relationships with suppliers, to the competitiveness of the market for public sector business in the long term, and for how the Cabinet Office works with departments to achieve greater benefits for government as a whole.

Part One

The challenges of contracting and the government's response

1.1 In this part we consider the challenges for the government in managing its suppliers. We set out the initiatives that the Cabinet Office has put in place to be a more effective customer, and examine how it has organised itself to deliver these.

The government contracting landscape

1.2 The public sector spends around £187 billion with private sector providers. Around £84 billion is spent by local government² and £40 billion by central government.³ An estimated £50 billion is spent by the National Health Service,⁴ with the remaining £13 billion spent by devolved and independent public sector bodies.⁵

1.3 The private sector provides a wide variety of goods and services to government, ranging from supplying basic commodities such as stationery and energy to providing front-line services such as running prisons and health services. As such, government contracts come in all shapes and sizes, and many suppliers work across a number of departments (**Figure 4** overleaf).

1.4 There are many reasons why the government contracts with third parties, for example to make the most of external expertise, because it is more cost-effective to do so, or as a means of reforming public services. Contracting with the private sector can therefore bring benefits to government, but there are risks if suppliers are not managed properly. Contract management will require different approaches depending on the contract: the challenges of managing the private sector provision of a front-line public service are different from those of managing a contract for commodities.

² Source: Whole of Government Accounts.

³ Central government defined as government departments and their associated executive agencies and arm's-length bodies, excluding the National Health Service. Source: Cabinet Office – monthly data returns from departments: The Cabinet Office estimates that departmental returns cover approximately 90 per cent of central government expenditure. For full details see Appendix Three.

⁴ Source: Department of Health accounts 2012-13 – combination of NHS trusts, foundation trusts, Strategic Health Authorities and Primary Care Trusts.

⁵ See footnote 2.

Figure 4
Examples of contracts across central government in 2012-13



Notes

- Supplier revenue figures have not been validated by departments and may differ from departmental published information.
- The revenue figures noted for both the Accenture and BT contracts for the Department of Health are likely to include revenue from NHS Trusts.

Source: Cabinet Office – Cabinet Office quarterly data returns from strategic suppliers 2012-13. Data returns cover 24 of the 40 strategic suppliers. For full details see Appendix Three.

1.5 Each central government body has contracts with many of the same organisations and traditionally has acted autonomously in commissioning, developing and managing a specific contract. Although this approach creates a close link between contracting and operational delivery, it also creates a risk that the government is not getting best value from the contracting relationship, because:

- there is no overview of how much business the government has with that particular supplier, the supplier's importance to the government as a whole, and its dominance in particular markets;
- there may be missed opportunities for collaboration across departments: for example, if a supplier is providing a similar service to more than one department there may be opportunities for efficiencies;
- the government may not be making use of its buying power as a whole to influence the supplier, to negotiate better deals, and to achieve greater efficiencies and innovation in the longer term; and
- there is no ownership of the government's overall relationship with its suppliers.

What is the government doing to manage its suppliers more effectively?

Commercial relationships strategy

1.6 Since 2010, the Cabinet Office has recognised that the centre of government needed to establish a firmer grip on supplier management. The Cabinet Office's commercial relationships strategy aims to ensure that the government acts as a single customer to make the most of its collective buying power. The key objectives of the strategy are:

- to deliver savings;
- to establish greater control over spending in departments; and
- to provide intelligence information on the government's business with suppliers across departments.

1.7 The Cabinet Office has focused its initial attention on 40 strategic suppliers to central government. It identified these suppliers using two main criteria: the amount the government spends with those suppliers and the spread of supplier activity across departments. It also conducted wider market analysis to identify some 'emerging suppliers', which are not necessarily small companies, but which have had relatively small amounts of business with government. The Commercial Relationships Board (CRB) is currently considering a change of criteria for the selection of strategic suppliers.

1.8 To achieve the objectives outlined above, the Cabinet Office has implemented a number of initiatives with its strategic suppliers:

- **Contract renegotiations:** In 2010, the government's strategic suppliers were invited to meet senior government officials to identify immediate savings within existing contracts and agree memoranda of understanding. This was initiated by the Cabinet Office and led by ministers, supported by commercial staff within departments. We have previously reported on this process in our work review of the government's ICT savings initiatives.⁶ Subsequent rounds of renegotiations have been supported by the Crown Representatives.
- **Crown Representatives:** In late 2010, following the contract renegotiations, the Cabinet Office established a group of senior government officials, who are responsible for leading the government's relationships with a portfolio of strategic suppliers. There are currently 14 Crown Representatives, made up of senior departmental and Cabinet Office staff, as well as external recruits from the private sector.
- **Controls process (strategic supplier management):** The Cabinet Office controls departmental expenditure in a number of areas, such as ICT and consultancy. To enhance controls on spending with its strategic suppliers, the Cabinet Office implemented an additional control for 'strategic supplier management'. This applies to any new expenditure with the strategic suppliers above £5 million, any contract extension with a value of over £5 million, and any material changes that will result in a contract variation over £5 million. Departments must formally submit their intentions, which are then subject to approval by the Minister for the Cabinet Office.
- **Strategic supplier performance management:** The Cabinet Office collects performance information on each contract with the strategic suppliers every six months. It also gathers ad hoc intelligence from departments each month, compiling this in a briefing pack to inform discussions at CRB. Each of the strategic suppliers is assigned an overall performance rating of red, amber or green. Ratings are based on operational delivery, but also other factors including the savings they have made and their level of engagement with government's wider commercial agenda, such as encouraging the participation of small and medium-sized enterprises (SMEs) in the supply chain. There is also a 'high risk' rating, based on poor performance or financial risk, which entails a formal process of designation and an improvement plan.⁷
- **Data collection:** The Cabinet Office collects management information from departments and suppliers to inform its understanding of activity across government. This includes data on expenditure and savings, and information on performance for each of the strategic suppliers.

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

7 Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/80222/20121108_Strategic_Supplier_Risk_Management_Policy.pdf

Strategic suppliers

1.9 The Cabinet Office holds two sources of expenditure data on strategic suppliers:

- Monthly departmental returns, which cover all suppliers and feed into a central spend analysis tool.
- Quarterly supplier returns, which contain data on revenue, savings and upcoming business. The Cabinet Office collects this information for only 24 of the 40 suppliers.

1.10 According to departmental data returns, central government spent an estimated £10 billion on goods and services directly with its strategic suppliers in 2012-13, some 25 per cent of total central government expenditure (**Figure 5** overleaf).⁸

1.11 Some of government's largest suppliers work across a small number of departments. In these cases, responsibility for managing the supplier relationship rests with departments, some of which have their own strategic supplier management systems in place. The Cabinet Office's strategic suppliers are not necessarily those with the biggest expenditure, but rather where oversight across government can add value. The government's business with these suppliers is highly varied. Some suppliers have a small number of high-value contracts while others have a large portfolio of smaller contracts.

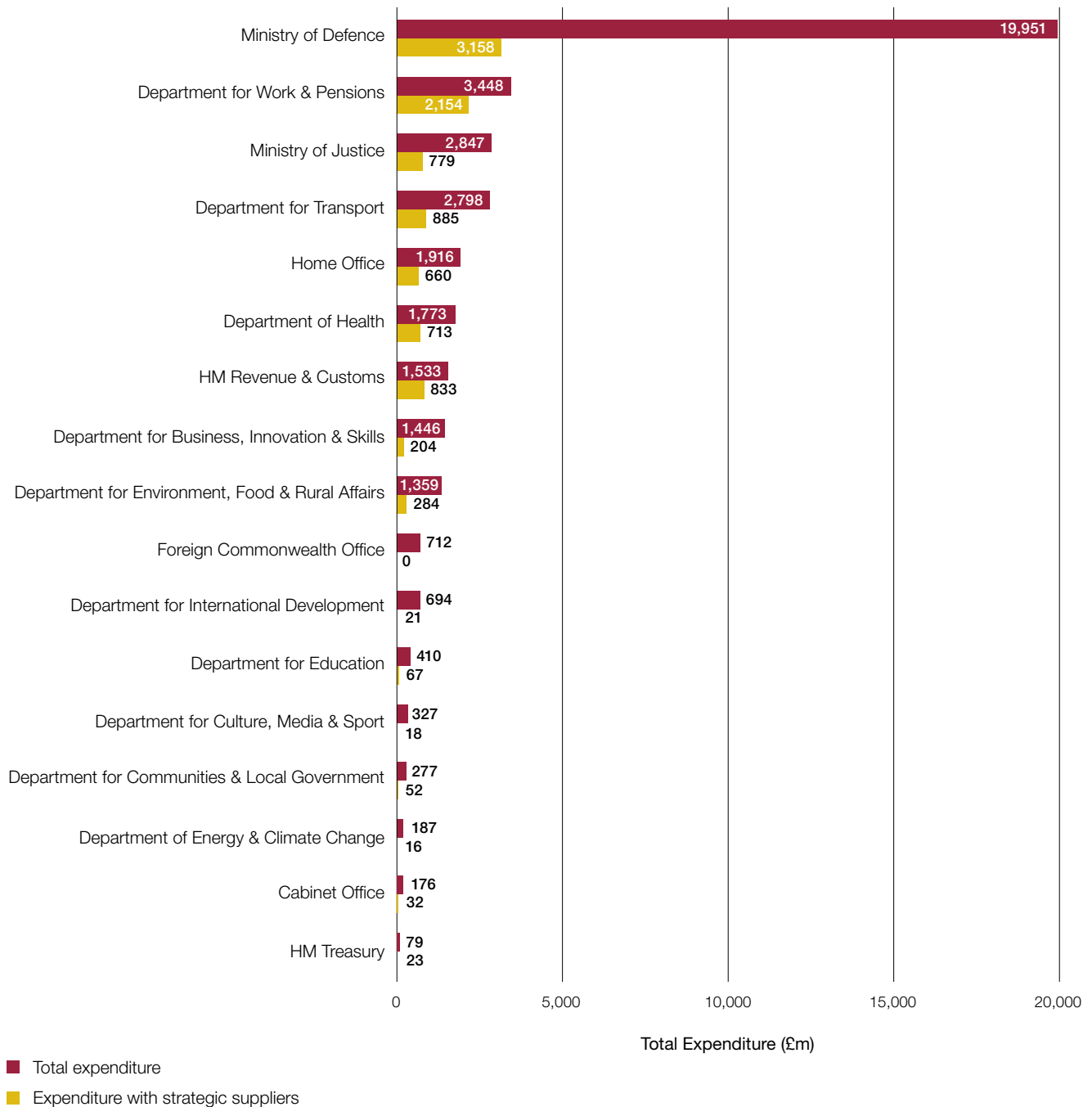
1.12 There is further potential to benefit from cross-government supplier management; in particular in the wider public sector, where third party expenditure of £84 billion is considerably greater than that of central government. This is reflected in the profile of expenditure with some of the strategic suppliers; in the case of Capita, for example, only 45 per cent of its business with the UK government is in central government departments and agencies, and the remainder of activity is in the wider public sector. However, for the most part, conversations between the Cabinet Office and suppliers are focused on central government (**Figure 6** on page 21).

How is the government organised to manage its strategic suppliers?

1.13 The Cabinet Office has introduced a number of new mechanisms and made changes to its structure so it can achieve its objectives of managing suppliers across central government. These include positive steps towards managing suppliers more effectively, but there are some areas that are not yet fully developed which limit the potential benefits.

⁸ Calculated excluding the figure for the Department of Health as the majority of this is made up of NHS expenditure, which falls outside of central government.

Figure 5
Strategic supplier spend vs. total procurement spend by department



Notes

- 1 The data is taken from the Cabinet Office's spend analysis tool which receives monthly data feeds from departments. Suppliers have not validated this data.
- 2 Data taken from department returns to the Cabinet Office include direct expenditure only.
- 3 Expenditure with strategic suppliers excludes data for: Amazon, CGI, Cisco, Cognizant, Infosys, Level 3, Post Office, SAP and Wipro.
- 4 The strategic supplier expenditure figure for HM Revenue & Customs includes expenditure through the Aspire contract, which includes CapGemini, BT, Accenture and Fujitsu.

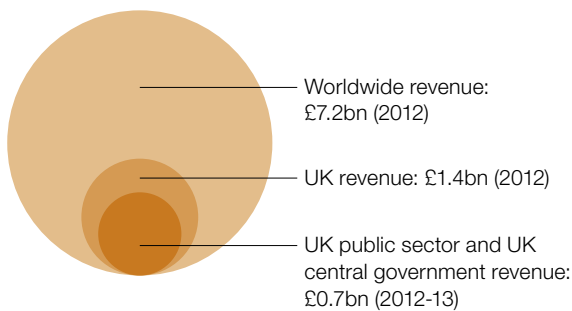
Source: Cabinet Office – monthly data returns from departments. The Cabinet Office estimates that departmental returns cover approximately 90 per cent of central government expenditure. For full details see Appendix Three

Figure 6

Profile of business: examples of four suppliers

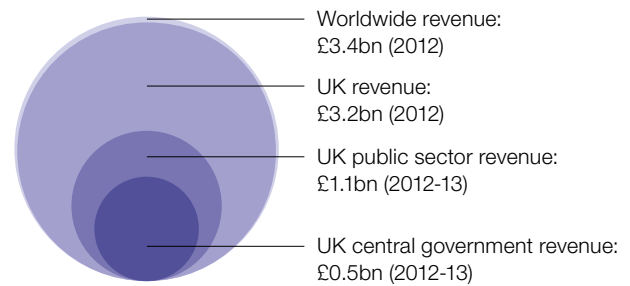
Atos

Percentage of UK government business with central government unavailable



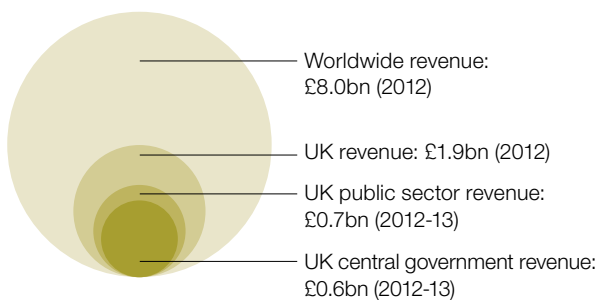
Capita

45 per cent of UK government business with central government



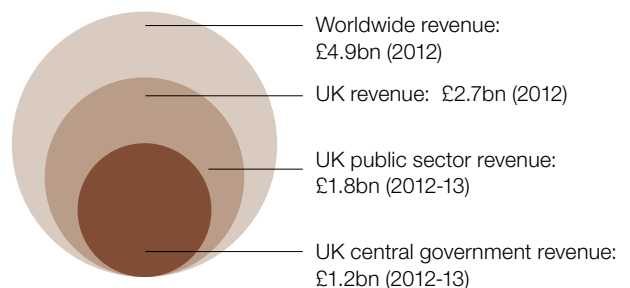
G4S

86 per cent of UK government business with central government



Serco

66 per cent of UK government business with central government



Notes

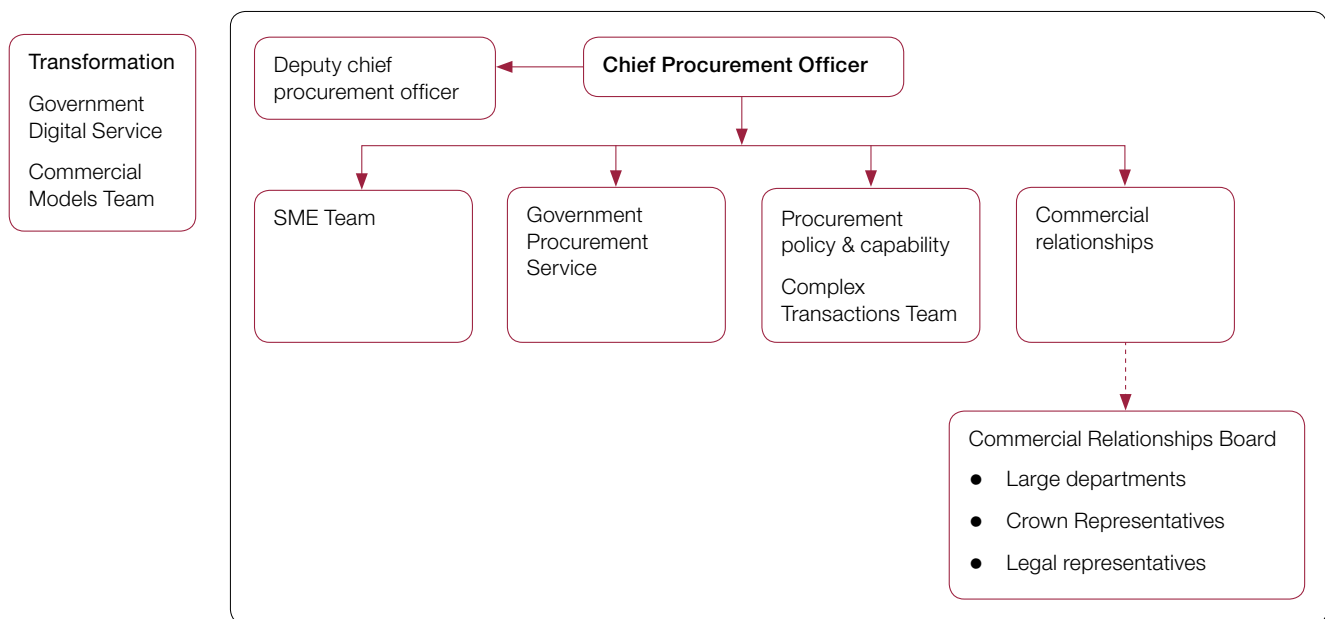
- 1 Worldwide and UK revenue figures as reported in contractors' 2012 accounts, UK public sector and UK central government revenue are amounts received in cash in 2012-13 as reported by the contractors to the Cabinet Office.
- 2 UK public sector figures exclude devolved spending in Scotland, Wales and Northern Ireland.
- 3 G4S's UK public sector and central government revenue figures exclude £142 million of revenue from contracts relating to the Olympics (before the settlement).
- 4 Examples from the accompanying memorandum, *The role of major contractors in the delivery of public services*.

Source: For public sector and central government revenue: Cabinet Office – quarterly data returns from strategic suppliers. For full details see Appendix Three and source for UK and worldwide revenue: Contractors' 2012 accounts

Organisational structures

1.14 The Cabinet Office established the position of Chief Procurement Officer (CPO) and a number of teams, reporting to the CPO, which deal with commercial and procurement issues. The Commercial Relationships Team leads on the commercial relationships strategy, including the spending controls process for business with strategic suppliers. The team also provides support to the Crown Representatives in the form of supplier and market intelligence. The Complex Transactions Team also reports to the CPO; this team provides ad hoc support to departments in letting large contracts, and collates the strategic supplier performance reports. There are other teams that have interactions with the Commercial Relationships Team, mainly in the controls process (**Figure 7**).

Figure 7
Cabinet Office: Structure



Source: National Audit Office and Cabinet Office

1.15 The Commercial Relationships Board (CRB) was established in May 2012, and is composed of all Crown Representatives, six of the larger departments,⁹ senior Cabinet Office commercial staff and government legal representatives. The CRB's role is to:

- agree and regularly review objectives and strategy;
- set core priorities for government in managing its strategic suppliers;
- agree and regularly review progress against its programme of work and the planned savings;
- monitor and support the resolution of risks and issues with suppliers;
- make decisions on how to manage strategic suppliers; and
- share significant issues relating to the strategic suppliers.

1.16 Our review of the CRB minutes indicated that it had evolved since its inception, with more time now spent discussing the performance of strategic suppliers and agreeing actions to bring about improvements or influence supplier behaviours rather than reviewing processes and policies. However, smaller departments that are not represented on the CRB expressed frustration that there is little opportunity to provide input beforehand, and that the content and outcomes of the meetings are not communicated afterwards.

Crown Representatives

1.17 In late 2010, the Cabinet Office established a group of senior government officials who are responsible for leading government's relationships with its strategic suppliers. There are currently 14 Crown Representatives, made up of six departmental commercial directors and senior staff; four Cabinet Office or Government Procurement Service senior staff; and four specialist appointments from industry, recruited in April 2013. These look after between one and six suppliers, and report to the Chief Procurement Officer. There are an additional four Crown Representatives with responsibility for the banking, insurance, SME and voluntary sectors.

⁹ The departments represented are: the Ministry of Defence, the Ministry of Justice, the Home Office, HM Revenue & Customs, the Foreign & Commonwealth Office, and the Department for Work & Pensions.

1.18 The candidate briefing in the recent recruitment for Crown Representatives states that they will be responsible for:

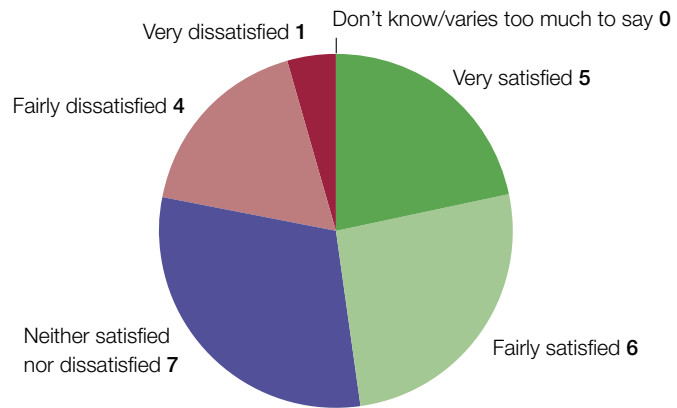
- providing leadership on the overall relationship between HM Government and the supplier;
- identifying opportunities to secure better value for money and agreeing savings proposals and reform ideas;
- advising ministers on the government's engagement with these suppliers, and support the negotiation and controls process;
- developing an understanding of the pipeline for these suppliers; and
- working closely with departments, contributing to (and where appropriate leading on) the management and resolution of disputes.

1.19 This approach is the right one and departments have told us of positive interactions with Crown Representatives, for example in resolving disputes or raising issues with suppliers. Some adopt a more active role, in particular in the controls process. Suppliers are also supportive of the aims of government in trying to act more coherently as a customer, and there are some encouraging examples of positive engagement with the Crown Representatives. Our survey of strategic suppliers shows that they are more likely to speak positively of the relationship than negatively, and say that it has improved in the last two years (**Figure 8**).

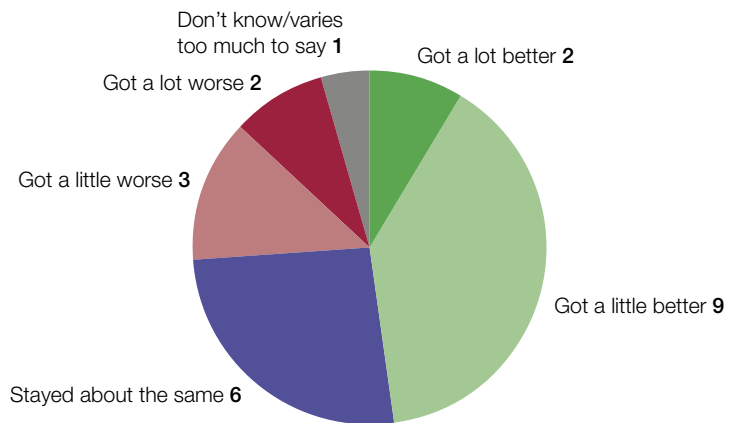
1.20 Crown Representatives have the potential to achieve more from their unique position. The CRB agreed that Crown Representatives should have individual objectives and 'supplier management plans' for each supplier, but the Cabinet Office was unable to confirm whether the objectives had been agreed or if the plans had been completed. The result is that neither departments nor suppliers are clear on the role and remit of the Crown Representatives. Their role could consist of any combination of the responsibilities outlined in the candidate briefing; our interviews with departments, suppliers and Crown Representatives themselves show that there is a great deal of variation in the focus of their activity.

Figure 8
Suppliers' views of Crown Representatives

Overall, how satisfied or dissatisfied would you say you are with the relationship your organisation has with your Crown Representative?



Over the past two years, how would you describe changes to your organisation's relationship with your Crown Representative?



Notes

- 1 The National Audit Office surveyed all 40 strategic suppliers between 22 August and 27 September 2013. Figures are absolute numbers rather than percentages. Base = 23 (58 per cent response rate).
- 2 Due to the low base size, results should be seen as indicative only.

Source: National Audit Office survey of strategic suppliers

1.21 Departments report an inconsistent level of engagement with Crown Representatives, with smaller bodies having relatively little contact. Suppliers also report a varied picture, with some having had little interaction. In some cases, suppliers have said that the relationship is consistently adversarial. The government should be negotiating strongly with suppliers, including through the Crown Representatives, and suppliers should expect to be challenged, but the nature of some of the engagement could be unhelpful in the long term. The Crown Representatives have different backgrounds; some are senior commercial figures in government, while others have been recently recruited from the private sector. There are advantages and disadvantages to each, and a balance of experience across the group is likely to be beneficial. There will be understandable variations in style, and different approaches will be required for different suppliers. However, there are some basic expectations which could be standard such as a minimum frequency of contact, and a consistent role in the controls process. Without clear terms of reference for the role, clear accountability for their actions, and formalised objectives, it is difficult to measure benefits and be sure that they are achieving their potential.

1.22 There is an issue of capacity, with all Crown Representatives undertaking the role on a part-time basis. This is particularly notable in the case of those whose primary position is as a commercial director within a department. Greater time allocated to the role would allow capacity to build understanding of industries and be specialists in particular markets. It would also allow a wider engagement across more contracting authorities, and across the wider public sector.

Accountability

1.23 Departments and their associated organisations are the 'contracting authorities', responsible for managing contracts. Accountability for the performance of contracts rests with departmental permanent secretaries. These traditional structures of accountability are challenged as the Cabinet Office takes on more commercial activity on behalf of government departments.

1.24 The controls process enables the Cabinet Office to review business cases for new procurements, challenge departmental operational requirements and insist on changes prior to recommendation to the Minister for the Cabinet Office. This has allowed the Cabinet Office to have a better overview of strategic suppliers' business with the government, and to identify savings. However, departments remain accountable for the success or failure of that contract, and for their own expenditure decisions. The Cabinet Office does not challenge the department's requirement itself but questions the way in which contracts are let; however, departments do not feel that the Cabinet Office always understands their business well enough in making these decisions.

1.25 The Cabinet Office, through Crown Representatives and the Commercial Relationships Team, is now involved in managing the relationship with strategic suppliers who may also be of strategic importance to individual departments. Departments tell us that the Cabinet Office does not always communicate with them about this engagement and they are concerned about the impact that this contact may have on their supplier relationships. From a supplier perspective, this can create uncertainty as to who owns contracts and whether departmental decisions may be overturned.

Management information

Collecting and using information

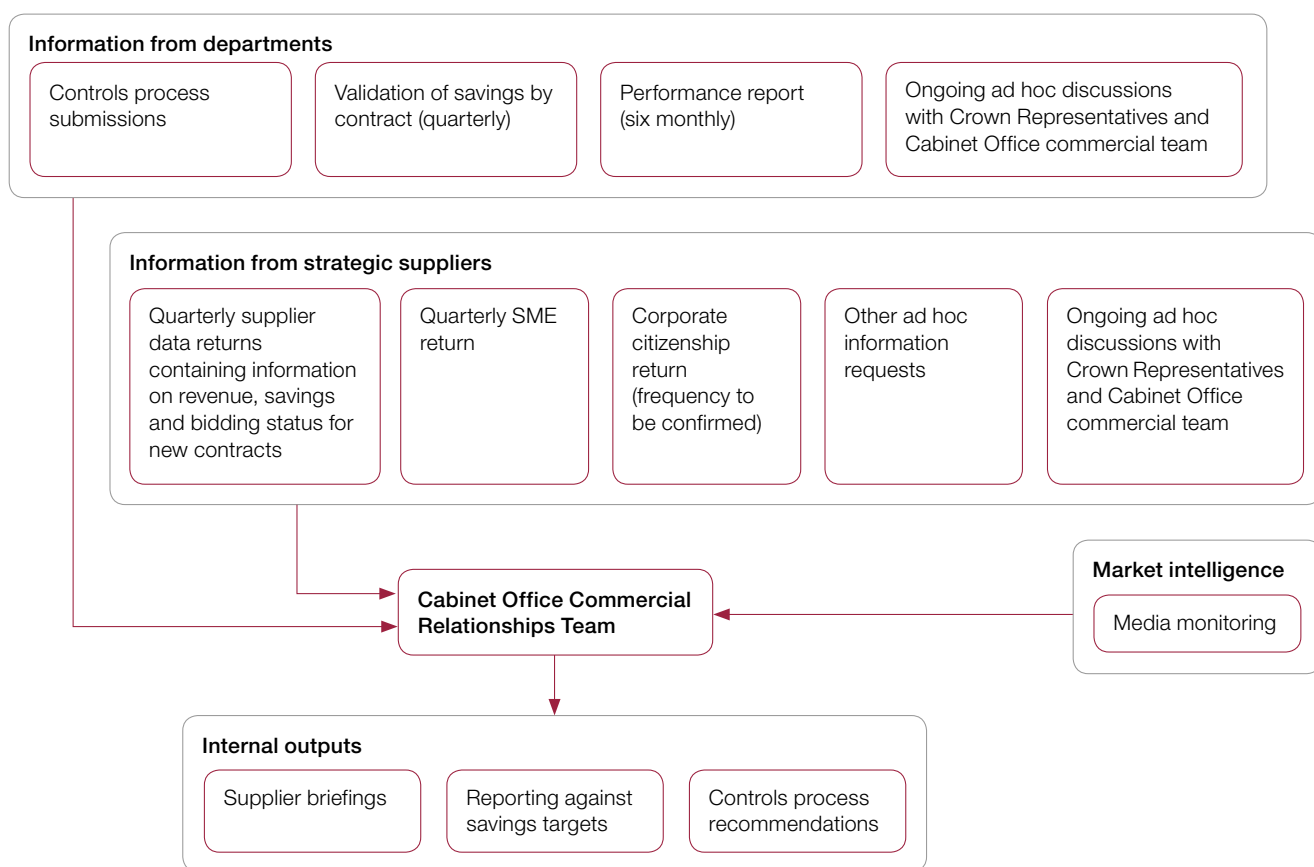
1.26 The Cabinet Office collects a range of information from departments and suppliers, including expenditure, savings and performance data. This information is intended to inform Crown Representatives when meeting suppliers and to inform discussions at the Commercial Relationships Board. In collecting this information for the first time, the Cabinet Office has made progress in understanding its suppliers, including the extent of government's dependence on particular suppliers, and a central overview of their performance across a range of contracts.

1.27 It is important for the Cabinet Office to collect a range of data to improve its understanding and inform its engagement with suppliers. It has had difficulties in some instances in obtaining the data from departments, who do not always have the right information readily available. Data collection will come with a certain amount of necessary burden, but we would expect departments to collate some information for their own purposes. However, some departments told us that there is duplication between requests, with different parts of the Cabinet Office requesting similar data in different ways, and that requirements for supplying data have changed frequently. Departments tell us the flow of information is largely one-way, and that they do not see how the information is used.

1.28 The suppliers we interviewed presented a similar picture; data requirements create additional cost, and these have not always been incorporated in contracts. The Complex Transactions Team within the Cabinet Office is currently working on some new draft terms and conditions for ICT and contracted-out services contracts, which will include the requirement for regular management information from suppliers. Suppliers also tell us that they have little sight of how the information provided is used.

1.29 The following is our best understanding of the data requested of departments and suppliers on a regular basis, as well as ad hoc data requests (**Figure 9**). Information is collected from both sources by a number of teams within the Cabinet Office, including the Commercial Relationships Team, the Complex Transactions Team, and the SME team. This creates the risk of duplication of effort, and of placing unnecessary burden on departments and suppliers.

Figure 9
Management information on suppliers collated by the Cabinet Office



Source: National Audit Office and Cabinet Office

1.30 In response to the Read Review,¹⁰ which recognised that there was a need for the centre of government to exercise control over its requests to departments for information, the Cabinet Office conducted a review of all its data collections. It has recently created a 'consolidated data request' process; a central web hub that is intended to provide a comprehensive list of all data requests.

1.31 The Cabinet Office has made progress in understanding what the government spends and with whom. As we noted in our *Improving government procurement*¹¹ report, it started from a low baseline, as there was previously no central source of spending data. The Cabinet Office collects data from departments monthly, feeding this into a spend analysis tool. The Cabinet Office claims that coverage of central government expenditure in this tool stands at around 90 per cent. However, the main source of data on strategic suppliers used by the Cabinet Office is collected from the suppliers themselves. This includes data on current expenditure and on bids for upcoming government contracts. As part of the supplier data returns, the Cabinet Office also collects savings identified by suppliers. This information is sent to departments to validate, and the final figures contribute to the Cabinet Office's overall savings targets.

1.32 The Cabinet Office's collection of data from strategic suppliers is incomplete – it was only able to supply us with this data for 24 of the 40 suppliers. Expenditure data from the suppliers also exposes gaps in the Cabinet Office's data collected from departments, with supplier returns typically having a more complete picture than the returns from departments. Much of the difference may be explained by the way expenditure through other suppliers is accounted for; for example, if the supplier return includes government business for which it is a subcontractor but the departmental return shows that expenditure to be with the prime supplier.

1.33 In terms of performance data, departments monitor performance on individual contracts through key performance indicators. The government has not traditionally had an overview of supplier performance across departments. The Cabinet Office has not created a standard way of monitoring performance across departments, but as a starting point it has twice run a survey of departments on supplier performance on ICT, business process outsourcing and facilities management contracts. It gathers information for these contracts above £20 million with the strategic suppliers. This covers current contracts and previous similar contracts within the last three years. The survey asks for basic performance information such as whether the contract is being delivered on time, to scope, to budget, to the appropriate standards, and whether there have been any disputes.

¹⁰ *Practical Steps to Improve Management Information in Government*, published in July 2012.

¹¹ Comptroller and Auditor General, *Improving government procurement*, Session 2012-13, HC 996, National Audit Office, February 2013.

1.34 This information is collated centrally every six months, and is the first attempt to gather performance information at the centre. However, some departments take several months to respond and there is limited validation of the completeness or quality of the responses. Furthermore, the process of collating and inputting the information into a database is manual and time-consuming. Its use is therefore not as a live source of performance intelligence, but as a historical record. As such, it is not the primary source for supplier briefings, or for informing discussions at the Commercial Relationships Board.

Data handling and storage

1.35 There are weaknesses in the Commercial Relationships Team's handling and storage of data, as well as in its documentation of interaction with suppliers. The Cabinet Office introduced an online tool for managing the process; this also has the ability to store supporting documents. This is a positive step, but it is not currently used for this purpose. The team does not use a central system for storing documentation for decision-making; instead it is reliant on storage locally by individuals. The team has multiple engagements with suppliers and departments, leading to commercial decisions, judgements about performance, or agreed actions. There is a risk that, under current arrangements, there is no record of engagement with suppliers, including the basis for decisions such as blocks applied during the controls process, or that important information may be lost. During the course of this audit, the Cabinet Office took a considerable amount of time to locate a number of historical documents, such as CRB minutes and supporting briefing papers.

1.36 Data security is particularly important in this environment as the Commercial Relationships Team handles highly sensitive commercial information relating to the strategic suppliers, including information on profit margins and performance. In the last 18 months, there has been at least one incident in which confidential information relating to a supplier was released in error.

Capability

1.37 Within departments, contract management is often undertaken by project managers as part of their portfolio of work, rather than by commercially experienced individuals. Commercial skills gaps have already been recognised as one of four key priorities for improvement within the *Civil Service Capabilities Plan*.¹² The Plan makes it clear that this is not just about building up procurement skills in specialist teams, but making sure that "all civil servants in policy development and delivery are commercially astute". Furthermore, the Plan states that the government needs to be organised to make the best use of specialist commercial skills.

¹² Available at: my.civilservice.gov.uk/wp-content/uploads/2013/02/2900908-Capabilities-Plan-with-links.pdf

1.38 The Cabinet Office has enhanced commercial skills at the centre of government in establishing the Crown Representative role and recruiting senior commercial individuals from the private sector. It has also boosted commercial skills at a senior level elsewhere in the Cabinet Office, most notably within the Complex Transactions Team. However, below the senior levels there is little commercial experience. This has restricted the extent to which the Cabinet Office has been able to build industry knowledge, and limited its credibility with departments and suppliers, who tell us that their working level contacts do not fully understand the issues.

1.39 The ambitions of the Cabinet Office are substantial and growing, as the commercial function merges with the Government Procurement Service to form the Crown Commercial Service (CCS).¹³ The CCS aims to bring together policy, advice and direct buying to link policy and implementation more closely. It will buy common goods and services on an aggregate basis, as well as providing expertise for more complex transactions. However, the gaps in capability mean that the Cabinet Office faces challenges in meeting its aims in this area. The need to build commercial capability in the CCS is recognised in its strategy, and the Cabinet Office has plans to boost experience through external recruitment and transfer from elsewhere in government.

¹³ Available at: www.gov.uk/government/news/new-whitehall-central-buying-service-to-save-more-for-taxpayers

Part Two

Is the government securing value from its strategic suppliers?

2.1 In this part we assess whether the government is securing value from its suppliers in terms of performance, savings, by managing markets, and in terms of achieving its wider commercial aims.

Is the government securing value through performance management?

Contract management

2.2 As contracting authorities, departments retain responsibility for managing their own contracts. This includes managing the operational relationship with the supplier and managing performance against the contract requirements, including setting key performance indicators (KPIs) and monitoring against these.

2.3 We have previously reported on delivery issues in departments that point to gaps in contract management. Issues that have emerged include:

- disproportionate allocation of risk;
- inadequate monitoring of contracts – either insufficient information to support KPIs or the wrong KPIs;
- changes to contracts after they have been let; and
- lack of market engagement prior to letting the contract.

2.4 For example, in the Department for Work & Pensions' Pathways to Work,¹⁴ contracts were set up in a way that allowed prime contractors to pass on a disproportionate amount of risk to subcontractors. Prime contractors sometimes withheld payments from subcontractors and referred harder-to-help claimants to them. The Department now has a code of conduct intended to regulate their relationship, including whether the relationship is equitable.

¹⁴ Comptroller and Auditor General, *The introduction of the Work Programme*, Session 2010–2012, HC 1701, National Audit Office, January 2012.

2.5 The Ministry of Justice has contracts in place with G4S and Serco for the use of electronic monitoring to confirm that individuals are in their curfew locations at the required times. Such monitoring can apply to individuals on bail, as part of a community-based sentence, or as part of early release from custody. The Ministry identified some potential irregularities in the charges made by the contractors when it obtained data as part of the process for putting in place new contracts.

Assurance and controls

2.6 As with managing contracts, departments retain responsibility for ensuring that suppliers maintain the standards expected. This presents a particular challenge where a contractor is providing a front-line service in an environment devolved from the contracting authority. First, many of the standards expected of all public services are not easily susceptible to contractual specification. It is not possible, for instance, to contract for 'integrity' or the 'spirit of the law'. Second, achieving the standards expected for public service depends to a large degree on the corporate culture, control environment and ethics of the contractor. It is not easy, however, to use contract negotiations to meaningfully assess and set standards for the contractor as a whole.

2.7 The recent issues over billing arrangements in the Ministry of Justice electronic monitoring contracts with G4S and Serco highlight the need for a better control framework from departments over service delivery by the contractor. The Cabinet Office is currently undertaking a cross-government review of G4S's and Serco's contracts with the government to establish if there are any further issues. There are a number of reviews under way on government contracting as at November 2013 (**Figure 10** overleaf).

Cross-government performance management

2.8 At a cross-government level, the centre of government previously had no oversight of the performance of suppliers across departments, with the risk that a supplier performing poorly in one department could win a bid for a similar contract in another department, without performance concerns being discussed. The Cabinet Office has recognised this as an issue and established a series of initiatives with its strategic suppliers to understand and improve performance.

2.9 The Cabinet Office has implemented a programme of strategic supplier performance management – a system of performance ratings assigned to each of its strategic suppliers. Crown Representatives, with the support of the Commercial Relationships Team, produce a summary for each supplier in their portfolio, made up of information on performance, upcoming work and financial data. This includes a recommendation for a performance rating for each supplier (**Figure 11** on page 35). Behind this sits a more detailed supplier briefing, although it is clear from these that the information held on the strategic suppliers is variable. Performance information contained in this briefing is gathered through regular contact between the Cabinet Office and departments.

Figure 10
Recent and current reviews of government contracting

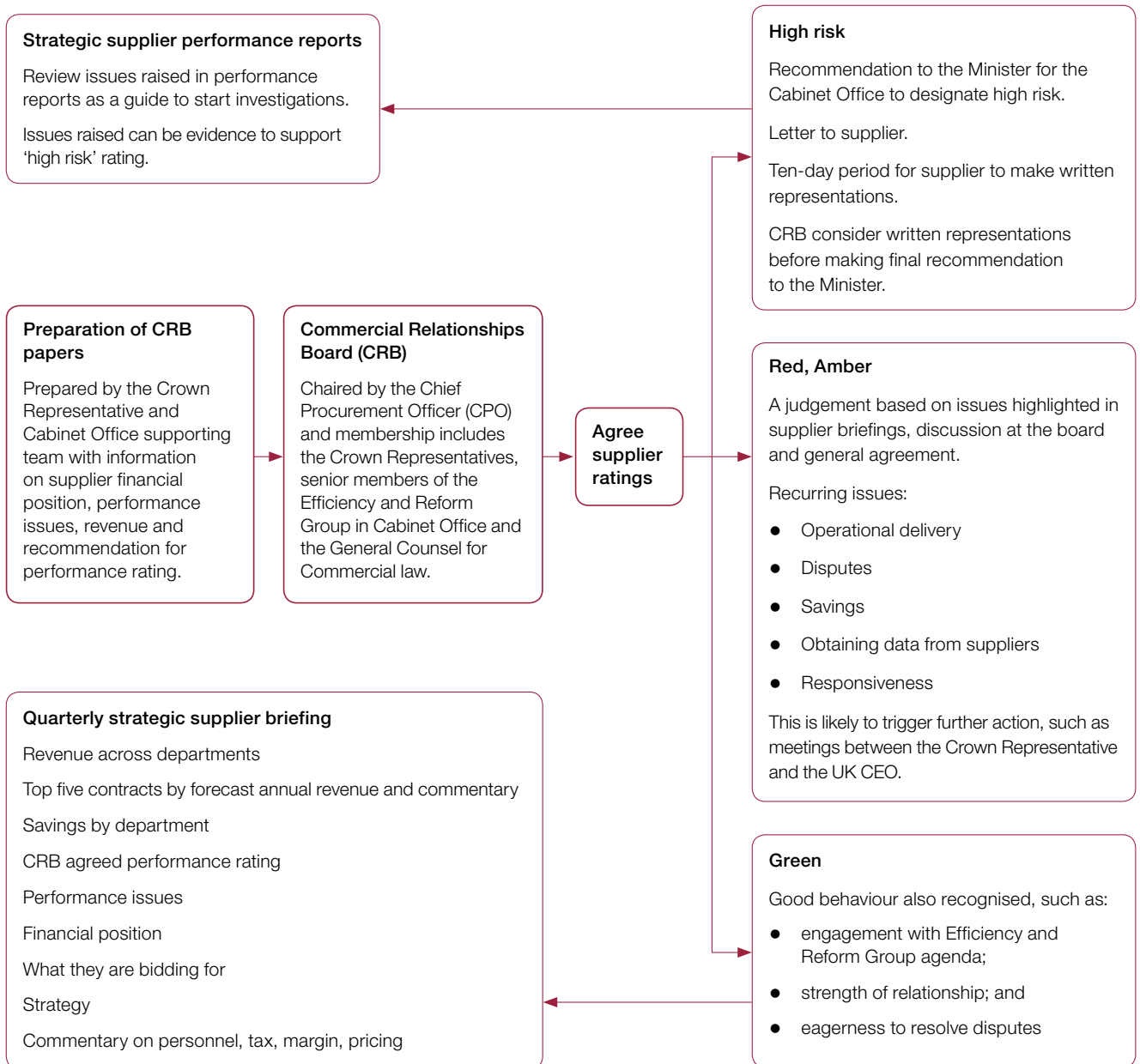
Topic (contractor)	Organisation leading the review	Summary
Cornwall out-of-hours care (Serco)	National Audit Office (published 7 March 2013) ¹	Whistleblowers raised a number of concerns with the service in 2012. The NAO found both shortfalls in performance and misreporting of information.
Suffolk community health care (Serco)	National Audit Office	The NAO is currently undertaking an investigation into this contract.
Electronic monitoring contracts (G4S and Serco)	Ministry of Justice ²	The Ministry of Justice identified a number of issues surrounding the way in which it had been billed for monitoring under the current electronic monitoring contracts, and commissioned an independent audit of the billing arrangements under both contracts with G4S and Serco.
	National Audit Office	The NAO is currently undertaking a review of the management of these contracts by the Ministry of Justice.
	Serious Fraud Office ³	The Director of the Serious Fraud Office has opened a criminal investigation into G4S and Serco electronic monitoring contracts.
Ministry of Justice's contract management	Ministry of Justice ²	A review of contract management across the Ministry of Justice's major contracts, overseen by the Department's lead non-executive director, Tim Breedon.
All major G4S and Serco government contracts	Cabinet Office ⁴	The Cabinet Office has commissioned a cross government review of the management of major contracts held by G4S and Serco. The review has three aims: <ul style="list-style-type: none"> ● To investigate the management of certain contracts held by Serco and G4S. ● To gather information to form a wider perspective of the contract management of major contracts across government. ● To inform a programme of improvements to the management of these contracts.
Prisoner escorting and custodial services (Serco)	Ministry of Justice/ Metropolitan police ⁵	Following complaints from the courts and as part of its internal contract review, the Ministry of Justice identified potential irregularities in performance reporting. The Ministry and Serco referred the case to Metropolitan Police.
Compass contracts for asylum accommodation (Serco, G4S and Clearel)	National Audit Office ⁶	The review will focus on the transition arrangements to the new contracts and their early operational performance including supplier and subcontractor compliance with the terms of the contracts, as well as examining the quality of accommodation provided.
Atos management of the Work Capability Assessment	Department for Work and Pensions (findings announced July 2013) ⁷	Following concerns from a previous smaller audit, the Department commissioned further audit of over 400 exam reports between April and July 2013. This found 41 per cent of face to face assessments completed between October 2012 and March 2013 did not meet the required standards, although the Department acknowledged that this did not necessarily mean recommendations were incorrect.

Notes

- ¹ Comptroller and Auditor General, *Memorandum on the provision of the out-of-hours GP service in Cornwall*, Session 2012-2013, HC 1016, National Audit Office, March 2013.
- ² Available at: www.publications.parliament.uk/pa/cm201314/cmhansrd/cm130711/debtext/130711-0002.htm
- ³ Available at: www.sfo.gov.uk/press-room/latest-press-releases/press-releases-2013/g4s-and-serco-investigation.aspx
- ⁴ Available at: www.gov.uk/government/news/review-of-government-g4s-and-serco-contracts
- ⁵ Available at: www.gov.uk/government/news/moj-audit-of-serco-contracts-prison-escort-services
- ⁶ Available at: www.nao.org.uk/press-releases/investigation-into-the-home-office-compass-contracts/
- ⁷ Available at: www.gov.uk/government/news/hoban-taking-action-to-improve-the-work-capability-assessment

Source: National Audit Office

Figure 11
Strategic supplier performance management



Source: National Audit Office and Cabinet Office

2.10 The recommended performance ratings for each supplier are discussed and agreed at the Commercial Relationships Board (CRB). The ratings have changed more than once since their inception, but they are currently defined in **Figure 12**. The overall picture is positive, with 73 per cent of the strategic suppliers rated 'green' at the time of publication.

2.11 The discussions about each supplier at the CRB result in actions for the Crown Representatives to discuss with senior contacts within the company. This is a sensible approach and is the first time that the Cabinet Office has taken a cross-government view of performance. The CRB provides a means of moderating assessments across the suppliers, and this represents a step forward. However, it is not clear what is expected of suppliers to achieve a given rating; the ratings definitions include operational performance, but performance also includes wider issues such as the delivery of savings, policies on small- and medium-sized enterprises (SMEs) in the supply chain, and the provision of data. There are no agreed criteria or standards at a cross-government level. Some degree of judgement is to be expected, but currently there is no consistent approach to assigning ratings.

2.12 Strategic suppliers are not formally told of their assigned rating, with the exception of the black 'high risk' rating. This policy, introduced in November 2012, instigates a formal process with the supplier. The CRB will first designate a supplier 'high risk' in principle, and they are then given the opportunity to respond. The response is reviewed and a formal recommendation made by the CRB to the Minister for the Cabinet Office for approval. Once designated high risk, the policy states that contracting authorities should seek to reduce the extent to which they are given additional work under existing contracts. However, designation as high risk does not impact on awarding new contracts.

Figure 12

Performance ratings of government's strategic suppliers

Rating	Definition
Green	No known issues or isolated issues being handled through the business as usual channels.
Amber	There are material concerns with the supplier across one or more contracts.
Red	Significant material concerns for CRB to consider high risk designation. If agreed by CRB this acts as the 'provisional high-risk' designation.
Black (high risk)	Supplier is designated as 'high risk' under the strategic supplier risk management policy.

Note

1 Previously, the Cabinet Office also employed a 'Red/Amber' rating and a 'Green/Amber' rating.

Source: Cabinet Office

2.13 Performance management ratings and the possibility of a 'high risk' rating have sent signals that the government is willing to be tough on underperformance. Suppliers will want to avoid the implications for their reputation and financial position of being deemed a poor performer by the UK government, and this provides the Cabinet Office with a useful tool for its discussions with them.

2.14 The Cabinet Office has introduced a policy note in an attempt to address the issue of taking past performance into account in making decisions about future work. This stated that departments should specify minimum standards expected of past performance when advertising a competition, and take reasonable steps to verify that this has been achieved. In support of this, suppliers can request 'performance certificates' of departments and public bodies where they have provided a similar service in the last three years. If a supplier is found to have performed poorly on a similar contract, they may be excluded from the procurement.

2.15 Taking past performance into account is challenging, particularly where a supplier is embedded within departmental processes and systems. There are also restrictions under EU law on taking past performance into account in awarding contracts; the Cabinet Office has implemented this policy following legal advice. This policy has not been in place for long, and it is too early to assess its impact.

2.16 The Cabinet Office supplements its performance management through the 'strategic supplier performance report'. The Cabinet Office asks departments to complete a return every six months for each ICT, business process outsourcing and facilities management contract above £20 million with the strategic suppliers. The survey asks for basic performance information such as whether the contract is being delivered on time, to scope, to budget, to the appropriate standards, and whether there have been any disputes.

2.17 These returns provide a historical record of performance, and are a source that the Cabinet Office can draw on in designating a strategic supplier to be 'high risk'. The results for December 2012 show that, of the 259 returns received from departments, 42 highlighted some issues with performance. These included:

- failure to achieve milestones;
- dissatisfaction with quality of outputs;
- errors and other issues with delivery;
- poor customer engagement and end user dissatisfaction; and
- failure to meet key performance indicators.

Is the government securing value through cost reduction?

2.18 The Cabinet Office has set out seven ways in which it may deliver a saving through its strategic suppliers:

- reducing planned volume or scope;
- cancelling a contract (net of any liabilities);
- reducing margins or rates;
- reducing the scope of a service requirement (without impacting the quality);
- introducing a new technology to improve efficiency;
- negotiating improved rates across departments; and
- re-competing contracts.

2.19 The Cabinet Office reported £840 million of savings in 2012-13 through the commercial controls process and contract negotiations. Some of these negotiations were led by the Cabinet Office working with departments, and others by departments themselves. In our report on the Efficiency and Reform Group's 2012-13 savings, we concluded that the methodology applied for the most recently reported savings provides an adequate basis for calculating this figure.¹⁵ The Cabinet Office previously reported £437 million for 2011-12 and £806 million for 2010-11¹⁶

2.20 The Commercial Relationships Team's main priority is to deliver savings, and its activities are driven by internal savings targets. To achieve these, the team is planning to undertake a fresh series of negotiations with targeted suppliers on some high value contracts, identifying those where there is potential for the greatest savings.

2.21 A key mechanism by which the Cabinet Office aims to make savings is through the spending controls process (**Figure 13**). Departments are required to submit business cases for Cabinet Office approval in a number of areas, most notably ICT and consultancy expenditure. As part of the strategy to manage the government's strategic suppliers more effectively, departments must now submit for approval expenditure over £5 million with any of the strategic suppliers. Departments submit business cases at strategic outline business case, outline business case and final business case stages for new contracts, as well as for extensions and changes to contracts. The Cabinet Office looks for a number of characteristics in contracts, which it may challenge. These include considering whether:

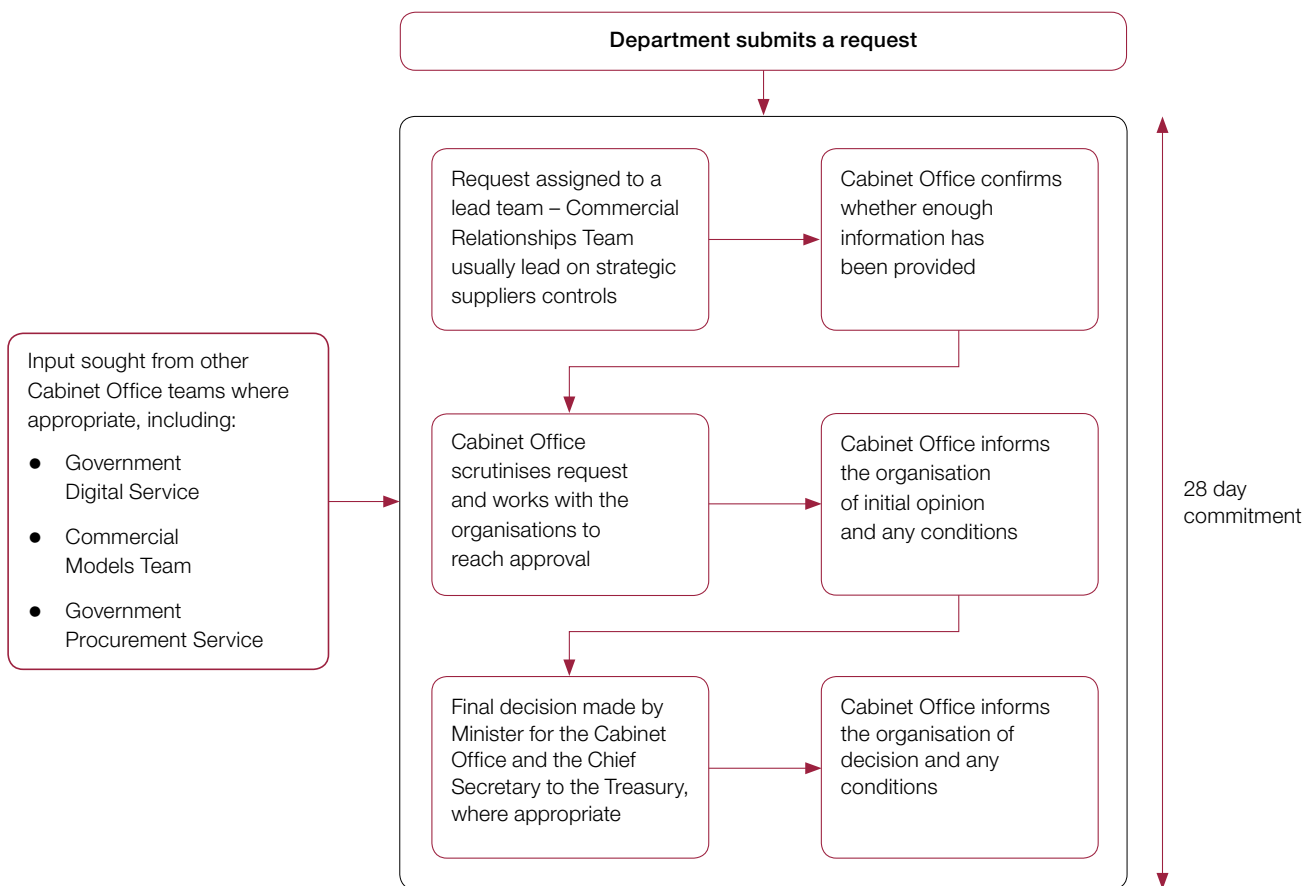
- the way the contract is let delivers value for money;
- the contract value is over £100 million, as there is a presumption against large ICT contracts;
- it is a proposed contract extension, as there is also a presumption against these;
- the contract specifies rates and profit margins; and
- the contract employs open book accounting.

¹⁵ Comptroller and Auditor General, *The 2012-13 savings reported by the Efficiency and Reform Group*, Session 2013-14, HC 126, National Audit Office, July 2013.

¹⁶ Savings measured against a 2009-10 baseline.

2.22 The Cabinet Office received 104 submissions for the control on strategic suppliers in 2012-13, of which nine were rejected outright. As at September 2013, the Commercial Relationships Team had 20 live cases. The Cabinet Office has a service level agreement with departments that controls cases will be turned around in 28 days. The Cabinet Office has not historically measured performance against this agreement, but in July it started to collect monthly data on the percentage of cases closed within 28 days. Since then, performance has been variable, with 90 per cent achieved in July, 72 per cent in August, 79 per cent in September and 94 per cent in October. In light of this, the Cabinet Office introduced a target to clear 100 per cent of cases in 28 days. If the Cabinet Office needs to request more information from departments, a pause is applied against the 28-day agreement. The Cabinet Office has advised us that this occurs frequently, with departmental business cases often requiring further, more detailed information.

Figure 13
Cabinet Office spending controls process



Source: National Audit Office and the Cabinet Office

2.23 The principle of the controls process is sound. The Cabinet Office can challenge departments on factors such as the way contracts are let, the size of contracts, and the commercial reasons for extending contracts. It can also ensure that other commercial priorities for government have been considered. It has delivered savings and it has contributed to the Cabinet Office's ability to build a picture of strategic suppliers' business with government. The Cabinet Office publishes guidance on the controls process online.¹⁷ Departments also have access to an online tracking service which can be used to monitor the progress of their requests through the controls process. However, departments tell us that the controls process has caused them delays in the implementation of contracts. Departments told us that they have little sight of the controls process within the Cabinet Office, and that submissions have been unexpectedly challenged by the Cabinet Office at a late stage rather than potential issues being flagged earlier. There are inconsistencies in the way the controls are applied, such as in the role of the Crown Representative where some are far more involved than others. Departments also express concerns about the ability of the Cabinet Office to make assessments of their submissions due to gaps in experience and a lack of understanding of their operational requirements.

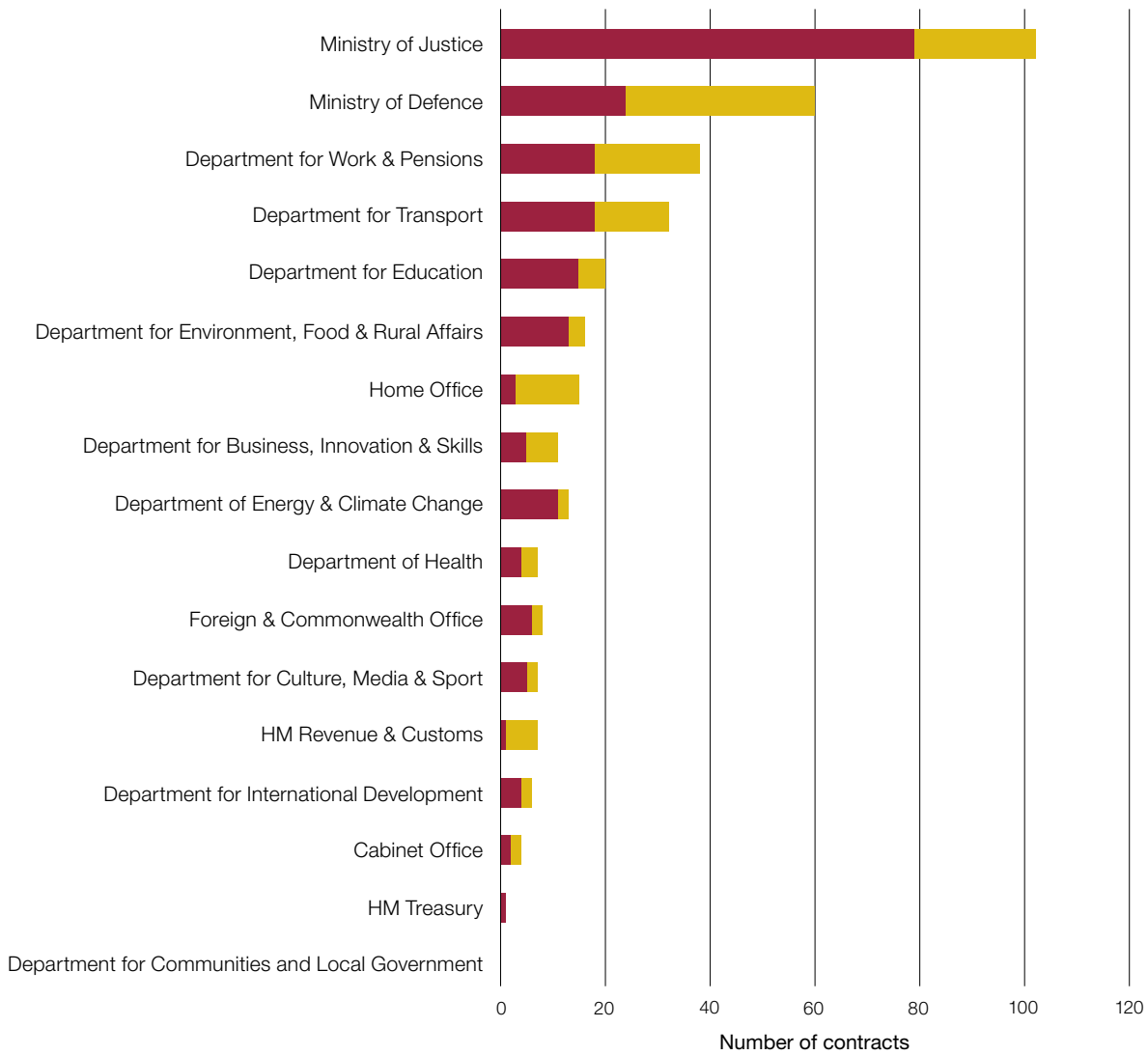
2.24 Suppliers told us that the tension between the Cabinet Office and departments is confusing and causes problems. They cite frustration where the Cabinet Office intervenes to overrule a department during the controls process. This is exacerbated, suppliers tell us, by the lack of transparency of that process; the possibility of departmental decisions being overturned creates uncertainty for suppliers and delays have created additional cost.

2.25 There are multiple aims for the controls process. These include delivering savings, but also developing new commercial models and reforming public service delivery through digital and technological changes. These are represented by separate teams in the Cabinet Office, all of whom are involved in the process.

2.26 Overall, the controls process has led to savings and provided the Cabinet Office with useful intelligence. Departments should ensure that they provide adequate business cases for the Cabinet Office to assess. However, the process itself could be simpler and more transparent, not least because there is a significant time investment for some departments in adhering to it. For the larger departments, contracts over £5 million make up a significant proportion of their contracts with strategic suppliers (**Figure 14**).

Figure 14

Number of contracts with strategic suppliers under and over Cabinet Office approval threshold from 2010–2013



- Under £5 million
- Over £5 million

Notes

- 1 Based on original contract start date.
- 2 Based on original contract value except where this was not provided. In cases where original contract value was stated as zero we have taken latest contract value.
- 3 Excluded from the graph are those where there was no original contract date, no original or latest contract value provided and contracts which are aggregated in strategic supplier data returns.
- 4 These figures have not been validated by departments.
- 5 There may be some misallocation of supplier revenue where arm’s-length bodies have been incorrectly assigned to a departmental family.
- 6 Suppliers are not expected to report on low value contracts. In some cases, suppliers have included information on smaller value contracts in aggregate form. Where this has been allocated to a department, this has been included.
- 7 Some contracts from within the wider health system could be included in the Department of Health figures.

Source: Cabinet Office – Cabinet Office quarterly data returns from strategic suppliers 2012-13. Data returns cover 24 of the 40 strategic suppliers. For full details see Appendix Three

Is government securing value by managing markets?

2.27 The main objective of the Cabinet Office's supplier management initiatives is to deliver savings. It is understandable that this has been the initial focus, and it has been successful in this respect. However, there should be a balance between this and considering the longer-term picture. In its drive to deliver against savings targets, there is a risk that the Cabinet Office's commercial relationships strategy incentivises a short-term approach to engagement with suppliers.

2.28 There is a more developed market strategy within the ICT sector, with the Cabinet Office using the controls process to disaggregate large contracts where possible in order to encourage new entrants as government implements its 'digital by default' policy.¹⁸ The Cabinet Office is also working with central government departments and across the wider public sector to identify opportunities to design and implement alternative delivery models through the Commercial Models Team, which forms part of the controls process and provides targeted support to departments. Beyond this, however, the Cabinet Office is not structured in a way that builds market expertise and supports market management. Crown Representatives' portfolios of strategic suppliers are not always arranged by sector, and resource limitations mean that Crown Representatives do not have the capacity to focus on this.

2.29 Interviews with suppliers and departments also suggest that, in general, there is no longer-term view of what markets should look like and what impact the government's current approach may have. There is concern about the government's capability to deliver in this respect; for example, our survey of strategic suppliers suggests a lack of confidence in the Cabinet Office's ability to deliver service improvement and create effective markets in its negotiations (**Figure 15**).

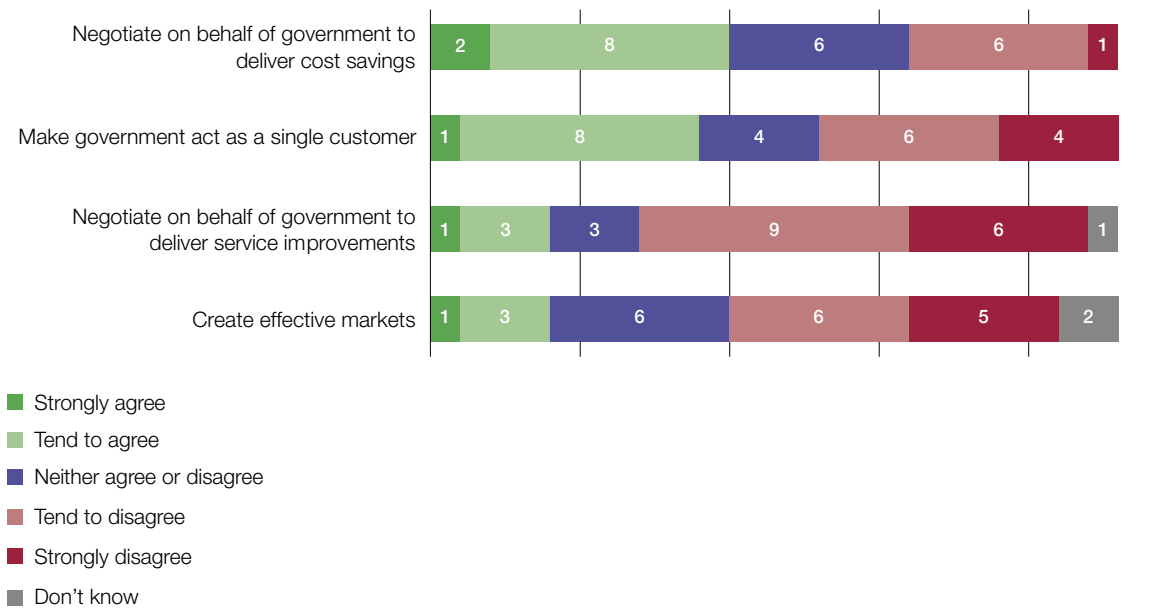
2.30 Unless the risks are understood and mitigated, this may have implications for competitiveness in certain markets if it leads to suppliers exiting areas of public sector business, or deters new entrants. This may result in an uncompetitive environment where the government is tied to a small number of suppliers. This is a particularly risky strategy where there are already a limited number of possible firms who can perform a particular task, and where the implications are most serious for operational delivery.

18 Available at: www.gov.uk/service-manual/digital-by-default

Figure 15

Supplier perceptions of Cabinet Office commercial capability

To what extent do you agree or disagree that the Cabinet Office has skills to...



Notes

- 1 The National Audit Office surveyed all 40 strategic suppliers between 22 August and 27 September 2013. Figures are absolute numbers rather than percentages. Base = 23 (58 per cent response rate).
- 2 Due to the low base size, results should be seen as indicative only.

Source: National Audit Office survey of strategic suppliers

Is government securing value for UK PLC?

2.31 The government is different from any other business in the diversity of its objectives, and it will have a number of aims at a given time with the intention of benefiting the UK as a whole. The government can use procurement and contracting to contribute to these aims, and leverage its buying power in doing so.

2.32 The Cabinet Office's primary aim remains to deliver savings, but other priorities form part of its commercial agenda. We reported in February on progress against an aspiration to spend 25 per cent of government business through SMEs.¹⁹ The Cabinet Office continues to collect this information from departments and suppliers to establish expenditure with SMEs in the supply chain. This is part of the conversation between strategic suppliers and Crown Representatives, and the Commercial Relationships Board minutes show actions in encouraging suppliers to increase their efforts in this area. In a number of cases, for example, Crown Representatives were tasked with reporting on the payment of businesses in the strategic suppliers' supply chain and seeking to address any issues, such as late payment.

2.33 One of the other main areas where the Cabinet Office has been trying to exert influence is in tax compliance. Public Accounts Committee hearings have discussed instances of large government suppliers paying little or no tax in the UK. In April of this year, the Cabinet Office implemented a policy whereby all suppliers to government (not just strategic suppliers) are obliged to self-certify that, within a specified time period, there have been no 'occasions of non-compliance'. Any such instances identified are to be taken into account by contracting bodies. We are not aware of any impacts of this policy to date, and departments are cautious about its potential. The pre-qualification questionnaire to be completed by suppliers only obliges them to declare non-compliance; there is no consideration of the amount of tax paid.

2.34 More recently, the Chief Procurement Officer wrote to all strategic suppliers in September 2013 asking for information on a number of other areas, including:

- the number of UK patents registered in the financial year 2012-13;
- the speed at which IT security updates are applied to their systems;
- expenditure on hospitality for central government in 2012-13; and
- the number of UK apprenticeships or similar programmes for 18–25 year olds in 2012-13.

¹⁹ Comptroller and Auditor General, *Improving government procurement*, Session 2012-13, HC 996, National Audit Office, February 2013.

2.35 The intention was to use this information to inform conversations between suppliers and their Crown Representatives, and possibly to develop a number of actions. It is too early to establish any impact from this approach; however, achieving it will be challenging given that these aims were not agreed at the stage of negotiating contracts and are not yet worked into terms and conditions.

2.36 The Cabinet Office has a number of priorities that it is looking to achieve through its supplier management; at the moment, there is no coherent approach and order of priority. Suppliers are therefore not clear on the wider expectations of UK government, and express concern over the frequency of change in this respect. Suppliers should demonstrate flexibility in the interests of securing business, but there is a risk for the government that they will be seen as a customer who is likely to have requirements beyond the specification, and the additional cost may be passed back to the taxpayer.

Appendix One

Methodology

Method of collecting evidence

Data analysis	<p>Analysis of supplier data returns containing revenue and contract data.</p> <p>Analysis of departmental data returns.</p>
Document review	Review of Cabinet Office documents, including Commercial Relationship Board minutes and supplier performance briefings.
Cabinet Office engagement	<p>Interviews with:</p> <ul style="list-style-type: none"> ● senior commercial staff; ● Commercial Relationships Team; ● Complex Transactions Team; and ● the Government Procurement Service. <p>Visit to the Government Procurement Service to view supplier management approach.</p> <p>Review of controls process with the Commercial Relationships Team.</p>
Crown Representatives	Interviews with a number of Crown Representatives, incorporating commercial directors and new recruits from the private sector.
Departmental engagement	<p>Interviews with commercial directors or heads of procurement in all 17 departments.</p> <p>Interviews with commercial directors or heads of procurement in a range of agencies or arm's-length bodies.</p>
Supplier engagement	<p>Survey of 40 strategic suppliers.</p> <p>Interviews with eight strategic suppliers.</p>
Wider stakeholder engagement	Interviews with the Confederation of British Industry, Business Services Association, Office of Fair Trading and Intellect.

Appendix Two

The Cabinet Office's strategic suppliers

Strategic supplier	Main activities
Accenture	Management consultancy, technology services (particularly systems integration) and outsourcing.
Airwave	Secure voice and data communications for the emergency services.
Amazon	Electronic commerce.
Amey	Infrastructure support services provider.
Atkins	Consultancy services across construction design and business services.
Atos	Consulting and technology services, systems integration and managed services.
Babcock	Defence services and engineering support provider.
Balfour Beatty	Construction and facilities management.
BT	ICT services.
Cable & Wireless	Telecommunications services.
Capgemini	Management consultancy and information technology services.
Capita	Business process outsourcing.
Carillion	Construction and facilities management.
CGI	Information technology and business process services.
Cisco	Networking and communication.
Cognizant	Information technology, business consulting, enterprise applications, ICT infrastructure and business processes.
CSC	Consulting and ICT services.
Detica	Business and technology consultancy specialising in data and IT security for counter-terrorism, fighting organised crime, identity management and immigration and border control.
Fujitsu	ICT equipment and services.
G4S	Business process outsourcing and facilities management.
HP	ICT equipment and services.
IBM	ICT equipment and services.

Strategic supplier	Main activities
Infosys	Consulting and ICT services.
Interserve	Cross-sector outsourced support services (primarily facilities management) and construction provider.
Level 3	Network communications.
Lockheed Martin	Global security and aerospace defence provider.
Microsoft	ICT equipment and services
Mitie	Facilities management.
Oracle	Business software and hardware systems.
Post Office	Postal and courier services.
Royal Mail Group	Postal and delivery services.
SAP	Business management software.
Serco	Business process outsourcing, facilities management, defence and ICT services.
Sodexo	Facilities management, business services and catering.
Steria	IT enabled business services.
TCS	IT services, consulting and business solutions.
Telereal Trillium	Property and property services.
Thales	Defence and aviation/aerospace services.
Wipro	ICT technology and service provider.
Xerox	ICT and business outsourcing, document management.

Appendix Three

Data sources

Data Source	Description	Figures
Strategic Supplier Data Returns	<p>The Cabinet Office collects data from 24 of the 40 strategic suppliers.</p> <p>The 24 suppliers covered are:</p> <p>Accenture, Airwave, Amey, Atkins, Atos, BT, Cable and Wireless, Capgemini, Capita, Carillion, CGI, Cognizant, Detica, Fujitsu, G4S, HP, IBM, MITIE, Serco, Sodexo, Steria, Telereal Trillium, Thales and Xerox.</p> <p>The data return includes contracts suppliers hold with central government and the police. They may also include details of contracts held with local authorities, devolved government and other independent government bodies.</p> <p>The returns request information on:</p> <ul style="list-style-type: none"> ● which body the contract is with; ● the name of the contract; ● contract start date; ● original and latest end date; ● original and revised contract value; ● contract sourcing method; ● contract duration; and ● cumulative quarterly revenue covering: <ul style="list-style-type: none"> ● total revenue received; ● revenue received as prime contractor; ● revenue received as sub-contractor; ● revenue passed to third parties; and ● retained revenue. <p>Not all of these fields have been completed by every supplier.</p> <p>We used total revenue as a reflection of the revenue received to deliver goods or services, whether directly, through subcontractors or as a subcontractor.</p> <p>The revenue will reflect the operating costs (which could include paying subcontractors) of delivering these services and the suppliers' required profit margin on these contracts.</p>	2 14

Data Source	Description	Figures
Strategic Supplier Data Returns <i>continued</i>	<p>Some data cleansing has been undertaken as outlined below:</p> <p>Categorisation of contracts against departments</p> <p>Central government is defined by the NAO as the 17 main departments. Revenue received from police authorities, local government and other central government departments outside the main 17 departments as stated within the strategic supplier returns are not present in this report.</p> <p>For consistency across all the strategic supplier returns, we have allocated contracts by departments using the designation as per the Whole of Government Accounts. This basis may be different to that presented in the strategic supplier returns themselves.</p> <p>Aggregated Contracts</p> <p>In some cases, smaller contracts are presented together within the strategic supplier returns. Groupings can be by department, or across departments.</p> <p>Where the relevant department is not indicated within the strategic supplier return they have not been included in Figure 2 of the report.</p> <p>All aggregated contracts have been excluded from Figure 14 as we are unable to determine if any of the contracts on their own would have exceeded the £5 million threshold for Cabinet Office approval.</p> <p>Departments have not verified the information reported from these returns.</p>	
Department expenditure returns	<p>The Cabinet Office collects department third party expenditure data monthly and compiles it into a spend analysis tool.</p> <p>Not all central government bodies submit a return, but the Cabinet Office estimates that it covers around 90 per cent of central government expenditure.</p> <p>Transactions are presented in the spend analysis tool such that they can be analysed against:</p> <ul style="list-style-type: none"> ● expenditure; ● supplier; and ● department. <p>The data in this memorandum covers the financial year 2012-13.</p> <p>For Figures 1, 2 and 5, data covered total expenditure by department covering spending with all suppliers but without sufficient detail to analyse by supplier.</p> <p>The department is defined as the parent department and a number of arm's-length bodies in this report. The arm's-length bodies for each department are outlined in the table at the end of this appendix.</p> <p>For Figure 5, expenditure with strategic suppliers covers only the top 250 suppliers, it excludes expenditure with smaller value strategic suppliers. The excluded suppliers are:</p> <p>Amazon, CGI, Cisco, Cognizant, Infosys, Level 3, Post Office, SAP and Wipro.</p> <p>Suppliers have not verified the data submitted by departments.</p>	1 2 5

Data Source	Description	Figures
Whole of Government Accounts and Departmental Accounts	<p>The Whole of Government Accounts (WGA) is an annual exercise performed by HM Treasury to collect an aggregated view of the government's financial position, income & expenditure. It covers central government departments, local government, devolved and independent bodies.</p> <p>The values for 'Local Government' and 'Devolved, independent and other public sector bodies' within this memorandum are taken from the WGA covering the financial year 2011/12.</p> <p>For NHS expenditure, we have taken the figure from the 2012-13 accounts of the Department of Health.</p>	1
Strategic supplier survey	<p>The NAO conducted a survey of all 40 Strategic Suppliers between 22 August and 27 September 2013. The response rate was 23 out of 40 (53 per cent response rate).</p> <p>Data is presented on an absolute basis throughout the report.</p> <p>Due to the low base size, results should be seen as indicative only.</p> <p>The survey also collected written responses; the results of these are reflected in the supplier opinions presented in the memorandum.</p>	8 15

Department expenditure returns: coverage of departments and their arm's-length bodies

Department for Work and Pensions

Health & Safety Executive

The Pensions Regulator

Health & Safety Laboratory

Independent Living Fund

Pensions Advisory Service

Pensions Ombudsman

Department for Transport

Highways Agency

Driver Vehicle Licensing Agency

High Speed 2

Maritime & Coastguard Agency

Driving Standards Agency

Vehicle Operator Services Agency

British Transport Police

Trinity

Northern Lighthouse Board

Vehicle Certification Agency

Government Car & Despatch Agency

Passenger Focus

Directly Operated Railways

Department for Business, Innovation and Skills

Research Councils UK

Land Registry

UK Trade and Investment

The Met Office

Skills Funding Agency

Student Loans Company

National Measurement Office

The Insolvency Service

Culham Centre for Fusion Energy

Ordnance Survey

Intellectual Property Office

Companies House

Advisory Conciliation and Arbitration Service

Higher Education Funding Council for England

UK Commission for Employment and Skills

Department of Health

Connecting for Health

NHS Blood & Transplant

Health Protection Agency

NHS Business Services Authority

Care Quality Commission

National Institute for Health & Clinical Excellence

Medicines and Healthcare products

Regulatory Authority

Monitor

NHS Institute for Innovation and Improvement

Health and Social Care Information Centre

NHS Litigation Authority

Health Research Authority

NHS Human Tissue Authority

Health Education England

NHS Trust Development Authority

Home Office

UK Borders Agency

Identity & Passport Services

Criminal Records Bureau

National Policing Improvement Agency

National Fraud Authority

College of Policing

Forensic Science Service

Department for Environment, Food & Rural Affairs

Environment Agency
 Animal Health and Veterinary Laboratories Agency
 Rural Payments Agency
 Natural England
 Agriculture and Horticulture Development Board
 Food and Environment Research Agency
 Royal Botanical Gardens – Kew
 Centre for Environment, Fisheries & Aquaculture Science
 Marine Management Organisation
 Sea Fish Industry Authority
 Veterinary Medicines Directorate
 Joint Nature Conservation Committee
 Consumer Council for Water
 Gangmasters Licensing Authority
 National Forest Company

Department for Culture, Media & Sport

Tate
 Visit Britain
 Victoria and Albert Museum
 Sport England
 The Royal Parks Agency
 Imperial War Museum
 Arts Council England
 National Gallery
 National Maritime Museum
 National Heritage Memorial Fund
 National Portrait Gallery
 Horniman Museum

Department for Communities and Local Government

Homes and Communities Agency
 Planning Inspectorate
 Fire Service College
 QEII Conference Centre
 Valuation Tribunal Service
 Local Government Ombudsman
 West Northamptonshire Development Corporation
 Housing Ombudsman
 Leasehold Advisory Services

Department for Education

Teaching Agency
 National College for School Leadership Agency
 CAF/CASS
 Standards and Testing Agency
 Education Funding Agency

Department of Energy & Climate Change

Nuclear Decommissioning Authority
 Civil Nuclear Police Authority
 Committee on Climate Change

Ministry of Justice

London Probation
 Merseyside Probation Trust
 Kent Probation
 Surrey and Sussex Probation Trust
 Thames Valley Probation Trust
 Devon & Cornwall Probation Trust
 Cheshire Probation Trust
 Essex Probation
 Humberside Probation Trust
 Cumbria Probation Trust
 Gloucestershire Probation Trust
 Lancashire Probation

HM Revenue & Customs

Valuation Office Agency

Foreign & Commonwealth Office

FCO Services
 Wilton Park Executive Agency

HM Treasury

Debt Management Office
 UK Financial Investments Limited
 Asset Protection Agency
 Office for Budget Responsibility

Cabinet Office

Government Procurement Service



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