



National Audit Office

Report

by the Comptroller
and Auditor General

Cabinet Office

Crown Commercial Service

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Crown Commercial Service

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

9 December 2016

This report examines Crown Commercial Service's (CSS's) launch, the difficulties it encountered and the progress it has made in fixing these issues. It also considers the value that CCS has provided since it was established in 2014.

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Key facts

£521m

savings by public sector organisations in 2015-16 by working with or using CCS frameworks

6 in 10

customers were satisfied or very satisfied with CCS's services in 2015-16

54%

proportion of frameworks due to expire in 2015-16 that were extended

£12.8 billion spend by public sector on common goods and services using Crown Commercial Service (CCS) frameworks in 2015-16

£2.5 billion spend directly managed by CCS by April 2016 – more than £8 billion less than originally forecast

Seven departments with spend directly managed by CCS – 10 fewer than originally forecast

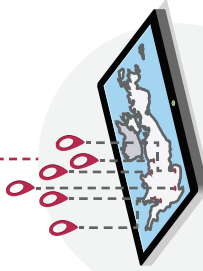
£3.3 billion anticipated net benefits from the creation of CCS over the four years to 2017-18

Unknown actual net benefits from the creation of CCS to date

Crown Commercial Service



790 staff
in 2015-16



6 locations

Services offered to central government

- Buying activities on behalf of departments.
- Management of contracts.
- Performance reporting for customers.
- Advice on complex procurements.
- Services to improve government's commercial capability.
- Management of government's major strategic suppliers.

Central government spending
£2.5 billion managed by CCS directly in 2015-16.
£6.8 billion through CCS deals in 2015-16, made up of:

Technology	People
£1.9bn	£1.3bn
Corporate services	Buildings
£2.1bn	£1.4bn

Services offered to central government and the wider public sector

- Customer relationship management.
- Production and management of buying frameworks.
- Management of supplier relationships.
- Guidance and implementation of government's commercial policy.

Wider public sector spending
£6 billion through CCS deals in 2015-16, made up of:

Technology	People
£1.3bn	£0.9bn
Corporate services	Buildings
£2.2bn	£1.5bn

■ Services reviewed under this report

Summary

1 The Crown Commercial Service (CCS) is a government agency and trading fund. It delivers services such as advice on complex procurement, commercial capability development, the creation and management of procurement frameworks and buying services for central government and public sector organisations. CCS is directly responsible for buying around £2.5 billion of goods and services for central government departments. It also manages buying frameworks that help departments and the wider public sector to purchase £12.8 billion of goods and services. This report focuses on CCS's buying of common goods and services and its management of procurement frameworks.

2 The rationale for buying common goods and services centrally is that these are commodities, where price is more important than differences in quality, and the government can achieve value for money by buying in bulk. However, previous attempts at central buying and other programmes to establish centralised or shared services have run into difficulties. These have included agreeing realistic deadlines and targets, developing detailed plans based on accurate data and establishing cross-government governance and customer buy-in.

3 We last reported on the need for a cross-government approach to procurement in 2013. We said that:

“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”¹.

4 The government launched CCS in April 2014 by transferring some of the staff who were responsible for buying common goods and services from government departments to the existing Government Procurement Service. The government gave CCS a stronger mandate and told it to buy common goods and services directly, rather than departments buying through CCS frameworks themselves. The Cabinet Office expected CCS to achieve significant benefits. It forecast net savings of more than £3 billion over the first four years of operations.

¹ Comptroller and Auditor General, *Improving government procurement*, Session 2012-13, HC 996, National Audit Office, February 2013.

5 By 2015, the programme to centralise the purchase of goods and services was widely acknowledged to be in difficulty. As the extent of these difficulties became clear, CCS suspended the transition programme and the Cabinet Office appointed an independent expert to review CCS and to reset the way it undertakes its business. That reset is currently under way and in November 2016 the independent expert was appointed CCS chief executive.

Scope

6 This report examines CCS's launch, the difficulties it encountered and the progress it has made in fixing these issues. It also considers the value that CCS has provided since it was established in 2014.

7 The report is structured as follows:

- a Part One sets out the reasons why CCS was created, as well as its launch and the way services were transferred from other departments to CCS;
- b Part Two reviews CCS's current service performance; and
- c Part Three examines the planned reforms to the way CCS conducts its business and its plans for the future.

Key findings

Establishing CCS

The Cabinet Office relied on its mandate and rushed the establishment of CCS

8 **Central buying should achieve very large savings, but it is not clear exactly what spending should be centralised.** The Cabinet Office wanted to increase CCS's management of direct buying from £0.5 billion in 2013 to £13.4 billion in 2017-18, in order to generate net savings of £3.3 billion. However, it did not have consistent information on what departments spend and there is no agreement with departments about what should be centralised and what should be bought locally. The Cabinet Office's estimates of the common goods and services suitable for centralisation have varied from £8 billion to £15 billion. For example, all departments buy information technology, but many of these contracts are strategically important to the department and hard to specify centrally (paragraphs 1.5, 1.6, 1.16, Figures 1, 6 and 7).

9 The Cabinet Office relied on a Cabinet Committee mandate to get departments to transition their services quickly and did not focus enough on how it would manage them once they were transitioned. CCS was launched in 2014 following decisions by a Cabinet Committee to centralise the buying of common goods and services. CCS aimed to transition two departments to CCS every three months. It set out to agree plans with each department and to agree exactly which goods and services would be defined as common and which buying services would transfer. Although shared services normally carry out the same services for many customers, CCS agreed different services for each of the departments that transitioned and did not focus on improving the quality of services once they had transitioned. CCS could not show us detailed plans on how it would standardise services, integrate processes and manage its customers once they had transitioned. CCS predicted that the transitions would increase the number of CCS staff from 540 to 1,030. It could not show us a detailed workforce management plan to achieve this (paragraphs 1.11, 1.15, 1.18, 1.21, 2.19 and 2.20, and Figure 9).

10 From the start, there was a rapid erosion in departments' confidence in CCS. CCS started to delay transferring services from departments from May 2014, one month after its official launch. CCS agreed service improvement plans for both the Ministry of Defence and Department for Work & Pensions. From 2014 through to 2015, senior departmental commercial staff complained to us of CCS's poor service and their lack of confidence in it to manage the transition and buy goods and services on their behalf. Over the same period, leadership and governance of CCS changed significantly; since 2014, only four of the original 11 board and senior management team have remained unchanged. Since summer 2016, CCS has recruited four senior managers with significant operational experience to its senior management team (paragraphs 1.14, 1.21 to 1.23).

11 CCS has not achieved its original ambitions. CCS's first business plan forecast that creating CCS would reduce central government's workforce working on the procurement of common goods and services by 400 staff (28% of the estimated workforce at that time). It also forecast that the newly formed central unit would buy all common goods and services for central government and achieve significantly better value for money from government purchasing. The plan estimated that these changes would realise net benefits of £3.3 billion over the four years to 2017-18. However, CCS's current management does not consider this plan to have been achievable as it thinks the plan wrongly estimated the amount of common goods and services appropriate for centralisation, and the buying services which should be undertaken centrally. CCS's current management also believe the original plan did not adequately define the activities that customers would still need to carry out. In 2015 CCS suspended the transition of services and changed its targets for transferring buying services to it. By December 2016, seven departments had transferred

the responsibility for buying common goods and services to CCS, amounting to £2.5 billion of spending, well below the £13.4 billion envisioned. As a result, most of the planned workforce transfers have not happened. Where they have, some departments have rehired staff to replace those who transferred. The remaining departments continue to manage their own procurement teams, although they do use CCS's frameworks. In spite of the importance of the initiative, the Cabinet Office did not track the overall benefits from creating CCS (paragraphs 1.15, 1.25 to 1.27 and Figures 6, 7 and 8).

The current status of CCS

CCS is saving money but not achieving the high-quality service envisioned

12 CCS delivers an important service to all departments and the wider public sector, and saved organisations £521 million in 2015-16. CCS measures savings against what would have been an equivalent spend in 2014-15. Our review confirmed that the savings reported by CCS were generally supported by an appropriate method and documentation. Departments endorsed the new calculation of central government savings. However, these savings were calculated on a different basis and are not directly comparable to the planned net benefits of £3.3 billion over four years and we could not tell whether these savings would have been achieved if the central buying functions had not been transferred to CCS (paragraphs 2.4 and 2.6 and Figure 11).

13 However, some customers complain that CCS's services can be poor quality. Although CCS has helped its customers to save money, customers have consistently reported that they are not satisfied with CCS's performance. Customers have reported issues including poor communication, unreliable services and the way CCS has managed procurement frameworks. CCS itself reports that service delivery has not always met service agreements. When we explored these issues with central government customers, most of them told us that CCS adds value and praised the knowledge and skills of individual staff. However, they think that CCS needs to improve the way it manages and communicates with customers. Departments also said that the quality of CCS's services was highly variable (paragraph 2.11 and Figure 12).

14 Our work in summer 2016 found that CCS's management of its services has not supported consistent value for money and quality. In particular:

- **CCS's services were not integrated or standardised.** CCS was formed by merging the Government Procurement Service and parts of departmental procurement teams. As departments had different procurement models, this approach resulted in CCS inheriting a diverse set of procurement services. CCS then agreed individual service levels and charges with departments. It was only in June 2016 that CCS began to standardise and commence the integration of services. This variability has made it difficult for CCS to consistently achieve high performance and constrained its ability to grow in line with its original forecasts (paragraphs 2.19 and 2.20 and Figure 16);
- **CCS cannot demonstrate to its customers that its deals are always the best available.** CCS benchmarks its deals against historical prices but has limited current market benchmarks to demonstrate that its central arrangements offer best value for money. Furthermore, CCS does not manage the lifecycle of procurement frameworks well: it has extended 21 of the 39 frameworks we identified as due to expire in 2015-16 without market testing or competition. It is also extending frameworks after having already exercised all options for extension, and CCS and departments are sometimes using expired frameworks to let contracts. Purchases made under extended frameworks are a risk to value for money as the prices paid may not be best value in the market. Contracts issued under expired procurement frameworks contravene public contracting regulations (paragraph 2.14 and Figure 13);
- **CCS's control environment has been weak but shows signs of improvement.** CCS inherited a limited control environment from its predecessor, the Government Procurement Service, and attempted to merge teams from seven departments into it. In CCS's first two years of operation, its internal audit team repeatedly found weaknesses in CCS's internal control environment. More recently, our external audit engagement with CCS has shown clear signs of improvement in governance, risk and internal control (paragraph 2.18 and Figure 15); and
- **CCS's has not fully developed the way it manages processes.** Our review of CCS's process management found that CCS has some characteristics of an organisation that manages its service delivery effectively. For example, CCS has documented some of its processes and seeks customer feedback to improve performance. However, we found weaknesses. For example, until 2016 CCS lacked internal control mechanisms and appropriate technology such as workflow management tools to prevent staff from using expired frameworks to issue contracts. CCS also does not assess new work requests consistently to confirm that the requested services correspond to what it has agreed to deliver (paragraphs 2.14 and 2.17).

Reforms to the CCS operating model and its plans for the future

CCS is now focusing on improving the quality of its services

15 The 2016 review led CCS to change its focus from transitioning spend from departments to improving its internal operations. CCS is now working to standardise and integrate its services and has prioritised investments that will strengthen the control environment and process management. CCS plans to reduce the number of unique services it offers and transfer some functions and people back to departments. Additionally, as part of the 2015 Spending Review, CCS, the Cabinet Office and HM Treasury agreed to change the way that CCS is funded. By the end of 2017-18, CCS will stop charging departments a fee for buying goods and services on their behalf, and will be mainly funded by a matching increase to an existing levy that suppliers pay when they provide services bought through CCS frameworks (paragraph 3.5).

16 The review has generated goodwill among central government customers. Our interviews with departmental commercial officials show an increased confidence in CCS and its leadership. In general, departments were pleased by the focus on improving service quality and told us that the quality of the relationships between departments and CCS was improving (paragraph 3.6).

17 However, CCS is managing the implementation in an iterative manner and needs to demonstrate clear progress to customers and stakeholders. CCS is implementing these changes in an iterative manner and is producing detailed plans only as far ahead as the next implementation stage. This allows CCS to adapt the implementation and engage staff at key stages. However, it means that customers and staff may not be able to understand what CCS is trying to do and how much progress it is making. In particular:

- a CCS has not yet agreed the detailed implications of its new standard service offering with departments.** However, CCS has set out a high level service offering and is currently implementing this new offering in detailed consultation with departments (paragraph 3.16 and Figure 18).
- b CCS does not yet have an agreed business case that sets out a thorough understanding of what government spending should be centralised in CCS and realistic targets for CCS** (paragraph 3.16 and Figure 18).
- c Customers do not yet have a clear view of the benefits to be achieved or the milestones to be reached** (paragraph 3.16 and Figure 18).

We have wider questions about CCS's role, purpose and longer-term sustainability

18 CCS and the Cabinet Office have left a number of strategic issues unresolved. It is not clear to us:

- **Whether the original CCS mandate remains**

The review did not challenge the overall aim of CCS to centralise the buying of common goods and services. It also did not challenge the government's intention to increase the proportion of common goods and services that were bought either in bulk or through more commercially focused procurement frameworks. However, CCS has suspended its original transition plan and it no longer intends to require all departments to transfer procurement staff to CCS. CCS's senior management told us that they believe that once CCS has demonstrated that it has improved service quality and is buying at competitive prices, departments will want CCS to buy on their behalf. However, CCS believes that once greater credibility has been established, a continued mandate will still be important (paragraphs 3.8 to 3.11).

- **How CCS best contributes to the government's wider plans for improving commercial capability**

Since 2013 there has been an increased focus on government's wider commercial capability. Departments plan to increase the number of senior commercial staff and reduce the number of junior staff. This will require most small contracts to be bought and managed either directly by line teams or through a central buying function, without significant involvement from the departmental commercial team. This is likely to increase the need for a more professional and efficient central buying organisation. In addition, CCS's standardisation of its services and plan to move certain functions back to departments will have an impact on departments and their commercial functions (paragraphs 3.14 and 3.16).

- **How CCS intends to achieve its ambitious plans for increasing the use of the wider public sector of its frameworks, without compromising service delivery for central government**

CCS's published Business Plan for 2016-17 sets out an increase of up to 20% in the use of its frameworks by organisations in the wider public sector such as NHS Trusts, local authorities and the police. By the end of the current Parliament, CCS hopes to achieve a doubling of its business from the wider public sector to around £10 billion to £12 billion. It does not yet have detailed and clear plans for how it will achieve this. It is currently working towards an internal target of 8% growth in its wider public sector business (paragraph 3.12 and Figure 18).

- **Why CCS contains functions and people that do not belong in a central buying agency**

Beyond its role as the buyer of common goods and services, CCS includes teams which advise departments on complex procurements, develop its commercial capability and manage relationships with strategically important suppliers. These teams are formally part of CCS but report to the government's chief commercial officer rather than the CCS accounting officer. CCS also includes a team which manages the government procurement policy. These arrangements blur the lines of accountability and, from an accounting perspective, reduce the clear line of sight of how CCS uses its resources (paragraph 3.13 and Figure 18).

Conclusion on value for money

19 The government's reforms to central buying have not been well managed. Although CCS customers can save money by using CCS deals, we would have expected more savings would have been delivered if CCS had been set on a sounder footing. As a result, central government has not yet achieved value for money from its central buying. When it created CCS the Cabinet Office relied significantly on its mandate to require departments to use CCS. However, it severely underestimated the difficulty of implementing joint buying across government. Without a sound overarching business case or a detailed implementation plan, it is not surprising that CCS rapidly ran into difficulties and soon had to reset its plans. It is particularly disappointing that the Cabinet Office has not tracked net costs and benefits. Because of this, it is not possible to show that CCS has achieved more than departments would otherwise have achieved by buying common goods and services themselves.

20 However, the strategic argument for joint buying remains strong. For central government to achieve value for money from its common goods and services, it needs to finish the centralisation it began in 2014. The events of the past two years have shown that, in practice, joint buying needs both a mandate and goodwill from departments. CCS is making changes to its operations which it expects to improve services in the future. CCS needs to demonstrate that this has worked in order for departments to want to use it.

Recommendations

21 The success of CCS and whether departments now choose to use it more will depend on CCS both having a clear mandate and proving its ability to improve its operations and service quality. We recommend that:

- a** **CCS should work with departments to build support for central buying.** In support of this, the Cabinet Office should reiterate the mandate for CCS in central government and be clear about its expectations for departments that have not yet transferred their buying of common goods and services to CCS;
- b** **the Cabinet Office should work with CCS to clearly set out the relative priority of CCS's central government and wider public sector markets;**
- c** **the Cabinet Office should review the accountability and governance arrangements of CCS and which functions properly belong in the CCS trading fund.** We believe that CCS should focus on the buying of common goods and services and the review should seriously consider the best organisation to host the commercial capability, management of strategic relations and policy teams; and
- d** **the Cabinet Office and CCS should create and communicate a clear benefit realisation plan for improvements to CCS operations and service quality, with a clear baseline and milestones.** CCS should regularly report on progress to departments.

Part One

The creation of the Crown Commercial Service

1.1 In this part of the report we set out the reasons why the Crown Commercial Service (CCS) was created, its role, the benefits that government hoped to achieve by creating CCS and the way that government went about launching CCS.

The reasons for joint buying of common goods and services centrally

1.2 Items that are bought by all or most government departments are called common goods and services. They include items such as office supplies, utilities, information technology and consultants or temporary staff. The government buys billions of pounds of these goods and services (**Figure 1** on pages 16 and 17).

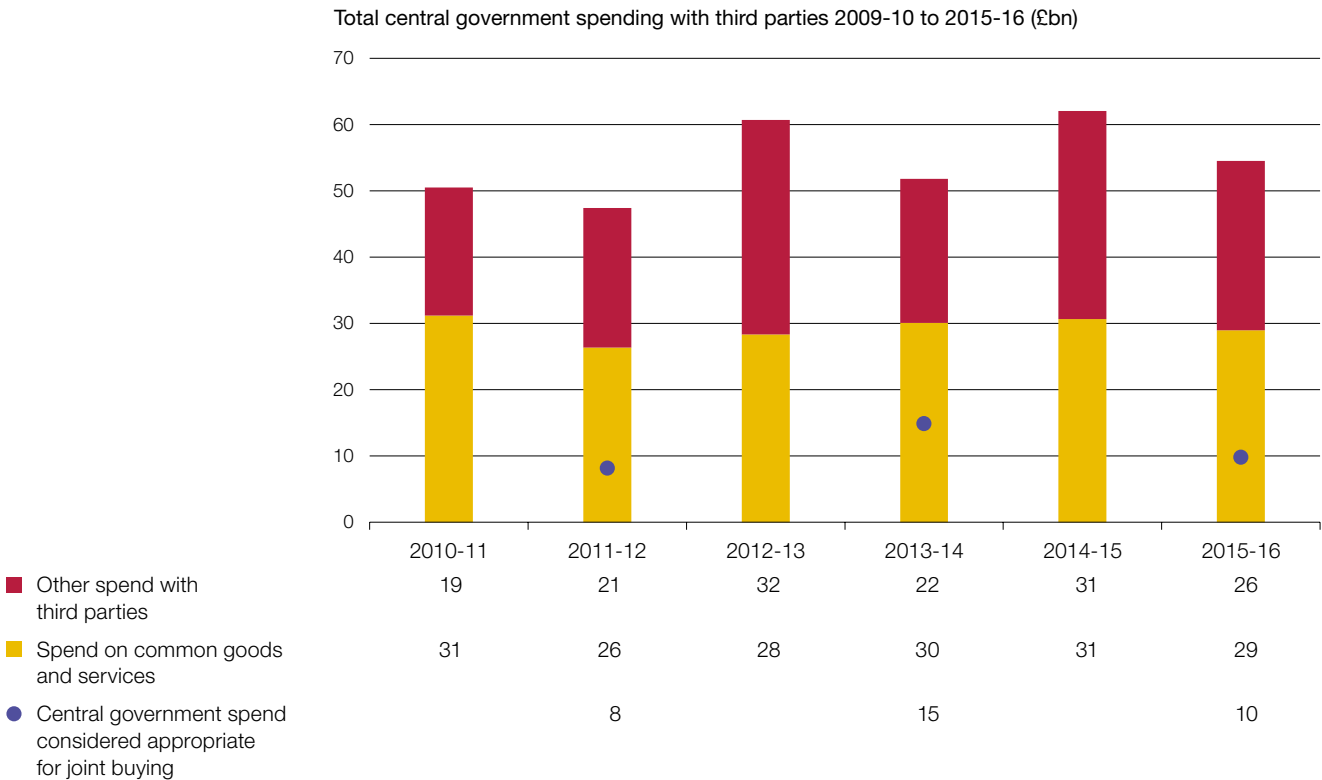
1.3 Common goods and services can be bought centrally by government. This means that the government can use its size to negotiate a better combination of price and quality. Government buys goods and services centrally in three main ways:

- Framework agreements are arrangements with a provider, or a list of providers, for a certain good or service. They define what will be purchased (such as maximum price and quality of services) and are valid for a certain number of years. Departments can use the framework to buy common goods and services either directly, or by conducting a short competition among the framework suppliers. As a result, procurement frameworks can be quicker and more efficient for buyer and seller, and can provide better value for money. In 2015-16 departments bought £6.8 billion of goods and services through CCS frameworks.
- Government also directly buys common goods and services centrally. CCS consolidates departmental demand and puts in place contracts for common goods and services. In 2015-16, CCS bought £2.5 billion of common goods and services on behalf of departments.
- Government has put in place technology platforms that allow departments to buy certain goods and services from a wide range of suppliers. The most well-known arrangement is the government's digital marketplace with, among others, the digital and technology framework called G-Cloud.

Figure 1

Central government procurement spend (£ billion)

Around half of central government spending with third parties is common across departments but only one-third of this amount is considered appropriate for joint buying

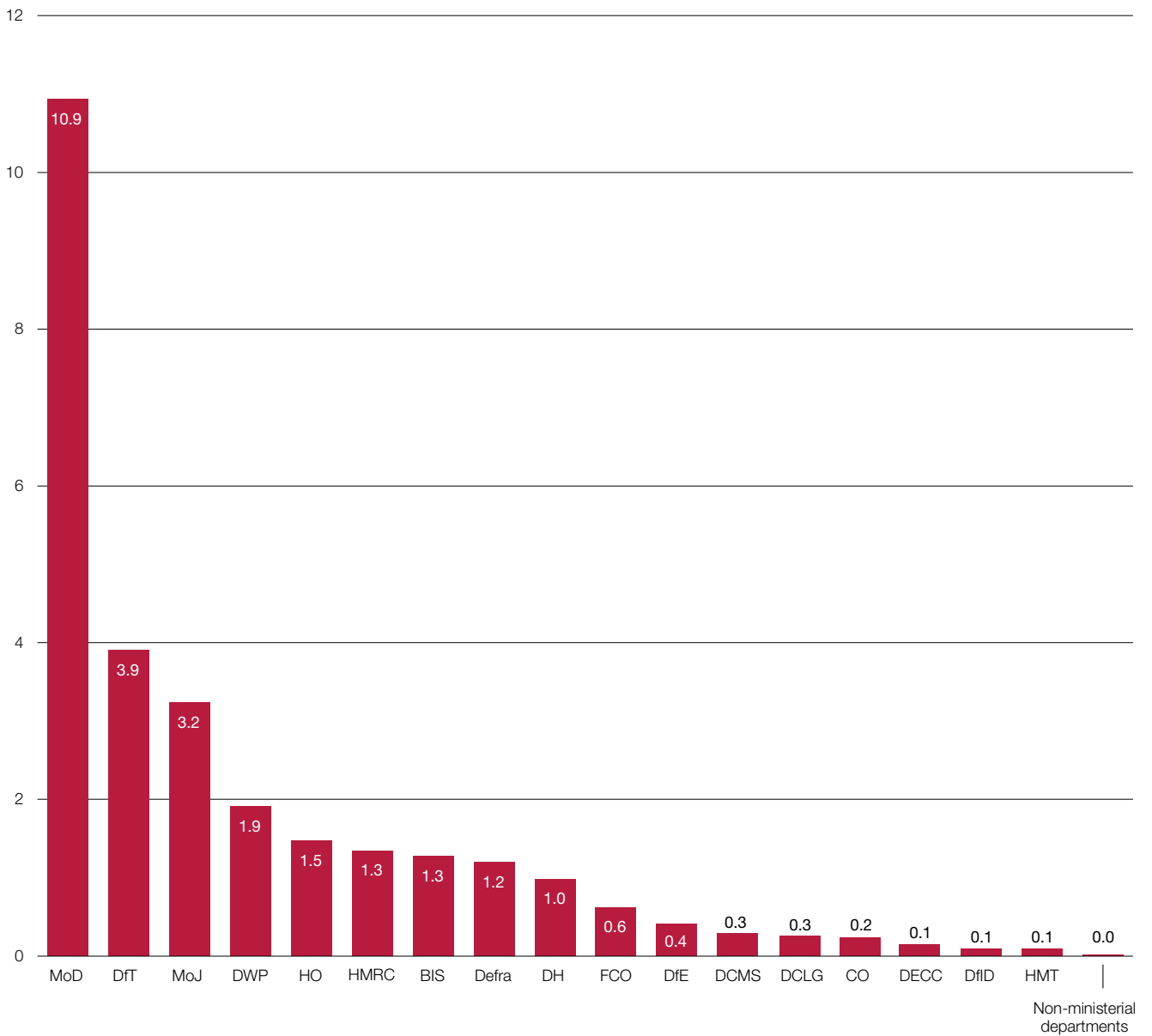


Notes

- 1 Total government spend with third parties includes common goods and services, department-specific purchases and other items such as grants and government transfers.
- 2 Common goods and services are divided into 20 categories. The largest categories are information communication and technology (£6.2 billion), facilities (£4.8 billion) and construction (£4 billion). Departments are responsible for classifying expenditure as common goods and services.
- 3 Estimates and expenditure are expressed in 2015-16 prices.
- 4 Figures exclude spend by arm's-length bodies and reflect the departmental structure of government as of April 2016.
- 5 MoD = Ministry of Defence; DfT = Department for Transport; MoJ = Ministry of Justice; DWP = Department for Work & Pensions; DH = Department of Health; HO = Home Office; HMRC = HM Revenue & Customs; BIS = Department for Business, Innovation & Skills; Defra = Department for Environment, Food & Rural Affairs; FCO = Foreign & Commonwealth Office; DfE = Department for Education; DCMS = Department for Culture, Media & Sport; DECC = Department of Energy & Climate Change; DCLG = Department for Communities and Local Government; CO = Cabinet Office; DfID = Department for International Development; HMT = HM Treasury.

Source: Departmental data collected by the Cabinet Office

Common departmental spend 2015-16 (£bn)



1.4 In 2015-16 central government departments spent around £29 billion in areas that could, in theory, be considered common goods and services (Figure 1). The Ministry of Defence is the largest buyer, followed by the Department for Transport and the Ministry of Justice. CCS estimates that around one-third of this amount is appropriate to be bought centrally. This is because some common goods (such as information technology) can be strategically important, operationally complex or bespoke and departments want to manage these purchases themselves.

1.5 It can be difficult to determine which items are both common across departments and appropriate for a central buying function. Comprehensive, consistent information is not always available and assumptions have to be made about how the goods and services are used. As a result, since 2010 the government has variously estimated that central buying functions should procure as much as £14.8 billion of common goods and services or as little as £8.2 billion. It currently estimates the value at £9.8 billion.

1.6 As well as the difficulty of estimating the goods and services that are appropriate to be bought centrally, buying common goods and services can be complex. Departments often have different views about which goods and services are common and which should be bought centrally. They may have subtly different needs and genuine reasons for needing bespoke products or services. Even when joint buying is agreed, departments will need to carry out important activities. These complexities mean that departments must collaborate and communicate clearly to allow a central buying team to buy goods or services effectively and efficiently.

1.7 We have previously reported on the difficulty that departments can experience working together. Our reports on central buying activities and shared services describe issues such as unrealistic targets and unclear plans, poor-quality data and systems, inadequate assurance and control, and weak governance (**Figure 2**).

1.8 We have also previously reported on the trade-offs inherent in centralised and shared service arrangements. We have found that while centralised and shared services can offer benefits, individual organisations will generally have to accept services that are less tailored. **Figure 3** on page 20 shows the principles of moving to shared services and the trade-offs involved. When the specific shared service is joint buying the trade-offs can be more difficult to manage because the central buying organisation has an important role in specifying requirements and selecting suppliers.

Figure 2

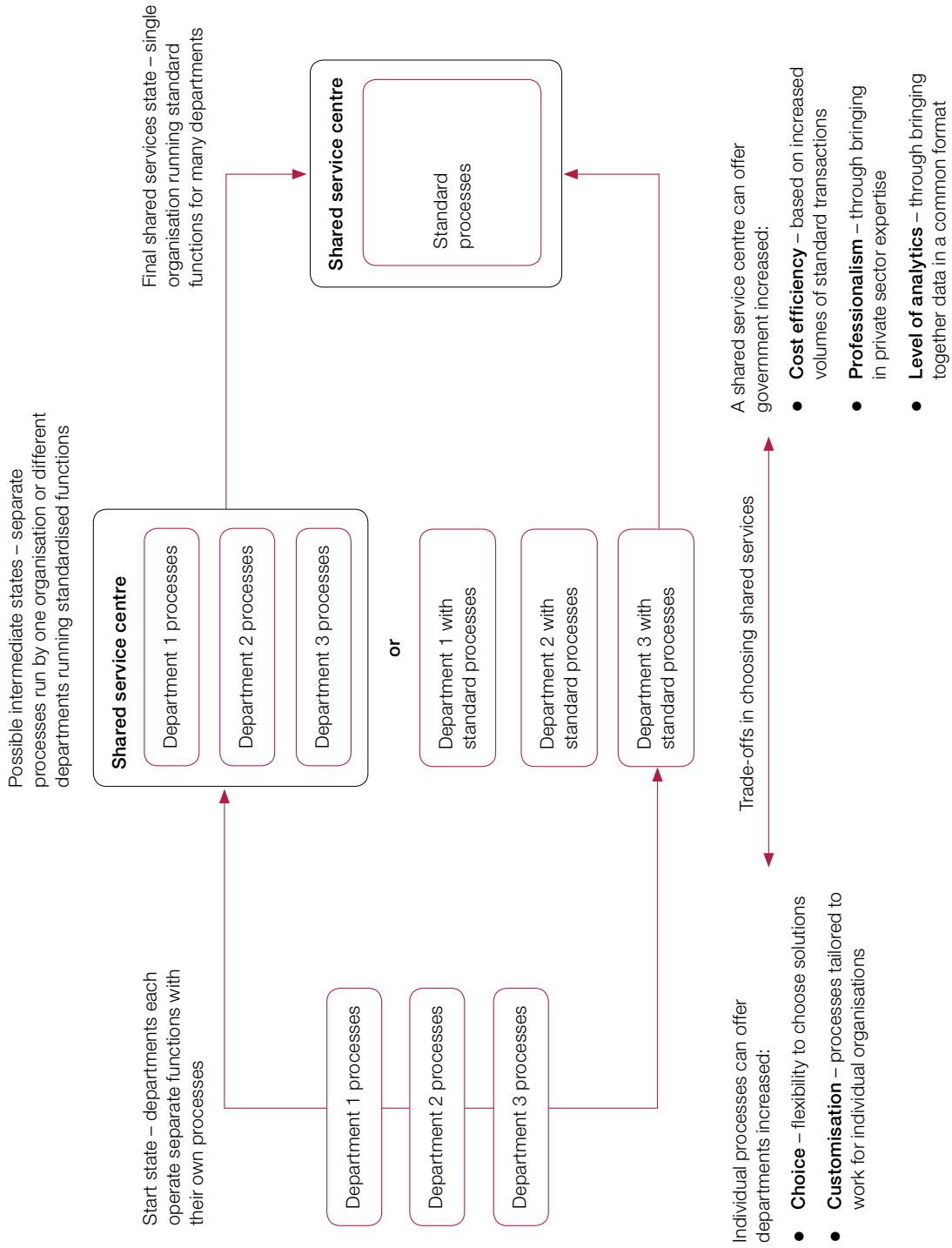
Previously reported challenges with central buying and shared services

NAO report	Unclear baselines or overambitious targets	Lack of a clear plan	Inadequate data	Weak governance, assurance or control	Lack of customer buy-in
Reducing the cost of procuring Fire and Rescue Service vehicles and specialist equipment (2010)	●	●	●	●	●
A review of collaborative procurement across the public sector (2010)		●	●	●	●
The Government Procurement Card (2012)	●	●	●	●	
Efficiency and reform in government corporate functions through shared service centres (2012)	●	●	●	●	●
The impact of government's ICT savings initiatives (2013)			●		
Improving government procurement (2013)	●	●	●	●	●
Police procurement (2010)	●	●	●	●	●
Shared service centres (2016)	●	●	●	●	●
Investigation into members' experience of civil service pension administration (2016)	●		●	●	

● Findings in previous report

Sources: Reports by the Comptroller and Auditor General 2010 to 2016

Figure 3
Shared services principles and trade-offs



Creation of CCS

1.9 In 2010 we reviewed the government's progress in improving the way it buys common goods and services. We found that, while the government had made some improvements, there was still significant potential to obtain better value from buying common goods and services.² In 2013 we found that the government had made progress and had centralised a greater proportion of spending on common goods and service. However, it had yet to achieve full value for money from its reforms. In particular, we highlighted problems such as ineffective governance structures, unrealistic targets, incomplete data and weaknesses in the management of central contracts.³

1.10 In 2013 the Cabinet Committee on Efficiency and Reform, with the support of the Civil Service Board, decided that the government was paying more than it should for many basic commodities and that it regularly failed to achieve value for money from its purchase of common goods and services. The Committee thought that the previous approach, which allowed departments to choose when to use the buying frameworks created by the Government Procurement Service, meant that prices and quality of goods and services across departments were inconsistent. To address this, the Cabinet Office created CCS in April 2014. The new organisation took over the activities of the former Government Procurement Service, and included four roles from other parts of the Cabinet Office:

- developing procurement policies for the UK public sector;
- advising and supporting departments on complex procurements;
- managing the government's strategically important suppliers; and
- developing and strengthening commercial capability across government departments.

1.11 As well as creating these new roles, the Cabinet Office introduced an important change: it made it mandatory for departments to use CCS to buy common goods and services. Although government departments had previously bought common goods and services centrally, it was the first time that it was mandatory to do so (**Figure 4** overleaf).

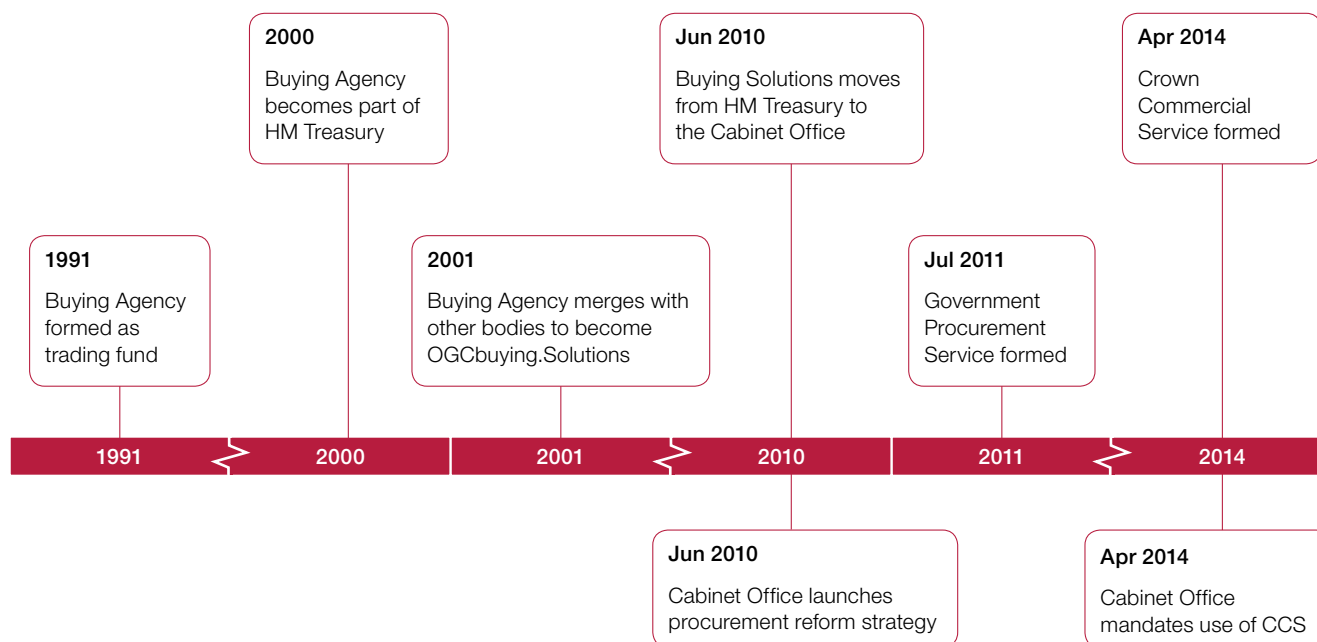
² National Audit Office and Audit Commission, *A review of collaborative procurement*, May 2010.

³ Comptroller and Auditor General, *Improving government procurement*, Session 2012-13, HC 996, National Audit Office, February 2013.

Figure 4

The government has bought common goods and services centrally since 1991

In April 2014 the government created CCS, building on the Government Procurement Service. It was mandatory for all central government departments to use CCS



Source: Government Procurement Service and Crown Commercial Service

CCS governance and leadership

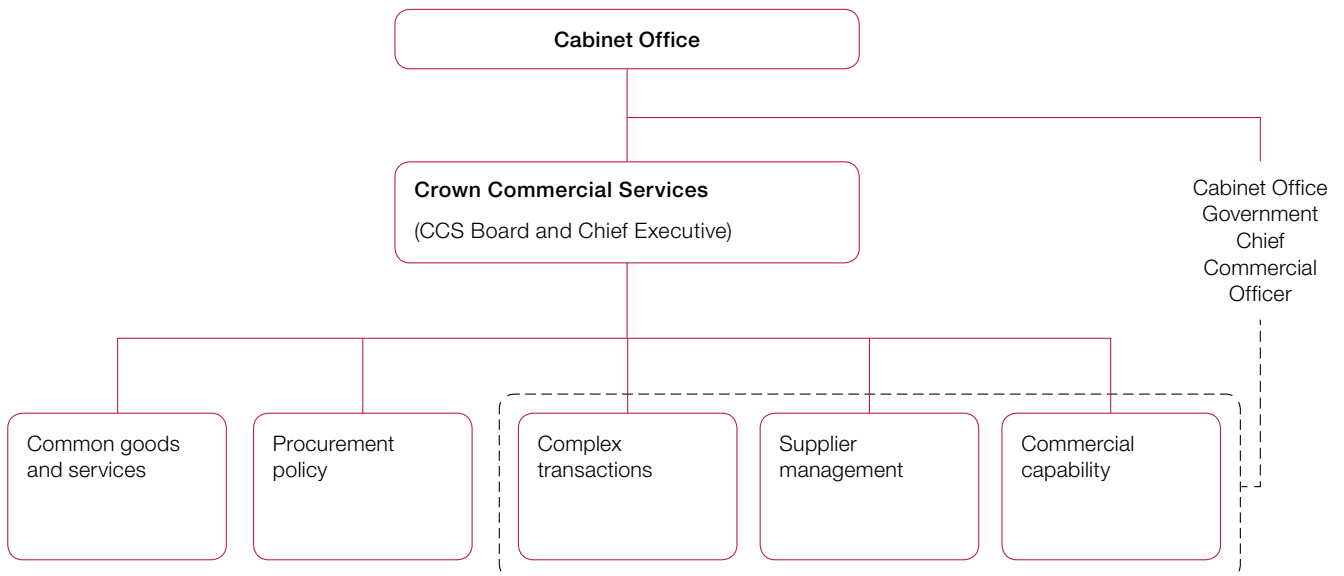
1.12 CCS, an executive agency of the Cabinet and trading fund, is managed by a chief executive, who reports to the Cabinet Office permanent secretary and is overseen by a board. When CCS was launched the government appointed its chief procurement officer to the role of CCS board chair.⁴ However, before the end of CCS's first year of operation, the government had decided this was not the best governance arrangement and in late 2014 it appointed a new chair.

1.13 The government has also changed the functions that report to the CCS chief executive. When CCS was launched all functions reported to the CCS chief executive, but by the middle of 2015 the Cabinet Office decided that three functions would report to the Cabinet Office government chief commercial officer on a day-to-day basis. These functions remain part of CCS (**Figure 5**). This report focuses on the buying of common goods and services. However, we discuss some of the weaknesses of these governance arrangements in Part Three.

⁴ In September 2014 the role of chief procurement officer was replaced by a newly created role called the government chief commercial officer. However, the former chief procurement officer became the new chief commercial officer.

Figure 5

Three functions within CCS report to the government's chief commercial officer



— Formal accountability and reporting

-- Informal management accountability and reporting

Source: Crown Commercial Service

1.14 In addition to these governance changes, CCS has had a high turnover of senior managers. Since April 2014, four of the 11 original board and senior management team remain unchanged; some roles have had multiple incumbents. While many of these changes may have been necessary and improved CCS's overall capability, this high turnover in leadership has made it difficult for CCS to maintain a clear and consistent strategic direction. Since summer 2016, CCS has appointed four senior managers with significant operational experience to its senior management team.

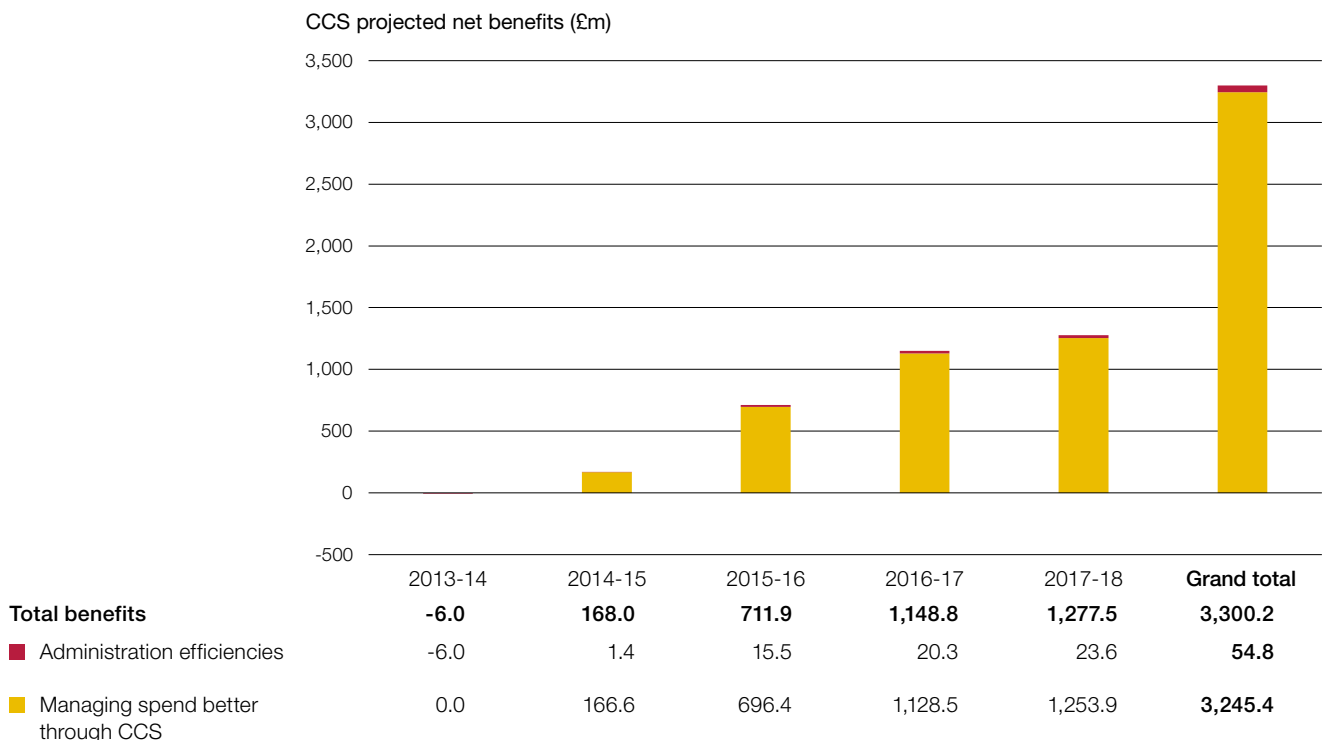
Cabinet Office expected significant benefits by creating CCS

1.15 The Cabinet Office did not prepare a full business case for CCS, but it did expect the new organisation to achieve significant benefits. In 2014, CCS forecast that the government could make net savings of £3.3 billion by reducing administration costs, moving to a shared services model and achieving better value for money from buying common goods and services (**Figure 6**). CCS expected procurement staff from different departments to transfer to the former Government Procurement Service, which employed around 500 staff. By April 2016, CCS would employ 1,030 staff. Across government, there would be around 400 fewer staff due to efficiencies in the buying of common goods and services.

Figure 6

Cabinet Office projected that most benefits would result from savings on common goods and services

Cabinet Office expected £3.3 billion net benefits; 98% would come from better managing spend



Note

1 The net benefits for each year are the difference between the total future costs and spend and the baseline costs and spend.

Source: Crown Commercial Service

1.16 By April 2018, once procurement services had transferred from other departments, the Cabinet Office expected CCS to directly manage £13.4 billion of government spending on common goods and services. Departments would no longer carry out any activities related to the buying of common goods and services themselves. The Cabinet Office also expected the wider public sector to make more use of CCS frameworks (**Figure 7** overleaf). It thought that these changes would lead to better value for money.

Implementing the new model of mandatory joint buying – creating CCS

1.17 In its original business plan, the Cabinet Office set out its aim to transfer procurement responsibilities from departments to CCS to achieve the significant benefits it thought were available. It therefore developed an ambitious plan to transfer procurement responsibilities from eight departments to CCS in its first year of operation and a further three departments in 2015-16. By April 2017, the Cabinet Office expected CCS would procure common goods and services on behalf of all government departments.

1.18 Key steps in implementing this plan included:

- a** creating a joint project team for each department consisting of staff from CCS and the department;
- b** analysing the activities of teams that were buying common goods and services;
- c** identifying the people who were buying common goods and services;
- d** prioritising the areas of common goods and services for transition to CCS: departments and CCS referred to these areas as transition ‘waves’, which would be transferred according to schedules agreed between CCS and departments; and
- e** preparing a mini business case for each department that set out baseline activity, costs and benefits.

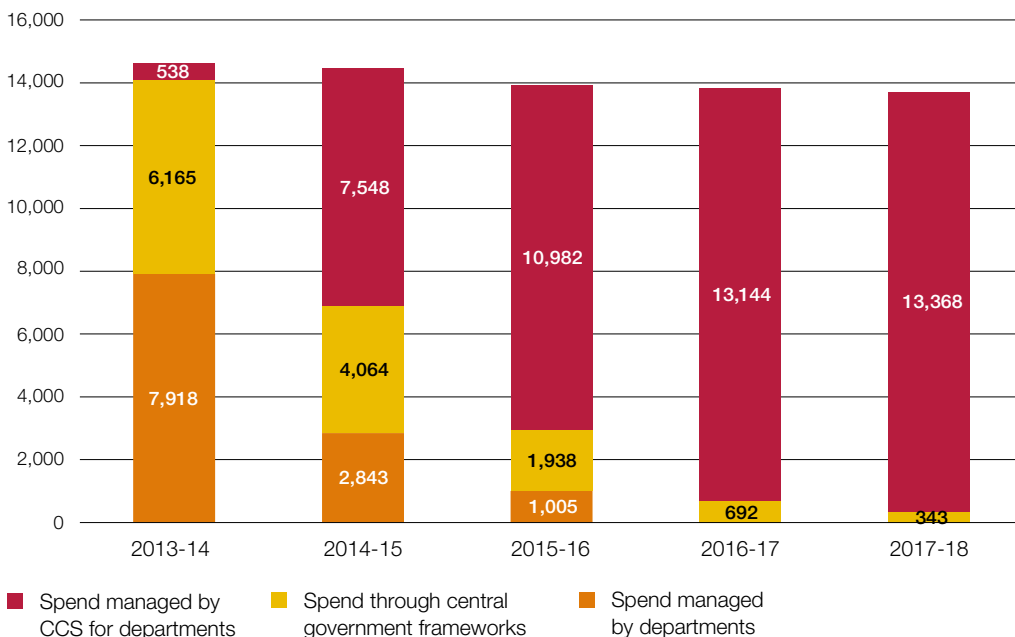
1.19 The transition was managed in accordance with all of these steps, except that mini business cases for each department were not prepared.

Figure 7

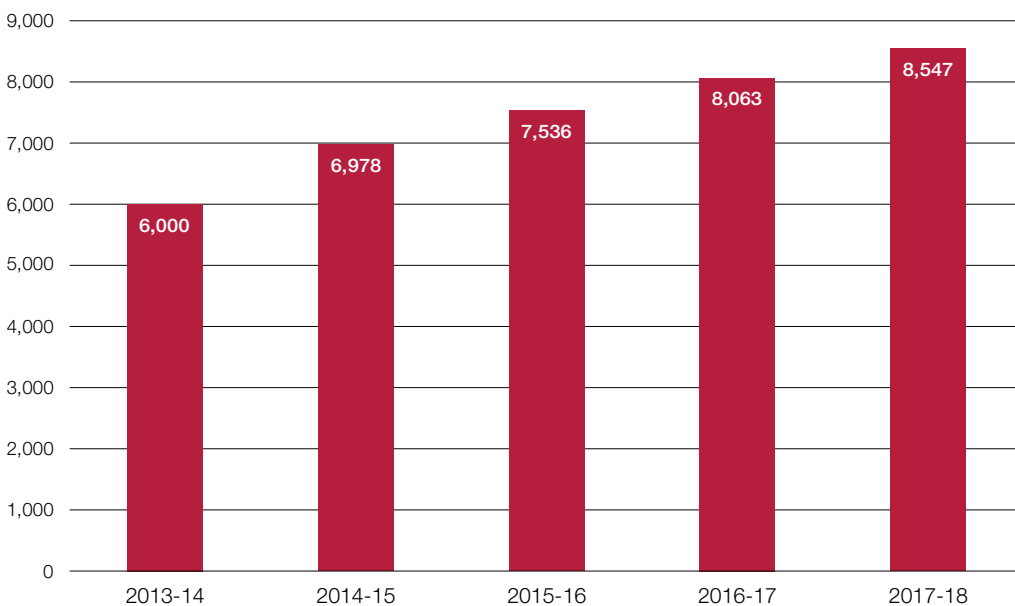
CCS was expected to change the way common goods and services are bought

Departments would transfer spend to CCS's management, and reduce their use of government frameworks. The wider public sector would increase its use of government frameworks

Original CCS Business plan's projected central government spend on common goods and services (£m)



Original CCS business plan's projected wider public sector spend through frameworks (£m)



Notes

- 1 Actual spend managed by CCS for departments is reported in Figure 8 on page 28.
- 2 Actual spend by wider public sector through CCS frameworks was £6.3 billion in 2013-14 and £6 billion in 2015-16.

Transition and service difficulties

1.20 CCS was launched on 1 April 2014. At the same time, the Department for Communities and Local Government transferred its procurement responsibilities to CCS. Three departments had already transferred some procurement responsibilities to CCS's predecessor, the former Government Procurement Service.⁵ Three other departments transferred some responsibilities during 2014-15.⁶

1.21 Leading up to the launch of CCS, and in the following months, departments told us that they had concerns about the quality of CCS services and lacked confidence in CCS's ability to transition services in line with the Cabinet Office plan.

1.22 In May 2014 a Cabinet Office review concluded that CCS had failed to meet its ambitious transition programme. It found that CCS had consistently promised more to customers than it could provide and that the central implementation team had not communicated well with the individual project teams. As a result, CCS suspended transition for new departments. It replaced the central implementation team and redesigned the transition process. It continued to transfer services from three departments that had begun this process but had not yet completed it. CCS aimed to start transitions for new departments by January 2015.

1.23 At the same time, departments started to question the risks of transferring their procurement to CCS. The seven departments already receiving services from CCS were becoming dissatisfied with the quality of service. CCS worked with the Ministry of Defence and the Department for Work & Pensions to establish improvement plans to address weaknesses in CCS's services. These weaknesses included delayed procurements, incomplete transition and lower savings than anticipated. Departments thought that the factors that contributed to them included a lack of capacity, a lack of robust processes and a lack of planning.

1.24 During 2015, CCS and departments continued to assess what could be transferred to CCS but did not formally commit to a new transition programme. By October 2015, CCS managed around £2.5 billion of spend and contracts for seven departments (**Figure 8** overleaf). At this time, CCS suspended the transition programme again and began a review of its operations. Part Three discusses that review.

⁵ During 2013-14, the Cabinet Office, HM Treasury and Home Office transferred some procurement responsibilities for common goods and services to CCS.

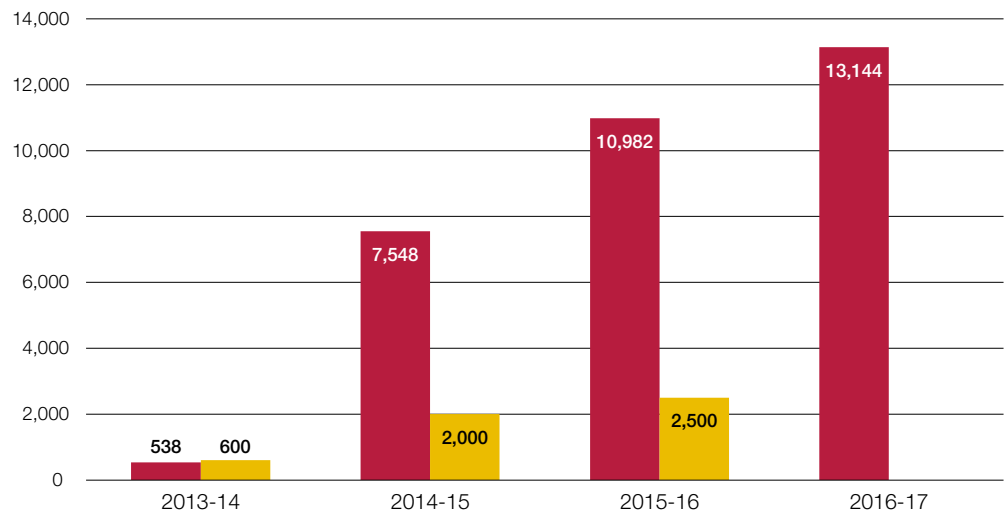
⁶ The departments were the Ministry of Defence, the Department for Work & Pensions and the Department for Transport.

Figure 8

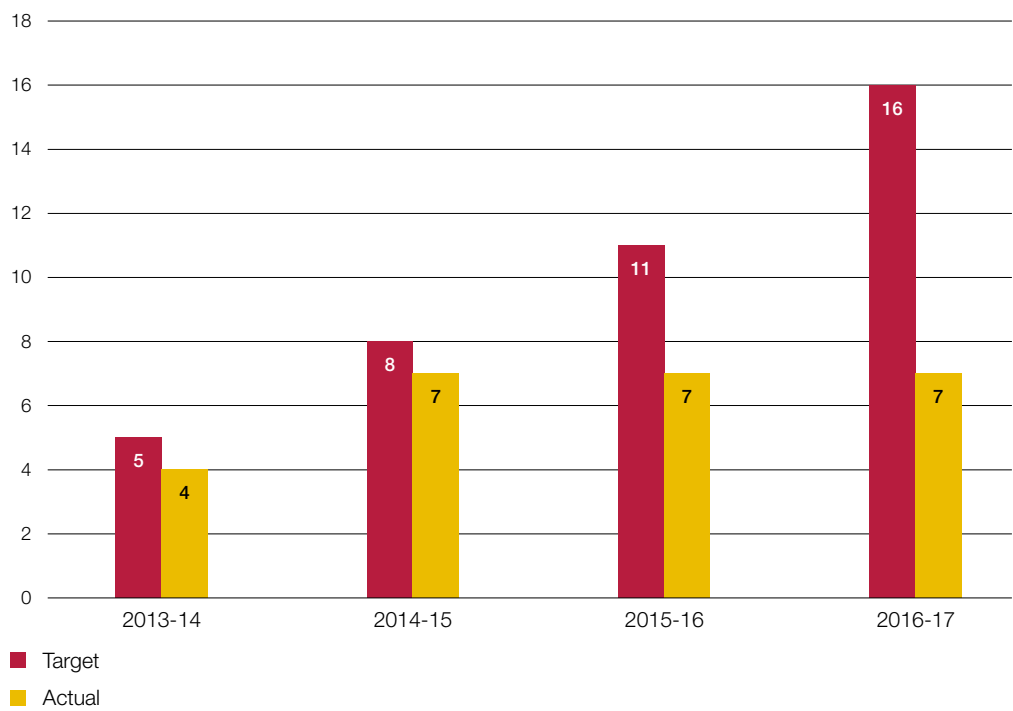
CCS did not transition £13 billion of spend from departments

CCS transferred spend from seven departments before it stopped transition in 2015. By that point, it managed £2.5 billion on behalf of departments

Departmental spend which is directly managed by CCS (£m)



Number of departments with spend directly managed by CCS



■ Target
■ Actual

Note

1 Spend directly managed by CCS in 2016-17 is driven by demand and not yet known

Source: Crown Commercial Service

Failure to achieve the originally intended benefits

1.25 CCS's original business plan forecast that CCS would grow rapidly and that its frameworks would be used to buy more than £22 billion of common goods and services by 2017-18. Of this £22 billion, £8.5 billion would be from the wider public sector using CCS's frameworks. However, the wider public sector spend through CCS's frameworks decreased from £6.3 billion in 2013-14 to £6 billion in 2015-16. For central government, the plan also forecast that CCS would directly manage more than £13 billion of spend. However, the transition programme to make this happen was suspended; in 2015, it was cancelled. This has meant that CCS has not grown significantly; in fact, CCS frameworks are currently used at similar levels to when CCS was launched.⁷ This lack of growth in CCS's responsibilities means that CCS has not, and could not, achieve the very substantial benefits that it first set out to achieve.

1.26 CCS has not tracked the benefits and costs of its creation. Although HM Treasury normally requires this information to be reported, net benefits and costs from the initiative have never been recorded. CCS's current management considers that the original targets wrongly estimated the amount of goods and services which could be bought centrally and the activities appropriate for centralisation. It therefore believes the original plan was not deliverable and CCS's current business plan no longer aims to achieve the original targets. In November 2015, CCS lowered its target for taking on department spending during that year from more than £2 billion to £610 million. CCS then reported progress against the new target.

1.27 In Part Two we show that CCS has helped departments and the wider public sector to save money. However, these savings are not directly comparable to the government's original business plan for CCS or to the cost of the government's procurement workforce. Furthermore, the creation of CCS has led to some departments incurring unplanned cost, such as to address service weaknesses and rehired staff to carry out work that they had expected CCS to do. For example, the Department for Communities and Local Government, which transferred all of its procurement staff to CCS, has since recruited three staff members to create an Intelligent Client Function to oversee CCS and bridge gaps in commercial capability left by the transfer of staff to CCS.

Key causes of CCS transition failures

1.28 Determining what caused the launch of CCS to experience difficulties so early in its life is difficult. However, from our review of the documentation, interviews with stakeholders and from our experience reviewing other government initiatives, we believe the main causes were overambitious targets, poor planning, inadequate data and a lack of buy-in by customers (**Figure 9** overleaf).

⁷ In 2013-14 frameworks created by the Government Procurement Service were used to purchase £11.4 billion of goods and services. In 2015-16 the equivalent figure was £12.8 billion.

Figure 9

The creation of CCS suffered similar challenges to other central buying and shared services initiatives

Common weaknesses	Our assessment of CCS's performance	Our analysis
Targets	●	The Cabinet Office did not prepare a full business case to support the creation of CCS. Had it done so, it would have been forced to consider other ways of achieving the planned benefits and whether its plans to create CCS, and transition more than £13 billion of spend in less than three years, were feasible. This may have helped the Cabinet Office to evaluate the difficulty of determining the buying that should be centralised and the ways that departments should collaborate to buy services. A full business case may have helped the Cabinet Office to design effective ways to manage these difficulties. This may have led the Cabinet Office to transition spend to CCS over a longer period.
Clear plans	●	The Cabinet Office did not prepare a single implementation plan or consider how CCS would integrate the procurement services after they were transferred to CCS. The Cabinet Office relied on separate implementation plans for each department. These plans focused on the transition of spend to CCS and did not consider how the services were to be integrated into a coherent service offer for departments. The plans were to be coordinated by a central implementation team, which was responsible for identifying issues and communicating appropriate responses to the project teams. In May 2015 the central implementation team was disbanded after a review by the Cabinet Office found that the team had not delivered its remit.
Inadequate data	●	The Cabinet Office did not manage the risk that procurement data were unreliable. The Cabinet Office estimated the departmental spend that could be transferred to CCS and departments agreed with these amounts. However, accurate procurement data are difficult to obtain and deciding which services are appropriate to be bought centrally can be difficult. When CCS and departments tried to identify and transfer the procurement activity that was originally planned they found that in some instances these baseline estimates were wrong. Departments were given the freedom to assess what they considered common goods and services. CCS did not analyse in detail what departments had labelled as common goods and services. It took on activities that it now considers should have remained with departments.
Governance, assurance or control	●	The Cabinet Office did not predict the likelihood that unclear governance would lead to poor accountability and contribute to service failures. The transition programme initially reported to the government's chief procurement officer, who was also the CCS chair. This merged the roles of governance and management and limited the control and accountability of the CCS chief executive.
Customer buy-in	●	In spite of the Cabinet Office making it compulsory for departments to use CCS, customers rapidly lost confidence in CCS's performance and began to question the risks of transferring their procurement services to CCS. The Cabinet Office did not actively manage the likelihood that departments would be reluctant partners in the initiative.

- Good performance – plans and activities were appropriate and carried out to manage risks and issues.
- Limited performance – plans and activities were not sufficiently developed or carried out to manage risks and issues.
- Poor performance – plans were not prepared or plans and activities were inadequate to manage risks and issues.

Source: National Audit Office

Part Two

Crown Commercial Service's current service performance

2.1 In Part One of the report we discussed the problems affecting Crown Commercial Service's (CCS's) launch. In this part, we set out the services that CCS offers and report on its performance in terms of achieving savings and customer satisfaction. We also focus on its:

- management of frameworks;
- internal processes and control environment;
- ability to standardise services; and
- communication with departments.

CCS offers services to central government and the wider public sector

2.2 In 2015-16, CCS employed 790 full-time equivalent employees and reported operating costs of £66.3 million. CCS offers buying services to central government departments and wider public sector bodies such as local authorities, the NHS and housing associations. These services include:

- buying activities on behalf of seven departments – running the procurement process for common goods and services, from the invitation to tender to the award of a contract;
- managing contracts – administration of certain contracts after award on behalf of seven departments;
- managing customer relationships – CCS manages the relationship with customers and responds to enquiries from central government and the wider public sector;
- creating and implementing government commercial policy – CCS develops and implements government commercial policy and provides guidance on commercial policies as necessary; and

- producing and managing buying frameworks – CCS produces and manages buying frameworks for common goods and services. In 2015-16, CCS had about 110 frameworks allowing public sector organisations to buy goods and services such as office supplies, training, legal services and vehicles;

And the following services, which report to the Government Chief Commercial Officer:

- managing relationships with strategically important suppliers – CCS manages relationships with the suppliers that have large or multiple contracts with government;
- advising on complex procurement – CCS advises and supports departments on complex procurements; and
- improving government commercial capability – CCS carries out a programme to improve the commercial capability of staff across government.

2.3 Central government departments have access to the services that CCS offers, whereas the wider public sector mainly uses CCS for its frameworks and policy support (**Figure 10**). In this report, we have reviewed the main services that report to the CCS chief executive and have not focused on roles that report to the government's chief commercial officer. We discuss CCS governance arrangements in Parts One and Three.

CCS has helped its customers save money

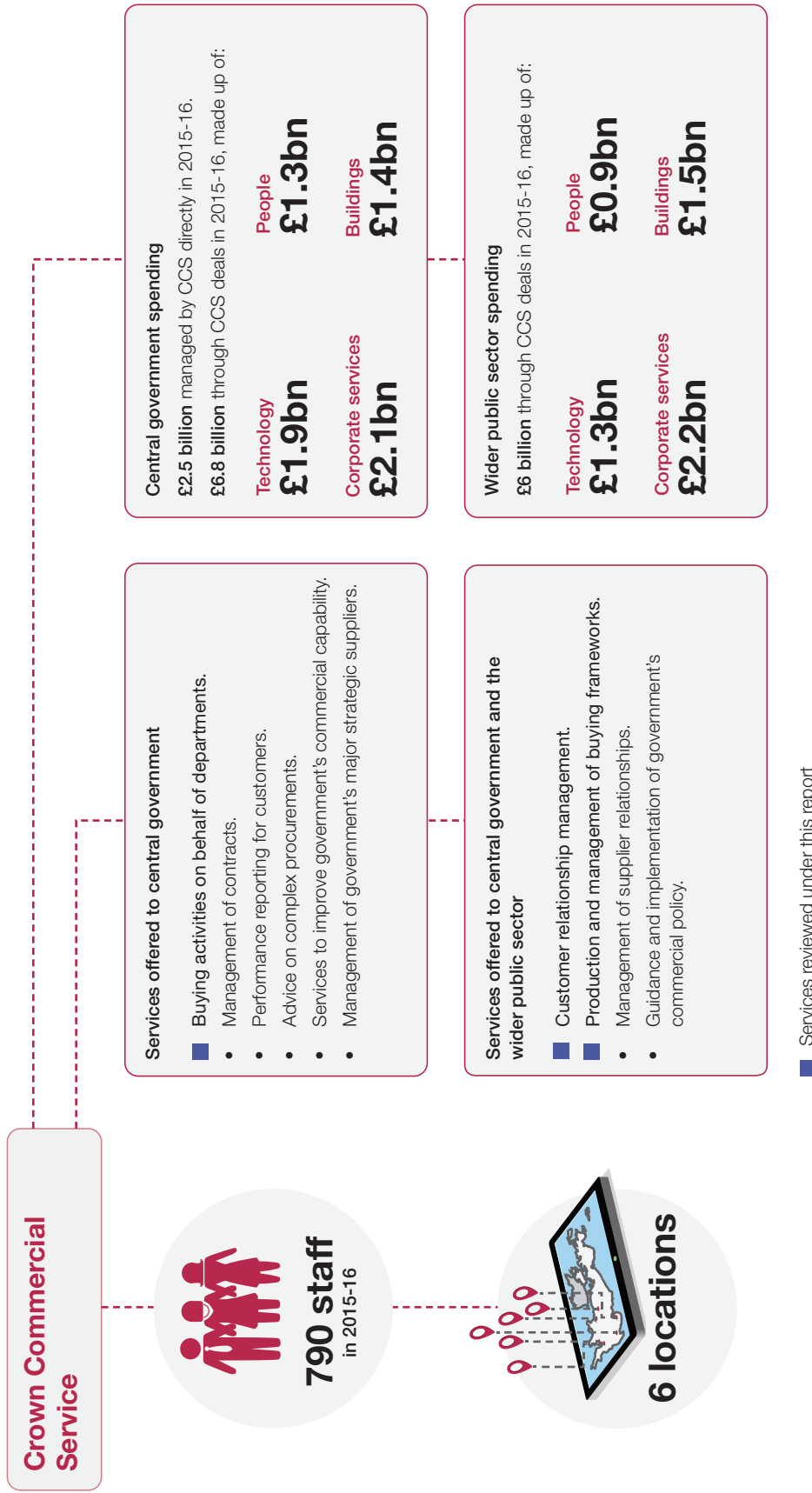
2.4 CCS reported that in 2015-16 it had helped customers to make demand and cost savings of £521 million on common goods and services (**Figure 11** on pages 34 and 35). The savings consisted of £282 million for central government, £101 million for NHS bodies and £138 million for other wider public sector bodies. The main categories were:

- £311 million (60%) from purchases using CCS frameworks – for example, by using the CCS Media Buying Framework the Department of Health saved an estimated £6 million; and
- £206 million from direct procurement and other CCS services, made up of £114 million (22%) from reducing the amount of goods and services purchased – for example, CCS helped the Ministry of Defence reduce its use of pool and rented commercial vehicles, saving an estimated £6.2 million; and £92 million (18%) from helping departments to negotiate with suppliers – for example, CCS helped Ofsted to negotiate software licences, reducing the suppliers' demands by £17 million.

Figure 10

CCS delivers more services to customers in central government

Central government departments have access to more services than the wider public sector. Wider public sector organisations make use of frameworks, policy guidance, and customer relationship management.

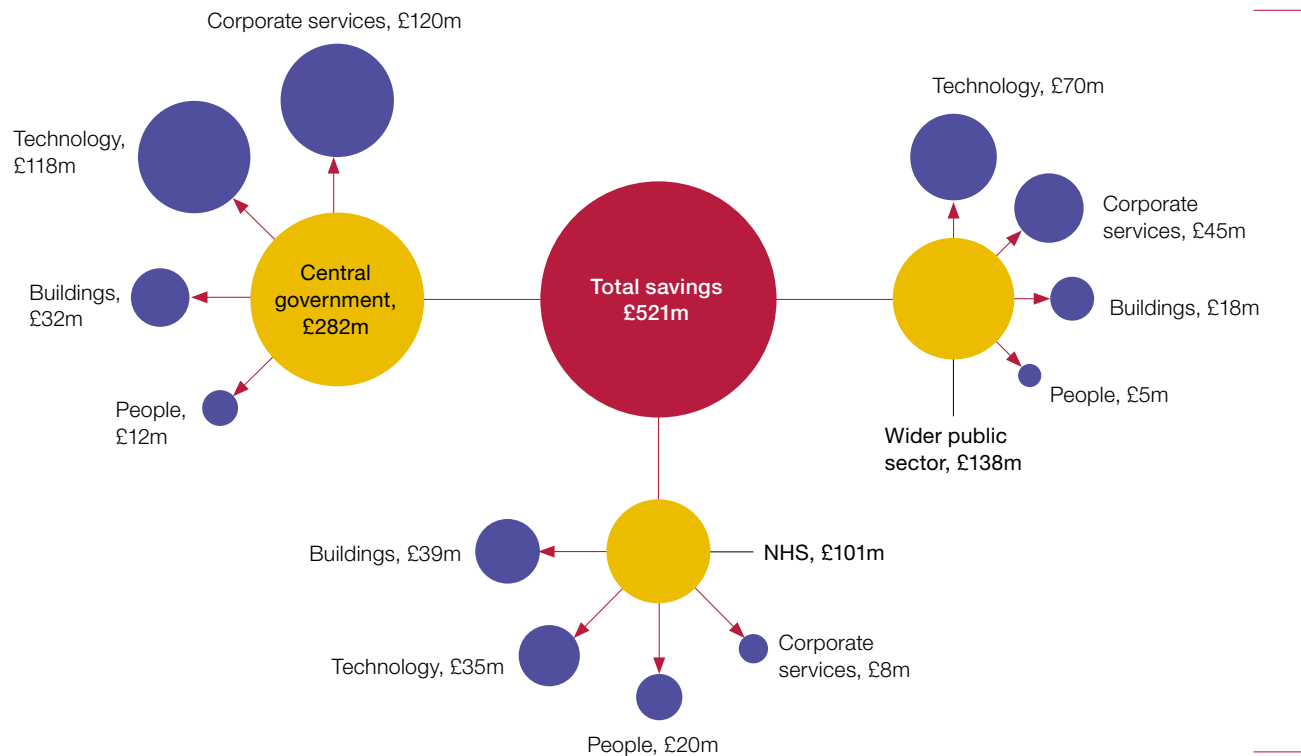


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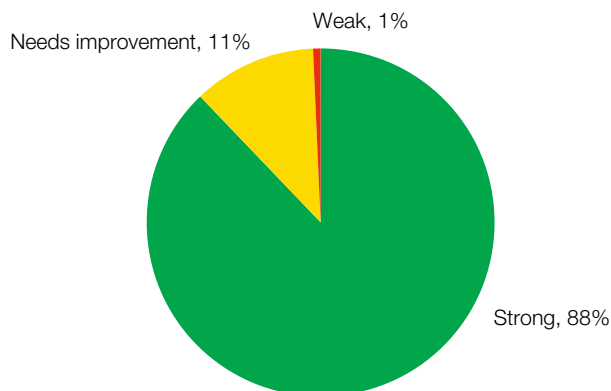
1 Rounding means spend through CCS deals do not match totals.

Figure 11
Savings reported by CCS in 2015-16 are well-evidenced

CCS reported £521 million savings in 2015-16; £282 million were from central government



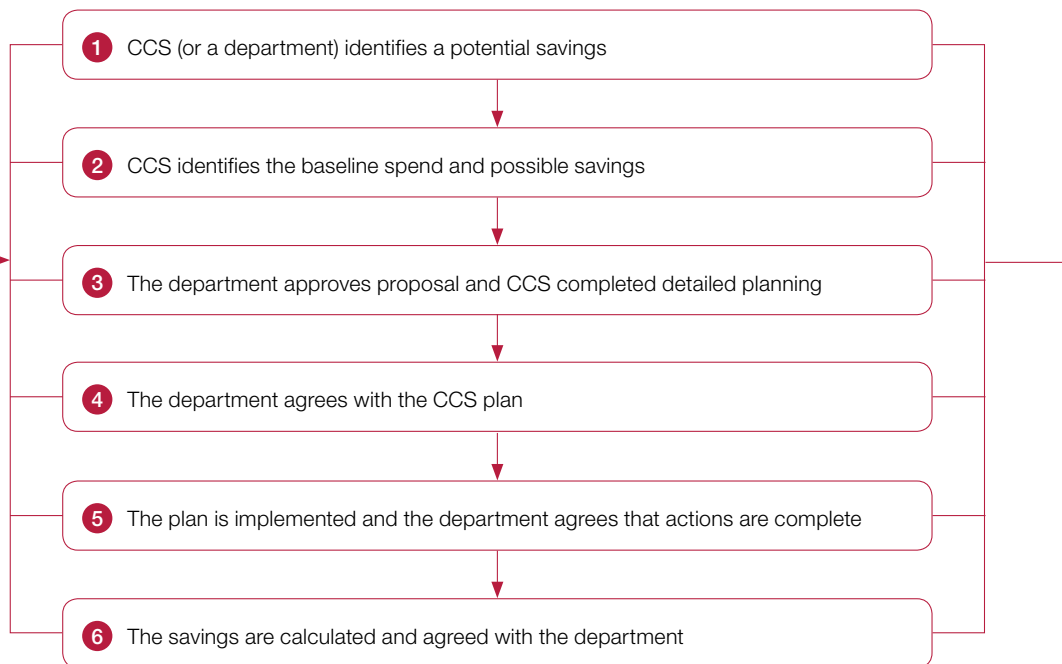
We assessed 88% of the savings in our sample as strong. In two cases (1% by value), we did not consider the saving to be valid and in eight cases (11% by value) we consider that further evidence is needed to demonstrate the validity of the saving



The savings were calculated using a new methodology in 2015-16

CSS savings process

A new methodology, introduced for central government savings in 2015, requires departments to sign off on savings, which provides greater assurance over the total savings number



We reviewed the evidence supporting 30 savings, totalling £175 million, selected randomly from central government bodies and the NHS

1 Methodology	2 Calculation and approval
1.1 Calculated against a realistic baseline using an appropriate method	2.1 Standard templates used to reduce risk of error
1.2 Could not have been obtained without CCS action	2.2 Data are taken from a reliable source
1.3 Reported net of relevant costs including future spend	2.3 Appropriate sign-off and evidence of scrutiny by client
1.4 Savings are cash-releasing	2.4 Active, ongoing monitoring by CCS of data
1.5 Savings are not double-counted	

2.5 The £282 million savings reported for central government were calculated using an improved process that CCS introduced for 2015-16. The process requires CCS and departments to work together to identify possible savings. It helps them to identify reliable data on baseline expenditure, which allows them to calculate subsequent changes in spending. The process also requires customer departments to review and sign off the savings at an appropriately senior level. The savings CCS reported in 2015-16 were substantially lower than the savings reported in 2014-15, when CCS estimated savings against a 2009-10 baseline.⁸

2.6 To evaluate the 2015-16 savings, we examined a random sample of 30 savings, totalling £175 million from central government bodies and the NHS. We assessed 88% of the savings in our sample as strong (Figure 11). This is a clear improvement on previous assessments. We have previously found that some savings reported by government departments are not always supported by sufficient evidence or calculated appropriately. For example, in 2013-14 we assessed the savings reported by CCS's predecessor could be improved in some categories as there was insufficient supporting evidence and they may not represent genuine saving.⁹

2.7 While this new savings methodology is an improvement on previous methods, and we have assessed 88% of our sample as strong, it has its limitations. Determining the savings from a centralised procurement service is not straightforward. It can be difficult to clearly attribute savings to CCS or departments and it is often not possible to predict what would have happened if CCS had not been involved.¹⁰ For example, departments might have taken action to secure the savings being reported. In addition, CCS does not routinely track prices and volumes for all goods and services in its portfolio. Savings may therefore be overstated as CCS only measures the areas that are believed to show efficiencies. Rises in prices or demand in other areas may not be recorded. Finally, due to the number of organisations involved, savings reported for the wider public sector and NHS are not agreed with the body and are therefore not as well-documented.

Customer satisfaction

2.8 CCS surveys its customers every quarter, to assess how likely they are to recommend CCS to colleagues.¹¹ Customers' individual ratings are then used to produce an overall score, which can be negative or positive. A negative score indicates that, typically, customers would not recommend CCS, and a positive score means that, typically, customers would recommend CCS. This survey is sent to customers from central government departments and the wider public sector. It aims to assess overall customer satisfaction, not how satisfied customers are with the various roles CCS performs.

8 In 2013 NAO reviewed this methodology. Comptroller and Auditor General, *Improving government procurement*, Session 2012-13, HC 996, National Audit Office, February 2013.

9 Comptroller and Auditor General, *The 2013-14 savings reported by the efficiency and reform group*, Session 2014-15, HC 422, National Audit Office, July 2014.

10 During our review, we were informed that a saving of £10.2 million, which was attributed to CCS, was generated by a department without assistance from CCS. This amount was not in our sample.

11 CCS uses the Net Promoter Score as a proxy measure for customer satisfaction. This method groups promoters (people who are very likely to recommend CCS) and detractors (people who are not likely to promote CCS) and calculates a composite score. The Net Promoter Score is weighted towards negative scores because of the disproportionate impact that dissatisfied customers can have on a business's reputation.

2.9 In 2015-16, CCS had a score of -27% (**Figure 12**). Central government customers have been consistently less positive towards CCS than other customers. Our analysis suggests that this is because of the failed transition programme, service issues and failures, and CCS's inability to meet the expectations set by the ambitious business plan. Since the end of 2015 both central government departments and the wider public sector have become more positive towards CCS. In the first quarter of 2016 wider public sector customers became more likely to recommend CCS.

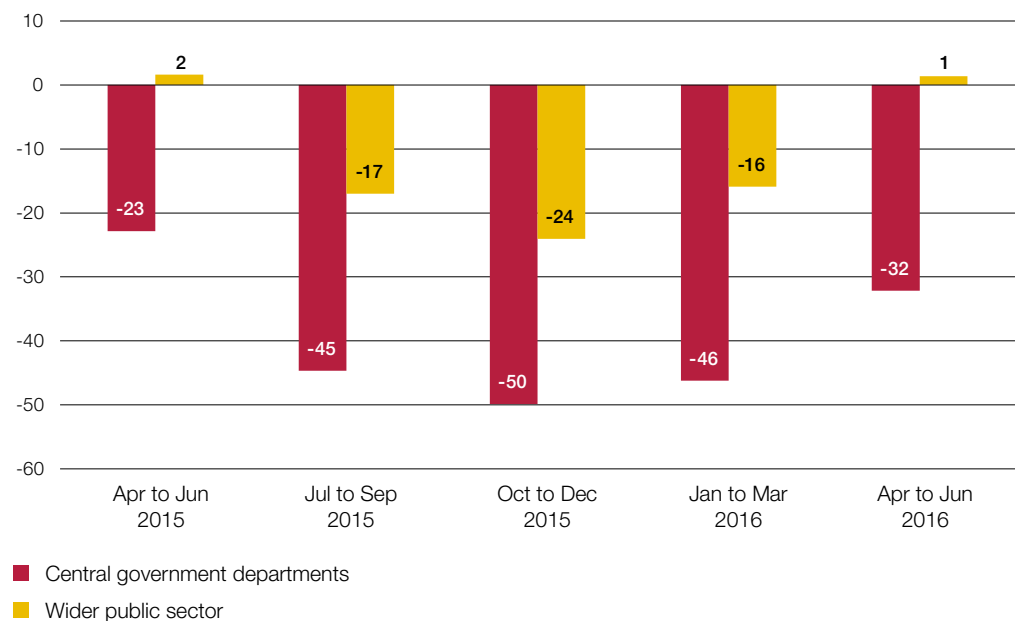
2.10 CCS calculates its overall satisfaction score using a methodology that gives greater weight to the scores of customers who are negative towards CCS. This methodology disregards customers who are neutral or mildly positive about CCS. We analysed the survey responses from 2015-16 and found that just over one in three customers were either neutral, dissatisfied, or very dissatisfied with CCS overall, and six out of 10 customers were either satisfied or very satisfied with CCS overall.

Figure 12

Satisfaction of customers in central government and wider public sector

In 2015-16 central government customers are substantially less satisfied than wider public sector customers

Net proportion of customers prepared to recommend CCS (%)



Source: Crown Commercial Service

2.11 We conducted our own survey with departments to better understand customer satisfaction and to test the gradual improvement that can be seen in Figure 12. Despite the negative scores in CCS's own survey, 11 out of the 15 departments we interviewed agreed that CCS currently adds value to their department. Departments praised the knowledge and skills of individual CCS staff and told us that they see the value in centralising the buying of common goods and services to reduce government costs. Departments said that CCS's frameworks cover a wide range of common goods and services. However, they highlighted problems with several specific agreements. For example, we previously reported on the use of consultants and temporary staff in central government. We found that departments appoint only about half of their consultancy and temporary staff through CCS's Consultancy One and Contingent Labour One frameworks. Departments reported that these frameworks generated limited competition for both consultancy and temporary staff assignments.

2.12 However, 11 out of the 15 departments also agreed that CCS could add more value. In particular, departments thought that CCS could improve the way it manages frameworks.¹² They felt that CCS had frequently extended frameworks beyond their original expiry date, and might be at risk of not getting the best deal on the market. Departments also expressed concerns about the inconsistency of the service and the lack of communication.

2.13 Based on the feedback from CCS's survey and feedback from departments to us in interviews, we decided to further analyse CCS's performance in its:

- framework deals;
- internal processes and control environment; and
- standard service offering.

Framework deals

2.14 Our review in summer 2016 found that CCS cannot show that its framework deals are always the best deals available. We would expect good framework management to demonstrate a well-managed and regular programme of review and renewal. This helps ensure that deals remain current and consistently represent the best value in the market. CCS should also have benchmarking information available to demonstrate that it is achieving the best deals. However, we found significant weaknesses in the way CCS manages frameworks:

- CCS lacks complete and consistent information on its frameworks, such as an accurate register of extended frameworks. Around 39% of the framework deals in its database (178 of 456) have no information on either start dates or end dates or both.

¹² The 11 out of 15 departments in paragraph 2.11 are different from the 11 out of 15 departments in paragraph 2.12.

- CCS increasingly extended its framework agreements up to April 2016 (the last full year for which we have data: **Figure 13** overleaf). Framework agreements often allow for one or two extensions. Out of the 24 agreements we identified as due to expire in 2014-15, 9 were extended beyond their original expiry date. In 2015-16, 21 of the 39 frameworks that were due to expire were extended.¹³ These were extended without competition or market testing. CCS's internal audit team found that CCS has been unable to provide assurance that it keeps framework extension periods to a minimum.
- CCS is failing to consistently renew or replace framework agreements before their final expiry dates and all extension options have been used. For example, in 2015-16 CCS extended framework agreements beyond their expiry dates in areas such as traffic management technology, printing and the supply and fit of tyres. CCS advises its customers when framework agreements are extended beyond the expiry dates. However, as customers have business needs to be met, CCS and departments have issued contracts using the expired frameworks. In general, contracts issued under expired frameworks contravene public contracting regulations.¹⁴
- CCS has not yet resolved its inability to renew or replace aged frameworks. CCS lacks appropriate technology such as workflow management tools to prevent staff from using expired frameworks to issue contracts. In 2017 it will extend frameworks beyond their expiry date for consultancy services and legal services.
- CCS does not consistently compare its frameworks against other deals in the market. It benchmarks some of its products but does not use benchmarks systematically and does not have a means of collating price data from contracts which would allow direct evidence-based benchmarking.

CCS's internal processes

2.15 Part One described CCS's difficult launch, which required it to set up service improvement plans for two departments that had transferred their spending to CCS. In 2016 departments told us that the weaknesses have not yet been resolved. Departments said that the quality of services remains inconsistent and depends on individual staff. CCS also acknowledged that service delivery has not always been in line with service agreements. To further analyse the causes of service failures, we held in-depth interviews with three departments that transferred their spending to CCS. We also reviewed the agreements between CCS and departments and considered roles and responsibilities, internal audit reports and CCS's board minutes.

2.16 We would expect good process management to include a strong focus on customers, effective leadership and management, an end-to-end view of the process and using information to improve systems and processes.¹⁵

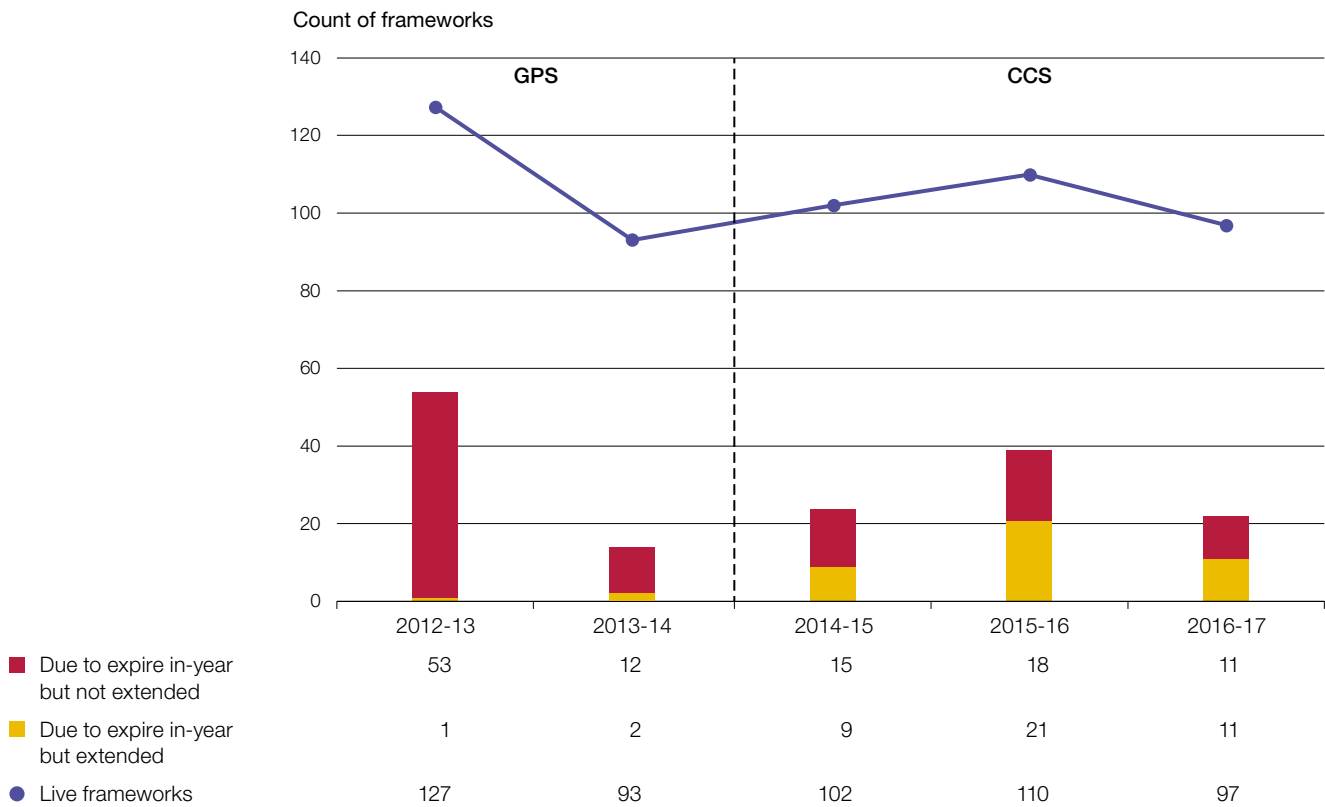
¹³ In the first four months of 2016-17, we identified 22 frameworks that were due to expire; 11 of these have been extended beyond their original expiry date.

¹⁴ Public Contracts Regulations 2015.

¹⁵ National Audit Office, *Managing business operations what government needs to get right*, September 2015.

Figure 13
Trends in extensions of CCS procurement frameworks

Up to 2016, CCS increasingly extended its frameworks



Note

1 Data for 2016-17 are the frameworks which were live or due to expire between 1 April 2016 and 31 July 2016.

Source: National Audit Office analysis of Crown Commercial Service data

2.17 Our work in summer 2016 found that CCS's management of its services has not supported consistent quality and value for money:

- **Customer focus and effective communication:** Our review was consistent with CCS's customer survey data (Figure 12). We found that CCS does not consistently listen and respond to customers' needs. Examples include CCS repeatedly advising a department to use a framework designed for purchasing estate services when the customer was purchasing consultancy services, and CCS not including departmental requirements when it created a new purchasing framework and then failing to discuss this with the department.
- **Departments have said that communication from CCS is often poor and that this can lead them to doubt CCS's capability to deliver quality services.** Departments told us that initially CCS did not provide regular performance reports. They also said that they do not receive enough information about new procurement framework requirements. CCS is working to improve how it communicates with customers. In 2016 it implemented an executive sponsorship scheme for central government customers. This scheme means that each department has a named member of the CCS senior management team who liaises directly with them. CCS also regularly publishes customer updates and newsletters for its customers outside of central government.
- **Management and leadership environment:** We found that CCS's leadership and management have consistently aimed to deliver high-quality services and have wanted to create an environment where CCS staff can perform well. However, CCS has experienced significant turnover in its senior management and has changed its organisation structure and reporting arrangements. Elsewhere in this report, we note that these changes may have improved CCS's overall capability. However, these changes have meant that CCS staff have not had a consistent or stable environment to perform well in.
- **End-to-end perspective:** CCS has recently put in place standard operating procedures that set out how it carries out many of its own key processes. However, these procedures focus on CCS's performance and do not describe how CCS and departments work together to manage the end-to-end procurement process. This is important because procurement activity starts and finishes in departments. If a procurement process is not understood and managed from end to end, this can lead to work being repeated and time lost. When procurement is managed from end to end it can lead to significant cost savings (**Figure 14** overleaf).
- **Using information:** CCS is not systematically giving departments the information they need to understand the service they are getting or where improvements can be made.

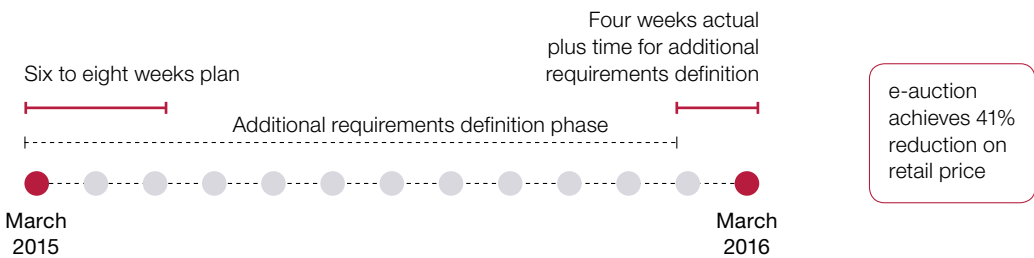
Figure 14

Understanding and managing procurement from end to end helps to reduce costs

Procurement of mini-buses for users with special needs

Context	The Department for Transport (the Department) had a ministerial-level priority to increase community transport for people with identified needs (eg elderly, rural, people with disability). To support this, the Department set out to procure mini-buses for users with special needs. Funding of £25 million was allocated in early 2015.
Initial commitment	Following discussions between Crown Commercial Services (CCS) and the Department, CCS initially stated that a procurement could be completed in six to eight weeks using framework RM1070.
Actual performance	The procurement took around one year to complete. The Department’s requirements were not fully developed. Following intervention by the Department’s commercial directorate, a new phase was added to the procurement to further develop the requirements.

Ministerial priority to support community transport – £25 million allocation



Stakeholder view	The Department reports that, once the requirements were defined and procurement commenced, the CCS process ran smoothly and achieved a significant reduction against the recommended retail price, using an e-auction procedure. The Department reports that CCS recommended the use of e-auction, which was central to achieving the cost savings.
Lessons	CCS did not effectively assess the quality or completeness of the customer input, leaving it exposed to time overruns. CCS and the Department initially treated the procurement as a simple transaction. As they both moved to an end-to-end perspective and worked collaboratively, they achieved significant success and cost savings.

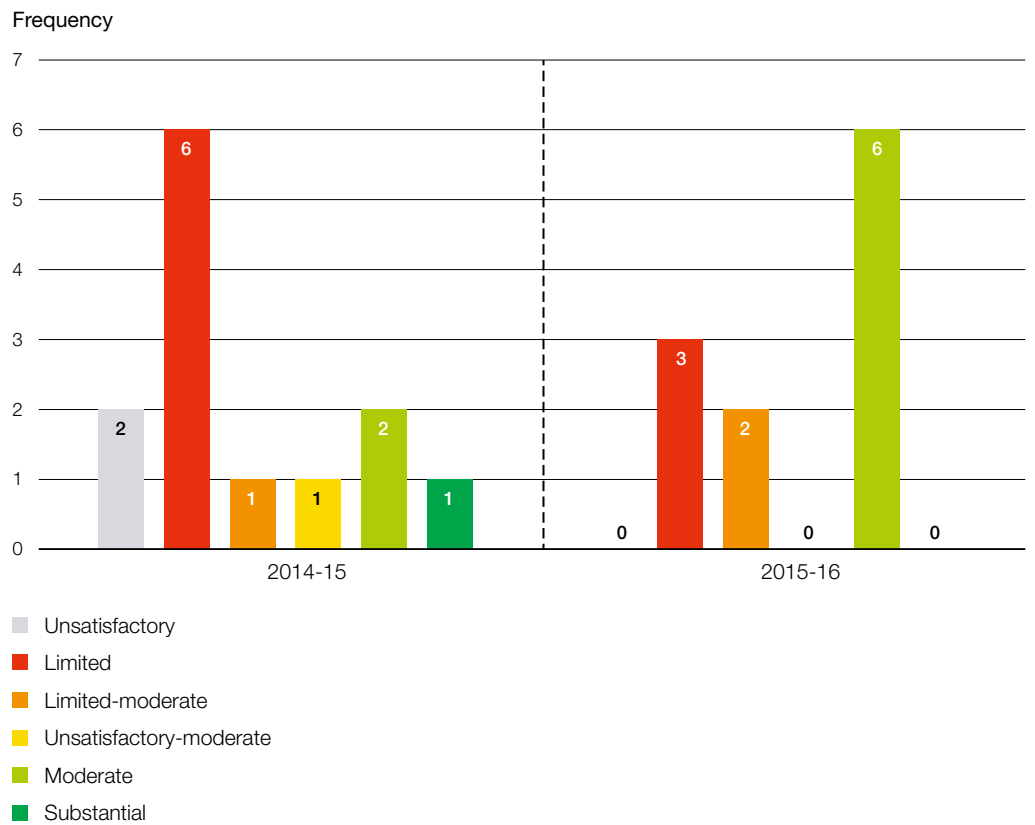
Source: National Audit Office

2.18 CCS’s internal audit conducted 11 reviews of CCS’s governance, risk management and control arrangements in 2015-16. It reported limited assurance for three reviews, limited to moderate assurance for two reviews and moderate assurance for the remaining six reviews (**Figure 15**). The limited assurances relate to business planning and control over operations. It concluded that for the 2015-16 year, there were significant weaknesses in the framework of governance, risk management and control. In 2014-15, CCS’s internal audit conducted 13 reviews. They reported moderate or better assurance levels in only three of these reviews. They found weaknesses in stakeholder engagement, market and business intelligence, and supplier and contract management. More recently, through our external audit engagement, we have found clear improvement in CCS’s governance, risk and control environments.

Figure 15

Some CCS governance, risk and control processes are limited

Internal audit findings 2014-15 and 2015-16



Source: Crown Commercial Service

CCS service standardisation and integration

2.19 CCS was initially formed by the merger of the former Government Procurement Service, the strategic commercial functions of the Cabinet Office, and parts of department procurement teams. Prior to the transition, departments had different models for the delivery of procurement services. For some departments, the central buying function would undertake all procurement-related activities. For other departments, the role was more decentralised, with teams dispersed throughout the department and its arm's-length bodies having autonomy over part of the procurement process. When it launched CCS the Cabinet Office decided to accept this variability. CCS created service agreements with departments which reflected this diversity of services and then negotiated fees which significantly varied across departments (**Figure 16**). The Cabinet Office expected CCS to subsequently standardise and integrate the services.¹⁶

2.20 CCS began to integrate and commence the standardisation of its services only in June 2016. On its launch CCS agreed to carry out a number of varying activities in the same way as departments had previously carried them out. CCS did not make changes to standardise these activities so that the same activities could be run for multiple departments. At present, departments receive a range of bespoke services from CCS. For example, CCS:

- manages mail and courier contracts for the Home Office;
- maintains a database of third-party spend for the Department for Communities and Local Government;
- provides a helpdesk service and booking advice to the Ministry of Defence for travel; and
- maintains a complaints and issues log on behalf of Cabinet Office.

2.21 In Part Three we discuss the review of CCS operations. As part of that review, CCS is standardising the services it will offer and intends to hand back 53 activities to departments and transfer some of the staff carrying out these activities back to departments. However, CCS has not yet agreed the detailed implications of its new standard service offer. CCS will need to ensure that it works closely with departments in doing so.

¹⁶ This approach to service transition is sometimes known as a 'lift and shift' of disparate operations to a new service unit. The new unit is then responsible for standardising and improving services.

Figure 16
 Departments pay significantly different fees to CCS

In 2015-16, MoD and DCLG paid more than the other departments



Notes

- 1 When launched, CCS proposed to charge its central government customers a fee equivalent to 0.3% of spend which it managed on their behalf.
- 2 HO = Home Office; MoD = Ministry of Defence; DfT = Department for Transport; DWP = Department for Work & Pensions; DCLG = Department for Communities and Local Government; CO = Cabinet Office; HMT = HM Treasury.

Source: Crown Commercial Service

Part Three

Crown Commercial Service's plans for the future

3.1 Part One of this report described and analysed the Crown Commercial Service's (CCS's) difficult launch, which led to the transfer of some procurement services being suspended and eventually cancelled. In Part Two, we analysed CCS's performance and identified continuing weaknesses in some parts of its service delivery.

3.2 In this part, we describe how CCS has reviewed its business, its progress in implementing the review and its longer-term plans.

Findings from the CCS review 2015-16

3.3 In mid-2015 the Cabinet Office responded to evidence of continuing weakness in CCS's service delivery by appointing a consultant, who previously led the buying functions for large, private sector organisations, to review CCS operations and reset the way that CCS carries out its business. The review took around six months. It involved a series of interviews and workshops with CCS and departmental staff and analysed the services CCS provides.

3.4 The review found that CCS performed inefficiently and had not yet been set on strong foundations. It found that CCS:

- **carried out services that CCS considered could not be performed efficiently or effectively in a central buying organisation**

For example, in some instances CCS had agreed to approve purchase orders and state that services had complied with contracts. However, CCS had no way of verifying that services were consistent with contracts;

- **engaged with customers in ways that were inconsistent and often unclear**

For example, the review found that CCS did not follow its own protocols for engaging with customers and that most CCS employees engaged with customers in ad hoc ways;

- **focused on compliance with procurement rules**

CCS had not taken the opportunities offered by recent changes to the rules, which allowed for more flexible processes and more commercially focused behaviours;

- **produced management information in ways that were inefficient and unreliable**

CCS prepared more than 280 reports a month, many of which relied on manual processes, requiring input from the equivalent of 70 full-time employees; and

- **had support roles such as programme management, change and transformation spread throughout the organisation**

This limited CCS's ability to manage projects and change activities effectively.

Recent changes to CCS since the review

3.5 Since the review the government is changing the way that it undertakes and funds key aspects of its joint buying activities. This has led to changes to the activities undertaken by CCS and departments. For example:

- CCS has committed to reducing the number of unique services it offers and will transfer 53 activities and some of the people carrying out these activities back to departments. For example, CCS will transfer 23 people carrying out contract management activities solely dedicated to the Department for Work & Pensions back to this department. However, CCS may continue to provide unique services to the Cabinet Office and HM Treasury;
- CCS will stop charging fees to departments for the procurement services it conducts on their behalf. This will take place when CCS and departments agree on the specific services that CCS will continue to provide for departments. CCS expects this to happen by the end of 2017-18. This reduction in CCS's income will be offset by an increase to an existing levy that suppliers pay when they provide services under CCS frameworks.¹⁷ The levy is currently around 0.5% and will become around 0.9% of the costs of services provided under CCS frameworks;
- CCS will consolidate and restructure a number of activities. These changes aim to improve CCS's efficiency. They will separate development activities (such as the creation of procurement frameworks) from service delivery activities (such as buying goods or services using existing procurement frameworks);
- CCS is recruiting four senior specialists to lead on creating and managing strategies for buying categories of goods and services such as information technology; and
- CCS is investing around £10 million to improve the way it manages its operations. This programme is called the Digital Transformation Programme (**Figure 17** overleaf). CCS expects the programme to improve its control environment and reduce both the time taken and errors incurred on activities for customers. It is also drawing up plans for a Crown Marketplace, which will provide a digital platform for customers to directly buy simple goods and services.

¹⁷ This change will be implemented progressively and will not impact the levies charged under existing framework agreements.

Figure 17

CCS Digital Transformation Programme

The Digital Transformation Programme aims to improve seven major areas

Area	Objective
Internet portal	To improve CCS's internet portal to make it easier and cheaper for customers to transact via CCS frameworks
Catalogues	To make frameworks direct available to public sector buyers in an 'Amazon'-style experience
Sourcing	To replace the existing e-Sourcing tool with a more scalable and integrated tool
Resource	To improve CCS's capability to manage and allocate resources
Business processes	To improve business process efficiency by automating business processes
Reporting and analysis	To improve CCS's reporting and analysis
Contracts finder	To integrate the existing contracts finder tool into the new capabilities

The Digital Transformation Programme expects to achieve a net benefit of £7.5 million by 2020. Planned benefits will mainly be due to a smaller workforce.

Source: Crown Commercial Service

3.6 The review and the actions following the review have been received positively by CCS's departmental customers. We spoke to commercial directors across government in summer 2016. Overall, we found an increased confidence in CCS and its ability to meet their needs. Many added that CCS was yet to demonstrate improved levels of service. Some had concerns about the impact of transferring services back, especially to the smaller departments.

3.7 Nonetheless, CCS continues to face challenges in some areas that have caused it problems since its launch and which have caused problems for other attempts to implement joined-up procurement and shared services (**Figure 18** on page 52). In part, this is because CCS had yet to translate its focus on improving the integration of CCS's operations and the quality of services into a clear business case or benefits realisation plan. This has four implications, which we explore over the next few pages:

- CCS still requires a means to win over departments and other customers if it is to expand further.
- CCS's governance is not sufficiently clear.
- It is not clear how CCS now fits with wider changes in the government commercial function.
- CCS lacks a means to demonstrate its progress.

Further expansion

The mandate for central government

3.8 It is no longer clear whether CCS has a clear mandate that requires all departments to use it for direct buying. Its suspension of the transition plans means that it no longer has a clear timetable or expectation that further departments will transfer staff or buying functions to CCS.

3.9 In 2013 we concluded that government was not maximising the potential for purchasing through central procurement partly because there was no enforcement of the central mandate to use the Government Procurement Service. We also concluded that the success of the reforms cannot depend on whether government departments choose to cooperate. We have not seen government departments choose to use other shared services without a clear mandate to do so.

3.10 Without a clear mandate requiring departments to use CCS, there is a strong risk that departments will not increase their use of central buying and that government will fall well short of its ambitions for savings in common goods and services.

3.11 CCS's senior management told us that they believe that once CCS has demonstrated that it has improved service quality and is buying at competitive prices, departments will want CCS to buy on their behalf. However, CCS believes that once greater credibility has been established, a continued mandate will still be important. The experience of the past two years shows that a mandate is required along with the genuine buy-in of customers, supported by demonstrable improvements in service quality.

Wider public sector

3.12 CCS also plans to encourage the wider public sector, including the NHS, local authorities and the police, to use its framework contracts more. The CCS Business Plan 2016-17 sets out an increase of up to 20% in the usage of its services by organisations in the wider public sector and, by the end of the current Parliament, CCS hopes to double its business from the wider public sector to around £10 billion to £12 billion. CCS has committed to a lower forecast in the government's spending plans and is working towards a target of 8% growth in 2016-17. CCS has developed an overall strategy for the wider public sector. It has not yet been able to give us detailed plans for how it would achieve this, or what the service needs of these local bodies were and how they differed from central government.

CCS's governance

3.13 The current CCS governance arrangements mean that a number of functions paid for by the trading fund report to the Government's Chief Commercial Officer in the Cabinet Office and not the chief executive of CCS (see Part One, paragraph 1.13). These staff work on complex procurements, the development of government's commercial capability and the management of strategic supplier relationships. CCS and Cabinet Office senior officials told us that although this arrangement was "not perfect" it did not create any practical difficulties. However, in our view it:

- **reduces clear line of sight.** These additional functions are funded by but do not directly relate to the services for which CCS charges its customers as a trading fund.¹⁸ In 2015-16 these functions cost around £7 million and are forecast to cost around £9.5 million in 2016-17;
- **reduces clarity of the purpose of CCS.** When we interviewed departments, around half of department commercial directors (or their representatives) were unclear about aspects of CCS's governance such as which functions reported to the government chief commercial officer role. CCS also includes staff that develop and manage procurement policy on behalf of government. Although this helps policy and practice to be informed by each other, we believe that it is inappropriate to include policy within a trading fund; and
- **blurs accountabilities.** For instance, it is not clear which services the CCS board and audit committees are responsible for and which the Cabinet Office's are responsible for.

Fit within the wider government commercial function

3.14 Since 2013 there has been an increased focus on government's wider commercial capability and the role of the pan-government commercial function. The Cabinet Office has conducted commercial capability reviews of each department, published new quality standards and runs a new commercial skills assessment centre. Departments, including CCS, are producing plans for how their part of the commercial function will operate. In general, departments are bringing in more senior commercial leaders, investing in systems and reforming their governance of contracts. Overall, they plan to increase their senior commercial staff and reduce their junior staff. The aim is to give the commercial teams a more strategic role and to better equip them to negotiate with government's commercial providers.

¹⁸ Trading funds are normally set up specifically to undertake government business activities. They are established under the Government Trading Funds Act 1973 and are financed principally by the receipt of revenue for the provision of goods and services undertaken in their normal course of business.

3.15 The Cabinet Office draft plans for the government's commercial function and the CCS review have been produced in isolation. In principle, CCS should be able to satisfy a key need of the changes to the government commercial service. In particular, it can release some of the burden from government departments for buying and managing simpler and non-strategic contracts. However to date, CCS has focused on improving the services it carries out today. CCS has yet to work with individual departments to determine whether it could carry out more activities, which are still within the scope of its new standard service. This would allow a full assessment of which buying activities should be carried out by the various parts of government.

Detailed plans against which to track performance

3.16 CCS has yet to communicate to departments the detailed plans for the integration of its operations, a clear baseline of its performance, or milestones against which to track its performance and improvements in service quality. CCS is currently making changes to the way it runs its operations without a detailed map of its current operations or that of its customers. While it is possible to implement a change programme without a detailed and prescriptive long-term plan, there is a risk that such an approach means that it does not have a clear way of monitoring progress or demonstrating improvement to its customers. We have not seen:

- a business case for the changes. CCS has not yet developed a new business case to replace the one written in 2014 to establish CCS which is widely agreed to not have set a realistic baseline or targets;
- a detailed service specification that has been agreed with departments, setting out which services CCS will and will not now provide for departments; or
- a benefit realisation plan setting out the baseline, and how improvements will be measured.

Figure 18

Limitations in CCS's current plans

Common weaknesses	Our assessment	Our analysis
Targets	●	CCS does not have a current business case for the proposed changes or to quantify the benefits that CCS could achieve from them. CCS is no longer pursuing ambitious targets to rapidly centralise the procurement of common goods and services for central government. However, it is not clear to us what targets CCS is now pursuing for central government. In the wider public sector, CCS has set ambitious targets for growth in the use of its services of up to 20% in 2016-17 and around 100% by 2019-20.
Clear plan	●	CCS has not set clear expectations on time frames for improvements to its operations and services. CCS used an iterative approach to the review. It focused on developing only enough detail to support the next stage of the review. This allowed CCS to adapt the review's timing and engage staff at key stages. However, this approach resulted in a lack of clear milestones which show when the review formally started, when it was due to report its progress or when it was expected to finish. Similarly, CCS has yet to commit to precise time frames for implementation.
Inadequate data	●	CCS has not got a full baseline of CCS activity (often this is called the 'as is' analysis). However, it did prepare brief summaries of activity in areas that CCS thought were contributing to weakness in services. Without a full baseline analysis, CCS may have addressed only some of the key issues or failed to fully understand the problems that the review set out to address.
Governance, assurance or control	●	When the full range of CCS's activities are considered, CCS continues to have unclear governance. When CCS was launched in 2014, the CCS board chair was the government's chief commercial officer. However, during the first year of operation, the government decided that this was not the best governance arrangement. It appointed a new chair who was independent from government procurement. During 2015, the government changed the reporting arrangements for some CCS staff to the government chief commercial officer in the Cabinet Office rather than the CCS chief executive. These staff work on complex procurement, the development of commercial capability across government and the management of relationships with strategically important suppliers to government. These are functions which are not normally considered suitable for including in a trading fund such as CCS. In 2015-16, these functions cost around £7 million and are forecast to cost around £9.5 million in 2016-17. When we interviewed departments, around half of department commercial directors (or their representatives) were unclear about aspects of CCS's governance such as which functions reported to the government chief commercial officer role. We believe the current CCS reporting arrangements lead to poor accountability and a lack of transparency.
Customer buy-in	●	Most central government customers that we interviewed supported the review and the changes arising from it. However, CCS has not prepared a clear strategy to build commitment from its customers. Some departments told us they are not convinced that the review will improve CCS's internal control or service performance. Achieving strong buy-in from these customers remains a challenge for CCS which will take consistency of services and will take time to achieve.

- Good performance – plans and activities were appropriate and carried out to manage risks and issues.
- Limited performance – plans and activities were not sufficiently developed or carried out to manage risks and issues.
- Poor performance – plans were not prepared or plans and activities were inadequate to manage risks and issues.

Source: National Audit Office

Appendix One

Our audit approach

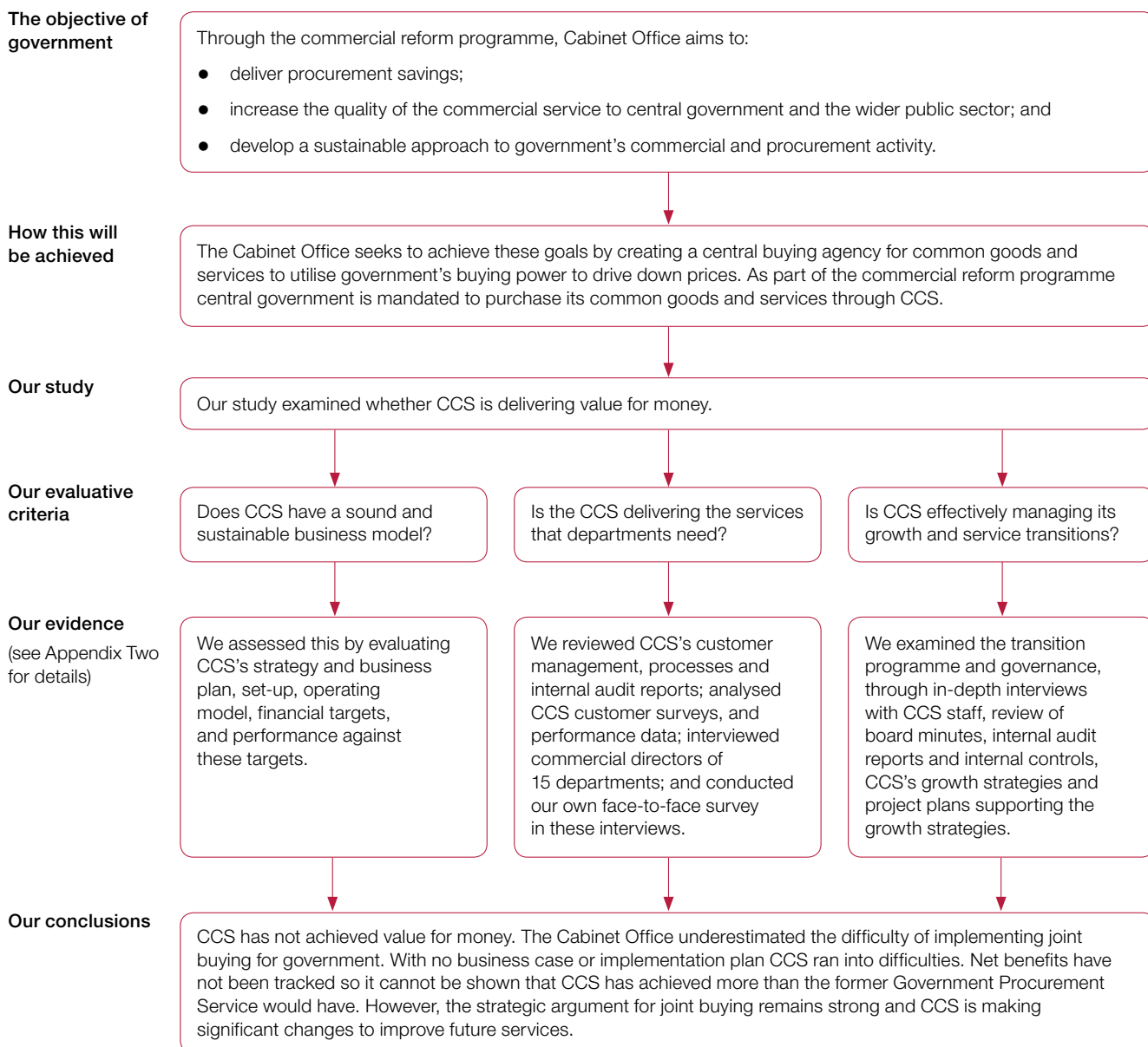
1 This study examined the Crown Commercial Service (CCS) performance as the government's newly created central buying agency for common goods and services. CCS is central to the government's commercial reform programme, which aims to save money on government procurement, improve the quality of the commercial service to central government and the wider public sector, and develop a sustainable approach to commercial and procurement activity. We made these aims central to our evaluative criteria and conclusion on value for money:

- a** To assess CCS's business model we evaluated the business case for creating it, the implementation strategy and how CCS performed against its initial targets.
- b** We then looked at customer feedback, CCS's own data and internal audit reports to assess CCS's performance in its buying operations.
- c** Turning to CCS's growth plans we scrutinised its growth strategies, future project planning documents, its control environment and feedback from departments.

2 Our audit approach is summarised in **Figure 19** overleaf. Our evidence base is describe in Appendix Two.

3 Our report focused on the creation of CCS, its operations and its performance as a buying organisation. We have not considered its policy operations, capability development, advisory function, or supplier management.

Figure 19
Our audit approach



Source: National Audit Office

Appendix Two

Our evidence base

1 We came to our conclusion on whether the Crown Commercial Service (CCS) is providing value for money using evidence collected between March 2016 and September 2016. We applied an analytical framework with evaluative criteria to assess the set-up and performance of CCS since it was created in April 2014. We have set out our audit approach in Appendix One.

Document review

2 We reviewed documents including the Cabinet Office committee papers, business plans and internal minutes to identify the original intention of the reforms, and provide evidence of the extent to which they have been introduced. The document review also allowed us to identify what metrics should be used in this study to measure the Cabinet Office and CCS's success in delivering reforms.

Data analysis

3 To analyse total central government spending on procurement, we used data available from the Cabinet Office spend analysis tool, and our previous report *Improving government procurement*. All numbers were expressed in 2015-16 prices.

4 We cross-checked data on frameworks and transactions supplied to us by CCS with information available on the CCS website. We assessed start and end dates and extensions against the information provided by CCS.

5 We validated a sample of 2015-16 savings claimed by CCS:

- We reconciled savings totals reported by CCS with underlying lists of individual savings.
- We selected a sample of 30 claimed savings with a combined value of £175 million. Our sample was selected to take in savings that we considered to be high value and high risk, and other savings.
- We reviewed the methodologies and calculations behind each of the sampled savings. This was informed by interviews with the CCS 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 as set out in our 2013 report, *Improving government procurement*.

6 We examined CCS's use of data. We held interviews with CCS staff responsible for data, and gained first-hand experience of using the Cabinet Office's spend analysis tool.

Interviews

7 We interviewed the senior management team at CCS, as well as the former chief executive and the former chairman. We also conducted interviews with the commercial directors of 15 government departments to get their opinion and insight into the functioning of CCS. We carried out a survey with these departments, focusing on their opinion of CCS's service offer, the value CCS adds and the savings reported by CCS.

8 For our process-mapping work, we carried out further analysis with the procurement teams of three departments (the Ministry of Defence, the Department for Communities and Local Government, and the Department for Transport). These departments transferred their spending in 2014-15. We chose them to provide a range of department size, function, and procurement activity. It provided evidence of departments' practical experience of working under the new arrangements and highlighted any performance issues.

9 We also discussed procurement with the Local Government Association and with the Welsh Audit Office. While these discussions could not represent the view of the wider public sector, they did provide useful context of the procurement landscape.

Publication reviews

10 We reviewed relevant publications and reports. The main sources were our back catalogue of reports on contracting and commercial capability within government and shared service centres. We also reviewed third-party reports and guidance on joint buying.

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