



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **Cabinet Office**

# Crown Commercial Service

## Key facts

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**£521m**

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

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**6 in 10**

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

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**54%**

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

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**£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

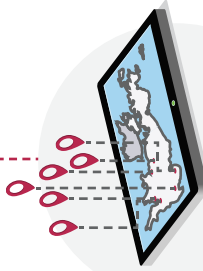
**£3.3 billion** anticipated net benefits from the creation of CCS over the four years to 2017-18

**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:

<b>Technology</b>	<b>£1.9bn</b>	<b>People</b>	<b>£1.3bn</b>
<b>Corporate services</b>	<b>£2.1bn</b>	<b>Buildings</b>	<b>£1.4bn</b>

**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:

<b>Technology</b>	<b>£1.3bn</b>	<b>People</b>	<b>£0.9bn</b>
<b>Corporate services</b>	<b>£2.2bn</b>	<b>Buildings</b>	<b>£1.5bn</b>

■ 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”<sup>1</sup>.

**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.

<sup>1</sup> 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.