

Procurement Capability Review Programme

Tranche Two Report



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When the first three Procurement Capability Review reports were published in December 2007, OGC also published an overview report, highlighting the main findings of the three reviews and drawing together the common themes of the tranche. The reports from tranche 2, comprising the Department for Transport (DfT), the Department for the Environment, Food and Rural Affairs (Defra) and the Department for International Development (DFID), are now available. This report once again aims to highlight the main issues and some of the commonalities running through the six reviews.

The **Introduction** sets out the aims of the programme, describing the PCR process and follow-up, and explaining the progress made to date with the programme. Of particular note is the programme of follow up activity comprising milestone assessments (at 6 and 18 months following review), and stocktakes (at 12 months following review).

The second section is an **overview of tranche 2** to give the context of the departments' business and procurement challenges and the wider policy environment in which they operate. For each of the three departments, there is a short section describing the commercial landscape and general context of the review, alongside a bulleted list of the headline findings (extracted from the reports).

Section three considers the **key emerging themes** from all six departments reviewed so far. Although the programme is less than half way complete, the end of tranche 2 means that OGC is better placed to identify the key themes and trends emerging from PCRs. The top "improvement areas" or potential issues that seem to represent the biggest challenges for departments are as follows:

- a shortfall in highly capable commercial people
- a shortfall in contract management skills and resources
- the paucity of Management Information
- lack of consistent measurement of performance
- difficulty influencing spend outside the core department.

These emerging key issues will form the focus for strategic action as part of a change programme led by OGC. Departments will be engaged through existing networks and communications channels to identify and agree who is best placed to implement change; in some cases OGC might lead, in others it might be a departmental sponsor or nominee.

The report also looks at some other themes where the evidence from different departments is more mixed:

- commercial strategy needs to be developed, and alignment of procurement with the business could be improved
- supplier relationship management needs to be more consistent
- there is a need for greater knowledge management and sharing
- category management could be developed further.

In focusing attention on key issues for resolution it is easy to pass by or take for granted the fact that there are areas where departments are performing well. Therefore this section also considers some of the positive themes, where review teams have found key strengths:

- good people in procurement, with increasing levels of professional qualification
- strong leadership from Heads of Procurement in the centre, with some good procurement functions in departmental agencies
- increasing numbers of people at Board level with commercial focus and experience
- procurement transactional processes and procedures are good, well used and understood. There is a strong understanding of the need for collaboration
- departments are making impressive savings through procurement.

The fourth section of the report gives an **update on tranche 1**, summarising progress to date in the three tranche 1 departments (Department for Children, Schools and Families (DCSF), Communities and Local Government (CLG) and the Department for Work and Pensions (DWP)). All three departments have undergone a milestone assessment at 6 months on and progress is very encouraging, although there is of course still more work to do and the departments are now planning for their stocktake assessments.

The report concludes with a short **forward look** for the PCR programme, taking in the publication of tranche 3 in November 2008, tranche 4 in February 2009 and tranche 5 in April 2009. In parallel with review activity, the PCR team will also be rolling forward the programme of milestone assessments and stocktakes, prior to preparing for re-reviews at around two years after the first PCR. OGC will be initiating work on establishing a change programme to identify and agree action on the key cross government issues arising from the reviews, with progress expected to be reported later this year.

This report accompanies the publication of the second tranche of Procurement Capability Review reports. With six reviews now published and a further three underway, we are nearing the halfway point in the first wave of the programme. The first round of milestone assessments – aimed at ensuring that departments are making the progress we would expect – has also now been completed and we are starting to see real change in the departments that were first reviewed.

This is an opportune time to say how pleased I am with progress of the programme. Indeed, I remain convinced of the robustness of the process (both in terms of the high calibre of review team members and the comprehensive coverage of interviews and other data which feed into the reviewers' conclusions). Furthermore, I know that PCRs are already making a big impact, not least in raising procurement and commercial matters up the agenda. I know that Permanent Secretaries and their management teams within departments are taking the issue of procurement capability very seriously and affording the reviews the attention they deserve. They recognise that there is significant potential gain to be made from this programme, and in the ever-tighter fiscal environment, more efficient procurement is one of the key opportunities for securing funds.

The six reports published so far highlight the priorities for action in each of the departments. While looking at the issues for individual departments in isolation is useful in itself, there is added value in taking a wider view by considering the emerging key themes; problems which affect all departments to a greater or lesser extent. The PCR programme presents us with the opportunity to tackle some long-term systemic issues. The PCR programme will be looking to set in motion a change programme, driving improvement across Whitehall on these key issues that represent challenges for the whole community. Through this change programme and using OGC's growing communications networks we aim to bring the commercial community closer together. We believe that there is much to be gained from a stronger and more cohesive community.

As well as highlighting the common areas for action in this report, you will see that we also discuss some of the more positive themes and the good practice we have seen. And there is much to be pleased with: although there is a good deal of "Amber" scores in the individual reports, I am keen that departments and the wider community understand that "Amber" is not a bad score; it indicates fit for purpose with some clear scope for development and improvement.

There is of course much more work still to be done: for OGC, to complete the first wave of the PCR programme and start to drive forward the change programme; and for departments (with OGC support), to take forward their PCR improvement plans. I fully expect departments to continue showing strong support for the PCR programme, recognising that if we are able to realise the significant potential benefits of the programme there will be significant gains for all of us in departments and, ultimately, for the taxpayer.



Nigel Smith

Chief Executive, OGC

June 2008

Background: The aims of the programme

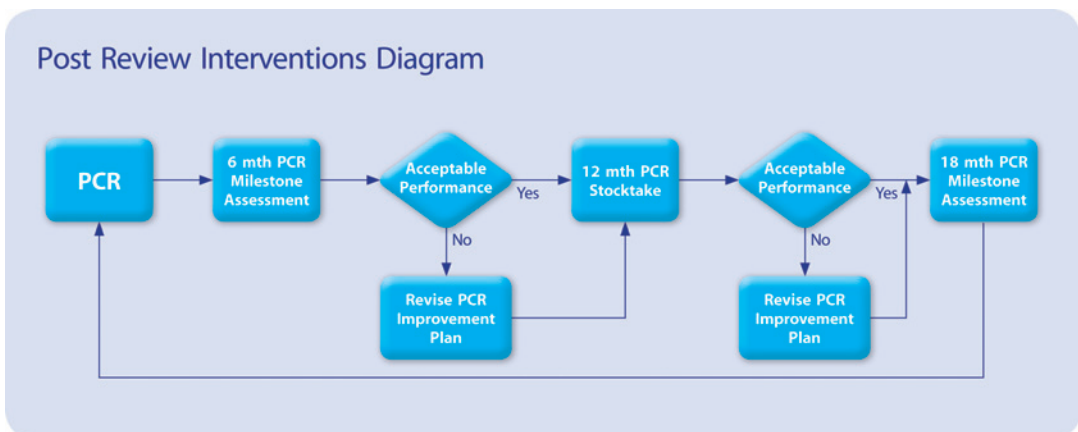
The programme of Procurement Capability Reviews (PCRs) was first announced in *Transforming Government Procurement* in January 2007. The programme is central to the Government’s aim to ensure that procurement drives tangible improvements in public service. Focusing on where a department’s money is spent and how it achieves value from that spend, a Procurement Capability Review (PCR) provides an independent, strategic view of the overall procurement capability of the department and its wider family network (agencies, etc) – identifying exemplars as well as areas for improvement.

PCRs look in detail at three main elements of a department’s procurement capability: leadership; skills development and deployment; and systems and processes. The reviews cover the widest definition of procurement and include buying commodities and complex PFI projects, etc. Procurement activities across the whole lifecycle, from policy and strategy to delivery and disposal, are also included. Expenditure through the full length of the department’s delivery chains is explored, from central departmental functions, through to agencies, Non Departmental Public Bodies (NDPBs), partners and end users. The focus is on high impact, large expenditure areas. The department’s ability to act as an intelligent client both to assess commercial risk and influence procurement activity across their wider networks is critical.

Although PCRs are not optional for departments and the process may be uncomfortable at times as actual performance is challenged, there is a strong element of partnership between departments and OGC. The ultimate result of the PCR process should be a significant improvement in capability within each department, with consequent gains for that department and, cumulatively, for government as a whole. Departments need to own the process of improvement, once the PCR has flagged up the areas on which the department should focus.

The Process

A key feature of the PCR process is the post-review interventions. These are summarised in the following diagram:



In tranche 2, the review teams typically conducted around 90 face-to-face interviews with staff and key stakeholders in each department, and there were a further 50 telephone interviews with suppliers and other stakeholders. This is a significant increase on the tranche 1 totals. Review teams are finding that in order to fully unpack the complexity of the departments and the issues raised, and to ensure they have thorough validation of all the evidence leading to their conclusions, they need to speak to a very wide range of people.

The bigger picture

The publication of the PCR report itself is merely the starting point for a journey towards achieving real and lasting improvement in procurement capability. There is a robust programme of formal and informal follow-up to ensure that the capability gaps are closed.

Departments take the lead in the improvement planning process, supported by a named OGC Procurement Transformation Manager (PTM). Each PTM typically works with the department on identifying initiatives taking forward the recommendations in the PCR report. PTMs identify where OGC can assist the department in resolving specific issues and help make links with sources of best practice. PTMs also provide a long-term liaison and support point for departments.

Every six months after the initial improvement plan is agreed, a milestone assessment is carried out. At six and 18 months, departments give their own opinion at the milestone assessment of how well they are performing with regard to the delivery of the benefits targeted in their respective PCR improvement plans, and report back on any other issues identified in PCR (outside the main recommendations) where they have taken action. PTMs comment on the department's assessment, and the results inform a follow-up meeting between the OGC CEO (Nigel Smith), the appropriate lead OGC Directors and the relevant Permanent Secretary. The value of these interventions is that:

- departments have the opportunity to confirm what progress has been made
- OGC has the opportunity to confirm that the early PCR activities (as set out in their improvement plan) have borne fruit.

The 12-month milestone assessment – known as a stocktake – is a more detailed assessment of whether the benefits targeted in the departmental PCR improvement plans are being achieved. A PCR review team member will carry out three days of interviews to refresh data in the areas covered in the original PCR key lines of enquiry. Key Performance Indicator data will also be considered. The aim is to find evidence of the benefits of PCR improvements actually being realised in departments. A limited telephone survey of suppliers and stakeholders will be carried out at the same time, in order to help assess the scale of these improvements. The plan is to carry out formal re-reviews at 24 months.

Summary of progress to date

In December 2007 OGC published the PCR reports and improvement plans for tranche 1, comprising the Department for Education and Skills (superseded by the Department for Children, Schools and Families (DCSF)); Communities and Local Government (CLG); and the Department for Work and Pensions (DWP).

This report is published alongside the review reports and PCR improvement plans for tranche 2, comprising the Department of Transport (DfT); the Department for Environment, Food and Rural Affairs (Defra); and the Department for International Development (DFID).

OGC expects to publish tranche 3 material (comprising the Department of Health, Home Office and Revenue and Customs (HMRC)) in November. The remaining seven departments will be reviewed before the end of 2008, and reports will be published in the spring of 2009.

Overview of tranche two

Background

As with tranche 1, it is important that the findings of each of the PCR reports are not considered in a vacuum, but instead within the context of the departments' procurement functions, the wider departments and the broader policy environment. This section describes the contexts within which each of the tranche 2 departments work, and summarises the headline findings (extracted from the respective reports).

The commercial landscape in the tranche 2 departments

DfT's aim is a transport system that balances the needs of the economy, the environment and society. The central department (DfT(C)) incorporates financial and policy functions, and holds responsibility for the management of rail franchises and other major projects. It provides leadership across the transport sector, working with regional, local and private sector partners who deliver many of the services. It has seven agencies, the largest of which is the Highways Agency (HA), and a further 11 arms' length bodies, including the British Transport Police and the Civil Aviation Authority.

The total running cost of the department is around £15.9bn pa, of which £10.9bn is third party spend. The ratio of third party spend to total costs is higher than for any other Government department that the PCR team has looked at so far, which highlights the importance of commercial skills for the department. Some £3-4bn of this expenditure takes the form of formal procurement, and DfT is also accountable for other forms of third party expenditure (rail franchising, payments to Network Rail, Transport for London and local authorities). DfT has varying levels of governance and leverage over this spend.

DfT's commercial environment is complex. The markets it faces are highly variable (e.g. on rail and major road projects markets are limited, international and incorporate major financing issues). There is a high concentration of spend with major suppliers.

The commercial focus of the department means there are many hundreds of staff with a strong commercial focus in their work. The recently reshaped Procurement Directorate in DfT(C) employs 50 staff (with 100 in HA, 50 in DVLA and smaller numbers elsewhere).

Headline findings from the DfT Report:

- Procurement and the management of spend through third parties is central to DfT's business. The DfT Board has commercially experienced and aware members in most roles with direct accountability for major spend, but the Board could play a stronger role in driving commercial performance: there is currently no overarching commercial or procurement strategy at Board or functional level. The DfT(C) Procurement Director has strong credibility with colleagues; but procurement leadership roles in Highways Agency (HA) are currently in transition. In both DfT(C) and HA there is considerable good practice and some that is genuinely leading edge. Performance overall in other agencies is strong, relative to the size of third party expenditure.
- DfT is going through a period of considerable change in its key commercial areas. In DfT(C), the merger of Rail and Procurement and Estates Division procurement teams has been successful, but is still bedding down, and there are further opportunities. HA is going through even more significant changes: the relative roles of the "commercial" and "procurement" functions were being resolved as the PCR took place. Spend in DfT(C) is well-controlled; influence over third party spend by local authorities, TfL and Network Rail is reasonable, given the structures within which DfT is required to work. Investment

decisions in major “Tier 1” projects are controlled by the DfT Board across the DfT family, but otherwise the influence of DfT(C) across the DfT family is heavily dependent on the high personal regard of colleagues for the Procurement Director.

- There are impressive people in procurement and related commercial functions across the department. However, there are some skills shortages in senior commercial areas, and the capability of the procurement teams is rated as mixed by internal clients. There are issues of succession planning, reward and resource management that have not been fully grasped. Procurement training has been generally strong, if in places a little narrowly focused. Supplier management is good in some individual areas, but there is a shortage of management information across the DfT family, which means that top suppliers are not managed as well as they might be. DfT has worked enthusiastically with OGC and others, taking the lead in some areas and making good use of collaborative contracts. There is a shortage of management information across the DfT family.
- Rail franchising is now a very impressive process, which has demonstrated innovation, good market involvement, transparent and robust processes, and successful financial outcomes. Future developments should include more focus on service/quality improvements without losing the focus on value and propriety. Other DfT(C) major commercial projects are well managed.
- HA has been reviewed extensively, notably in the Nicholls report; much of the response is in hand and looks appropriate. Procurement processes have continued to operate effectively since the departure of the dedicated Board-level Procurement Director but there is a lack of clear commercial leadership. Proposed recruitments should help; a Board level Major Projects Director, and two SCS posts (one to take forward leadership of the Procurement function, and a Commercial Director for the Major Projects division). Other agencies demonstrate sound procurement processes, and impressive procurement skills, but they can struggle to resource their very biggest projects such as the Siemens contract with VOSA.
- The implementation of Shared Services (covering two agencies currently) has been poorly managed, although there are signs of improvement. Business processes have not been re-engineered prior to transition; planning, governance and implementation were flawed, and consequences include supplier payment problems and increased processing costs.

Defra has two overarching objectives: to secure a healthy natural environment for today and the future; and to lead the global effort to avoid dangerous climate change. Its strategy for achieving these objectives is to have a small, focussed central department delivering policy through a delivery network which includes agencies, NDPBs, levy boards, trusts, charities, not-for-profit companies, and profit-making organisations. There are 91 public delivery partner bodies outside of the core department, so there is a heavy reliance on a partnership approach. There is a central procurement unit in the main department, which employs 54 people, and separate units in several other related organisations (including the Environment Agency). This adds complexity to the commercial environment, particularly given the independent nature of some of the delivery network.

There are around 25,000 staff in the department and its network, and overall third party spend was £4bn in 2006/07, with a further £2bn in grants and £2bn in PFI spend. Part of Defra’s role is to deal with emergency planning and response, which includes flooding, animal disease and decontamination. This can require an immediate and enormous response by the department, and requires underpinning by wide ranging contingency planning.

The department is undergoing a great deal of change at present, including the appointment of several new Board members, and the introduction of the Renew programme, which will change the way the department operates internally. There are also considerable financial pressures following from the CSR 07 settlement, and Defra has continued to focus on costs, headcount and service delivery.

Headline findings from the Defra Report:

- As with other departments, the CSR 07 settlement raises unprecedented financial challenges for Defra. The Renew programme¹, part of meeting those challenges, will add change pressures to them. Procurement throughout the Defra network will have to secure VFM significantly above current levels of achievement. This step change will require strong leadership and a firm mandate from the Board.
- Defra's Permanent Secretary, in her own words, is passionate about procurement. Her Board has several new personnel and it will pay close attention to financial management and procurement over the CSR 07 period. Her Board received its first presentation on procurement during our review. The review team felt that most Board members understood the importance of commercial activity.
- Defra funds delivery of goods and services to the public through several legal entities, including a variety of public and private service delivery bodies. Therefore, some operate for commercial profit, some do not, and that position changes over time. In significant areas of expenditure Defra is a near-monopoly funder and the agency a near-monopoly provider, creating a high degree of mutual dependence. Both these facts present Defra with commercial risk, particularly in a period of funding uncertainty. Defra does not have a structured way of bringing these commercial risks to senior management and Board attention.
- To date Defra has performed well in OGC's procurement savings reports, always placed in the top three departments. There are nodes of good to excellent procurement capability across the network. Core Defra employs best practice in sustainability through procurement, preparedness for animal health emergencies and use of forensic accountancy services. Procurement in the Environment Agency appears to be of a high standard. Natural England's new procurement function looks promising and all significant network entities have a professionally staffed functional unit.
- Defra has managed its markets in waste services. It has reduced entry barriers by dislocating waste construction from landfill services and encouraged investment from financial markets. It has funded support for local authorities to manage large-scale PFI waste projects. PFI funding for these projects will escalate sharply in CSR 07 and the need for skilled market management will intensify.
- Contract management capability is uneven across the Defra network. In the Chief Information Officer's Division (CIOD), skilled external staff have helped the CIO to achieve significant improvement in IT supplier performance but not all major Defra contracts are well managed. The Contract Management Centre of Excellence work was unable to be sustained due to resource constraints. Defra was considering funding for this work in CSR 07. In the Environment Agency such training is provided by external companies.

¹ *Renew is Defra's major change programme whereby all work on policy development and implementation will be brigaded into programmes and projects, with resource allocation and management supervision organised accordingly. As a support function, PCD will be required to service the business demands emanating from the new arrangements, as well as to pursue its cross-cutting VFM activities.*

- PCD has initiated a series of meetings with network procurement staff. These meetings have had limited impact to date but there are significant unrealised opportunities for value gain through demand aggregation, harmonisation of specifications, good practice sharing and staff secondment and rotation.
- Both PCD and CIOD rely heavily on interim staff because of a perceived dearth of sufficient civil service capability. This has produced some good results (at a cost) but raises concerns about succession planning and skill transfer. We were told of reduced morale among civil servants in PCD because they consider that the use of long-term commercial interims may restrict their promotion opportunities.

DFID leads the British government's fight against world poverty with a particular focus on achieving the internationally agreed Millennium Development Goals. Four policy priorities have been set out: growth, reducing conflict, climate change and international reform. Much of DFID's programme is delivered collaboratively with others, from developing country governments to civil society organisations and multilateral institutions. There are 57 staff in DFID's central Procurement Group. In total the department has 26 posts that require professional procurement qualifications, 21 of these are located within this central Procurement Group and 5 are located in a procurement unit in India. DFID's budget will increase to £7.9bn by 2010/11 from £5.3bn this year, an average annual increase of 11%. Administration spending over the same period will fall by 5% per year in real terms. This places the department under increased need to improve the effectiveness and efficiency of delivery and to release resources for front-line activities.

DFID has a large, hugely diverse and complex service portfolio. It has two UK HQ and 64 offices overseas, operating in countries with widely differing political and economic factors. Its strength is in clear mission, its highly committed and skilled staff and its varied global expertise which spans a wide range of disciplines and diverse aid delivery channels. It is seen as a world leader in the delivery of development aid and works with a wide range of potential delivery partners ranging from small, independent charities to multilateral, multi-governmental organisations. The proportion of aid expected to go through multilateral channels is increasing. Risk management is fundamental – rarely is there a 'no risk' option - with the highest aid return often coming from the riskiest channels. This is a tough environment within which to recognise, identify and address procurement challenges.

The PCR team considered that DFID is first and foremost a "procurement" organisation – it no longer delivers aid, but uses a range of channels, intermediaries, strategies, tactics and techniques to acquire (procure) the means by which aid is delivered.

Headline findings from the DFID Report:

- Whilst DFID has clear Departmental vision and goals, there is no articulated procurement vision, mission or strategy, hence limited alignment to the evolving business model. Procurement is not represented at Board level; the Head of Profession is three levels below Board.

- DFID has viewed Procurement rather narrowly; focusing primarily on its direct spend as a largely administrative activity pursuing tactical, value for money objectives, and assuring organisational compliance to DFID procedures aimed at protecting money and EU regulation.
- The rapidly expanding development budget, and the strategy to route the majority of development funding through third parties, together highlight a new and fundamental role that procurement can play in the effective delivery of aid.
- Supplier performance is not rigorously managed, nor is it used across DFID to inform procurement decisions or improve performance and the delivery of value for money. Poor performing suppliers are not consistently managed.
- Rigorous in its application of EU procurement rules, DFID relies heavily on 'open competition' and whilst there is evidence of some good practice there was also evidence of an inappropriate rigidity of approach where alternative routes would have been justifiable.
- There is a plenty of data, but a lack of Management Information (MI). Consequently there is a lack of understanding of procurement basics which affects its ability to deliver value. ARIES may address this, but a comprehensive and consistent MI mindset is required to deliver of its potential.
- The business operates in a high-risk environment; its procurement has an understandable tendency to be risk averse but this has a consequent impact on the optimisation of its front-line delivery. There is no consistent means of identifying or quantifying commercial or reputational risk to which it is exposed through the delegation of the majority of its procurement to third parties.

The end of tranche 2 puts OGC in a better position to identify themes and potential issues, although the programme is still less than halfway complete. Therefore, whilst the overall picture is still uncertain there are some clear themes and key issues emerging. However, there is a mixed position on some of the themes, and complexities around how these manifest themselves for departments.

The tranche 1 overview report identified the key emerging themes from the first three PCR reports, against the background that departments:

- unsurprisingly varied significantly in the scale and nature of their procurement challenges
- organised themselves in different ways in order to meet these demands.

This context continues to be relevant in tranche 2, as does the recognition by Permanent Secretaries of all the departments involved that procurement and commercial activity is vital to successful delivery of public services and policy goals.

The examination of the themes emerging from the PCR programme to date takes into account the extent to which the tranche 1 themes are supported and reinforced by the tranche 2 reports, and whether any new themes are evident. The remainder of this section examines the developing picture in terms of where the clear improvement opportunities exist, where the evidence is more variable, and what is going well.

The aim of this work is to focus attention on the common themes and issues. OGC will concentrate efforts on those issues that are the most relevant for commercial practitioners in the development of a new change programme. This programme will focus on strategic action planning in the short, medium and long term with prioritised actions and clearly identified milestones and ownership for each thread of activity. The PCR programme will be seeking to work closely with departments to implement the change programme, as OGC takes forward efforts to:

- address these issues
- facilitate the sharing of knowledge and experience across the procurement community.

OGC will use its range of networks and communications events to enable departments to work together on developing the way forward on the cross government issues and to share examples of high performance and good practice.

Improvement Opportunity – Emerging Potential Issues

There are some areas where strong or noticeable themes identified in tranche 1 as areas for improvement have been reinforced through the findings in tranche 2. These are recognised here as potential issues which might form the focus for strategic action as part of a change programme:

Issue: A shortfall in highly capable commercial people

First raised in respect of the tranche 1 reviews, this issue has continued to be strongly evident in tranche 2. Although there are some good people in procurement, especially in lead roles, there are not enough skilled resources to meet all of the demands on the commercial function. At times review teams have seen some heavy reliance on interim/consultancy resources to fill commercial posts. A typical review team comment is:

“There are good procurement skills...[but] there is a shortage of highly skilled commercial staff with consequent dependence on external resource.”

This issue is not confined to government; it is prevalent across the procurement profession in the public and private sectors. The attraction and retention of highly skilled commercial professionals is a problem faced by most organisations. The tranche 1 overview report highlighted some of the initiatives being pursued by OGC through the Government Procurement Service (GPS) reform programme. This included establishing new entry routes into the profession, developing and enhancing existing capability, establishing competency standards and raising the visibility of the profession by marketing and communicating the business value and criticality of commercial outcomes and commercial advice to senior stakeholders. This work continues, with graduate, fast stream and mid career entry schemes being offered for 2008/09 to help address capacity issues, and new work underway on talent management and reward. The findings from tranche 2 reinforce the continued need for proactive engagement with the GPS and OGC and to use its resource as an enabler to strengthen the role of the procurement profession within departments as a value adding function.

Issue: A shortfall in contract management skills and resources

This issue was linked with the shortfall in commercial skills in the tranche 1 report. Looking across both tranches, whilst there are some examples of good contract management to be found, there is clearly a strong underlying theme with a shortage of contract management skills and resource being noticeable in most of the six departments reviewed so far. Typical review team comments are:

“Poor performance is not identified or shared, leaving poor performing suppliers...to win business elsewhere [in the department]”

“Contract management tends to be carried out by the business units but there is little evidence that this activity is resourced or managed adequately.”

In looking at those issues that deserve attention by the commercial community, an early priority will be to address how best to embrace Contract Managers as part of that community and provide appropriate training.

Issue: Management Information is generally poor in terms of scope, clarity and availability

The tranche 1 report highlighted the difficulty in obtaining accurate and timely data, especially that relating to third party spending across departments' wider networks. This trend has continued as the reviews progress, although it has to be stressed that there are many underlying reasons for the difficulties. Perhaps foremost amongst these is the adequacy and linking up of data management systems across networks, and clarity over who is responsible for or has the authority for inputting and collecting the data. Typical review team comments are:

"No spend or influence map available; quality of Management Information varied widely even though all divisions...use the same system."

"Spend/supplier information is available but requires considerable effort to obtain."

Since this theme was observed in tranche 1, OGC has already taken some steps to help departments to address some of the problems, including setting up the Public Sector Procurement Expenditure Survey, and establishing and sharing with departments some market facing categorisations. OGC Buying Solutions is due to launch a new framework contract this summer to facilitate the acquisition of external support targeted specifically at resolving data collection and management issues.

Issue: Performance is not measured consistently

Evidence from the first tranche of reviews suggested that departments seemed to be encountering some challenges in performance measurement for procurement. The next three reviews have found further evidence of issues in this area. Typical review team comments are:

"No evidence of strategic framework for performance management; no evidence exists of benchmarking of procurement process or performance."

"Measurement of performance is variable and not very strong in some cases."

To some extent this issue is linked to the availability of good management information, which is clearly a prerequisite for effective measurement. The action outlined above in relation to that theme will reap benefits here too. But there is also potential for both the centre and the commercial community to explore ways of addressing this issue, for example by sharing existing work on performance measurement, including metrics and the means of measuring against them.

Issue: There is difficulty in influencing spend outside the core department

It has to be recognised that the way this theme is reflected depends very much on the make up and structure of each department. Nevertheless, there has been a continuance of this issue in tranche 2. A typical review team comment is:

"There are no terms of reference that set out the roles, responsibilities and accountabilities for procurement across the network. The Director of Procurement does not have a mandate over procurement activity within NDPBs."

The heart of this matter is the extent to which the commercial function in the “core” or “centre” of a department is either able or expected to extend its influence across a wider family of agencies, NDPBs and other arms’ length bodies. OGC recognises that in many cases there are long-standing statutory governance arrangements that rightly preserve the independence of individual organisations, and we do not intend that departments should seek to change these. However, one or two departments have demonstrated that it is possible to influence the wider network effectively (sometimes, it seems, due to little more than the force of personality of the Head of Procurement); such departments could usefully share with others their expertise in how to work out the scale of their influence and exert it appropriately.

To a large extent this is an issue for the business to resolve in each case, as it goes to the heart of the way in which the commercial function supports the top level strategy and direction set by the Board. However, the issue remains an important consideration for Heads of Procurement when looking at their commercial strategy, and also for Permanent Secretaries when the governance arrangements for new NDPBs and agencies are being decided.

Other Themes – where the evidence is mixed

There are some threads of commonality which run through a number of reports but without the same consistency as the issues discussed above. Here the picture is more mixed, suggesting that either the problem does not arise in some departments or, more likely, that they have developed better ways of dealing with it. This may prove to be fertile ground for best practice sharing in the future.

Theme: Commercial Strategy needs to be developed, and there needs to be greater alignment of procurement with the business

Looking across the six departments, there is a good deal of variation in the extent to which they have a comprehensive, properly resourced and embedded commercial strategy, recognised by the Board. The development of such a strategy forces the Board to focus on settling the strategic direction and objectives for achieving VFM results for the department. Linked with this issue is also variation in the extent to which the objectives of the Procurement Division are clearly linked with or aligned to the Board level strategy and imperatives.

Drawing up an effective commercial strategy, in most departments, could amount to a matter of drawing together strands of work already in hand, clearly articulating the vision, and bringing it to the Board for discussion and ratification. The key challenge then is to embed the strategy effectively. Working with departments that have demonstrated sound competence in this area, OGC has already begun drawing up a template, which it will share with departments.

Theme: Supplier Relationship Management is inconsistent

The tranche 1 report noted that there was more departments could do to reap the benefit of effective Supplier Relationship Management. Consideration across the six departments gives a mixed picture; there is wide variation between and even within departments in how much resource they devote to SRM, and how strategic their approach is.

OGC has already facilitated some best practice sharing between departments on this issue. More specifically, we have work in hand to drive up client side capability in construction; to build customer understanding of the consultancy market (through the Consultancy Value Programme); to improve professionalism in IT supplier management through the Transformational Government programme (including building on the success of the Common Assessment Framework (CAF) and CAF360 processes which offer a channel for performance feedback between ICT suppliers and the public sector); and to provide centralised management of some key markets.

Theme: A need for greater knowledge management and sharing

Although no department excelled at sharing knowledge both within its own family and with other departments, some did better than others.

It seems clear that this is not a problem that can be solved quickly, or with a ‘silver bullet’ – nothing short of a culture change is necessary in order to realise the maximum potential benefit. While part of the solution is about better systems, what is key is the extent to which colleagues are prepared to proactively share good and bad experience across departments.

Theme: Category Management could be developed further

Most of the six departments had implemented category management to some extent, although the degree to which fully effective processes had been established was variable. The consistency and scope of application of the process could be improved.

OGC has implemented category management within its Markets and Collaborative Procurement Team and provides templates and best practice guidance. This will be updated and supplemented during the next 6 months, with a special focus upon Supplier Relationship Management. All departments who are actively supporting collaboration also have access to category management expertise from the OGC Commercial Delivery Teams supporting the Wave 1 and Wave 2 categories.

Positive Themes – areas where there are key strengths

In focusing attention on identifying key issues for resolution it is easy to pass by or take for granted the fact that there are a number of areas where departments are performing well. The following section highlights the positive themes that have been evident across both tranches of reviews thus far.

Theme: Good people in procurement, with increasing levels of professional qualification

Despite the existence of a capacity issue in respect of highly capable commercial people, review teams have found that there are a number of good and well qualified people working in procurement across the departments reviewed. Furthermore, there is generally a strong enthusiasm for professional qualification through CIPS, with an ever-increasing number of MCIPS qualified staff working in the commercial function. A typical review team comment is:

“The review team was impressed on several occasions by the quality of procurement talent available....and there is a high proportion of MCIPS qualified staff.”

Theme: Strong leadership from Heads of Procurement in the centre, with some good procurement functions in departmental agencies

A noticeable theme from all of the reviews to date has been the presence in most departments of strong and very well respected procurement leaders, usually Directors or Heads of Procurement. In some cases review teams have seen excellent and high profile leadership in the commercial function. There are also examples of very good procurement functions operating in departmental agencies or NDPBs. A typical review team comment is:

"There is strong commercial leadership below Board level...the Procurement Director is well regarded, energetic and visible...there are other pockets of strong leadership elsewhere in [the department]."

These findings suggest that, although there is undeniably work to be done, there are already in place some excellent and highly capable senior leadership figures who are able to take the commercial agenda forward.

Theme: Increasing numbers of people at Board level with commercial focus and experience

One of the key benefits for the procurement profession from the PCR Programme is the way in which it raises the visibility and profile of commercial matters, with the Permanent Secretary, and the Board. Review teams have also found that, at the same time, there are people on the main Board in departments who recognise and have experience of commercial activity. Typical review team comments are:

"[The] Board has commercially experienced and aware members in most roles with direct accountability for major spend."

"[The] Permanent Secretary...is passionate about procurement...the Board has a number of new personnel and it will pay close attention to financial management and procurement..."

"The Board is highly commercially aware and involved... they regularly consider commercial issues, providing strong direction and leadership."

The evidence so far suggests that the procurement profession increasingly has the ear of the business, and the recognition of commercial interests at board level will help to ensure a "place at the table" for the function; this will be essential if excellent capability is to be achieved throughout government.

Theme: Procurement transactional processes and procedures are good, well used and understood. There is a strong understanding of the need for collaboration

Nearly all departments have in place robust and well-embedded procurement processes and procedures. These are generally well known to stakeholders and are followed and respected. Also noticeable within this theme is a generally positive understanding of the collaborative procurement agenda. Typical review team comments are:

"Strong evidence of good procurement practice...Procurement rules and guidelines set out clearly..."

"Procurement transactional processes range from adequate to very good...online procurement manual is considered very good, and is well used by all parts of the department..."

"There has been good use of collaboration, with wide use of shared contracts across the whole department."

"...examples of [the] core [department] collaborating on governmental cross departmental deals, with participation in the four OGC pilots for energy, travel, office solutions and fleet."

The theme here suggests that for the most part departments will be well equipped with processes and procedures upon which to build for improvement in commercial capability. The recognition of the need for collaboration is encouraging both for the centre, and the commercial community.

Theme: Departments are making impressive savings through procurement

Against a background of ever more demanding departmental spending rounds, and the efficiency initiatives of recent years, it is perhaps not surprising that review teams found evidence of strong savings performance. Most departments reviewed were already making impressive levels of savings through their procurement and commercial functions. Typical review comments are:

"..in the top three departments for procurement VFM...this is a good performance..."

"Procurement has played a major role in delivering impressive efficiency savings."

"Impressive savings have been generated by [the department]...strong focus on efficiency and savings.."

The scale of the challenge in central government procurement is significant, and findings from PCRs so far suggest that there are examples of very good performances to meet this challenge. This is of course reassuring, and offers the opportunity for OGC and departments to work together to build on and disseminate to others examples of strong performance and good practice.

For the future, the PCR programme will bring to bear improvements in capability and help departments to achieve better performance against an ever more challenging agenda for the government commercial community.

Departmental follow-up on the PCR report recommendations through an improvement plan is a vital and integral part of the PCR process. In December 2007 all three tranche 1 departments had in place robust improvement plans, supported by designated members of OGC's PCR team. Set out below is a brief summary of the progress made so far by each of the tranche 1 departments.

Department for Children Schools and Families (DCSF)

DCSF have fully embraced the findings of the PCR, and have put a robust programme in place to deliver against the recommendations made by the OGC PCR team. There is strong commitment from top management.

OGC has a high degree of confidence in DCSF's ability to deliver against its improvement plan, although the difficulties of working across a wide and devolved network should not be underestimated. DCSF is making good progress in increasing appropriate influence over the network.

There are also a number of positive outcomes to highlight as a result of DCSF's response to their PCR report:

- The development and launch of a commercial strategy and policy (addressing the issue that use of procurement was optional for policy staff)
- A new 'operating model' for procurement, with a much stronger emphasis on both category management and customer-focused support
- More structured engagement with key stakeholders in the wider system (including agreement with DIUS that DCSF will continue to provide both direct procurement support and the 'system influencing' activities)
- Good progress in terms of capturing spend data across the wider system (but still work in progress)
- Participation in the OGC graduate and fast-track schemes and a full contribution to collaboration activities.

DCSF was the first department to undergo a milestone assessment, in April 2008. The assessment meeting covered OGC's desire to see concrete plans and trajectories or evidence of benefits in some areas (particularly in marketplace collaboration). There was also a discussion of OGC's welcome for the close relationship between the department and the Building Schools for the Future programme, and the necessity for this closeness to continue.

The department will be subject to a stocktake of progress against its improvement plan in September 2008.

Department for Communities and Local Government (CLG)

In CLG too there has been good progress, signalling the department's commitment to getting maximum benefit from the PCR process. Tangible changes have been made, including the following:

- A commercial strategy has been developed and signed off by the CLG Board
- Commercial capability has been strengthened through the interim appointments of a Finance Director and a Commercial Director – Procurement. Recruitment of permanent staff in these posts is expected during the summer

- A Commercial Delivery Board has been established to oversee the delivery of the improvement plan and to drive up commercial capability across the CLG family
- Process improvements are being implemented including the implementation of category management and increased involvement in major programmes and projects.

CLG underwent its six-month milestone assessment in mid May. Discussion centred on the significant role of Regional Improvement and Efficiency Partnerships in providing a line of sight and appropriate influence as an intelligent client between the centre of CLG and its wider family network, and the need for CLG to make further progress on ensuring that they did not lose their focus on commercial and procurement matters. There was also some discussion of the need for very strong commercial governance and skills in the Homes and Communities Agency.

The focus of improvement actions over the next six months in CLG is on embedding the commercial strategy and continuing to implement process improvements across all areas of the improvement plan. The department's stocktake is scheduled to take place in October 2008.

Department for Work and Pensions (DWP)

DWP welcomed the PCR report, embraced its recommendations and has been working proactively to address them. DWP's approach is to use its existing robust governance framework – with high visibility at senior management level – and incorporate and monitor progress on the actions from the DWP improvement plan via the Commercial Strategy Balanced Scorecard.

A significant number of the recommendations have been addressed and implemented. DWP is working to ensure that they are sustainable and the benefits to be derived are realised and help DWP to further improve its commercial functions.

A wide range of deliverables and activities have come into play since the PCR improvement plan was agreed late last year, including:

- Appointment of a champion for "Learning to Learn"
- Developing a new management tool, RADAR, to scan programme and project horizon and inform the professional skills resource plans
- Introducing succession planning for the senior management team and then looking to do the same for key individuals within the organisation
- Classifying the important Welfare to Work Programme as a "super category" and applying category management, delivering the commercial strategy effectively
- Implementing a number of organisational changes to reflect the commercial needs of the business.

The DWP's six-month milestone assessment took place in mid May. The meeting covered OGC's desire that, in order to deliver sustainable benefits from the PCR and create a clear line of sight to its recommendations, the department should collate and monitor management information in each PCR area, separate from its ongoing business change activities. DWP's support for OGC's collaboration agenda was noted and the department was encouraged to share its experience (particularly of cutting expenditure on management consultancy) with other government departments.

The department is planning for its stocktake, which will take place in November 2008.

The first wave of the PCR programme is now well underway. Six reports have been published; a further two departments have undergone the forensic stage and the remaining nine will be completed by the end of 2008. OGC aims to publish the tranche 3 reports in November, tranche 4 in February 2009 and tranche 5 in April 2009.

At the same time as undertaking PCRs, the PCR team will also be rolling forward the programme of milestone assessments (6 and 18 months following agreement of the initial improvement plan), stocktakes (12 months on) and preparation for re-reviews. The plan is for all departments to undergo re-review around two years after they were first visited.

The key themes set out in this report reflect trends identified in the commercial landscape across government. Even as this picture continues to emerge over the remainder of this year, OGC will be initiating work on a change programme to address cross government issues on which the commercial community can focus its attention. This programme will identify the strategic action plans needed to resolve some of the most pressing issues and will engage practitioners across departments in delivering real change. OGC will also use its communications network with departments to help coordinate action plans, and to share good practice across the commercial community.



Office of Government Commerce

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