

Cloud 9: the future of public procurement

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March 2016

#reformprocurement

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Executive summary

Each year, central government spends around £40 billion procuring goods and services.¹ This expenditure is underpinned by a very clear rationale: purchasing from third parties delivers value for money. When the Coalition Government came to power, however, there were widespread concerns this principle was not being realised in practice. A number of initiatives to improve procurement were launched, but these have delivered mixed results. While moves to cut red tape were largely successful, whether these resulted in a faster procurement process is less clear – Cabinet Office data on procurement durations does not square with independent analysis.² Equally, reconstructing central government's purchasing function has delivered some savings, but departments and suppliers are sceptical about the newly created Crown Commercial Service (CCS) and its ability to manage relationships both in and outside government.³

Greater success has been enjoyed elsewhere. The Coalition Government set a target that 25 per cent of procurement spend would go directly or indirectly to small and medium-sized businesses by 2015. This threshold was surpassed in 2014, in part because of a series of moves to digitise procurement.⁴ The introduction of G-Cloud, an online digital marketplace for cloud services, has been perhaps the most significant advancement in this direction. Fast, transparent and administratively light, digital marketplaces lower barriers to entry, allowing more firms to compete for government business. As a result, G-Cloud has delivered savings in the region of 20 – 50 per cent when compared to legacy contracts.⁵

The question now is how to build on these successes. The Government announced in late 2015 construction of the Crown Marketplace, a new platform that will move beyond the existing e-procurement focus on IT.⁶ This presents a considerable opportunity – to make the most of it, the Cabinet Office must think big. The potential to place 'off-the-shelf' items purchased by government onto such a platform has been demonstrated by the United States. In South Korea, more sophisticated products are procured through the assistance of online pre-market engagement.⁷

The efficiency savings from expanding digital marketplaces would be considerable. If government achieved the proportion of e-procurement expenditure currently delivered by South Korea or Estonia – another exponent of e-procurement – the savings would be in the order of £10 billion each year. Even if e-procurement growth continued on trend, annual gains would stand at close to £500 million.⁸

Yet such savings are unlikely to materialise unless other factors align. The somewhat fraught relationship between CCS and the Government Digital Service – who developed the G-Cloud – will prevent any acceleration of reform. More significantly, commercial staff will need to acquire new skills if they are to harness the potential benefits of digitisation and drive value for money more generally. Developing technical knowledge, through extending secondments and limiting rotation, are immediate steps that should be accompanied by a review of commercial skills and tilting towards a more performance-related model of pay, using bonus deferral and claw back to incentivise the right type of behaviour. Improving government's tracking and publication of procurement data must

1 The precise figure of total government procurement expenditure is, however, contested. See HM Treasury, *Public Expenditure: Statistical Analyses 2014*, 2014, 75–6; National Audit Office, *Managing Government Suppliers*, 2013, 5.
2 Crown Commercial Service, *Annual Report and Accounts 2014/15*, 2015, 19; Government Procurement Service, *Government Procurement Service Annual Report and Accounts 2012/13*, 2013, 8; Spend Network, 'Tender Timeframes', 2016.
3 Cabinet Office, 'Civil Service People Survey 2014', n.d.
4 Cabinet Office, 'Central Government Direct and Indirect Spend with Small and Medium Sized Enterprises 2014/15', 12 May 2015.
5 Colin Marrs, 'G-Cloud "Saving Government 20% on Legacy Contracts"', *Public Technology*, 22 July 2015; Stephen Allott and Andrew Cox, *Transforming Public Sector Sourcing: Right Sizing Public Procurement Using Power Positioning & Value Flow Management* (International Institute for Advanced Purchasing & Supply, 2015).
6 Matthew Hancock, 'Enterprise Nation Government Exchange Event: Matt Hancock Speech', 11 December 2015.
7 For example, see OECD, *The Korean Public Procurement Service: Innovating for Effectiveness*, 2016; Hannah Patrick, 'What Are the Benefits of a GSA Schedule? What Are the Disadvantages?', 18 June 2015.
8 See Figure 20

also be an area of focus. Government does not have a comprehensive view of purchasing expenditure, inhibiting civil servants' ability to make strategic commercial decisions. Publishing elements of this information could also help suppliers better understand the needs of government departments.

This programme of reform would amount to a step change in government procurement, a function which too often is viewed as little more than administrative. The digital procurement agenda, coupled with initiatives on transparency and skills, can help shift focus away from process and towards designing effective contracts and managing suppliers professionally. Ultimately, these steps will drive better outcomes for service users and value for money for the taxpayer.

Summary of recommendations

1. The Government should expand the number of services listed on the new Crown Marketplace, including appropriate parts of the Aspire contract.
2. The Crown Marketplace should be a single portal for the e-procurement of goods and services. This should be accompanied by an integrated payment function. The framework to purchase commodities must be recompeted regularly to ensure maximum competition.
3. The Government should include an Official Journal of the European Union procurement portal within the new Crown Marketplace to maximise value for money.
4. The Government should scale up pre-market engagement by moving more supplier engagement online.
5. The Government should cultivate procurement talent by limiting rotation, extending secondments both into and from the private sector and attracting applications for procurement roles from individuals with technical skills from within existing departments. This should be accompanied by a review of procurement skills, identifying gaps that need to be addressed in view of an increasing focus on e-procurement.
6. The Government should create a healthier attitude towards risk by introducing more performance-related pay for procurement officials.
7. The Government must be scrupulous in collecting internal spending data that can inform contract design and management, thus ensuring best value for money from suppliers.
8. The Government should expand the Crown Marketplace to include information on forthcoming procurements and existing departmental procurement spend, broken down by agency, product category and supplier.

1. Introduction

Look at opinion polling on the issues most concerning the public and it is unlikely the state of government procurement will appear. How departments and agencies buy goods and services is viewed by many, even in the public sector, as an administrative task that requires limited attention. When government procurement does enter the political debate, it is invariably because a supplier or government department has made an egregious error.

The absence of persistent public attention obscures the fact that significant sums are spent on procuring goods and services. The National Audit Office (NAO) calculates central government annual spend at £40 billion each year, with the NHS, local government and devolved administrations accounting for a further £147 billion buying products as diverse as syringes, IT consultancy, facilities management and rehabilitation services.⁹ The fact that there is a £55 billion discrepancy between these figures and HM Treasury's £242 billion estimate of public-sector procurement indicates this is a policy area that requires focus.¹⁰

With the Government continuing to cut departmental budgets, it would be tempting to view these eye-watering sums as simply an opportunity to reduce short-term expenditure. Yet procurement needs to be about more than cost saving. Delivering value for money means procuring products that strike the best balance between quality and cost. It is not said enough that effective purchasing can improve the performance of public services.

Strengthening procurement practices has been an area of particular focus for the Cabinet Office since 2010, when large contractors were deemed by the new Government to be selling the taxpayer short. Assessing what progress the Coalition Government made on procurement reform, and the remaining barriers to delivering value for money, is the focus of this paper. The recent emergence of e-procurement – a channel which might point the way forward for government commercial functions – gives this project additional impetus.

The lack of transparent and robust data means analysing public-sector procurement is a difficult task. This report has therefore been informed by more than 20 semi-structured interviews with senior procurement officials, parliamentarians and suppliers. The paper begins with an overview of procurement practice before providing an assessment of recent initiatives. It concludes by exploring how the Government could deliver a twenty-first century procurement function.

9 National Audit Office, *Managing Government Suppliers*, 5.

10 HM Treasury, *Public Expenditure: Statistical Analyses 2014*, 75–6.

2

Public procurement: an overview

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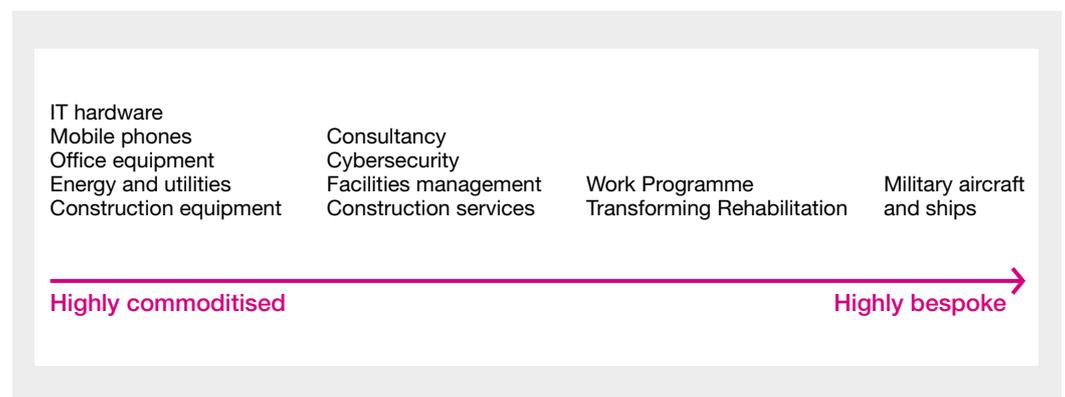
2.1 What does government procure?

The rationale for buying products from third parties is well-known. The use of markets to source goods and services drives cost efficiencies and stimulates innovation.¹¹ Where government outsources complex services, risk transfer may also be a motivation.¹² In the most straightforward of terms, third parties have expertise that can help governments deliver value-for-money public services and wider policy objectives.¹³

The types of goods and services procured by government are manifold. On one end of the spectrum, there are products that can be acquired ‘off-the-shelf’ from private markets, commoditised items such as toner or energy where there is limited product differentiation. On the other, government procures highly specialised goods – such as welfare programmes or rehabilitation services – where it is likely to act as the only buyer (see Figure 1).

Figure 1: Types of products procured by government

“...governments get the procurement markets they deserve: dependency on a core group of uncompetitive providers can be the legacy of poor market stewardship.”



Designing and maintaining markets that otherwise would not exist is difficult. ‘Quasi-markets’ function very differently from private markets.¹⁴ Most obviously, suppliers are dependent on one buyer to exist, instead of a large number of competing individuals. The dominant position of government in these markets ensures that the decisions of civil servants and ministers echo for years to come. In other words, governments get the procurement markets they deserve: dependency on a core group of uncompetitive providers can be the legacy of poor market stewardship.

2.2 How does the procurement process work?

To get the most out of suppliers, procurements need to be tailored to the specificities of the market in question. While there are different ways governments can run competitions, procurement processes still follow a basic format. After deciding whether to ‘make or buy’ – to procure or not – officials engage in pre-market activity. This involves background research and engagement with potential suppliers to design the contract most likely to both engender maximum competition at the bidding stage and achieve the outcomes government wants. The government then runs a bidding process which involves assessing bids along a set criteria, running further competition if appropriate and negotiating with suppliers. The contract is then offered to the supplier the government feels is best placed to achieve its objectives, at the best cost.¹⁵ As Figure 2 suggests, anecdotal evidence implies that government invests the majority of its resource in the tendering process rather than engaging suppliers.

11 Elvira Ulyarra et al., ‘Barriers to Innovation through Public Procurement: A Supplier Perspective’, *Technovation* 34, no. 10 (2014): 631–45.

12 National Audit Office, *Getting Value for Money from Procurement*, 2001.

13 Office of Government Commerce, *An Introduction to Public Procurement*, 2008.

14 Julian Le Grand, ‘Quasi-Markets and Social Policy’, *Economic Journal* 101, no. 408 (September 1991): 1256–67.

15 Crown Commercial Service, ‘Standard Operating Procedures: Open’, 2015.

Figure 2: Visualisation of current procurement processes

Note: Visualisation based on feedback from interviewees, both in government and the private sector. This traditional approach to the procurement process is also visualised by the New Zealand Government. See New Zealand Government, *Mastering Procurement: A Structured Approach to Strategic Procurement*, 2011, 9.

The procurement process is, however, constrained by a complicated legal framework. This is composed of EU Treaty principles (including transparency, free movement of goods and the freedom to provide services), EU directives (that embed these principles), and UK-specific rules (for example, regarding the environmental and social implications of procurement).¹⁶ The resultant landscape gives central government departments three channels through which they can funnel their procurement spend (see box below).

Channels of central government procurement

Sub-threshold, where central government is less restricted because the contract falls beneath the value of the relevant EU threshold. In theory, central government could circumvent the competitive process in this instance and opt for a 'direct award'. Below the value of £25,000, the European Commission does not recommend the initiation of a formal tendering process.¹⁷ Indeed, the total cost of a competitive procurement process is £45,800 in the UK, of which £8,000 falls on government.¹⁸

Competitive tender, where central government invites any company to bid to supply the good or service in question. All tender notices above the defined threshold are available through the Official Journal of the European Union (OJEU). There are different stages before the invitation to tender (ITT) is released, depending on which OJEU framework is used (Open Procedure, Competitive Dialogue, Restricted Tender or Negotiated Procurement).

Framework agreements, where central government set out the terms and conditions under which purchases ('call-offs') of a specific good or service can be made for a given period of time. These terms and conditions might include who can supply the good or service in question or the pricing mechanism.¹⁹ Agreements are competed as per competitive tenders, but once the competition is concluded, the list remains closed for the duration of the contract.

¹⁶ Lorna Booth, *Public Procurement* (House of Commons Library, 2015), 6–7, 10–11. Most notably, the Public Contracts Regulations 2015 implemented significant new priorities in the UK, including reduced bureaucracy, streamlining of procurement and allowing organisations to require the purchase of 'fair trade' goods.

¹⁷ European Structural and Investment Funds, *Procurement Law ESIF Compliance Guidance Note* (ESIF-GN-1-001), 2015, sec. 40.

¹⁸ Will Green, 'UK Public Sector Procurement "Most Expensive in EU"', *Supply Management*, 7 November 2013.

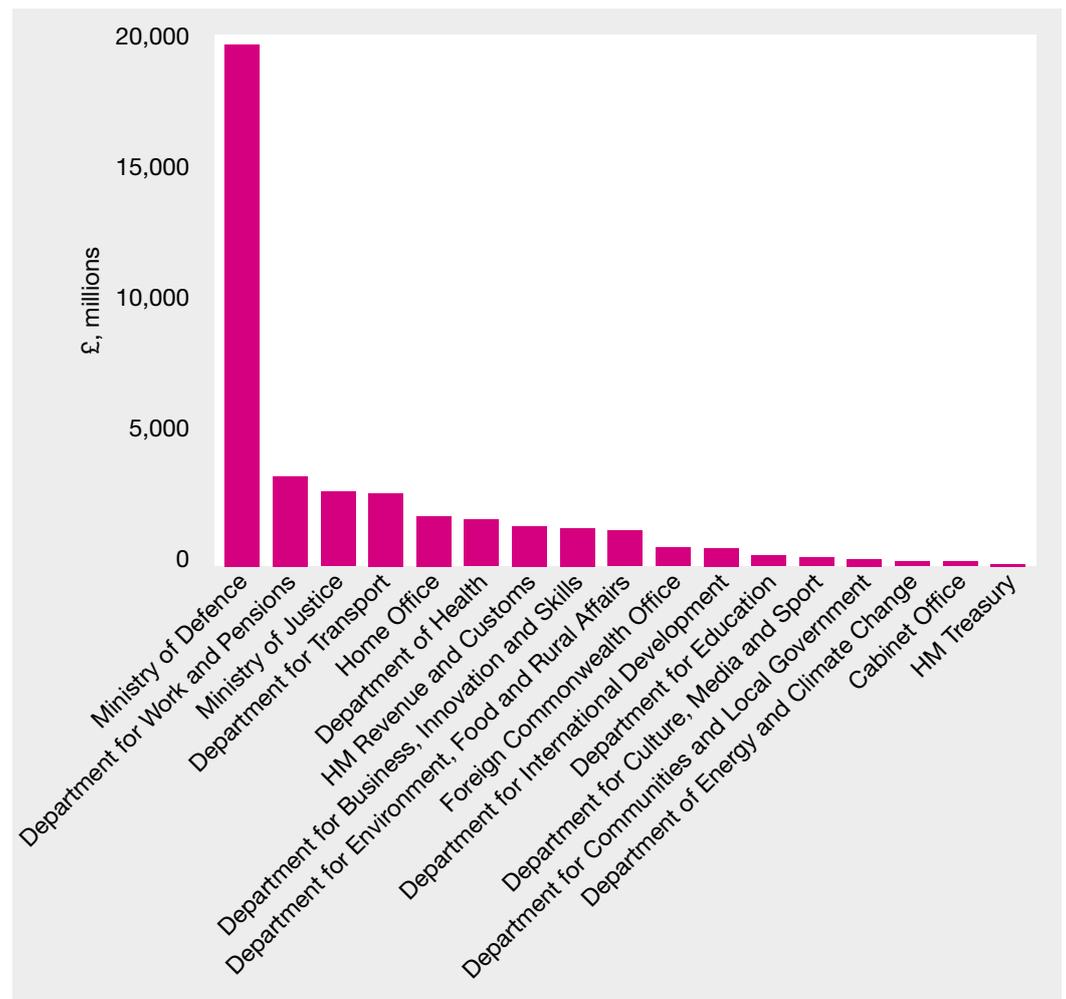
¹⁹ Office of Government Commerce, *OGC Guidance on Framework Agreements*, 2008, 3.

2.3 Who does the procuring?

The absence of robust data on government procurement constrains accountability. Indeed, even the most basic questions do not have authoritative answers. Take the level of central government spend on procurement. In 2013, the Public Administration Committee suggested a figure of £60 billion for 2010-11.²⁰ However the former Government Chief Commercial Officer Bill Crothers has cited a figure of £50 billion for the same financial year.²¹ More recently, the NAO produced an extensive study, informed by private government accounts, that estimated central government procurement spend was £40 billion in 2012-13.²² This analysis, however, has recently been questioned by Spend Network and the Institute for Government, who quote £51 billion for 2012-13.²³

There is a similar level of ambiguity regarding departmental spend on procurement, with no official departmental figures provided by HM Treasury. According to the NAO, however, the Ministry of Defence accounts for nearly half of all central government procurement expenditure. The eight smallest departments account for significantly less than even the second largest procurer, the Department for Work and Pensions (DWP) (see Figure 3).

Figure 3: Total procurement spend by department, 2013-14



Source: National Audit Office, *Managing Government Suppliers*, 2013.

²⁰ Public Administration Select Committee, *Government Procurement: Time to Invest in Capacity, Capability & Competence*, 2013.

²¹ Will Green, 'Government Chief Commercial Officer Bill Crothers Outlines Five Procurement Challenges for Incoming Government', *Supply Management*, 10 March 2015.

²² The NAO is clear about the uncertainties surrounding this figure, with their estimate built on a combination of whole government accounts, monthly (and non-public) returns from departments, and quarterly returns from strategic suppliers to the Cabinet Office. National Audit Office, *Managing Government Suppliers*, 5.

²³ Gavin Freeguard and Ian Makgill, *Government Contracting: Public Data, Private Providers*, 2014, 9.

There is also a lack of transparency at the channel level. Frameworks and their suppliers are published online, but government does not publish official spend figures for individual frameworks.²⁴ By design, there is a limited paper trail for sub-threshold procurements that often make use of direct award – one senior civil servant interviewed for this paper valued this channel at £1-2 billion each year. Even competitive tendering through OJEU, the most transparent process, falls short. Only 53 per cent of tenders published has a matching contract award notice.²⁵

²⁴ Freeguard and Makgill, *Government Contracting: Public Data, Private Providers*.

²⁵ *Ibid.*, 4.

3

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The Coalition Government was active in reforming procurement policy, which it felt had hitherto not been achieving value for money. The then newly appointed Minister for the Cabinet Office, Francis Maude, was behind this drive, labelling previous approaches as “incontinent”.²⁶ However value for money is not simply about saving cash. Rather, it is defined as “[s]ecuring the best mix of quality and effectiveness for the least outlay over the period of use of the goods or services bought.”²⁷

“...value for money is not simply about saving cash.”

Alongside this fundamental aim, successive administrations have tried to increase the amount of spend apportioned to small and medium-sized enterprises (SMEs).²⁸ The Coalition aimed for one quarter of procurement expenditure to go to SMEs (either directly from government, or in the supply chain) by 2015; the new Conservative Government has increased this target to one third of procurement expenditure by 2020.²⁹ This, it is hoped, will increase competition and innovation, and strengthen domestic economic growth to complement the Government’s core value-for-money agenda.³⁰

To achieve these objectives, recent reforms have sought to increase competition and develop procurement structures which are more conducive to maximising value for money.

3.1 Competition

The Coalition and now Conservative Governments committed to cutting bureaucracy, diversifying the supplier base and engaging more effectively with suppliers.³¹ Reducing barriers to entry and delivering contracts more suited to the needs of the user were the objectives of reform.

3.1.1 A leaner process

Suppliers have long complained about the prohibitive nature of public procurement.³² The 2011 ‘Lean Review’ highlighted concerns that government procurement processes were time-consuming, bureaucratic and opaque.³³ A preliminary target was ‘Competitive Dialogue’, which was thought to cost government suppliers an additional £1.6 million per transaction in administration when compared to an equivalent private-sector procurement.³⁴ By pushing the burden of engagement to the pre-market stage, the Government strongly encouraged the use of the slimmer ‘Open Procedure’ – which has resulted in the proportion of procurements using this approach more than doubling in the last five years (see Figure 4).

26 Richard Tyler, ‘Paymaster General Francis Maude Drives a Hard Bargain’, *Telegraph*, 13 November 2010.

27 HM Treasury, *Managing Public Money*, A4.6.3. This reiterated a definition provided by the Office of Government Commerce that value for money “usually means buying the product or service with the lowest whole-life costs that is ‘fit for purpose’ and meets specification. Where an item is chosen that does not have the lowest whole-life costs, then the additional ‘value added’ benefit must be clear and justifiable.” Office of Government Commerce, *An Introduction to Public Procurement*, 2008, 16. For Reform’s briefing note on value for money in the public sector, see Elizabeth Crowhurst, Amy Finch, and Eleonora Harwich, *Towards a More Productive State* (Reform, 2015).

28 SMEs are defined as enterprises which employ fewer than 250 people, with an annual turnover of 50 million euros or less and/or a balance sheet of €43 million or less. European Commission, ‘What Is an SME?’, n.d.

29 Conservative Party, *The Conservative Party Manifesto 2015*, 2015, 19.

30 HM Government, *Consultation Document: Making Public Sector Procurement More Accessible to SMEs*, 2013, 2.

31 Francis Maude, ‘Francis Maude’s Speech to Potential Future Government Suppliers’, 21 November 2011; Francis Maude, ‘Francis Maude Speech at the Public Sector Show 2014’, 13 May 2014.

32 For example, see Peter Gershon, *Review of Civil Procurement in Central Government*, 1999.

33 Cabinet Office, *Accelerating Government Procurement: Management Summary of the Findings of a ‘Lean’ Study to Investigate Waste and Inefficiencies in Government Procurement Process*, 2011, 5.

34 *Ibid.*, 6.

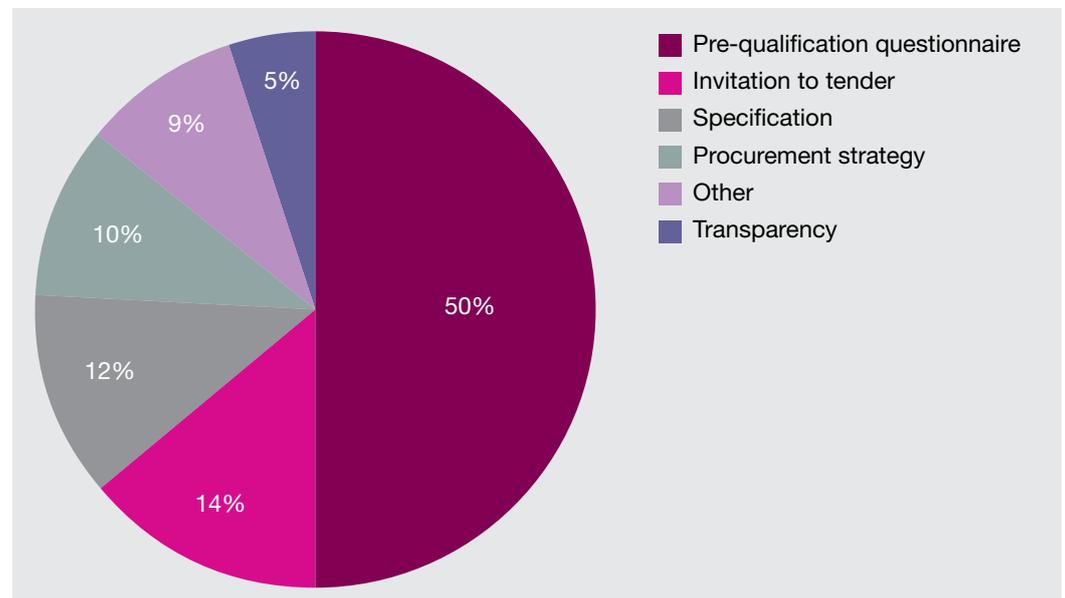
Figure 4: Central government: types of procedure, 2011 – 2015

Year	Open Procedure (per cent)	Restricted Procedure (per cent)	Other (per cent)
2011	25.7	68.6	5.7
2012	40.4	55.4	4.1
2013	43.0	51.6	5.4
2014	53.3	40.4	6.4
2015	65.8	28.6	5.7

Source: European Union, 'Tenders electronic daily', accessed January 2016.

Note: Figures may not sum to 100 per cent due to rounding.

The elimination of pre-qualification questionnaires (PQQs) for contracts under £100,000, and the ability for suppliers to submit pre-qualification data once for the procurement of similar products, were further moves to cut red tape.³⁵ While PQQ issues continue to dominate suppliers' complaints regarding the procurement process (see Figure 5), the proportion of suppliers making complaints regarding process issues overall fell by 33 per cent during the three years to February 2014.³⁶

Figure 5: Procurement process issues raised with Cabinet Office, 2011 – 2014

Source: Cabinet Office, 'Mystery Shopper Results: 2011 to 2014'.

These measures were targeted at reducing procurement duration from 220 to 120 working days for all but the most complex goods and services.³⁷ Falling procurement times were a point of pride for the Coalition Government, and in an interview for this paper, a senior official suggested the EU now sees the UK's procurement mechanisms as some of the most efficient in Europe. Figures from the Cabinet Office support this picture,

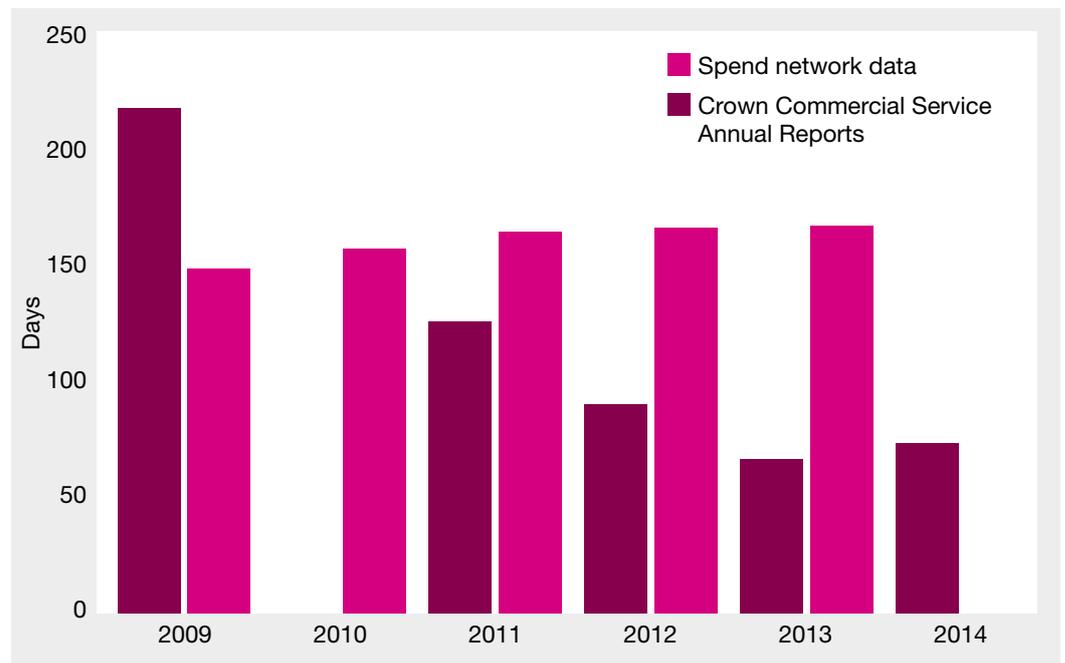
³⁵ Lord Young found that smaller firms were at a disadvantage when bidding for contracts with PQQs because of the questionnaires' complexity. He stated: "PQQs have been found to be onerous by small businesses, often imposing more than 40 pages of questions before they can be considered for bidding for a contract." Lord Young, *Growing Your Business: A Report on Growing Micro Businesses*, 2013, 21; Cabinet Office, 'Government Opens up Contracts to Small Business', February 2011.

³⁶ Cabinet Office, 'Mystery Shopper Results: 2011 to 2014', n.d.

³⁷ Crown Commercial Service, 'The LEAN Sourcing Approach: Briefing & Self-Starter Pack for Procurement Staff', 29 June 2015.

and indicate average procurement times for centrally commissioned goods and services more than halved over the course of the last Parliament. However, as with the majority of questions regarding central government procurement, the data points both ways. Independent analysis from Spend Network suggests the UK had the third slowest procurement process in 2013, and the trend over the Parliament was upward (see Figure 6). Meanwhile, a 2013 Confederation of British Industry (CBI) survey revealed that fewer than one in five of its members felt procurements across the public sector were becoming quicker.³⁸

Figure 6: Average duration of Official Journal of the European Union procurements, 2009 – 2014



Sources: Crown Commercial Service, *Annual Report and Accounts 2014/15*, 2015, 19; Government Procurement Service, *Annual Report and Accounts 2012/13*, 2013, 8; Spend Network, 'Tender Time frames'.

Note: Crown Commercial Service figures are for financial year beginning, while Spend Network figures are calendar year.

It is also clear that major procurement failures still occur (see box below). One supplier recounted a procurement which involved 137 meetings with the relevant department and a 375-line specification document. Another said they employed 70 administrators to cover the paperwork for just over three contracts. Government officials share the disquiet of suppliers. In an interview for this paper, one explained that a contract tendered during summer 2015 would take nine uninterrupted hours to read and stood at 130,000 words. This "verbose" approach to contract design, the interviewee explained, was the product of government assuming supplier failure; it resulted in suppliers simply not reading important documents because of the time commitment involved.

³⁸ Confederation of British Industry, 'Getting a Better Purchase: CBI 2014 Public Sector Procurement Report', February 2014, 15.

Ministry of Justice electronic monitoring contract

In 2012, the Government retendered electronic monitoring contracts after finding that G4S and Serco had overcharged. In an attempt to achieve value for money, the Ministry of Justice (MoJ) split the original contract into four lots:

- > The monitoring service
- > The monitoring service and mapping software
- > The monitoring hardware
- > The network

The OJEU notice was published in February 2012, with a scheduled introduction of the new tags for March 2013. The procurement, however, was fraught. Inadequate pre-market engagement resulted in changing specifications, intellectual-property issues and poor lot structuring, all of which contributed to the high-profile market exit from lot 3 preferred bidder Buddi (an SME). The contracts were not awarded until July 2014, but the Government announced a further delay to implementation, which is now expected in July 2016. However, in February 2016, it was announced that the contract for lot 3 was terminated and that a new procurement process would begin shortly. Understandably, this protracted process has raised questions about whether the contract will deliver value for money.³⁹

3.1.2 Diversifying the supplier base

When the Coalition came to power in 2010, there were widespread concerns that a small number of dominant suppliers were impeding the competitiveness of public-procurement markets.⁴⁰ Disaggregating contracts, it was thought, could avoid too-big-to-fail episodes. By making it easier for SMEs to bid, breaking down contracts might also drive innovation and competition.⁴¹ A particular emphasis was placed on IT, a sector characterised by Bill Crothers as being affected by “monopolistic” behaviour.⁴² Disaggregation is now required by EU regulations, which stipulate authorities must explain why lots are not sub-divided further.⁴³

Departments can point to some recent successes from disaggregation. Redfern, a medium-sized travel-management company, reportedly saved the Government 70 per cent after a single contract was split into two.⁴⁴ However it is not clear a systematic shift has taken place. One official interviewed for this paper recounted the existence of a large contract with a monopoly provider which required the intervention of the Prime Minister during negotiations. During the last Parliament, the Coalition Government was criticised by the NAO and Public Accounts Committee for allowing markets, such as private prisons, asylum accommodation and the Work Programme, to be “dominated by a small number of contractors, [meaning] the government is exposed to huge delivery and financial risks should one of these suppliers fail.”⁴⁵ Indeed, interviewees were generally sceptical that contracts have reduced in size since 2010.

Addressing information asymmetries was a further attempt to diversify the supplier base. In 2011, Contracts Finder was launched to display details of all procurement

39 Gavin Lockhart Mirams, Charlotte Pickles, and Elizabeth Crowhurst, *Cutting Crime: The Role of Tagging in Offender Management* (Reform, 2015), 47–54.

40 Robert Peston, ‘Can Maude Deliver Billions of Pounds of Revenue to Small Businesses?’, 11 November 2011; Philip Green, *Efficiency Review by Sir Philip Green: Key Findings and Recommendations*, 2010, 21–23.

41 Across the European Union, contract size is one of the most important barriers for SMEs who want to compete: SMEs won almost 60 per cent of contracts below €1 million, but only 30 per cent of contracts over €5 million. DG Enterprise and Industry, *Evaluation of SMEs’ Access to Public Procurement Markets in the EU: Final Report*, 2010, 32.

42 Ross Hawkins, ‘Government IT Suppliers Behaved Appallingly - Bill Crothers’, *BBC News*, 24 January 2014.

43 The Public Contracts Regulations 2015, sec. 46.

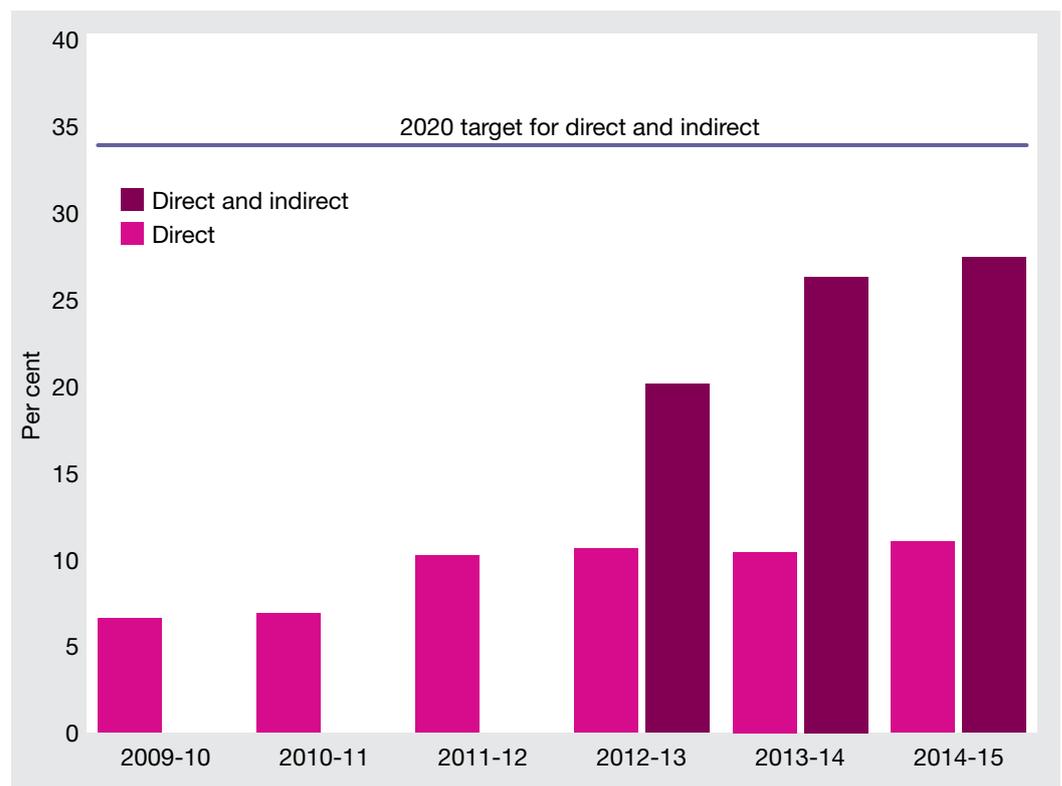
44 Francis Maude, ‘SME Procurement Event’, 9 March 2012.

45 House of Commons Committee of Public Accounts, *Contracting out Public Services to the Private Sector, Forty-Seventh Report of Session 2013–14*, 2014, 8.

opportunities, tender documents and contracts for central government over £10,000.⁴⁶ By 2012, the Cabinet Office said that 80 per cent of “eligible tenders issued and contracts awarded have been published on the Contracts Finder website.”⁴⁷ Coupled with a procurement pipeline, which also delineates upcoming and running procurements, this marks an important step in providing suppliers with adequate information before contracts are tendered.

The disaggregation and transparency initiatives were undertaken in the context of the SME agenda. In 2011-12, the proportion of direct spend on SMEs increased by £1.2 billion to reach 10 per cent of total government direct spend. At the time, the Cabinet Office attributed the jump to Coalition policies. However the reliability of these figures has been questioned,⁴⁸ not least because – as the Government explains – SME spend is “reported data [based on a Cabinet Office survey of the top 500 suppliers] and not on data supplied by departments”.⁴⁹ Nevertheless, the Coalition claimed it met the 2015 target, and the new Conservative administration has increased its ambition to 33 per cent of spend by 2020-21 (see Figure 7).

Figure 7: Spend on small and medium-sized enterprises as a percentage of total central government procurement, 2009-10 – 2014-15



Source: Cabinet Office, ‘Central Government Direct and Indirect Spend with SMEs 2013-14’, 2015.

3.1.3 Pre-market engagement

Robust pre-market engagement helps governments design contracts in a way that gets the most out of the existing market. In its guidance for procurement officials, the Coalition Government committed to not commencing formal procurement “until thorough engagement with suppliers has taken place” through face-to-face meetings and ‘boot camps’.⁵⁰

⁴⁶ Prime Minister’s Office, ‘PM Launches Contracts Finder’, 11 November 2011.

⁴⁷ Computer Weekly, ‘HM Treasury Open Public Services Report’, March 2012.

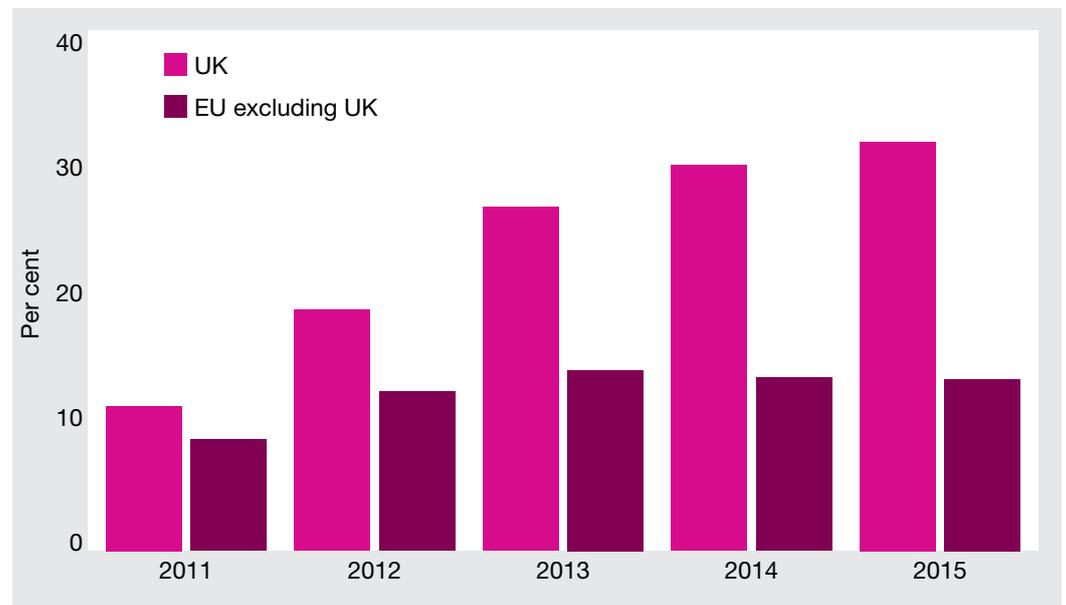
⁴⁸ Bryan Glick, ‘Do the UK Government’s SME Spending Figures Make Sense?’, *Computer Weekly*, 27 February 2015.

⁴⁹ Cabinet Office, ‘Central Government Direct and Indirect Spend with Small and Medium Sized Enterprises 2014/15’, 15.

⁵⁰ Crown Commercial Service, ‘The LEAN Sourcing Approach: Briefing & Self-Starter Pack for Procurement Staff’.

In general, the suppliers interviewed for this report believed pre-market engagement has improved since 2010. Large suppliers felt the introduction in 2011 of Crown Representatives, charged with managing a small number of strategic suppliers, helped strengthen working relationships.⁵¹ Improved practice is also reflected in an increased number of Prior Information Notices (PINs), which provide information on the work, services or goods the contractor intends to procure, alongside timeframes (see Figure 8).⁵² By this metric, the UK is significantly outpacing the rest of the EU. This coincided with a slight increase in the proportion of businesses who self-reported as taking part in pre-market dialogues with the Government between 2012 (58 per cent) and 2013 (62 per cent).⁵³

Figure 8: Percentage of UK and EU tenders that have undergone pre-market engagement, 2011 – 2015



Source: European Union, 'Tenders Electronic Daily'.

Nonetheless, some interviewees raised reservations. One argued that Work Programme suppliers were hindered by the fact the Government "has never shared openly the information which underpins the setting of the performance levels." A senior government official explained that procurement staff spend "very little time doing pre-market engagement". Another supplier said that the UK's reticence to carry out pre-market engagement tends to lengthen negotiations.

3.2 A better procurement environment

Recent reforms have extended beyond simply altering the process through which individual procurements are executed. Since 2010, Governments have also reorganised central procurement structures, sought to enhance commercial skills and driven the digital-procurement agenda.⁵⁴

3.2.1 A stronger centre

Government has long centralised the purchase of standard products to procure more effectively. Since 1991, however, the body responsible has been reconstituted five times.⁵⁵ It is now the Crown Commercial Service (CCS), a highly centralised organisation within

⁵¹ 'Crown Representatives and Strategic Suppliers', September 2015.

⁵² The publication of a PIN allows the receipt of tenders or PQQs to be reduced by seven days (or five days for accelerated procedures). Ashurst, *UK Public Procurement*, 2012, 16.

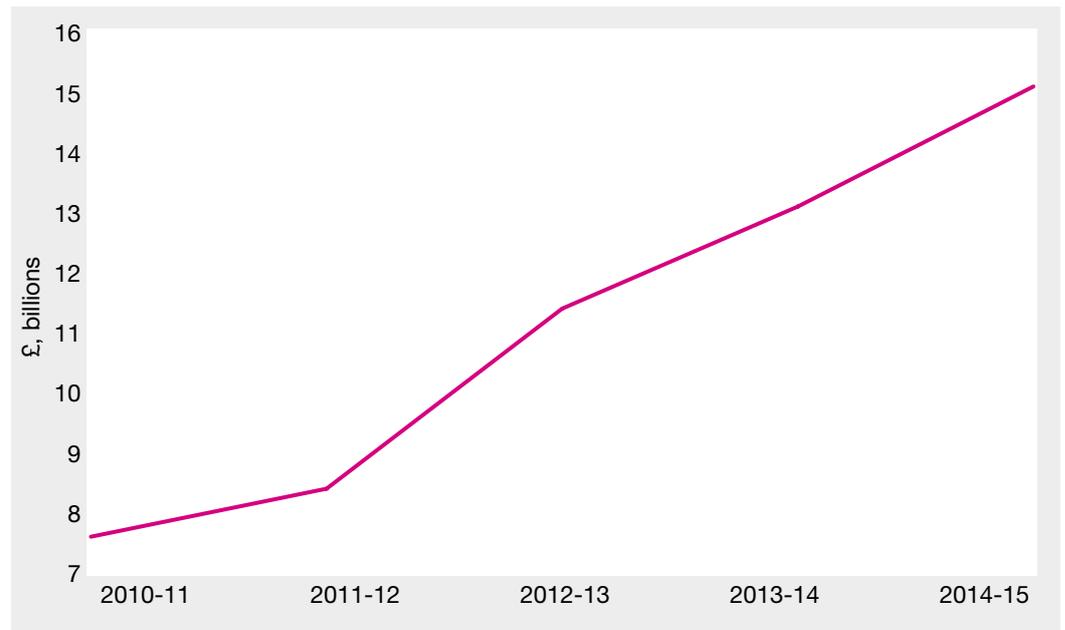
⁵³ Confederation of British Industry, 'Getting a Better Purchase: CBI 2014 Public Sector Procurement Report', 21.

⁵⁴ Maude, 'Francis Maude Speech at the Public Sector Show 2014'.

⁵⁵ Crown Commercial Service, 'History', n.d.

the Cabinet Office. CCS includes the commercial function of the Cabinet Office, common goods and services procurement and management (hitherto undertaken by individual departments) and a 'Complex Transactions Team' to advise government on complicated procurements.⁵⁶ In 2014-15, CCS oversaw 1,800 procurements, managing around £15 billion of goods ranging from electricity in UK prisons and courts to cars used by departments (see Figure 9).

Figure 9: Procurement spend under centralised management, 2010-11 – 2014-15



Sources: Government Procurement Service, *Annual Report & Accounts 2011/12*, 2012, 7; Government Procurement Service, *Annual Report & Accounts 2012/13*, 2013, 8; Government Procurement Service, *Annual Report & Accounts 2013/14*, 2014, 8; Crown Commercial Service, *Annual Report and Accounts 2014/15*, 2015, 17.

When established in January 2014, CCS targeted 10 per cent savings on spend under its control.⁵⁷ Its Annual Report for 2014-15 argued that leverage, a collaborative approach and providing expertise across government have delivered cost savings (see Figure 10).⁵⁸ In 2015-16, it aims to save a further £800 million to £1 billion against a 2009-10 baseline.⁵⁹

Figure 10: Crown Commercial Service savings, 2014-15

	Target	Result
Common goods and services	£1.7 billion	£1.9 billion (£1 billion central government, £0.9 billion wider public sector)
Consultancy and contingent labour (demand management)	£1.6 billion	£1.6 billion
Advisory – commercial relationships and complex transactions	£2.5 billion	£2.4 billion
Total	£5.8 billion	£5.9 billion

Source: Crown Commercial Service, *Annual Report and Accounts 2014-15*, 2015, 17.

Note: Savings compared to a 2009-10 baseline.

⁵⁶ Cabinet Office, 'New Whitehall Central Buying Service to Save More for Taxpayers', 24 July 2013.

⁵⁷ Sarah Neville, 'Business-Style Agency to Run £12bn of Government Procurement', *Financial Times*, 23 July 2013; Cabinet Office, *Efficiency and Reform 2012/13 Summary Report*, 2013.

⁵⁸ Crown Commercial Service, *Annual Report and Accounts 2014/15*, 17.

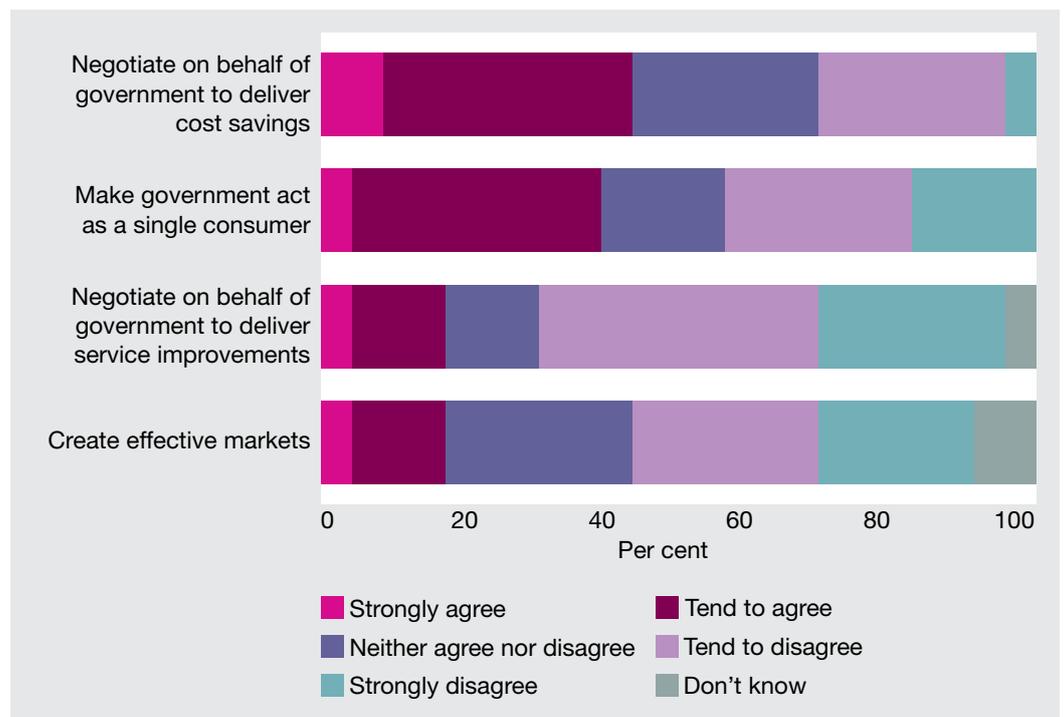
⁵⁹ *Ibid.*, 11.

“Savings are welcome, but they are only half the value-for-money calculation.”

Savings are welcome, but they are only half the value-for-money calculation; overall, it has been argued government is a poor judge of quality. In 2014, 69 per cent of CBI members said lowest cost is driving most of government’s contract decisions.⁶⁰ One supplier interviewed for this paper suggested that government takes a “cheapest, same, faster” approach to procurement (with a “very big emphasis on cheapest”) – benchmarking progress against cost and speed of delivery, instead of value. Another argued that focusing exclusively on price savings was an “important place to start”, but to achieve better value for money, the Government should now “recast its framing” to focus on transformation and take a long-term view of its procurement practices, as per Treasury guidance.

Supplier feedback suggests that the centre has done little to heed the NAO’s 2013 warning that: “In its drive to deliver against savings targets, there is a risk that the Cabinet Office’s commercial relationships strategy incentivises a short-term approach to engagement with suppliers.”⁶¹ This is further highlighted by strategic suppliers’ perceptions of the Cabinet Office (Figure 11).

Figure 11: Supplier perception of Cabinet Office procurement capability, 2013



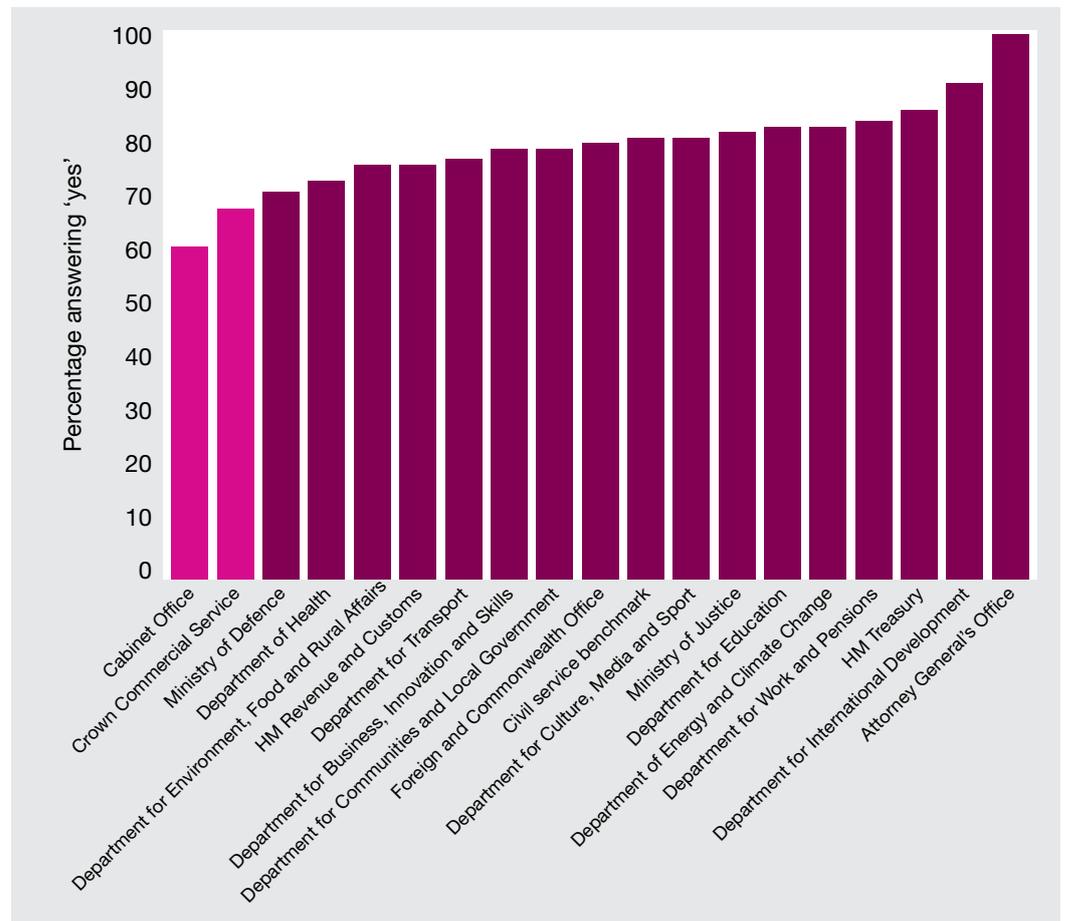
Source: National Audit Office, *Managing Government Suppliers*, 2013, 43.

Central government departments share suppliers’ concerns regarding CCS.⁶² In an interview for this paper, a former senior government official argued that CCS does not have the requisite understanding of a department’s needs, nor the accountability required to make lasting decisions. Labelled a “vanity project” by another, CCS has registered a negative ‘net promoter score’ in both the years it has been running, meaning central government departments on average would not recommend CCS’s services to other departments.⁶³ Issues were also identified at the Cabinet Office level. One interviewee suggested Cabinet Office struggled to secure internal buy-in from departments during the course of complex, multi-agency negotiations. The resultant internal disputes created a difficult climate for the incoming supplier.

60 Confederation of British Industry, ‘Getting a Better Purchase: CBI 2014 Public Sector Procurement Report’, 11.
 61 National Audit Office, *Managing Government Suppliers*, 42.
 62 Crown Commercial Service, *Annual Report and Accounts 2014/15*, 10.
 63 Matt Denham, Commercial Delivery Director, CCS, speaking at the Public Procurement Conference, Friday 10 November 2015.

These problems are partly related to the lack of clarity regarding organisational objectives. CCS and the Cabinet Office scored the lowest in 2014's Civil Service People Survey with regards to understanding the Department's objectives (see Figure 12). In February 2015, there was confusion between CCS and the Government Digital Service (GDS) over the possible removal of agile development services from the Digital Marketplace – an amazon-like framework, from which buyers can pick from a list of services. Seemingly without GDS's consent, CCS decided to strip these services from the Digital Marketplace. In response, GDS publicly overruled CCS.⁶⁴ This episode was described as a “shambles” by the press,⁶⁵ and a “bizarre, damaging decision... made without any external visibility” by a supplier.⁶⁶

Figure 12: Clear understanding of departmental objectives, 2014



Source: Cabinet Office, 'Civil Service People Survey 2014'.

⁶⁴ Tony Singleton, 'February Update - Addressing the Digital Services Framework', 18 February 2015.

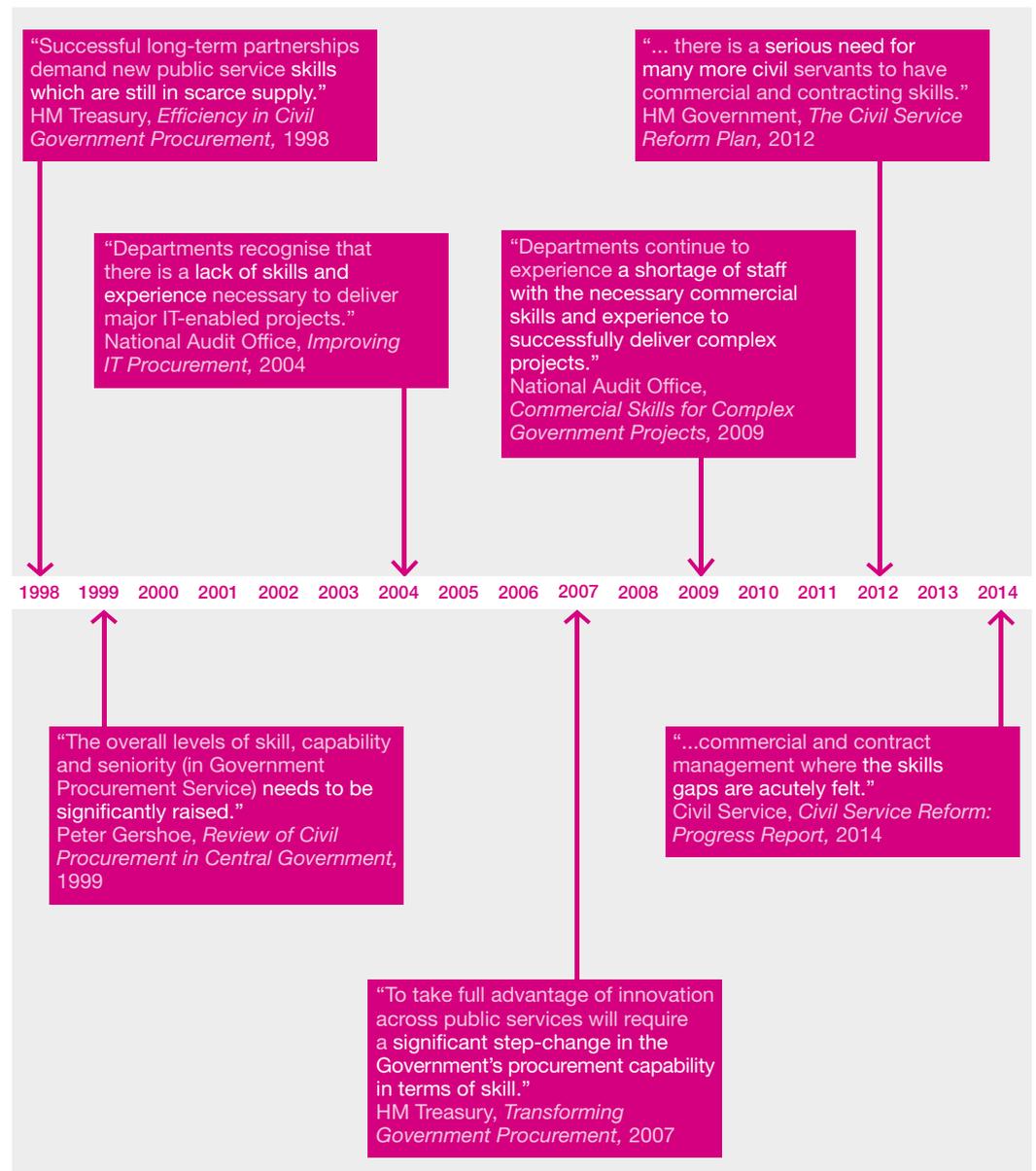
⁶⁵ Derek du Preez, 'Shambles: CCS Set for Embarrassing U-Turn as GDS Intervenes on G-Cloud', *Diginomica*, 18 February 2015.

⁶⁶ Harry Metcalfe, 'Does the CCS Hand Know What the GDS Hand Is Doing?', *Public Technology*, 18 February 2015.

3.2.2 Skills and capabilities

Successful, outcomes-focused procurements require a high level of commercial acumen and understanding of market specificities. Historically, this combination has not been present, and government reports since the New Labour administrations have highlighted recurring concerns (see Figure 13).

Figure 13: Recurrent problems with procurement skills



The Coalition Government consequently focused on providing civil servants with the "training, skills and confidence they need with the responsibility to do their jobs and to be accountable for what they achieve."⁶⁷ The Lean process was accompanied by training across government – administered centrally.⁶⁸ The Commissioning Academy, set up by the Coalition, provided a series of workshops to focus on outcome-based procuring and provide the practical skills and judgements "to deliver radical changes" and manage new

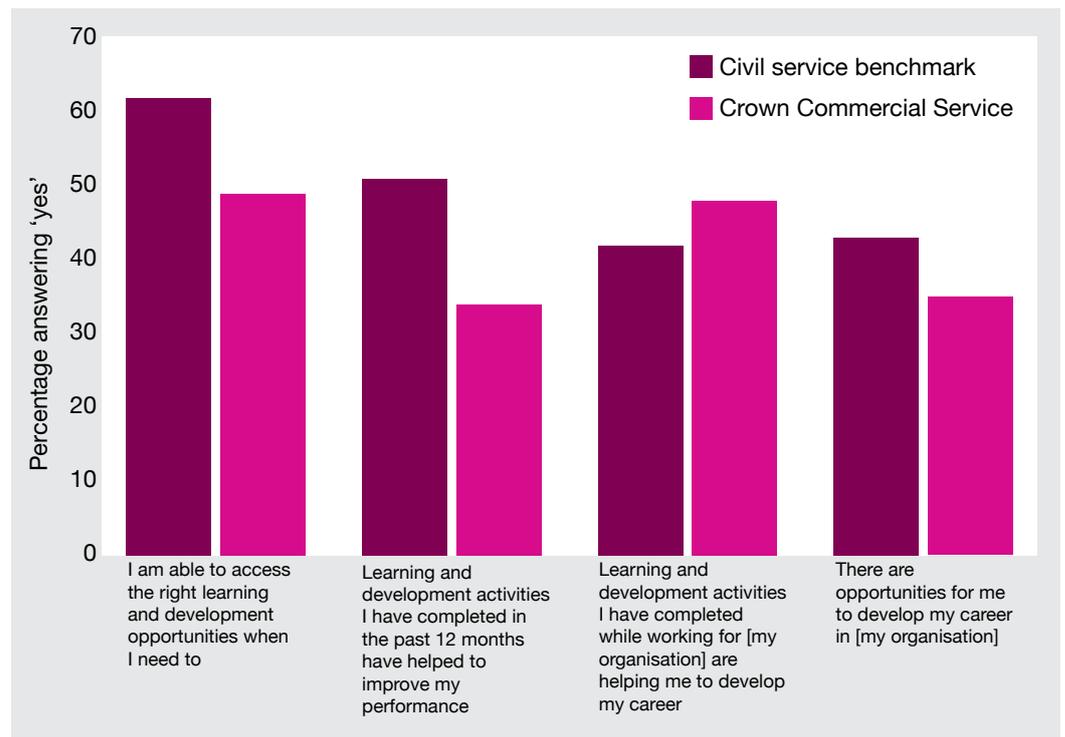
⁶⁷ Maude, 'Francis Maude Speech at the Public Sector Show 2014'.

⁶⁸ This involved two levels of training: a one-day "awareness session" (which was also offered as an eLearning course) or a three-day "simulation workshop". In 2012-13 it was believed that 1,800 staff attended the former, and 700 attended the latter. National Audit Office, *Improving Government Procurement*, 2013, 35.

markets.⁶⁹ In 2015, the Government launched a new Commercial Fast-Stream to strengthen the commercial talent pipeline within the civil service.⁷⁰ Such reforms, according to Francis Maude, would enable the creation of “21st century public services”.⁷¹

Nonetheless, the skills and training issue persists. The most recent Civil Service People Survey found only 49 per cent of CCS staff believe they have access to the right learning and development opportunities compared to 62 per cent for the civil service overall. CCS also scored lower on questions regarding training that has improved performance, and the link between learning opportunities and career progression.

Figure 14: Learning and development in the Crown Commercial Service



Source: Cabinet Office, ‘Civil Service People Survey 2014’.

The problem, however, extends beyond CCS. The NAO has explained that “below the senior levels there is little commercial experience.”⁷² A former senior government official interviewed for this paper confirmed that government included some world-renown experts, but the civil service overall lacks procurement skills – particularly in smaller departments. This view was supported by one supplier who characterised officials beneath the top tier as being “slavish” in their focus on regulation. One former Cabinet Minister even recounted an incident when officials said they were “not allowed to exercise judgement” during the procurement process. In such circumstances, the focus on process rather than value for money is inevitable.

3.2.3 Digital procurement

While restructuring the centre and improving skills have met considerable challenges, the digitisation of procurement has been a success story. The Digital Marketplace aimed to simplify the buying procedure, speed up procurement and engender competition through

69 Cabinet Office, ‘The Commissioning Academy - Detailed Guidance’, 18 September 2015; Maude, ‘Francis Maude Speech at the Public Sector Show 2014’.

70 Bill Crothers, ‘Launch of the New Civil Service Commercial Fast Stream’, 2015.

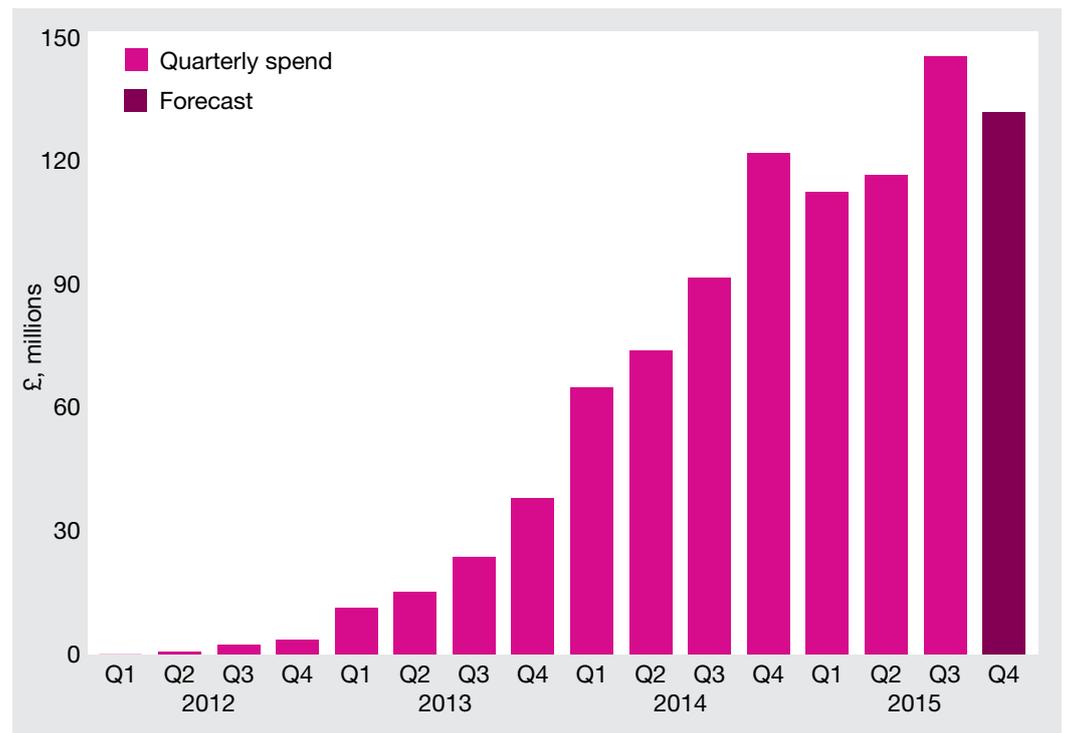
71 Maude, ‘Francis Maude Speech at the Public Sector Show 2014’.

72 National Audit Office, *Improving Government Procurement*, 31.

transparency.⁷³ It currently comprises three procurement frameworks: G-Cloud, Digital Services and Crown Hosting Data Centres.⁷⁴

Of these three, G-Cloud has been the most prominent. Launched in 2012, its purpose is to simplify the way the public sector procures cloud-based products and services, such as web hosting, site analytics and document collaboration tools. Each G-Cloud framework lasts 12 months, but a new variant goes live every six months – leaving two to overlap. G-Cloud 7 (which went live in November 2015) lists almost 22,000 services. By November 2015, G-Cloud had facilitated £904 million of sales.⁷⁵

Figure 15: G-Cloud spend, 2012 – 2015



Source: GovSpend, 'G-Cloud Spend Analysis'.

Digital procurement appears to have saved money and reduced bureaucracy and barriers to the bidding process. In 2015, DWP cut its web-hosting costs by 90 per cent by using the G-Cloud, although this is very much at the top range of savings estimates.⁷⁶ With 50 per cent of contract volume going to SMEs, the G-Cloud is also delivering on the Government's wider procurement objectives.⁷⁷ One by-product of diversifying the supplier base has been a huge geographical expansion of government IT suppliers (see Figure 16). In the context of recent attempts to decentralise economic growth through initiatives such as the "Northern Powerhouse", this trend will be welcomed by policymakers and could be compounded if e-procurement expanded beyond the existing focus on IT. Indeed, former White House Chief Information Officer, Vivek Kundra, argued in 2013 that "[G-Cloud] could be the model globally as we look at aggressive procurement reforms that are going to fundamentally change the way technology is deployed in government."⁷⁸

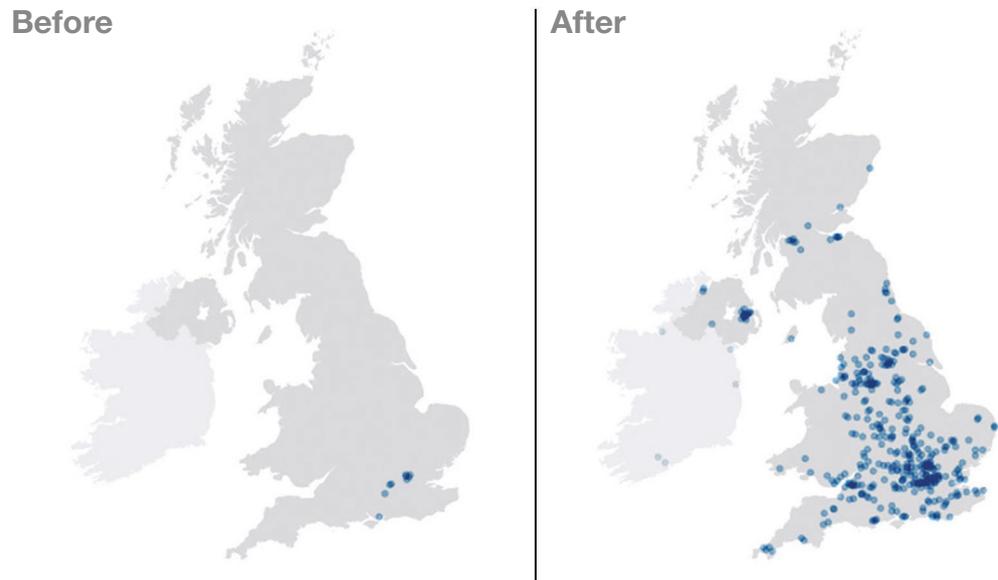
⁷³ Cabinet Office, 'Digital Services on the Digital Marketplace', 19 March 2015.

⁷⁴ 'Digital Marketplace', accessed 24 September 2015, <https://www.digitalmarketplace.service.gov.uk/>.

⁷⁵ 'Dashboard - G-Cloud', accessed 29 January 2016, <https://www.gov.uk/performance/g-cloud>.

⁷⁶ Stephen Allott and Andrew Cox, 'How to Buy the Right New Stuff: Was Peter Kraljic Right or Wrong?', 17 May 2015; Marris, 'G-Cloud "Saving Government 20% on Legacy Contracts"'.
⁷⁷ 'Dashboard - G-Cloud'.

⁷⁸ Derek du Preez, 'G-Cloud Could Be the New Global Model for Procurement, Says Ex-White House CIO', *Computerworld UK*, 21 November 2013.

Figure 16: Distribution of government IT suppliers, before and after G-Cloud

Source: Kindly provided by a senior official at the Government Digital Service, 2016

Alongside the Digital Marketplace, in 2009-10 the then Government established the eMarketplace. This is a digital channel that allows government to procure simple goods and services from an online catalogue across government. This currently includes IT hardware and software, office solutions, vehicles, some professional services, facilities management, catering and furniture.⁷⁹ The programme also includes functionality to request quotes for sub-threshold goods or services from the pre-registered suppliers. This is also known as the Dynamic Marketplace, and was introduced in 2011.

CCS states that £1 billion has been spent through the eMarketplace, “with the result that every penny of it can be accounted for.”⁸⁰ It also notes that eliminating the onerous paper-based approach has allowed it to effectively automate back-office processes and reduce the headcount needed to administer the process by 80 per cent.⁸¹ Positively, some departments have used the eMarketplace on a consistent basis – by 2011, DWP had conducted 1.7 million transactions and spent £318 million through the portal.⁸² This, the Government Procurement Service stated at the time, delivered modest savings of £2.5 million a year.⁸³

Further expansion of e-procurement will not, however, be possible without additional skills. In 2016, the Organisation for Economic Co-operation and Development (OECD) characterised the UK civil service as having “[l]ow knowledge/ICT skills” and “[l]ow innovative organisational culture”.⁸⁴ In 2015, techUK reported only 20 per cent of civil servants believe their department has the skills to manage IT suppliers.⁸⁵ Seventy-one per cent said that internal culture was the biggest barrier to change.⁸⁶ One senior government official interviewed for this paper explained that departments were anxious about using the Digital Marketplace because civil servants were unsure of its legality – exemplifying a chronic “risk aversion” and lack of understanding. These are barriers the Government must address if it is to build a successful digital procurement operation.

⁷⁹ Crown Commercial Service, *Government eMarketplace: Changing the Landscape of Public Sector Purchasing*, 2014.

⁸⁰ *Ibid.*

⁸¹ *Ibid.*

⁸² Government Procurement Service, *DWP Has Taken eProcurement to the next Level with the Government eMarketplace*, n.d.

⁸³ *Ibid.*

⁸⁴ OECD, *The Korean Public Procurement Service: Innovating for Effectiveness*, 53.

⁸⁵ techUK, ‘Civil Servants’ Uncertainty over SME Suppliers Risks Delaying IT Adoption’, 26 May 2015.

⁸⁶ *Ibid.*

4

The new reform agenda

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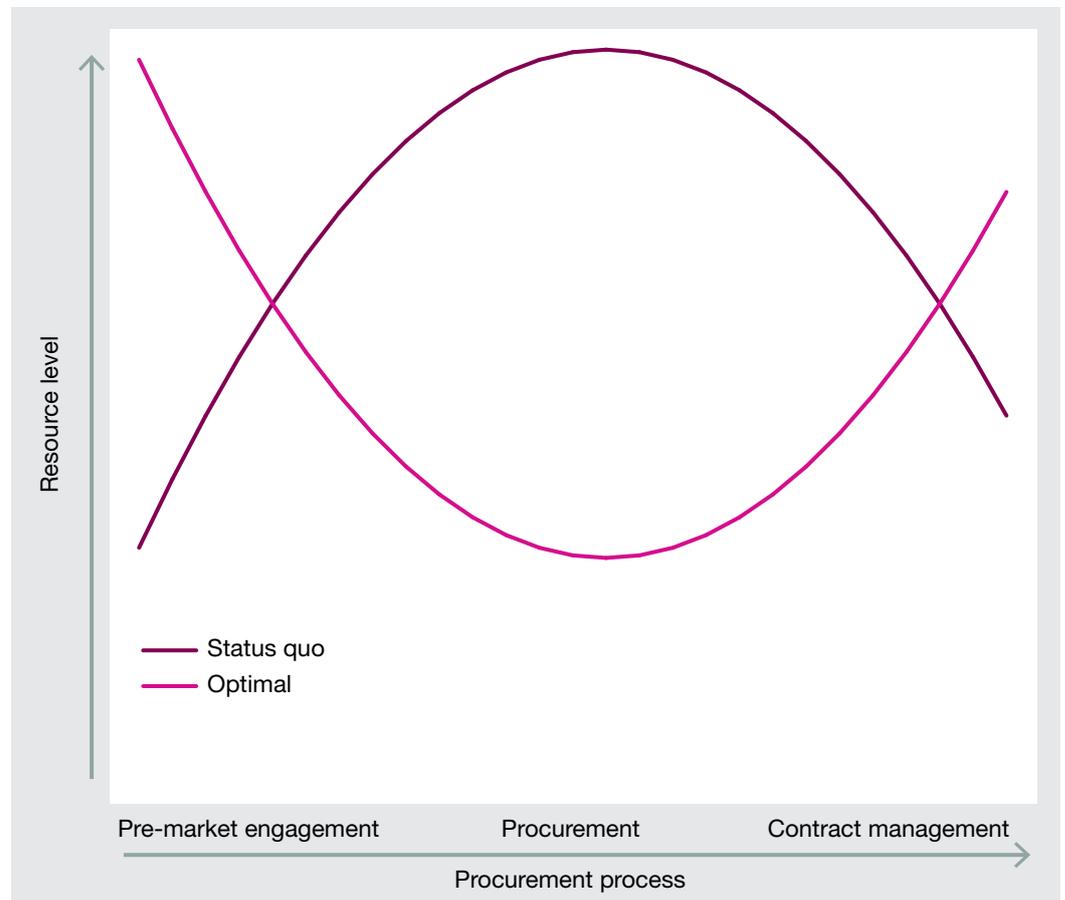
Despite the recent reform agenda, government procurement is still too often bureaucratic, lengthy and opaque. The centre does not interact coherently with departments, and the lack of adequate skills is a deep and long-standing concern. The shining exceptions are digital channels, which have improved the speed, transparency, competition and value for money for a small range of goods and services.

“The shining exceptions are digital channels, which have improved the speed, transparency, competition and value for money for a small range of goods and services.”

The fundamental challenge is that procurement still can be seen by government as a regulatory function rather than an opportunity to deliver value-for-money public services. As one former Cabinet Minister explained, commercial roles are currently filled by “procurocrats” who focus on meeting legal and regulatory requirements rather than managing contracts competently and designing good procurements through extensive pre-market engagement. One supplier, for example, detailed the dramatic difference they experienced when selling to the Australian Government. There, the buyer looked to understand the outcome of the product, which they could quickly grasp because they were experts in the field. This led to a rapid procurement process that took only a matter of weeks with very few meetings. In the UK, by contrast, the relevant department obsessed over the “nuts and bolts” of the contract, rather than the service provided, which resulted in frustration and a lengthy procedure.

To deliver better-value public services, this mindset needs to change. A stylised way of explaining the required direction of travel is that resource and attention needs to be pushed away from the procurement process, and out to the areas where true value can be added: pre-market engagement and contract management (see Figure 17).⁸⁷

Figure 17: Visualisation of resource level by procurement approach



Note: Visualisation based from feedback from interviewees.

⁸⁷ The latter, however, is beyond the scope of this paper.

Focus on the beginning and end of the procurement cycle will mean a greater emphasis on outcomes and shaping procurement markets more effectively. Extending the digital agenda – which delivers faster and cheaper procurements than traditional models – could be a way to achieve this for a considerable proportion of government expenditure. Yet such benefits are unlikely to be realised unless there is an associated change in commercial skills and procurement data.

4.1 Expand the marketplace

The Government has committed to building a Crown Marketplace “to find innovative suppliers and the savings they unlock, in digital and beyond.”⁸⁸ This ambitious target to expand the Digital Marketplace is welcome, but to significantly improve procurement practice, the Government should be radical in its approach.

4.1.1 Value for money potential

The savings potential of digital procurement has already been referred to, but this case needs to be made more explicit. Digital marketplaces drive value for money by lowering barriers to entry and increasing competition. Compliant-by-default platforms like G-Cloud also save valuable administrative resource, particularly during the contract-negotiation phase. In total, it is estimated the Digital Marketplace has saved departments 20 per cent on legacy contracts, and 50 per cent when process costs were included.

These gains have been delivered elsewhere. In South Korea, the digitisation of procurement has reduced procurement durations 15-fold.⁸⁹ In Estonia, another country bound by EU procurement regulations, e-procurement cut administration costs by 30 – 40 per cent when investment, maintenance, administration, equipment, training, contracting bodies and tenderers are taken into account.⁹⁰ The South Korean Government found smaller, but nonetheless significant, savings from their e-procurement channel. The Korea ON-line E-Procurement System (KONEPS) reduced total procurement spend by 2 per cent, efficiencies that were supplemented by gains for private-sector firms equivalent to 8 per cent of procurement spend thanks to reduced bureaucracy (see Figure 18). Crucially, these gains have been made without any evidence to suggest quality has deteriorated. Indeed, theory would suggest the opposite is likely to occur: in marketplaces with low barriers to entry, competition will create strong incentives to innovate.

Figure 18: Savings from e-procurement initiatives

Country	Estimated savings	Volume of e-procurement spend
UK	20 ⁹¹ – 50 per cent ⁹² on legacy contracts	5.9 per cent of central government procurement expenditure by 2020 ⁹³
Estonia	30 – 40 per cent ⁹⁴ on the cost of administrating procurements	50 per cent of total government procurement expenditure ⁹⁵
South Korea	2 per cent savings for public sector on legacy contracts. Savings of 8 per cent going to private sector firms ⁹⁶	64.3 per cent of total government procurement expenditure ⁹⁷

88 Hancock, ‘Enterprise Nation Government Exchange Event’.

89 Public Procurement Service, ‘E-Procurement Experience in Korea: Implement and Impact’, n.d.

90 Private correspondence with Estonian Ministry of Finance.

91 Marrs, ‘G-Cloud “Saving Government 20% on Legacy Contracts”’.

92 Allott and Cox, *Transforming Public Sector Sourcing: Right Sizing Public Procurement Using Power Positioning & Value Flow Management*, 6.

93 See Figure 19. Projections assumes 2014-15 growth sustained for five years. ‘Dashboard - G-Cloud’.

94 Ibid.

95 Private correspondence with Estonian Ministry of Finance.

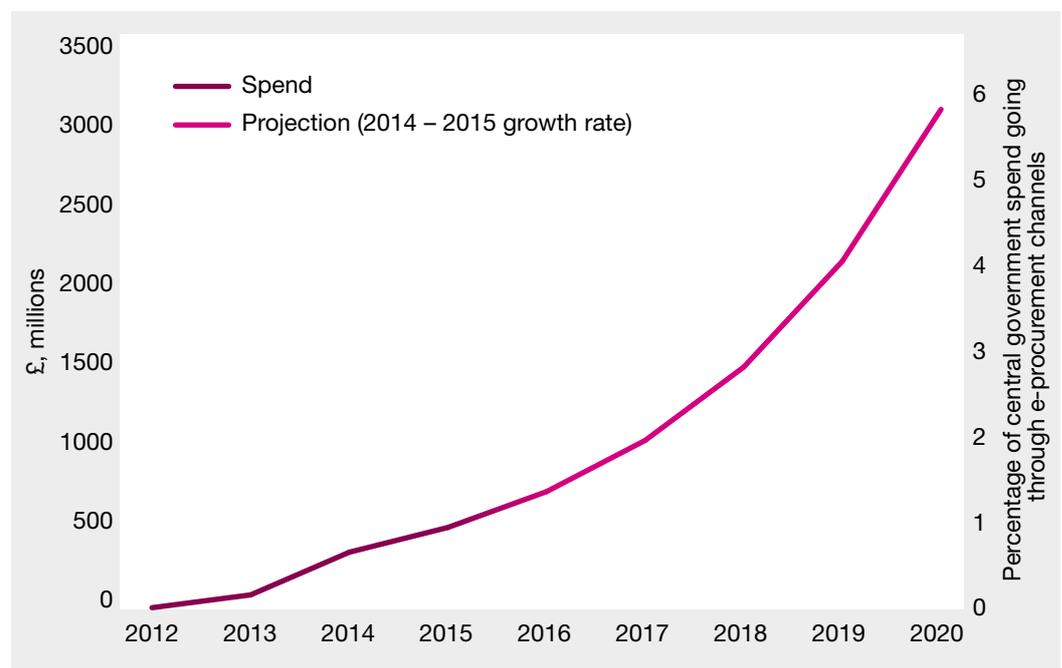
96 Public Procurement Service, *Koneps Demonstration*, 2014.

97 OECD, *The Korean Public Procurement Service: Innovating for Effectiveness*, 43.

Large-scale savings will, however, only materialise if volumes significantly increase. If e-procurement continues to expand at the rate of G-Cloud growth in 2015, total government e-procurement spend could reach £3 billion by 2020 (see Figure 19). Given three quarters of G-Cloud volume goes to government departments, growth on this scale would see the percentage of central government procurement going through digital channels reach 5.9 per cent, up from its current level of less than 1 per cent. The dearth of procurement data is such that it is impossible to identify the specific line items of expenditure which could get the UK to a given proportion of procurement expenditure through online channels. However international experience suggests the Crown Marketplace could significantly expand, with South Korea and Estonia procuring more than 50 per cent of goods and services through digital channels (see Figure 18).

“Reaching Estonian or even South Korean levels of e-procurement expenditure could generate savings in the order of £10 billion.”

Figure 19: Building the digital marketplace, 2012 – 2020



Source: GovSpend, ‘G-Cloud Spend Analysis’, *Reform* calculations.

Note: Percentage assumes central government spend holds constant at £40 billion over the time period.

Putting these variables together – procurement spend and pro-rata savings – gives an indication of the cost reduction that could be delivered. If central government e-procurement spend continues on trend, 20 per cent efficiencies could deliver close to half a billion pounds of savings in 2020-21. A more stretching target would be 20 per cent of procurement spend, which could deliver between £1.8 billion and £4.5 billion of savings depending on the level of pro-rata savings. Reaching Estonian or even South Korean levels of e-procurement expenditure could generate savings in the order of £10 billion (see Figure 20).

Figure 20: How much could e-procurement save (£, millions)?

		E-procurement spend as a percentage of total central government spend		
		5.9 per cent (projection of the UK in 2020)	50 per cent (Estonia)	64 per cent (South Korea)
Savings delivered by e-procurement	2 per cent (South Korea)	47	400	512
	20 per cent (UK, excluding administration costs)	472	4,000	5,120
	50 per cent (UK, including administration costs)	1,180	10,000	12,800

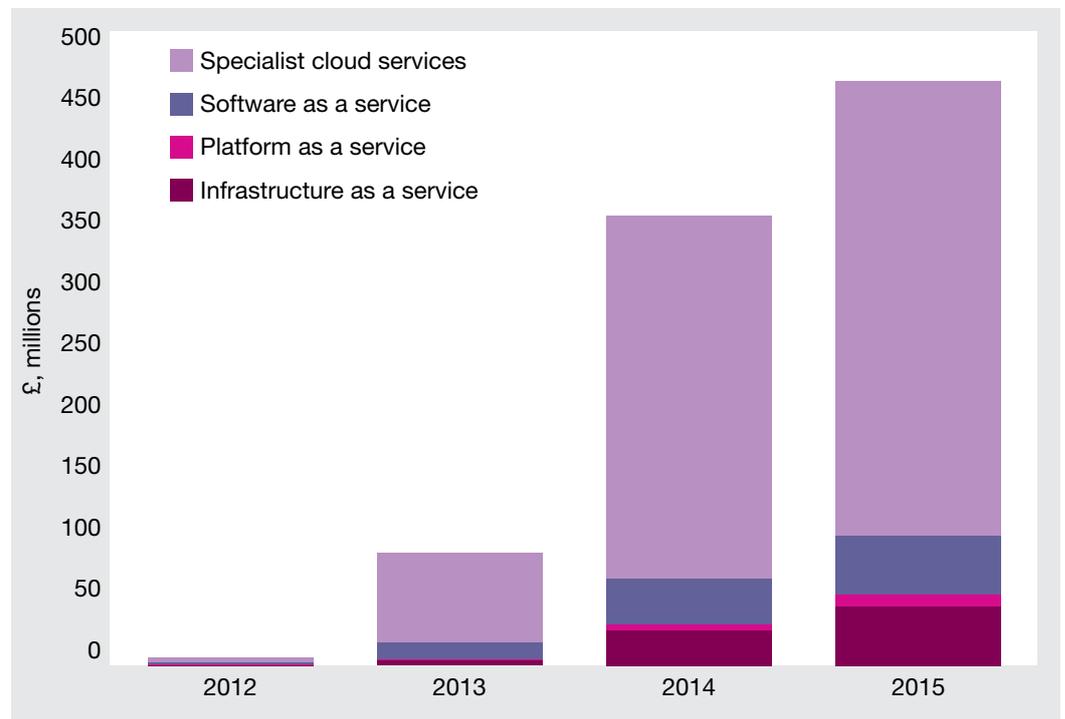
Note: Figures based on sources in Figure 18, apart from UK central government e-procurement spend, which is based on forecast in Figure 19. Savings calculation assumes central government procurement spend holds constant at £40 billion.

4.1.2 Cataloguable items

Clearly it would not be appropriate for government to procure everything through digital marketplaces. When government is the sole purchaser of a good or service, competitions are highly bespoke, often involving complex contracts that require extensive pre-market engagement, contract negotiation and management. Nonetheless, Estonia and South Korea demonstrate a significant proportion of products procured by government can be commoditised, and the potential benefits of such an approach are significant. The question now is what would an expanded digital-procurement framework look like in the UK, and what are the necessary components of its success?

The clearest scope for expanding the use of digital procurement lies in the purchase of 'cataloguable' (off-the-shelf) goods and services. Government currently uses two frameworks to do this: the eMarketplace and Digital Marketplace. The former has saved significant resources, but remains small scale, only offering eight categories of goods and services.⁹⁸ The latter has been more disruptive: it has saved money for government, opened competition and developed organically into a provider of contingent labour and consulting services. Seventy-nine per cent of spend to date has gone to the Specialist Cloud Services channel of G-Cloud, which lists cloud-based consultancy products (see Figure 21).

98 Crown Commercial Service, *Government eMarketplace: Changing the Landscape of Public Sector Purchasing*.

Figure 21: G-Cloud spend by lot, 2012 – 2015

Source: Gov Spend, 'G-Cloud Spend Analysis – All sectors'.

The expansion of cataloguable items is achievable. Senior government officials and a former Cabinet Minister interviewed for this paper have argued that, in the latter's words, G-Cloud can go a "long, long way". A starting point would be further consultancy services. CCS had hinted it may depart from ConsultancyONE – the framework agreement that government uses to buy consultancy services scheduled to expire in 2016 – following complaints from suppliers regarding bureaucracy.⁹⁹ Another opportunity is the retendering of the Aspire contract in 2017 (see box below).

The Aspire contract

The Aspire ICT contract, between HM Revenue and Customs (HMRC) and Capgemini, accounts for 84 per cent of HMRC's total spend on ICT – totalling £812 million per year over the last 10 years.¹⁰⁰ New rules require government to cap IT contracts at £100 million, mandating HMRC to, in the NAO's words, "take more direct responsibility for their systems and strengthen their technical and commercial capability."¹⁰¹

The Government hopes to save £200 million a year – or 25 per cent – in the new contract,¹⁰² which will involve procuring printing, computers, telephony, data centres and networks, as well as the software to improve HMRC's online tax submission services. All these goods and services with the exceptions of tax submissions services have previously been procured through digital channels. Using the new Crown Marketplace to buy these goods following the expiration of the Aspire contract would inject vital competition into the contract and open it to innovative solutions.¹⁰³

99 Bryan Glick, 'Government Seeks New £2bn Consultancy Deal despite Concerns from SMEs', *ComputerWeekly*, 25 May 2015.

100 National Audit Office, *Managing and Replacing the Aspire Contract*, 2014, 5.

101 Ibid.

102 Bryan Glick, 'HMRC to Save £200m per Year by Scrapping Aspire Outsourcing Deal', *ComputerWeekly*, 29 October 2014.

103 National Audit Office, *Managing and Replacing the Aspire Contract*, 8.

Recommendation 1

The Government should expand the number of services listed on the new Crown Marketplace, including appropriate parts of the Aspire contract.

Reform, however, should not stop there. Private-sector frameworks testify to the range of goods and services that can be procured. due north, a cloud-based procurement service, lists numerous goods and services at competitive prices. Customers reportedly save 39 per cent on temporary staff contracts, 55 per cent on waste recycling, 26 per cent on housing materials and 25 per cent on lighting supplies.¹⁰⁴ In the public sector, America's 'GSA Advantage!' lists 20,000 suppliers that provide 50 million goods and services on an Amazon-like site (see Figure 22). Goods and services are purchased from framework-like 'Schedules' of products with pre-negotiated prices. Government can also request quotes from these scheduled providers for goods not listed on GSA Advantage! through a system called 'eBuy'.

Figure 22: Populating the Crown Marketplace

IT	Products	Services
Cloud-based products*	Building equipment*	Accounting*
Cybersecurity*	Electronic/technology hardware [†]	Administration services*
Data services*	Furniture and furnishing*	Building maintenance services [†]
Industry-specific software*	Housing material [†]	Cleaning services [†]
Network management software*	Lighting supplies [†]	Consultancy*
Software maintenance and support*	Office equipment/supplies [†]	Contingent labour [†]
	Security/law enforcement*	Energy services*
	Scientific/medical products*	Facilities management services*
	Tools, paint and recreational equipment*	Food suppliers [†]
	Vehicles*	Furniture services*
		Human capital services*
		Law enforcement*
		Office services*
		Professional services*
		Technology services*
		Transport services [†]
		Travel services*

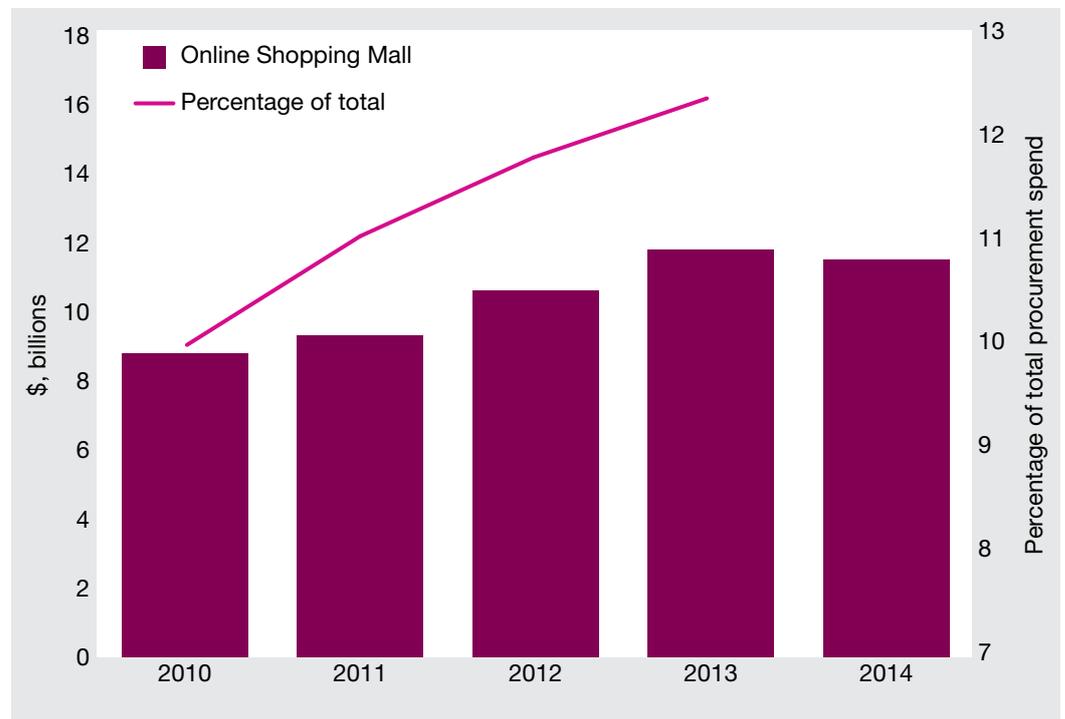
Note: * denotes items listed on GSA Advantage!; † denotes items listed on due north.

South Korea offers a similar function through its Online Shopping Mall. It lists 360,000 product models and accounts for 12 per cent of total government spend, and has grown by \$2.7 billion since 2010 (see Figure 23).¹⁰⁵ The proportion of SMEs winning government contracts through the Online Shopping Mall rose from 27 per cent of total spend in 2006 to 75 per cent in 2010, suggesting access makes a greater difference to SME involvement than targets.¹⁰⁶

¹⁰⁴ due north, *eAuctions Factsheet*, n.d.

¹⁰⁵ OECD, *The Korean Public Procurement Service: Innovating for Effectiveness*, 44.

¹⁰⁶ Public Procurement Service, 'E-Procurement Experience in Korea: Implement and Impact'.

Figure 23: Transactions via South Korea's Online Shopping Mall, 2010 – 2014

Source: OECD, *The Korean Public Procurement Service: Innovating for Effectiveness*, 2016.

These frameworks demonstrate the breadth of products that could be procured through online portals – digital procurement is not the sole preserve of IT and consultancy. For officials, they set the standard for the interface used: these are easy-to-navigate sites, with the ability to directly compare similar goods and services. They also include a payments option, which is not available on G-Cloud. This saves resource and time for both suppliers and government. In South Korea payments can be processed within four hours, a timespan that puts into perspective the Government's 30 day payment commitment.¹⁰⁷

The scale of these platforms, coupled with their ease of use, suggests the UK can do more to improve its catalogue platforms. To maximise competition, the UK should ensure any extension of its digital marketplaces replicate G-Cloud's regular reiteration. GSA Advantage!, which recompetes every five years, lists only one agile developer service, for example, compared to G-Cloud's 66.¹⁰⁸

Recommendation 2

The Crown Marketplace should be a single portal for the e-procurement of goods and services. This should be accompanied by an integrated payment function. The framework to purchase commodities must be recompeted regularly to ensure maximum competition.

This must not, however, stop government using private markets to get value for money when appropriate. The Government should explore whether it is able to compare framework-agreed prices against prices on private marketplaces, such as Amazon Business, which allows organisations to openly buy hundreds of millions of products online. This could enable it to save money in the short term and negotiate better prices in the future.

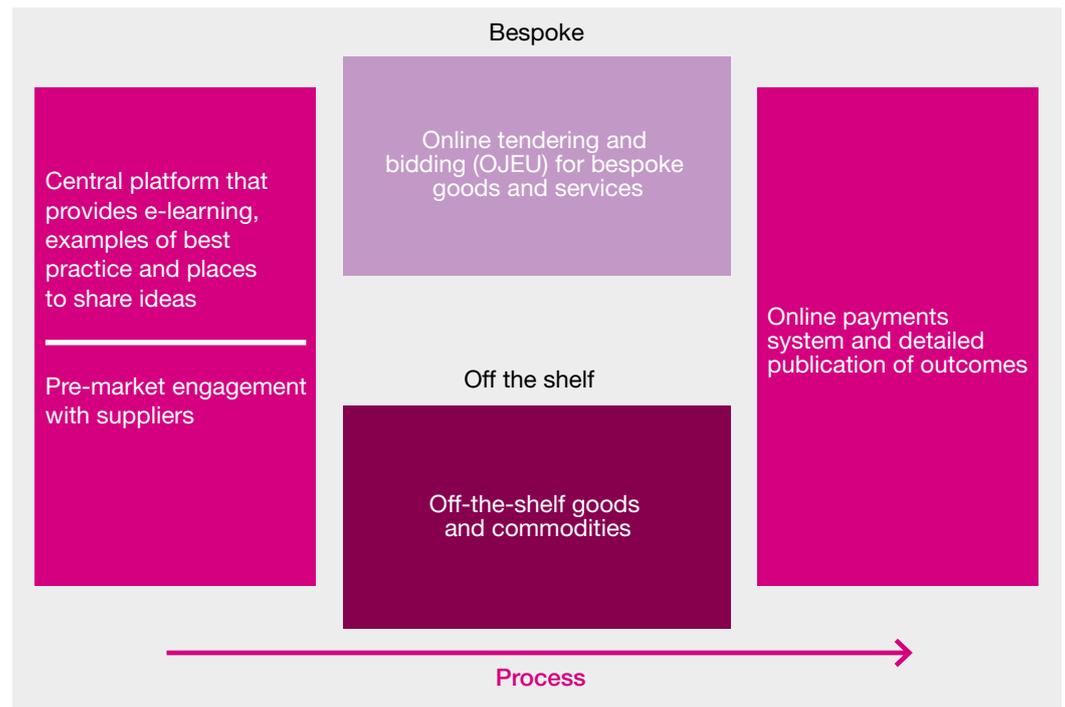
¹⁰⁷ Public Procurement Service, 'Overview', n.d.; GOV.UK, 'Late Commercial Payments: Charging Interest and Debt Recovery', September 2015.

¹⁰⁸ Based on a search for "agile developer" on G-Cloud 7 on 6 January 2016.

4.1.3 Bespoke items

A platform for these cataloguable goods and services should also include a channel for OJEU tenders. This would allow government to procure a huge proportion of its goods and services via one portal and save the time and costs associated with paper-based procurements (see Figure 24).

Figure 24: Suggested structure of the Crown Marketplace



This approach has been pioneered elsewhere. South Korea's Online Shopping Mall for cataloguable items is complemented by an online bidding portal to procure bespoke goods and services. KONEPS encompasses this and the Online Shopping Mall, and transacted \$61 billion of procurements in 2013, which accounted for 64 per cent of total government spend.¹⁰⁹ KONEPS also purports to provide an objective means to analyse bids by pioneering an automatic "Contract Fulfilment Capability Test".¹¹⁰ This includes an administrative procedure in which suppliers' backgrounds are checked via a connection to 160 external information systems – such as credit rating companies, industry associations and the national tax office – to ensure the company fulfils certain criteria. This process was partly in response to problems of corruption in South Korea, but the UK Government could investigate the extent to which it could digitise elements of its evaluation process to simplify pre-qualification checks.¹¹¹

Recommendation 3

The Government should include an Official Journal of the European Union procurement portal within the new Crown Marketplace to maximise value for money.

¹⁰⁹ OECD, *The Korean Public Procurement Service: Innovating for Effectiveness*, 43.

¹¹⁰ Public Procurement Service, 'About KONEPS', 21 October 2014.

¹¹¹ Gyoo Gun Lim, Renee B. Kim, and Han Bae Lee, 'Public E-Procurement: The Korean on-Line E-Procurement System (KONEPS)', *3rd International Public Procurement Conference Proceedings*, August 2008, 749, 755.

4.1.4 Digital engagement

Careful pre-market engagement, particularly for bespoke products, remains crucial to achieving value for money: e-procurement does not solve the complexities of constructing new markets, or dealing with nascent ones. While some procurements will still require face-to-face dialogue, Figure 24 indicates that in many instances government can also use software to prepare before going to market. Again, international examples provide cases of best practice. America's Acquisition Gateway is an online tool which connects procurement officials across the federal government, providing lessons, examples of best practice and a space to collaborate and communicate. The aim is for government to 'act as one' by engaging in pre-market activities, such as monitoring real-time spend across federal government, using market-research tools and posting expert articles.¹¹²

Alongside internal preparation, the Government must continue to engage with suppliers. Again, technology provides an avenue through which pre-market engagement can be scaled up. KONEPS allows the South Korean Government to publish draft specifications online for industry to submit feedback, with the public sector expected to react to supplier input. In 2012, Francis Maude launched "Solutions Exchange", a comparable online platform that brought together suppliers and departments to discuss ideas and challenges.¹¹³ Ultimately the pilot did not progress past beta roll-out, however private firms based in the UK provide a ready-made alternative. Kahootz offers secure, cloud-based work environments that can be used for tender management.¹¹⁴ The platform allows suppliers to participate with departments in discussion forums regarding priorities, plans and strategic objectives, suggest amendments to PQQs and ITTs, and enables early access to draft requirements and contracts.¹¹⁵

The benefits of 'collaborative procurement' extend beyond transparency. It allows organisations to participate in pre-market engagement that otherwise may not have the resources to commit staff to time-consuming workshops – helping government to act as a more intelligent buyer. Giving prospective suppliers early sight of contracts and requirements would also allow smaller companies with more constrained resources to plan bids in advance. Finally, storing the contract's details ensures knowledge transfer, and can prove a valuable resource during the contract management and retendering phases.

Some departments are already moving in this direction. MoJ, for example, used Kahootz for pre-market engagement on a project to integrate its business and technology systems.¹¹⁶ If departments are serious about engaging with suppliers on an industrial scale at the contract design phase, online engagement – potentially through private software providers – will be an effective means of achieving this.

Recommendation 4

The Government should scale up pre-market engagement by moving more supplier engagement online.

¹¹² GSA, 'Acquisition Gateway', 3 September 2015.

¹¹³ Cabinet Office, 'Solutions Exchange', 2012.

¹¹⁴ Peter Smith, 'Solutions Exchange and a Lack of Government Procurement Requirements', *Spend Matters*, 2012.

¹¹⁵ Kahootz, *Public Procurement: A More Collaborative Approach*, 2015.

¹¹⁶ *Ibid.*, 23.

4.1.5 A digital vision

Savings from digital marketplaces, however, will not materialise without a coherent vision from the centre. As it stands, GDS and CCS are developing the digital agenda at very different speeds. The result is that responsibilities have been blurred, tension has been created and growth has thus far happened in one specific section: cloud-based IT goods and services.

To build on existing successes, the centre must work together: GDS should build the Crown Marketplace and CCS should administer it. GDS can then continue as a disruptive force by designing software capable of reframing the way government procures goods and services. CCS, the defined centre for government procurement, is best placed to increase and market the use of the Crown Marketplace across government. Placing the new platform within CCS might also enable it to better understand how to expand the goods and services on offer. For instance, CCS currently controls 25 professional-services frameworks, including ConsultancyONE (worth £2 billion over four years), and Contingent Labour ONE (a contingent-labour framework worth £2.5 billion over four years).¹¹⁷

A clear digital vision also requires a stronger definition of CCS's relationship with other departments. As already noted, this has been a point of tension, with departments wanting to retain purchasing autonomy and CCS looking to achieve value for money across the whole of government.¹¹⁸ However digitisation, in the form of a single Crown Marketplace, allows government to do both. CCS, with the input from departments, can negotiate cataloguable goods and services. For OJEU procurements, departments can run the process under the guidance of CCS. Real-time data will allow CCS to understand a department's decision-making process and ensure that it complies with the Government's overarching agenda. This has been labelled a 'tight-loose' approach and has found favour in private-sector companies for ensuring central control of the overall process, but allowing the users to procure from a position of expertise.¹¹⁹

4.2 Capabilities and culture

The public-sector procurement skills deficiency noted in Chapter 3 will be made more acute if the Cabinet Office decides, as this paper suggests, to push ahead with the e-procurement agenda. Skills is a recurring theme in civil service reform literature, but the imperative to improve is particularly strong in commercial functions.¹²⁰ According to McKinsey, up to 80 per cent of the impact available from improving purchasing comes from talent.¹²¹

4.2.1 Digital skills

The expansion of e-procurement will create new skills challenges for the civil service. The low-hanging fruit resides in strengthening understanding and confidence in e-procurement channels across government. Willingness to change long-established business processes is seen as a major obstacle to using digital marketplaces, and senior government officials interviewed for this paper suggested poor understanding of the G-Cloud was preventing further expansion.¹²² CCS should push the e-procurement agenda more aggressively, encouraging officials to use new digital tools, and supply training and awareness across government.

¹¹⁷ Crown Commercial Service, 'Find an Agreement', accessed 22 January 2016, [http://ccs-agreements.cabinetoffice.gov.uk/?f\[0\]=im_field_category%3A14](http://ccs-agreements.cabinetoffice.gov.uk/?f[0]=im_field_category%3A14).

¹¹⁸ House of Commons Committee of Public Accounts, *Cabinet Office: Improving Government Procurement and the Impact of Government's ICT Savings Initiatives*, 2013.

¹¹⁹ Peter Smith, *Centralise or Devolve Procurement? Why Not Both? How Technology Is Enabling New Operating Models* (Spend Matters, 2014).

¹²⁰ For example, see National Audit Office, *Building Capability in the Senior Civil Service to Meet Today's Challenges* (The Stationery Office, 2013); HM Government, *The Civil Service Reform Plan*, 2012.

¹²¹ Chip Hardt, Nicolas Reinecke, and Peter Spiller, 'Inventing the 21st-Century Purchasing Organization', *McKinsey Quarterly*, November 2007.

¹²² Kishor Vaidya, A.S.M. Sajeev, and Guy Callender, 'Critical Factors That Influence E-Procurement Implementation Success in the Public Sector', *Journal of Public Procurement* 6, no. 1&3 (n.d.): 81.

Yet the roll-out of digital marketplaces presents a more fundamental challenge. Increasing the proportion of products bought through e-procurement channels will require disaggregating some contracts, purchasing more discrete products and fulfilling the 'systems-integration' function government has hitherto paid suppliers to carry out. Reversing this trend brings with it risk. By outsourcing systems integration, the potential pitfalls of coordinating multiple suppliers is passed to the provider. There is, however, a trade-off. Now in a dominant position, systems integrators are able to charge government departments considerable sums of money for seemingly straightforward tasks. One interviewee recounted the details of a 'change control process' for an IT contract, whereby the provider charged the Department £30,000 each time a quotation for the cost of carrying out further work was requested.

A number of interviewees suggested the civil service's ability to systems integrate has withered in recent decades, however steps to reverse this trend have recently borne fruit. With the assistance of secondees from GDS, the Driver and Vehicle Licensing Agency saved £225 million over 10 years by insourcing the systems integrating function which was previously being delivered by a supplier on a 13-year IT contract.¹²³ To reiterate, disaggregating contracts and insourcing the systems integration function will not be appropriate in all instances. Still, the experience of South Korea and Estonia indicates that the scope of commoditising contracts and placing them online is considerable, and that the benefits of such an approach significant.

4.2.2 Building expertise

So how might departments increase the skills of commercial staff, both in terms of the new challenges presented by the digital procurement agenda and the wider issues identified in Chapter 3? Fundamentally, some procurement officials still lack the technical expertise, particularly when compared to their international counterparts, to design effective contracts and steward markets. A number of initiatives could help.

First, officials need to be given the opportunity to build a more in-depth understanding of the markets in which they operate. Suppliers we interviewed suggested procurement officials are too often moved around departments, limiting their level of market-specific knowledge. While limiting rotation in procurement does increase the risk of corruption, safeguards – such as increasing scrutiny and supervision – can always be put in place.¹²⁴

Second, increased use of secondments should be considered. The Government currently has an ambition to have 100 officials working temporarily in the private sector at any given time, but this figure could and should be increased.¹²⁵ As the Civil Service Reform Plan recognises, secondments help build technical skills.¹²⁶ Granting an insight into how suppliers operate is another important outcome. One interviewee said the private sector was anathema to elements of the civil service, with some officials refusing to use the word 'profit'. Such an outlook simply cannot be conducive to constructive business relationships, an asset which, according to a recent survey of senior procurement officers, will be the most important determinant of procurement success by 2025.¹²⁷

A third area of focus must be to attract civil servants with a variety of backgrounds into procurement roles. In the private sector, organisations with successful procurement functions are doing just this. As McKinsey has argued, "the best purchasing groups aggressively recruit... professionals from within the ranks of their own companies... finding, for example, a talented development engineer to manage the company's sourcing of electrical components or a senior IT professional to develop strategies for sourcing the company's technology."¹²⁸ Those with service-user, strategy and – in light of the

¹²³ Karl Flinders, 'DVL A Brings IT Back in-House after Decades of Outsourcing', *ComputerWeekly*, 10 May 2015.

¹²⁴ Federal Ministry of the Interior, *Rules on Integrity*, 2014, 33.

¹²⁵ Civil Service, *The Capabilities Plan: 2014 Annual Refresh*, 2014.

¹²⁶ HM Government, *The Civil Service Reform Plan*.

¹²⁷ KPMG, *FUTUREBUY: The Future of Procurement*, 2013, 7.

¹²⁸ Hardt, Reinecke, and Spiller, 'Inventing the 21st-Century Purchasing Organization'.

e-procurement agenda – digital backgrounds could bring real value to procurement functions.

Yet these immediate steps need to be supplemented by a broader appraisal of civil servants' commercial skills. An audit of procurement competency and training needs, a process which is currently taking place in New Zealand, would be an appropriate step to understanding the scale of the challenge faced by the public sector.¹²⁹ Meeting the persistent skills challenge head on should be a priority for the Government. Without progress in this area, improving procurement practice is highly unlikely.

Recommendation 5

The Government should cultivate procurement talent by limiting rotation, extending secondments both into and from the private sector and attracting applications for procurement roles from individuals with technical skills from within existing departments. This should be accompanied by a review of procurement skills, identifying gaps that need to be addressed in view of an increasing focus on e-procurement.

4.2.3 Motivation

Developing a more talented pool of procurement officials, however, can only be part of the story. The culture in commercial roles must also be challenged. Suppliers repeatedly relayed the risk aversion of government officials, who often opted for the cheapest, but lowest-quality submission during the bid evaluation phase. Given the difficulties involved with judging 'value', the mantra 'no one was ever fired for hiring IBM' was viewed by some interviewees as a guiding principle in the civil service.

Pay structures cannot wholly explain this risk aversion, but current practice certainly does not encourage more entrepreneurial behaviour. Despite CCS outperforming its targets in 2014-15, its senior management was not paid a single pound in performance-related pay (PRP) (see Figure 25).

Figure 25: Performance-related pay of Crown Commercial Service and Government Procurement Service senior management, 2010-11 – 2014-15

Financial year	Total value of bonuses issued
2010-11	£10,000 - £25,000
2011-12	£0 - £5,000
2012-13	£15,000 - £25,000
2013-14	£10,000 - £15,000
2014-15	£0

Source: Government Procurement Service, *Annual Report and Accounts 2011/12, 2012; Government Procurement Service, Annual Report and Accounts 2012/13, 2013; Government Procurement Service, Annual Report and Accounts 2013/14, 2014; Crown Commercial Service, Annual Report and Accounts 2014/15, 2015.*

Expanding the use of PRP might be one way of developing a more appropriate attitude to risk. While the literature is relatively clear about the merits of PRP in the private sector, there is more uncertainty in the public sector. Conceptual issues are partly at fault.¹³⁰ Government's objectives are multiple and complex while measuring desired outcomes can be difficult.¹³¹ Yet it should be noted that these difficulties do not prevent line managers from making judgements on aptitude during performance-review processes.

¹²⁹ New Zealand Government Procurement, 'Developing Procurement Capability', n.d.

¹³⁰ Kathryn Ray et al., *A Review of the Evidence on the Impact, Effectiveness and Value for Money of Performance-Related Pay in the Public Sector*, 2014, 27–28.

¹³¹ Ibid.

Moreover, while evidence on PRP in the civil service is both thin and mixed, what information we do have indicates PRP “can have a positive impact on incentivised outcomes.”¹³²

The difficulty in judging value for money – which requires assessment over the lifetime of a contract that may run for multiple years – adds an additional layer of complexity for PRP in commercial roles. However similar challenges have been addressed in other policy areas. The recent Parliamentary Commission on Banking Standards recommended a presumption that a significant proportion of variable remuneration – i.e. bonuses – should be deferred.¹³³ These funds could then be subject to a ‘clawback’ if there was reason for reassessing the issuance of the bonus.¹³⁴

Pay structures along these lines would have at least two benefits relevant to government procurement functions. First, it would align the interests of the State and officials in ensuring procurements deliver value for money in the long run. Deferred remuneration would mitigate the temptation to opt for the cheapest option that delivers in-year savings. Second, if payment was conditional on remaining in post, delaying remuneration could be a powerful incentive to stay within the department, strengthening institutional memory. Pay structures may only go so far in creating a less risk-averse culture in procurement. However in combination with a more expert staff, some progress can be expected.

Recommendation 6

The Government should create a healthier attitude towards risk by introducing more performance-related pay for procurement officials.

4.3 Data and transparency

Digital marketplaces combined with a more skilled civil service could transform the way government purchases and deliver considerable savings for the Exchequer. Yet without also tackling the data and transparency challenges of public-sector procurement, only so much progress can be made.

4.3.1 Comprehensive data

In 2013, Francis Maude explained that the “possibility of freely available government data is a catalyst for innovation and supporting the creation of new markets and new businesses.”¹³⁵ In general, however, as the lack of consensus on the value of procurement each year suggests, government has a poor understanding of where its money is going. The NAO has long argued for better collection and use of procurement data. Recently, it criticised the Cabinet Office for working poorly with other departments to collect and use data on procurement spend to drive targets.¹³⁶ One interviewee vividly described a scene in 2010 where the Cabinet Office assembled departmental commercial directors to estimate expenditure on one of government’s largest suppliers. Unable to produce a robust figure, the team eventually asked the supplier in question to provide the relevant information. It transpired the group’s initial estimate was wrong by 2,500 per cent.

Government’s ability to design effective contracts partly depends on understanding the current composition and effectiveness of its supplier markets.¹³⁷ Historic pricing and specification information can be used to inform future contract design.¹³⁸ Volumes can only be leveraged when government fully understands how much it is purchasing from an

132 Ibid., 7.

133 Parliamentary Commission on Banking Standards, *Changing Banking for Good*, 2013, 9.

134 Ibid., 50. The Commission on banking standards set relatively restrictive criteria on when such a clawback could be used, although this need not be the case.

135 Danny Palmer, ‘A Quarter of Government ICT Procurement to Involve SMEs by 2015’, 27 June 2015.

136 National Audit Office, *Improving Government Procurement*, 7.

137 Freeguard and Makgill, *Government Contracting: Public Data, Private Providers*.

138 OECD, *The Korean Public Procurement Service: Innovating for Effectiveness*.

individual supplier. Concerns regarding market concentration are likewise obscured without such information. Indeed, as the OECD has recognised, developing a real-time view of government procurement expenditure is absolutely essential if policymakers are to organise procurement strategically.¹³⁹

This issue has been highlighted before. In 1999, Sir Peter Gershon noted government departments “recognised the advantages to be gained from a common database of information about suppliers”.¹⁴⁰ The technical difficulties of creating a consolidated view of purchasing is no doubt a significant reason why no progress has been made in the UK. However, the experience of overseas governments demonstrates this ambition is achievable. As of 2010, half of the OECD 34 group have some capability along these lines, with the citizens of Chile, Brazil, Estonia, Hungary, Korea, Turkey, and Brazil able to access real-time data on public-procurement expenditure.¹⁴¹ The UK is falling behind international best practice.

A by-product of the digital agenda will be a more detailed picture of how government spends its money. G-Cloud already breaks expenditure down by lot, supplier size, and customer type.¹⁴² Until the vast majority of procurements go through digital channels, however, this will fail to build a comprehensive picture of government procurement. In the interim, one option would be to adopt the American Government’s approach of assigning a Procurement Instrument Identifier (PIID) to each item purchased by government. These unique strings contain information conveying the contracting department or agency, the fiscal year in which the procurement was issued, and the stage of the procurement.¹⁴³ Supplementary information attached to these numbers give the federal government more granular data with which spend analysis can be conducted. One interviewee said the successful roll-out of PIIDs could be a game-changer for federal government procurement, allowing agencies to interrogate spending decisions and become a smarter customer. The UK Government could use a similar system to improve civil servants’ ability to make strategic decisions; publishing some of this information online would also enable potential suppliers to understand government spending intentions.

Recommendation 7

The Government must be scrupulous in collecting internal spending data that can inform contract design and management, thus ensuring best value for money from suppliers.

4.3.2 Transparency

Transparency brings a different perspective to the data debate. There are a number of well-rehearsed reasons for improving government performance in this area. Through reducing information asymmetries, transparency can boost competition and therefore value for money.¹⁴⁴ Increasing government accountability and trust in public-procurement markets are also important goals.¹⁴⁵ Outside of the UK, concerns regarding corruption have been a powerful driver of change.¹⁴⁶

As Chapter 3 recognised, the UK has taken important steps in recent years to improve transparency in central government procurement. Yet there remains more to do. Much like the G-Cloud, the GSA Advantage! eLibrary details contractors’ price sheets, but for a range of products that expands far beyond the IT focus of its UK counterpart. America’s usaspending.gov website is even further advanced than its UK equivalent. The portal

¹³⁹ OECD, *Recommendation of the Council on Public Procurement*, 2015.

¹⁴⁰ Gershon, *Review of Civil Procurement in Central Government*.

¹⁴¹ OECD, *Government at a Glance 2011*, 2011, 151.

¹⁴² ‘Dashboard - G-Cloud’.

¹⁴³ Management Services Division, *Contracting Policy No. 4.602(e) - Procurement Instrument Identifier (PIID)*, 2005.

¹⁴⁴ Center for Global Development, *Publishing Government Contracts: Addressing Concerns and Easing Implementation*, 2014, 8.

¹⁴⁵ Freeguard and Makgill, *Government Contracting: Public Data, Private Providers*, 27.

¹⁴⁶ OECD, *Government at a Glance 2011*, 147.

allows suppliers and citizens to access data on the volume and value of government contracts going to any given supplier, information which can then be broken down by geographical region, government department and product type.¹⁴⁷ For those who are concerned that government should be held to account, this information is also easily accessed and machine readable. The KONEPS system is arguably most radical in this dimension, providing real-time feedback to civil servants and fully disclosing reasons for contract award to suppliers.¹⁴⁸

Clearly there is a balance to be struck between the public's need for transparency and a private firm's need to protect commercially sensitive information. Government can, however, take numerous steps before concerns regarding intellectual property become legitimate. Building on Contracts Finder, the Crown Marketplace could encompass a single portal where procurement information can be found. The website should include information on forthcoming procurements, as well as departmental expenditure on procurement broken down by product category. Such an objective would require government to first build a real-time dashboard of procurement expenditure for internal use. However the benefits would be clear. A more transparent approach to procurement should increase the volume of potential suppliers, stoke competition and therefore deliver better value for money.¹⁴⁹

Recommendation 8

The Government should expand the Crown Marketplace to include information on forthcoming procurements and existing departmental procurement spend, broken down by agency, product category and supplier.

¹⁴⁷ 'Data.gov', accessed 13 January 2016, <http://www.data.gov/>.

¹⁴⁸ OECD, *The Korean Public Procurement Service: Innovating for Effectiveness*.

¹⁴⁹ Lorna Booth, *Public Procurement*

5. Cloud 9

Beyond announcing the Crown Marketplace in November 2015, the Cabinet Office has issued limited detail on its plans to expand digital procurement. This report fills in some of that thinking. A single portal for government buyers and suppliers – where commoditised products can be purchased at speed and bespoke goods shaped through online engagement – offers a bright new future for public-sector procurement. Such a path has been forged by the best practitioners from overseas, but can only be delivered through a supplementary focus on skills, data and transparency. These initiatives will also improve purchasing practice in areas where digitisation will not be appropriate.

Delivering transformation will not be easy, not least for the technical challenges involved with creating a single, coherent view of government procurement. Yet digitisation offers the best opportunity to shift procurement's existing focus on regulation towards creating innovative and informed contracts, stimulating competition and managing contracts effectively. The result will be better-quality public services at lower prices for an area totalling up to one third of government spend.

Appendices

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Appendix A: list of interviewees

The research for this paper was informed by 26 semi-structured interviews, lasting approximately one hour each. The interviews were conducted under the Chatham House Rule, but the specificity of some comments are such that we have refrained from listing the names of individuals with whom we spoke. The full list of anonymised interviewees is as follows:

- > Director, Accenture
- > Director, avarto
- > Director, avarto
- > Director, avarto
- > Director, Big Society Capital
- > Executive team member, Buddi
- > Senior official, Cabinet Office
- > Former Cabinet Office Minister
- > Director, Capita Group
- > Senior policy advisor, Confederation of British Industry
- > Senior official, Crown Commercial Service
- > Director, DeNové
- > Senior official, Department for Work and Pensions
- > Former Commercial Director, Department for Work and Pensions
- > Executive team member, Employment Related Services Association
- > Executive team member, G4S
- > Senior official, Government Digital Service
- > Senior policy advisor, Ingeus
- > Director, KMPG
- > Director, M.E.T.A.
- > Senior official, Ministry of Defence
- > Director, National Audit Office
- > Former Member, Public Accounts Committee
- > Executive, Seetec
- > Executive, Unilink Group
- > Senior official, United States General Services Administration
- > Senior official, United States General Services Administration

We would like to extend our thanks to all those involved in the above interviews. These meetings provided a unique insight into the functioning, issues, solutions and successes of recent government procurement policy.

Appendix B: interview questions

Interviews were semi-structured: they followed the below set of questions, a high-level overview of which was sent to interviewees in advance. These questions provided a guideline for the interview, but in many cases supplementary questions were asked.

Section 1: The Government's objectives

What is the Government trying to achieve with public-procurement policy?

- > What does the Government mean by value for money?
- > Does the Government always follow the same interpretation of value for money?
- > How does the Government's interpretation of value for money affect provider behaviour in the short, medium and long term?
- > Why does the Government support small businesses through procurement policy?
- > Does the Government pursue any other objectives (explicitly or otherwise)?

Section 2: Current practice

How is the Government trying to deliver these objectives?

- > The Government has recently developed lots of formal means to achieve policy objectives, including increasing competition, transparency, simplicity and skills for civil servants. How successful have these means been for achieving government objectives?
- > Does the Government use informal, as well as explicit, means of delivering this objective? How is the Government pursuing its other policy objectives?

Are existing practices delivering these objectives?

- > How would you characterise the level of competition in procurement markets generally?
- > Does the procurement market work as a single market or is it fragmented? Are there any concerns with the current set up?
- > Are there specific markets where you have concerns?
- > The National Audit Office, Public Accounts Committee and others have highlighted high levels of market concentration in some procurement markets as a concern. Is this a problem – or is value for money achievable without competition?
- > Does low market concentration influence the way bidders and/or the Government operate?

Are there barriers that are inhibiting the delivery of these objectives?

Section 3: Improving practice

What steps could the Government take to deliver these objectives better?

- > What could the Government do to improve value for money?
- > Are SMEs well-placed to deliver value for money?
- > Are the objectives of value for money and SME participation consistent?

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