

A Short Guide to

Commercial relationships



About this guide and contacts

This Short Guide summarises the key issues the National Audit Office has encountered when auditing government's commercial relationships, the progress government has made addressing these, and the risks that remain.




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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £734 million in 2016.

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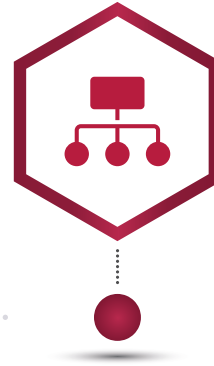
Overview



Key facts



Commercial
spending across
central government



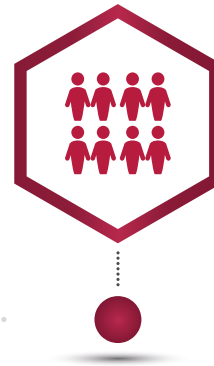
Distribution of commercial
spending across
government 2016-17



About government's
commercial relationships



Accountability in
commercial relationships



Suppliers of
government services

Key facts



£251.5 billion

Estimated government spending through external suppliers in **2015-16** based on analysis of Whole of Government Accounts, representing about 33% of total government spend



£136 billion

Estimated **2016-17** spending by central government departments and the NHS through external suppliers, based on analysis of HM Treasury public spending data. Includes revenue and capital spending.

Note on figures:

Government has no clear figure for the amount it spends through commercial relationships. The NAO produces its estimates based on sources including Whole of Government Accounts, Public Expenditure Statistical Analysis and the Cabinet Office's unpublished spending portal. These are prepared on different bases so are not always directly comparable with each other.



29

Number of strategic suppliers to government, where relationships are managed centrally by the Cabinet Office



840

Number of UK central government contracts awarded through **Official Journal of the European Union (EU)** process in 2016-17



£12.4 billion

2016-17 spending from central government and the wider public sector channelled through **Crown Commercial Service** arrangements including framework contracts



27%

Proportion of the government's reported procurement spending that reached **small and medium-sized enterprises (SMEs)** in 2014-15 (Cabinet Office estimate)



£2.5 billion

Spending on common goods and services, such as utilities and supplies, managed by the **Crown Commercial Service** on behalf of central government departments as at the end of 2016

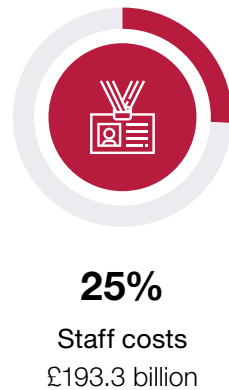
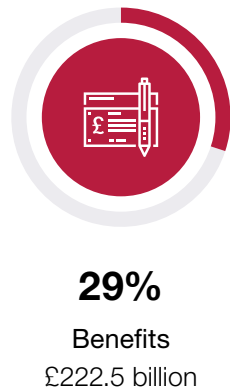


3,700

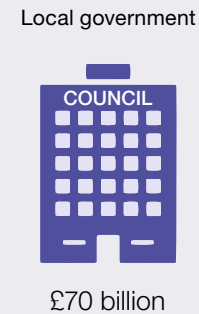
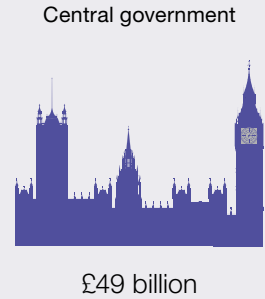
Government's estimate of the number of **commercial professionals** working across central government departments in 2015-16

Commercial spending across central government

Based on our analysis of Whole of Government Accounts, we estimate that the public sector spent around £251.5 billion¹ through commercial relationships in 2015-16. At around 33% of total spend, this is one of the largest spending categories in government.



Of the £251.5 billion¹ estimated spending through contracts, around £51 billion related to capital spending, and around £8.5 billion related to intangible assets and private finance initiative (PFI) interest. The remaining £192 billion was spent across the following government sectors:



¹ Government has no clear figure for the amount it spends through commercial relationships. The NAO produces its estimates based on sources including Whole of Government Accounts, Public Expenditure Statistical Analysis and Cabinet Office's unpublished spending portal. These are prepared on different bases so are not always directly comparable with each other.

Commercial spending across central government *continued*

HM Treasury Public Expenditure Statistical Analysis also gives a breakdown of spending through commercial relationships for central government departments in 2016-17. These are given on a different basis than in the Whole of Government Accounts and therefore not directly comparable.

According to this data, commercial spending by some of the key spending departments in 2016-17 included:

- Ministry of Defence – **£19.8 billion:**
including Atomic Weapons Establishment, Defence Equipment & Support, Recruitment, Estates management.
- Department for Transport – **£13.3 billion:**
including Network Rail and rail franchising contracts.
- Ministry of Justice – **£5.2 billion:**
including privately managed prison and probation services.
- Department for Business, Energy & Industrial Strategy – **£5.2 billion:**
including nuclear decommissioning.
- Home Office – **£2.8 billion:**
including immigration removal centres and emergency services communications.
- Department for Work & Pensions – **£2.2 billion:**
including Work Programme and health and disability assessments.

The proportion of departmental commercial spend as a proportion of total spending is shown overleaf.

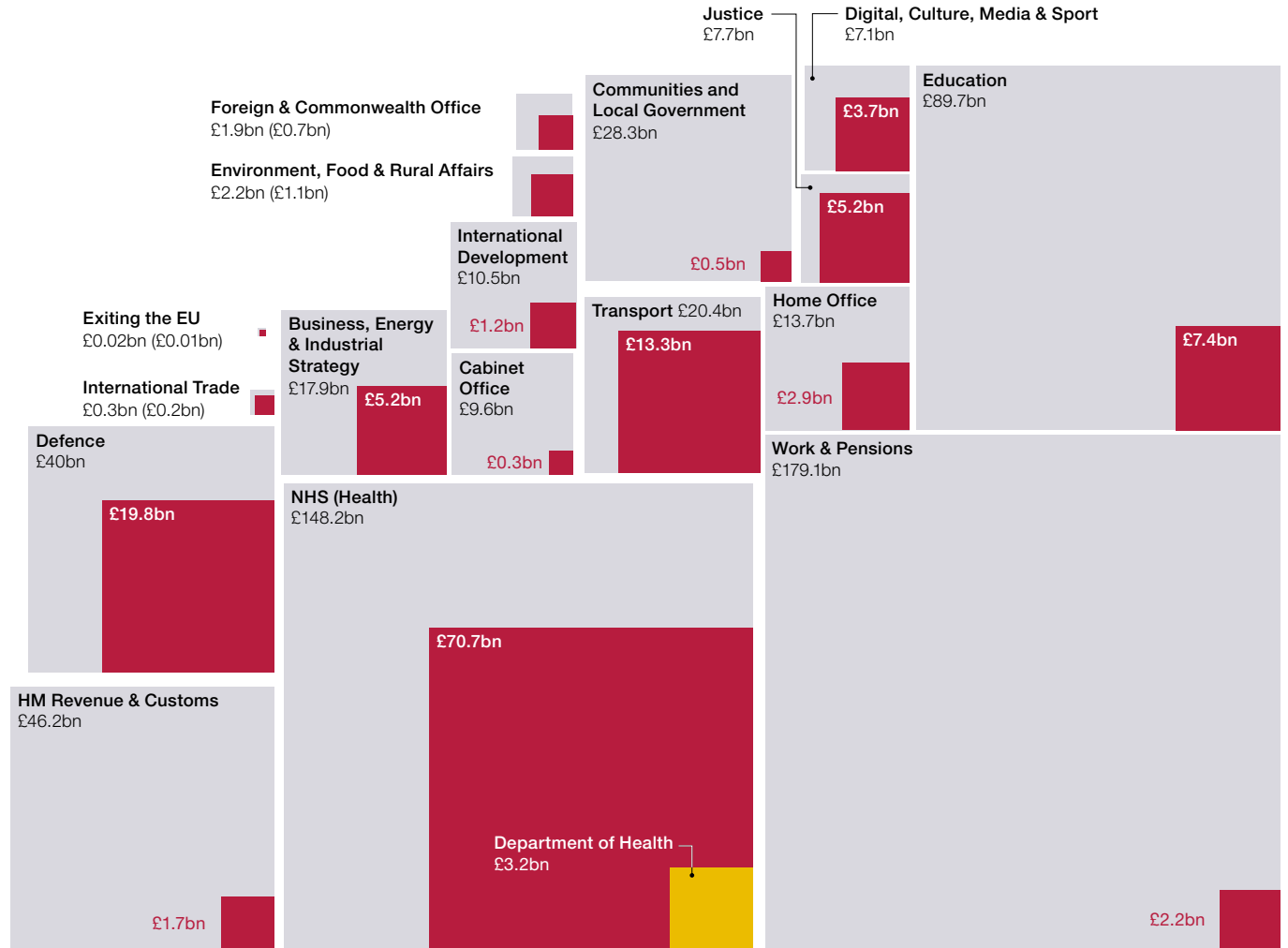
Further note on numbers:

The numbers above combine HM Treasury Public Expenditure Statistical Analysis (PESA) data for revenue and capital spending through commercial arrangements. Using these, we calculate a total of £136 billion for central government, of which NHS spending under the Department of Health is c. £67 billion including capital.

Stripping capital spending out of these figures, central government drops to around £39 billion (excluding devolved spending) and NHS to £66 billion – closer to the breakdown of the £192 billion of 2015-16 revenue spending set out on page 5.

Distribution of commercial spending across government 2016-17

Twelve departments each spend more than £1 billion with external suppliers.



- Notes**
- 1 Grey boxes represent total expenditure for each departmental group, and red boxes represent commercial expenditure for each departmental group.
 - 2 Total spending data are sourced from Table 1.13 of HM Treasury's Public Expenditure Statistical Analysis, published July 2017, which sets out 'Total Managed Expenditure' for each departmental group.
 - 3 Commercial spending data are sourced from Table 2.2 and 2.3 of HM Treasury's Public Expenditure Statistical Analysis, published July 2017, which sets out 'gross current procurement in budgets' and 'gross capital procurement in budgets' for each departmental group.

About government's commercial relationships

The range of government's commercial relationships

The UK public sector spends about £250 billion through commercial relationships with external providers, including an estimated £136 billion from central government departments and the NHS. These relationships cover a broad range of goods and services including:

Assets and infrastructure

For example, the Ministry of Defence's new aircraft carriers.

Services to the public

For example, the Department for Work & Pensions' six main contracts for health and disability assessments.

Support services for government

For example, facilities management services across government.

Supply of goods

For example, pharmaceuticals and consumables across the NHS.

Most contracts are procured within the EU regulatory regime, which sets rules and constraints around how this is done.

The organisations involved

The NAO's work on commercial relationships in central government typically involves:

Departments and arm's-length bodies, who are responsible for securing value for money from the goods and services they buy through commercial relationships.

The Cabinet Office hosts the **Government Chief Commercial Officer**, who is responsible for developing the commercial capability of the civil service. He coordinates the **Government Commercial Function**, a network of around 3,700 commercial staff across central government. The Government Commercial Function includes a number of commercial functions that had previously been managed in a fragmented way by departments. Central functions include:

- relationship management with and insight on the 29 strategic suppliers government has identified to be centrally managed by government's Crown Representatives;
- a specialist team of commercial and legal experts to support departments with complex commercial arrangements and disputes;
- commercial continuous improvement through setting standards and guidance and running masterclasses. The Cabinet Office also leads a government-wide programme for building commercial skills, including the centralised recruitment of senior commercial roles such as departmental commercial directors, and Central management of new commercial fast-stream and apprenticeship programme; and
- central employment of commercial staff in senior grades through the new **Government Commercial Organisation**, which will deploy these staff across departments as needed.

The Crown Commercial Service (CCS) buys and manages a range of common goods and services on behalf of departments. Common goods and services include utilities, office supplies and temporary staff and are typically bought from pre-approved suppliers who have won places on CCS framework contracts. CCS is an executive agency of the Cabinet Office.

Accountability in commercial relationships

Government bodies retain responsibility for the services that they contract out. The contract is the principal mechanism for accounting officers to ensure that contracted-out services contain appropriate accountability arrangements to meet the standards expected of public services. These arrangements should be set out in the Accounting Officer System Statements now published by each department.

In the past, Parliament tended to hold departments to account for the performance of their contractors. More recently, it has also acted to hold the contractors directly to account for their performance. Since 2013, the Committee of Public Accounts has held evidence sessions with providers such as Atos, Capita, Carillion, Amey, G4S and Serco.

Contracts should enhance accountability with:



A clear expression of spending commitments and objectives

The contract itself should provide a clear expression of the spending commitments and objectives. But, despite a clear legal and policy expectation that all contracts are made publicly available, we find that many are either not published or are severely redacted.



A mechanism or forum to hold to account

While the contract sets out the means for the client department to hold the contractor to account, where the contractor provides services direct to the public, user feedback, independent inspections and public transparency can enhance contractual accountability.



Clear roles and someone to hold to account

Good contracts should set out very clear roles and responsibilities. Where we find things have gone wrong, it is often because these have been blurred. For instance, government cannot hold contractors to account for poor delivery where it has not met its own contractual obligations.



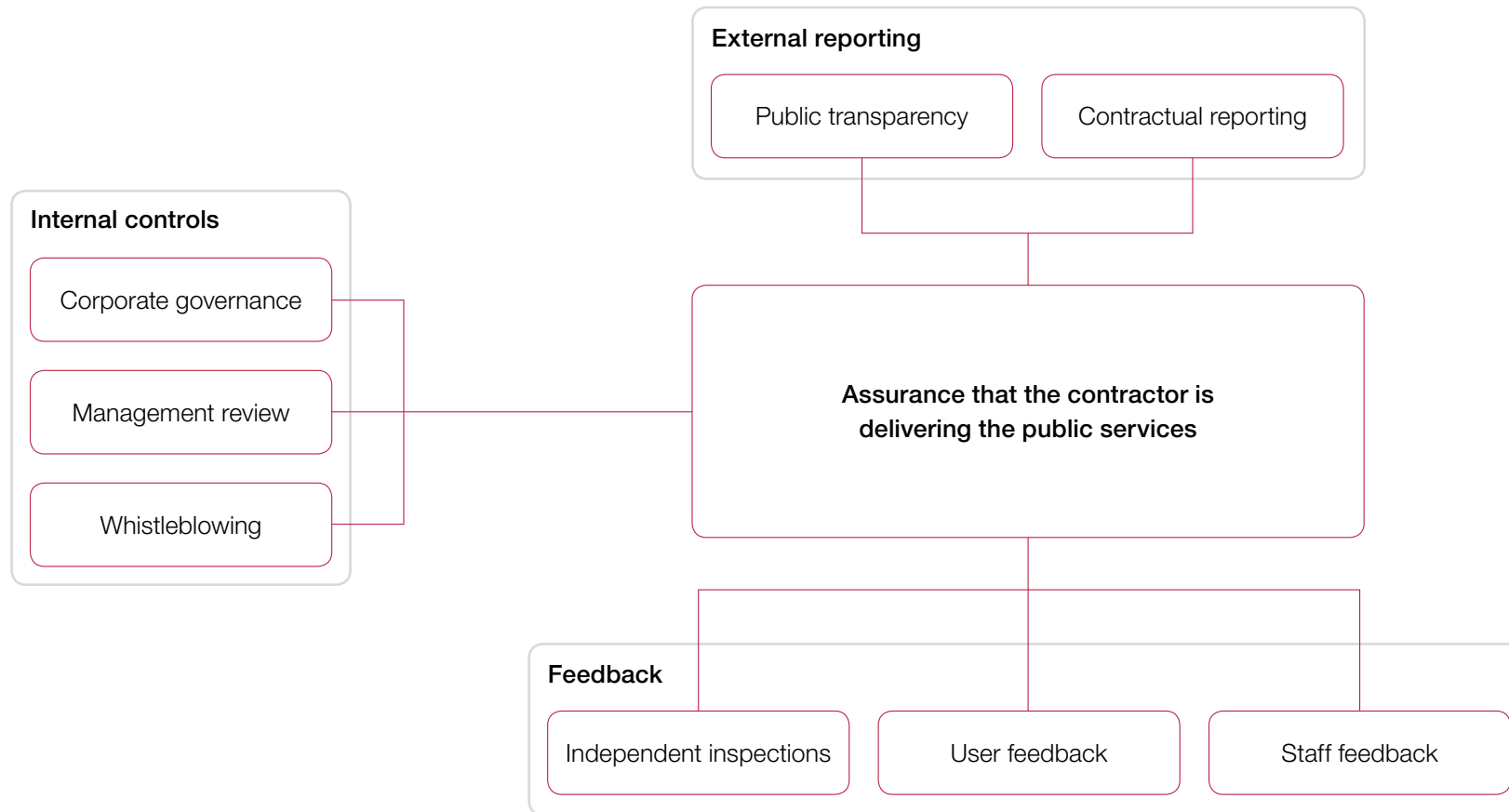
Robust performance and cost data

Contracts rely on robust performance and cost data to establish the right incentives. But getting these right is very challenging, as we have shown in our work on *Delivering the Defence Estate*, and other contracts with payment-by-results incentives.

Source: Adapted from accountability essentials set out in National Audit Office, *Accountability to Parliament for taxpayers' money*, February 2016

Accountability in commercial relationships *continued*

The best accountability systems for contracted-out services do not rely on the contract alone, but on a range of sources of assurance



Source: National Audit Office concept mapping

Suppliers of government services

Central government holds contracts with thousands of suppliers. These range from global companies to small and medium-sized enterprises and sole traders. Government also has commercial relationships with charities and other social sector bodies.

Strategic suppliers

Many of government's suppliers work across different departments and agencies, involving multiple relationships with government bodies. Since 2010 the Cabinet Office has identified a number of 'strategic suppliers' each year, based on the extent and profile of expenditure with them across government. Strategic suppliers are subject to central oversight and performance management. Each is assigned a Crown Representative, a senior professional normally with a business background, to manage government's relationship with them.

There are currently 29 strategic suppliers. According to data from the Cabinet Office's unpublished cross-government spending portal, government departments spent £11.4 billion with them in 2016-17. This is more than 25% of the commercial spending recorded in the portal for that year.

Small and medium-sized enterprises

When the NAO reported on government expenditure with SMEs in 2016, the Cabinet Office estimated that £12.1 billion of government's procurement spending reached SMEs in 2014-15. This represented 27% of commercial spending, surpassing government's target of 25%. The NAO estimated that 60% of this spending was reaching SMEs indirectly as sub-contractors to larger providers. Government has since committed to increase its spending with SMEs to 33% by 2020.

Strategic suppliers to government listed on gov.uk in September 2017:

- Accenture
- Amey
- Arqiva
- Atkins
- Atos
- Babcock
- BAE Systems
- BT Plc
- Capgemini
- Capita
- Carillion
- CGI
- DHL
- DX Group
- Engie
- Fujitsu
- G4S
- IBM
- Interserve
- ISS Facility Services Ltd
- Microsoft
- Mitie
- Motorola
- Oracle
- Serco
- Sodexo
- Sopra Steria
- Virgin Media
- Vodafone

Commercial theme 1: Managing contracted-out service delivery

More and more complex public services are being delivered by private providers through contracts. The traditional model of contracting demanded a clear specification, an orderly competition, a transparent and easy-to-use service level agreement tied to a payment mechanism that incentivises performance, and an assurance regime for the contract manager to ensure contractual compliance. The reality of complex service provision means this model needs reform.

Our work looks at how well departments manage contracted-out services, emphasising not only effective project management, contract management and governance, but also the wider ways in which departments can provide effective management and oversight of contracted-out services. Our work also emphasises the role of providers in public service delivery.



Managing contracted-out service delivery



Lessons from our work



Recent NAO work



Case studies

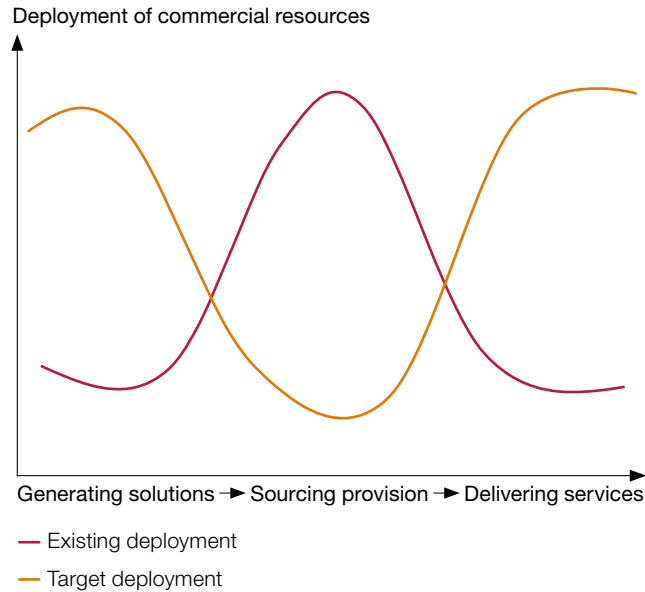
Managing contracted-out service delivery

In 2013 the Ministry of Justice announced that it had found significant overbilling in its electronic monitoring contracts dating back to 2005. In response, government undertook a series of reviews of major contracts across government, which found widespread problems with the management of contracts including poor governance, record-keeping and capacity issues.

These reviews served as a wake-up call to government. It realised that it had consistently underinvested in its commercial capability and the management of its contracts. While contractors' behaviour has sometimes been reprehensible, government should not have allowed contractors to behave in this way. One reason that it did is that government's commercial capability has been too focused on the bidding stage and should be redeployed on planning and contract management.

Since 2013, government has invested in understanding and improving commercial and contract management across government departments. This has included developing stronger leadership of the commercial profession across government, and giving more central support in terms of skills, expertise and guidance.

In 2016, the Cabinet Office launched new Commercial Operating Standards, which define how all government departments should operate commercially to ensure strong commercial behaviours and value for money. Aspects include improving competition, contract management processes and supplier management.



73 – contracts reviewed by government following the discovery of over-charging on electronic monitoring contracts in 2013-14. The reviews made **584** individual good practice assessments against the 73 contracts, with **nearly 60%** of these assessments reporting weak practice.



600 – contracts managed by central government which the Cabinet Office describes as 'strategic contracts' (2016-17).



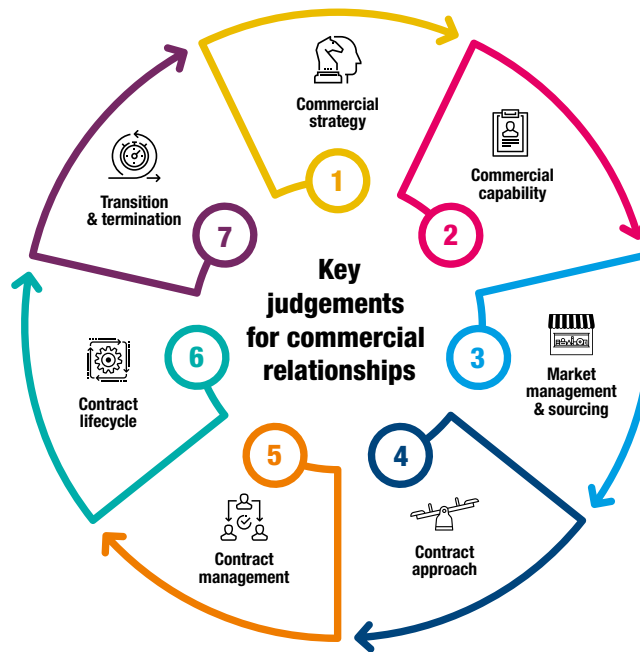
840 – UK (central) government contracts awarded through EU processes in 2016-17 (on TED, the online version of 'Supplement to the Official Journal' of the EU, dedicated to European public procurement).

Lessons from our work

The NAO believes government needs to develop a much higher standard if it is to deliver value for money from its contractual relationships consistently. This becomes more important as government buys increasingly complex things in increasingly complex ways, including new contractual models such as payment by results.

In 2016 the NAO published Commercial and contract management: emerging insights and best practice. This set out the seven areas of the commercial lifecycle where NAO work has typically identified problems in government's management of commercial relationships.

The figure opposite lists the 20 commercial insights set out in that report.



Commercial strategy

- 1 Make time to develop strategy
- 2 Properly develop strategy

Commercial capability

- 3 Tailor capability to risks and opportunities
- 4 Clarify commercial and operational balance
- 5 Maintain 'organisational capability'

Marketing management & sourcing

- 6 Be 'an attractive client'
- 7 Be 'an intelligent client'
- 8 Properly evaluate bids
- 9 Keep up competitive tension

Contract approach

- 10 Ensure shared understanding
- 11 Understand risks
- 12 Design performance measures that work

Contract management

- 13 Manage your own obligations
- 14 Know what suppliers are doing
- 15 Show what you care about
- 16 Understand suppliers' motivation

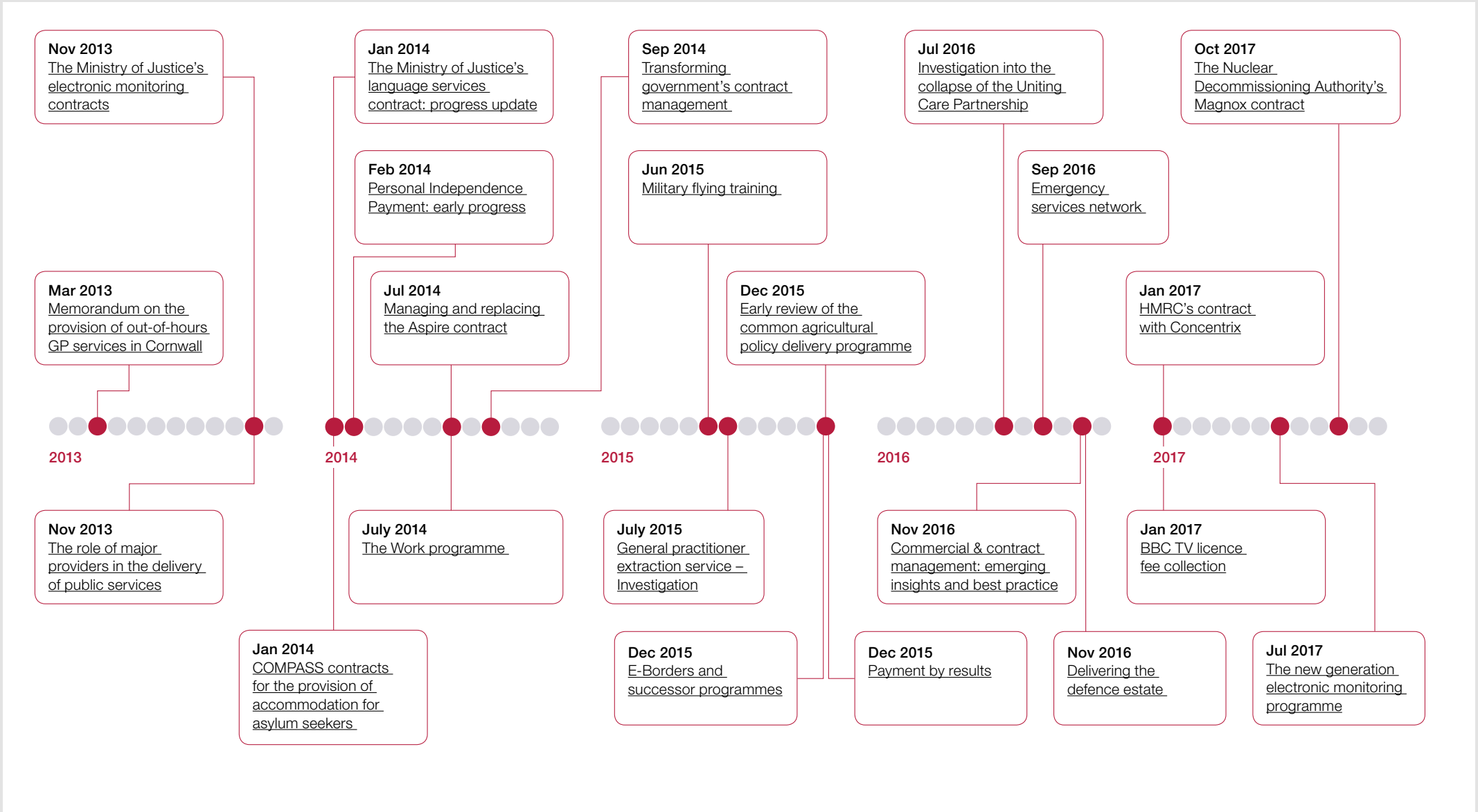
Contract lifecycle

- 17 Plan for uncertainties
- 18 Work towards business-as-usual requirements

Transition & termination

- 19 Think about contract end upfront
- 20 Allow time to consider potential end of contract

Recent NAO work on managing contracted-out service delivery (examples)



Managing contracted-out service delivery: case studies

Complex delivery models increase contract management challenges

[The new generation electronic monitoring programme \(2017\)](#)

The NAO report on new generation electronic monitoring found that the Ministry of Justice adopted a new high-risk and unfamiliar approach to the procurement, and failed to manage the implications of its chosen delivery model. It split the existing single contract into four separate constituent services with one of the four providers integrating aspects of the service together. The strategy led to problems including differing understandings of the role of the integrator and the risks they bore, compatibility issues around the different parts of the system being developed, and supplier concerns over sharing information. Furthermore, the planned timescale for the programme was unachievable and governance arrangements in the Ministry were weak.

Deployment of the new system is now expected five years later than originally anticipated.

Weak performance management regimes create problems holding providers to account

[Delivering the defence estate \(2016\)](#)

In 2014 the Ministry of Defence signed a 10-year contract with a Capita-led consortium of companies to manage the Defence Infrastructure Organisation (DIO). However, there were fundamental weaknesses in its approach. The Department intended to incentivise sustainable cost reduction through a payment-by-results model that included paying the Capita-led consortium a share of savings. However, the contract does not require Capita to ensure that these savings are in fact sustainable, nor to demonstrate this to the Department. The Department considers that around 30% of the £240 million savings DIO has calculated in 2015-16 are sustainable. However, a poor audit trail has been kept to substantiate and verify those savings.

Furthermore, the key performance indicator regime set in the contract to measure DIO's performance has weaknesses. Around half of the contract's key performance indicators were not in place at the start of the contract. Also, the Department assessed that reported performance against the indicators did not reflect military customers' perceptions of how DIO was performing.

Providers will not necessarily prioritise customer service

[HMRC's contract with Concentrix \(2017\)](#)

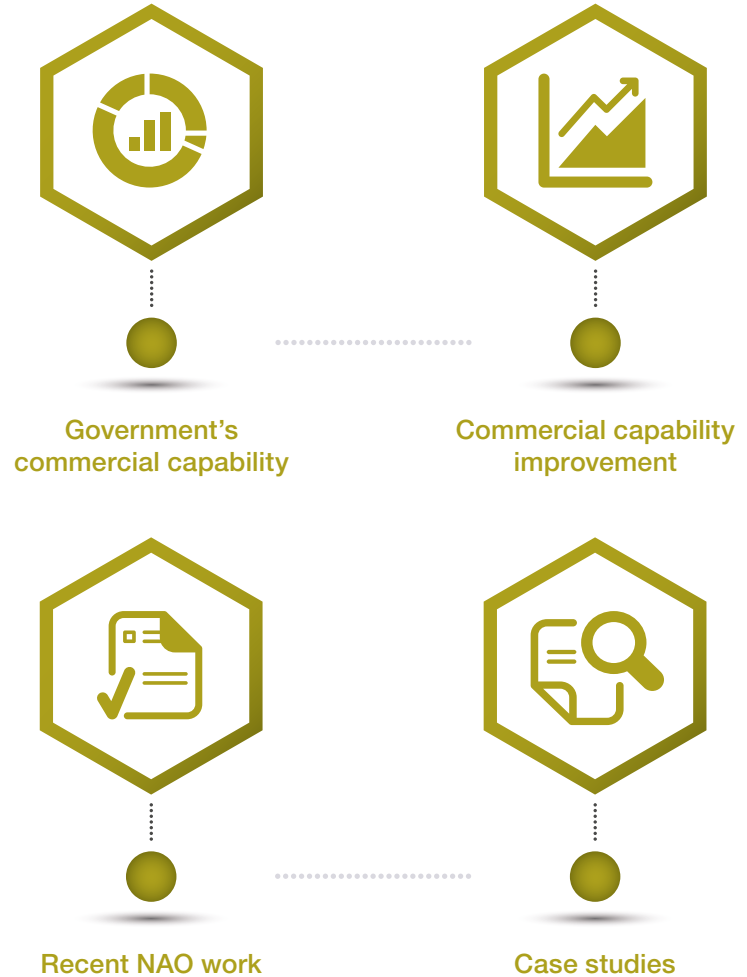
In 2017, the NAO investigated HM Revenue & Customs' (HMRC) contract with Concentrix, which aimed to provide additional capacity and analysis to review and correct personal tax credit payments using a payment-by-results model. The report highlighted how between November 2014 and September 2015 Concentrix consistently failed to achieve more than half of its performance targets. In October 2015, HMRC and Concentrix agreed to vary the contract but after some improvement, the performance of Concentrix fell again in August 2016. In November 2016 HMRC and Concentrix agreed to terminate the contract.

The contract was originally estimated to save £1 billion over its lifetime, but in the end HMRC estimated it delivered savings of £199 million at a cost of £32.5 million. HMRC concluded that the risks to customer service of a third-party arrangement outweighed the benefits, notwithstanding the 'net positive' savings against costs. HMRC said it had learned lessons from this case, including whether third parties can understand the subtleties of delivering a public service, and whether a contract with financial incentives for reducing error and fraud is the right mechanism to ensure good customer service.

Commercial theme 2: Government's commercial capability

Poor management of contracts is a long-standing issue. As far back as 2008, the NAO reported that no commercial director or head of procurement rated the resources allocated to managing major contracts as 'good'. We highlighted poor risk management, inadequate performance measurement and limited use of performance incentives. Government's 2013 *Cross-government Review of Major Contracts*, instigated after the Ministry of Justice's discovery of overbilling on electronic monitoring contracts, revealed continued weaknesses in the way major contracts were managed.

Government is now taking the issue seriously, and reforms since 2013 are going in the right direction. However, the problems are systemic, deep rooted and cultural, so will take sustained effort to address.



Government's commercial capability

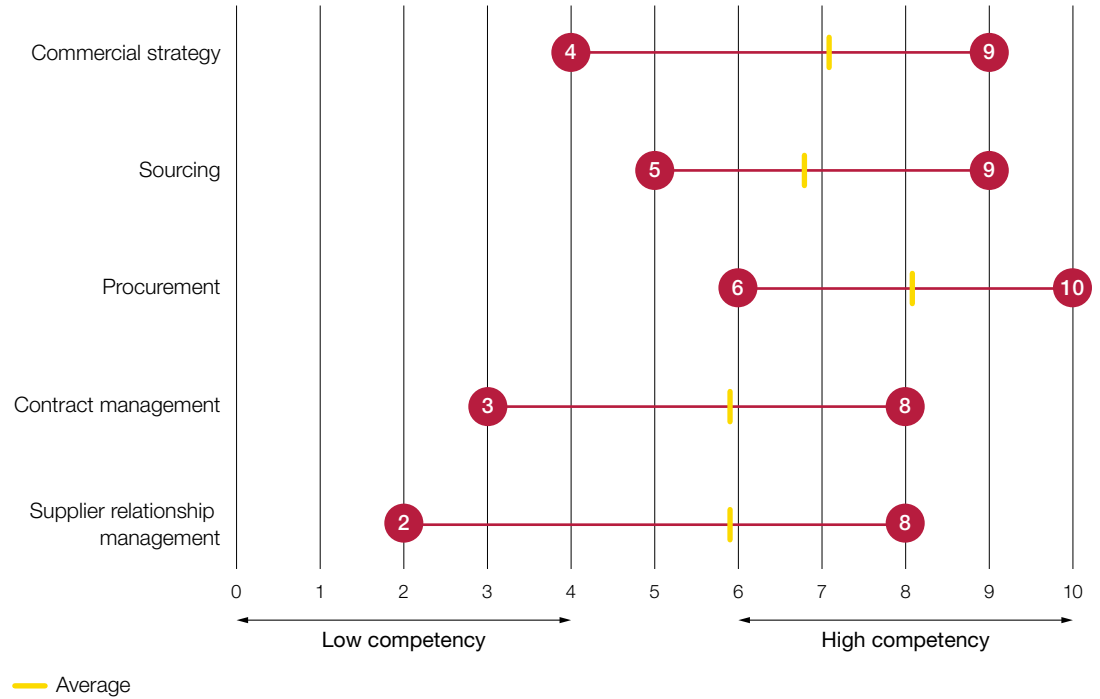
Following the discovery of overbilling on the Ministry of Justice's electronic monitoring contracts in 2013, the NAO reported in 2014 that government had **systematically underinvested in managing contracts** and the problems were deep rooted and cultural. In particular:

- the procurement profession had had a low status within the civil service, with contract management having a low status within the procurement profession;
- government was thought to be deploying less of its commercial resources on contract management than the private sector;
- the profession lacked the sway over colleagues to implement good practice; and
- government struggled to bring in or retain commercial experts to match the combined expertise of its suppliers.

Government tended to focus **attention on the procurement stage**, which is governed by regulations, at the expense of other stages in the life cycle. Even in 2017 the NAO's work on civil service capability showed commercial directors in government reporting relatively weaker competency in contract management and supplier management compared to other commercial skills (see diagram opposite). **Contract management capability in particular is relatively lowly rated**, but this is the stage where the service is operational and the actual value is expected to be delivered.

Since 2014 the Cabinet Office has been responsible for a programme of commercial capability improvement across government. This has involved a focus on both organisation change and the skills of commercial staff as set out in the following pages.

Commercial directors across government report that procurement skills in their departments are higher than other commercial skills including contract and supplier management



Note

1 Two departments did not respond to our commercial survey: HM Treasury and the Home Office.

Source: National Audit Office, *Capability in the civil service*, March 2017

Commercial capability improvement

Government is taking commercial capability improvement seriously. The Cabinet Office has established a commercial capability programme to improve practice across government departments. It is delivering this through organisational change and skills improvement.

Organisational change

In 2016-17 the Cabinet Office has overseen a programme of **Commercial Blueprints** across departments. These unpublished documents set out new workforce models, new organisation structures and transformation plans for departments to acquire the commercial skills they need. They are prepared by departments, peer reviewed and agreed by the Chief Commercial Officer and HM Treasury. The NAO report on civil service capability highlighted that government is expecting to increase staffing in senior commercial grades and reduce it in the more junior grades (see graph on page 20).

Developing commercial skills

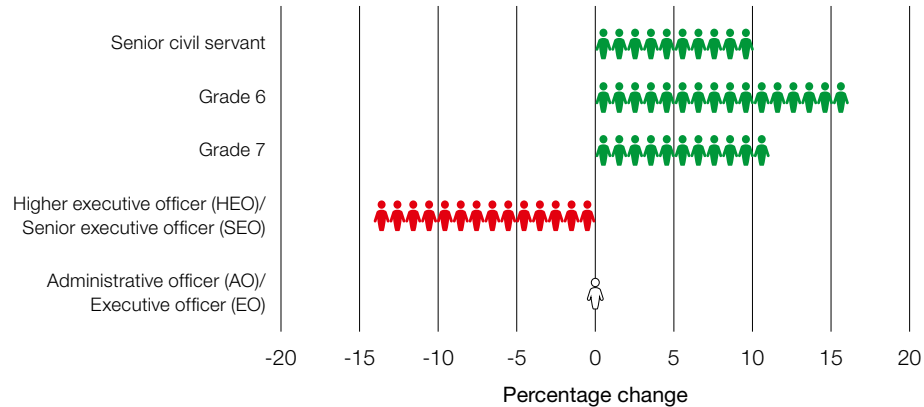
There are around 3,700 commercial staff across government. The Cabinet Office capability programme is looking to develop the skills of the commercial function through recruitment of outside experience and training of existing staff. The programme has:

- set out detailed **people standards** for commercial specialists, including required skills in areas such as business acumen, procurement and supplier management;
- established **the Government Commercial Organisation (GCO)**, which will centrally employ the most senior commercial specialists in government. Commercial staff need to pass through an assessment centre before qualifying for the GCO;
- developed a new pay and reward structure for staff in the GCO which is intended to be more competitive with the wider market for commercial staff; and
- launched a four-year civil service commercial fast-stream for recruiting graduates, and a two-year fast-track commercial apprenticeship scheme.

Commercial capability improvement *continued*

In 2016-17 government was forecasting an increase in senior commercial staff and a reduction in more junior grades in future years

Percentage change in grades in the commercial workforce, 2016 to 2021

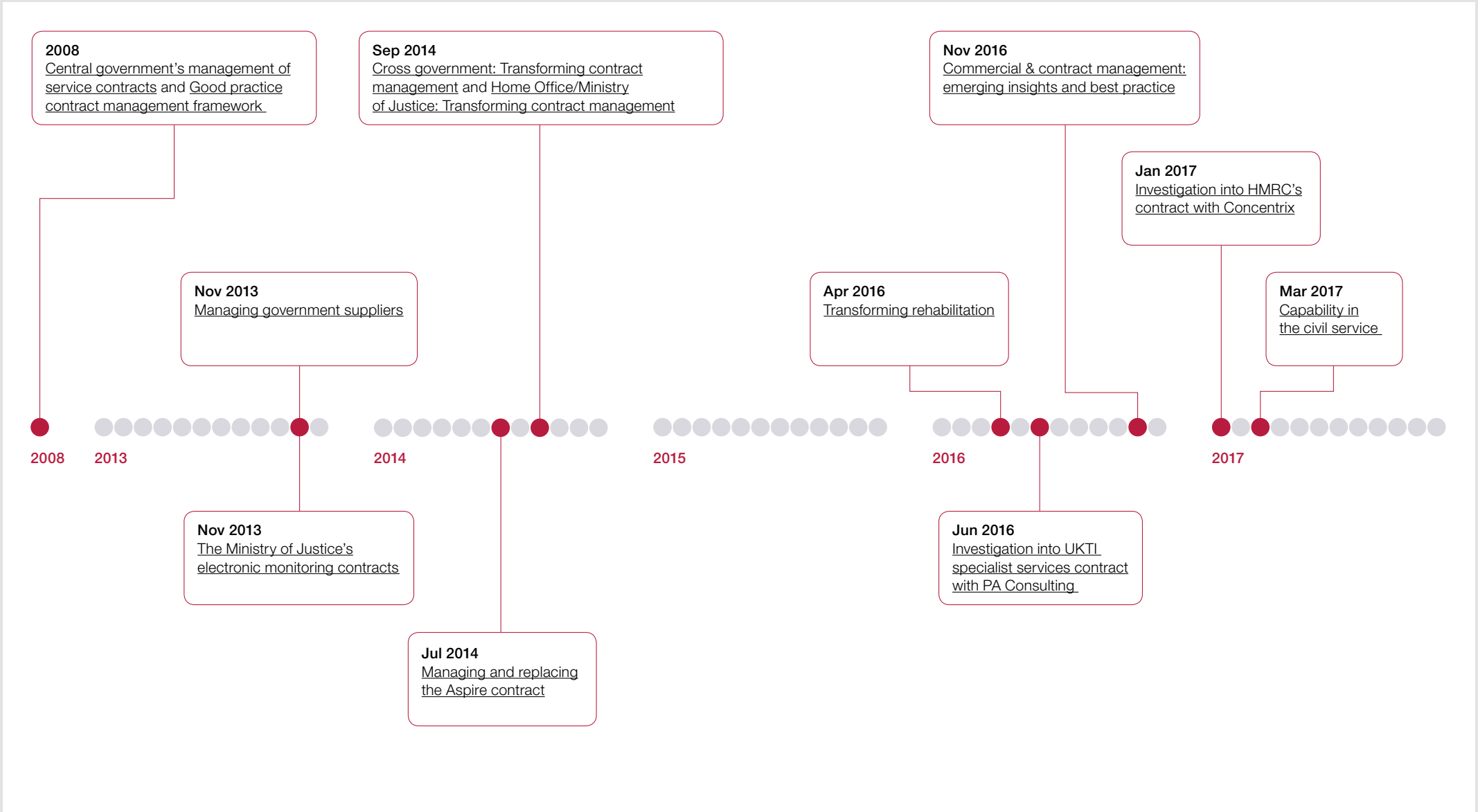


As at November 2017, 39% of people passing through the assessment centre had met the standards required to qualify for the Government Commercial Organisation



Source: Cabinet Office Governance Commercial Function

Recent NAO work: commercial capability



Government's commercial capability: case studies

Problems with commercial capability are deep-rooted and cultural

[Transforming government's contract management \(2014\)](#)

Government commissioned a number of contract management reviews following the discovery of overbilling on electronic monitoring contracts. These found widespread problems. The NAO report **Transforming government's contract management** built on these reviews and identified root causes of poor contract management including government's relative disadvantage in commercial skills compared with private providers, and the commercial profession having low status within the civil service. The report recommended this needed to be addressed by a targeted focus on commercial capability, and better integration of commercial staff with the other finance, legal and operational disciplines required to support contract management.

Some departments are reforming the way they organise contract management capability

[Transforming Rehabilitation \(2016\)](#)

The Ministry of Justice invested significantly in contract management capability for its **Transforming Rehabilitation** programme. The total value of the 21 community rehabilitation service contracts is around £3.7 billion over seven years, making reliable contract information and robust contract management particularly critical for the Ministry and the National Offender Management Service (NOMS). The NAO report found the Ministry had 151 full-time equivalent staff scrutinising suppliers at a cost representing 2.1% of the value of the contract. The Ministry deployed its multi-disciplinary contract management model across Transforming Rehabilitation, which is a good practice model. NOMS had also conducted a skills audit across the organisation, expecting the skills data would be used to develop a better-informed range of options for increasing expertise, and was improving the skills of its commercial staff through external training and certification.

Capability issues can still be seen causing problems in commercial relationships

[UKTI specialist services contract \(2016\)](#)

The NAO investigation into the UK Trade & Investment's (UKTI) specialist services contract found that its governance of the procurement process was weak, the procurement team had a poor understanding of the bid and requirement, and integration of commercial capability was poor, with no effective handover to the contract management team. UKTI lacked the skills it needed to manage the contract properly and consequently the procurement breached good practice and the principles of good procurement in several ways. The problems with this contract only emerged due to the tenacity of the UKTI contract managers brought in after the contract had started. UKTI ultimately decided to terminate the contract on the basis that it no longer considered the contract to represent value for money. A total of £18.8 million was paid in the first year of a contract due to last three years.

Commercial theme 3: Managing markets

We have previously expressed concern about government's over-reliance on a small number of providers in certain markets, with the effect that these providers are treated as if they were too important to fail. We see a growing recognition of government's market stewardship role in commissioning, not only across central government, but also in local government, health, police and social care.



Managing markets



The Crown Commercial Service



Recent NAO work



Case studies

Managing markets

Government spends around £250 billion a year through external providers, which gives it significant market power. Government's relationship with these markets varies however, depending on what it is buying. For example:

- markets where government is the only buyer, such as defence equipment, prison management services or benefits-related health assessments; and
- markets where government buys goods or services in such quantities that it creates opportunities to secure better deals through economies of scale.

However, NAO has previously reported concerns around over-reliance on small numbers of providers in certain markets, and the challenges in managing these markets so that they are properly competitive.

Key developments in government

The Government Commercial Function (GCF)

is trying to improve the way government manages these opportunities and challenges, by encouraging commercial teams to look at the bigger picture when planning procurements. Key developments include:

- the establishment within the Cabinet Office of **Crown Representatives** to centrally manage the government's relationships with strategic suppliers on behalf of all departments;
- departments investing in improved **commercial portfolio management** – so they can see the full extent of their contracting activity, and identify their strategic contracts and key commercial relationships;
- increased focus on **creating and managing markets**, including consideration of how to apply competitive pressure over the life of the contract, and how to encourage new entrants to a market;
- effort to ensure that competitions are accessible to **small and medium enterprises**;
- consideration of how to manage **the failure regime**, so that public services continue even if individual providers delivering them fail (see box opposite);
- central management of the procurement of common goods and services through the **Crown Commercial Service** (see overleaf); and
- publishing a **Supplier Code of Conduct**, setting out clear expectations for providers involved in the delivery of public services.

29

Number of strategic suppliers to government, where relationships are managed centrally by the Cabinet Office

27%

Proportion of the government's reported procurement spending that reached **small and medium-sized enterprises (SMEs)** in 2014-15

£7.9 billion

Total value of the **54** non-competitive defence contracts and sub-contracts let under the government's single source contract regulations in 2016-17, which are overseen by the Ministry of Defence and the Single Source Regulation Office.

Managing provider failure

Recent NAO work has highlighted that government needs to understand the risks of provider failure and how it can be managed effectively. The failure of a provider can be the necessary price of innovation or come from effective competition, keenly priced contracts and robust contract management. However, the failure of a provider can have serious consequences and departments must manage failure effectively, in order to ensure continuity of services, and to protect the interests of people who use them.

The Crown Commercial Service

The role of the Crown Commercial Service

The central buying of common goods and services aims to save government money by benefiting from bulk purchasing, central expertise in the things government buys most often, and making the buying process simpler. The Crown Commercial Service (CSS) is responsible for managing this for central government.

CCS is a trading fund of the Cabinet Office. It directly buys goods and services on behalf of a number of central government bodies, and manages procurement frameworks to allow central government and other public sector bodies to buy common goods and services more easily. It is funded by a levy on the contracts bought through its frameworks.

CCS replaced previous bodies which had not had the uptake by departments that they needed in order to be financially viable. The government gave CCS a stronger mandate and instructed departments to transfer procurement staff to the organisation so it could buy their common goods and services directly, rather than have departments buying through CCS frameworks themselves.

Early performance of the Crown Commercial Service

Uptake of the centralised buying services offered by CCS has been less than expected. By December 2016 only seven departments had transferred responsibility for buying common goods and services to CCS, amounting to £2.5 billion of spending compared with the £13.4 billion originally envisioned.

In 2017, in its report on the Crown Commercial Service, the NAO found that CCS had underestimated the difficulty of implementing joint buying across government, and failed in part because it did not have a sound overarching business case or a detailed implementation plan. It did not work effectively with the different departments and failed to provide a good enough service to departments. CCS is now revamping its systems and processes to improve its services to its customers.

Nonetheless, CCS has helped its customers to save money. The Committee of Public Accounts concluded that the strategic argument for joint buying remains strong. The Committee found that for central government to achieve value for money from its common goods and services it needs to finish the centralisation it began in 2014.

£12.4 billion

2016-17 spending from central government and the wider public sector channelled through **Crown Commercial Service** arrangements including framework contracts.

£2.5 billion

Spending on common goods and services such as utilities and supplies managed by the **Crown Commercial Service** on behalf of central government departments as at the end of 2016, against a target of £13.4 billion.

£725 million

Commercial benefits and savings for CCS customers on the procurement of common goods and services in 2016-17, up from £521 million in 2015-16.

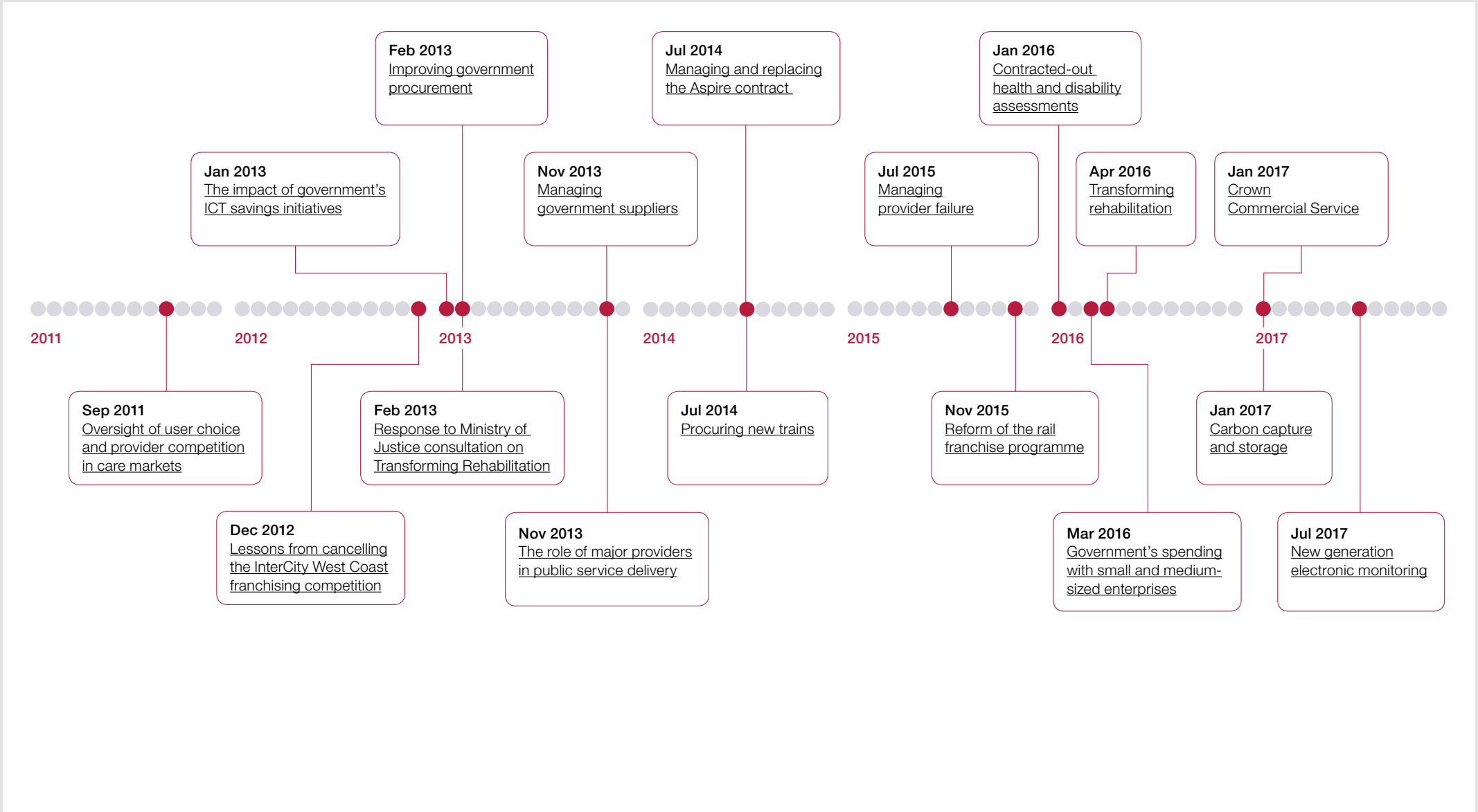
780

Staff working at Crown Commercial Service in 2016-17.

5,000

Suppliers to government working with the Crown Commercial Service.

Recent NAO work: Managing markets



Managing markets: case studies

Government has made attempts to broaden participation in less competitive markets

Reform of the rail franchising programme (2015)

The NAO's report on **rail franchise reform** highlights the risk to value for money which could result where there is an insufficient market to generate intense competition for franchises, and notes some of the actions the Department for Transport is taking to try to encourage new market entrants. These include simplifying pre-qualification processes, producing phased competition schedules, and reviewing the number and size of franchises. The NAO recommended that the Department develop alternatives to its current commercial approach, such as including more competitive negotiation and dialogue, to help drive a better deal in the absence of intense competition.

Working with small and medium-sized entities can present particular challenges

Government's spending with SMEs (2016)

Government asserts that **small and medium-sized companies** can potentially offer more flexibility, innovative approaches and better value for money than larger providers, as well as investing in the local economy and achieving improved social outcomes. Our report on government expenditure with SMEs examined the progress government has made removing barriers to SMEs' participation in public service markets, and the risks that remain. For example, it found that despite departments' efforts on prompt payment commitments, SMEs may charge a premium to manage their own financial risk, because they anticipate late payments – this cost is incurred by the prime contractor but reflected in the price it charges to government. It also recommended that government target those sectors and markets where SMEs can have the most impact.

Attempts to engage SMEs in service markets have not always been successful

Transforming Rehabilitation (2016), The new generation electronic monitoring programme (2017)

For **Transforming Rehabilitation**, the Ministry of Justice intended to bring new suppliers into the market, and put extensive effort into attracting a diverse range of potential bidders. While more than 700 private, public and third-sector organisations registered an interest, only one of its contracts was won by a supplier from outside the private sector. Voluntary sector bidders were put off by the scale, fixed timetable and associated risks, and a lack of detail about the Ministry's requirements for financial guarantees from bidders.

The NAO's report on **new generation electronic monitoring** showed how despite the Ministry of Justice's adoption of a commercial approach intended to support SME engagement, the inherent complexity of the programme was proportionately more challenging for the SMEs involved. High process burdens, financial risk and complex requirements were cited by providers as barriers to getting involved.

Appendices



Appendix One –
Commercial staff
across government:
staff profile



Appendix Two –
Commercial staff
across government:
staff engagement

Appendix One – Commercial staff across government: staff profile



3,700
The Government Commercial Function's estimate of **commercial professionals** working across both central departments and their executive agencies in 2015-16.



50%
Proportion of female commercial staff in government.

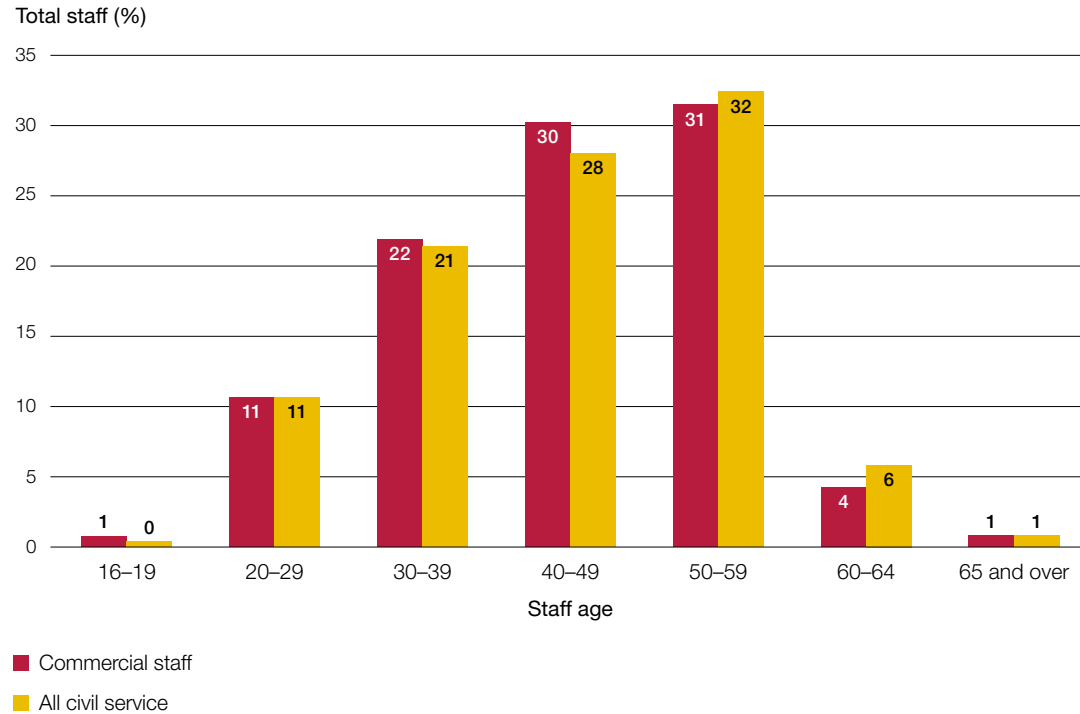


67%
Proportion of commercial staff in government reporting themselves of white ethnicity; 6% reported as other ethnicity, with 27% unknown.



10%
Proportion of commercial staff in government reporting a disability.

The age profile of commercial staff in government is broadly consistent with that of the wider civil service; 36% of commercial staff are 50 years old and over.



Source: Estimate of commercial professionals from the Government Commercial Function. All other data from National Audit Office analysis of Annual Civil Service Employment Survey, Office for National Statistics

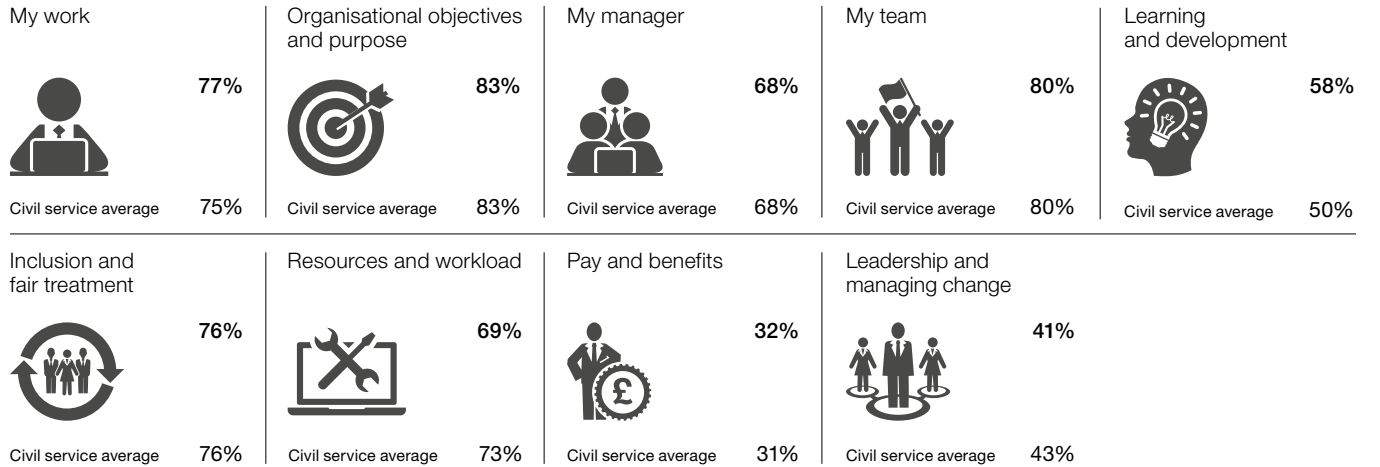
Appendix Two – Commercial staff across government: staff engagement

The government has conducted its [Civil Service People Survey](#) annually for the past eight years. The most recent survey was carried out in November 2016.

The commercial function, comprising 3,700 respondents, scored the same overall engagement index as the wider civil service (59%). The Crown Commercial Service was marginally below on 58%.

The commercial function scored significantly higher than the overall civil service figures on Learning and development (8 percentage points higher). The function scored lower than the overall civil service figures on Resources and workload (4 percentage points lower).

Commercial staff attitudes are broadly in line with the wider civil service



Overall Engagement Index¹

-- Civil service benchmark 2016 (59%) - - - Civil service benchmark 2015 (58%)



Note

1 The Engagement Index is shaped by experience at work, as measured by the nine themes above.

Sources: Civil Service People Survey 2016 and 2015