

## **PROCUREMENT CAPABILITY: IN SEARCH OF SOLUTIONS**

Jason Waterman\*

**ABSTRACT.** The Procurement Capability Review (PCR) programme is carried out in UK central Government by the Office of Government Commerce (OGC), an office of HM Treasury. PCRs aim to ensure that procurement drives public service improvements. They involve intensive engagement over a short period by a small team of high calibre commercial experts from the public and private sectors. The reviews have identified some key issues that occur across UK government. The top five issues are a shortfall in highly capable commercial people; contract management skills and resources; the paucity of Management Information; consistent measurement of performance; and difficulty influencing spend outside the core department. This paper discusses these issues and the steps being taken to develop solutions to them.

### **INTRODUCTION**

The Office of Government Commerce (OGC) is an office of HM Treasury, responsible for improving value for money by driving up standards and capability in procurement. It takes a broad view of procurement, covering a range of activities from commodities buying to the improved delivery of major capital projects.

In January 2007, HM Treasury published its vision for procurement in Government, *Transforming Government Procurement*. This highlighted the central importance of procurement in delivering high-quality public services and best value for money. OGC was tasked with delivering this strategy through close working with central government departments to increase the value for money which the government obtains from its policy delivery programme, and from the £160 billion

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\* *Jason Waterman is Programme Development Manager, Procurement Capability Reviews, Office of Government Commerce, UK HM Treasury.*

the public sector spends on procurement. To drive this transformation, the Treasury has empowered the OGC to:

- Raise standards through procurement capability reviews of departments;
- Reform the Government Procurement Service (GPS);<sup>1</sup>
- Apply collaborative procurement across government using the latest techniques;
- Set an appropriate policy and legal framework for procurement;
- Improve the value for money of major government projects; and
- Improve value for money from better management of the government's estate.

The Procurement Capability Review (PCR) programme is a central element of the government's aim to ensure that procurement drives public service improvements. PCRs assess how far procurement in central government meets the demanding standards required to deliver value for money now and in the future. PCRs also aim to raise the profile, and strengthen the impact, of procurement functions in departments, enabling them to drive up capability.

PCRs involve the deployment of a small team of high calibre procurement and commercial experts, engaging intensively with departments over a short period. The review team identify the highest priority areas for improvement (key lines of enquiry) and provide feedback direct to the Permanent Secretary (the head of the department). Each department is expected to develop and implement an improvement plan in response to its PCR, with support and agreement of the OGC as appropriate. The OGC will work closely with departments as they drive forward their improvement plans, and will monitor progress through regular milestone assessments and further reviews.

The reviews are carried out in "tranches" of three or four departments at a time. Each tranche of reviews together with the departments' improvement plans and an over arching summary report are published by OGC. The first tranche<sup>2</sup> was published on 6<sup>th</sup> December 2007 and the second tranche<sup>3</sup> was published on 24<sup>th</sup> June 2008. The OGC aims to review all ministerial departments in UK central government by

the end of December 2008. The remaining tranche reports will be published as follows: tranche 3 reports in November 2008, tranche 4 in February 2009 and tranche 5 in April 2009.

At the same time as undertaking PCRs, the team will also be rolling forward a programme of milestone assessments, following agreement of the initial improvement plan, at:

- 6 and 18 months - self assessments, and
- 12 months – stocktakes.

At 24 months departments will undergo re-review around two years after they were first visited.

## **REVIEW METHODOLOGY AND PROCESS**

### **The Assessment Model**

The reviews are guided and underpinned by a standards framework that is relevant across central government, and yet flexible enough to account for the different challenges faced by departments. This framework is embodied in a PCR Assessment Model, which comprises nine top-level indicators of world-class procurement capability, and a detailed standards framework document. The Standards Framework is the assessment reference document that sets out a non-exhaustive framework of standards used by the PCR programme to underpin the top-level review model. Besides the key standards, the framework document identifies a number of Key Performance Indicators (KPIs). These are 'hard', quantitative measures that can be used to make direct comparisons between organisations, and to monitor their progress over time.

The Review Model is based on three major Capability areas, with nine Key Indicators sitting beneath these areas as shown in Table 1.

**TABLE 1**  
**Review Model**

<i>3 Capability Areas</i>	<i>9 Key Indicators</i>
World Class Leadership:	(1) Visibility and Impact (2) Strategy and Business Alignment (3) Stakeholder and Supplier Confidence
World Class Skills Development and Deployment:	(4) Resourcing (5) Intelligent Client Capability
World Class Systems:	(6) Governance and Organisation (7) Sourcing and Collaboration (8) Process and Tools (9) Information and Performance Management

The PCR Model also contains a scoring mechanism. This provides for a colour based “score” to be given against each of the nine indicators of procurement capability. The scoring system is shown in Table 2.

### **The Review Process**

PCRs begin with agreement on the timing and Terms of Reference of the review with a department’s Permanent Secretary. This is followed by a period of extensive research and preparation in the OGC, gathering information already available and assembling the review team and interview schedule. The department also provides such information as it is able; ideally this includes its spend map, key performance data and organisation charts. An introductory workshop is held at the department in order to introduce the review team to key stakeholders and to give the team an overview of the department, its spend and deliverables. The OGC is also developing an improved set of Key Performance Indicators (KPIs) for use both in identifying key lines of enquiry before the review starts, and as ongoing measures of performance throughout the PCR process.

**TABLE 2**  
**Scoring System**

<b>Descriptor</b>	<b>Criteria</b>	<b>Colour Score</b>
Strong	Strong capability in all areas important to the organisation and demonstrates highest levels of performance achievement.	Green 
Well Placed	Well placed to address any gaps in capability or performance through existing actions or plans.	Amber/Green 
Development Area	Generally fit for purpose with some remedial action required to address one or a number of important but not “critical” capability or performance issues. (Note: “critical” means an issue that is expected to significantly impact on optimum procurement delivery and/or the achievement of VFM in the short to medium term).	Amber 
Urgent Development Area	Remedial action required to address one or a number of “critical” capability or performance weaknesses.	Amber/Red 
Serious Concerns	Immediate intervention required to address major gaps in capability or performance. (Note: only used infrequently for the most serious concerns).	Red 

The most intensive part of the review process is the interview phase. During this the review team meets with some 70-100 stakeholders over an intensive three-to four-week period, talking to staff at all levels and from a range of disciplines, to key suppliers, representatives from Non-Departmental Public Bodies (NDPBs) and agencies, and other partners. In addition, telephone surveys gather the views of a broader range of suppliers and end users. The review team work closely with the senior

commercial stakeholders during this stage and welcome an observer at the interviews.

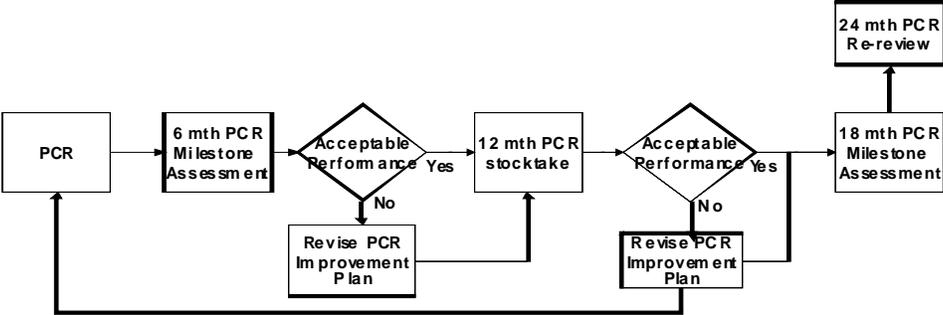
The draft report is then prepared by the review team, with the content sometimes discussed and tested more widely in OGC, and with HM Treasury. The OGC has developed tools to support the process, in particular it has a *'reviewers workbook'* designed to aid thinking, quality assure the scope and coverage of the interviews, and provide direction on the more challenging aspects of scoring against the key indicators in the PCR model. The draft review report, including the provisional assessment scores against each of the nine indicators of procurement capability set out in the PCR Assessment Model, is discussed with the departmental Head of Procurement (or sponsor of the PCR), and shortly thereafter with the relevant Permanent Secretary. There may be further changes to the report before the final version is formally sent to the Permanent Secretary.

The report findings and the scores are discussed with the department before the final report is sent to the Permanent Secretary. For each tranche of reviews OGC chairs a Moderation Panel which includes independent experts. The panel hears evidence from each of the review teams, and from the departments before deciding either to uphold the original scores, or to agree changes. The review report is owned by OGC, who ultimately retain editorial control.

The department is then required to produce a response to the review, in the form of an improvement plan. These plans are owned by departments, but are subject to agreement with OGC, and are a key output of the programme central to realising benefits in the longer term. A robust follow up process ensures that momentum is maintained within the department. The process (outlined above) allows for milestone assessments against the improvement plans at 6 and 18 months, with a more detailed stocktake assessment at 12 months.

The follow up process is illustrated in Diagram 1. Perhaps even more powerful is the opportunity afforded to the OGC from the review findings to learn from what it has observed, and to take advantage of this learning to effect deep seated and lasting improvements in procurement capability for the future. The work of analysing the common themes arising from the reports, and considering the potential strategic approaches to the most pressing or systemic issues is therefore very

**DIAGRAM 1**  
**Post Review Interventions**



important in taking forward the findings of the reviews for the benefit of the whole government procurement community. OGC’s PCR team has the responsibility for identifying the potential systemic, or ‘*cross-government*’ issues and for developing strategies for resolving them. It is in this way that we can truly be said to be in search of solutions to the broader and longer term issues of procurement capability.

The PCR team examines PCR report findings in some detail to identify the common themes occurring across the reviews and the relative strength of those themes, i.e. the degree to which they occur and to what extent they affect the capability and outcomes of the department’s commercial operations.

It is worth exploring this aspect of the PCRs work in a little more detail, not only because the capability issues arising in the UK are interesting in themselves, but also because there is a strong likelihood that similar themes might be identified in public procurement elsewhere

in the world. The degree to which the themes observed so far in the UK resonate with professionals and academics internationally could provide interesting and informative data.

From the end of tranche 2 in June 2008, the OGC has been in a better position to identify themes and potential issues, although the PCR programme is still only about halfway complete. Therefore, whilst the overall picture is still uncertain there are some clear themes and key issues emerging. However, there is a mixed position on some of the themes, and complexities around how these manifest themselves for departments.

The OGC's work thus far has identified a developing picture in terms of where the clear improvement opportunities exist, where the evidence is more variable, and what is going well. This is summarised in Table 3.

**TABLE 3**  
**Review Findings**

<b>Key Issues – Improvement Areas</b>	<b>Other Themes – Mixed Picture</b>	<b>Key Strengths – Positive Themes</b>
Shortfall in highly capable commercial people	Commercial Strategy & business alignment needs to be developed	Good people in procurement, more professionalism
Shortfall in contract management skills and resources	Supplier Relationship Management is inconsistent	Strong Leadership, from Heads of Procurement
Lack of Management Information	Need for greater knowledge management & sharing	Increasing commercial focus & experience at Board level
Performance not measured consistently	Category management could be developed further	Good processes and procedures, collaboration well understood
Difficulty influencing spend outside the core department		Departments are making impressive savings through procurement

**Improvement Opportunity – Emerging Potential Issues**

The key issues and improvement areas identified in the tranche 2 report, published on 24 June 2008, will form the natural focus for strategic action planning. These issues are discussed briefly below:

***Issue: A Shortfall in Highly Capable Commercial People***

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

The OGC believes that this issue is not confined to government and that it is prevalent across the procurement profession in the public and private sectors. The attraction and retention of highly skilled commercial professionals is a problem faced by most organisations. It would be interesting to ascertain the extent to which this issue exists for organisations across the international procurement community.

***Issue: A Shortfall in Contract Management Skills and Resources***

Whilst there are some examples of good contract management to be found, there is clearly a strong underlying theme with a shortage of contract management skills and resource being noticeable in most of the six departments reviewed so far. Further investigation is required to understand the underlying reasons for this, and at the same time it is planned to build on the training and development opportunities available for contract management.

***Issue: Management Information Is Generally Poor in Terms of Scope, Clarity And Availability***

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

help, for example a central data collection process known as the Public Sector Procurement Expenditure Survey.

***Issue: Performance Is Not Measured Consistently***

Evidence from tranche 1 suggested that departments seem to be encountering some challenges in performance measurement for procurement. The next three reviews found further evidence of concerns in this area. To some extent this issue is linked to the availability of good quality management and performance data, which is clearly a prerequisite for effective measurement. But there is also potential for both the centre and the commercial community to explore ways of addressing this issue, for example by sharing existing work on performance measurement, including metrics and the means of measuring against them.

***Issue: There Is Difficulty in Influencing Spend Outside the Core Department***

This issue depends very much on the make up and structure of individual departments. The heart of the matter is the extent to which the commercial function in the ‘core’ or ‘centre’ of a department is either able or expected to extend its influence across a wider family of agencies, NDPBs and other arms’ length bodies. In many cases there are long-standing statutory governance arrangements that rightly preserve the independence of individual organisations, and it is probably not realistic or appropriate to expect departments to change these.

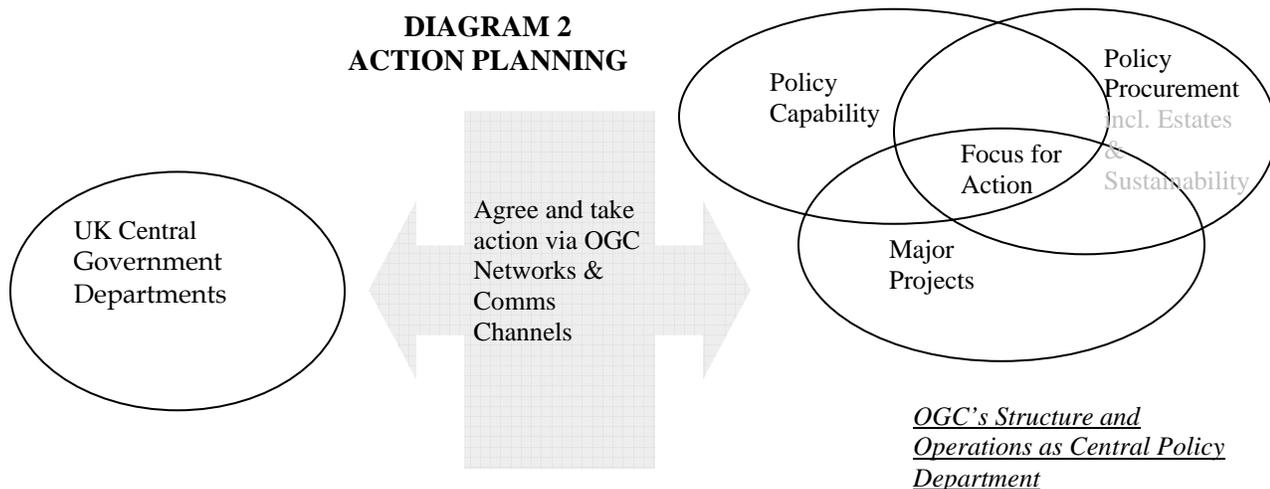
However, some departments have demonstrated that it is possible to influence the wider network effectively especially through strong leadership from the Head of Procurement. To a large extent this is an issue for a department to resolve in each case, as it goes to the heart of the way in which the commercial function supports the top level strategy and direction set by the department’s management board. Nevertheless, the issue remains an important consideration for Heads of Procurement when looking at their commercial strategy, and also for Permanent Secretaries when the governance arrangements for new NDPBs and agencies are being decided.

**Action Planning and Next Steps**

Having identified through this process the key ‘cross government’ issues for UK central government departments, the OGC is developing

an approach to action planning using a matrix of issues and work in progress which will identify the strategic action plans needed to resolve the most pressing issues. Practitioners will be engaged across departments with the aim of delivering real change. The OGC will also use its communications network with departments to help coordinate action plans, and to share good practice across the commercial community. Action plans will identify and agree who is best placed to implement change; in some cases it will be for the centre (i.e. OGC) to lead, in others a departmental sponsor or nominee might be appointed.

The structure of the proposed approach is broadly illustrated in Diagram 2.



This approach will be developed into more detailed action plans over the summer of 2008. The OGC will provide a focal point for planning and taking action, with both the OGC and government departments being required to make decisions and to implement real change. The OGC expects to be able to report progress on these plans at the end of the year.

The PCR team also researches best practice looking in particular at procurement capability, how to measure it, and how to improve it. It is always interested to hear from professionals, academic or practitioner, across the world who may have ideas or observations on these issues, or indeed on the PCR process or the change programme.

### NOTES

1. The Government Procurement Service (GPS) is the professional group representing government procurement. Procurement professionals working in government join the GPS in order to receive and share information through websites, conferences, special interest groups etc. The GPS has been reformed to develop proactive support and a range of career options for procurement professionals and those working towards gaining professional status.
2. Tranche One comprised reviews of the Department for Education & Skills (since reorganised and now the Department for Children Schools & Families), the Department for Work and Pensions and the Department for Communities and Local Government.
3. Tranche Two comprised reviews of the Department for Transport and Department for the Environment and Rural Affairs, and the Department for International Development.

### REFERENCES

UK HM Treasury (2007, January). *Transforming Government Procurement*. London, UK: Author.