



House of Commons
Committee of Public Accounts

Improving departments' capability to procure cost-effectively

**Forty-first Report of
Session 2003–04**

*Report, together with formal minutes,
oral and written evidence*

*Ordered by The House of Commons
to be printed 21 July 2004*

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The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No 148).

Current membership

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Mr Richard Allan MP (*Liberal Democrat, Sheffield Hallam*)
Mr Richard Bacon MP (*Conservative, South Norfolk*)
Mrs Angela Browning MP (*Conservative, Tiverton and Honiton*)
Jon Cruddas MP (*Labour, Dagenham*)
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Mr Gerry Steinberg MP (*Labour, City of Durham*)
Jon Trickett MP (*Labour, Hemsworth*)
Rt Hon Alan Williams MP (*Labour, Swansea West*)

The following was also a member of the Committee during the period of this inquiry.

Mr George Osborne MP (*Conservative, Tatton*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Nick Wright (Clerk), Christine Randall (Committee Assistant), Leslie Young (Committee Assistant), and Ronnie Jefferson (Secretary).

Contacts

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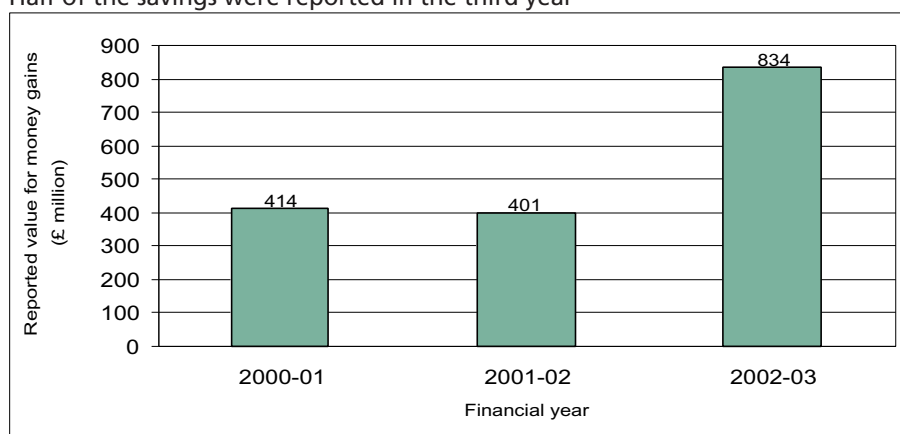
Summary

Introduction

Central civil government spends some £15 billion¹ annually on goods and services, ranging from equipment, information technology, research, and consultancy advice to postal services, travel and stationery. Much of this procurement by departments, their agencies and non departmental public bodies is essential to the delivery of high quality public services. In April 2000, the Office of Government Commerce (OGC) was established to work with departments to improve their procurement capability. A key measure of the OGC's success is the achievement of its value for money improvement targets. Against a target of £1 billion, departments had reported value for money gains of £1.6 billion over 3 years by 31 March 2003 (**Figure 1**). For the succeeding three-year period to 31 March 2006 the OGC has a more ambitious target to secure a further £3 billion gains.

Figure 1: £1.6 billion value for money gains were achieved by departments in the three years to March 2003

Half of the savings were reported in the third year



Source: C&AG's Report, Figure 10

The OGC has no authority to direct departments. Rather it works closely with them by issuing guidance, advice and good practice, and developing the government market place so that it is attractive for suppliers. It also delivers services directly to departments, principally through its executive agency, OGCbuying.solutions, which negotiates arrangements for the purchase of goods and services such as utilities and IT hardware and software.

Against the backdrop of the need to achieve a further £3 billion savings by 2006, together with a drive towards improved efficiency across the public sector, there is a greater need than ever for departments to measure their existing procurement practices against OGC good practice guidance to see where improvements can be made. There will for example be the scope for significantly reduced transaction costs, greater use of e-commerce solutions, increased collaboration between departments and the wider public sector, and greater use

1 Central civil government excludes the National Health Service and defence military procurement.

of framework agreements.

On the basis of a Report from the Comptroller and Auditor General,² we took evidence from the Office of Government Commerce, two other departments—The Department for Work and Pensions and the Office of the Deputy Prime Minister, and one agency—The Vehicle and Operator Services Agency, to examine progress in improving procurement. In particular, we examined the impact of the OGC on departments, their agencies and non departmental public bodies; how departments are securing greater value for money from new purchasing arrangements; analysis of the costs of procurement; and what is being done to raise the professional capability of procurement staff in departments.

² C&AG's Report, *Improving Procurement: Progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively* (HC 361-I and 361-II, Session 2003–04)

Conclusions and recommendations

- 1. Departments should appoint a Commercial Director with an appropriate professional qualification, who has responsibility and oversight for all commercial dealings with the private sector.** He or she should be a member of, or report to, the department's management board, as is the case in five departments including the Department for Work and Pensions. For smaller organisations this function should be assigned to a designated board member, as part of their responsibilities.
- 2. Departments need to make clear to their executive agencies and non departmental public bodies the importance of adopting good procurement practice.** Agencies and non departmental public bodies are less likely to apply OGC guidance and good practice, risking poorer value and missed opportunities for savings. Where such risks materialise, departments might wish to make compliance with good practice a condition of funding.
- 3. Departments should check whether the information systems underlying the savings data they submit to the OGC are sufficiently robust and well documented.** The savings submitted should be verified by internal auditors, as is the case in, for example the Department for Work and Pensions and the Department for Transport, so that reasonable assurance is gained about their reliability.
- 4. The OGC should demand early action from departments in response to poor Gateway reviews, in particular where successive reviews suggest projects are going wrong and taxpayers' money is at risk.** While accountability for major procurement projects rests with individual Accounting Officers, the OGC should consider engaging the Treasury's authority to control expenditure as a lever against departments who choose to proceed in the face of successive 'red' or 'amber' warnings.
- 5. Lessons learned from savings achieved so far should be promulgated to other parts of the public sector.** If as proposed, the remit of the OGC is extended to cover procurement across the public sector as a whole, the OGC should make sure that the lessons learned from its work in central civil government are extended to a wider range of bodies, particularly the National Health Service.
- 6. Departments should be able to demonstrate how deviations from OGC-sponsored approaches have secured better value for money.** There should be a presumption in favour of using OGC-established procurement routes, particularly for routine and low value items. Where departments make other arrangements they should be able to demonstrate clearly the reasons for doing so, and how better value has been secured.
- 7. Greater use should be made of the Government Procurement Card.** The card offers simplified purchasing, reduced transaction costs, speedier delivery and reduced stockholding, while a sound audit trail provides information about what was bought, from whom and how much was spent. At present, only 6% of departmental

spending is via this route and for non departmental public bodies the figure is only 3%.

8. **Departments can secure further value for money gains by use of mini-competitions within the S-Cat and GCat arrangements.** In using catalogues such as S-Cat and GCat, departments should be aware that they may secure keener prices by running mini- competitions, rather than simply accepting the price set by individual suppliers.
9. **Departments should make their procurement processes and policies accessible to small and medium-sized enterprises.** These suppliers may be able to offer better value for money through increased competition, local supply lines, and greater flexibility and innovation. In particular, when framework agreements within S-Cat and GCat are due for renewal, departments should publicise this effectively, using their links with bodies such as the Department for Trade and Industry's Small Business Service to make sure that as wide a range as possible of suppliers have the opportunity to compete.
10. **If departments are to realise the many potential benefits in developing electronic procurement systems, they need to make a careful appraisal of the costs, benefits and practicalities of developing them.** In particular, they should be aware of similar initiatives in other departments, so that wasteful duplication is avoided, and good practice lessons are learned. The Department for Work and Pensions and the Office of the Deputy Prime Minister, for example, are developing separate e-procurement systems to reduce the processing costs of procurement. The gains so far achieved by the Office of the Deputy Prime Minister have, however, yet to meet the expectations of its business plan.
11. **Departments need to develop reliable and up-to-date information to secure better control over their procurement spending.** Departments should know how much is spent, with whom, and on what goods and services, as well as the transaction costs of procurement. Departments should get to grips with maverick spending in particular — where staff use unauthorised buying arrangements or suppliers who are not approved — as they risk losing value that could otherwise be achieved through established procurement arrangements.
12. **Departments should have the means to satisfy themselves about the financial and operational reliability and resilience of key suppliers, and their associated supply chains.** Currently, just 17% of departments, agencies and non departmental public bodies analyse the strength of their suppliers' and their associated supply chains, and only 26% hold information on the proportion of individual suppliers' turnover that their procurement spending represents.
13. **Departments need to increase the numbers of professionally qualified procurement staff.** Just 23% of all designated procurement staff have a Chartered Institute of Purchasing and Supply or other procurement qualification, and the rate of progress to develop a fully professional procurement service has been slow.

1 The impact of the Office of Government Commerce

1. Public procurement practice is more developed in the United Kingdom than other European countries as a result of the OGC's activities, the existence of specific procurement units and teams in departments, and the range and quality of advice available to help procurement staff in departments adopt better practices.³

Application of OGC good practice by departments

2. Not all departments, agencies and non departmental public bodies, however, have applied the tools and good practice developed by the OGC. For example, just 30% are using OGC's Supply Intelligence Service,⁴ with executive agencies and non departmental bodies generally making much less use of OGC initiatives than departments.⁵

Gateway Reviews

3. OGC Gateway Reviews were introduced in February 2001, whereby all major central civil government projects pass through a series of 'gates' at critical points in their lifecycle to help ensure that they remain on track and achieve their intended outcomes. Since Gateway began, 600 reviews have taken place across 45 central civil government departments and agencies.⁶ A project receiving consecutive 'red' reviews triggers a formal letter from the OGC Chief Executive to the Departmental Permanent Secretary bringing the issue to their direct attention and designed to prompt action by the department.⁷ The OGC has also introduced the "Gate Zero" concept at the earliest stage of a major programme or project designed to test the overall viability of the project by reference to costs, outcomes, resources, timetable and general achievability.⁸

The OGC and the National Health Service

4. Procurement expenditure in the National Health Service does not fall within the remit of the OGC nor form part of its targets to achieve value for money gains.⁹ The NHS has, however, adopted the Gateway review process voluntarily¹⁰ and its National Programme for IT is subject to these reviews.¹¹ As the OGC has developed, collaboration with the NHS has grown. For example, the OGC has undertaken a review of health procurement at the

3 C&AG's Report, para 9

4 Q 11; C&AG's Report, para 2.12

5 Q 8; C&AG's Report, para 3.31 and Figure 50

6 C&AG's Report, para 2.19

7 Q 100

8 Q 101

9 Qq 102, 108

10 Q 104

11 Qq 95-96

request of the Permanent Secretary of the Department of Health.¹² The OGC has also developed framework agreements which operate for the benefit of the whole of government, including the NHS.¹³ There is for example a framework agreement for photocopiers developed by the OGC in collaboration with the NHS Purchasing and Supply Agency.¹⁴

The OGC's role in securing further value for money gains and efficiency savings

5. Departments have so far reported value for money gains of £1.6 billion at 31 March 2003, exceeding the OGC's target of £1 billion. With 85% of improvements coming from just nine departments there is considerable scope for more departments, their agencies and non departmental public bodies to contribute to the target.¹⁵ Some departments, for example, the Office of the Deputy Prime Minister, lacked reliable procurement data and the savings figures submitted to the OGC had not been checked by internal audit,¹⁶ whereas for other departments, for example the Department for Work and Pensions and the Department for Transport, claimed savings are checked by internal audit prior to submission to the OGC.¹⁷

12 Q 113

13 Qq 116–117

14 Qq 104, 116

15 C&AG's Report, Executive Summary para 10

16 Q 76

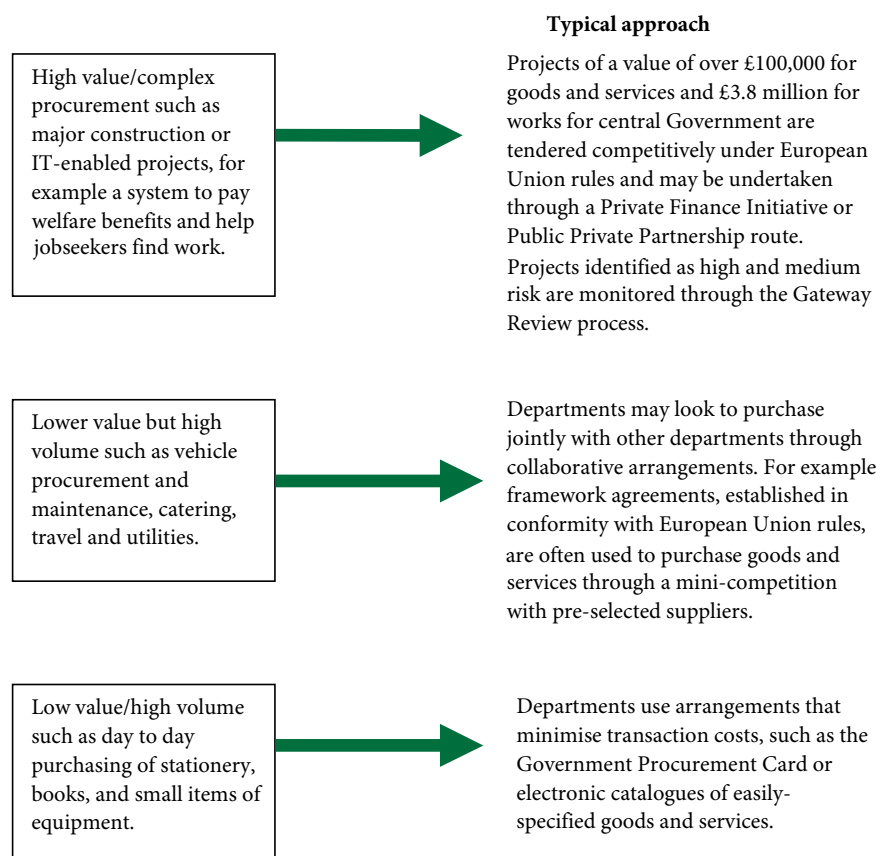
17 C&AG's Report, Figure 14

2 Securing greater value for money

6. Departments use a variety of buying arrangements to purchase the goods and services they require (Figure 2).

Figure 2: Purchasing arrangements are influenced by the type, value and risk inherent in the goods and services required

Departments have choices about the procurement routes they can use depending on the procurement they are undertaking



Catalogues

7. Online catalogues, GCat and S-Cat, set up by OGCbuying.solutions, the OGC's executive Agency, offer benefits of faster procurement and reduced administration costs. Arrangements developed with suppliers in the catalogues cover fixed terms and conditions, but are negotiated without any commitment to the volume of business suppliers will receive.¹⁸ These agreements are designed to be flexible and allow customers in departments to change suppliers, renew existing arrangements or opt out altogether if they wish.¹⁹ They are used regularly, however, in only half of departments, agencies and non departmental public bodies,²⁰ and further value for money gains could be achieved if they were used

¹⁸ Q 23

¹⁹ C&AG's Report, para 3.14

²⁰ Q 13; C&AG's Report, para 2.16

more widely.²¹ Smaller departments lacking leverage and purchasing power in the market place are likely to achieve better value for money through the catalogues, though some larger departments may find that they can achieve equivalent or better value for money by dealing with suppliers directly.²² Some departments, for example the Department for Work and Pensions, use framework agreements developed with other departments, outside GCat,²³ which deliver equivalent value for money savings.²⁴

8. 40% of departments, agencies and non departmental public bodies found that GCat offered cheaper goods and services, and 24% that S-Cat offered cheaper goods and services.²⁵ Catalogue arrangements are reviewed periodically, for example between three and five years for IT suppliers on GCat.²⁶ Prices quoted in the catalogues are intended by the OGC to be maximum prices.²⁷ Greater savings can usually be achieved if departments undertake a mini-competition between a number of suppliers on the framework, which may result in a keener price than would be achieved by using an individual supplier directly from the catalogue.²⁸

9. The use of framework agreements such as GCat and S-Cat offer benefits to departments including greater procurement flexibility and reduced administrative costs. Such agreement can, however, be inflexible, locking out unsuccessful suppliers from the public sector marketplace for up to five years. This is a particular issue for some small and medium-sized enterprises, which may find it more difficult to enter competitions where these are not widely publicised, and do not become aware of a competition before it has closed, or which have concerns that framework agreements may preclude departments from 'testing out' new suppliers on low-value contracts.²⁹

The Government Procurement Card

10. The Government Procurement Card is a quick and easy payment method using a Visa purchasing card for low value transactions. Take up and use of the card has risen steadily since it was introduced in 1997. By the end of 1999, some 7,000 cards were in use for 194,000 transactions valued at £23 million. By the end of 2002, there were over 39,000 cardholders who had completed 2.7 million transactions valued at £413 million. With an average savings figure of £28 per transaction from using the card this represents £70 million in process efficiency savings. The card offers benefits of simplified purchasing, reduced purchasing costs, speedier delivery and reduced stockholding, while providing a sound audit trail in the form of monthly statements to management about what was bought, how much and where it was bought.³⁰ In addition, the card can be introduced

21 C&AG's Report, recommendation 4

22 Q 31

23 Q 19

24 Qq 20–21

25 Qq 30, 32; C&AG's Report, Figure 26

26 Qq 40–42

27 Q 35; C&AG's Report, para 2.17

28 Qq 36, 42–43

29 Q 44; C&AG's Report, para 3.14

30 Qq 126, 130, 134; C&AG's Report, Figure 24

without the need for capital investment. Almost all departments use the card although almost half of non departmental public bodies did not use it. The card is used regularly, however, in only half of departments, agencies and non departmental public bodies and usually accounts for only a small proportion of expenditure, with non departmental public bodies making just 3% of their expenditure using the card compared to 6% for departments.³¹

Maverick spending

11. 'Maverick spending' occurs where staff buy legitimate goods but use unauthorised buying arrangements or unapproved suppliers.³² It could amount to some £300 million annually, though is difficult to estimate with any certainty.³³ Procurement expenditure which falls outside authorised buying arrangements may mean that departments are not securing value for money gains that could otherwise be achieved through application of authorised arrangements and OGC tools and good practice. Better management information and financial information would enable departments to have better control over their procurement expenditure.³⁴

31 C&AG's Report, para 2.16 and recommendation 4

32 Q 135; C&AG's Report, para 3.8

33 C&AG's Report, recommendation 4

34 Q 134

3 Costs of procurement

Management information

12. To help deliver value for money, departments require reliable information on whole life costs of procurement including transaction costs — the cost of administering and managing the procurement process.³⁵ Without adequate management information and direct links between procurement and accounting systems, departments will not be in a position to monitor and manage the costs of procurement.³⁶

Transaction costs

13. Of the 908,000 commercial invoices paid by the Department for Work and Pensions in 2002–03, just under half were under £100, amounting to 0.3% of the departments' commercial spend. This produces high transaction costs estimated to be around £70 per transaction.³⁷ This is in part due to the nature of DWP's business, as the Department deals with over 12,000 suppliers, most of which are small local suppliers used by the Department's network of local offices for low value goods and services orders, for example, provision of taxi arrangements to get job seekers to interviews. To tackle its high transaction costs, the department is moving to purchasing low value, high volume items electronically,³⁸ and currently processes 67% of its invoices electronically.³⁹ Concentrating on a smaller number of suppliers is a further way to reduce the process and transaction costs associated with procurements and reflects the OGC's view of best practice in both public and private sectors.⁴⁰

Electronic Procurement

14. The Department for Work and Pensions and the Office of the Deputy Prime Minister have adopted different approaches to achieve their objectives to reduce transaction costs by moving to electronic procurement systems for the processing of low value, high volume transactions.⁴¹ The different approaches have come about partly as a result of timing, and partly because of the computer systems the departments already have in place.⁴² The Department for Work and Pensions is at the final stages of procuring an 'off the shelf' Oracle solution to deliver a complete 'purchase to pay' system.⁴³ The Department is expecting the initial roll out of its system to begin at the end of 2005.⁴⁴ The Office of the

35 C&AG's Report, para 3.7

36 Q 142

37 Q 56; C&AG's Report, Volume II, para 1.10

38 Q137; C&AG's Report, Volume II, para 1.10

39 Q 56

40 Q 59

41 Qq 137–140

42 Qq 140–141

43 Purchase to pay systems cover activity prior to making an order, such as quotations from suppliers; making the order itself; and invoice and accounts management.

44 Q 137

Deputy Prime Minister introduced from April 2003 its BuyNet system for procuring low value items, such as stationery and IT consumables, the first system of its kind in Government. By October 2003, however, only 1,400 orders and 1,300 invoices had been processed on BuyNet, compared to the business plan targets of 13,500 orders and 72,000 invoices. The project is behind schedule because of the difficulties of bringing suppliers on to the system⁴⁵ and BuyNet is expected to break even one year after the original business plan assumption.⁴⁶

15. The Office of Government Commerce is currently assessing the business case for the Zanzibar project, which, if implemented, would present a common electronic purchase to pay system which a number of departments could use.⁴⁷

45 C&AG's Report, Volume II, Figure 15

46 Q 143; Ev 19–21

47 Qq 140–141

4 Professional capability of procurement staff

Raising the numbers of professionally qualified staff in departments

16. Procurement expertise is one of the key competencies needed to improve the delivery of public services. Only some 23% of all designated procurement staff have Chartered Institute of Purchasing and Supply (CIPS) or other procurement qualifications, though a further 11% are training for qualifications. In many cases, procurement decisions are made by staff without the advice of people with proven procurement expertise or experience.⁴⁸ Furthermore, links between procurement staff and budget holders are often not strong, with procurement staff often being consulted too late in the procurement process to have an influence on how goods and services are purchased.⁴⁹

17. In general procurement skills are in short supply and it takes time to train new staff.⁵⁰ Procurement qualifications are not always held in esteem within departments, however, and departments may not encourage their staff to become qualified.⁵¹ The OGC has been encouraging procurement staff to become either part qualified through its certificate of competence, or fully qualified through the CIPS qualification.⁵²

18. Executive Agencies have a much lower proportion of qualified staff (16% compared to Departments' 46%)⁵³ and are also less likely to have the mechanisms to compare market prices (44%) than Departments (78%).⁵⁴

Raising commercial awareness in departments

19. One way of raising commercial awareness is for departments to appoint a Commercial Director who is a member of or who reports to the departmental management board, and for procurement and project management expertise to be a more widely recognised competency for progression to senior civil service posts.⁵⁵ Of the twenty departments, agencies and non departmental public bodies which spent the most on procurement in 2002–03, only three had Commercial Directors, whose role explicitly covers all corporate engagement with the private sector and wider business world and procurement strategy.⁵⁶ Although two further departments have now appointed Commercial Directors, progress by departments in creating this role has been slow.⁵⁷ The OGC has agreed an action plan

48 C&AG's Report, para 20

49 *ibid*, para 3.27

50 *ibid*, para 2.21

51 Q 83

52 *ibid*

53 C&AG's Report, para 20, and Figure 31

54 Q 123; C&AG's Report, para 2.30

55 C&AG's Report, para 20

56 *ibid*, para 3.4. The three are the Department for Work and Pensions, the Prison Service and the United Kingdom Atomic Energy Authority.

57 Q 12

with all departments for them to review and satisfy themselves that the structure of their commercial arrangements is effective.⁵⁸

Assuring the financial viability of suppliers and supply chains

20. There is a range of criteria to select suppliers, which varies between different types of procurement.⁵⁹ As well as quality, time and cost parameters, departments also need to know about financial viability and creditworthiness, the capabilities of suppliers and their ability to meet the technical specification set.⁶⁰ An overall value for money assessment can then be made not just on the price offered by suppliers but taking these other criteria into account.⁶¹

21. The OGC has acted to satisfy itself, through extensive analysis of finance and current year management accounts, of the financial viability of major suppliers to Government, in particular of IT, where it has had concerns.⁶² Just 26% of departments, agencies and non departmental public bodies, however, hold information on the proportion of individual suppliers' turnover that their procurement represents.⁶³ Just 17% analyse suppliers' supply chains as part of their criteria for selecting suppliers,⁶⁴ and so do not have assurance about the reliability and resilience of key suppliers' subcontractors beyond their prime contractors.⁶⁵

58 Q 12

59 Q 48

60 Qq 48–49

61 Q 48

62 Qq 52–54

63 C&AG's Report, para 2.7 and Figure 18

64 *ibid*, para 2.12 and Figure 21

65 *ibid*, paras 3.18, 3.26

Formal minutes

Wednesday 21 July 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan	Mr Frank Field
Mr Richard Bacon	Mr Brian Jenkins
Mrs Angela Browning	Jim Sheridan
Jon Cruddas	Jon Trickett
Mr Ian Davidson	Mr Alan Williams

The Committee deliberated.

Draft Report (Improving departments' capability to procure cost-effectively), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 21 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Forty-first Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

[Adjourned until Wednesday 8 September at 3.30pm]

Witnesses

Wednesday 21 April 2004

Page

Mr John Oughton, Sir Peter Gershon KCB, Office of Government Commerce,
Mr David Smith, Department for Work and Pensions, **Mr Peter Unwin**, Office of
the Deputy Prime Minister, and **Mr Jeff Belt**, Vehicle and Operator Services
Agency (VOSA)

Ev 1

List of written evidence

Office of Government Commerce

Ev 19

Office of the Deputy Prime Minister

Ev 19

List of Reports from the Committee of Public Accounts Session 2003–04

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Second Report	The new electricity trading arrangements in England and Wales	HC 63 (<i>Cm 6130</i>)
Third Report	The Sheep Annual Premium Scheme	HC 64 (<i>Cm 6136</i>)
Fourth Report	Improving service delivery: the Forensic Science Service	HC 137 (<i>Cm 6155</i>)
Fifth Report	Warm Front: helping to combat fuel poverty	HC 206 (<i>Cm 6175</i>)
Sixth Report	Department of Trade and Industry: Regional Grants in England	HC 207 (<i>Cm 6155</i>)
Seventh Report	Progress on 15 major capital projects funded by Arts Council England	HC 253 (<i>Cm 6155</i>)
Eighth Report	The English national stadium project at Wembley	HC 254 (<i>Cm 6155</i>)
Ninth Report	Review of grants made to the National Coalition of Anti-Deportation Campaigns	HC 305 (<i>Cm 6175</i>)
Tenth Report	Purchasing and managing software licences	HC 306 (<i>Cm 6175</i>)
Eleventh Report	Helping consumers benefit from competition in telecommunications	HC 405 (<i>Cm 6191</i>)
Twelfth Report	Getting it right, putting it right: Improving decision-making and appeals in social security benefits	HC 406 (<i>Cm 6191</i>)
Thirteenth Report	Excess Votes 2002–03	HC 407 (<i>N/A</i>)
Fourteenth Report	Inland Revenue: Tax Credits	HC 89 (<i>Cm 6244</i>)
Fifteenth Report	Procurement of vaccines by the Department of Health	HC 429 (<i>Cm 6244</i>)
Sixteenth Report	Progress in improving the medical assessment of incapacity and disability benefits	HC 120 (<i>Cm 6191</i>)
Seventeenth Report	Hip replacements: an update	HC 40 (<i>Cm 6271</i>)
Eighteenth Report	PFI: The new headquarters for the Home Office	HC 501 (<i>Cm 6244</i>)
Nineteenth Report	Making a difference: Performance of maintained secondary schools in England	HC 104 (<i>Cm 6244</i>)
Twentieth Report	Improving service delivery: the Veterans Agency	HC 551 (<i>Cm 6271</i>)
Twenty-first Report	Housing the homeless	HC 559 (<i>Cm 6283</i>)
Twenty-second Report	Excess Votes (Northern Ireland) 2002–03	HC 560 (<i>N/A</i>)
Twenty-third Report	Government Communications Headquarters (GCHQ): New Accommodation Programme	HC 65 (<i>Cm 6302</i>)
Twenty-fourth Report	Transforming the performance of HM Customs and Excise through electronic service delivery	HC 138 (<i>Cm 6302</i>)
Twenty-fifth Report	Managing resources to deliver better public services	HC 181
Twenty-sixth Report	Difficult forms: how government departments interact with citizens	HC 255 (<i>Cm 6302</i>)
Twenty-seventh Report	Identifying and tracking livestock in England	HC 326
Twenty-eighth Report	Driver and Vehicle Licensing Agency: Trust Statement Report 2002–03	HC 336 (<i>Cm 6302</i>)
Twenty-ninth Report	Improving public services for older people	HC 626 (<i>Cm 6303</i>)

Thirtieth Report	Out of sight—not out of mind: Ofwat and the public sewer network in England and Wales	HC 463 (<i>Cm 6303</i>)
Thirty-first Report	Cambridge-MIT Institute	HC 502 (<i>Cm 6302</i>)
Thirty-second Report	HM Customs and Excise Standard Report	HC 284 (<i>Cm 6304</i>)
Thirty-third Report	Income generated by the museums and galleries	HC 430 (<i>Cm 6304</i>)
Thirty-fourth Report	Strategic Rail Authority: improving passenger rail services through new trains	HC 408 (<i>Cm 6304</i>)
Thirty-fifth Report	Early years: progress in developing high quality childcare and early education accessible to all	HC 444
Thirty-sixth Report	Tackling VAT fraud	HC 512 (<i>Cm 6304</i>)
Thirty-seventh Report	Risk management: the nuclear liabilities of British Energy plc	HC 354
Thirty-eighth Report	An early progress report on the New Deal for Communities programme	HC 492
Thirty-ninth Report	Ministry of Defence: Operation TELIC-United Kingdom military operations in Iraq	HC 273
Fortieth Report	Youth Offending: the delivery of community and custodial sentences	HC 307
Forty-first Report	Improving departments' capability to procure cost-effectively	HC 541

The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 21 April 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan	Mr Brian Jenkins
Mr Richard Bacon	Mr Gerry Steinberg
Mrs Angela Browning	Jon Trickett
Jon Cruddas	Mr Alan Williams
Mr Ian Davidson	

Mr Tim Burr, Deputy Comptroller and Auditor General, further examined.

Mr Rob Molan, Second Treasury Officer of Accounts, further examined.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

Improving Procurement: Progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively (HC 361-I & II)

Witnesses: **Mr John Oughton**, Chief Executive, and **Sir Peter Gershon KCB**, former Chief Executive, Office of Government Commerce; **Mr David Smith**, Director, Commercial and Estate Directorate, Department for Work and Pensions; **Mr Peter Unwin**, Director General, Corporate Strategy and Resources, Office of the Deputy Prime Minister; and **Mr Jeff Belt**, Finance and Process Director, Vehicle and Operator Services Agency (VOSA), examined.

Q1 Chairman: Good afternoon and welcome to the Committee of Public Accounts where today we are looking at the Comptroller and Auditor General's Report on improving procurement: progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively and we are joined once again for his last appearance by Sir Peter Gershon who is the former Chief Executive of the OGC—you are very welcome, Sir Peter, for your last appearance before us—and his successor, Mr John Oughton, and you are very welcome for the first time to our committee. David Smith who is Commercial Director for the Department for Work and Pensions. Peter Unwin who is the Director General for Corporate Strategy and Resources in the Office of the Deputy Prime Minister. Jeff Belt who is the Finance and Process Director for the Vehicle and Operator Services Agency. You are all very welcome. Perhaps I may start, Sir Peter, by asking you one or two questions. Would you look at figure 12 which you will find on page 25. You will see there that you have done better than you thought you would: nine departments accounted for £1.41 billion but that 85% of the savings came from just nine departments. So, does that not lead one to suppose that there is scope for a lot more to be achieved?

Sir Peter Gershon: Yes and that is exactly why the OGC has the more ambitious target in the SRO2 spending review period.

Q2 Chairman: Do you think this target is sufficiently stretching given that you exceeded your previous target by a considerable amount?

Sir Peter Gershon: Can I just clarify the point about exceeding the target. It is clearly true that we exceeded the targets by a fair margin but, if you go back and look at my original 1999 report, against the timetable I proposed, the reform programme started later than I envisaged, so another way of looking at the achievement is that I think we have just about caught up to where we would have been if the reform programme had started when I had originally proposed rather than when it did in April 2000 rather than in October 1999.

Q3 Chairman: What do you think are the main things that pushed the actual figures up? What was originally proposed as a target?

Sir Peter Gershon: If you go back and look at my original report, I made it very clear that the £1 billion was, as I described it, an aspirational target because there was very little data around on which to base a target. So, in one sense, I proposed the target to capture the imagination of Government that a successful reform programme could begin to unlock a lot of benefit. In the second three years of OGC's existence, there was clearly much more data around that enabled a more informed debate with departments to lead to the development of the £3 billion target which I think is felt to be pretty stretching and has a huge dependence on OGC Gateway process delivering the anticipated value for money gains of which there are no contributions from the Gateway process in the £1.6 billion.

Q4 Chairman: The Chancellor has talked about savings of £20 billion from your review. How much of this is going to come from procurement?

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Sir Peter Gershon: We are still developing that in conjunction with the departments but can I emphasise that the efficiency review is looking at the whole of the public sector with the exception of the devolved administrations whereas, in the period that we are looking at in the context of this NAO Report, we are looking at civil central government which is just under 15% of total UK public sector procurement. I cannot answer the question at this stage, Chairman, because we are still in the stage of working with departments to identify the procurement contribution to the efficiency review.

Q5 Chairman: You come to this field with very great experience in the private sector. You are seeking to drive forward or you, whilst still in government, were certainly seeking to drive forward major efficiency savings. Do you have confidence that senior civil servants can deliver your ideas?

Sir Peter Gershon: When I make recommendations to ministers, they will include recommendations about the implementation of the efficiency proposals. Some of those have already been announced, like the Chancellor has confirmed that John, as my successor in the OGC, will also have the remit for coordinating the overall efficiency programme that arises from the SRO4 settlements, but there are other measures that I am in discussion with John, Treasury and Cabinet Office colleagues about what else we need to do at the centre to help drive the programme forward bearing in mind that a lot of the efficiency gain will not occur in core departments but will occur in the wider public sector.

Q6 Chairman: Mr Oughton, I have been looking at your very distinguished CV with a fairly classic route up the Civil Service but no private sector experience; is that true?

Mr Oughton: I have very little direct experience of working in the private sector but a good deal of experience of working alongside the private sector and indeed having private sector individuals working for me.

Q7 Chairman: You do not think that is a disadvantage compared to your predecessor?

Mr Oughton: It is a different skill set but, in terms both of taking forward the agenda in the OGC and implementing the efficiency review, a lot of what will be required is an understanding of how to make the levers work and how to ensure that implementation can move forward and I think understanding both our private sector techniques which I believe I have and the public sector machinery is a good mix to take that forward.

Q8 Chairman: Can I just ask you one or two more detailed questions, Mr Oughton. If you look at figure 50 which you will find on page 60, it says “Application of a range of tools and good practice is lower in agencies than departments” and you will see that on some of these tools of good practice which you are recommending the take-up is very low. Look

at “Use Supply Intelligence Service”, it is down to as low as 18% in non-departmental public bodies. Does this worry you? Why is your advice not more readily taken up by these bodies?

Mr Oughton: I think the first point to make is that up until now the OGC has worked traditionally through core departments through headquarters of departments and there is very good reason for that. That is because the first range of challenges we had to face were in the departments themselves and the departments managed the relationship with a very large number of agencies, over 70 agencies, and nearly 200 non-departmental public bodies. The circumstances in each of those bodies will be different: the status, the governance arrangements, the way in which they operate will be different. So, we have had a choice. The choice was to work through departments who know the regime of their own agencies and public bodies or to attempt to deal direct with them. In some cases we do deal direct: in the large agencies and the NDPBs, the Environment Agency and the Strategic Rail Authority, places of that sort. What we are doing now as we work with departments is to attempt to strengthen our message so that, for example, on the supplier intelligence service, to which you referred, where the take-up is mixed, we are attempting to push harder on that both through our Supervisory Board, through meetings with departmental heads of procurement and through targeting information directly at the agencies and the NDPBs. So, we are starting now to have an engagement direct with those bodies.

Q9 Chairman: I think it is important to have a direct relationship with agencies. If you are talking about the Highways Agency or the Prison Services, these are public sector bodies.

Mr Oughton: And we do indeed have a direct relationship because they are large spenders, but I would just re-emphasise—

Q10 Chairman: Should there be a bigger role for you and not sort of more of a hands-off approach than you perhaps adopted until now but more of a hands-on approach?

Mr Oughton: I would not call it a hands-off approach, I would call it an approach based on giving guidance and support and challenge, if you like, to departments, helping them to create the capability in order that they can support their own agencies and NDPBs because, frankly, the idea that an OGC could deal direct with over 70 agencies and 200 NDPBs I think would be an ineffective way of using our resource. We have to target that as we do on the large agencies and the NDPBs. So, you need a multiplier effect with the departments themselves developing the capability in order that they can support their own agencies.

Q11 Chairman: If we go into this again in more detail, if you look at page 34 and look at paragraph 2.12, you deny that it is a hands-off approach but we will see, if we look at paragraph 2.12, that just 30%—and we are talking about departments now—use

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OGC's Supply Intelligence Service and it says here, "This suggests scope for development and promotion of OGC's market intelligence function . . ." Is it not rather worrying that this take-up is so low?

Mr Oughton: I think the take-up reflects a number of factors. First of all, it reflects the fact that up until now some of the larger departments who are already very commercially aware have developed their own arrangements directly to secure market intelligence. Some use service suppliers from outside. We are starting to incorporate those arrangements into the main arrangements we have in the Supply Intelligence Service. The Inland Revenue's service, for example, was provided direct by Dunn & Bradstreet until recently but now it is coming alongside us. So, we are starting to grow the role of the Supply Intelligence Service from where it is at the moment. Some other bodies will not have needed significant market intelligence because they have not been engaged in a major procurement in the last two or three years but again, as their demands grow, they can come alongside the arrangements that we have. Also, through the work that we are doing to implement the report on competition and capacity planning, the Kelly Report, we are taking another route into this issue by looking at how we manage the relationships with our key suppliers, understanding their issues in the marketplace and sharing that knowledge across departments. So, the intelligence service itself is not the only tool we are trying to use, it is one of a range of tools for dealing with the issue.

Q12 Chairman: On this theme, Sir Peter, if I could go back to you, if you look at page 47 and paragraph 3.4, you will see that it says there, "Of the 20 departments which spent the most on procurement in 2002–03, only three had commercial directors . . ." Does that worry you particularly with your experience in the private sector?

Sir Peter Gershon: Yes, it does but there is a slow trend here in the right direction because, subsequent to this Report, there are now commercial directors in place in the Department for Constitutional Affairs and Health, covering both the Department and the NHS. This year, we agreed what is known as the joint action plan with departments which covers the period out to the end of the spending review 2002, an action that all departments were to look at the structure of their commercial arrangements and satisfy themselves that they were optimum. We took a paper on this subject to the OGC Supervisory Board in March for discussion with the permanent secretaries and have agreed a way forward which is that there are going to be a series of bilateral actions between John and the departmental permanent secretaries to hopefully accelerate this agenda, but it is one of the areas where I would freely admit we have not made as much progress as I would have liked during my tenure at the OGC against what I originally set out in my report.

Chairman: I have some more detailed questions for the other witnesses but I want to give other members a chance to come in.

Q13 Mr Steinberg: The Report tells us that if the departments use the online catalogues of G-Cat and S-Cat, there would be considerable savings of money when purchasing. Yet, if you read the Report, unless I have read it incorrectly, only half the department agencies and quangos actually use this facility. They have not taken a lot of notice of you, have they? Why?

Sir Peter Gershon: I have nothing to be ashamed about our record on the catalogues. The record on the catalogues shows that when the OGC was created in 1999–2000, the turnover through G-Cat was just over £180 million. For the financial year that has just finished in March 2004, G-Cat revenues are forecast to have grown to £570 million. That is a growth of 2.25 times in three years.¹

Q14 Mr Steinberg: Excellent but that is only half the departments.

Sir Peter Gershon: There are some departments which have their own frameworks, for example Inland Revenue, and I would point out that, in this case, the NAO has identified that I think in the case of G-Cat there is something like another £5 million of gains to be gained by greater use of G-Cat. When it did its review in 1999, it identified that it was £20 million of gains.

Q15 Mr Steinberg: With only 50% using it or 100% using it?

Sir Peter Gershon: With the 50%. I never claimed in my review—

Q16 Mr Steinberg: I am not suggesting you were.

Sir Peter Gershon: I wrote in my review that we would get it all fixed within three to four years. Of course, there is a hell of a lot more to do. This Report identifies some of the things that are left to be done.

Q17 Mr Steinberg: You should not be so successful, then you would not get the criticism that it could be even more successful.

Sir Peter Gershon: I signed the Report off. The criticisms in this Report are very constructive and are perfectly valid criticisms. We have launched a major reform programme against a background that there were three previous attempts to kick-start reform in this area in the 1990s which did not get the traction. I think all the evidence is that this programme has the traction and there is a hell of a lot more to do, not just in the next two years but probably in the next five to seven years.

Q18 Mr Steinberg: Mr Smith, if you look at page 20, figure five, we see that your Department, the Department for Work and Pensions, is clearly the most prolific spender. You spent virtually three times more than anybody else by the looks of things,

¹ Ev 19

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again if I am reading the chart correctly. Why did you spend so much money? That is purely because the department is so big, I suspect.

Mr Smith: I think it is because the department is so big. It is a large and complex department with large responsibilities and like many other departments, it delivers its business through a significant proportion of external providers.

Q19 Mr Steinberg: But you do not use the GCat and S-Cat, do you?

Mr Smith: We use S-Cat very significantly, and have used it quite significantly since the inception of DWP. In terms of GCat, as an enabling framework catalogue, we have used, as Sir Peter Gershon mentioned, framework arrangements which were let collaboratively and available—

Q20 Mr Steinberg: I put it to you, Mr Smith, that you are wasting money because Sir Peter has just explained to us how successful the other departments are by using this facility. You are not using this facility and you are telling us you are successful but you would be even more successful if you accept what Sir Peter Gershon says, so you are wasting the taxpayer literally hundreds and thousands of pounds a year, is that right?

Mr Smith: No. I think, with respect, we have been using S-Cat significantly over the past two years as an enabling framework and it has delivered value for money savings in line with the ones the OGC have suggested. In terms of our non use of GCat we have used, as I suggested, another pan-government framework that has delivered value for money savings equivalent to that which GCat is delivering.

Q21 Mr Steinberg: They may be value for money but could you have saved more money by using Sir Peter Gershon's central purchasing system?

Mr Smith: I think I would say we are using an equivalent where we are delivering at least equivalent value for money savings.

Q22 Mr Steinberg: Do you accept that, Sir Peter?

Sir Peter Gershon: Yes, and nor do I think there should be a situation in which OGC catalogues have a monopoly of what is a very, very large market, there needs to be contestability.

Q23 Mr Steinberg: Presumably you have negotiated the cheapest prices otherwise you would not have a catalogue?

Sir Peter Gershon: Yes, but can I be clear about these catalogues. We negotiate these catalogues from a position that we cannot commit any volume.

Q24 Mr Steinberg: Say that again.

Sir Peter Gershon: When we put these catalogues in place we cannot commit volume.

Q25 Mr Steinberg: Right. So if your colleague, Mr Smith, was to guarantee that he would spend his—how many billions is it—£4 billion or whatever it is a year, or whatever it is he spends on these projects,

if he was to guarantee that he would use your system the price would come down, would it not, for everybody else?

Sir Peter Gershon: Wherever you have guaranteed volumes, you are always likely to get a better set of arrangements.

Q26 Mr Steinberg: So Mr Smith's department might have paid a higher price by not using the system properly?

Sir Peter Gershon: Yes, but if he feels his own arrangements give him better value for money then he should use his own arrangements.

Q27 Mr Steinberg: What is the point of having a central purchasing system then?

Sir Peter Gershon: When you set up generic catalogues—We have not yet found a way in which we can meet the needs of all the potential users of a catalogue of this nature all the time. We try to set up generic catalogues which are easy to use and try to represent—

Q28 Mr Steinberg: I think you are waffling.

Sir Peter Gershon: No, no—try to represent a generic solution to a large number of customers' needs. We keep enhancing them with various additions, as we have done with S-Cat in the refresh, but we can never develop a catalogue which can satisfy the needs of all users all of the time.

Q29 Mr Steinberg: I appreciate that. I can remember when I was a head working for Durham County Council, you had to buy every single item, whether it was a drawing pin or a computer—although there were not computers in those days—through Arnolds of Leeds. Even when you could buy cheaper equipment elsewhere you still had to go through Arnolds of Leeds to buy it, which was farcical. Mr Smith, I cannot get over the fact that your Department is the biggest spender but if you were to spend your money on a central purchasing system it would bring down the cost of goods for all the other departments in Whitehall. Is that not a selfish attitude?

Mr Smith: I think in terms of the way procurement is enacted in either public or private sectors there are, of course, real benefits of aggregation. They are finite to a point in that if you kept adding volume against volume against volume the unit price would not come down. What we are looking to balance in tandem with the other large departments in OGC, as I think Sir Peter Gershon has suggested, is the competitive edge between providers to Government where we optimise unit price and we are able to use, in the right place, the purchasing power of central Government to deliver efficiencies across the pack. Frameworks, GCat and S-Cat, are themselves subject to competition within that framework.

Q30 Mr Steinberg: I want to go on to that, Mr Oughton, because now I want to take a different track altogether. Mr Smith does not use your system all that much and apparently if you turn to page 39

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and look at figure 26, the way I read that again, I reckon that only 40% of departments actually believe that this is the cheapest way of doing it. So have you got it right or is Mr Smith right by not purchasing through you or using your method?

Mr Oughton: It is going to depend on the circumstance of the department.

Q31 Mr Steinberg: Sixty per cent have not.

Mr Oughton: If you are a small department which frankly does not have great leverage and purchasing power in the marketplace then I think the route through catalogue or through an aggregation deal will give you better value for money than if you have to procure in the marketplace directly. If you are a large customer it may be that, as Mr Smith has found, he can get a good arrangement going directly. It will be the case, also, that large purchasers will use the catalogues, and we must be careful not to mix up two things here. Aggregation deals where departments collaborate together so that we can improve our purchasing power through collaboration, that is one issue, but the catalogues are about giving us a route into the marketplace through a range of suppliers who are all registered under the catalogue with an agreed price for their services.

Q32 Mr Steinberg: You have 60% of departments saying that they can get it cheaper elsewhere.

Mr Oughton: It is going to depend what they buy. In cases where they have a requirement for a specialist provision—a service, a consultancy, legal advice—it may well be that they will find they get good value for money coming through the catalogue and, what is more, they will have speed of access because they will not have to go through the full curriculum regime.

Q33 Mr Steinberg: How do you get on the list?

Mr Oughton: It is through a competitive process. An OJEU process will lead to the selection of the suppliers. We negotiate arrangements with them and then the suppliers are available to all departments and to all customers through the period of the arrangement. It is a quicker route in so there is a benefit to departments there if they need to secure either goods or services rapidly.

Q34 Mr Allan: I wanted to stay on this catalogue question and try and understand it a bit better. In the context of GCat, which is the catalogue for goods, my understanding from Mr Smith is if you want 10,000 computers you would go to a supplier and say “I want 10,000 computers”, you are a big department, and they would say “A thousand pounds a computer” or whatever and you would buy them. With the GCat arrangement, if somebody comes along and wants 10, 50 or 100, they will get them for £1,200. The difference is you are going for an order for 10,000 so you will get a competitive price. Is my understanding correct?

Mr Smith: It is a basic benefit of aggregation, indeed. In terms of GCat, as has been suggested by John Oughton, it is an enabling contract with a number of providers on there. To maximise value for money there is an expectation which departments such as DWP will do, which is to keep within that framework to secure optimum value for money. In terms of GCat, which I suggested DWP has not been using, it has been using an Inland Revenue let and managed framework which is very similar to GCat, and similarly we have gone through a competed route on that and had—again as Sir Peter Gershon mentioned—a guaranteed requirement where we had gone through a provider to give us an optimum value for money response.

Chairman: Thank you.

*The Committee suspended from 3.59 pm to 4.04 pm
for a division in the House*

Q35 Mr Allan: On the GCat subject—I think this is probably a question to Mr Oughton—I can understand, as Sir Peter said earlier, why a framework agreement with no volume is going to carry a price which is higher than one where you have a big department with a guaranteed volume. When you look at paragraph 2.17 on page 39, it highlights the problem. It says: “Other departments found that while prices quoted were intended by OGC to be maximum prices, in practice it was difficult to negotiate the prices down and better value could sometimes be obtained from smaller suppliers . . .” I was just wondering how fundamental the problem is. Firstly, can you clarify the point about whether the European Union rules allow a supplier who has negotiated GCat prices to come in lower than that price? Is that absolutely the case that they can do that?

Mr Oughton: That would be my understanding, yes. It is always open to suppliers to offer. The point about the catalogue is that once you have agreed the deal then that is the deal that would hold true for the duration of the catalogue.

Q36 Mr Allan: I can understand that. What seems to be happening in practice, to use the computer example, is DWP come along and they pay £1,000 a computer, GCat says £1,200 because it has no volume attached. The Department say £1,200 and they refuse to budge and somebody else, because their deal is newer—and if you take the IT sector in particular things move very quickly—the company says “I will do it for £1,100” and off they go and they do not follow the GCat route. Is that an accurate description?

Mr Oughton: That sort of unsolicited offer could not be taken up if it fell outside the procurement rules. You do get greater savings if you have a mini competition but you still have to have a competition.

Q37 Mr Allan: Right.

Mr Oughton: So if that dialogue developed, it would have to be done on the basis of the competitive selection.

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Q38 Mr Allan: From the figures we have got departments are clearly choosing the mini competition route to the GCat on a significant number of occasions. Your job presumably is to try and reverse that?

Mr Oughton: I would not say reverse it. As Sir Peter was saying earlier, I think one of the important points here is that you have to have a degree of contestability in the marketplace, you have to have a way of judging whether the price you are getting is a good one, and you can either do that through intuition or you can do it through having a way of comparing. Having more than one route into the marketplace gives you the opportunity to do that. It may well be that once the catalogue arrangement is negotiated (and we have just refreshed the S-Cat catalogue so that will be in place now for a period) if another department was to be running a big procurement, and went into the marketplace directly, that would give us further evidence of what is available to the marketplace. That is helpful then to ratcheting that marketplace when we next have the opportunity.

Q39 Mr Allan: You do not have a situation which looks a bit odd—I think it was a point in Mr Steinberg's questions—it certainly looks a bit odd to us perhaps and to the taxpayer, of a bigger deal having come in more recently which is actually at a lower price than the fixed catalogue prices that everybody is having to pay, so you have essentially two Government departments buying at various prices and particularly it seems the smaller one is being penalised for being smaller and not having the buying power of the bigger one.

Mr Oughton: I think it comes back to timing. As the marketplace changes, becomes more competitive, and particularly in the IT sector where it is constantly responding to changes in demand, it is constantly developing new capability, then you would expect to see prices changing over time. For a small department, frankly, if the alternative to using the catalogue is to go and make a procurement direct then I suspect they may not give as good value as the catalogue.

Q40 Mr Allan: What is the refresh cycle for, say, IT projects in GCat?

Mr Oughton: Sir Peter, three years, is it not?

Q41 Mr Allan: Three years.

Sir Peter Gershon: Between three and five.

Q42 Mr Allan: Three and five years on IT projects.

Sir Peter Gershon: Mr Oughton said within GCat it is possible to run a mini competition between the suppliers who are in GCat. The user of GCat has a choice of going to an individual supplier within GCat or choosing to run a mini competition for a given requirement from a selection of people who are in the GCat framework.

Q43 Mr Allan: The result of that mini competition would be a lower price than that listed in the catalogue?

Sir Peter Gershon: It could be, yes.

Q44 Mr Allan: Can we look at S-Cat—and probably as Sir Peter was the architect of S-Cat it has worked well—I had a small IT company come to me and they described a situation where they had done some work for one Government department—I think there is something in here about flexibility requirements—they had done some website projects, under a thousand pounds, they had gone to another Government department and been told “Well, ah, the only way we can buy from you is if you go through S-Cat”. They said “What that does involve?”. They were told: “You must go through one of the people in S-Cat, you will do the work, you will actually do it but the S-Cat supplier will be the person who is given the contract”. “What is the effect of that?” “Well, they will stick 15% on the price of the work for managing the process and the taxpayer will pay an extra 15%” and from this small company's point of view they will come and complain and we will have this extra layer of bureaucracy which we believe will add nothing. I do not know what your reaction will be to that kind of story. Presumably you have heard it from other small suppliers in terms of their relationship with S-Cat?

Sir Peter Gershon: Yes. There are a significant number of SMEs within the S-Cat framework who have won that position through open competition each time the S-Cat has been recompeted. Once you have run the competition you cannot just let in anyone else willy nilly until the next time you recompete S-Cat. That is clearly one of the negatives of S-Cat. You will still have a framework which, having done it, takes away a lot of the hassle for departments, it reduces transaction costs, it gives you a choice, but it does for a period of time lock out other people who were unsuccessful or only subsequently became aware of the existence of S-Cat after it was competed. Then the only way in is for them to work under the umbrella of an existing S-Cat supplier.

Q45 Mr Allan: So it is a trade-off?

Sir Peter Gershon: There is clearly a trade-off between the speed and the benefits and the reduced traffic that S-Cat gives but there are issues about the impact that this has then on the market.

Q46 Mr Allan: In the IT sector, people talk about the national NHS IT project procurement, and in complimentary terms, the fact that seems to have been done more speedily under framework agreements and not all framework agreements have been reached. Is that a positive element? Are lessons being learnt back into the OGC process? That is being done separately, is it not?

Mr Oughton: I think the answer to that, Mr Allan, is yes, certainly. We have been working very closely with the NHS IT programme to examine the terms

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and conditions which have been negotiated and our view is that we should be moving the whole Government approach, if you like, closer to that part of the spectrum. I think I should make the point that I would not expect us to be able to negotiate absolutely identical deals with every supplier for every contract because not every department has the same requirements as the NHS IT. It is a very large volume, it is in a very strong market position that has been very successful in negotiating a solution. The terms and conditions are very good. Some of the practices adopted in that procurement, the very rigorous testing of the solutions before contracts were placed, I think, gives greater confidence that the technology when it is delivered is likely to work at the volumes it is going to have to work at. So all of that is good practice that we would want to spread and we are importing that into our guidance to departments and we are consulting, currently, both in departments and in the industry on some terms and conditions in model clauses which we would want to apply across Government as a whole.

Q47 Mr Allan: Can I move on to gateway reviews which leapt out as interesting. You have trade marked the gateway reviews and you have the red, amber and green system for assessing projects. We have many reports we hear, particularly about pilot IT projects, that have not been entirely successful and the gateway is held up as a solution. There is a lot of support for that kind of process. One of the concerns is the extent to which people will be held accountable for proceeding when amber and red lights in particular are in operation. What is the extent to which you feel that there is public accountability and the extent to which information can be published so that Members of Parliament holding departments to account know when people have proceeded through amber and red lights?

Mr Oughton: The accountability, Mr Allan, I think has to rest with the department which is spending the money on procurements and it is right that the accountability should rest with the accounting officer there. The whole point about the gateway process is that in the very short, sharp intervention that the review team conducts, it is designed to give very clear advice, very clear guidance, very clear recommendations to a programme manager or project manager in the departments but it is done so in, if you like, a safe space with a degree of confidentiality so that people can be honest about the challenges and difficulties with a programme. That has worked very well. The recommendations are clear, they are very direct. The process we adopt, of course, is then that the next gateway review at a later stage assesses the degree to which recommendations have been acted upon. By definition a set of red recommendations really requires the department to act on those before proceeding to the next stage of the procurement. It is ultimately the judgment of the department how they tackle those recommendations and how they implement them. At the next gateway review stage,

the review team would of course assess the effectiveness with which those recommendations have been implemented.

Q48 Mrs Browning: I wonder if I could ask you to turn to page 35 of the larger of the two books. I would just like to ask some questions, Mr Oughton, about this table that we have in front of us here, the criteria used to select suppliers. Obviously there is quite a differential on that table in terms of those areas which are met by most of the purchasing decisions going right down to some 18% there. The Chairman raised this earlier but I just wanted to know why is it that, for example, the credit agency checks are so low down on this scale? I would have thought that was pretty important and I am rather concerned that it is so far down on this scale.

Mr Oughton: In any procurement, Mrs Browning, the criteria that a department would address would have to reflect the nature of the procurement or the nature of the supplier base, the nature of the market and, indeed, whatever arrangements they have in place already. They may already have, for example, an accredited list of contractors who they will have assessed, for example, on financial health and standing before they even get to the point of the procurement process. That would happen with the defence contractors' list, for example. In those circumstances there would not need to be a separate exercise to look at the credit rating of a company. The criteria which are going to be important in a procurement will change depending on the circumstances. The key, of course, is that the department when it starts that procurement sets out and makes absolutely clear to potential bidders what those criteria are going to be so that at the end of the process when the value for money judgment is made it is a judgment made not just on the price but also on these other criteria.

Q49 Mrs Browning: So, for example, when we see projects, and I can think of one particular one which was held up I know for some years on the Bristol bridge with the motorway there in terms of subcontractors, is it the case then on those longer term projects, having established the contract, there is any requirement to go back and check credit agency checks or credit viability as these longer term projects continue?

Mr Oughton: I think I would say that one of the elements of best practice that we in the OGC would very much encourage on a client in a department is to ensure that it maintains a close relationship with the supplier once the contract has been placed. It would be, I think, poor practice if the supplier and the department were operating at arm's length and these issues were not visible. If there is a close relationship and a good dialogue based on a partnering approach to the delivery of the service or the product then there should be no surprises in that relationship.

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Q50 Mrs Browning: Are you quite content then with that, what is it, about 32% of credit agency checks on that chart, you are quite confident with that level of credit agency checks?

Mr Oughton: I cannot tell what other arrangements would be in place in the case of the other 72% of business. As I say, it may well be that departments will have other arrangements for pre-qualifying their contractors.

Q51 Mrs Browning: Can I ask you, do you have any concern about this area of contracts taken out in the public sector in terms of the financial viability of the supplier? Is that an issue that you think needs to be addressed or are you quite content with the systems in place?

Mr Oughton: I think we would have concerns if any public procurer were placing a contract that was not based on a solid foundation, a solid understanding of the capabilities of the supplier and their ability to meet the specification, the quality, the time, the cost parameters. So all of those issues would need to be taken into account.

Sir Peter Gershon: Can I just add to that?

Q52 Mrs Browning: Yes?

Sir Peter Gershon: When the IT industry was going through considerable turbulence through a very severe downturn in the last couple of years, we did have concerns about the financial viability of one or two of the common suppliers to Government and we did take steps to satisfy ourselves that their financial viability was reasonably likely to be assured and there was no need to take contingency action.

Q53 Mrs Browning: How far would you go in that respect? Credit agency checks are—

Sir Peter Gershon: No, this goes far beyond doing routine credit agency checks. This involved doing very extensive financial analysis of what was going on.

Q54 Mrs Browning: Including current year management accounts and things like that?

Sir Peter Gershon: Yes. I have to say, those activities were done with the co-operation of the companies concerned which did give us access to highly privileged data and also to their own external auditors.

Q55 Mrs Browning: I assume if they had been resistant to that you would have drawn your own conclusions?

Sir Peter Gershon: That might have led us to draw certain conclusions but that was not the case in either of the situations which gave rise to that concern.

Q56 Mrs Browning: Could I just ask Mr Smith, please, we notice here in volume two, paragraph 1.10, page seven, that, although it is a small amount of the finance involved, in 2002–03 half your invoices were for less than £100 and the transaction costs for processing was estimated to be £70 per

transaction. Now I see in the NAO Report that you intend to address this by using a different system and moving over to IT systems more for your invoices. Are you satisfied this is going to be met because this seems a very disproportionate amount, £70, on these very small hundred pound invoices?

Mr Smith: I think the estimated cost of realising an order through to invoice through to payment is generally recognised to be £70, and I am in full agreement with that. Certainly the nature of DWP business, given that it is a fairly new department and still has legacy systems from its inherited department, by its nature a lot of our procurement is of low value and I fully accept the point, and indeed the actions that we need to address within the NAO Report, that we need to look at bringing that process cost down. We need, also, to address the level of low value orders which are absolutely necessary to the business of the department and, therefore, to optimise our value for money in those ways. We process our invoices some 67% of them electronically now, which is a good way forward and indeed a start. Currently we are in the process of the final stages of the procurement action and then into a roll out is a full procedure to pay electronically procurement system which we estimate will make drastic inroads into the cost of our processing of orders and invoices. One of the things from the procurement function that we need to be very clear on is that we are ordering products at an economic order quantity. The cost of stockholding consumable items, for example, is very high, we need to make sure that we have the business of the department to deliver optimum value for money right, set against the consumable costs, as is pointed out, of generating and fulfilling an order. We do see the procurement route as drastically bringing the cost down.

Q57 Mrs Browning: Many businesses, of course, because of the nature of their business would deal with this volume and this level of invoices and yet I would be horrified to think that they incurred 70% of the transaction costs in processing them. I can see that you are now looking to use IT to bring those costs down. Are you quite confident that will happen?

Mr Smith: We use, also, the Government procurement card for a large number of our low value procurements to bring that transaction cost down, again that is an OGC initiative that is rolled out significantly across central Government. DWP has over a thousand GPC cards in use and that itself has delivered significant savings. I think that £70 average is a public sector average—

Q58 Mrs Browning: Can I just say that it is extraordinarily high in comparison with a lot of businesses who simply could not tolerate that ratio.

Mr Smith: It is a full end to end estimate from the initiation of the requirement to the generation of the order to the fulfilment of the order and, where appropriate, payment, and electronic payment of the order. It is a full end-to-end process. From my

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experience, and I fully acknowledge there will be businesses who have managed to reduce that either through technology or through a more efficient process have brought that down but similarly there are organisations in both the public and private sector where that is higher.

Q59 Mrs Browning: I have only got a minute left so I just want to put a point to Mr Oughton. I see throughout the Report that we have that there is reference in several of the tables and several of the parts of the Report to the need to reduce the numbers of suppliers, also highlighting the risk of only having a small number of suppliers. I just wonder how you balance that and also, in some of the more complex procurements how you get the best from the suppliers in terms of innovation that they provide to you which is much more easily done when you only deal with a small number of suppliers than if you have a wide range of suppliers. I wonder how you are balancing that need to be there at the cutting edge of innovation which your suppliers might require?

Mr Oughton: Mrs Browning, it is absolutely the balance that we have to strike. I think in terms of the costs of a procurement process and the transaction costs and the manageability then you will find not just in the public sector but best practice in the private sector moving towards concentration on a smaller number of suppliers, hundreds rather than thousands, and figures in the Report show that in some departments there are very many thousands of those suppliers. I think the trend is bound to be in that direction. Two points to balance off against that. It is very important that we find ways into the marketplace for small and medium sized enterprises. It may be that they have a role to play not as prime contractors but as part of a managed supply chain and part of the work that we are doing to implement the Better Regulation Task Force report is looking at how we can reduce barriers to entry to small and medium sized enterprises, both at that subcontract level and also maybe directly by giving them the opportunity to get access to new business. We are running two pilots, at the moment, in the West Midlands and in North London in Haringey, due to conclude in the summer, looking at how a route into the marketplace can be secured for SMEs. On the innovation point, I think it is very important that we create circumstances whereby we can have a dialogue with suppliers before we get to the point of the formal procurement process because once you are at that point, of course, the rules and the procedures are very clear. One good example of how we are taking that forward with the IT industry is through the initiative of concept viability which was launched by the IT industry, by Intellect, at the end of last year. That is a process whereby we can have a dialogue with our suppliers before we reach the point of formal procurement to test solutions to requirements, to see what is going to work and what is viable and that will allow us, I hope, to encourage innovation into the procurement process.

Q60 Mr Jenkins: Sir Peter, I quite like this Report. I think a lot has been done, you are on the right path. It just shows we started effectively, you were quite right when you started, the progress needs to be developed and maintained. Now you are coming to the end of your time, I notice on page 23 on figure seven, point 11, it says “. . . in order to achieve and maintain a satisfaction rating of 85% . . .”, but in a survey conducted amongst 650 key customers in your departments they do not like you and they show only 75% satisfaction with your performance. Would you like to tell us what sort of level of satisfaction you have with their performance with regard to departments and agencies? The floor is yours.

Sir Peter Gershon: Can I say there has been a very positive response to the agenda that we have sought to put in place. If you look back to where we started from, we were in an environment where basically there was not much collaboration of any form between the departments, we have moved a long way from that. As I said earlier, one of the areas where I would have liked to have made more progress when I look back is that I did not persuade more departments earlier to appoint commercial directors at sufficiently senior levels inside the organisation.

Q61 Mr Jenkins: Exactly. It is a failure on the departments' behalf, is it not?

Sir Peter Gershon: No. I regard it as a failure by me to put a convincing argument to the permanent secretaries to get them to change.

Q62 Mr Jenkins: I see. So you were not up to the job.

Sir Peter Gershon: In that area I was not up to the job.

Q63 Mr Jenkins: I hope Mr Oughton will perform much better.

Sir Peter Gershon: I hope he will as well.

Mr Oughton: I hope so.

Q64 Mr Jenkins: I should have thought I would have liked to have seen a figure of 55% or 49%. I cannot tempt you down that route?

Sir Peter Gershon: No. The results were based on a proper structured survey. I have run no such survey in the reverse direction.

Q65 Mr Jenkins: Mr Oughton, some departments have shown much lower savings than others, why?

Mr Oughton: Many of the savings that were reported in this document, of course, are one year savings for 2002–03. I think you have to look at a longer run of activity in departments. Requirements change. Some departments will be active in the marketplace in some years but not others. If you look at the savings, for example DWP suddenly emerges on the stage in year three of the first three years of our savings and suddenly leaps to become 28% of our savings on 30% of the business. They had a big procurement at that stage in the States and moved into the marketplace. It will look different year on year.

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Q66 Mr Jenkins: Of course it will. Only 45% of departments use the successful tool kit so 55% do not. Is that why we do not see these savings achieved in departments?

Mr Oughton: That worries me.

Q67 Mr Jenkins: It worries me as well.

Mr Oughton: It worries me because when we launched the tool kit initiative, it was linked very directly to giving support to gateway reviewers to understand best practice techniques so they could apply them in the gateway process. We have rather changed the focus of the tool kit since then and made it a tool of more general applicability, encouraging officials in departments involved in procurement to use this. I do not think that we have made yet sufficient progress to embed the changes which are representative of the tool kit. I think the OGC has done a terrific job in developing best practice guidance, drawing on good examples of how to improve performance. The trick, of course, is turning that into an effective communication channel to departments so that they can learn the lessons from the best practice and embed that in behaviour. I suspect we have not been good at that.

Q68 Mr Jenkins: Comparisons across Europe show we are not too bad across Europe but I quite like the German example where they will not set targets, what they use is the budget, to see if they meet expectations and have lower procurement costs. Would you rather see us do that here?

Mr Oughton: Effectively programmes are budget constrained now so the challenge already exists for any project manager in the department to live within the budget that is given. What we try to do with the tools and techniques and advice we are able to offer is to find a solution to living within that challenge.

Sir Peter Gershon: The great danger if you reduce budgets is that you reverse the progress that has been made to try to shift the public procurement away from a lowest cost mentality to value for money. This Report illustrates we still have some way to go, at least in the eyes of our suppliers. If you just cut budgets this year or next year, the progress we have made will be reversed and I think that will be very detrimental.

Q69 Mr Jenkins: Sir Peter, I understand value for money, I also understand real life costs. It is a pity more people in the department do not have procedures in place to evaluate the real life costs.

Sir Peter Gershon: I think we have made a lot of progress.

Q70 Mr Jenkins: We have made progress, yes.

Sir Peter Gershon: We clearly have more to go but decisions are made on a much more holistic value for money basis than they were, particularly in large complex projects.

Q71 Mr Jenkins: I will talk to Mr Belt. You purchase equipment; you purchase specialist activities, so why do you not have a strategy for procurement in place?

Mr Belt: If you look at the Report it states that we have what we call procurement policies. I think if you look at what the NAO term as a strategy in, I think, page eight of their Report, our policies marry very closely to that. I think what we have not done really is written those policies in the form of a strategic statement and formalised that procedure. One of the lessons we have learnt from this Report is that is something we have to do. We do have policies, they match a strategy requirement but we need to formalise that a bit more and set it down much more clearly. In saying that, I think we have had strategies for major procurements that we have undertaken but, as I say, we need to formalise it and that is a lesson we have learnt.

Q72 Mr Jenkins: It is not a one-off the strategy?

Mr Belt: Exactly.

Q73 Mr Jenkins: You are satisfied with it. Sir Peter, are you satisfied, have you read the Report?

Sir Peter Gershon: Satisfied with what?

Q74 Mr Jenkins: The fact that they do not have the strategy in place?

Mr Belt: I am not satisfied. I did not say that. I said that is a lesson we have learned. I think we have gone some way to a strategy but not fully. I am not satisfied with that. This Report is highly edited and that is one of the actions we will take on board as a result of this Report.²

Q75 Mr Jenkins: So we are going to get better?

Mr Belt: Yes.

Q76 Mr Jenkins: Mr Unwin, I see that you lack reliable procurement data and your savings data is not checked by internal auditors, so how can you be sure that the savings figures you report are accurate in any way, shape or form?

Mr Unwin: On the data point first, as the Report points out, we had teething problems with our SAP accounting system which was introduced in 2002. We are addressing those problems and in fact now are building up reliable data so we will have satisfactory data. On the internal audit point I accept these figures should be checked by internal audit and I have instructed that future figures put to OGC will be so checked.

Q77 Mr Jenkins: They will be checked and signed off by an internal auditor?

Mr Unwin: They will be, yes, in future.

Q78 Mr Jenkins: When in the future? As of now?

Mr Unwin: As of the next figures we put to OGC. We put these figures to OGC on an annual basis, and in future years when we put them they will be checked and signed off by internal audit.

² *Note by witness:* The point I was trying to make was that we were content with the comments and one of the actions we will take on board as a result of the report was to define a strategy.

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Q79 Mr Jenkins: Mr Smith, so you do not feel left out, you are the Department's commercial director. How can you ensure value for money has been achieved when most procurement spend is not directly under your control?

Mr Smith: DWP, as I suggested before, is a large and complex business—indeed, a new department with legacy arrangements that have been inherited from former DSS and Employment Service. A large amount of our procurement business, for example in Job Centre Plus, is rightfully and necessarily devolved at a local level. As commercial director in DWP, I have professional responsibility and accountability for all of its expenditure. I have direct line management for a number of major areas in high levels of expenditure, for example, on estates, and other high expenditure areas like consultancy and print are directly within my line. However, the Department, part of which I manage, has a corporate commercial centre; we have a DWP-wide commercial strategy of the type you have just been discussing; we have policy; we have best practice set, owned and managed from the commercial centre that covers all of our expenditure.

Q80 Mr Jenkins: That is fine. You have procurement officers, have you not?

Mr Smith: We have.

Q81 Mr Jenkins: What grade are they set at?

Mr Smith: In Civil Service grades those who enact and manage procurement activities range from SCS level to an AO and EO level, at various degrees of responsibility. One of the other things we put in in line with best practice from OGC is we are rolling out delegated purchasing authority so that I can be sure and can assure the principal accounting officer that procurement decisions are taken by those who are trained and qualified to do so.

Q82 Mr Jenkins: “Trained and qualified”. What percentage of your procurement officers are trained and qualified?

Mr Smith: In terms of those who have CIPS qualifications we are currently, and this is after information was provided within the Report, at 49% of our designated procurement posts. Designated procurement posts, those who will be full time in key posting activities, are professionally qualified and our commercial strategy looks for, and we are training towards, a far higher percentage than that.

Q83 Mr Jenkins: Mr Oughton, he has got 49% qualified in his department. Why is it that the qualifications are not held in esteem within the departments, or are not pushing for these qualifications and so few are qualified?

Mr Oughton: I think part of that does come back to how this skill and this professionalism has been viewed in government up to now, but we are making changes. First of all, we are making changes because we are placing more emphasis on securing qualifications, both with the OGC certificate of competence and by encouraging staff to go for CIPS

qualifications. There has been a 10% increase in staff who are going through the CIPS graduate level qualification, so that is a start. We are signalling the importance of programme and project management specialism as a skill and, again, launched a specialism last year by the Cabinet Secretary, Sir Andrew Turnbull, signalling the importance of people moving into that discipline and developing skill. And, of course, both the Prime Minister and Sir Andrew Turnbull in launching the professionalisation agenda for the Civil Service in February drew particular attention to the importance of having other career routes through the system so that individuals with these skills and professional qualifications have the opportunity to rise to very senior levels. Indeed pushing on the point that Sir Peter himself has been pushing on for the past three or four years, registering the need for serious commercial director level support in the Department at or around main board level there is another clear route through the organisation, so I think we are giving a signal that this is a very important professional area that needs to be encouraged and pushed hard.

Q84 Chairman: One of the relevant tables is on page 43 directly on this point, figure 31, where in the second block it says for percentage of designated staff “With CIPS or other procurement qualification. All, 23%”, and “Working towards CIPS or other procurement qualification. 11%”. It is very low, is it not?

Mr Oughton: No.

Q85 Chairman: You are not happy with that, are you?

Mr Oughton: Those figures need to be higher and that is why one of the main areas of push we have in the organisation is on the whole skills agenda, working together with Cabinet Office to push it forward, and with senior level civil servants as well.

Mr Jenkins: And the grade is not sufficient to allow people to come in?

Q86 Chairman: Fair comment.

Mr Oughton: Yes, which is why we are pushing the skills agenda higher. We need to move that further forward.

Q87 Mr Bacon: Sir Peter, congratulations on having survived four years in government. You are now leaving, I believe. Have you have left? Are you gracing us with your presence?

Sir Peter Gershon: I am no longer a civil servant. I have been recalled.

Q88 Mr Jenkins: He still speaks like one!

Sir Peter Gershon: That is as a result of too many appearances in front of this Committee!

Q89 Mr Bacon: I am reading your speech on the Programme and Project Management specialism inaugural conference on Thursday 23 October last year in which you say, funnily enough, “Isn't it nice

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to be able to recognise success for a change instead of being up in front of the PAC trying to explain the indefensible". Could you elaborate on which particular projects you had in mind?

Sir Peter Gershon: I have never been up in front of the PAC on a specific project.

Q90 Mr Bacon: You said "instead of being up in front of the PAC trying to explain the indefensible".

Sir Peter Gershon: I would regard the time I had to come here on the Report about the procurement of professional services as quite a sticky wicket to bat on.

Q91 Mr Bacon: That brings me to my very next point because when I first met Mr Oughton 10 years ago when I represented the management consultancy industry—which was itself an enlightening experience—Mr Oughton was the head of the Prime Minister's efficiency unit and was responsible for the scrutiny study on the use of external consultants in government which was, if you like, in some ways a pre run for the NAO Report that came out that you just referred to. You referred later in your speech to the fact that there is plenty of advice out there; it is not a question of finding good advice, there is a shelfload of it; I have lost count of the number of times I have referred to Mr Oughton's report since I have been a member of this Committee. Indeed, I was once at a seminar with Mr Oughton where he referred to it as one of the central tomes of western civilisation, so I know I am quoting an authoritative source, but one of the striking things about that report is that it is full of, and many of these other reports are full of, best practice advice and yet the same problems recur again and again. Mr Oughton referred to there being a communication problem. What are you doing in government to address this communication problem?

Sir Peter Gershon: I do not think it is just a communication problem. Some of it is about getting confident, capable, experienced people in the right jobs because those people do not need a lot of guidance issued for the OGC or anywhere else because to them a lot of it is common sense. The reality is that guidance can help—it is a reference for people to look up to confirm what they thought in the first place, but guidance can never transform ugly ducklings into swans and we should not kid ourselves that that is the case. Guidance cannot compensate for people who are neither confident nor capable nor experienced and what we are trying to do now through, for example, a much stronger focus on the so-called mission-critical projects of the government is to be able to get a spotlight as to whether the key people, the key roles on those projects, meet those sorts of criteria that are identified, and where they do not to try to get pressure brought to bear to bring about changes and to get the right people put in place. Someone like Richard Granger does not need tomes of guidance from the OGC. He occasionally finds it helpful to talk to me and subsequently to John and one or two others around the place to calibrate what he thought

about certain things with our own experience of the guidance. We must be able to get the balance right between having to do more about embedding guidance and making it more digestible but this can never be a substitute for a sustained focus about getting the right people into the key jobs—whether they be commercial directors, programme directors, or senior responsible owners.

Q92 Mr Bacon: That raises two further questions. Firstly, concerning Sir Andrew Turnbull's recent announcement about four year posts, I think the first time you appeared in front of this Committee you agreed that there is a problem with people in the Civil Service being moved on when it is time for them to have another posting, as it were, rather than necessarily when it is right for the project. How far ahead are we for this move to four year posts? Is it going to become the norm?

Sir Peter Gershon: It is going to become the norm for the senior Civil Service but people will be able to argue a case why somebody should not change jobs at the four year point. It is not something that is going to be just blindly applied, but it will become the norm.

Q93 Mr Bacon: That people will spend longer in jobs than they have done?

Sir Peter Gershon: Yes, but very often people will stay there four years. That will be a major step forward on what we have seen to date.

Q94 Mr Bacon: You mentioned Mr Granger, and he is a widely experienced and respected professional. Nonetheless in the National Programme for IT in the Health Service which he is leading he appears to be going directly contrary to the advice of this Committee and of the NAO in relation first to doing projects incrementally bit by bit rather than in one large chunk and second, that the IT for any particular project should be designed in parallel with the business process, which is explicitly not happening in certain respects in relation to the NPFIT. Indeed, Mr Granger is on record as saying that he does not regard the clinicians' buy-in to his projects as part of his responsibility. Does that not worry you?

Sir Peter Gershon: If we take the last point first, Mr Bacon, getting the buy-in is not Richard's responsibility. The Department has declared that to be the responsibility of the deputy chief medical officer, Aidan Halligan, because it was decided that it had to be led by somebody who had standing amongst the professional community, and it would be very hard with the best will in the world to expect anyone who was an IT professional to secure buy-in and drive out the benefit realisation amongst the medical professional community. The second point is, I know you have made the comment before about whether this programme is just ignoring the lessons that came out of projects like Libra. It has taken into account the design of business process, both through the nature of the people they have involved in the design of the programme and looking at what had

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been successful working designs in various hospitals that have adopted new IT systems, so the extent to which they have done this is in a completely different league to what happened or did not happen with Libra.

Q95 Mr Bacon: Can I ask you about Gateway, although I realise Gateway does not apply to the Health Service?

Sir Peter Gershon: For the record, it does. The national programme is subject to Gateway reviews.

Q96 Mr Bacon: Is it now?

Sir Peter Gershon: Both at the programme level and the individual component project levels.

Q97 Mr Bacon: I am pleased to hear it. The last time you appeared before us you said it was not.

Sir Peter Gershon: We will need to check the transcript but I am pretty sure I confirmed that was the case.³

Q98 Mr Bacon: If it is, I am very glad. Do you think Gateway should have more teeth than it does at the moment, frankly, in terms of being able to stop a project from the centre?

Sir Peter Gershon: No.

Q99 Mr Bacon: The responsibility and accountability should rest with the Department?

Sir Peter Gershon: Yes.

Q100 Mr Bacon: It would be helpful for you to comment on this as well, Mr Oughton, but when I look at a project like the individual learning accounts, you mentioned in your speech to the Programme and Project Management specialism, “For example, project planning techniques—there are still far too many projects and programmes reviewed by Gateway teams where, frankly, project planning is little better than something on the back of a cigarette packet”. The individual learning account looked very much like something done on the back of a cigarette packet, and since the responsibility does rest with the Department—I remember asking the Treasury this when they were last before us—in relation to the ILA where was the Treasury, and their answer was that it rested with the Department. Your answer is the Gateway units, if you like, rest with the Department. If something is going horribly wrong, as it was with ILAs, and it was not the largest amount of money that has been wasted but in terms of lack of structure it was one of the worst we have seen, where in the system is there a process that says “Look, you are making a complete and utter Horlicks of this, everyone can see that, and it has to stop”? Because it went all the way. In fact, the only reason it stopped was that after about twelve months of allegations of fraud and things in the *News of the World* and the police being finally called in, the Department woke up and said

“Whoops, there’s fraud”, when loads of people had been telling them that for at least twelve months, and before it was launched that it was going to have fraud, because it was susceptible to it.

Sir Peter Gershon: My recollection is that that particular project was not subject to Gateway reviews. The simple thing was that if a project gets consecutive reds that automatically now triggers a formal letter from the OGC chief executive to the Departmental Permanent Secretary to make sure they are aware of that and the reasons why consecutive reds have occurred, to force a formal response from the principal accounting officer that they have investigated the situation and have decided by themselves that the causes for the underlying consecutive reds have been addressed. Our view is that if you have a problem where people are wilfully and knowingly driving through consecutive red traffic lights and eventually that project ends up here, I suspect you will have an absolute field day with the Permanent Secretary because that really will be completely and utterly indefensible.

Q101 Mr Bacon: And the Permanent Secretary did not try to defend it. His first words were that he was ashamed of it, but why can we not have a system where something is done further back along the line to prevent it getting quite that far?

Sir Peter Gershon: I think you are in an area where ultimately that would be a completely different system of government to what we currently have today, if you had a mechanism whereby the centre could make arbitrary decisions to terminate a project. I personally do not think that is right because it would undermine the whole principle of departmental accountability.

Mr Oughton: Perhaps I could comment. One other point is that the individual learning account initiative, of course, started a long way back. The Gateway review process itself has been evolving and maturing over the period of Sir Peter’s tenure of the OGC. It is now absolutely clear that we have introduced a Gateway nought process right at the earliest stage of a concept for a major programme or project which would ask exactly these questions right at the outset. It would ask about governance, it would ask about all of the arrangements that form the basis for launching the project, and if at that stage the project secured a red traffic light then not only would the Department get a signal that there are issues that it had to address but it would in most respects come back and have a Gateway nought again. It would not just keep on going but it would say “I have some things to fix, I have to put this programme on a more solid foundation and then I am going to re-apply the Gateway nought to test whether that has been achieved”, so the introduction of a Gateway nought prior to the formality of the Gateway process as it was first designed is intended to pick up these issues right from day one.

³ *Note by witness:* For confirmation please see evidence given to the Committee on Purchasing and Managing Software Licences (Response to Q 57, 29 October 2003).

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Q102 Mr Williams: This Report looks at £15 billion annually on goods and services spent by government departments, but if I read correctly it does not include health and defence, is that correct?

Mr Oughton: That is correct. The formal remit of the OGC is civil central government excluding health and defence.

Q103 Mr Williams: Why?

Mr Oughton: Because that was the basis on which OGC was set up.

Q104 Mr Williams: Why?

Sir Peter Gershon: Perhaps I could answer that. Firstly ministers decided when they invited me to do my review in 1999 that the remit was civil central government because I think they obviously felt, and you have to remember this was not long after the smart acquisition reform programme had got under way in MoD so they felt there was little point in looking at defence procurement again at that particular juncture, and there was a sense that the measures that had been taken in health at the time were adequate but there was also this feeling that, despite these three previous attempts at reform in the 90s, in this area of government nothing really had happened and they wanted to find a way of kick-starting it, so when the OGC was created it was given this remit, which is still a pretty large remit, and what has happened subsequently is that, although the remit was not formally extended, we developed collaboration with Health. Health voluntarily adopted the Gateway review process; the MoD have piloted the Gateway review process and are beginning to roll it out, and we did other things in collaboration with the MoD. For example one of the things we have done collaboratively with the NHS is to put a framework agreement in place for photocopiers which is now available to the whole of government. Ministers are currently considering whether OGC's remit—

Q105 Mr Williams: My initial question was about the exclusion of these two departments. Now I can understand the exclusion of defence on the basis of what you said; it is not much good looking for the market price of jet fighters and that sort of thing and they have their own special systems in relation to their deals with their suppliers. I have a question for the C&AG. We are dealing with £15 billion worth of expenditure here. How much more would be covered if the NHS were included?

Mr Burr: I have not got that figure. It would be much better for us to find it out for you.

Q106 Mr Williams: You cannot even guess whether it would be that much again, or half that much? Is it insignificant?

Mr Burr: It is certainly not insignificant.

Sir Peter Gershon: It would add at least a similar amount.

Q107 Mr Williams: That was my impression.

Sir Peter Gershon: As an order of magnitude.

Q108 Mr Williams: So it does seem rather strange when the NHS which works within a fairly predictable range of purchasing is not included in what seems a top priority for saving on unnecessary expenditure, and that the NHS, which should lend itself to some structuring of these operations, is outside your field. Did it not seem strange to you that health was not in it?

Sir Peter Gershon: No, because when we started we did not know how to get traction and engagement with all the departments in civil central government and, if you look at this Report, it indicates there are clearly areas where we have more to do even within civil central, so I think the danger is, if we had had a much wider remit, we might never have got off the ground.

Q109 Mr Williams: Why not?

Sir Peter Gershon: Because health is enormous. It is very complex; a lot of—

Q110 Mr Williams: But there is a lot of money and a lot of savings could be made?

Sir Peter Gershon: But a lot of what it buys is quite specialist.

Q111 Mr Williams: It is specialist but within predictable ranges, and therefore lends itself open to scrutiny.

Sir Peter Gershon: Yes, but it is also about having people in the OGC who have relevant skills and expertise. We have people who understand about IT procurement and construction procurement; we do not have people who understand anything about buying medical scanners, pharmaceuticals.

Q112 Mr Williams: But if you had been given that remit you would have got them, would you not? These people are not unobtainable, are they?

Sir Peter Gershon: No, but if you want to start a reform programme one of the biggest dangers is to have too wide a remit and you just cannot focus on anything.

Q113 Mr Williams: So we cut out half of it. We say that we will amputate half and concentrate on the rest, including a lot of areas who spend next to nothing, and we will eliminate or ignore the other half, the NHS expenditure, which you said is at least equivalent to this.

Sir Peter Gershon: Yes, and what happened is, as the OGC began to develop some success, collaboration with the NHS has grown, subsequently the Permanent Secretary of Health who is also the chief of the NHS invited John's predecessor at the time, my deputy, to do a review of procurement of health and he accepted the recommendation from the OGC that Health should appoint a senior commercial director, which they have done, which has strengthened the relationship still further.

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Q114 Mr Williams: Goody, goody, but all this is suggesting that in fact there is scope for their involvement and for them to learn from what you are doing. It is not your fault; it seems to me there has been an arbitrary and inexplicable decision to exclude such a major sector of expenditure. Is NHS doing anything comparable to what you are doing?
Sir Peter Gershon: It is importing quite a lot of what we have done like the Gateway review process.

Q115 Mr Williams: So it is learning from you?
Sir Peter Gershon: And we are learning from them in some areas, and we are doing things collaboratively.

Q116 Mr Williams: You cannot be learning from them because they are not doing anything. They have not got anything set up?
Sir Peter Gershon: That is not the case. Through agencies like the Purchasing and Supplies Agency they were developing some framework agreements which we have been able to build on for the benefit of the whole government.

Q117 Mr Williams: Not the whole of government. For a bit of it.
Sir Peter Gershon: But wherever possible now, when the OGC puts something in place, it is not just applicable to civil central government. We try to construct it in a way that it is applicable to the whole of the public sector.

Q118 Mr Williams: Including the NHS?
Sir Peter Gershon: Yes.

Q119 Mr Williams: But they are not within your remit?
Sir Peter Gershon: They are not formally within our remit, no.

Q120 Mr Williams: Okay. It is clearly an utterly illogical, inexplicable decision which you cannot help us with?
Sir Peter Gershon: At the end of the day you would have to ask ministers why they made that decision.

Q121 Mr Williams: That is okay. That is a different matter.
Sir Peter Gershon: But in my view, giving OGC a large but finite focus on civil central government meant it was big enough to give us a lot of challenge but not so big we were completely daunted by the challenge that faced us in 2000.

Q122 Mr Williams: But avoiding waste is the new buzz phrase, is it not? Everyone is in favour of it—the Opposition, the Government—but here we have a system where we are all for it but nobody is doing anything about the NHS?
Sir Peter Gershon: It is not the case that nothing is happening about the NHS—

Q123 Mr Williams: We are not getting anywhere on this at all so let us switch to something else, a matter of explanation. Figure 34 on page 46 is quite

interesting because it shows the departments that are most likely to be in touch with market prices. Now, I seem to remember in all the talking of setting up agencies that the advantage of agencies is that the agencies have the ability to attract entrepreneurs who can bring in non Civil Service practices, legitimately cut unnecessary corners, and get enormous benefits from bringing their entrepreneurial skills to bear, yet here we find that 78% of departments are most likely to be in touch with market prices and, when you turn to agencies and this grand entrepreneurial exercise of bringing the real world into the Civil Service, it is only 44%. Why?

Sir Peter Gershon: If you go back and look at the data in the Report it illustrates that 67% of the £15 billion was spent in departments, so two thirds of everything that civil central government buys is bought by departments and the remaining third is bought by agencies and NDPBs, so there is then more concentration on what is bought in departments and it gets much more thinly spread in agencies and NDPBs, and you would expect to find the greater competence then in the big spenders.

Q124 Mr Williams: No, you would not.
Sir Peter Gershon: Yes, you would.

Q125 Mr Williams: After all these are the entrepreneurial specialist organisations and they have limited expenditure anyhow, so it should be relatively easy for them, with all their outside know-how, to be able to be right on the ball as far as what is good market value or not, should it not? They are only half as competent as the Department. That seems to go against the whole ethos of the concept of having your executive agencies.
Sir Peter Gershon: If agencies and NDPBs do not buy that much why would you expect them to be on the ball regarding market prices? They can still be highly entrepreneurial on what they are delivering but, if they are not buying a lot, it would be pretty difficult to be on the ball in respect of the market prices of what they buy. If you take a big department like DWP I would expect somebody like Dave Smith to be on the ball.

Q126 Mr Williams: Well, that is your judgment. We will see what the Committee's judgment is when it makes its report. Finally, in paragraph 2.17 there is an interesting reference there, and Mr Allan touched on this paragraph, which deals with the use of a government procurement card, and it talks about concerns about maverick spending and abuse of the card. On maverick spending there is an example given in Volume 2 of furniture that was bought and so on so I understand what was meant there, but what is the reservation about abuse of government procurement cards?

Sir Peter Gershon: Despite the fact that the card is strongly endorsed by the OGC, the Treasury and the NAO, there is still a perception in some parts of civil central government that if you give purchasing cards to people they will go and abuse them. It ignores the

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fact that you get far better management information relating to the use of cards about what was bought, how much and where it was bought, which makes the detection of abuse far easier than when small purchases were done using traditional methods.

Q127 Mr Williams: I am trying to find out what abuse we are talking about. What it says here is that reservations centred on concerns about maverick spend and abuse of the card.

Sir Peter Gershon: That is what I mean.

Q128 Mr Williams: What abuse are we talking about?

Sir Peter Gershon: There is still a perception amongst an ever diminishing number of organisations that if you give people a card they will use it not to buy things which are in support of the business but to buy things for their own personal use.

Q129 Mr Williams: That is what I was afraid it might mean. Is that just a prejudice or is it based on experience?

Sir Peter Gershon: No, that is a prejudice.

Q130 Mr Williams: No experience at all?

Sir Peter Gershon: No, because where people have sought to do that the management information you get from the use of the card makes it very easy to detect where people have been using the card inappropriately. You get a much better quality of management information with the card than you get with the old system.

Q131 Mr Williams: You misunderstand me; I am not doubting that you have that benefit. What I am saying is, is there abuse or is not there abuse and, if there is, the Committee needs to know what it is.

Sir Peter Gershon: There has been very limited abuse and where it has been identified the appropriate disciplinary action has been taken.

Q132 Mr Williams: So, while they have been limited in terms of number of incidents, have any of them been significant in monetary terms?

Sir Peter Gershon: Not that I am aware of.

Q133 Mr Williams: Since this is an area obviously that is of particular relevance always to the Public Accounts Committee, will you put in a note dealing in greater detail both with the element of maverick spending and of abuse?

Mr Oughton: I will arrange to do that, Mr Williams.⁴

Q134 Mrs Browning: I wanted to touch on maverick spending and one of the items on page 13 under the recommendations of bringing maverick spending under control. The Report tells us that this amounts to some £300 million annually and if it was not brought under control £11 million savings or money

gains could be achieved. Notwithstanding the use of this card, what is causing maverick spending, and generating it?

Mr Oughton: A lot of this is about lack of information, Mrs Browning, so the departments are always aware precisely what spending is taking place and for what purpose. As the Report explains, information is improving; in most departments now systems will generate that information. In the Department for Education and Skills it does not yet but the new accounting system will do that and that will then improve the information available. In the case of the procurement card, as Sir Peter has explained, the audit trail is much clearer because monthly statements will show precisely what is spent. That then allows the system to get better control over what is happening, so the answer is better management information and financial information available.

Q135 Mrs Browning: But this is expenditure outside authorised buying arrangements, according to this. What are we talking about? Are these things that departments or agencies suddenly decide they want to buy and they take no notice of the guidelines or who you recommend they purchase from, or is this non essential purchasing?

Mr Oughton: It could mean that purchasers with absolutely legitimate requirements are going out into the market place without being aware of the routes in they could use. They may not be as aware as they should be that there are framework contracts, that there is an aggregation deal they can join, or of the techniques they can use to secure best value for money, so they are getting a sub-optimal solution. It could be any of those. It does not mean they are buying items they do not need which are outside requirements—that would constitute abuse and would be dealt with under normal disciplinary procedures. It would be money spent for legitimate purposes but not through the best possible routes. The answer to that is to identify what that spend is and to raise the awareness and understanding of departments of the most advantageous route.

Q136 Mrs Browning: And is this £300 million made up of lots of little purchases, or are there significantly sized purchases among it?

Mr Oughton: I could not answer that but my intuition would tell me it is mostly an aggregation of small items.

Q137 Mr Allan: Mr Smith, Mrs Browning touched earlier on on this question of the high transactional costs, and according to paragraph 1.10 page 7 of the Case Studies, “Part of [your] Department’s strategy is to reduce costs by moving to purchasing a large proportion of low value, high volume items electronically.” which presumably means stationery, computer consumables and so on. Have you commissioned a system to do that?

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Mr Smith: We are at the final process of a procurement process to implement Oracle solution to deliver complete purchase to pay, and we are expecting the initial roll-out to commence at the end of 2005.

Q138 Mr Allan: Mr Unwin already has a system called BuyNet which he has spent taxpayers' money on. You are not buying his system.

Mr Smith: No. We are buying an off-the-shelf package which is not customised and therefore not tailored specifically that is used by other parts of the public sector successfully, and that has very much been part of our rationale to deliver an optimum value for money solution.

Q139 Mr Allan: Mr Unwin, you have had a lot of difficulties with your BuyNet system. If DWP which is much bigger manages to achieve it successfully with their off-the-shelf solution, will you ditch BuyNet in favour of that?

Mr Unwin: I would not say we had a lot of difficulties with BuyNet. We were behind schedule with BuyNet and we would regard BuyNet as having been successfully introduced. Where we see BuyNet going though is through the OGC Zanzibar project which is coming on, and when that comes on in 2005 we see BuyNet going into that and then we will have the benefit of a cross-government system on that basis.

Q140 Mr Allan: Does it not seem odd to you that you were spending taxpayers' money differently in two different departments? Your Zanzibar seems a bit like Xanadu, the promised land. This seems fairly straightforward. Buying consumables and stationery you only need one system, do you not, for government?

Mr Oughton: Again, different departments start at different points in terms of timing. If we satisfy ourselves the Zanzibar project is an investment worth making and if we are convinced it will be good value for money, it will constitute the implementation of the purchase to pay arrangement which a number of departments can join. Something like a dozen departments have already committed themselves to using the system if we go ahead and implement it, but we are currently assessing the business case to satisfy ourselves that it is the most robust way forward.

Q141 Mr Allan: In the meantime we are making two very different investments effectively to achieve the same objective in two departments sitting here today, and goodness knows how many others.

Mr Oughton: And it may be that, when we conclude our consideration of meeting the Zanzibar requirement of having a purchase-to-pay system, the right answer will be to go into the market place for a commercial off-the-shelf product exactly as DWP has done, and it may be the same product, but we have yet to take those decisions.

Mr Unwin: And also you need to take account of what computer systems the departments are on. Our system is on SAP, DWP are going for Oracle because

that is what their accounts are based on. One of the difficulties we are learning about with BuyNet, and other departments will know this as well, is the need to make our systems enable suppliers to come in on a common platform, whether it is Zanzibar or others, so we have something that joins up with the accounting system.

Q142 Mr Allan: And you need it to link to the accounting system that does not allow us to know with which suppliers you spend most of your money?

Mr Unwin: I am pleased to say that we have learned from the Report on that particular issue, the issue of identifying our suppliers, and improvements have been made to the accounting system so we now are able to identify our top twenty suppliers and have supplied that information to the NAO.

Chairman: With reference to BuyNet, if you look at Volume 2 on page 13, figure 15, Mr Unwin, right at the bottom, it says, "By October 2003, only 1,400 orders and 1,300 invoices had been processed on BuyNet, compared to the business plan targets of 13,500 orders and 72,000 invoices."

Mr Allan: £3 million.

Q143 Chairman: It is not very satisfactory, is it, Mr Unwin?

Mr Unwin: We are behind schedule because, as I say, of the difficulty of bringing suppliers on to the system. We will be reaching targets which will bring BuyNet into breakeven about a year or two after the original business plan assumption, but we will still be reaching that breakeven point.

Q144 Mr Bacon: Could we have a note setting out the total expenditure on BuyNet so far, and also the total expenditure per invoice so far?

Mr Unwin: So far and—

Q145 Mr Bacon: No, not "and, and, and". It is a question of dividing what you have spent so far by the number of invoices processed so far. It is a simple sum. I think it is £3 million divided by 1300 but can we have that in a note, please?

Mr Unwin: We will let you have a note on BuyNet.⁵

Q146 Mr Steinberg: I was going to question Mr Smith on small purchases and Angela Browning did it, but the one point which was quite outrageous which did not come out in the figures is you bought less than nine million pounds worth of goods and the administration costs were £63 million. That is quite outrageous, and you sat there and tried to explain that that was the norm—well, I do not think that is the norm at all. If it is costing £63 million to buy £93 million worth of goods, you really have to do something about it, because I could spend £63 million in my constituency quite easily on things people need.

Mr Smith: I entirely agree that the average transactional cost, which I would still maintain is very much a wider industry average although some

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organisations have through e-enablement and other techniques reduced it, is something we have to tackle and will, and it was a recommendation of the Report and it is something we have planned to do.

Mr Steinberg: I hope so.

Q147 Chairman: Again, there is a reference in the Report, Mr Smith. If you look at volume 2, page 8, paragraph 1.15, it says “the Department deals with over 12,000 suppliers, most of which are small local suppliers used by the Department’s national network of local offices.” That is your problem, is it not?

Mr Smith: That is very much, as I referred to before, the nature of business in Job Centre Plus which is around local procurement actions in terms of facilitating and enabling job seekers to find employment. Our commercial strategy, which I referred to before, has a specific action to review our supplier base and to look at an optimum level of suppliers for the Department. I would concede 12,000 is too many even for a Department our size, and it is inherent within our commercial strategy to tackle that.

Q148 Mr Steinberg: Could you give us some examples of what employees go out and buy for less than £100?

Mr Smith: I am in danger of straying into a business area but, for example, to enable job seekers to find employment there may be the provision of taxi arrangements to get them to interviews, maybe to get them to work—other things that they need to find a job interview and be successful in a job interview. That is localised low value purchasing, and what we are doing to tackle that, and indeed these are areas that are highlighted in the Report—

Q149 Mr Steinberg: So what do they do? Do they hail a taxi in the street?

Mr Smith: No. There are arrangements with local taxi firms that are available to facilitate helping job seekers into employment. That is a local purchase.

Chairman: Anyway you are going to try and reduce it. Let us move to the last question.

Q150 Mr Williams: Can I switch back to something that was touched on earlier, which is the question of the prices in the catalogues? Is it not a fact that in reality getting a product in the catalogue has become a passport to making windfall profits because, as one of you said, catalogue prices are based on the fact that you cannot predict volume and, as it says, in paragraph 2.17, they are intended to be “maximum prices”. So the prices there are the prices you would expect to pay if you were buying small amounts. But then paragraph 2.17 goes on to say, and you have agreed to this, “In practice”—although these are maximum prices and you said they take no account of volume—“it was difficult to negotiate the prices down” from the catalogue prices, so as long as they

could get into your catalogue and were stubborn they were able to charge prices for large volume orders that they would not normally be expected to get. That is why I said a catalogue is a passage to windfall profits.

Sir Peter Gershon: No, that is not the case.

Q151 Mr Williams: It must be.

Sir Peter Gershon: No, it is not the case.

Q152 Mr Williams: If there was a maximum—

Sir Peter Gershon: I am sorry, Mr Williams. You have asked me a question. Can I answer it?

Q153 Mr Williams: I hope you can.

Sir Peter Gershon: It is possible to run mini competitions and we would certainly expect anyone who had a reasonable sized volume and who felt it appropriate to use GCat to run a mini competition which by its very nature is largely focused around price for a given specification because the one thing that is fixed within GCat are the commercial terms, which have already been pre competed, and we would strongly advise anyone using GCat for anything other than very de minimis purchases to use some form of mini competition. Secondly, it was true in the original S-Cat that rates were fixed. We have introduced more flexibility in the re-competed S-Cat arrangements that were put in place from last summer and, again, we encourage the use of mini competitions where appropriate. This is not a passport to Heaven for suppliers.

Q154 Mr Williams: Then why do you not just make it a condition that, in order to be in the catalogue and to have their maximum prices quoted, they also have to show that they are then responsive to large volume orders?

Sir Peter Gershon: The nature of that responsiveness is through running a mini competition and for really large volume orders you would not use GCat anyway because, given the nature of the order and the size, you might find the standard GCat commercial terms were not appropriate for a project that demanded a large volume. As I said, you cannot vary the commercial terms and conditions in GCat. They are fixed.

Mr Steinberg: I will interpret that as “We wish you to interpret this as you want to”.

Q155 Chairman: Thank you, gentlemen. I will give you, Sir Peter, the last word. You left this job after four years. What advice would you give your successor?

Sir Peter Gershon: The only advice I would give him publicly is to heed the advice I gave him in private at our handover session.

Mr Oughton: Excellent advice!

Chairman: You disappoint me, Sir Peter! Gentleman, thank you very much for what has proved to be a very interesting session.

Supplementary memorandum submitted by the Office of Government Commerce

Questions 13–14 (Mr Steinberg): Note of G-Cat and S-Cat use

S-Cat and G-Cat are catalogue based procurement schemes to provide public sector organisations with a simplified means of procuring and contracting for a wide range of goods and services.

Because customer needs vary, it is impossible to put a firm price on every requirement. G-Cat and S-Cat therefore allow a good deal of flexibility around pricing with a number of ceiling prices to protect customers with small requirements.

As an example with S-Cat, each supplier consultant has a price range—specified as “minimum”, “typical” and “maximum”. There is also a discount structure for long duration assignments and multiple awards. These price ranges are used to select suppliers at the award of a framework. If a department then requires a consultant they have a choice of selecting a consultant from a single firm at one of the pre-negotiated rates or running a mini-competition between three or four firms within the catalogue—rates in these cases can be substantially lower than the pre-negotiated ones.

As an example with G-Cat, Ergo has been a supplier of mobile computers to the Home Office for the past 12 months. Following a G-Cat mini-tender, the department purchased approximately 150 Ergo systems in addition to other items purchased as a single call off. The procurement produced an average saving of £85.00 per unit on the published price. The mini competition also allowed the Home Office to get a superior support contract and saved considerable time on the procurement.

Those departments that do not make regular use of our frameworks may have a variety of reasons for their approach. These include use of their own arrangements and arrangements made by third party outsourced providers where they provide better value for money. The use of frameworks is also influenced by the complexity of the requirement rather than the value of the transaction. Complex requirements are more likely to require detailed negotiation of terms and conditions and are therefore not suited to standard terms.

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Question 133 (Mr Williams): Government Procurement Card

Abuse and maverick spending are different issues. Fraud constitutes abuse; whereas maverick spending is spend which is for the benefit of the organisation but where the individual uses a non-approved route to purchase the goods or service. OGC does not monitor instances of abuse or maverick spend centrally and the process for using the GPC has been endorsed by the NAO based on the much improved controls and monitoring tools that are available through the GPC compared to more traditional methods of procurement.

All organisations that use GPC have free Corporate Waiver Liability insurance which can reimburse for transactions, which are not to the benefit of the organisation, and which the cardholder has been asked to make good but where he/she cannot or will not reimburse. Evidence from the number of claims through the Corporate Liability Waiver indicates very little incidence of abuse. Across all Visa commercial cards, including GPC, in the whole of Europe 2002–03, there were only 36 claims on insurance out of 471,000,000 transactions, representing an incidence of 0.000007%. Our current rate for GPC is around 2.3 million transactions per year

With regard to maverick spending, a key strength of the GPC system is the transparency and visibility that is provided on who is buying what, from whom, when and for how much. Cardholders are aware that their purchasing activities are captured through Management Information reporting. The GPC, therefore, provides an excellent tool to monitor compliance to contracts and offers a much more effective method for minimising maverick spend when compared with more traditional forms of purchasing. It is up to each department to analyse the Management Information to see the level of contract and off contract spend.

Supplementary memorandum submitted by the Office of the Deputy Prime Minister

Questions 144 and 145 (Mr Bacon): Note on BuyNet—the total expenditure of BuyNet so far and the total expenditure per invoice.

BUYNET

1. BuyNet is a web-based system for procuring low value items, such as stationery and IT consumables. BuyNet’s key benefit is that orders are placed and invoices received electronically, resulting in significant savings in staff time.

2. The procurement of BuyNet began in 2001 by the then DTLR. It has continued as a joint project between the two successor departments (ODPM and DfT) and the business case is predicated on both departments using it.

3. BuyNet is a cutting edge project leading the way for Government in collaboration with OGC. Functionality includes on-line catalogues, both in-house and externally hosted, electronic workflow, electronic orders and invoices (including XML formats), and full integration with the SAP finance system. Teething problems with supplier integration has delayed its growth, but we are solving the problems and are on track to increase suppliers from four to 14 by the end of the year.

COSTS AND SAVINGS

4. BuyNet has been operational since June 2003. Currently there are four catalogues on the system. These catalogues are for temporary staff, and IT hardware and software, as well as stationery and IT consumables.

5. The total cost of developing BuyNet was £3 million as at 1 July 2003 when it ceased to be an “asset under construction”, became a fixed asset and went into live production. £2.5 million of this is the capital cost that will be depreciated. Under Treasury Accounting rules, depreciation is the spread of the cost of a fixed asset across a period of time. Breakeven for an asset is the point when total savings start to exceed total costs can occur anytime in this period, and the estimated breakeven point for BuyNet is in 2007–08.

6. In the case of BuyNet, which is a configuration of the SAP e-procurement module, the depreciation period ends on the 30 June 2009 when the period of capital depreciation for ODPM’s SAP Finance System also ends. However, SAP is standard “off the shelf” software with a documented upgrade path and it is anticipated that both SAP and BuyNet will continue in production delivering efficiency savings long after this date.

COSTS PER TRANSACTION WITH DEPRECIATION

7. The following table sets out the estimated cost per transaction (orders and invoices) over this period. The business case and the NAO Report state that the savings could be achieved if all low value procurement transactions, both orders and invoices, were carried out on BuyNet. The transactions for 2003–04 are actual, those for successive years are estimates. Depreciation value includes cost of capital (sums to £2.813 million).

<i>A</i> <i>Year</i>	<i>B</i> <i>ODPM</i> <i>Transactions</i> <i>per year</i>	<i>C</i> <i>DfT</i> <i>Transactions</i> <i>per year</i>	<i>D</i> <i>Total</i> <i>Transactions</i> <i>per year</i>	<i>E</i> <i>Depreciation</i> <i>Value</i> <i>(sums to £2.813m)</i>	<i>F</i> <i>Cost per</i> <i>Transaction</i> <i>(col E/col D)</i>
2003–04	4,200	2,800	7,000	£381,000	£54.43
2004–05	17,400	14,000	31,400	£495,000	£15.76
2005–06	27,200	18,000	45,200	£480,000	£10.62
2006–07	37,400	21,000	58,400	£465,000	£7.96
2007–08	37,400	21,000	58,400	£450,000	£7.71
2008–09	37,400	21,000	58,400	£435,000	£7.45
2009–10	9,350	5,250	14,600	£107,000	£7.33

COSTS PER TRANSACTION WITHOUT DEPRECIATION

8. The following table sets out the cost per transaction without depreciation.

<i>A</i> <i>Year</i>	<i>B</i> <i>ODPM</i> <i>Transactions</i> <i>per year</i>	<i>C</i> <i>DfT</i> <i>Transactions</i> <i>per year</i>	<i>D</i> <i>Total</i> <i>Transactions</i> <i>per year</i>	<i>E</i> <i>Cumulative Total</i> <i>at Financial</i> <i>Year end</i>	<i>F</i> <i>Cost per</i> <i>Transaction</i> <i>(£3m/col E)</i>
2003–04	4,200	2,800	7,000	7,000	£428.57
2004–05	17,400	14,000	31,400	38,400	£78.16
2005–06	27,200	18,000	45,200	83,600	£35.89
2006–07	37,400	21,000	58,400	142,000	£21.13
2007–08	37,400	21,000	58,400	200,400	£14.97
2008–09	37,400	21,000	58,400	258,800	£11.59
2009–10	9,350	5,250	14,600	273,400	£10.97

REVISED FORECAST

9. It was never forecast that BuyNet would achieve payback in the first year. The original business case forecast was that the total savings would start to exceed the total costs by 2006–07. Because of the delay in rolling out BuyNet, the latest forecast is that this will occur by 2007–08 and deliver further efficiency savings year by year after that.

10. This revised forecast builds on two key developments:

- Improvements to the operation of the SAP accounting system during 2004–05 generally through the implementation of a 20 point action plan, further staff training and centralisation of procedures;
- The addition of a further 10 suppliers and their catalogues to BuyNet during 2004–05.

11. In addition, full integration of BuyNet with OGC’s proposed Zanzibar market place in 2005–06 would make links with suppliers more straightforward. Zanzibar, if it goes ahead, would be a web-based “hub” for Civil Central Government allowing buyer and supplier to trade electronically using standard formats and interfaces. But the success of BuyNet is not dependent on the Zanzibar project going ahead.

REASONS FOR THE DELAYED ROLL-OUT OF BUYNET

12. BuyNet has been rolled out more slowly than forecast primarily because of difficulties with the interface with suppliers. The problems occurred notwithstanding that assurance was provided from the outset by OGC chaired Gateways, through the use of specialist external consultants and through benchmarking against other organisations at the leading edge.

13. The key technical problem concerned the interface between BuyNet and suppliers’ back office IT systems. For it to function fully, BuyNet needs to both place orders and receive invoices electronically. But it emerged that some suppliers were either unable or unwilling to meet the full requirement because of the cost to them of take-up and in some cases the perception that different parts of government would be using different software requirements for e-procurement.

14. This problem had not been identified in responses to a survey of ODPM’s top 20 suppliers for low value items or by follow-up meetings with account managers, e-commerce managers and technical specialists. Moreover none questioned the requirement as specified in the supplier adoption pack and all of ODPM’s targeted suppliers signed a memorandum of understanding which indicated that they did not anticipate the problems that emerged.

15. The short-term solution has been to offer suppliers more flexible means to trade with us electronically—for example through self-billing. The longer-term solution may be through Zanzibar, which if it went ahead would provide suppliers with an incentive to invest in new systems at their end because of the access it will give them to a market across government. ODPM has agreed to be an early adopter of Zanzibar.

16. The other problem initially was low user take-up by staff within ODPM. This was because of low levels of awareness in some parts of the organisation and an inclination in others to continue to use established procurement channels such as the Government Procurement Card (GPC). This has been addressed through training and workshops to increase awareness of BuyNet and improve skills in using SAP generally.

BUYNET LESSONS—WIDER DISSEMINATION

17. BuyNet is an innovative solution to meet the Government’s e-Business targets and to streamline procurement processes. The lessons learned have fed into the e-procurement implementations of other Government Departments and Agencies such as DVLA. DVLA has reduced the costs of implementing their WebBuyer e-procurement system by using the BuyNet system specification and drawing on lessons learned from its earlier implementation. The lessons learned are also feeding into OGC’s project for the Zanzibar Marketplace.

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