Improving delivery

Realising best practice in procurement and contract management

Many public authorities have become adept commissioners of services from all sectors, using it to drive innovation and improve provider performance. But aborted contracts and long drawn-out procurement processes continue to impose additional and unnecessary costs on the taxpayer, undermine the confidence of alternative providers and delay the introduction of improved service delivery.

As a result, there needs to be a step change in performance across central and, where appropriate, local government. This brief identifies the changes in process and practice required from the public, private and voluntary sectors to trigger such a transformation. The following recommendations, drawn up in consultation with the public sector, will we believe promote more competitive supply markets, increase the skills of professional staff, deliver transparency and rigour in the tendering process and encourage governance arrangements that are fit for purpose.
Executive summary

Politicians’, policymakers’ and service users’ expectations of procurement and contract management processes have been transformed in recent years. The public sector is no longer seen as the sole deliverer of large swathes of public services, and in response, many have adapted their role to become effective commissioners from the public, private and voluntary sectors. However, a plethora of reviews, guidance, support and advice has not yet brought about a significant improvement in procurement or contract management practices. Indeed, aborted contracts and long drawn-out procurement processes have too often imposed additional and unnecessary costs on the taxpayer, undermined the confidence of alternative providers and delayed the introduction of improved service delivery.

This brief sets out the behaviour changes needed from the private and public sectors to improve procurement and contract management and thereby improve the delivery of services to the public. Our recommendations apply primarily to central government markets, but we would encourage their adoption in local government where appropriate. Several of the best practice examples in this statement draw on the experience in local government. The CBI will use the principles and recommendations in this brief to inform a more detailed consideration of how to improve the procurement and contract management process in local government.

“Key to realising improvement is a need for public bodies to set out a clear vision of what service is required, and for clients and providers to take joint ownership”

Key to realising improvement is a need for public bodies to set out a clear vision of what service is required, and for clients and providers to take joint ownership from initial strategic commissioning — including the procurement process — through to ongoing contract management arrangements. Poorly performing or failing projects must be challenged, with the possibility of intervention to improve delivery. In this way, the public can have a reasonable expectation of the delivery of high-quality, cost-effective and flexible services.

This brief focuses on the commissioning and delivery of complex projects designed to achieve a variety of service outcomes. In drawing together our recommendations, we engaged key figures from the private and public sectors in a number of roundtable events. CBI members have experience of working in partnership with central and local public sector bodies to deliver a broad spectrum of services, ranging from traditional outsourcing to complex procurements. These include not only projects under the Private Finance Initiative (PFI), Local Improvement Finance Trust (LIFT) and Building Schools for the Future (BSF) arrangements, but also a diverse range of contractual partnerships to deliver front-line and support services, often incorporating ambitious social and environmental goals. The recommendations draw on those discussions and experience and propose steps to ensure:

- Competitive supply markets managed by skilled professional staff
- Transparency and rigour in the tendering process
- Governance arrangements that are fit for purpose.
RECOMMENDATIONS:

1. It is important for the private sector to build links with public sector commissioners in central and local government and share best practice, through existing programmes and more informally. This will help individuals working in commercial and delivery roles in the public sector to better understand what can be achieved through smarter procuring, as the procurement of complex projects often occurs infrequently.

2. The Cabinet Office should ensure that capability reviews and the Professional Skills for Government (PSG) programme assess the efficacy of current commercial and delivery skills to deliver increased value for money in public services.

3. All central departments and large strategic-level public bodies must have commercial directorates, or their equivalent, to ensure procurement policy and delivery are joined-up.

4. Central government departments should set up sector-specific procurement academies to pool procurement and contract management expertise. The OGC should work with each department to identify the skills required for complex procurements and delivery models, including the effective use and management of advisers.

5. Public bodies should improve the detail of project specifications and ensure that they have been well thought through and are appropriate for delivering policy outcomes. They must allow adequate resources for project planning and project management from the outset.

6. Central government should ensure that any failure to comply with published timetables has consequences — whether through external intervention or the withholding of PFI credits or future funding. The National Audit Office (NAO) should conduct a study into the impact of increased openness on reducing delays in procurement and improving the chances of a successful project.

7. Central government should establish a mechanism by which bidders can raise concerns about the way procurements are progressing. This would significantly increase supplier confidence in the market.

8. Quantitative and qualitative evaluation criteria should be published at the start of all procurements. Authorities must show evidence that they have used rigorous methods for evaluating bids and be prepared to publish the results to bidders and auditors.

9. Above a certain threshold, all projects must go through gateway reviews. These reviews must trigger external interventions by central or regional procurement teams as appropriate and should be widely available. Public authorities should be obliged to accept help from the appropriate body (usually the PFU or commercial directorate) if poorly performing projects are allowed to continue.

10. The OGC should issue best practice guidance covering ongoing partnering arrangements.

11. All projects should have a named sponsor at the highest level to provide strategic vision and point of accountability through the whole life of the contract.

12. All projects should develop an end-to-end project plan at the outset, setting out the obligations and dependencies on both sides and stipulating how resourcing challenges will be met.
Improving the delivery of public services

Competitive supply markets managed by skilled professional staff
The first step in improving the delivery of public services is creating a better understanding of the public sector's supply markets; it is essential to ensure contracting authorities have the capabilities to properly harness their potential. A clear understanding of markets requires a constant process of market engagement, including ongoing dialogue with suppliers outside of the tendering process. The National Procurement Programme, managed by the Regional Centres of Excellence (RCEs) in local government may prove an interesting model to extend to the wider public sector. Across all spending departments, early and ongoing dialogue and the implementation of the OGC’s Kelly Programme should be a priority, building trust and certainty in public service markets.

Develop trust
Better market understanding increases trust and innovation in public service contracts. As a result, clients and providers are increasingly able to build shared solutions and ensure services are responsive to consumer needs. Developing partnerships characterised by understanding, shared objectives and innovation will require behaviour changes in both the private and public sectors. Public authorities must have confidence in bringing in the private sector as an equal partner. In some of the best partnerships, the client draws the contractor in to help them manage pressures, including affordability and the need for services to evolve. At the same time, the private sector must bring about innovation and entrepreneurial service solutions which can realise complex public sector outcomes.

RECOMMENDATION 1:
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“Better market understanding increases trust and innovation in public service contracts”

Shropshire County Council’s highways partnership with Accord
In 1994, Shropshire County Council made a strategic outsourcing decision, recognising this would achieve a better result than following compulsory competitive tendering processes. Following a procurement exercise, John Doyle (now Accord) was awarded a long-term partnering contract. The council adopted best practice at the time and allocated Accord wide-ranging risks and responsibilities. Following successful rebids and contract extensions, Accord still holds the contract, but ideas about what constitutes best practice partnering have evolved considerably over this time. Now the emphasis is less on risk allocation between the parties and more on how they can work together to manage down risk and improve performance. The council and Accord are creating a single highways team, which is more efficient and creative. One of the original employees who transferred from the council to Accord and who is still with Accord puts it well: “Twelve years ago, Shropshire County Council’s leading-edge practice was a strategic outsourcing. Now the council is not so much pushing the service out, but bringing us closer inside to be an integral part of its delivery team”.

Promote commercial skills
Harnessing markets and improving delivery requires skilled commercial and procurement staff able to complete deals. This means more than being able to run procurement processes. Central government departments, large strategic-level public bodies and the private sector all need dedicated commercial staff, able to make and close deals. In order to compete with the private sector for commercial staff of the highest quality, the public sector must offer attractive reward and career structures. In-house access to these capabilities would put the public sector more on a par with the private sector in deal negotiations. Central government also needs access to the full range of other delivery skills – project management, contract management, market management and model design. The private sector must continue to share its experience with the public sector, through organisations like the Whitehall and Industry group.

Developing these skills has been a complex process, with very different solutions now in place in different parts of the public sector. Large government departments with a significant...
The effective use and management of advisors, contract and relationship management, negotiation and minor dispute resolution. The effective use and management of advisors should be a priority and will increase confidence in the market among bidders and advisers alike. Bidders frequently report being given draft payment mechanisms which reflect aspects of several successful mechanisms, but which are not commercially sensible. This supports the general view that
in recent years, public authorities have not deployed advisers effectively across central and local government which can lead to lengthy and costly negotiations. This is particularly important in ensuring that the process from preferred bidder to financial close runs smoothly. Major government departments, and the larger health trusts and other local and regional procuring authorities should also aim to achieve Chartered Institute of Purchasing and Supply (CIPS) certification of their overall capability levels to demonstrate they have met basic standards and are committed to procurement-based service solutions.

Retention of delivery staff is an ongoing challenge—one government study found annual turnover of procurement staff to be 17%. Highly skilled commercial staff need to be a respected part of both the decision-making and delivery processes, able to work on a range of projects and with the power to bring deals to a conclusion. They need both good job satisfaction and competitive, performance-based, financial rewards.

**RECOMMENDATION 4:**

Central government departments should set up sector-specific procurement academies to pool procurement and contract management expertise. The OGC should work with each department to identify the skills required for complex procurements and delivery models, including the effective use and management of advisers.

**Transparency and rigour in the tendering process**

Procurements need to be driven by outcomes not processes if they are to deliver flexible services meeting the public’s needs. Strategic commissioning must include a clear identification of the public authority of what is required, and procurement processes which are rigorous and consistent with a high degree of transparency and trust. Robust reviews must be applied before the tendering process and should guarantee intervention in failing projects where necessary. A mechanism should also exist for bidders to identify flaws in procurements. These considerations must be reflected in how projects are assessed — notably by the Public Accounts Committee (PAC) and National Audit Office (NAO), who should focus less on process points and more on material and significant mistakes.

Procurement delays are a problem across public service markets. In April 2006, a CBI report found that the average costs of delay on health PFI schemes was 1% of the capital cost, amounting to £2.45m over each deal and resulting in total losses of £98m in delays over the health PFI programme. A survey conducted by the Major Contractors Group (MCG) in 2005 found that the average delay to published schedules was just under eight months: school projects were for example, being delayed by 7.5 months. Such delays are costly to bidders and the taxpayer and seriously undermine the drive for value for money and efficiency in public services, as well as having implications for the achievement of stated social and economic policy outcomes.

**Strategic commissioning**

At the highest level, the importance of strategic commissioning must be understood and as part of this, the importance of rigorous and transparent procurement processes. High-level strategic direction is the only way to ensure those carrying through procurements have adequate understanding of how the specified service will realise the public authorities’ policy outcomes. Similarly, senior managers — not just procurement experts — need to have a comprehensive understanding of how procurement options will realise specified outcomes and how risk is being allocated and managed.

Project specifications must be closely aligned with desired policy outcomes. Central government and procuring authorities must be clear before the tendering process what they are seeking to buy and articulate this from an early stage.

A 2004 CBI survey of member companies found that a fifth of specifications changed significantly during procurement, with another two fifths undergoing technical changes. Published tenders should reflect a proper integration of policy and delivery and take risks of policy change into account. Currently, the level of detail in invitations to tender varies considerably and is often vague. We believe the OGC should explore recent work by The Faculty Partnership, which seeks to improve project outcomes, costs and time for selection of preferred bidder through increased investment and effort in design of the client brief.

**RECOMMENDATION 5:**

Public bodies should improve the detail of project specifications and ensure that they have been well thought through and are appropriate for delivering policy outcomes. They must allow adequate resources for project planning and project management from the outset.

Central government and procuring authorities must ensure that costing exercises and market dialogue take place in the pre-tendering phase. Gold-plated specifications and affordability are still too common criteria, adding cost and delays. Affordability issues should be resolved before — not during — the procurement process. Better and earlier engagement with the market would help authorities understand what they can afford and what they are prepared to pay for. Equally, it would increase the market’s understanding of public sector needs.
Avoid delay and uncertainty
The credibility of timetables and intended procurement processes should be reinforced through earlier publication. Failure of a public body to adhere to agreed time frames must have serious consequences — either through triggering external intervention or the withholding of PFI credits and future funding. The NAO should conduct work into how increased openness can avoid costly delays. One option is for public bodies to devise schedules which allow the project to reach preferred bidder stage as early as possible so that some early mobilisation can take place while commercial negotiations continue. This would help to minimise delays to project delivery and would help build trust in the market.

**RECOMMENDATION 6:**
Central government should ensure that any failure to comply with published timetables has consequences — whether through external intervention or the withholding of PFI credits or future funding. The National Audit Office (NAO) should conduct a study into the impact of increased openness on reducing delays in procurement and improving the chances of a successful project.

Central government and procuring authorities must be clear about the potential for, and limits to, changes to the project scope or way the procurement will proceed. Insecurity frequently arises from unpublished alterations to procurement processes, such as the use of best and final offer (BAFO) where one was not advertised. The advent of competitive dialogue makes clarity about the procurement process imperative. Central government should establish a mechanism by which bidders are able to raise concerns about how a procurement is being conducted. Currently, bidders have no impartial right of appeal in such circumstances and existence of a watchdog would significantly increase market confidence.

**RECOMMENDATION 7:**
Central government should establish a mechanism by which bidders can raise concerns about the way procurements are progressing. This would significantly increase supplier confidence in the market.

**Analysis is fundamental**
Evaluation criteria must be transparent and well thought through. As a matter of course, it should be published in advance and only withheld in exceptional circumstances. There must also be clear consequences for a public body for making changes to the criteria on which bids will be assessed once the process is underway. These criteria must

“Delays are costly to bidders and the taxpayer and seriously undermine the drive for value for money and efficiency in public services”

be established at strategic level by the procuring authority, clearly articulated to those carrying through procurements and set out for prospective providers. It must go beyond asking questions about quality and provide a discipline for making robust and transparent decisions based on an assessment of the contractor’s ability to meet the client’s outputs and outcomes.

**RECOMMENDATION 8:**
Quantitative and qualitative evaluation criteria should be published at the start of all procurements. Authorities must show evidence that they have used rigorous methods for evaluating bids and be prepared to publish the results to bidders and auditors.

Central government should develop a professional discipline around bid analysis, using the range of methods available. Some standard approaches have been introduced, including that developed by the Department for Transport, Local Government and the Regions (DTLR), now the Department for Transport (DfT) for the New Approach to Appraisal of transport projects in 1998. This is still used by the DfT. These tools must provide objective information which can be shared with bidders and auditors and should include consideration of softer issues which give the public and the contracting community the confidence that due process has been followed. Tools such as the MoD’s Soft Issue Bid Evaluation Tool (SIBET) should also be used as common practice by central government and procuring authorities to reflect the growing importance of procurements based on partnership.

**Theory: Multi-Criteria Analysis**
Multi-Criteria Analysis (MCA) techniques do not rely on monetary techniques like cost-benefit analysis, but complement them by allowing public authorities to assess criteria which can be quantified but not valued, or which are qualitative. For instance, highways investment appraisals have for several years taken into account impacts such as how many houses would suffer a specified increase in noise, or the impact on the landscape. Information from this analysis is often presented to decision-makers in an objective performance matrix known as an assessment.
Project reviews such as gateways should be used for all projects above a certain threshold and should flag up areas of concern based on externally verifiable standards and against the timetables and plans set out above. Similarly, we recommend gateways are used more widely across local government. Central government must ensure that reviews offer an approach which is advisory, but which is reinforced with the option of intervention when a red-light is given on a project — where the project is deviating excessively from the published plans or timetable. Intervention should be from central or regional teams as appropriate, as an enforcement function to complement the monitoring role of gateways. A body modelled on the PFI Project Review Group (PRG) should be set up to maintain an overview across all major projects.

**Recommendation 9:**

Above a certain threshold, all projects must go through gateway reviews. These reviews must trigger external interventions by central or regional procurement teams as appropriate and should be widely available. Public authorities should be obliged to accept help from the appropriate body (usually the PFU or commercial directorate) if poorly performing projects are allowed to continue.

Persistent failure to accept help and implement change should have real long-term consequences, making it harder for public authorities to access funding and obliging them to use central procurement experts for projects to go ahead. Wider publication of gateway reviews would be welcome. This would help explain the context and also focus bidders’ attention on what to raise (or not raise) if issues have previously been addressed. Publication would also ensure clarity over what was needed in order to go beyond key milestones. The threat of intervention should itself act as an incentive to address poor performance so that intervention is needed in only a few cases.

**Governance arrangements that are fit for purpose**

Partnerships are evolving into complex models for flexible contracts which deliver complicated outcomes. Senior-level leadership is vital for partnerships to succeed, along with robust governance mechanisms and excellence in relationship management. The government should develop a partnership model for central and local government bodies whose role would be to demonstrate what successful partnering relationships look like and the skills required to make them successful. This is likely to require behavioural changes from public and private sectors in order to create greater efficiencies post-procurement.

**Managing complexity**

In complex partnering arrangements, it is important that the spirit of partnership is established and maintained at a strategic level. This could be through increased use of memoranda of understanding, which provide a context in which the legal contract should be interpreted.

**Recommendation 10:**

The OGC should issue best practice guidance covering ongoing partnering arrangements.

High-level buy-in is essential for project success, irrespective of governance arrangements. All projects should have a ‘sponsor’ at the highest level to strengthen accountability. Every project must also have a named senior-level sponsor accountable for overall delivery and able to take important decisions and drive the project. This is particularly important where a third party, perhaps a regional procurement hub, is involved. This sponsor might chair a partnership board in order to provide strategic focus.

**Ministry of Defence — public/private partnering agreement**

One major UK defence contract is underpinned by a high-level partnering agreement signed by the Ministry of Defence and the private sector consortium, which lays down the fundamental values and objectives that underlie the contractual relationship. The memorandum of understanding assigns roles and responsibilities, with the Ministry of Defence monitoring and evaluating outputs and the contractor managing inputs. It also spells out some of the behaviours that are essential if a relational contract of this kind is to succeed — active listening, informational transparency and a no-blame culture. Partners will only resort to contractual remedy when efforts to resolve differences in the spirit of the memorandum fail.

Complex delivery models such as joint ventures (JVs) operate under constitutions which serve a similar purpose, to build ongoing trust and long-term relational partnerships. Public bodies should be encouraged to explore other forms of contracting models for delivering flexibility which draw partners into long-term relationships with the prospect of future business models, such as incremental partnering.

**Recommendation 11:**

The OGC should issue best practice guidance covering ongoing partnering arrangements.
Blackburn Council’s Partnership Board

Such a board is used as the project governance vehicle in Blackburn with Darwen Council’s strategic partnership with Capita. The board comprises senior council members and officers and accountable Capita executives. It acts as custodian of the partnership, ensuring the partnership is continuously aligned with the objectives of both partners. The board agrees appropriate partnership arrangements and major changes, reviews performance — including financial — at a strategic level, acts as the final arbiter for any significant disputes and reports to the council’s cabinet and Capita’s own board. It ensures that stakeholders — including the council’s scrutiny function — are informed of performance and other partnership issues.

RECOMMENDATION 11:

All projects should have a named sponsor at the highest level to provide strategic vision and point of accountability through the whole life of the contract.

Plan for the long term

Anecdotal evidence suggests that a number of high-profile project failures over the last few years could have been avoided through involvement of strong decision-makers. Leadership is essential for ensuring effective use of advisers — both in terms of sufficient financial investment and ongoing intellectual engagement. All too often, the use of advisers can be a substitute for asking tough questions or taking hard decisions.

On both sides, key staff should be involved throughout the whole life of the service wherever possible — from setting the specification to project completion. Where continuity is not possible, records must be kept of how decisions made in the pre-procurement phase affect operational performance. Secure and reliable knowledge transfer methods should be put in place to ensure valuable information is not lost between phases. The senior responsible ownership role should also be extended beyond procurement to provide continuity, ownership and direction throughout the project at a local level.

The use of end-to-end shared project plans should be standard practice. These plans take the project from design through to operation and ensure that risk is identified and managed appropriately. They ensure continuity and focus, and align public and private partner outcomes more closely. The plan should be quasi-contractual, setting out what each partner will do and when. These arrangements are particularly valuable where customer dependency is high, with partners relying on one another to complete phases so the project can move forward. The purpose of such plans should not be to assign blame in the event of delay, but to focus both parties on the delivery of project outcomes and risk management. A project board should review these plans. Mechanisms for allowing the project to evolve should also be built in from an early stage. Options for this include clarification documents agreed by both parties and periodic reviews to incorporate lessons learned so far.

Public and private sector partners must agree shared disciplines for contract performance measurements which monitor all aspects of the project — including effectiveness of governance arrangements and relationships. Departments should issue guidance which provides clear route maps and which allows for effective contract monitoring — including the formal, measured use of partnerships, possibly based on the SCRIA (Supply Chain Relationships In Action) initiative, which has delivered significant savings in the aerospace industry. Using an independent facilitator, partners assess their relationship against criteria with agreed weightings. Frequently, an action plan is developed with areas for each partner to resolve.

RECOMMENDATION 12:

All projects should develop an end-to-end project plan at the outset, setting out the obligations and dependencies on both sides and stipulating how resourcing challenges will be met.
References

1. As identified in the Byatt and similar reviews of public sector procurement.
2. The Kelly Programme is implementing recommendations from the OGC’s December 2003 report on increasing competition and improving long-term capacity planning. The recommendations seek to help the public sector become better at communicating its needs to industry in a way which uses available capacity within markets, enabling industry to respond effectively, innovatively and at an affordable price. A study has been made of the construction market and work on the waste market is in its final stages.
3. Similar teams have been set up at the Department of Health (DoH), the Department for Work and Pensions (DWP), Transport for London (TFL) and the National Offender Management Service (NOMS) at the Home Office.
4. Buying the best for the NHS: Ensuring smarter capital procurement, CBI, April 2006
5. In Northern Ireland, a central procurement directorate sits in the Department of Finance and Personnel. The directorate oversees a number of sector-specific centres of procurement expertise which act as both procurement hubs and advisory services for trusts. All procurement must go through the centres of expertise in some form.
6. The existing OGC skills framework offers a good starting point for this.
8. Buying the Best for the NHS: Ensuring Smarter Capital Procurement, CBI, April 2006
9. This survey, conducted in August 2005 by the Major Contractors Group looked at 57 projects in nine sectors undertaken by 13 companies, with an average project value of around £80m.
10. A general survey of suppliers conducted on behalf of the CBI in 2004 by Ipsos/MORI found that almost half of suppliers believed that bid costs had increased substantially over the previous five years.
11. Ibid.
12. Improving private sector partnering by enhanced brief procurement — the Way Ahead for PFI, The Faculty Partnership, 2006
13. Recognition of this phase, identified in the Intellect Code of Best Practice for IT Suppliers, is extremely important. Insufficient attention has been given to the impact of decisions and market dialogue prior to commencement of the procurement process.
14. Whole-life cost must be the key consideration, but key areas should also be: assessing the use and impact of innovation, measuring durability of the asset and how well it meets the technical specification, and its reliability and flexibility over time.
15. The Department for Transport (DFT) use a form of Multi Criteria Analysis (MCA) to present monetised and non-monetised impacts of transport projects to decision-makers.
16. SIBET allows the evaluation of soft issues in a competitive or non-competitive procurement that involves co-operation between purchaser and supplier over and above that found in traditional contracting relationships. It has been developed using the principles of the European Foundation for Quality Management (EFQM) Excellence Model.
17. It is generally accepted that only around 15% of all projects currently go through gateway reviews.
18. Building on findings of the final report of the Strategic Partnering Taskforce (SPT), March 2004 which indicates how incremental partnering can be used to allow relationships to develop over time, as well as effective risk management and gradual phasing in of change management programmes.
19. The SCRIA model was developed in the aviation industry and is sponsored by the Department for Trade and Industry (DTI) and the Society of British Aerospace Companies (SBAC) and is used by the MOD.