

House of Commons
Treasury Committee

**GOVERNMENT
RESPONSE TO THE
COMMITTEE'S THIRD
REPORT: OFFICE OF
GOVERNMENT
COMMERCE**

Eleventh Special Report of Session
2001–02

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ELEVENTH SPECIAL REPORT

The Treasury Committee has agreed to the following Special Report:

GOVERNMENT RESPONSE TO THE COMMITTEE'S THIRD REPORT: OFFICE OF GOVERNMENT COMMERCE

1. On 23rd May 2002, the Treasury Committee published a Report on the Office of Government Commerce as its Third Report of Session 2001–02 (HC 851). This Report originated in the Sub-Committee. On 24th July 2002, we received the Government response, which is reproduced as Appendix I to this Report.

APPENDIX I

(a) We note the OGC's unusual status as an "independent Office" of the Treasury and the novel arrangement whereby it has a Supervisory Board containing Permanent Secretaries from the major spending Departments. This structure is designed to ensure that OGC's activities, aimed at modernising procurement and securing value for money improvements, command support from Departments. We intend to return to this subject in the future to examine whether the desired effects have been achieved (paragraph 8).

The Government notes that the Select Committee intends to examine the work of OGC and its Supervisory Board at a later date.

(b) The OGC's work designed to modernise and promote best procurement practice is based on a collaborative approach with Departments. Success therefore depends on Departments utilising the OGC's guidance and expertise. We expect the OGC to monitor and report on the extent to which this is happening in practice (paragraph 13).

The Government notes the Committee's recommendation. The emphasis of OGC's work to-date has been on developing the tools to allow departments to deliver their projects successfully, through initiatives such as Best Practice publications aimed at top management and the new Successful Delivery Toolkit, which provides a central reference source for guidance.

Over the SR2002 period, OGC will further support departments to embed the guidance and expertise in their procurements. In the run-up to April 2003, OGC is in discussion with departments about how best to measure the extent to which OGC's guidance and expertise is used.

(c) The OGC's remit is limited to central civil Government and it does not therefore cover very significant areas of public spending such as Defence and the NHS. We have reviewed the evidence we have received of the close working relationship that the OGC has with the relevant bodies in these fields. We welcome this and consider that such relationships are essential to ensure best procurement practice is followed in all areas of public expenditure. We look to the National Audit Office, the Audit Commission and the proposed Commission for Healthcare, Audit and Inspection to review and report on whether best practice is followed in these areas (paragraph 14).

The Government notes the Committee's conclusion.

(d) It looks as if the OGC is on course to achieve its top level target of delivering £1 billion of value for money improvements by the end of 2002–03, as Departments have reported improvements of some £433 million for the first of the three years concerned (2000–01). However, some caution should be attached to the initial figures, given the need for the accounting arrangements to settle in (paragraph 19).

The Government notes the Committee's conclusion. The OGC will continue to undertake work to assure the quality and coverage of the value for money gains data. The Government will report total gains annually.

(e) We note that so far Departments have been given no indication by the OGC of the level of value for money improvements they might be able to achieve. We recommend that, once the system has bedded in, individual annual targets for the major spending Departments should be introduced, and that the OGC's top level target be re-examined in the light of performance up to 2002–03 (paragraph 20).

The Government agrees with the Committee's recommendation that the top-level VFM target be reviewed. In the light of performance to-date and the potential for further improvements, OGC has now announced a new top-level target of £3bn VFM gains across central civil government for the period 2003/4–2005/6.

The Government notes the Committee's recommendation that annual VFM targets which contribute to the OGC top-level target should be set for individual departments. However, as the Committee concludes, the measurement system for assessing gains is immature. The Government will keep the nature of the VFM targets under review as the technique for measuring VFM grows and matures.

(f) We note that the OGC Gateway review programme has been welcomed by Departments and appears to be having a positive impact. The benefits of Gateway reviews of procurement projects will not be available for some three or four years when evidence of the number of projects delivered to time and cost becomes available. We wish to be informed of this when the information is available and expect to return to this matter then (paragraph 26).

The Government notes the Committee's expectation.

(g) We are disappointed that our predecessors' recommendation for the creation of a central system to collect information on each PFI project to enable comparisons to be made does not appear to have been implemented. While we accept that Departments should be responsible for monitoring their own PFI projects, we consider that the growth in the number and value of PFI projects reinforces the recommendation made by our predecessors. We therefore recommend that a central system to collect information on project performance and provide a facility, where practicable, to benchmark performance against comparable PFI and other projects be maintained (paragraph 30).

As undertaken in the Government's Response to the Fourth Report of 1999–2000 on the PFI, OGC has considered with Partnerships UK, departments and others, including the 4Ps (the organisation that provides help, advice and guidance to local authorities), how lessons from on-going projects can be passed to departments to benefit new projects.

The OGC's Private Finance Unit has now developed a Web-based Knowledge Management system called the PFI Information Network. This collects a wide range of information on PFI and on specific projects. The first phase of this system will be launched across the UK public sector in September 2002.

The PFI Information Network will provide a single point of access on officials' desktops from which they will be able to obtain guidance, statistics and other information to enable them to make better-informed decisions on their own projects and to exchange information and lessons learnt with fellow practitioners across the public sector, including local authorities. In subsequent phases, the PFI Information Network will develop to enable departments and authorities to undertake comparisons between projects. OGC is

considering whether the PFI Information Network can be enhanced cost effectively to support benchmarking and other analytical tools.

More information and guidance is made available in various ways to departments by OGC, PUK and the 4Ps. Relevant recommendations of the National Audit Office and of Parliamentary Committees are also brought to the attention of departments.

(h) We note that the target of purchasing 90 per cent of low value goods and services electronically by March 2001 was missed by a large margin. The evidence given to us suggests that, at least for the Departments that gave evidence, the 90 per cent target was probably unrealistic in the first place. The OGC's e-procurement pilot projects have also slipped. Clearly there was a degree of over-optimism about the pace at which Departments can accommodate change and the market can deliver new technology solutions. We consider that OGC's future plans and targets in these areas should be based on a more realistic assessment of what is achievable, both by Departments and the market (paragraph 37).

The Government accepts the Committee's findings. OGC is working with departments and suppliers on a revised e-procurement strategy for Government that will include realistic targets and, at the same time, be focussed on delivering at least £250 million of value for money improvements across central civil government in the three years from April 2003.

(i) We have noted that substantial parts of MOD and NHS procurement have been excluded from the remit of the OGC. The reasons for this have not been fully explained to us except to say that these procurement processes are different. We believe that in future both MOD and NHS procurement processes should be brought within the OGC's remit unless explicit reasons are given for particular dimensions of procurement being treated independently by the relevant Government Departments (paragraph 38).

The Government notes the Committee's recommendation and considers that the specialised nature of the procurement processes in the Ministry of Defence (MOD) justifies its use of robust procurement processes analogous to those promoted by OGC. The status of NHS procurement is the subject of discussion between OGC and Department of Health and the Government will write to the Committee with the outcome of this discussion as soon as it is known.¹ However, there is, where appropriate, extensive and growing cooperation between OGC, MOD and NHS in the sharing of best practice, involvement in OGC's collaborative opportunities programme and alignment of strategic direction in procurement.

Both MOD and DoH are represented on OGC's Supervisory Board and Chief Executive's Advisory Group, ensuring top-level support for initiatives to promote close working between the organisations and increasing alignment in approaches to procurement best practice. For example, OGC's leadership of Government initiatives to improve the capability of clients of the construction industry (Achieving Excellence), includes both MOD and NHS, and the sister initiative covering the IT Industry (SPRITE), includes MOD. The extent of MOD/NHS commercial collaboration with OGC was demonstrated through their participation in the deal to secure £100 million in savings over three years across the public sector with Microsoft, IBM/Lotus and Sun Microsystems.

The procurement of war fighting equipment also has some unique features. Not least of these is the need to meet the requirements of a military customer and to embrace linkages with other projects that need to be considered in a wider defence context. Specialist defence (and sometimes highly classified) knowledge is therefore needed in any team reviewing an

¹ See Appendix 2

equipment project: neither the MOD nor the OGC would wish to make the process overly bureaucratic. However, MOD's strong procurement processes mirror OGC Best Practice. For example, strong financial control in projects above certain thresholds is exercised through the Central Investment Approvals Board, which subjects projects to rigorous scrutiny at key points in their lifecycle. The degree of scrutiny is proportionate to the size and complexity of the project. Breaches of agreed thresholds are escalated through further review. In addition, peer reviews are used increasingly, particularly in estates and high risk areas such as Information Technology.

The Government will keep OGC's relationship with MOD under review as more evidence of the success of projects across sectors becomes available.

(j) Since its establishment in April 2000 the OGC under its Chief Executive, Mr Peter Gershon, has made substantial and commendable progress in modernising the Government's civil procurement processes. Clearly there is still substantial scope for improving the value gained from money spent by all Government Departments as indicated in the sections of this report dealing with particular dimensions of the procurement process. However, after two years sufficient progress can be seen to give confidence that savings are being made or can reasonably be expected (paragraph 39).

The Government welcomes the Committee's conclusion. The OGC will continue to work to modernise and improve the Government's civil procurement processes, and to promote better delivery throughout civil central government.

July 2002

APPENDIX II

NHS Procurement Supplementary Note from HM Treasury

The Government undertook in its response to Recommendation (i) of the Treasury Committee's report on the Office of Government Commerce (HC 851, 2001-02) to advise the Committee of the outcome of discussions with the NHS.

Following discussions between the OGC and the Department of Health about NHS procurement, the Department of Health have invited Brian Rigby, Deputy Chief Executive of the OGC, to lead a departmental six-month review of how the commercial activities of the Department of Health are structured.

The objective of the review is:

"To recommend the most effective organisation and resourcing of the commercial activities of the Department of Health and its agencies, including support to the NHS, to ensure efficient and effective delivery of NHS Plan targets."

The Department of Health are keen to ensure that their acquisition activities are conducted in the most effective way to support their medium term strategy. The review will examine whether an overarching commercial director function would provide the necessary focus and what suitable terms of reference might be.

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