14 February 2017

Meg Hillier MP
Chair, Public Accounts Committee
House of Commons
London
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Dear Meg

Progress on improving Contract Management and Commercial Capability

In the Committee’s 32nd Report of Session 2015–16 “Transforming contract management: progress review” of 17 March 2016, the committee made the following recommendation:

“All departments must understand the importance of getting contract management right, redouble their efforts and step up the pace to improve their contract management and commercial capability. By the end of 2016, the Cabinet Office should report back to us with an overview of progress made by each department, identifying any departments which fail to produce credible plans.”

This letter responds to the committee’s request and summarises the considerable progress that departments have made on this topic since the committee last took evidence in January 2016. It contains:

• An introduction, giving the context and a baseline from which we started
• A list of specific activities undertaken since January 2016, together with completion status
• A report on the status of departmental plans for their commercial functions
• A view on next steps in 2017 and beyond.

I hope that the committee will welcome the considerable progress made on this agenda since its last report and I thank the committee for its continuing interest in and support for this important work.

Yours Sincerely,

Gareth Rhys Williams
Government Chief Commercial Officer
Introduction

In March 2016 the committee published its assessment of Government’s progress on improving the management of its contracts. The report summarised the current state of Government’s commercial capability. Following a series of challenges with the management of major contracts, (and in particular contracts in the Ministry of Justice in 2013), HMT and CO led a series of Departmental reviews that assessed commercial capability across Government. At the time of the Committee’s report that series of reviews was only partially complete, as some Departments had yet to complete self-assessments.

The reviews that had been completed and agreed contained recommendations to raise commercial capability in each Department. These recommendations reflected a set of common themes discussed with the PAC in February 2016, namely that:

- Commercial capability needed to be rebalanced with a shift from procurement to strategic pre-procurement activity and in-service contract management
- Workforces needed to be reshaped, with more senior, experienced commercial people and fewer inexperienced juniors
- More civil servants needed to be recruited to fill vacancies and posts occupied by interims and consultants
- Policy staff without a strong commercial background needed education and support if they were to shape or manage the delivery of services through third parties
- Departments needed to strengthen lines of accountability for commercial decisions.

In addition to monitoring the implementation of review recommendations, CO was undertaking a process of joint planning with Departments. These plans - ‘commercial blueprints’ - are described in more detail later in this document.

The overall thrust of these plans is to concentrate more and better resources on early strategic work to ensure that we procure the right things; and also to ensure we have the right resources to manage each contract through all its stages. Procurement remains important, as public authorities must ensure that purchasing decisions are fair and transparent, but to be successful the procurement process must also encourage innovation, widen the supply base, ensure sustainability and generate wider societal and economic benefits from government expenditure.

While we recognise that we still have a lot to do, we have taken considerable strides forward since starting on this journey in 2013. Since then we have:

- Established an overall organisation for the commercial function (the Government Commercial Function (GCF)) and appointed the Government Chief Commercial Officer as leader of the commercial profession
- Established the Crown Commercial Service (CCS) achieving savings for central government departments from use of CCS deals of £282m in 2015-16
- Greatly strengthened the commercial organisation in the key spending departments – for example DWP in 2013-14 had 1 SCS2 Commercial Director supported by 5 SCS1 branch heads. In 2016-17 the DWP senior team consists of 4 SCS2 Commercial Directors and 7 SCS1 Category leads and commercial managers.
• Constructed a knowledge hub for the contract management community and built a number of other active cross-Government networks to share material on large deals, supplier relationship management and IT support for commercial work.

• Concentrated our Commercial Legal support in a 150-strong Commercial Law Group in the Government Legal Department led by a Director of Commercial Law.

• Introduced a new pay structure which is more aligned to private sector norms, in contrast to 2013-14 when pay for commercial specialists benchmarked in the bottom decile of private sector comparators, with consequent inability to retain or attract talent.

• Updated Commercial Operating Standards that define what we believe to be good commercial practice and People Standards for the Profession that document the competencies that we expect of our practitioners.

Specific activities undertaken since January 2016

Since the committee took evidence in early 2016 we have continued to develop our commercial capability across central government. This has been achieved through a combination of departmentally-led initiatives and central investment led by the Cabinet Office.

We have established the structure of the Government Commercial Function, as shown in the diagram below. This diagram shows the core of our capability, the commercial teams within individual Departments, and the other bodies that support Departments in achieving their commercial aims.
We have recruited as Government Chief Commercial Officer (GCCO), Gareth Rhys Williams, an experienced senior executive from the private sector to galvanise the next phase of our transformation programme.

For the first time, we have written and agreed a Single Functional Plan for the Commercial Function across Government. This is based on the need to execute Commercial work efficiently, consistently and effectively in line with the operating and professional standards. It shows, over time, how we are working to deploy the right people, using the right processes, supported by the right infrastructure, and organised within the right structures.

In the updated Commercial Operating Standards (issued in November 2016), we set out what is expected from Departments when performing their commercial activities. The standards were updated based on feedback from Departments and industry bodies. Departments will be assessed against three levels of performance; ‘Good’, ‘Better’ and ‘Best’ for each standard. The aim is to raise levels of commercial performance across all Departments, and drive cross-government and local improvement activities with the aim of moving from ‘Good’ to higher levels.

In the Commercial Professional Standards we have defined the competencies needed at within the Government Commercial Function, setting the minimum requirement for recruitment and promotion into each senior level. These professional standards have now been used in the design of an assessment and development centre which gives existing staff and new recruits the opportunity to demonstrate the required competencies.

Over 400 candidates (both internal and external) have already been professionally assessed, taking part in a full day programme in an assessment and development centre. Assessors are a mixture of experienced commercial civil servants, professional advisers, non-executives (including Crown Representatives) and supplier executives. Candidates are assessed against standards for leadership and business acumen, as well as ‘technical’ competencies such as contract management and procurement. Candidates are also offered detailed feedback which identifies
opportunities for further development. Passing the assessment is a precondition for an individual to be offered a new pay and reward package for commercial specialists.

We have completed the development of this new pay and reward package which is more aligned to practice in the private sector, with a higher base pay, a defined-contribution pension and greater performance related pay than standard Civil Service packages. We have employed our first staff under this package and are starting a process that will lead to it being offered to the top 3 grades of commercial staff across central government.

We have written ‘Commercial Blueprints’ covering almost all the large commercial groups within Central Government Departments. These blueprints include workforce models, new organisation structures and transformation plans for Departmental commercial teams. The completion of a blueprint (agreed by the Department, the GCCO and HM Treasury) is a prerequisite for Departments to use the new pay and reward model.

We have established a central employer for the top 3 grades of commercial staff. This body, the Government Commercial Organisation, will hold the employment contracts of commercial specialists who will then be assigned, on long ‘secondment’ arrangements, to individual departments. We believe this arrangement has strong advantages for the civil service as it will enable:

- consistent use of the new pay model;
- coordinated central recruitment for senior commercial positions;
- effective talent management across the whole of central government; and
- more targeted learning and development for specialist commercial staff.

The central recruitment hub has brought in 47 new senior commercial professionals since April 2016, with an additional 10 currently under offer. This includes for example a new Commercial Director to support the transformation of the Courts and Tribunals Service, a Chief Commercial Officer for DfE and a Group Commercial Officer for DEFRA. Using a central hub allows us to direct candidates to suitable vacancies across the civil service and consolidating volume allows us to strike better deals with executive search firms. In addition to new commercial leaders we have also recruited 87 fast-streamers into our graduate scheme and 43 commercial apprentices.

Departmentally-led initiatives are also leading to improvements in everyday practice. We worked closely with the NAO as it produced its 2016 guide to emerging best practice in commercial and contract management. We have active cross-government working groups on capability improvement, systems support for commercial work, contract management and Supplier Relationship Management. As an example of the improvements driven by these groups, in 2017 we will introduce:

- A single, coordinated way to check whether suppliers comply with essential corporate and social responsibilities, such as the Modern Slavery Act (2016). Led by the Home Office, we have developed a self-assessment system that allows companies to assert their compliance with these requirements once, and for all public purchasing authorities to have access to these representations
- A way of combining common cross Departmental commercial and contract management information into a single data set that will be accessed via an interactive dashboard tool
- A comprehensive best practice toolkit for Supplier Relationship Management. The toolkit has been developed with Departments and external bodies
It will be finalised and issued in February 2017 and we are prioritising Departments for implementation.

CCS is an integral part of Government’s commercial capability, employing ~20% of commercial staff.

Since January 2016 CCS has:
- Undertaken a detailed operational review and begun to implement a revised operating model, addressing the findings of that review;
- Established a Digital Transformation Programme to streamline and integrate its systems and processes;
- Identified a standard service offering for departments, and begun to transfer activities back to departments where it makes sense to do so;
- Strengthened commercial expertise, recruiting four new strategic category directors; and
- Initiated the test phase of the Crown Marketplace Programme. This programme aims to establish an online platform through which central government and wider public sector customers will be able to access CCS deals for common goods and services more quickly and easily.

CCS was the subject of a recent NAO report and PAC hearing where it was recognised that the right steps are now being taken to establish CCS. This will take a period of time to fully implement and requires further detailed planning with departments, which will require departmental commitment.

**Department’s plans for the transformation of their commercial functions**

The ‘Commercial Blueprints’ provide insights into the commercial capability of Government, how it is deployed, and the key risks associated with delivery. Currently, the blueprints for the Department for Work & Pensions and the Ministry of Justice are fully approved. Blueprints for an additional four Departments are in the process of being approved. A further seven Departments are undergoing review, and the remaining four are expected to enter the review process in the next couple of months. Two new Departments (which share commercial resources with others) will not produce blueprints.

To make sure blueprints are fit for purpose, they undergo a robust challenge, review and approval process involving non-executive directors, commercial peers and external experts. They are then subject to formal approval by the department’s Permanent Secretary, Cabinet Office, and HM Treasury.

The blueprints include a workforce plan that shows how that commercial capability will evolve over the course of the Parliament. For example, across 15 Departments (of 19) we employed just over 3,000 commercial professionals in 2014/15. By 2017/18 we expect this to decrease slightly. Over the same period we expect a significant change in the types of roles occupied. Junior roles (SEO and below) are expected to decrease by 13%, and senior roles (Grade 7 and above) will increase by 22%. The number of roles at the most senior level (Commercial Director) will increase by 40%.

The blueprints also contain a view of forthcoming workload. As an example, we foresee significant demand for government’s IT commercial capability. The drive to disaggregate large IT contracts will result in an increased demand for commercial resources with IT sector experience. We also forecast a significant increase in infrastructure and construction spending during the remainder of the Parliament.
A view on next steps in 2017 and beyond.

We don’t believe that improving commercial capability is a ‘one and done’. Our vision is simple - ‘The Government Commercial Function will be the best commercial function in the UK’. This means we will have the right people, the right processes, the right supporting tools and the right relationships with our suppliers and customers.

We have the largest spend under management of any organisation in the UK and the contracts we put in place deliver vital services to citizens and businesses. These contracts are often large, complex and game changing. We believe we can offer commercial professionals, at any level, a truly unique challenge and an opportunity for growth. There is a lot to do but we have demonstrated in the last twelve months that, by adjusting our reward package, we can attract well qualified and experienced staff who wish to make a career in the public service and who can help make this vision a reality.

2017 will be another year of considerable change for the Commercial Function. During this year we will:

- Transition our senior Commercial specialists to the Government Commercial Organisation. This will allow us to offer them the new, differentiated pay and reward package together with enhanced Learning and Development
- Expand the focus of the Government Commercial Function to include Arms’ Length Bodies (ALBs) and potentially some of the wider public sector
- Widen the coverage of our new employment package, staff at grades 7 and below
- Introduce formal continuous improvement for our key processes, so that we use the creative energy of our people to drive time, cost and quality gains
- Start to introduce standard operating procedures for certain contract management activities
- For each of the top ~600 strategic contracts across Government, work to ensure that the contract management arrangements are robust. This will include identifying and accrediting professional contract managers with the right attributes, supporting them with the right tools and systems and investing in their development
- Change our assurance processes to develop an earlier view of commercial activity - so that we can help shape transactions for success rather than intervene to stop contracts that are unlikely to deliver benefits
- Undertake a peer review of the Commercial Standards and revise them as necessary to fit the needs of Departments

In summary we have put in place a structured approach to development of the function as laid out in the Functional Plan - our aim to give us the right people, in the right structures, operating the right processes and supported with the right tools.

Much remains to be done to truly become ‘the best commercial function in the UK’ but 2016 has seen some significant steps in that direction, and further significant progress will be made in 2017.