Capability is everything

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Nigel Smith is halfway through his three-year contract as head of the OGC, the organisation in charge of making sure government spending is efficient and economical.

Shortly after he joined, he told SM (Making plans for Nigel, 29 November 2007) his priorities were: achieving more collaboration on common spend items, improved data and increased value for money.

In the intervening 18 months he is convinced the OGC is "a different animal to a couple of years ago". And in his view this new beast is a more relevant and influential organisation.

But he recognises the job of transformation is not over and feels the remaining changes fall into three areas - relevance, making an impact and the ability to measure that impact: "I don't think you could answer "yes, yes and yes" [to the question do we have these] a couple of years ago. I don't think you can answer "yes, yes and yes" now, fully.

"We have a way to go on some of our agendas, but it is much better than it was. There has been a difference, whether it is me that has made the difference I don't know.

"In our three-year strategy we're saying 'this is our relevance, this is the impact we are going to make and this is the measurement we will apply'."

And, he says, it is working.

OGC staff now have a much better appreciation of their role and purpose: "One of the ways I measure if it is clear what you are doing - is whether the people at OGC understand the vision and objectives of the organisation. Obviously, two years ago, they didn't.

"If you looked at OGC people then, fewer than 50 per cent understood the vision and objectives. In our last survey it was more than 89 per cent."

RELEVANCE

And the awareness across Whitehall was no better. In 2007 it was "unclear in the departments what we were doing and where it was relevant.

"That wasn't to say there weren't some great things being done. We started collaborative procurement two years ago but it was in its infancy. If you looked at the wider landscape there wasn't a 'where are we going to be in three years' time?' We've got that now. We have a greater understanding of the objectives than the highest performing private and public sector organisations - and we have benchmarked ourselves against that.

"This is a small part of the jigsaw, but unless people understand what you are trying to do you aren't going to achieve it."

The procurement capability reviews (PCR) - the OGC's assessment of buying in central government departments as part of the Transforming Government Procurement plan - were a huge step and a big boost to OGC's awareness.
And, according to Smith, these evaluations have "changed people's view of what procurement is within the departments," and he offers two examples.

IMPACT
The first is the Department for International Development, which had "a narrow view of procurement". That outlook was around £350 million and did not extend to its £5.3 billion aid bu dget, two thirds of which is delivered through agencies in various countries, with the rest done by the UN.

"That was not viewed as a procurement that would benefit from going through purchasing processes, a strategy for supplier engagement, supplier improvement and collaboration.

"Between countries there would be common suppliers - that is a big change of perspective which has happened because of the PCR. It is now a more basic part of the delivery."

The second example is at the Department of Health, where the PCR provided some useful clarity. He referred to its "original complicated structure" and said its new set-up would be put into "a professional buying structure in line with the bit of the Operational Efficiency Programme that talks about rationalisation of the landscape."

Last year's Procurement Capability Review of the DH said some aspects of the department's commercial activities had "dysfunctional consequences".

As reported in SM (News, 14 May) the NHS Purchasing and Supply Agency (Pasa) will cease to exist as the health service attempts to make procurement simpler and more cost-effective. Much of its work is to be devolved to Buying Solutions, NHS Supply Chain and the NHS Business Services Authority. And a National Procurement Council will be established to improve communication between vendors and health buyers.

While this may be one of the more radical post-PCR results, a more subtle development is a growing understanding of purchasing's role and importance.

"The procurement head is now sitting at a higher level in the organisation - and if they're not on the board, then there's an established representative. They might seem minor things but they are crucial to getting procurement on the top table."

And what does Smith say to those who argue procurement shouldn't have a place at the top level?
"If procurement can't be on the board when it spends £540 billion a year, if you can't have the p rocess which governs that at the top table, what the bloody hell can you have at the top table?
"That message is over. Now all permanent secretaries talk about their procurement objectives and

that is one of the real benefits of the PCR."

And, when the process began, fewer than half of departments had a commercial strategy. Now all but two (which are in formation) have such a plan.
"Only a third of them had formal board committees that looked at commercial matters regularly. All of them will now have that."

SELF-ASSESSMENT
Under plans leaked to SM in May, the second phase of Whitehall departments' buying reviews will be carried out in-house. This is a change from the original idea that the OGC carry out follow-up reviews. So is Smith in favour of such an approach?

"Initially I wasn't. Certainly when it was being debated internally, a pure self-assessment is only any good if it is a rigorous process. So I was worried.

"I knew the second phase of PCRs had to be different to the first because we are not looking for a repeat. I am very comfortable with the self-assessment model we now have."
So what changed his mind?

He says the OGC is working with departments to create a framework against which they will self-assess, and at the heart of that will be quantitative key performance indicators (KPIs). The second element is that they will be made public.

"There is a commitment that departments will be reporting publicly on their self-assessments. Transparency is one of the most powerful things that leads to improvement, corporate responsibility and personal accountability."

Lastly, he says, the self-evaluations will also be subject to external verification by government bodies - and him as head of profession.

COLLABORATION
For Smith, achieving more for less is an important part of solving the gap in public finances. So how will the OGC do that - and how much more for how much less? The target is to make £5.7 billion of savings by 2011-12 through collaborative procurement. To hit that, the number of categories bought jointly will increase from six to nine. So food, facilities management and construction will be added to energy, fleet, office equipment, travel, professional services and IT.

In 2007-08 public sector energy spend - which varies year-to-year- was about £3.5 billion. The target is to save £320 million in this category by 2011-12. And £100 million is expected to be the result of joint purchasing.

"This is a classic commodity and government was buying it like a retail customer. We weren't accessing wholesale markets or having conversations with generators. And when you are eight times the largest buyer of energy in the UK, that is kind of stupid."
He says 250 OJEU notices for energy were issued in one 18-month period alone: "It is probably more than that - it is a nonsense.

"It is a duplication of effort, there's no proper aggregation or structure. Having set up a collaborative structure with representatives from the wider public sector, it now has a commercial strategy for this category.

"We have mapped how we go from the retail negotiation to the wholesale market. We will go to a negotiation with the generators and in about a year or 18 months government will have a single power purchase agreement."

In 2007 Smith told SM: "If collaboration does not make a significant contribution to helping departments make efficiency savings we will have failed." So has it worked?

"I think it has, I really do. Is it optimised? No, it's not. When I spoke two years ago I don't think we had any representation from the broader public sector. Now we have representation for most of our categories."

And the OGC has not had to bang down doors to achieve this.
"The door is open. Local authorities, for example, are not stupid. They can see the problems coming down the line. If there is a mechanism to help them manage budgets, the want to participate.

"The point I make constantly is the collaborative agenda is not driven by mandating."

SPEND DATA AND MEASUREMENT

But collaboration will only work if it is clear how much is being spent.
To be in a strong negotiating position for collaborative deals, it's vital to know how much the sector spends and with whom. But one finding of the capability reviews was that many departments don't have that data. So how can the OGC be sure how much the sector spends in various categories - and therefore the savings potential?

"We have an annual survey, which we are looking to update more regularly. And we can now map £110 billion of the £175 billion by market category.

"You might say to me 'that is only 110 out of 175' - and I would say 'when we started this process it was a lot less than £70 billion'.

"Of the common categories of spend - those we're most interested in for collaboration - we can map £78 billion out of £89 billion."

That leaves £11 billion as yet 'unmapped', which Smith agrees is "a lot", but he adds: "I'm a seven- e ighths pint full man rather than a one eighth empty man."

One category it's yet to tackle is social care, because the organisation is first dealing with the simpler ones: "Although they are quite difficult, they are easier."

Smith argues where they do have category spend data it's possible to drill down to the detail in many cases, with a number of organisations that are able to "map right down to sub-category level".

And he is confident that the value of accurate information is understood.

"Every department that had a weakness in data has got an improvement plan. Many of those have been published and we are continuing to support every department. This isn't a case of 'come in, make a comment and piss off for another two years'. We have a six-month health-check and a 12-month stock-take, so the first wave of PCRs won't finish for another year or 18 months."

And he name-checked HM Revenue and Customs as an example.

"At the beginning it was in the bottom quartile in terms of mapping spend. Now it can map 98 per cent by full categorisation. That's the target for every department. Obviously 100 per cent is the target, but I'm not going to get too picky about 2 per cent."

Is it even realistic to target to 98 per cent? Not in the next couple of years, says Smith, but if departments can achieve 80 per cent, since the opportunities are so large the OGC "can worry about the extra 20 per cent later on.

"Let's focus on what we can do, let's show people what the benefits are. It won't be us saying 'do this, do that' they'll be saying to themselves 'we've got to do this, and do that'.
"That is the same for an NHS trust as it is for a local authority or a government department. I'm not too fussed about looking for perfection, I always work on the Pareto principle."

SKILLS
Although Smith is a long way from the end of his three-year contract, he is already talking about his "legacy".

"I want it to be that we have a viable and growing profession in government and the wider public sector. All the other stuff is great but procurement doesn't happen without the people." One thing that will assist is the OGC's graduate training programme.

"Recruiting for graduates is a hell of a lot easier now than two years ago. We stopped taking applications when we got up to 600, and we have fantastic quality."

A total of 19 students from the 2008 and 2009 intake graduate this year and there are 21 spaces this autumn.

"So we now have 19 fast-streamers in procurement. They always want to go to policy departments and the bright ones are saying 'I need delivery and policy experience'."

In addition, the OGC has launched an online "knowledge-sharing portal" help raise the skills and capability of government buyers. The Government Procurement Service (GPS) Online includes access to a discussion forum, a resource library and contacts directory.

While all 4,000 central government purchasers are eligible to join, the OGC target is to get up to 250 to sign in the next year. But Smith is conscious that he may not be around to see what happens beyond the next 18 months.

"I joined on a three-year contract. I may stay a bit longer but I didn't come here for a career, I came

here for the interest and because I thought I could contribute. Part of what I would like to do is make sure my replacement is here before I go."

He admits he's found the switch from private to public sector an adjustment.

"The governance structures in the wider public sector are so difficult, if you are trying to get change. The ability to get some pace because the landscape is so complicated is a frustration, but I thought that might be the case.

"Have we made a difference? In some areas. Have we got to where we want to be? No we haven't. Have we got perhaps a bigger challenge now than I anticipated two years ago? The answer is definitely yes."