Improving accountability in government procurement

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About this report

This report looks at the size and shape of public procurement in the UK, and opportunities for insourcing in IT and management consultancy. It explores how accountability in public procurement works, how this will change under the Procurement Act, and sets out opportunities for the new government to improve practice.

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Summary

The government spends more than £350 billion each year buying goods, works and services from businesses and charities. This spending – grouped under 'procurement'* – makes up almost a third of all public expenditure and plays an essential role in public services, national security and infrastructure. But government procurement has been beset by scandals in recent years, most recently with the wrongful prosecution of Post Office workers due to the faulty Horizon computer system and, before that, accusations of cronyism around the Conservative government's 'VIP-lane' for PPE procurement during the pandemic.

The difficult fiscal inheritance facing the new government means it is especially important that public spending – including procurement – is aligned with government priorities and delivers good value for money. Government needs the strategy, systems and capability to hold suppliers and contracting authorities to account for this, and create incentives for effective procurement. It is clear these have not always been present under recent administrations.

The Procurement Act will bring in a new public sector procurement regime.** This is an important opportunity for the new government. Simplified regulations, greater transparency and enhanced exclusion criteria could all help improve accountability. But there are also risks. The Act is not a panacea – new requirements could impose more demands on already stretched resource and add further complexity to a governance system that can already be difficult to navigate. Some long-standing problems are not covered. The government – from the Cabinet Office and central government departments, through small contracting authorities in the wider public sector – must ensure it is ready to adapt to the new regime. With the new government delaying implementation of the Procurement Act to 24 February 2025,*** it now has a perfect opportunity to strengthen accountability.

At this critical juncture, this joint Institute for Government, Tussell and AutogenAI report first sets out the scale of public procurement, and potential opportunities for insourcing in the IT and management consultancy sectors. It then looks at how accountability in procurement works in practice, how the Procurement Act will change this, and the opportunities and risks for the new government to grasp in the months ahead.

The report is based on contract and spending data collated by Tussell, desk research and a private roundtable with senior procurement experts from government, suppliers and beyond, and its headline findings are outlined below.

* In this paper we define procurement as the purchase of goods (such as pens and medicines), services (delivery of functions like adult social care, HR and consultancy) and works (construction, repair and maintenance of assets like hospitals and roads). This is distinct from outsourcing, which we define as the procurement of services only.

** The Procurement Act 2023, passed under the Sunak government, was originally due to come into force on 28 October 2024.

*** It was originally due to be implemented on 28 October 2024.

Headline findings and recommendations in brief

Performance metrics and monitoring

Performance metrics are often poorly aligned with government objectives, lack clarity and can be outside of the supplier's control, with monitoring regularly carried out by more junior staff who lack commercial expertise. The Procurement Act introduces new requirements for publishing key performance indicators (KPIs) and how suppliers perform against them.

Contracting authorities at all levels of government should be investing in the capacity and capability needed to effectively set performance metrics and monitor performance against them under the new procurement regime.

- **The Government Commercial Function should ensure there is appropriate training and support on monitoring and setting KPIs for both central government and the wider public sector.**

Labour's mission-led approach could provide more effective strategic direction for the whole of government, including procurement.

- **The Mission Delivery Unit should work with the Government Commercial Function to develop guidance on how missions should be reflected in contracts.**

Consequences for poor performance

The consequences for poor performance are unclear, with current grounds for excluding underperforming suppliers virtually unused. While the Procurement Act widens the grounds for exclusion, their implementation may be limited by dependence on particular suppliers across the public sector, particularly where there is limited market competition.

- **The Cabinet Office should conduct targeted reviews into the suppliers the public sector is most exposed to, and clarify how they could be feasibly added to the debarment list.**

- **Ministers should commission 'deep dive' reviews into public sector markets where a lack of competition would make exclusions difficult.**

Transparency

The poor quality of procurement data limits oversight of what government is spending and reduces competition. This means government gets a worse deal. The Act is an opportunity to improve transparency and therefore accountability through increased reporting requirements and a new central digital platform. But its success will depend on public organisations collecting and providing this information.

- **The Treasury should update the *Managing Public Money* guidance to make accounting officers responsible for their organisation maintaining and publishing high-quality procurement data.**

External scrutiny

Reviews of procurement by the National Audit Office (NAO) and Commons Public Accounts Committee (PAC) do improve behaviour, but their benefits can be limited by government taking a tick-box approach to compliance and not always addressing the root causes of issues highlighted.

- **The NAO and PAC should continue to follow up on whether recommendations are followed.**

- **As the Procurement Act 2023 comes into force, the PAC should ask for regular updates on progress towards meeting the new transparency requirements.**

Policies and controls

Policies and controls help ensure procurement is aligned with the government's priorities and is done through appropriate processes; at the same time, more governance can muddy accountability and make government a less attractive client. These trade-offs are not always recognised. In addition, ministerial involvement often comes at a late stage, which limits their ability to add value and creates avoidable delays. The Procurement Act improves clarity over national priorities and oversight, but risks creating additional layers of process and policy to navigate.

- **The Cabinet Office should update the National Procurement Policy Statement (NPPS) to reflect Labour's missions to set clear strategic direction for procurement across the public sector.**

- **The new government should conduct a review of procurement policies and controls to ensure that collectively they help enable clarity of accountability and are aligned with government priorities.**

- **Each minister should have a clear and consistent approach to involvement in procurement decisions. For all ministers this should include a clear understanding of which contracts they will be involved in, set decision points for their input and timelines for response.**

Capability and capacity

There have been substantial improvements in the commercial function in government in recent years, but there are still capacity problems, particularly in the wider public sector. This needs to be addressed.

- **The Government Commercial Function should set out in more detail the additional resource it expects will be needed to meet the new requirements under the Procurement Act, maintain and strengthen the commercial profession and ensure that high-quality training is available to the wider public sector.**

- **This is particularly important for contract management, where there should be an expectation that all staff managing contracts should be commercial specialists.**

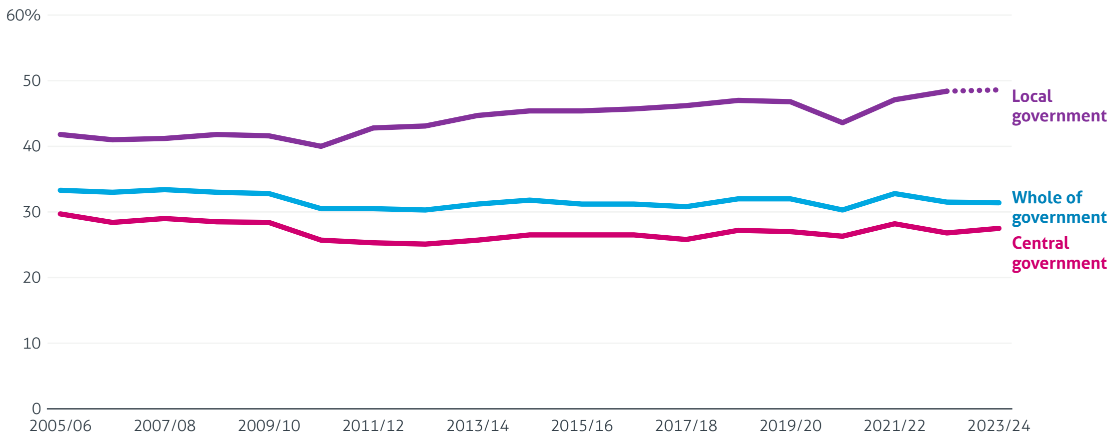
Part 1: The size, scale and shape of public procurement

How much does government spend on procurement?

Procurement makes up almost £1 in every £3 of government spending

Government spent £388bn on procurement in 2022/23.* The scale of this is often overlooked, and under-appreciated by the public: it is, for example, double the entire NHS budget, and seven times larger than core funding for schools. Procurement accounts for almost a third of all government spending, which is typical of OECD countries (29.7%).[1]

Figure 1 **Government procurement spending, 2005/06 to 2023/24**



Source: Institute for Government analysis of HM Treasury, Public Expenditure Statistical Analyses, 2010–24. Notes: 'Whole of government' includes central government, local government and public corporations. 2023/24 data for local government is spending plans, rather than outturn.

Government procurement spending in the UK is, like the government itself, highly centralised. Two thirds of procurement spending is by central government (66%), and this is less typical when compared to OECD countries, where the average is less than 40%.[2]

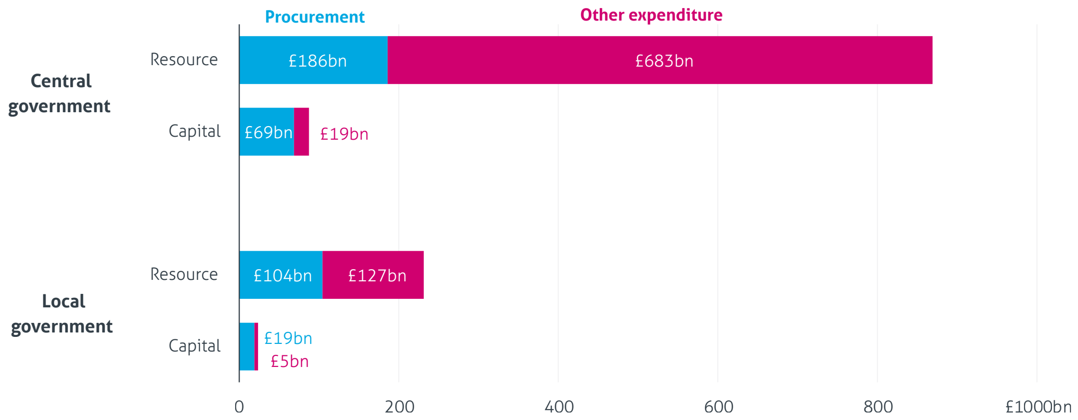
The proportion of local government spending that goes on procurement has risen in recent years, up to 48% in 2022/23 from 40% in 2010/11. This is principally due to static real-terms spending on procurement, while other areas of local government spending fell between 2010/11 and 2020/21, leaving procurement to make up a greater proportion of total spend. In comparison, just 27% of central government spending in 2022/23 was accounted for by procurement. This disparity is in large part due to high levels of central government non-procurement spending on welfare and debt interest.

* This data is drawn from HM Treasury's Public Expenditure Spending Analyses (PESA). Procurement expenditure in PESA is the sum of 'gross current procurement' and 'gross capital procurement'.

Most procurement spending is on day-to-day costs rather than capital

A sizeable majority of government capital spending is on procurement (80%), given its use for construction and maintenance of assets. Procurement makes up a much smaller proportion of day-to-day (resource) spending (26%); for example, the running costs of public services. However, since resource spending is so much higher than capital spending overall, more than three quarters of all procurement is resource spending (77%).

Figure 2 **Central and local government procurement spending, 2022/23**



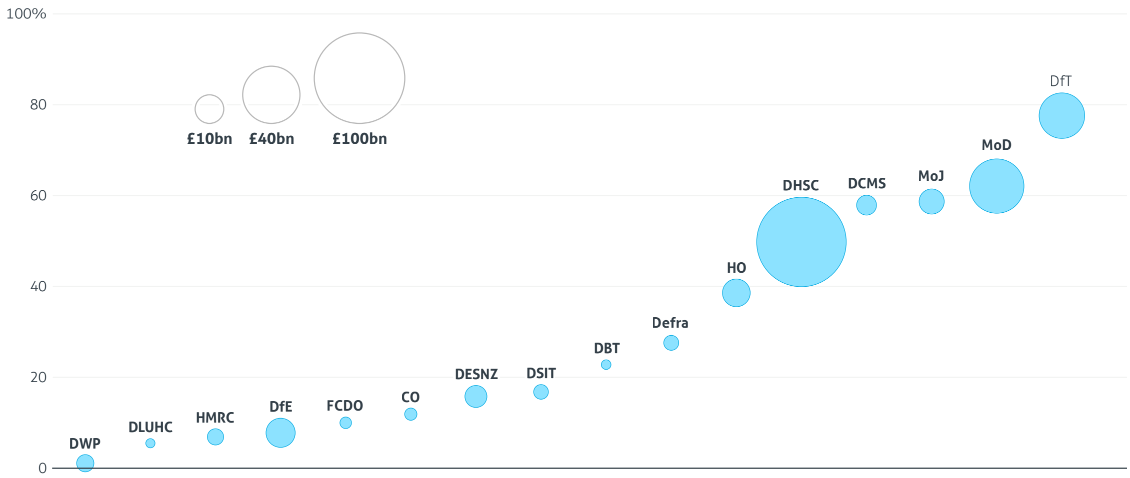
Source: Institute for Government analysis of HM Treasury, Public Expenditure Survey Analyses, 2024.

Spending on procurement varies substantially by department

Procurement spending varies between departments, both in absolute terms and as a proportion of departmental budgets. The Department of Health and Social Care (DHSC) has the highest spending on procurement, at £98bn in 2023/24, equivalent to half its total budget; thanks largely to high NHS England spending on procurement of goods, such as medicines and equipment, and health care services. The Ministry of Defence (MoD) has the second highest procurement spend (£36bn), with the Department for Transport (DfT) third (£25bn – though it spends the greatest proportion of its budget on procurement, 78%).

Together these three departments make up over three quarters of central government spending on procurement. Most, however, spend less than a fifth of their budgets on procurement.

Figure 3 **Procurement spending by department, total and as a proportion of total departmental spending, 2023/24**



Source: Institute for Government of HM Treasury, Public Expenditure Survey Analyses, 2024. Notes: Figures for DESNZ are for 2022/23, and total departmental spending is Total Managed Expenditure (TME) net of Nuclear Decommissioning Authority 'provisions'. Total departmental spending is TME for other departments. HMT is excluded due to negative procurement spend in 2024. See Methodology for further information.

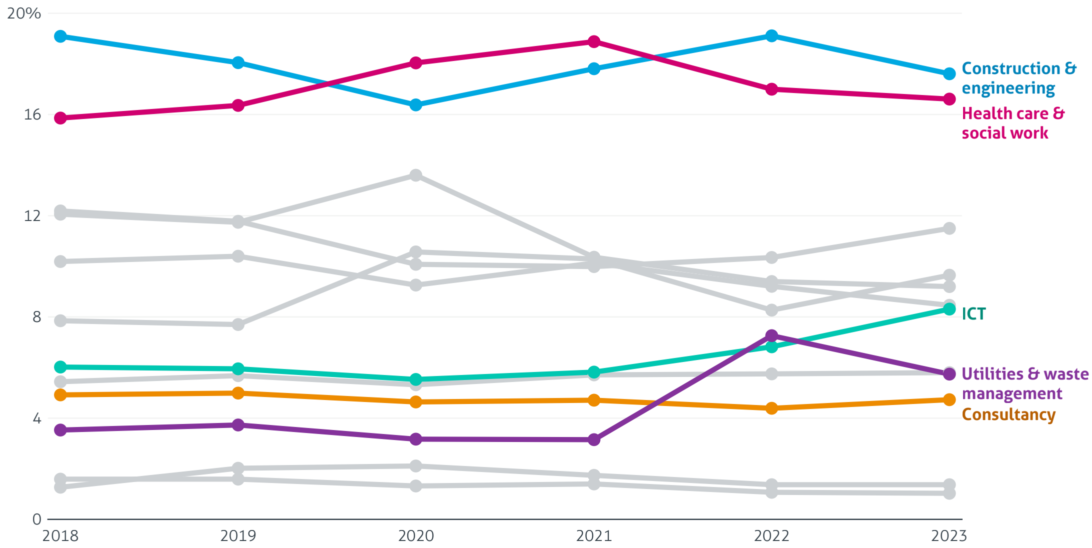
What is government buying, and from whom?

Tussell collates data that provides a more granular breakdown of procurement spending from invoices and contracts published by public sector organisations. Incomplete reporting of invoices means that not all procurement spending reported in the Treasury's Public Expenditure Spending Analyses (PESA) is captured by this data. The data presented below is for England only, and includes only direct procurement spend, not indirect spend via third-party partners or resellers.

Along with construction, health and social care makes up a third of all government procurement

A third of direct public spending on procurement is in two sectors: 'construction and engineering' and 'health care and social work'. These have been the top two sectors for the past five years, by a large margin. In the same period 'utilities and waste management' and 'ICT' have seen the largest real-terms increases, growing by 123% and 90% respectively.

Figure 4 Government procurement spend by sector, 2018–23



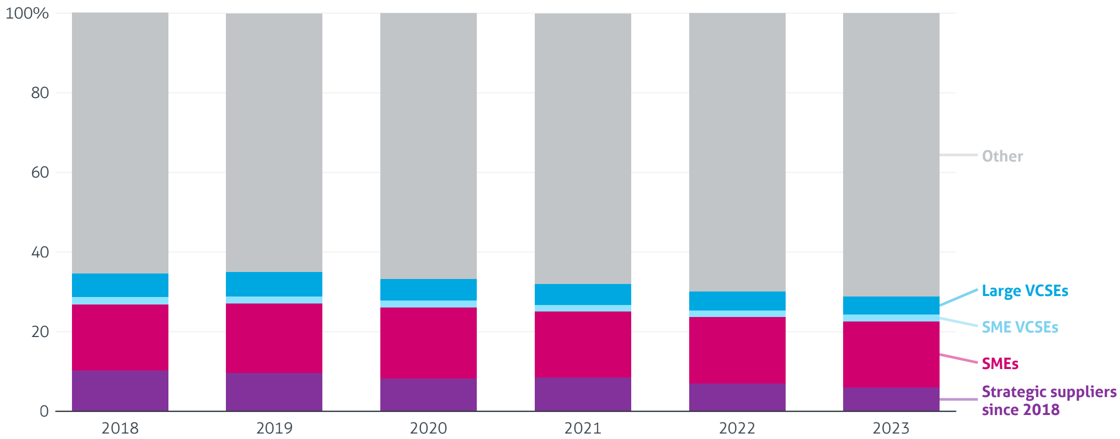
Source: Institute for Government analysis of Tussell data. Notes: Spend is expressed as a proportion of total government procurement spend. Includes only direct procurement spend. Suppliers have been allocated a sector either based on their SIC code or manually where the SIC code was NULL or ambiguous.

Procurement spend with strategic suppliers has fallen

The UK government categorised 39 companies as ‘strategic suppliers’ in 2023. These are companies either deemed as significant suppliers in their sector, or which have government contracts worth more than £100 million per year. In 2023, the suppliers central government spent most with were Kier (£1.53bn), Balfour Beatty (£1.29bn) and Mitie (£1.29bn). These suppliers are responsible for the largest government contracts and so are subject to higher levels of scrutiny by government, external bodies and the public. Though, as discussed in more detail below, the ability of some of these firms to win further government business after high-profile contract failures has raised questions about how accountable they are for poor performance.

Of the current strategic suppliers, 27 have been consistently on this list since 2018. Between 2018 and 2023, the proportion of direct procurement spending with this 27 fell from 10% to 6%. In total, government spent £19.6bn with strategic suppliers in 2023, some £13.7bn of which was by central government.

Figure 5 **Government spend with strategic suppliers, SMEs and VCSEs, 2018–23**



Source: Institute for Government analysis of Tussell data. Notes: Expressed as a proportion of total procurement spend. Includes only direct procurement spend. 'SMEs' = small and medium-sized enterprises; 'VCSEs' = voluntary, community and social enterprises; SME VCSEs are VCSEs that also meet the definition of SME due to their size. Other VCSEs are referred to as 'large VCSEs'.

Procurement spend with SMEs has remained flat

At the other end of the spectrum, small and medium-sized enterprises (SMEs) are those with an annual turnover of under €50m, balance sheet total under €43m and staff headcount of under 250. There has been a long-standing government goal to increase procurement from SMEs, with the coalition government setting a target for 25% of contracts to be awarded to SMEs.[3] However, between 2018 and 2023, the proportion of procurement spend directly with SMEs has been largely static at around 19%.[*] To rectify this lack of progress, Labour's manifesto committed to "reform procurement rules to give [SMEs] greater access to government contracts".[4] Supporting SMEs was an explicit aim of the Procurement Act 2023.[5]

Another key supplier category is voluntary, community and social enterprises (VCSEs), almost all of which are SMEs. However, over three quarters of government procurement spending with VCSEs goes to a handful of larger organisations (77%). Total proportion of procurement spending with VCSEs fell between 2018 and 2023 from 8% to 6%, but spend with smaller VCSEs has been stable at 2%.

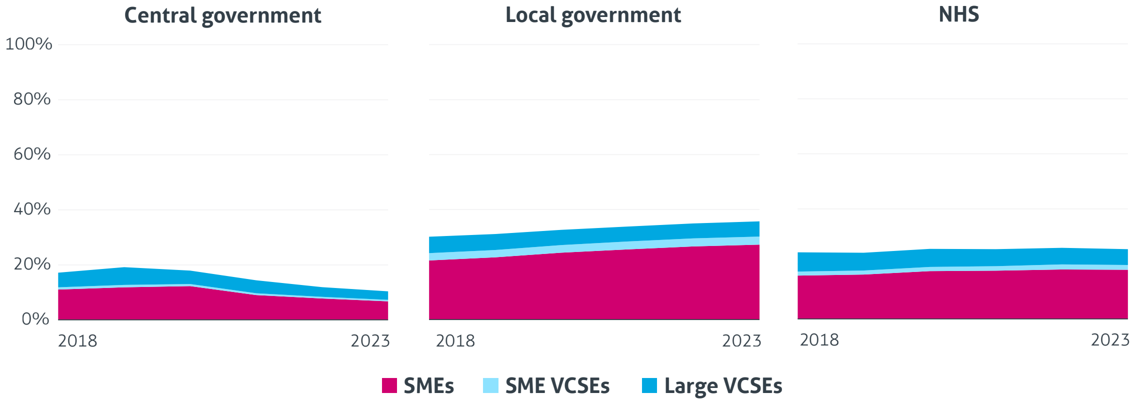
The proportion of procurement spending with SMEs has risen in local government, but fallen in central government

The overall proportion of procurement spending with SMEs has been stable but there is variation between central government, local government and the NHS. The proportion of procurement spending with SMEs between 2018 and 2023 rose from 24% to 30% for local government and from 17% to 20% in the NHS. However, this was offset by a decrease in central government from 12% to 7%. Over the same period, the proportion of procurement spending with VCSEs has decreased slightly across local government and the NHS, and to a greater extent in central government.

* However, around half of government spending with SMEs is indirect via third parties, meaning the total proportion of spend with SMEs may be higher. See Davies N, Chan O, Cheung A, Freeguard G and Norris E, *Government procurement: The scale and nature of contracting in the UK*, Institute for Government, 2018, Figure 4.7, www.instituteforgovernment.org.uk/publication/government-procurement

Well over half of procurement spend with both SMEs and VCSEs is in local government, despite overall procurement spend being much higher for central government. This likely reflects the fact that, as discussed in more detail below, central government contracts tend to be larger and so harder for smaller providers to win.

Figure 6 **Procurement spend with SMEs and VCSEs, 2018–23**

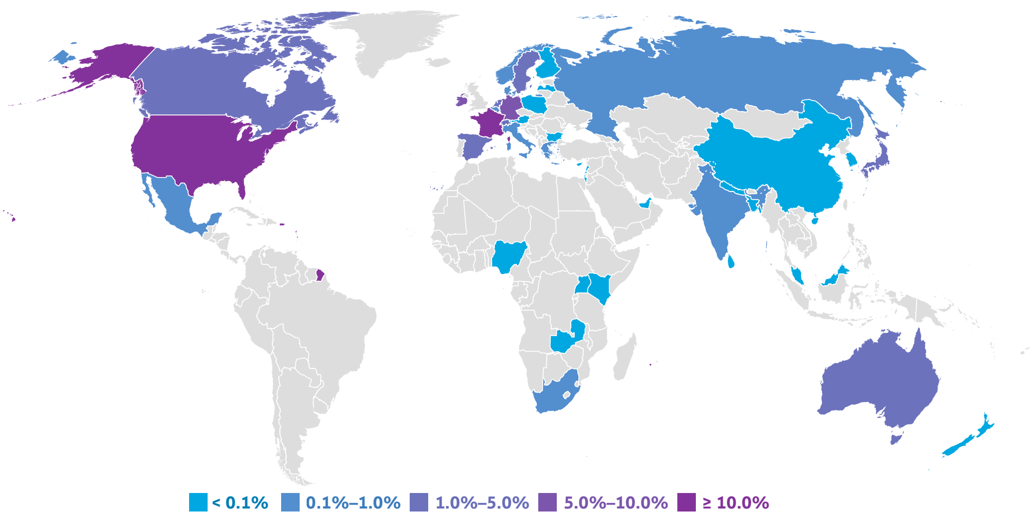


Source: Institute for Government analysis of Tussell data. Notes: 'SMEs' = small and mediun-sized enterprises; 'VCSEs' = voluntary, community and social enterprises. SME VCSEs are VCSEs that also meet the definition of SME due to their size. Other VCSEs are referred to as 'large VCSEs'.

Most government procurement is with British suppliers

Buying from British business has been a priority for both main political parties in recent years.[6] However, this is already overwhelmingly the case anyway, and international trade agreements mean that actively prioritising the use of British suppliers over foreign-based or -owned companies is in reality hard for any government to do.[7,8] In 2023, 86% of public sector procurement spending was with British suppliers, a slight increase from 84% in 2018. Of the remaining 14%, spending is highest with companies based or owned in France, the US and Germany.

Figure 7 **Proportion of government procurement with non-UK suppliers, by country, 2023**



Source: Institute for Government analysis of Tussell data. Notes: Expressed for each country as a proportion of total UK government procurement spend with non-UK suppliers. Non-UK suppliers are defined as those that are head-quartered in, or owned by a parent-company who are headquartered in, any country outside of the UK. British crown dependencies and British overseas territories (not shown on map) together make up 5.8% of non-UK procurement spend. No data available for suppliers from countries in grey.

What is the length and value of government contracts?

The UK public sector awarded 70,000 contracts to suppliers in 2023. These varied substantially in value and length – from spot purchases worth only hundreds of pounds through to multibillion-pound contracts lasting for over a decade.

The nature of a contract will have implications for accountability. Longer contracts provide greater certainty for both government and suppliers but require stronger contract management to ensure that performance remains at acceptable levels. More valuable contracts will be subject to more stringent government and contracts controls, and will also receive more scrutiny from external bodies such as the NAO and PAC.

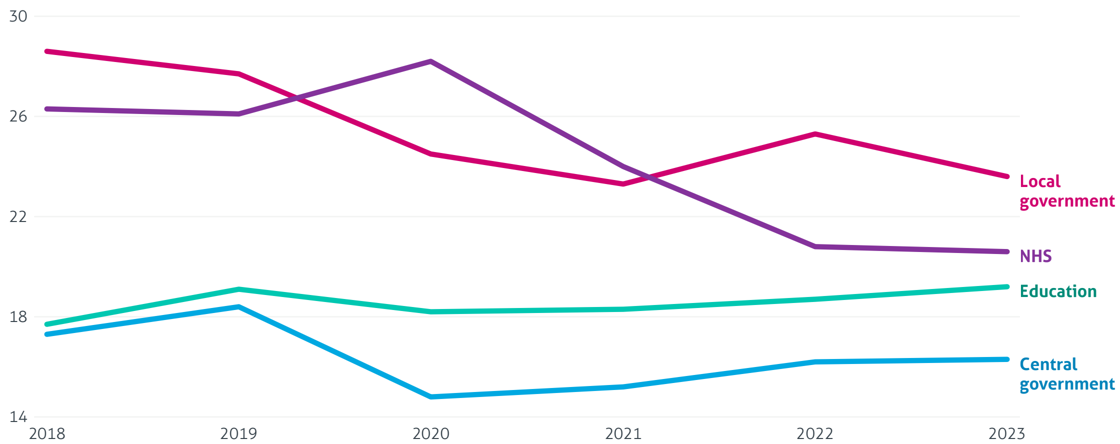
The data below is collected by Tussell, primarily from Contracts Finder and Find a Tender Service, as well as a number of other public sector procurement portals.

Local government awards longer contracts

The average length of a public sector contract awarded in 2023 was 20.8 months. The median contract duration was 12 months, meaning most contracts were for one year or less. Over the past five years there has been a small decline in the average contract length, with the figure standing at 24.2 months in 2018.

In general, central government contracts are shorter, lasting just 16.3 months on average in 2023 compared to 23.6 months in local government. This is a counter-intuitive finding given that central government departments tend to get multi-year budget allocations at spending reviews, while councils, schools and NHS trusts usually only receive annual budgets. However, across all parts of government the median contract length is around a year.

Figure 8 **Average length of public sector contracts in months, 2018–23**



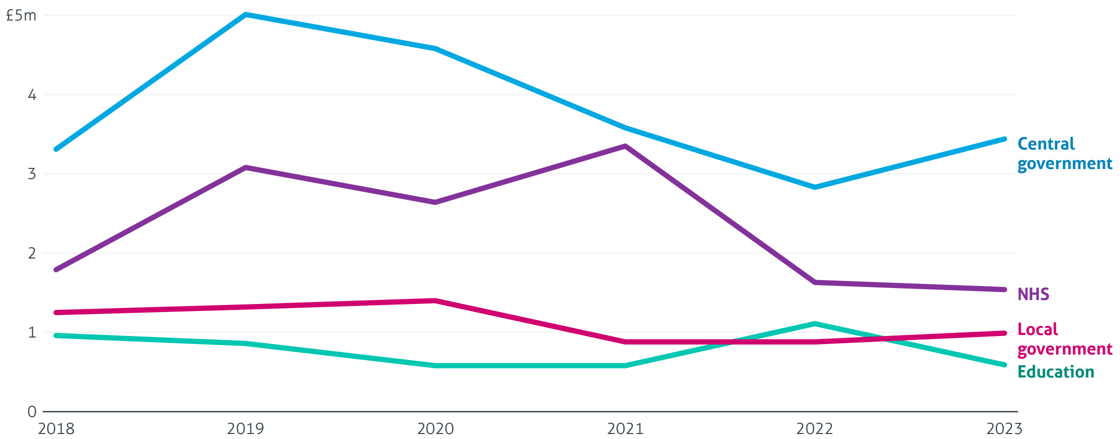
Source: Institute for Government analysis of Tussell data. Notes: Contract length is total length of public sector contracts awarded in a given year.

Central government contracts are bigger

The mean value of each government contract awarded in 2023 was £1.70m, a small real-terms decline since 2018, when the average value was £1.75m.* However, these figures are distorted by a small number of very big contracts. These contracts, rightly, receive the greatest government and public scrutiny but most contracts are an order of magnitude smaller. Across the public sector, the median contract in 2023 was worth just £62,672.

There is relatively little difference in median contract value between different parts of the public sector. For example, the median central government contract was valued at £78,438, compared to £53,142 in local government in 2023. However, the spread in mean contract values is much greater. In 2023, the average in central government was £3.4m, more than three times higher than in local government (£0.99m). This reflects the fact that central government is responsible for most of the highest value contracts in the public sector each year. And the disparity is even more substantial on a per year basis, as central government contracts tend to be shorter. The average value per year of central government contract awarded in 2023 is £2.5m, compared to just £0.50m in local government.

Figure 9 **Average value of public sector contracts, 2018–23**



Source: Institute for Government analysis of Tussell data. Notes: Average value of contracts is lifetime value of contracts awarded in a given year. Values in 2023 prices.

Central government makes greater use of frameworks

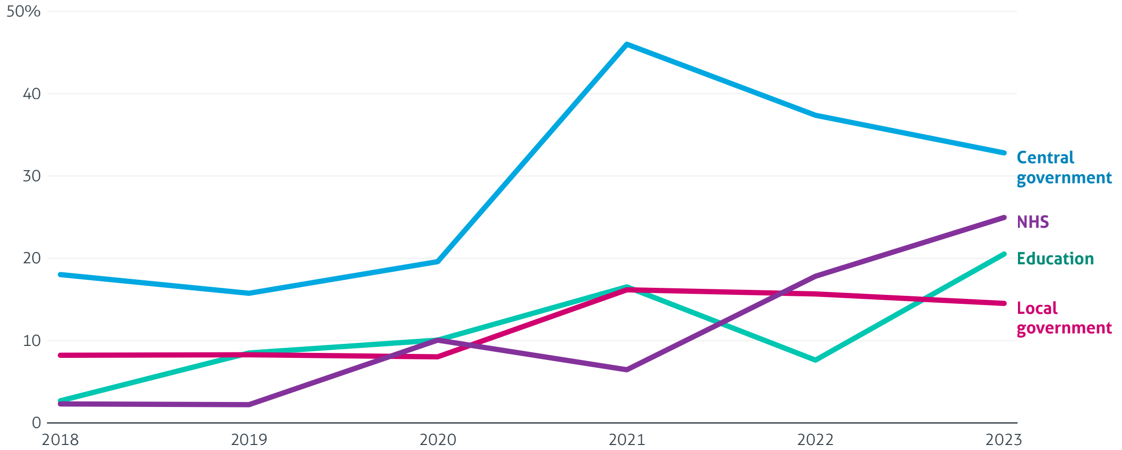
Frameworks are agreements with a list of suppliers that have been pre-approved by a public sector organisation to provide certain products or services under settled terms and conditions. Contracts with these suppliers can then be awarded more quickly.

Under current legislation and regulations, there is less transparency regarding frameworks than some other procurement routes. However, the Procurement Act 2023 aims to improve this, through requiring government bodies to publish a broader range of information through 'framework notices'. The Act also aims to make frameworks more competitive with a new 'open framework' mechanism that allows new suppliers to enter the framework during its lifetime.

* Values given in 2023 prices.

Use of frameworks has grown across government in recent years. In 2023, a quarter of the total value of government contracts was awarded via frameworks (26%), up from just 11% in 2018. The biggest increase in framework use has been in the NHS, which shot up from 2% to 25% over this period. However, central government makes greatest use of this procurement route, with frameworks accounting for a third of total contract value in 2023.

Figure 10 **Contract value awarded via a framework agreement, 2018–23**



Source: Institute for Government analysis of Tussell data. Notes: Contract value awarded via a framework agreement is the value of contracts that Tussell is able to identify as a call-off and match to the appropriate public sector framework, as a proportion of total contract value for each public sector group.

Opportunities for insourcing

Bringing services back in-house is one way that public sector organisations can hold suppliers to account for poor performance. In 2022, Labour committed to overseeing the "biggest wave of insourcing in a generation",[9] with its manifesto for the 2024 election stating that it would end "wasteful contracts".[10] Two service areas that are often mentioned as candidates for insourcing are consultancy and IT contracts. This section looks at the value of contracts for these services that are ending over this parliament.

Management consultancy contracts worth £5bn end in this parliament

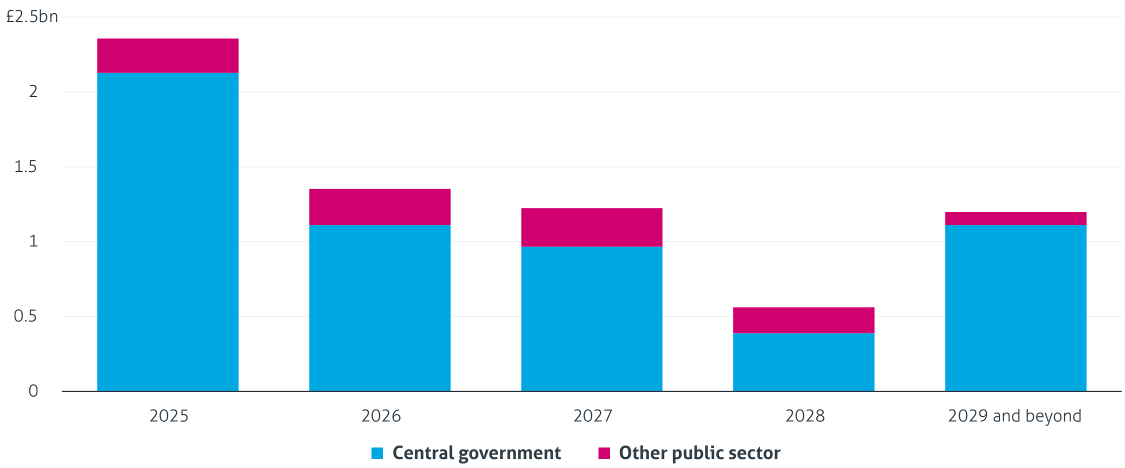
Labour has identified consultancy as a key area where government can reduce its procurement spending. Its manifesto promised to halve consultancy spending,[11] and this objective was confirmed after it entered office with its audit of public spending that stated that the government would "stop all non-essential spending on consultancy in 2024–25 and halve spending on consultancy from 2025–26."[12] Through these measures, the government hopes to save £550m in 2024/25 and £680m in 2025/26.

Accurately measuring consultancy spending is challenging as invoices are often incomplete or potentially misleading (see the Methodology for further details). On a broad definition* – which includes IT, environmental and engineering consulting, for example – total government consultancy spending in 2023 came to £11bn. For management consultancy, which appears to be the government's focus, spending in 2023 was £3.6bn.**

The easiest way to reduce procurement spending is to not re-tender when contracts come to an end, either stopping the work that was previously outsourced or bringing it in-house. Over the course of this parliament (2025–28), more than 3,000 management consultancy contracts are coming to an end, with a total value of £5.4bn. Central government is responsible for most of this (83%). In 2025 alone, more than 1,700 management consultancy contracts worth £2.4bn will end – equivalent to a third of all existing management consultancy contracts. The 20 largest management contracts expiring make up almost half of this value.

Government also has almost £1.1bn worth of management consultancy contracts that expire in 2029 or later. This is made up of a much smaller number of larger contracts. Reducing spend on these contracts during this parliament would entail either ending them early, which would be difficult to do in many cases, or reducing spending within these contracts.

Figure 11 **Current public sector management consultancy contracts, August 2023, by expiry year**



Source: Institute for Government analysis of Tussell data. Notes: 'Other public sector' includes local government, NHS and education.

* This broad definition refers to suppliers with any consultancy SIC code.

** This figure is for spend with suppliers with the SIC code 'Management consultancy activities other than financial management'. This is likely to underestimate overall management consultancy government procurement spend.

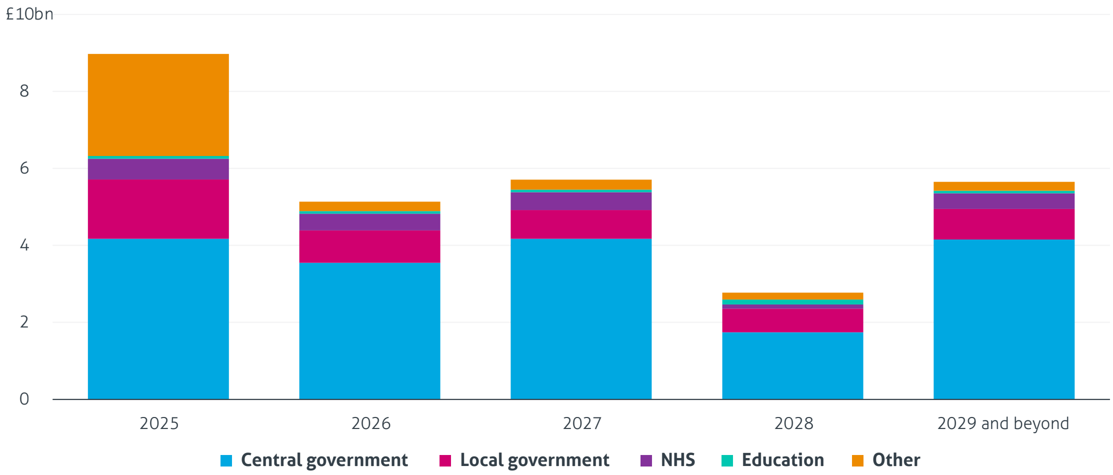
IT contracts worth £23bn end in this parliament

The Horizon scandal – in which innocent sub-postmasters were prosecuted based on erroneous information provided by a software system, bought in from Fujitsu by government in the 1990s–2000s – has shone a spotlight on IT procurement. The new government has not explicitly identified this as an area it will consider insourcing, but previous Institute for Government work identified several examples of central government bringing IT services back in-house.[13] This includes the DVLA, which saved more than £60m over two years while improving the quality of services, largely by reducing its spending on IT contractors.[14]

Government spends more on IT than it does on consultancy – £19.7bn in 2023 (versus £11bn for consulting). Across this parliament more than 8,800 IT contracts worth a total of £23.4bn will come to an end. As with consultancy, the majority of the value of these contracts (62%) are with central government, though local government[*] (£3.7bn) and the NHS (£1.5bn) also have valuable contracts ending in this period. In 2025 alone, IT contracts worth £9.0bn will end.

The largest[**] of these is the long-standing Post Office contract with Fujitsu to deliver the faulty Horizon IT system. The lifetime value of this contract is £2.38bn and it is due to expire on 31 March 2025, following a contract extension.[15] Given the controversy around the Horizon scandal its renewal surprised many, but the reality is that government can find it hard to get out of underperforming IT contracts, and this has been the case with Horizon. Post Office Ltd is a public corporation, with the government the sole shareholder. This gives it greater autonomy from government than most public bodies, which – along with other factors – complicates accountability.[16]

Figure 12 **Current public sector IT contracts, August 2023, by expiry year**



Source: Institute for Government analysis of Tussell data. Notes: 'Other' includes public corporations, housing associations and some charitable organisations. For example the Post Office, which is a public corporation, has a £2.38bn contract with Fujitsu expiring in 2025.

* Local government includes local government bodies responsible for transport. This includes Transport for London (TfL), which makes up three quarters of the value of local government IT contracts expiring in 2025 (£1.1bn). TfL makes up less than 30% of local government contract value expiring in any other year.

** The largest central government IT contract ending in 2025 is also with Fujitsu: an HMRC contract worth £169m to deliver IT services and hardware.

Part 2: How to improve accountability in government procurement

The ability to hold an individual or public organisation responsible for an outcome is important for maintaining trust in government. Accountability in government operates at various levels, the most fundamental of which is via the democratic system itself; the government is accountable to voters, who can remove them at the ballot box. More specifically, though, previous Institute for Government research has identified four key features that allow accountability in government to work best:[1]

- **Clear accountability:** there should be clear and well-documented structures that establish exactly what an individual or organisation is responsible for, and to whom they are accountable.
- **Appropriate control:** if people are to be held accountable in a fair way, they must have had sufficient control over the outcomes on which they are being judged.
- **Sufficient information:** there must be enough relevant information available to judge whether responsibilities have been performed.
- **Clear consequences:** there should be a consistent and widely understood link between performance above or below defined levels and the proportionate rewards and sanctions that flow from it.

How does accountability work in procurement?

Accountability in government procurement is particularly important now, not least because of the size of the sums of public money involved – as outlined above, almost £400bn a year[2] – but also because public trust in government spending in this area is low after scandals from PPE to Horizon, among others.[3,4,5]

Additionally, given the role of external suppliers, often as part of long supply chains, there is a risk of insufficient transparency about poor performance in government procurement and its causes. This hampers efforts to properly hold both suppliers and government contracting authorities to account, which is essential if procurement is to be effective.

Managing Public Money sets out the high-level principles of parliamentary accountability for procurement spending, and states that accounting officers are responsible for ensuring procurement seeks "good value for the Exchequer as a whole" – that is, that they spend public money well. A permanent secretary typically has this responsibility in a department, and heads of executive agencies and arm's length bodies (ALBs) often fulfil a similar role in those organisations.[6]

In line with other elements of public spending, *Managing Public Money* sets out that "the PAC may need to be satisfied that the arrangements for contracting out entail sufficient accountability".[7]

Within government, there are several layers of accountability, sometimes operating along the lines of standard management processes but often based on specific procurement processes, with departments and ALBs held to account by the centre of government, particularly the Treasury and Cabinet Office. At the front line, accountability can operate at the level of an individual supplier and contracting authority, with the two being accountable to each other for meeting the terms of a contract. Likewise, sub-contractors and prime-contractors will be accountable to each other.

But there are weaknesses at every level. In some cases, these will be strengthened by the Procurement Act. The next section looks at how this will affect how accountability works in practice, and suggests further improvements that could be made in relation to monitoring performance, transparency and scrutiny, policies and controls, and capacity and capability.

Performance

Suppliers should be held to account for their performance. Using the accountability framework outlined earlier, this depends on four factors:

- The performance metrics against which suppliers will be judged being set out clearly in contracts
- Suppliers being able to control their own performance against metrics
- Appropriate and transparent monitoring of performance
- Clear consequences for poor performance.

Performance metrics and monitoring

How does government measure performance in procurement?

Performance metrics – typically in the form of key performance indicators (KPIs) – are used by government to assess whether a supplier is meeting the objectives of the contract they are being paid to fulfil. Having appropriate measures of performance is central to effective accountability and ensuring incentives for suppliers are aligned with public sector priorities.

For simpler contracts, it is relatively straightforward to design metrics that reflect the contract's purpose – for example, that a supplier must deliver a certain number of goods that meet a given specification by a particular date. But for complex services this is much more difficult. A contract that aims to improve the educational and economic outcomes of children with learning disabilities, for instance, may be far harder to measure and evidence over the course of a one- or two-year contract. Instead, a contracting body will need to set KPIs that indicate progress towards the ultimate objective, such as the number of people supported and the timeliness of that support.

The Sourcing Playbook says that "all projects should include performance measures that are relevant and proportionate to the size and complexity of the contract".[8] Existing guidance also set outs a process for performance to be reported on every 12 months and a scale for rating KPIs.[9]

Performance metrics often lack clarity and are poorly aligned with government objectives

In practice, there are various problems with how performance metrics are used. First, roundtable attendees, including those from within government, told us that it was not always clear what the government was trying to achieve. New contracts can have multiple, diverse objectives with little sense of prioritisation, while in other cases existing contracts are rolled over or re-tendered without reconsidering whether the specification was still appropriate. Across government procurement, we heard how new priorities, often expressed in the form of procurement policy notes (PPNs), are layered on top of old ones rather than replacing them. In recent years this has sometimes been due to a lack of strategic direction, with negative consequences not just in procurement, but across the breadth of government activity.[10] Second, even when there are clear objectives, KPIs are often poorly aligned with them. As a result, suppliers can be incentivised to focus on activities that have limited value.

The final issue is that suppliers are often held to account for KPIs that are beyond their direct control. For example, under the Transforming Rehabilitation programme, consortiums of private and voluntary sector providers took on responsibility for the monitoring of low- to medium-risk offenders on probation. Part of their payment was linked to reducing reoffending, despite this depending on a wide range of other factors such as the availability of housing, employment opportunities and family support, as well as the effectiveness of other services such as the police. Faced with financial penalties for missing targets, suppliers gamed some metrics to avoid deductions.[11] The service was eventually brought back in-house.

Performance monitoring is often done by more junior staff without commercial expertise

Once KPIs have been agreed, accountability depends on monitoring performance against them. However, roundtable attendees told us that there is often less attention and resource put into monitoring KPIs than setting them.

The Cabinet Office encourages 'lessons learned analysis' as part of contract management.[12] However, we were told that contracting authorities are often ineffective at identifying issues early and attempting to remedy them before performance deteriorates further, and that having poorly designed KPIs that are not aligned with desired outcomes can exacerbate this.

A key issue is that contract management, including performance against KPIs, is often overseen by different individuals to those who have agreed the initial contract and may not understand or have the same 'buy-in' to the KPIs.[13,14] In addition, those doing the day-to-day management of contracts are often more junior officials without commercial expertise and so are, understandably, likely to be less effective at assessing performance and supporting suppliers to improve where performance issues are identified. This undermines the ability of contracting authorities to hold suppliers to account.

The disconnect between the setting of contracts and their management is exacerbated by high levels of churn among civil servants. This turnover leads to a lack of corporate memory and subject expertise in contracting authorities. Turnover is particularly high in the Cabinet Office, which is responsible for the Crown Commercial Service and for setting government-wide procurement policy.[15]

The Procurement Act should improve KPI transparency but will require additional capacity in commercial teams

The Act makes it mandatory to publish at least three KPIs for public sector contracts worth more than £5m and not subject to other exemptions.[*] This value threshold and other exemptions, however, mean this requirement will only apply to a small minority of contracts. Contracting authorities must also report against these KPIs every 12 months. This formalises the existing guidance in *The Sourcing Playbook*, and extends it across the wider public sector.

This increased transparency should make it easier for the public sector to hold suppliers to account for poor performance. There is a risk, however, that greater focus on the three KPIs may create additional pressure from suppliers on contracting authorities to make them less ambitious to meet. Importantly, more reporting on performance will also require increased public sector capacity for contract management.

The government should ensure its priorities are reflected in contracts and provide training on setting effective KPIs

Labour's mission-led approach could provide more effective strategic direction for the whole of government, including procurement. **The Mission Delivery Unit and wider Government Commercial Function should issue practical guidance on how missions should be reflected in contracts.** This guidance should apply to central government departments and, where relevant, other contracting authorities – and build on updates to the National Procurement Policy Statement, discussed below in the 'Policies and controls' section.

Setting good KPIs that are clear, aligned with outcomes and controllable by suppliers, and monitoring them during the contract lifecycle, requires subject knowledge and commercial expertise. However, this is often lacking, particularly for contract management. Contracting authorities at all levels of government should be investing in the capacity and capability needed to effectively set performance metrics and monitor performance against them under the new procurement regime. **The Government Commercial Function should ensure there is appropriate training and support on monitoring and setting KPIs for central government and the wider public sector.** This will be particularly important for larger contracts.

* Contracts where a contracting authority judges 'it would not be appropriate to measure KPIs' are also exempt. KPIs are also not required for frameworks, though it does apply to call off contracts under frameworks where these are worth more than £5m.

Consequences for poor performance

Consequences for poor performance are unclear, with suppliers virtually never excluded

Accountability relies on there being clear consequences for not meeting expected standards. Without this, KPIs and monitoring of them are of limited use. One potential consequence is reputation damage, a risk heightened by the publication of KPIs and performance against them. Transparency of supplier performance has improved in recent years, with KPIs and performance against them published for a large number of contracts since 2020.[16] However, it is not clear that this has translated into improved accountability for poor performance, and potential benefits are limited by poorly designed KPIs and the fact that performance is not reported in this way for all contracts.

Other consequences for poor supplier performance have been set out in the Public Contracts Regulations 2015 and *The Sourcing Playbook*. However, there is insufficient clarity about how they are implemented in practice.

In the most serious cases of poor performance, current regulations allow for suppliers to be excluded from future contracting opportunities. However, the bar for exclusion is high,[17] and in practice exclusions very rarely, if ever, happen. We heard from roundtable attendees that contracting authorities are wary of excluding suppliers due to the risk of legal action. In some cases, markets are so uncompetitive that government has little choice but to keep using a supplier that has performed poorly. This has resulted in further scandals; for example, when private security firm G4S was able to win a new contract for the electronic monitoring of offenders, despite having been found to have fraudulently charged the government for tags on people who had died.[18]

The Procurement Act widens the grounds for exclusion, but implementation will be difficult

The Act expands the grounds for excluding a supplier from bidding for government contracts to include exclusion on the basis of poor performance that they fail to remedy.[19] Suppliers can now also be excluded if the tender relies on an 'associated supplier' that is itself excluded.

The Cabinet Office has issued guidance that provides useful clarity on the provisions for exclusion in the Act. If a contracting authority excludes a supplier, the exclusion will be reviewed by the newly formed Procurement Review Unit (PRU) in the Cabinet Office, to investigate whether the supplier should be added to a public 'debarment list'.[20] Once on this list, contracting authorities will be able to exclude suppliers without providing further justification. The report from the debarment investigation will be made public, allowing contracting authorities, suppliers and the public to understand the decision to place – or not place – a supplier on the debarment list.[21]

Given the current provisions for excluding underperforming suppliers are virtually unused, the Act's improvements to the exclusion process are welcome. The wider grounds for exclusions and increased openness around debarment decisions have the potential to help improve accountability and trust in the process. However, there are a number of outstanding questions about how exclusions will work in practice.

Roundtable attendees warned about unintended consequences where a supplier that has multiple contracts with the public sector is added to the debarment list based on poor performance in relation to one contract. Some of the largest suppliers, included but not limited to strategic suppliers, work with scores of government bodies, and their exclusion and placement on the debarment list could have wide-ranging consequences for contracts across government. Similarly, excluding a supplier where there are few alternatives may further reduce competition in a public sector market. And there are also cases where the public sector has become so reliant on an outsourced service that it is simply not practicable to leave or not renew a contract – as is the case with the Post Office's faulty Horizon computer system.

These important concerns about the potential negative consequences of exclusion could lead to suppliers that meet the criteria for exclusion not being placed on the debarment list. Ministers can decide not to add a supplier to the debarment list "where there is an overriding public interest in allowing the supplier to continue to bid for public contracts".[22] While this exemption is important, it brings with it the risk of reduced accountability for poor performance for those suppliers the public sector feels it cannot afford to lose.

The government should proactively review individual suppliers and markets where debarment would have major negative consequences

Adding individual suppliers that hold a large number of contracts across the public sector to the debarment list could have widespread consequences for government procurement, and ministers may therefore be reluctant to do so. **The Cabinet Office should conduct targeted reviews of the suppliers the public sector is most exposed to, and clarify how they could be feasibly added to the debarment list.** Alongside this, it should ensure that the performance of these suppliers is properly monitored for large contracts. This should include these contracts being managed by people with sufficient commercial expertise and where performance concerns are raised, considering the option of independent auditing of 'self-cleaning'[*] as set out in recent guidance.[23] Taking this proactive approach to managing performance will help reduce the risks associated with dependence on a particular supplier and improve value for money.

Similarly, debarring a supplier in markets where there are limited alternative suppliers risks further reducing competition, and potentially reducing value for money. **Ministers should commission deep dive reviews into public sector markets where a lack of competition would make exclusions difficult.** This should include setting out how exclusion and debarment of individual suppliers in those uncompetitive markets would work in practice, and engaging with other potential suppliers. As part of these reviews, ministers should consider whether the lack of competition means that in-house delivery would be a better model.[24]

* Actions by a suppliers to demonstrate that the poor performance is no longer continuing and is unlikely to happen again.

Transparency and external scrutiny

Transparency

Accountability is limited by the poor quality of procurement data

'Sufficiency of information' is an important aspect of accountability, allowing government to have better oversight of the procurement landscape and enabling problems with suppliers to be identified earlier. More broadly, transparency can help improve value for money through promoting competition and improving access to the market for SMEs.[25,26] It also allows parliament, the media and the public to better hold government to account.[27]

The UK has a history of being at the forefront of public procurement,[28] including having relatively high levels of transparency by international standards.[29] While the government has continued to make progress in the range and quality of procurement data that it publishes, there are still a number of weaknesses. There are often delays in publishing spend data, the quality of published contract data can be poor,[30] and linking procurement spend and contract data is harder than it should be.[31,32] The last government's *UK National Action Plan for Open Government*, published in December 2023, noted that public procurement transparency systems are "limited in a number of ways", highlighting that datasets are disparate and unconnected, there is no single picture of procurement agreements, and that there is a lack of organisational identifiers.[33]

One area where this is a particular problem is framework contracts. Despite frameworks now making up over a quarter of public sector contract value, the NAO recently found that government did not know how many frameworks or call off contracts from these exist.[34]

This lack of clarity makes it more difficult for the centre of government to hold departments, public bodies and local government accountable for delivering good value for money. Better quality data could enable the centre of government to have earlier sight of key contracting decisions, more effectively co-ordinate procurement across contracting authorities and better understand risks in public sector markets.

The Procurement Act is an opportunity to improve accountability through greater transparency

One of the last government's key goals for the Procurement Act 2023 was to make procurement practices more transparent.[35] The key mechanism for this is requiring contracting authorities to publish a number of notices throughout the procurement lifecycle. These cover everything from notices that they will undertake preliminary market engagement, and the type of tender process to be used, through to the award of contracts, contract details, and supplier performance.[36] Some of these are already required, but many are new.

To improve the consistency of published data and to make analysis of spending easier, the Act also requires all contracts information to be publicly available via a central digital platform. This should help address long-standing problems with the consistency of published data[37] and the difficulty of analysing contracts and spend data. And as discussed above, the Act also requires the publication of KPIs and performance against these for larger contracts.

Roundtable attendees were broadly supportive of these new transparency requirements – though many raised concerns about the resources needed to meet them,[38] a point that has also been made by the PAC.[39] As seen during the pandemic, when government commercial resources are stretched, the risk that transparency requirements are missed increases.[40]

To support contracting authorities in meeting the Act's requirements, the Cabinet Office has developed a training programme – Transforming Public Procurement (TPP) – that aims to improve expertise to support the requirements of the Act. While there has been success in improving commercial capability within the Cabinet Office, the PAC has recently raised concerns about skills in other central government departments, as well as ALBs and other public sector organisations including local government.[41]

The government should clarify accountability for meeting transparency requirements

The government should provide clear guidance on how contracting authorities will be held accountable for meeting reporting requirements. In 2015, regulations were introduced to require contracts to be published on the 'Contracts Finder' portal. While these led to a large increase in publicly available contract information, the data remains incomplete[42] and the Cabinet Office has no mechanism for enforcing compliance.[43] The new central digital platform for procurement data is an opportunity to make accountability for transparency more straightforward, but there is a risk that the enhanced transparency requirements in the Act are met in a similarly patchy way. If so, the new government will miss a golden opportunity to bolster transparency and thus improve procurement practice and value for money. **The Treasury should update *Managing Public Money* to make accounting officers responsible for their organisation maintaining and publishing high-quality procurement data.**[44]

External scrutiny

Procurement accounts for almost a third of government spending, and should be subject to external oversight by the NAO and PAC. Roundtable attendees agreed that reviews by both improve behaviour; they are taken seriously in government, with the civil service responding to recommendations and changing practice in response. However, there were concerns that in some cases government takes a 'tick-box' approach in responding to these recommendations. Some suggested that the recommendations made by the NAO did not always address the root cause of problems, but this is ultimately the responsibility of the Government Commercial Function or specific contracting authorities.

External reviews should follow up on recommendations

The NAO and PAC should continue to **follow up on whether recommendations are followed**. It was welcome that the PAC had ongoing correspondence with the Cabinet Office permanent secretary following the *Competition in Procurement* report to seek further clarification on the government's response.[45] As the Procurement Act comes into force in October, the newly formed PAC should monitor the extent to which the committee's recommendations are implemented. In its oral evidence sessions with accounting officers, **the PAC should also ask for regular updates on progress towards meeting the transparency requirements set out in the Procurement Act 2023** that enable effective internal and external oversight.

Policies and controls

What role do policies and controls play in public procurement?

Policies and controls help ensure procurement is aligned with the government's priorities and are done through appropriate processes. Yet they risk creating additional layers of process to be complied with, making procurement less efficient and government a less attractive client. Charting a course through these considerations is crucial to effective procurement.

The Sourcing Playbook and procurement policy notes (PPNs) are the two key ways that central government sets out public sector procurement policy. *The Sourcing Playbook* was introduced in 2019, and set outs "guidance, rules and principles" for procurement by public sector organisations.[46] PPNs are issued by the Cabinet Office, setting out information and guidance for departments and public bodies to follow. They are typically introduced individually in response to new or updated policy priorities. For example, a PPN on "Improving transparency of AI use in Procurement" was introduced in March 2024.[47] A National Procurement Policy Statement sits above the PPNs, providing "strategic priorities for public procurement".[48]

'Controls' are the processes to ensure that procurement policies – such as those outlined in *The Sourcing Playbook* and PPNs – are being followed. Large contracts with central government or an arm's length body (unless exempt) are reviewed by commercial professionals in the Cabinet Office for assurance against standards on a range of 'tests' including commercial policies, maximising competition and value for money.[49] Most contracts worth more than £20m are subject to these controls – recently raised from £10m to make controls more proportionate,[50] a change that was broadly welcomed by roundtable attendees. NHS trusts had remained subject to the £10m limit, but this threshold was raised to £20m in August 2024 to bring it in line with the rest of the public sector.[51]

Smaller contracts are subject to various other governance controls; for example, the commercial team in a department ensuring that its arm's length bodies are complying with PPNs – however, these are less standardised. For example, the MoD has reportedly recently increased ministerial control by reducing the threshold for ministerial contract sign-off from £2m to £50,000.[52]

Ultimate control over procurement decisions can be exercised by ministers, who can approve the specification and buying method, change these in response to urgent events, and decide not to proceed with a procurement or contract award.[53]

More governance can muddy accountability and reduce competition

New policies and controls are typically introduced with good intentions – it is right that procurement decisions are properly scrutinised and reflect the changing priorities of the government. However, old policies and controls are often not scrapped when new ones are introduced, leading to layer upon layer of red tape – or, as one roundtable attendee put it, "terms and conditions on top of terms and conditions".

Governance alone, however, does not equal accountability. The cumulative complexity of controls and guidance can make lines of responsibility harder to trace, muddying the waters of accountability, as it can become less, not more, clear who is ultimately responsible for a decision (for example, the departmental commercial team leading a procurement or the central teams that have signed it off and set the guidance it complies with).

Suppliers experience the proliferation of policies and controls through additional requirements in contracts. This can risk making the public sector a less attractive customer, putting off providers considering entering public sector markets and reducing market competition. Additional requirements at both tendering and contract management stages tend to impact SMEs, including charities and social enterprises, the greatest, since they usually have less capacity to meet them.

Roundtable attendees told us that the trade-offs between various procurement policies and controls, including their cumulative impact, are not always recognised by those setting them. This is a problem across government in different areas of policy, where individual policies and their impact are considered in isolation, rather than from a system perspective.[54] Roundtable attendees also questioned whether individuals overseeing controls in the centre of government always have sufficient experience and expertise to properly scrutinise the complex procurement processes being run by departments. The gap between those setting policy in central government and those delivering procurement in local government can be even greater.

Ministerial involvement often comes at a late stage

Ministers play a crucial role in setting commercial priorities and overseeing strategically important or high-value procurement decisions. But doing this effectively requires ministers to be engaged in these key contracting decisions across the procurement lifecycle.[55] Departments have a responsibility to do this in a way that "supports Ministerial ambition and accountability",[56] but we heard that too often ministerial involvement comes too late in the contracting process. This limits the ability of ministers to provide that strategic direction and oversight, and in some cases leads to delays or inefficiencies that could have been avoided.

The Procurement Act improves clarity over national priorities and oversight, but risks creating additional layers of process and policy to navigate

The Act aims to make procurement processes "simpler". The government has said the Act will "streamline" procurement, consolidating "over 350 different procurement regulations".[57] Rationalising regulations in this way could help to reduce complexity, making it easier to determine whether contracting authorities have followed the relevant rules.

The Procurement Act also requires contracting authorities to "have regard" to the National Procurement Policy Statement (NPPS) when carrying out a procurement, with some exceptions.[58] The NPPS has the potential to provide strategic direction and key priorities to help guide procurement processes and performance metrics. It was last updated in May 2024 under the previous government and does set out a small number of key priorities; for example, on social value and SMEs.[59] However, in some areas the NPPS is not aligned with existing policy; for example, on social value where the priorities set out differ from those in the relevant procurement policy note (PPN).[*,60]

This limits its ability to guide contracting decisions and it is therefore welcome that the new Labour government has committed to updating the NPPS before implementing the Procurement Act. Elevating a single policy document through putting it on a statutory footing may bring greater clarity over procurement policy, and therefore potentially improve accountability. However, there is a risk it becomes yet another layer of policy – and this time one that has statutory weight – on top of existing policy that needs to be followed.

Alongside the Act giving greater prominence to national priorities, guidance also encourages contracting authorities to incorporate their own policy priorities into procurement to achieve value for money and maximise public benefit.[61] Navigating this guidance in practice may be far from straightforward for contracting authorities – on the one hand it can give them greater autonomy, but on the other it may require compliance with more controls. For example, contracting authorities have some flexibility in how they assess value for money for a procurement. However, given the importance of the methodology used for this assessment, Cabinet Office guidance says that contracting authorities should undertake "appropriate scenario-testing" to understand the impact of different methodologies.[62]

The government has said it will establish a Procurement Review Unit (PRU) to monitor procurement and investigate contracting authorities and suppliers. Its remit will cover contracts across central and 'sub-central' government (for example, local government). It will provide three key services:[63]

- The existing Public Procurement Review Service (PPRS) – to investigate public sector procurement processes in response to a supplier's complaints
- A new Procurement Compliance Service – to investigate compliance with legislation
- A new Debarment Review Service – to determine whether excluded suppliers should be added to the debarment list.

* The NPPS sets out three key social value outcomes that contracting authorities must have regard to, whereas the PPN 06/20 (Taking Account of Social Value in the Award of Central Government Contracts) outlines five social value themes, under which eight policy outcomes are specified. While there is some overlap in the social value priorities highlighted, they are not aligned, which adds unnecessary complexity for contracting authorities attempting to comply with them.

This additional level of governance could be useful for holding both contracting authorities and suppliers to account. However, there is a risk that an additional level of governance again adds to an already complex system. For example, the PRU will be able to issue 'lessons learned guidance' following an investigation into non-compliance with the regime, which contracting authorities must 'have regard to'.[64] While this has the potential to improve learning, it risks adding further national policies, which contracting authorities must consider for a procurement. Given the PRU's remit to investigate contracting authorities across the public sector, it will require sufficient capability and experience to work effectively with all levels of government.

The Cabinet Office should update the National Procurement Policy Statement to reflect Labour's missions

The new government and the introduction of the Procurement Act create an opportunity to set a clear strategic direction for procurement across the public sector. To do this, **the Cabinet Office should update the National Procurement Policy Statement (NPPS) to reflect Labour's missions**. This should be accompanied by practical guidance on how the missions can inform contracting decisions, including performance metrics (as outlined above).

The Cabinet Office should conduct a review of procurement policies and controls

There is also an opportunity to assess the cumulative impact of existing policies and controls. Many policies will need updating to ensure they are consistent with the new legislation. The Cabinet Office procurement team should use this opportunity to **conduct a review of procurement policies and controls to ensure that collectively they help enable clarity of accountability and are aligned with government priorities**.

In doing this, Labour must consider the cumulative impact of procurement policies. Rather than just adding new PPNs to the many existing ones and creating further complexity, it must also scrap old policies that are no longer relevant or a priority. The government should do the same for controls and oversight structures. For example, if there are oversight roles planned for Mission Delivery Boards or the Office for Value for Money, these need to be a coherent part of a new streamlined control system, and not layered on top of the current one.

Ministers should have a clear and consistent approach to involvement in procurement decisions

Clarity of responsibility for different aspects of procurement policy and control should be improved, including the role of ministers. **Each minister should have a clear and consistent approach to involvement in procurement decisions.** For all ministers this should include a clear understanding of which contracts they will be involved in, set decision points for their input and timelines for response. For most large or strategically important contracting decisions, however, it is important that ministers are provided with early information on the timeline and implications of relevant contracting decisions, so their input feeds in at the best times in the contract lifecycle and does not lead to delays.

The increased reporting in the early stages of a procurement required under the Procurement Act may help provide the impetus for this. While the exact approach will vary between departments and individual ministers, this clarity would help officials better support the relevant minister in making key contracting decisions.

Capacity and capability

Government commercial skills have improved in recent years but there are problems with capacity, particularly in the wider public sector

Accountability relies on there being appropriate resources to deliver it. As outlined above, a lack of commercial capacity and capability holds back various aspects of accountability in procurement. It requires expertise to design and monitor contracts in a way that incentivises good performance, to ensure appropriate transparency, to align procurement processes with government policies and controls, and to effectively apply controls.

On capacity, we heard at the roundtable that commercial teams had been affected by the civil service headcount targets. Headcount targets are a 'blunt tool' for achieving efficiencies[65] and this is especially true when it comes to government procurement. The Crown Commercial Service alone delivered 'commercial benefits' of £3.8bn in 2022/23, despite expenditure of less than £100m.[66] It is welcome that headcount targets have been removed by the new government, but these are likely to have contributed to the under-resourcing of contract setting and management. Outside of Whitehall, capacity is likely to be even more limited – particularly in local government, where finances are under major pressure.[67]

There have been substantial improvements in procurement capability in recent years.[68] In 2019, the Institute praised the government for "hiring experienced commercial experts from outside government and establishing a rigorous assessment centre that all commercial staff have to pass through".[69] Roundtable attendees thought that there had been continued progress since then, with the creation of a high-quality commercial profession, entered through a rigorous accreditation process. However, they described contract management as a "hybrid profession", where there was not the same expectation that everyone would be a commercial specialist.

Capability has been improved by various training programmes. However, we heard that training was not penetrating deeply enough into departments and other parts of government. This echoes the findings of 2020 Institute research, which found that senior officials in central government had a good understanding of *The Outsourcing Playbook* but that "dissemination at more junior levels had so far been less successful".[70] Likewise, the move to online training and resources since the pandemic has improved outreach to the wider public sector,[71] but roundtable attendees said that the overall training offer outside of Whitehall was of lower quality.

Successfully implementing the Procurement Act will require more capacity
The Procurement Act does not directly address capability and capacity. However, its implementation will require upskilling the workforce. The Cabinet Office has run 'Transforming Public Procurement' – a wide-ranging programme of events, e-learning modules, knowledge drops and guidance documents to raise awareness and improve skills across government ahead of the Act going live.[72,73] But it is difficult to know at present how effective this training has been at preparing teams for the new regime.

In addition, the performance and transparency requirements of the Act risk imposing further demands on already stretched capacity, as outlined earlier. While there are measures such as the central digital platform and greater standardisation of notices that may reduce the resource needed, if the potential benefits of the Act are to be realised, sufficient capacity will be required.

The government should ensure the capacity and capability is in place to meet the additional requirements imposed by the Act
The Government Commercial Function should **set out in more detail the additional resource** it expects will be needed to meet the new requirements under the Procurement Act, and how it intends to ensure that this additional capacity is in place. This is particularly critical for contract management, which has long been under-resourced and where the increased reporting requirements are particularly notable. In time there should be an **expectation that all staff managing contracts should be commercial specialists** – just as there is that expectation for those who oversee the setting of contracts.

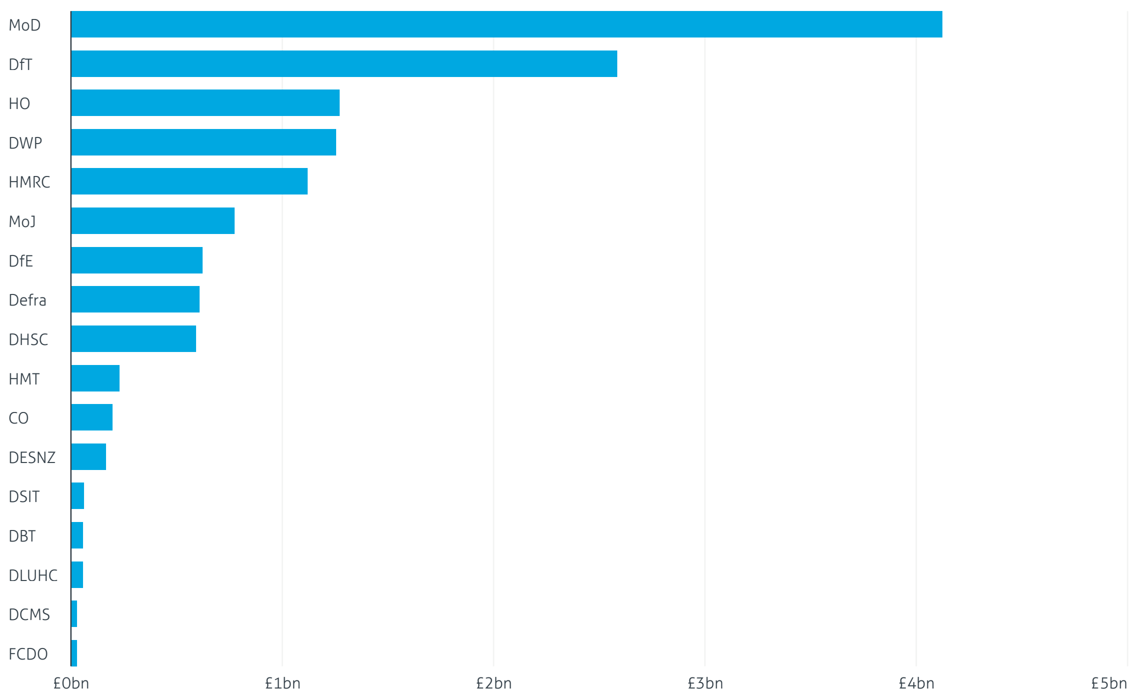
The Cabinet Office should **ensure that high-quality training is available to the wider public sector**, as it often already is to central government. Improved online training resources have been welcome for ensuring greater access. However, we heard that more could be done to improve them.

Going forward, the government should **maintain and strengthen the commercial function**, recognising the important role it plays in driving value for money across government procurement and building on the progress made in recent years.

Annex 1: Departmental spending and contracts

Within central government, the value of and approach to procurement varies substantially across departments. The MoD and DfT account for almost half of all central government spend with strategic suppliers (£6.7bn). In contrast, the vast majority of departments spend less than £1bn with strategic suppliers.

Figure 13 **Procurement spending with strategic suppliers by department, 2023**



Source: Institute for Government analysis of Tussell data.

Likewise with procurement with SMEs, spending ranges from 47% in FCDO to less than 5% for DfT, DESNZ and HMT. There is less variation in VCSE procurement spending across departments. In 2023, VCSEs made up more than 10% of total procurement spending in four departments, but less than 2% in more than half of departments.

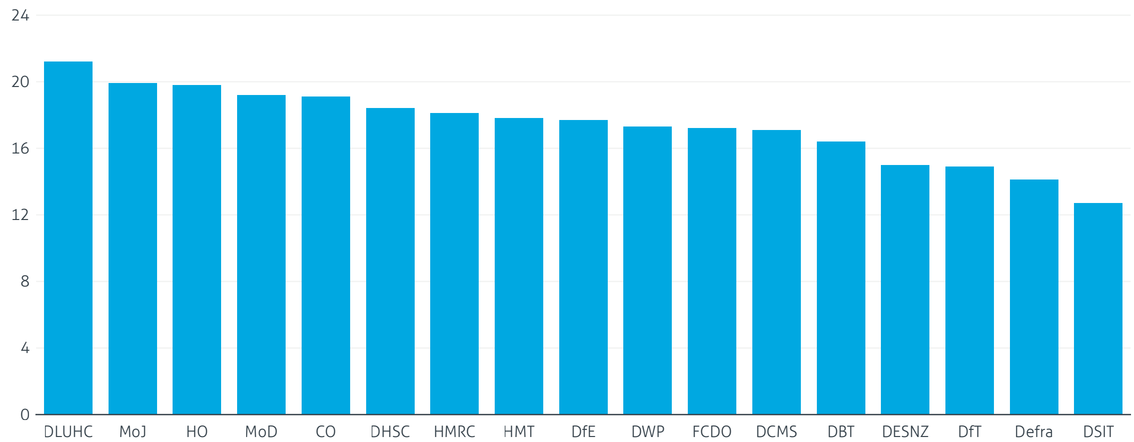
Figure 14 **Procurement spend with SMEs and VCSEs, by department, 2023**

Department	SMEs	VCSEs
FCDO	47%	2%
DCMS	29%	15%
DfE	25%	11%
DLUHC	19%	20%
DSIT	19%	19%
MoJ	14%	3%
DBT	13%	0%
CO	12%	1%
Defra	12%	6%
DHSC	11%	11%
DWP	5%	4%
HO	5%	0%
MoD	5%	0%
HMRC	4%	0%
DESNZ	3%	2%
DfT	3%	0%
HMT	2%	0%

Source: Institute for Government analysis of Tussell data. Notes: Expressed as a proportion of total departmental procurement spend. Includes only direct procurement spend. 'SMEs' = small and medium-sized enterprises; 'VCSEs' = voluntary, community and social enterprises. Some VCSEs are also categorised SMEs due to their size, and are included in both columns.

For contracts, the average length in most departments in 2023 was between 15 and 20 months, but there are some outliers. The longest average contracts at 21.2 months were awarded by DLUHC (now MHCLG), with the shortest, at 12.7 months, issued by DSIT.

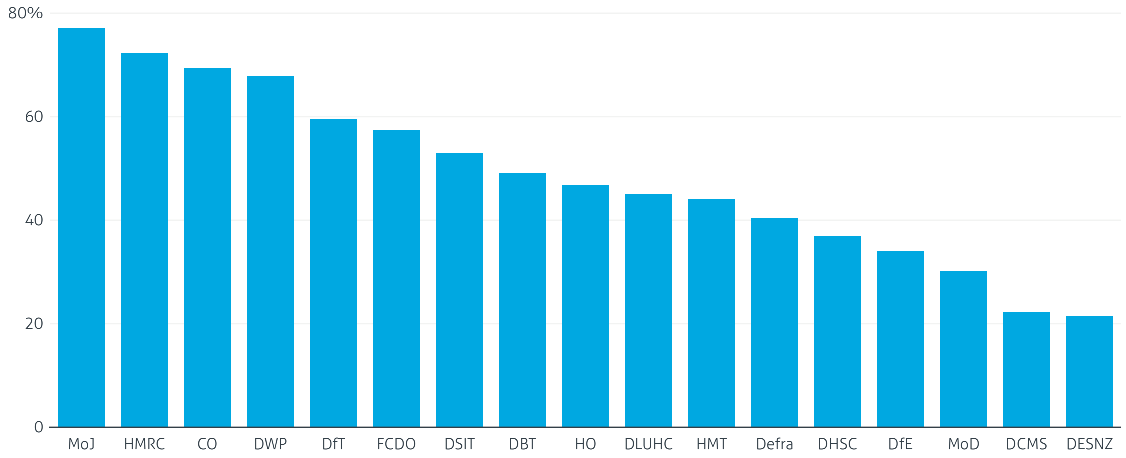
Figure 15 **Average length of contract awarded in 2023 in months, by department**



Source: Institute for Government analysis of Tussell data.

Finally, the use of frameworks varies substantially. In departments such as the MoD, DfT and DCMS, frameworks account for less than a third of total contracts, whereas they make up more than two thirds in the MoJ, HMRC and the Cabinet Office.

Figure 16 **Contracts awarded via a framework agreement, by department, 2023**



Source: Institute for Government analysis of Tussell data. Notes: Contracts awarded via a framework agreement is the number of contracts that Tussell is able to identify as a call-off and match to the appropriate public sector framework, as a proportion of total number of contracts identified for each department.

Annex 2: Methodology

To estimate the real cost of spending, we deflate government spending figures using the GDP deflators published by the Office for Budget Responsibility in the *Economic and Fiscal Outlook* from March 2024.[1] To better reflect the underlying inflation conditions present in 2020 and 2021, we estimate our own figures by generating a mid-point that averages across values from 2019/20 and 2021/22 for the financial years and 2020 and 2022 for the calendar year 2021.

Averages are means, unless otherwise stated.

PESA data

Total procurement for both whole of government, central government and local government is a sum of gross capital procurement and gross current procurement, deflated using a smoothed deflator (see above). This is expressed as a proportion of total spending (total managed expenditure, or 'TME'), excluding income from sales of goods and services, and capital assets.

PESA definitions of central and local government are used in analysis of PESA data. Central government spending includes devolved administrations and arm's length bodies. The most recent year for which local government outturn data is available is 2022/23.

Time series data is from multiple issues of PESA. Data for 2019/20 to 2023/24 is from PESA 2024. Data for earlier financial years is from the PESA dataset released five years later (2018/19 is from 2023, 2017/18 from 2021 etc.), the latest available data for that year.

Procurement spending for each central government department is the sum of gross capital procurement and gross current procurement. Total departmental expenditure is TME. Data for all departments is for 2023/24, apart from DESNZ.

TME for DESNZ is adjusted to exclude Nuclear Decommissioning Authority (NDA) 'provisions'. The NDA is an executive non-departmental public body, sponsored by DESNZ. NDA provisions are the estimated costs of decommissioning nuclear sites over a period of more than 100 years. These costs are set out in HM Treasury, Online System for Central Accounting and Reporting (OSCAR) II. These substantial costs are excluded from our analysis due to their distortive effect. The latest OSCAR II data available is for 2022/23, and so PESA data for 2022/23 is also used for DESNZ.

Procurement spend for HMT in 2023/24 was negative (£158m), for the first time in at least a decade, and is therefore not shown in Figure 3.

Tussell data

Data provided by Tussell uses open procurement data from official sources aggregated, organised and augmented by Tussell. This report uses two Tussell datasets: invoice-level spend and contract awards.

Data has been analysed over calendar year periods. Data is accurate as of the date of download: 13 August 2024 for spend data, and 16 August 2024 for contract (awards) data. As of the spend download date, not all contracting authorities had published full invoices for 2024, namely: MOJ (incl. ALBs), DBT, FCDO. This may under-represent some of the public sector spending in 2024. These buyers have been included in this report, despite their spend gaps.

Spend data

Tussell spend data is gathered from the invoices published by public sector bodies. Disclosure of all invoices of £500 or more is a requirement for all central government departments in the UK (including most of their executive agencies and arm's length bodies) and for local government and NHS bodies in England. The transparency regulations for invoice-level spend data do not apply fully to local authorities and NHS bodies in the devolved administrations, nor to further and higher education bodies and schools across the UK. Therefore, this report is filtered for England only to allow like-for-like analysis, and spend data excludes further and higher education bodies and schools.

Revenue of suppliers is shown on a consolidated basis, including relevant subsidiaries. Public sector buyers named in the report are shown on a consolidated basis, including their arm's length bodies and executive agencies. The consolidation is based on the government's own classification system.

Suppliers have been allocated a sector based on SIC codes, as assigned by the supplier themselves on Companies House. A selection of 69 high-earning suppliers with a NULL SIC, or an ambiguous SIC such as 'Other service activities n.e.c.' have been manually placed in their appropriate sector.

Strategic suppliers are identified using the publicly available government list.[2] Time series analysis in this report uses only those that have been consistently on the list of strategic suppliers since 2018. A strategic supplier that has been in the cohort since 2018 may have acquired or sold various subsidiaries in that time – for example, Virgin Media merging with O2 in 2021. This report uses the supplier groups as they exist in April 2024, not as they were in any previous year.

SMEs are first identified using financial data from Bureau van Dijk (BvD), a company information database owned by Moody's. Companies then enter a cleaning process, and are classified as an 'SME' based on the EU definition.[3]

Voluntary, community or social enterprises (VCSEs) are defined as suppliers with either the term 'CIC' in their name, or are classed as a: registered charity, charitable organisation, community interest company, guarantee, or non-profit organisation.

Some VCSEs are also classed as SMEs due to their size, and are referred to as 'SME VCSEs' in analyses.

Within spend data analysis, sectors are defined at a supplier level, using supplier sector industrial classification (SIC) codes as self-identified by the company on Companies House. Where a supplier has no SIC code, efforts have been made to assign a code based on their public-facing website, and their public sector sales activity.

These analyses cover only direct procurement spend with suppliers, not revenue earned by sales of their products/services indirectly by third-party partners or resellers. For this reason, the revenue attributable to technology vendors like Microsoft and Oracle is under-represented as much of their sales are made by channel partners.

Data on location of suppliers based or headquartered outside the UK is supplied by Moody's (BvD). Non-UK suppliers are defined as those that are headquartered in, or owned by a parent company who are headquartered in any country outside of the UK.

Contract award data

Tussell contract award data is primarily from Contracts Finder and Find a Tender Service, as well as more than 90 other local, regional, or sector-specific public sector procurement portals.

In the frameworks analysis, 'proportion of contract value awarded via a framework agreement' refers to the proportion of all contract value awarded that has been identified as a call-off via a framework or dynamic purchasing system (DPS) agreement, and matched to the appropriate public sector framework. Within contract sector analysis, sectors are defined using a combination of common procurement vocabulary (CPV) codes, key-word analysis, and supplier analysis. The local government buyer group includes local government bodies responsible for transport, such as Transport for London and Transport for Greater Manchester, and regional police services.

The total value of contracts expiring in a given year is based on the contract award value at the time of the award. This value is taken from the relevant sources, as outlined above, at the time the award is published.

Contract expiry data on management consultancy and IT only includes contracts with a contract type of 'service', as per the relevant source (e.g. Contracts Finder). The IT and management consultancy sectors have been defined using a combination of CPV codes, supplier SIC codes, key-words, frameworks and manual cleaning.

Contracting authorities are categorised into central government, local government, NHS, education and other. 'Other' includes organisations such as public corporations and housing associations.

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