

# Building government's commercial capability



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## About the author

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## Summary

Today, vast swathes of public services are in some way supported by private companies and voluntary sector organisations. Our tax and benefits systems are maintained by myriad private sector IT businesses, and most government departments rely on contracted suppliers of payroll, energy, facilities management and consultancy services. Private companies build vital UK infrastructure, run the trains and buses we travel on, and deliver or support the public services that are so essential to our lives. Charities run the majority of secondary schools (many via academy trusts), and it is private enterprises that deliver the bulk of probation services and help the long-term unemployed back into work.

Look at any area of government and you are certain to find a set of commercial arrangements underpinning it – and how well government sets up and manages such arrangements can fundamentally affect our lives. Quite often, arrangements are managed well. But high-profile failures in government contracting have hit the headlines repeatedly in recent years, revealing significant weaknesses in government's management of its suppliers.

The precise causes of each 'scandal' differ. However, previous Institute for Government research has highlighted a number of common underlying causes, including: failure to consult those with commercial expertise when designing policies and programmes; inadequate investment in the ongoing management of contracts, suppliers and markets; and patchy capability in procurement, contract management and commissioning.<sup>1</sup> Shortages of commercial capability are often compounded by inadequate knowledge among the operation and policymaking communities of how to get the best from commercial staff.

Government has long recognised these issues and has recently stepped up efforts to improve commercial performance. There have been reforms within individual departments, but there is also a cross-government drive to improve commercial capability. A new Government Chief Commercial Officer, Gareth Rhys Williams, is leading the set-up of the Government Commercial Function and has responsibility for improving commercial standards across government. Commercial directors are working together to design and drive improvements. The commercial capability reforms focus on:

- **Recruiting** senior commercial specialists through a centralised recruitment and assessment centre process, and using a new pay structure (higher starting salaries but lower pensions). Recruitment at more junior levels is also being supported: a new commercial faststream programme now recruits high potential graduates and a commercial apprenticeship scheme seeks to attract high potential staff.
- **Retaining and developing** talent by applying new salary arrangements to existing senior commercial staff, and strengthening career development and training offers.
- **Supporting** commercial staff to perform by: developing and enforcing common standards for the Government Commercial Function; helping departments to share information on what works and which suppliers are performing; and delivering some services centrally (e.g. procurement of basic commodities; development of 'framework agreements').

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- **Deploying** the best professionals to areas of high priority and high need within departments, while recognising the need for continuity in many senior departmental commercial roles.

To support these initiatives, the Cabinet Office has set up a new legal entity, the Government Commercial Organisation (GCO), which will employ the most senior commercial staff. Incumbent commercial staff will have the option of adopting the new terms and conditions, and newly recruited senior commercial staff will routinely be employed through the GCO, with the new terms and conditions. Though employed centrally, GCO staff will mainly be embedded in departments. In parallel, the Cabinet Office Crown Commercial Service (CCS), which procures common goods and services on behalf of government departments, is seeking to raise its game, focusing in particular on improving its procurement of commodities that are already centrally purchased.

This briefing paper draws on analysis of government documents and statements relating to commercial reforms; previous Institute research on what works when attempting to build Whitehall capability; and over 20 conversations with those involved in government commercial activities. And it examines early progress and emerging challenges relating to these developments. The primary audience for this paper is civil servants working in commercial roles, their managers and colleagues, and those interested in, and leading, civil service reform.

### **Our analysis and research led us to the following conclusions:**

#### **1. The commercial capability reforms taking place are focused on the right issues.**

**2. The reforms have the potential to succeed.** Previous Institute work has highlighted several essential pre-requisites for successful civil service reform initiatives, and many of these pre-requisites of success are either in place or are developing well.<sup>2</sup> In particular, we note:

- **A focus on supporting departments to deliver their objectives, rather than centralising commercial activity.** The reform approach recognises that most government commercial activity should be managed by departments, and places departmental commercial leaders at the centre of the reform process. They will drive improvements in their departments, drawing on central support and supporting each other to achieve more. Commercial directors are now meeting regularly to share expertise and experiences, and to discuss common challenges, such as how to manage the commercial implications of Britain's exit from the European Union. Departmental commercial directors (rather than central commercial staff) have led projects such as the development of new, measurable commercial standards for government (see below).
- **Clear objectives and ways of measuring success.** Departments will assess themselves and each other on how far they are matching up to the commercial standards that commercial directors have agreed are required – and permanent secretaries, finance directors and the Government Chief Commercial Officer will take action where there is insufficient improvement

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over time. There is also a phased approach to reform, with a focus on building skills in the core commercial roles of procurement and contract management.

- **A full-time leader with overall responsibility for driving change, supported by dedicated resources.** Gareth Rhys Williams, the Government Chief Commercial Officer, is clearly responsible for ensuring that standards rise overall. He is supported by the dedicated resources required to make quick progress.

**3. Tangible progress has already been made.** Since the refresh of government's commercial reforms post-2015, progress has already been made by departments and the Cabinet Office, in particular in relation to the recruitment of new staff and the setting up of a new assessment centre. It is still too early to say how far this progress will translate into improved performance.

**4. Reforms must now be developed and sustained over the next three or more years.** The reforms remain at a relatively early stage and are still vulnerable. The next phase of reform will need to concentrate in particular on:

- **ensuring reforms are fully understood by everyone who is affected, in particular:**
  - **those in commercial roles, including both senior and junior staff** who are eager for additional opportunities for dialogue with those leading reforms
  - **those working with commercial professionals now and in the future**
- **building support by ensuring that the Cabinet Office leads by example,** demonstrating the success of its own capability building drive.

The challenges of this type of reform are immense. Capability building efforts are by their nature long term and require sustained effort, and previous reforms have often tailed off before they could deliver results. In many cases, short-term priorities diverted attention. In others, Cabinet Office and departmental leaders failed to work together constructively to refine and reinforce changes. These commercial capability reforms cannot be allowed to fade. Plans can and should be refined as leaders learn what is working, but commercial capability is simply too important to the performance of government to fail. New Institute for Government polling shows that 53% of people think that when something goes wrong with contracted public services, no one takes responsibility.<sup>3</sup> But it is time for the civil service to prove them wrong.

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# Why commercial capability matters

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In the UK today, private and voluntary sector organisations manage large and growing proportions of our public services, running schools, train lines, health treatment centres, prisons and myriad other services. Over £100 billion of taxpayers' money goes to these private and voluntary service providers, and their performance is vital to the quality of our daily lives.<sup>4</sup> Still more public money goes to the companies that run the swathes of complex IT infrastructure that underpins the tax system, ensures pension are paid on time, and keeps health records secure. And, of course, it is companies that deliver the bulk of our infrastructure, building roads and supplying the kit and weaponry for Britain's military capability.<sup>5</sup> Central government departments currently manage over 100,000 contracts.<sup>6</sup>

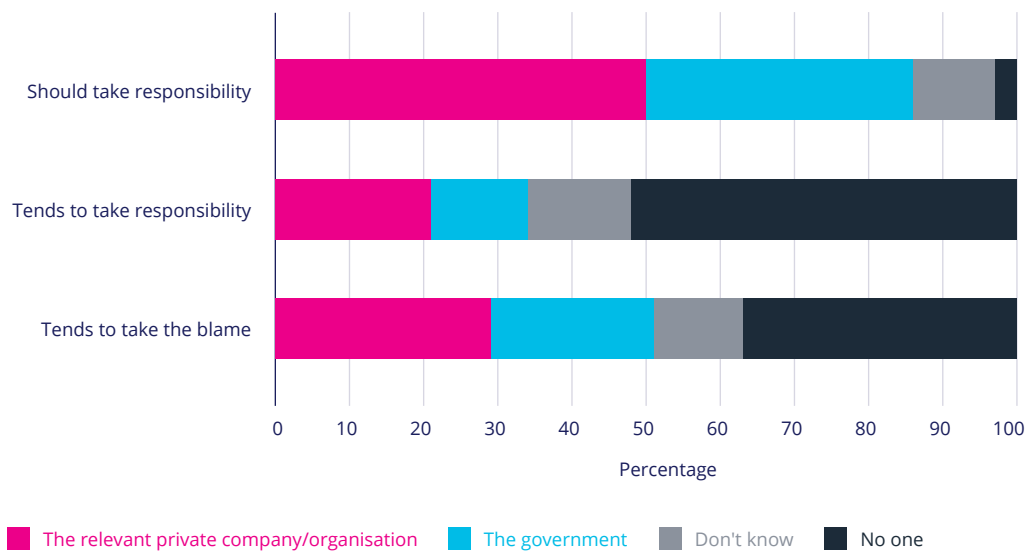
Whether the organisations that support government perform well or badly, whether they cost a lot or a little, depends heavily on government's ability to manage commercial relationships. The job of designing contracts, picking the very best companies to work with, and ensuring they deliver what's needed is not easy, however. Even where there is an array of thriving service providers to choose from, government often can't deliver effectively without having to manage highly complex supply chains involving multiple sub-contractors – as was the case in the successful delivery of the 2012 Olympic Games.<sup>7</sup> And the challenge of working within established private markets such as construction or IT services is dwarfed by the complexities involved in those instances where government is effectively creating new markets, for example when Chris Grayling's Ministry of Justice (MoJ) outsourced the bulk of UK probation services in 2014. In many areas, government must balance a more complex array of competing objectives than private companies typically face. And there is often more emphasis on procedural fairness, because service users in areas such as justice, tax and welfare are often compelled by law to use such services.

The public is generally unaware of just how much government relies on private companies and voluntary sector organisations, but they certainly notice – and are frustrated – when things go wrong. While companies have been involved in successfully shifting driving licence applications and tax returns online, reducing hospital waiting lists by performing millions of simpler operations, and delivering vital infrastructure projects, high-profile failures abound. Front-page fiascos include recent disruption to millions of commuters on Southern Rail, the prosecution of Serco and G4S following their overcharging of government for their provision of monitoring services for those on probation, and the politically embarrassing collapse of large parts of the multi-billion pound NHS National Programme for IT. National Audit Office (NAO) studies reveal myriad more hidden failures. For example, the Aspire contract, run largely by Capgemini, now costs nearly three times more than initially envisaged, while government's attempt to drive down the costs of the court translation service in partnership with Applied Language Solutions led to vast waste, as trials were delayed when translators failed to turn up.<sup>8</sup> A regular failing is government not paying enough

attention to ensuring there are a sufficient number of viable providers to maintain competitive pressures and performance over the long term. Thus, after Serco and G4S were prohibited from supplying electronic monitoring services, government could find only one company (Capita) willing to take on the work.

One of the main public frustrations is the sense that no one is taking responsibility for such failures. Vulnerable groups can be particularly affected by service disruption when providers severely underperform or go bust. New Institute for Government polling shows that 53% of people feel no one takes responsibility when outsourced services fail; up from 50% in 2014 (see Figure 1). The public are annoyed when it appears that government has been propping up organisations that are mismanaged, as emerged to be the case after the closure of Kids Company in 2015.<sup>9</sup> And there is still greater concern when it appears that individuals and companies have been able to walk away from failures having taken sizeable profits..

**Figure 1: Institute for Government polling: 'Thinking about the public services that are contracted out to private companies/organisations, when something goes wrong who do you feel...?'**



Source: Institute for Government populus polling, 2016, N=2,040



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# The causes of contracting difficulties

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Previous Institute research has set out detailed analysis of the causes of both successes and failures of government's creation and oversight of public service markets.<sup>10</sup> Though the details of each case are different, there are three essential issues: those involved in advising on and implementing reforms and managing outsourced services often lack the relevant skills, knowledge, experience and tools to perform well (see Box 1); poor use is made of the commercial and other talent that does exist, and in some cases, expert advice is either not sought out, or is ignored; and there has been a tendency to under-invest in particular areas of commercial activity, specifically the ongoing management of contracts, and stewardship of markets and supplier relationships.<sup>11</sup>

These problems tend to be self-reinforcing. When policy and operational staff involve commercial expertise early and frequently in decision-making, and do not feel they receive valuable advice and support, they learn not to bother in future. At the same time, failure to engage commercial staff properly creates a situation where commercial specialists struggle to generate value; too many key decisions have already been made, and commercial staff are pushed into a reactive approach, focusing on following established processes, rather than feeling any ownership of programme outcomes. What's more, the strong signal becomes that if you want to be an influential leader, a career in a commercial role is not the best way to get there. Companies where commercial expertise is more valued start to look like a better option.

This toxic dynamic is in turn underpinned by some of the broad, systemic dysfunctions that affect all democratic governments. The short-term pressures of the electoral and media cycles, high churn in ministerial roles, and difficulties in measuring value-for-money all pull the centre of government gravity away from efforts to build long-term capability. A lack of transparency of results and the complexity of government accountability arrangements is an additional problem – and the reason why, in 2015, the Institute for Government published a standardised transparency clause which can be inserted into all government contracts to ensure that important cost and performance data on contracted services are published.<sup>12</sup>

The federated nature of Whitehall – departments operating with high degrees of autonomy and being legally accountable to secretaries of state, not the prime minister – also contributes to weak central co-ordination of all government activities, including commercial ones. Most departments are vast enterprises in and of themselves, operating at sufficient scale to manage their commercial relationships reasonably efficiently. However, as the Institute argued in *All in it together: Cross-departmental responsibilities for improving Whitehall*, central government can achieve much more when departmental improvement activity is supported by cross-departmental work.<sup>13</sup> In relation to commercial capability, this should involve: sharing knowledge about the performance of service providers working with many parts of government

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simultaneously; setting standards; deploying the best talent to government priorities; and performing a small sub-set of activities on a cross-departmental basis.

There are many ways in which failures to ensure these cross-departmental roles are funded and performed effectively have manifested themselves in the past, including:

- Asking suppliers to bid for too many projects at the same time, leading some suppliers either not to bid (leading to reduced competition) or to invest less in developing solutions (leading to less innovation).
- Failing to ensure high performing providers are encouraged to grow – for example, missing opportunities to highlight work they are well suited to in other government departments.
- Rewarding underperforming providers for failure. Departments have, on occasion, signed contracts with suppliers who are consistently underperforming for other government departments.
- Increasing the costs of doing business with government. Inconsistent approaches make it more expensive for companies – and particularly small and medium-sized enterprises (SMEs) and charities – to do business with government. This increased cost is ultimately passed onto the taxpayer, but it also discourages some companies from working with government at all.
- Failure to learn from successes and failures due to a lack of effective knowledge management around commercial projects, and an apparent reluctance to redeploy staff who have recently completed a complex project in one department to support similar projects in other government departments.

#### **Box 1: The diverse capabilities needed to avoid contracting fiascos**

Government works with private and voluntary sector organisations in a wide variety of modes:

- Buying commodities from established private markets, e.g. stationery, computer hardware, furniture.
- Purchasing support services, e.g. management of payroll systems, desktop support for staff.
- Purchasing advice/consultancy support, e.g. on programme design, location of assets, management approaches.
- Partnering to build complex infrastructure/assets, e.g. building roads, hospitals and prisons; developing IT platforms.
- Contracting external suppliers to manage/deliver services (either in specific geographies or nationally), e.g. debt collection, translation services.
- Partnering to co-design, build and manage services, e.g. prison private finance initiatives, toll roads.

- Creating and/or stewarding a 'quasi-market' or public sector supply chain, where government is the main (or sole) purchaser of these services in the UK, e.g. academies (which are charities), probation services, employment service providers.

In reality, most government departments work in multiple modes simultaneously. For example, the Department for Education purchases basic commodities (usually using the CCS's framework agreements), engages consultants to advise on reforms to the department and to cover staff vacancies, partners with companies to build free schools, and oversees complex systems involving competing providers in the areas of childcare, academies and teacher training. The Ministry of Defence predominantly buys weaponry, equipment, training and support services, yet even work there is of vastly different types; buying an aircraft carrier to meet often unknown future defence needs is not the same as buying army uniforms.

Managing the most complex of these arrangements effectively requires a far broader set of skills than those commonly considered as part of 'commercial skills'. The NAO has previously outlined some of the skills required to manage complex services that are delivered by competing providers. These include:

- commercial and consumer law and litigation skills
- consumer insight and information skills
- commercial, economic and analytical skills
- financial and business analytical skills
- evaluative and economic skills.<sup>14</sup>

The Institute for Government has outlined the need to focus on 'system stewardship' and 'markets stewardship'; an approach that recognises the broad range of factors that can affect performance of government services, and government ability to influence (but not control) them. In addition, in almost every area, considerable subject knowledge (e.g. knowing about education or defence) is vital to effective commissioning and contracting.

Given this, previous Institute research has concluded that successful commissioning depends on the ability of government departments to develop and bring together these diverse skills, either through the use of inter-disciplinary teams or by using processes to enable cross-functional working.<sup>15</sup> The skills of those leading reform programmes or delivering services in areas where there are large amounts of contractual spend will necessarily be more general, though the Institute has repeatedly argued in favour of ensuring that those leading government work with a significant commercial component have relevant prior experience – and has developed training materials to support those involved in commissioning and contracting for government services.<sup>16</sup> It is worth emphasising that while much of the knowledge, experience and skills required for effective commissioning can be gained in comparable private sector projects, the scale and complexity of some government projects is not often

found in private sector settings, and the government context brings unique accountability pressures which require specific skills to manage.

Capability is about more than skills, of course. Commercial performance is also improved where there are strong processes and systems – including technologies and governance models – to support work. The government’s Contract Finder tool, for example, helps companies to identify future work they might want to compete for – and helps government to plan for peaks and troughs in workload.<sup>17</sup> Problems with its usability and the completeness of the information it contains therefore impedes government’s commercial performance.

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# A path to better results and less waste

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While problems in relation to government's commercial activities are significant, the path to greater success is clear. Government will perform better in managing its diverse commercial relationships, and outcomes will improve, when a range of high-calibre specialists, equivalent to the very best working in the civil service today, are involved in projects at the right time, are supported with the tools and resources needed, with their advice being used by decision-makers who are capable of interpreting it properly. The difficulty, of course, is getting to this end point.

First, there are challenges in ensuring the supply of talent to support government's work with the private sector. How can government best attract, develop and retain motivated and capable expertise (in the right amount at the right cost)? The task is not easy given a competitive market for talent, and civil service recruitment and spending constraints.

Second, there is the challenge of educating and incentivising policy and operational leaders. Building the demand for specialist skills requires that operational and policy staff know their limitations and understand which specialists to engage when – and how to work together productively. And leaders must have sufficient knowledge themselves to understand how to use the advice they receive. They must know how to make trade-offs between commercial and other pressures (for example, imperatives to deliver quick results or manage relationships with unions), and they must be able to judge whether they are receiving good or bad advice from in-house and external specialists.

The experience of developing specialist skills in other areas of government shows that progress can be made, but that it usually takes a considerable time for change to be accepted and embedded (see Box 2). No one today would argue that the finances of government departments could be managed by someone without an accountancy qualification, but we must remember that just over 10 years ago, only a quarter of government departments had qualified finance directors, with the roles held instead by civil service generalists.

## Box 2: **Functional leadership in Whitehall**

The past two decades have seen various attempts to strengthen the leadership of Whitehall's specialist functions, including finance, IT, digital, major projects, HR and commercial. The value of improving capability in all these areas is clear and over time there has been considerable progress. For example, the Infrastructure and Projects Authority (previously called the Major Projects Authority) has brought increased rigour to project management, as has the requirement for those in charge of major projects (senior responsible owners) to have undertaken training in the Major Projects Leadership Academy.

However, Institute for Government work shows that many drives to develop specialist capabilities to deliver government priorities have delivered less than expected, and some have tailed off entirely.<sup>18</sup> Progress often suffered as a result of a lack of dedicated leadership, with those tasked with driving improvements often having to do so in the margins of big operational jobs in departments. For example, the head of government's information and communications technology (ICT) profession between 2011 and 2013 performed the role while also being ICT lead in first the MoJ and then the Department for Work and Pensions (DWP); two departments with some of the most complex ICT challenges in government.

The Institute has previously highlighted that there has sometimes been a lack of clarity around the weaknesses that reforms have been trying to address.<sup>19</sup> Broadly, there are four rationales for change and each requires a different approach to leading specialist functions across government:

- 1. Capturing economies of scale.** Whitehall has a long history of trying to develop shared services in areas such as the transactional aspects of HR and finance. Recent initiatives have also focused on the procurement of standard goods and services such as Whitehall's IT and estates.
- 2. Setting and enforcing standards within Whitehall.** Institute research has highlighted issues such as raising the quality of policymaking; adopting 'cutting edge' models such as agile contracting for department-specific IT; and assuring the delivery of major projects. Here, activity does not need to be centralised (economies of scale do not apply), but setting and enforcing new standards does require relatively strong leadership models, particularly in areas such as the assurance of major projects where corrective action can involve changes to departmental policy.
- 3. Effectively deploying Whitehall's limited resources.** Institute research, for example on public service markets, has highlighted the importance of deploying key resources, particularly talent, to departments and policy areas where it is most urgently needed.<sup>20</sup> Only a relatively powerful leadership model can achieve this: it requires authority to redeploy talent between departments.
- 4. Cross-departmental design and oversight of programme spending.** Departmental silos have long been recognised as a problem for Whitehall,

generating major inefficiencies where programmes overseen by different departments interact with each other. The Institute's work on transforming Whitehall departments concluded that for efficiency drives to continue making headway, there will need to be a far greater emphasis on effective working across silos – and on building information flows to support this.<sup>21</sup>

Another barrier to progress in previous functional reforms has been the relatively limited focus on building demand for, and understanding of, specialist skills among policy and operational leaders. It is, after all, these leaders who must release staff from their day jobs to attend training, accept that talent will sometimes be deployed away from their departments towards areas of greater priority for government as a whole, and insist on using professionals in key roles. Civil service leadership has sometimes struggled to make time for an agenda it needs to be fully committed to if it is to ensure that departmental leaders have the incentives to change their entrenched behaviours.

There has been progress in addressing many of these areas. For example, functional leaders do now tend to exist and their cross-government roles are generally both full time and supported by small, dedicated teams. The head of HR has become a full-time post reporting directly to the Chief Executive of the Civil Service, John Manzoni; the head of the finance function has become a full-time role in the Treasury; and in 2012 Bill Crothers was appointed as the new dedicated Government Chief Commercial Officer, a role now performed by Gareth Rhys Williams.

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# Recent attempts to improve commercial capability across government

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Government has long been aware of the need to raise commercial capability and there have been multiple initiatives to improve commercial performance, including in 2000 the setting up of the Office of Government Commerce (OGC) to procure common goods and services, and advise government departments on commercial processes. However, efforts have accelerated considerably since 2010, partly driven by the drive to reduce government expenditure and partly by then Prime Minister David Cameron's 'Open Public Services' agenda. Cameron, like Tony Blair and Gordon Brown before him, argued that greater use of private and voluntary sector providers and employee-owned 'mutuals' would increase choice and raise standards across public service.<sup>22</sup>

From 2010 to 2015, the need to improve government's commercial capability was an ever-present in various iterations of government's civil service reform plans, and then Minister for the Cabinet Office Francis Maude promoted a range of reforms, including:

- renegotiation of existing contracts with the government's 40 'strategic suppliers' to identify immediate savings and to agree memoranda of understanding on the terms of doing business with government
- the creation of the 'Crown Representative' role – senior government officials responsible for leading the government's relationships with a portfolio of strategic suppliers
- the appointment by the Cabinet Office of Bill Crothers, the first Government Chief Commercial Officer
- a new spending control regime, which endures and requires Cabinet Office approval for new contracts, extensions and major changes to contracts with strategic suppliers
- a drive to collate management information on suppliers on a cross-departmental basis
- a series of (as yet unpublished) 'commercial capability reviews' examining departmental commercial capability
- the formation of the CCS in April 2014, which was formed out of various pre-existing units in the Cabinet Office.

The commercial capability reviews were triggered as part of a wave of government activity following revelations that Serco and G4S might have overcharged government for services relating to electronic monitoring of offenders – and it is clear that those difficulties gave momentum to some of the wider reforms from 2013.<sup>23</sup> Research from the Institute and others revealing the scale of government contracting difficulties



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added to the sense of urgency, as did John Manzoni's arrival in the new post of Chief Executive of the Civil Service in 2014.

This broad suite of reforms led by the Cabinet Office took place, of course, against a backdrop of wider improvement drives within departments. The extent of change in departments varied. An assessment by the NAO of actions taken by the Home Office and the MoJ to improve commercial capability was published in 2014. They evidenced promising developments, such as the MoJ's use of a balanced scorecard approach to assess supplier performance on major contracts, and the Home Office's training offer for commercial staff.<sup>24</sup> Promising practices were embedded in other departments too. Both the DWP and later the Department for Business, Energy and Industrial Strategy (BEIS) have embedded new 'category management' approaches, for example, in an attempt to manage suppliers of similar categories of goods and services more consistently and strategically.<sup>25</sup>

This is not the place for a full evaluation of the 2010–15 reforms, but those we spoke to in order to develop this briefing paper often drew similar conclusions from the period: initial reforms – and particularly contract renegotiations and controls processes – were seen as a useful and necessary shock to the system. Certainly, today, there is a general acceptance that the period post-2010 usefully signalled a different, more hard-headed approach to managing commercial relationships. There is also considerable admiration for the drive and energy that Francis Maude's political leadership brought to the area. For the first time in a long time, there was political interest in building commercial capability across government and securing better deals on existing contracts.

Nonetheless, it is very clear that in the run-up to the General Election in 2015 (and probably well before that) there was significant conflict between those driving cross-cutting reforms and those driving departmental reforms. Debates about how well Cabinet Office-led reforms were working for departments occasionally played out in public and at a political level. Vince Cable, then Secretary of State for Business, Innovation and Skills, and Ed Davey, then Secretary of State for Energy and Climate Change, openly clashed with Francis Maude over IT procurement arrangements in 2014.<sup>26</sup> Similarly, there were public rumours of disagreements between Iain Duncan Smith, then Secretary of State for Work and Pensions, and Francis Maude in relation to the management of Universal Credit suppliers.<sup>27</sup>

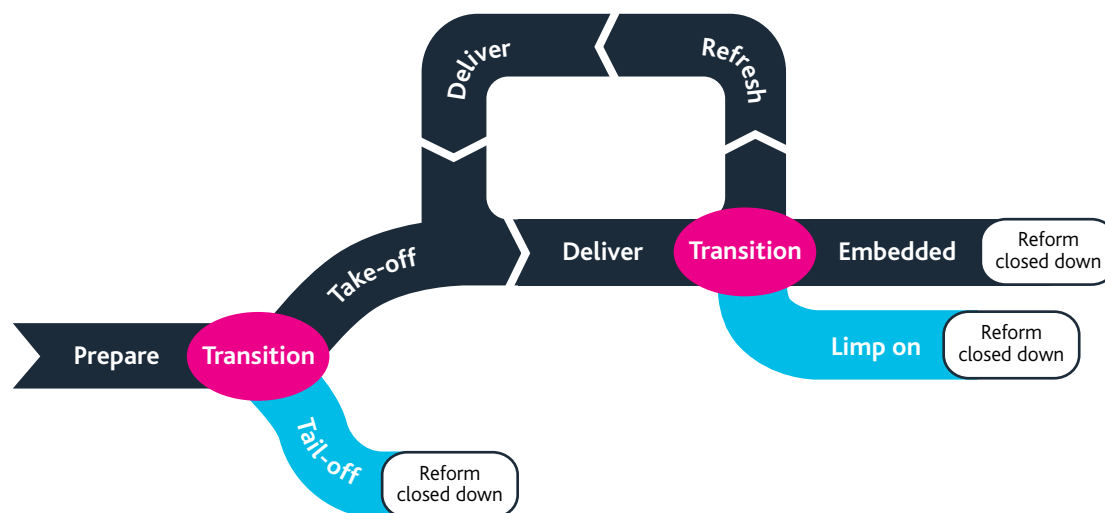
Political tensions were mirrored among officials. Departmental officials often perceived the Cabinet Office as trying to exert excessive amounts of central control, rather than supporting and adding value to the work of the departments. Those leading reforms in the Cabinet Office, meanwhile, often criticised the pace of change in departments, both via the commercial capability reviews and in public fora. The tone and style of interactions at times became highly adversarial, as opposed to constructive – and mistrust of motivations for recommending particular courses of action increased, as did interpersonal conflict.<sup>28</sup> One of the pinch-points for this conflict was understandably the 'central controls' process, through which Francis Maude and his key commercial staff often became involved in scrutinising departmental plans to engage new suppliers. Here, the perception from departments was that the process often led to costly delays in important programmes and that the Cabinet Office was too heavily emphasising particular agendas – for example involvement of SMEs or the creation of

public service mutuals – rather than understanding the practical constraints faced by departments. Again, Cabinet Office officials could produce a parallel critique: that departments were too attached to existing models that had failed to deliver historically. Difficulties in recruiting credible staff into the controls process exacerbated frictions.

The relationship between departments and the Cabinet Office suffered too as a result of difficulties in central procurement. The set-up of the CCS was accompanied by delays in the design and tendering of framework contracts, and many in departments felt that the promise of high-quality support and advice did not materialise quickly enough. As CCS officials themselves admitted, “we got things wrong – we onboarded too much work too quickly”.<sup>29</sup> The ambition was ahead of the ability to deliver, and those leading broader reforms in the Cabinet Office lost credibility with departments.

Frustration also surrounded information exchange. Repeated data requests from multiple Cabinet Office teams often appeared to departments to arrive in a haphazard manner, with urgent deadlines but often limited evidence that information had been stored or used systematically. There was intense frustration about requests that seemed only to be fuel for claims that the Cabinet Office controls process had saved vast sums, when departments felt that these savings were as a result of their own hard work. To the Cabinet Office, it sometimes appeared that departments were stalling on producing information that should have been relatively easier to gather (or already available) and then returning information that was often highly variable in its quality. The lack of any meaningful cross-government data architecture in this area created the perfect conditions for confusion and delay.

Figure 2: **Civil service reform in the real world**



Source: Panchamia, N. and Thomas, P., *Civil Service Reform in the Real World*<sup>32</sup>

These issues have been seen in other cross-departmental efforts to improve Whitehall’s performance.<sup>30</sup> And they are seen too in departments that have a more federated operating model themselves. For example, the Health Care Supply Association (HCSA), which represents procurement professionals operating across the NHS in England, recently aggressively critiqued a new central Department of Health procurement strategy, stating: “There is a perceived lack of engagement, consultation,

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and active involvement of key stakeholders and leaders across the NHS Procurement community.”<sup>31</sup> Of course, these types of issues are not unknown in the private sector either. No company has the diversity of activity found in government, but multi-country, multi-service business companies also experience difficulties in balancing efforts to improve performance via activities within separate business units with efforts to support better performance via scrutiny and support from group headquarters and collaboration across units.

Such tensions can be overcome when those delivering changes build credibility by delivering positive results – and through a collaborative approach which recognises that no complex reform drive will be designed and delivered perfectly first time. Reforms such as these also need regularly refreshing; adapting the course and priorities based on lessons learned and new needs and challenges. Failure to adapt reforms usually means they will lose momentum and relevance and tail off (see Figure 2). And, when reforms fade while the original problems they were trying to address remain acute, it is inevitable a new reform will be started again in time, though often with limited continuity from previous reforms, risking mistakes being repeated.

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# Current reforms

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Since 2015 there has been a welcome and necessary refresh of the approach to building commercial capability across government. Sir Jeremy Heywood, the Cabinet Secretary, and John Manzoni, Chief Executive of the Civil Service, have reiterated that “improving commercial skills and capability remains one of the Civil Service Board’s top three priorities”.<sup>33</sup> And a new set of leaders is building on previous progress but also making considerable tweaks in the approach. This phase of reforms is focusing not on centralising commercial activities in the Cabinet Office; in fact, the Cabinet Office CCS has recently clarified that there are no plans to expand its role in central procurement.<sup>34</sup> Government Chief Commercial Officer Gareth Rhys Williams has also repeatedly emphasised that most of the best commercial talent needs to be deployed in departments where the bulk of commercial activity is carried out. Expertise will be shared more across departments – for example there may be more redeployment of talent towards high-risk, high-priority commercial projects – rather than being centralised.

Instead of centralising, the focus is on strengthening the commercial function across government, including by creating the new Government Commercial Function in 2016. Gareth Rhys Williams points out that: “It’s important to underline that the function works in addition to the departments, it’s not an alternative.”<sup>35</sup> And he is clear that improvements will be designed and delivered by commercial leaders across government, with the support of central teams. As Rhys Williams puts it: “I have seen some inventive and practical processes and programmes that currently are limited to single departments – if these could be adopted, where relevant, across government, we have the opportunity to raise capability very quickly.”<sup>36</sup>

Key activities to build capability across government aim to attract high-calibre talent, retain and develop existing and new talent, and deploy talent more effectively – but reforms to achieve this are supported by a clear drive to measure and improve standards in departments, and in the CCS. The majority of the specific changes being made are shown in Table 1 (page 20), but it is worth highlighting some key choices made in relation to the design of reforms:

- **Revised terms and conditions for commercial professionals.** Pay has been an obstacle to recruiting commercial professionals from the private sector, and contributes to the high proportion of high-calibre commercial staff leaving the civil service later in their careers (both to pursue private sector roles and to act as contractors to government). After a protracted debate, it has been agreed that senior commercial staff will receive higher starting salaries (over £20,000 higher in the most senior roles) and will receive increased performance-related pay. These benefits are off-set by ensuring that staff on these new terms receive a new defined contribution pension package, rather than the defined benefit scheme currently in operation. The total package is cost neutral to the Treasury, but to achieve the shift

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the Government Commercial Function was required by the Treasury to establish a new single employer for staff on these revised terms, the GCO.<sup>37</sup>

- **An assessment centre, focusing on senior staff.** A new assessment and development centre process has been introduced to ensure that new recruits and those currently employed in senior roles are meeting requisite standards. The one-day assessment is already in operation, and existing and new commercial directors have passed through it. The assessment has been designed to be necessarily demanding when assessing the commercial capability of an individual, and it is expected that a significant number of incumbent staff will not achieve the necessary benchmark for transitioning into the GCO. Those who pass the assessment move to the GCO and are offered the new terms. Those who are a 'near miss' move to the GCO but with a development plan and the objective that they are assessed again within two years after capability gaps have been addressed. It remains a decision for existing departmental staff joining the new GCO whether they wish to adopt the new terms and conditions.
- **Reforms co-designed by the new commercial leadership group.** Commercial directors are meeting regularly to iterate plans and individual directors are taking on specific modules of cross-government work – for example developing the commercial standards which departments should aim to meet. This differs considerably from previous approaches.
- **A new accountability model for the profession.** The January 2016 commercial standards for government have been overhauled and new (November 2016) commercial operating standards will be used as a way of measuring department's commercial capability and driving continuous improvement.<sup>38</sup> How well standards are being achieved will be measured against defined success metrics which will indicate whether standards are met – and whether capability is 'good', 'better' or 'best'. Initially, departments will benchmark their own departmental capability, but six months later departments will be reviewed by peers in other departments.<sup>39</sup> Commercial and broader departmental leaders will be judged not on the current standards their department is attaining, but on the rate of improvement in capability. Staff capability is being judged by the new 'people standards' used within the assessment and development centre.

Table 1: **Recent reforms across the Government Commercial Function**

Purpose of reforms	What is being done	Enablers to support
<b>Attract high-calibre talent</b>	<ul style="list-style-type: none"> <li>• New reward structure for commercial staff of grade 6 upwards (higher base salary and performance-related pay, off-set by reduced pension benefits)</li> <li>• Greater use of existing pay flexibilities to bring in commercial specialists to key commercial leadership roles</li> <li>• Set-up and expansion of commercial faststream programme</li> <li>• Commercial apprenticeships stream</li> <li>• Centrally co-ordinated recruitment of senior staff for deployment in departments – using a new assessment centre model to ensure best possible candidates</li> <li>• Co-ordinated 'rebranding' to market a career with the GCO, which will start in one department but could encompass the whole of central government</li> </ul>	<ul style="list-style-type: none"> <li>• A new set of 'commercial operating standards', articulating what good commercial performance looks like, and how its effectiveness can be measured</li> <li>• A new self-assessment and peer-review process, to assess commercial capability department by department on an ongoing basis</li> <li>• A Cross-government Commercial Leaders Group, meeting regularly to identify and drive potential improvements</li> </ul>
<b>Retain and develop</b>	<ul style="list-style-type: none"> <li>• All current commercial staff grade 6 and up to go through the assessment centre, and receive a structured development plan based on strengths and areas for development (and opting into new terms and conditions)</li> <li>• In future, those being promoted to senior commercial positions to also go through the assessment centre</li> <li>• Online commercial college to provide a growing suite of accredited online learning and pointers to classroom learning</li> <li>• Accredited learning and development courses under development</li> <li>• Feedback from the assessment centre to provide input into departmental performance management conversations</li> </ul>	<ul style="list-style-type: none"> <li>• A new entity (the GCO) intended to become employer of senior staff in commercial roles (departments will be recharged at cost, plus a small overhead, for staff deployed to them)</li> <li>• A process to define departments' commercial operating/organisational models or 'commercial blueprints'<sup>40</sup></li> <li>• An emerging taxonomy, which articulates the different types of commercial skill deployed by government</li> </ul>
<b>Deploy</b>	<ul style="list-style-type: none"> <li>• Recruits to the GCO being deployed to priority areas</li> <li>• Departments supported to articulate their 'operating models' for deploying commercial capability to priority areas/programmes/projects</li> <li>• Departments articulating their pipeline of commercial activity to identify future resourcing needs</li> <li>• Training and awareness-raising for policy and operational staff on how to get the best from commercial experts, including through the online commercial college</li> <li>• Use of 'complex transactions team' to supplement departmental resources on critical projects</li> </ul>	<ul style="list-style-type: none"> <li>• Improvement of shared information (and systems) on suppliers, pipeline etc</li> <li>• Cross-cutting interest groups, such as a 'Big Deal' community, to share knowledge and learning</li> </ul>

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Many of the above activities, including the new recruitment drive and assessment and training initiatives, are part of a commercial capability programme driven by a Cabinet Office team. There are further central teams that are involved in these and wider efforts, namely:

- *Complex Transactions*, which supports departments with complex procurements, negotiations with suppliers and on all cross-government disputes.
- *Markets and Suppliers*, which provides senior responsible owners for multi-departmental suppliers, and builds and shares market and sector intelligence across government.
- *Commercial Assurance*, which offers guidance and support to departments, is involved in standard-setting and manages the commercial controls process – a gateway through which major contractual processes must pass at various stages if they involve contracted spend of over £10 million a year.<sup>41</sup>

In parallel, the CCS has developed a revised plan to deliver value for government and departments under the new leadership of Malcolm Harrison. After a period of growth in which the CCS has taken on responsibility for procuring and managing a wider range of goods and services for departments, this plan will see a strong focus on demonstrating savings and quality improvements in the CCS's service offering. The CCS will strengthen a number of its 'framework agreements' and has recently included a version of the Institute's 'standardised transparency clause' in the Cabinet Office 'Model Services Contract'.<sup>42</sup> Like departments, the CCS will be judged on its capability, based on the new commercial standards.

These reforms do not, of course, preclude a wide range of further reforms taking place within specific departments. Departments continue to manage – and seek to improve – a wide range of recruitment, development and retention activities themselves, and some new approaches appear to have enjoyed success. Departments also regularly refine their working practices around major programmes and projects in ways that can help (or hinder) effective use of commercial expertise.



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# Early impressions

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The commercial capability reform agenda is ambitious – and should be seen in the context of comparable reforms to professionalise government’s finance, legal and HR communities, which have evolved over several years. It is far too early to judge results of the latest iteration of reforms, most of which only started in early 2016.

However, there have already been some highly visible changes as a result of the reforms to date. Recruitment processes have successfully brought in a significant number of senior staff who might not otherwise have considered a career in the public sector. The commercial faststream programme is already bringing new talent into commercial roles. A new assessment centre model and a model for assessing commercial standards across government have been implemented. The online commercial college is operational, though its content remains thin. And departments are assessing themselves against new commercial standards. Departments have made progress on reforms that continue alongside cross-departmental changes. For example, the MoJ has found that shifting more junior commercial roles outside London has helped to attract some strong candidates.

The test of these developments is, of course, how they affect the calibre, performance and capability of commercial staff. But we can also look at wider indicators to assess whether reforms are likely to succeed. Institute work on similar reforms points to several ingredients that are essential for success:<sup>43</sup>

- Clarity around the reform’s idea and purpose.
- Open, accountable and broad-based leadership.
- Connection to government and departmental objectives.
- Dedicated resources to support change.
- The right degree of political support.

We now examine progress on each of these in turn.

## Clarity around the reform’s idea and purpose

The overall goals of reform are clearly and consistently articulated by the Government Chief Commercial Officer and departmental commercial directors, while the broader civil service leadership strongly support the overall goal of raising commercial capability. As noted above, those leading reforms are clear that the reform process is about raising commercial standards and outcomes across government, not just in the Cabinet Office, and that the work of the Cabinet Office must add value to work in departments. There is a common view that it is important to keep the best commercial staff working within the departments that manage the bulk of government business, rather than to centralise activity and resources.



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Both Gareth Rhys Williams and commercial directors articulate a clear phasing of reforms. The initial focus is on raising standards and skills for those operating in the 'core' commercial roles of procurement and contract management – and there is also a greater immediate focus on senior government commercial staff.

By building capability in procurement and contract management first, the commercial function aims to be better placed to credibly lead and support broader improvements across the civil service. One of the main mechanisms for achieving progress has been the 'tagging' of posts requiring significant commercial expertise – a way of ensuring such posts are only held by commercial specialists and in some cases only by GCO staff. Other roles will also be tagged as requiring different levels of commercial expertise, but departments appear to have chosen in general to focus on those in the fields of procurement and contract management. Following this logic, commercial leaders have therefore secured the generalised support of permanent secretaries, but are not yet asking them to aggressively drive changes in the way that their senior civil servants in operational and policy roles engage with commercial staff and projects. This focus on developing skills in core commercial roles first also reflects the fact that some other work is attempting to build commercial understanding within the 'generalist' civil service. For example, 'commercial leadership' is one of the four domains developed via the Major Projects Leadership Academy, a training programme which supports those responsible for major projects in government.<sup>44</sup>

In terms of the initial focus on senior roles, the rationale is that a shortage of high-calibre senior staff has been a particular concern to departmental leaders and these individuals are seen as being needed to drive and enable wider change across the commercial function. This focus on senior roles has ensured that senior staff are more aware of the priorities and phasing of reforms. Junior commercial staff and non-commercial staff are in general less aware of them. This relatively narrow understanding of changes is often the case at this stage of a reform process, but it does create some issues (see 'Open, accountable and broad-based leadership' below).<sup>45</sup>

There are, naturally, significant debates about the pace, phasing and likely effectiveness of the various interventions aimed at raising capability. In relation to recruitment, some commercial staff are not yet convinced that pay changes are sufficiently material to affect recruitment greatly, or to encourage existing staff to opt into the GCO. Some older commercial professionals currently expecting a defined benefit pension will certainly not be better off overall if they opt into the GCO terms and conditions. There is also some debate about the need for the GCO at all. Some that we interviewed argued that pay flexibilities could have been extended without it, as has happened in the Ministry of Defence's Defence Equipment and Support function, and the sections of the Department for Transport involved in rail franchising. Others, meanwhile, feel that the main obstacle to recruitment is in fact the time civil service recruitments take to complete and wonder whether this problem will be addressed. There are also debates in relation to the best approaches to professional development, how to engage policy and operational leaders, standard-setting and relative resourcing priorities. For example, some argue that even more should be done by departmental leaders to increase the number of staff involved in managing government contracts, given the vast sums involved and the performance gains that could be achieved with better oversight. Others say that too little emphasis has been placed on ensuring new

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recruits from the private sector understand the differences of operating in the public sector context, including issues relating to competing incentives and accountability pressures.

It is possible to argue different sides of each debate – and the work for this paper did not allow a thorough analysis of specific initiatives or design choices. Previous Institute research supports the view that government should invest more in the oversight of high-risk, high-value contracts, but in terms of other choices only time will tell. One thing that is clear from conversations, however, is that those in the commercial function care greatly about the fairness as well as the effectiveness of reforms. The Cabinet Office being seen to be judged by as high a standard as departments is therefore important, as is strongly recognising and praising good practice and successes in departments. Fairness is also a question for junior staff, who want to feel included in reforms despite the initial focus on commercial staff at grade 6 and above, and it is important that existing staff do not feel demotivated by a clear focus on external recruitment. This last point suggests that the decision to ensure existing staff can opt into new terms and conditions was important.

### **Open, accountable and broad-based leadership**

Previous Institute research shows that reforms aimed at improving the performance of specialist functions such as finance must have clear, dedicated and accountable leadership. The appointment of Gareth Rhys Williams, the Government Chief Commercial Officer, ensures that this exists – though he will, of course, require the active support of the overall civil service leadership (the Cabinet Secretary, the Head of the Civil Service and the Civil Service Board) and, at times, political leaders.

Even more important to the success of similar reforms, however, has been the development of a broader coalition of leadership. Broad-based leadership both ensures reforms continue if key individuals change, and acts to amplify and strengthen reform efforts – and this is particularly important for cross-departmental reforms where staff are geographically dispersed and less homogeneous.

In terms of building the leadership coalition, there has been considerable progress. Since March 2016, a clear grouping of cross-departmental leaders who feel considerable responsibility for driving reforms has emerged. The commercial leadership group, which comprises departmental commercial directors, now meets regularly with Gareth Rhys Williams; not just to discuss reforms, but to generate ideas for strengthening the commercial function. And individual commercial directors, or groups of them, have volunteered their time and the time of their staff to contribute to cross-departmental initiatives, such as the definition of new commercial standards – an important demonstration of commitment. At this stage, it is unsurprising that some commercial directors are more actively driving and supporting the reform agenda than others.

As the reforms progress, leadership will need to broaden within the commercial function: those operating below director grade will need to demonstrate their support for, and involvement in, the reforms. Given that those below director grade cannot always articulate a shared narrative about the purpose and value of reforms, there is clearly not yet this broader ownership. Several staff we spoke to were not able to

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articulate what the reforms will mean for them personally, and there is certainly a degree of unease about the possible career impact of new arrangements. This applies particularly to junior staff not yet eligible to join the GCO (which is only open to grades 6 and above), but it also, more worryingly, applies to some staff who would be eligible to join. A complaint heard occasionally – though our sample of input was small – was that choices had not been sufficiently widely debated and evidenced to build this broader buy-in. However, detailed staff briefings for all central government staff are intended to be completed by spring 2017.

Linked to these issues, some talented commercial staff eligible to join the GCO believe they will be better served by staying out of it. Concerns included:

- a belief that being employed under the GCO brand might limit their ability to proactively manage their own career progression, including by limiting their ability to move into broader operational roles
- the possibility of them being redeployed to departments they have little attachment to, despite reassurances from the GCO to the contrary
- a fear that the GCO's initial emphasis on procurement and contract management skills might lead to their wider skills being under-valued or under-utilised
- annoyance at the simple 'hassle factor' of going through an assessment centre process which they are yet to be convinced of the benefits of.

Wider Institute work shows that it is extremely rare for staff less involved in reforms and more junior staff to be as positive about changes as senior staff – but efforts to engage these groups can make a difference, both improving the design of reform based on ideas and input received, and building support.<sup>46</sup>

Those in commissioning roles must eventually actively support reforms too. After all, it is they who often make (or advise on) vital choices regarding the design and management of public service markets. At this stage, however, it remains unclear to many commissioners whether it is hoped that they will join the commercial profession or not. And while commissioners are keen to be able to draw on improved commercial capability, several still query how revisions to recruitment and deployment processes might affect their ability to perform. The fundamental concern is that centrally driven recruitment and development processes won't deliver as promised and that commissioners will still be held responsible for failures by staff they played a limited role in hiring, and whose development programmes they do not control. The confidence and championing of this group will only be gained through results. But an open and collaborative approach from those Cabinet Office staff implementing new processes will help to ensure that commissioners do not turn against the reforms (or duplicate efforts) prematurely if there are a few teething problems.

Commercial directors also cannot drive changes without support of colleagues from outside the commercial function. A critical group is finance directors general. The Finance Leadership Group, which comprises the 10 finance directors general from the largest Whitehall departments, has oversight of the commercial function in virtually all those departments. This group has already been engaged in discussion, and is actively debating how to be involved in driving change, whether as enablers or actually leading some changes themselves.

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Because of Whitehall's accountability structures and power dynamics, permanent secretaries can almost always opt out of reforms they do not support. In the past, cross-departmental reforms have lost momentum when permanent secretaries have prioritised short-term delivery pressures over cross-government reforms, or have come to mistrust the motives for changes. It is because of this that reforms must connect to, and support, departmental objectives (see 'Connection to government and departmental objectives' below), but it is also a reason why the Government Chief Commercial Officer may on occasion need the support of the Cabinet Secretary and Chief Executive of the Civil Service. What is needed is not unquestioning support but supportive problem-solving. For example, if a permanent secretary is frustrated that central recruitment has not filled a key commercial role quickly enough, then it needs to be understood where responsibility lies and whether the right response is to allow departments to regain control of recruitment or (more likely the right answer) to take steps to ensure that central recruitment is delivering.

### **Connection to government and departmental objectives**

All reforms of this type need to recognise the context and environment in which they are taking place. Previous research suggests:

- the need for centrally led reforms to support and enable the delivery of departmental objectives, and to recognise the limited ability of the Cabinet Office to mandate change<sup>47</sup>
- the importance of Treasury permission, as Treasury opposition can effectively quash many reform efforts<sup>48</sup>

At the time of writing, the commercial capability reforms face a challenge common to any reforms focused on government's 'business as usual': the fact that much government energy and activity is dedicated to managing Britain's exit from the European Union. Nonetheless, it is clear that improved commercial capability is vital to delivering on departmental objectives, including some critical manifesto pledges such as the delivery of Universal Credit – and the focus of the reforms does reflect some specific demands from departments, including around the need for support in recruitment given high levels of vacant posts in some departments. In addition, the fact that commercial directors are meeting to discuss shared priorities and issues, such as how to respond to and support Brexit, will help ensure ongoing relevance of the Government Commercial Function's work.

Commercial directors appear to feel able to raise issues with the way reforms are working and to drive specific cross-departmental reforms to ensure efforts are focused on things that are important to their departmental work. And they value the increased opportunities to exchange ideas and information with peers. Many of the benefits of knowledge sharing are obvious, shown for example by the work the Cabinet Office is doing to understand and manage suppliers who work with multiple government departments. Done well, such work and information-sharing should help departments to negotiate more effectively, to engage providers who are performing well elsewhere, and to ensure all departments benefit from early warning signs of supplier management issues or insolvency. There is the additional benefit that greater co-ordination and consistency in the way departments deal with suppliers can make it easier (and less costly) for suppliers to do business with government – with knock-on

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benefits in terms of the willingness of providers to engage with government. Some suppliers currently express caution about working with government due to the administrative burdens, reputational risks and (in some cases) tight margins involved – so several are actively diversifying away from reliance on government business.<sup>49</sup>

As noted, those working in departments respond much better to reforms led from the Cabinet Office when Cabinet Office staff are seen to be focused on enabling departmental delivery, rather than appearing simply to block changes or impose time-consuming compliance requirements. This is a tricky balancing act for any commercial function. Controls are there for a reason: to maintain standards and protect value for money. But sometimes 'best practice' doesn't always dovetail neatly with the need to recognise departmental constraints. For example, an existing 'framework agreement', negotiated centrally to ensure consistency and value for money, might not always provide an easy way of allowing a new, high-quality provider to bid to work on a new project. Or a series of challenge meetings arranged to ensure departments benefit from Cabinet Office input might in fact create delays, the costs of which could far outweigh the benefits of any resulting changes.

Commissioning and commercial staff in departments that we spoke to therefore emphasised that they would judge commercial reforms a success if they led to those they worked with in the Cabinet Office being more focused on, and capable of, helping to solve business problems. They wanted central colleagues to propose ideas and to find 'win-wins' between departmental and cross-government objectives, rather than simply saying 'no' or requesting information that is onerous to gather but appears to be unused. The fact that these commercial reforms include a focus on improving Cabinet Office and CCS capability is therefore welcomed by all, with departments keen to see evidence of results. It should also be the case that more proactive planning of the pipeline of commercial projects across government will help ensure that conversations happen at a stage when changes in departmental approaches are more feasible.

The Treasury appears to be supportive of these reforms, having permitted commercial staff some pay flexibilities. However, the Treasury would only support changes to senior commercial staff pay that were 'cost neutral' (with higher salaries and lower pensions). This appears to be the result of concerns about fairness to other functions where there are also recruitment difficulties (for example digital or finance roles) and fears of cost escalation. Treasury support for greater investment in the oversight of government contracts was also not clear from our work. Institute for Government and NAO work shows the value of investing in effective oversight of contracted suppliers, and they have called for the Treasury to support this by demanding that departmental business cases provide for proper contractual oversight rather than short-sightedly attempting to squeeze out any 'administrative' costs.<sup>50</sup> Internal calculations by the GCO suggest that the total cost of the commercial function in government amounts to around 0.5% of contractual spend, which is extremely low by private sector standards.<sup>51</sup>

## Dedicated resources to support change

The existence of a central team and budgets to support the set-up and development of the commercial function gives these reforms a much better chance of being implemented effectively. The Government Commercial Function plan also includes

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clear objectives and ways of measuring success.<sup>52</sup> Departments will assess themselves and each other on how far they are matching up to the professional standards that commercial directors have agreed are required – and permanent secretaries, finance directors and the Government Chief Commercial Officer will take action where there is insufficient improvement over time. The reform programme is – oddly given its scale – part of the government’s Major Project Portfolio and this also brings additional rigour to the management of this change.

There are still debates about whether resources are sufficient, but in many areas reforms can draw on existing departmental resources in addition to central staff. Many commercial directors have invested their time and the time of their staff in driving and developing specific cross-departmental initiatives. For example, the DWP and the Department for Business, Innovation and Skills commercial directors have been heavily involved in developing the new commercial standards that will be used as the basis for assessing departmental performance. Relying only on the time investment of departmental staff is not a sustainable model for driving change, but it is a useful supplement to dedicated central resources.<sup>53</sup>

### **The right degree of political support**

Reforms of this type do not necessarily need strong political leaders, but can clearly benefit from it. It is currently hard to identify a clear political champion of these reforms, compared with when, as Minister for the Cabinet Office, Francis Maude was driving changes in this area.



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# Next steps

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As noted above, there is a long history of reforms such as these tailing off after initial progress and enthusiasm. But it is vital that this does not happen this time around. If particular aspects of the reforms do not work, that does not mean the overall drive to build the capability of the Government Commercial Function should be questioned. It simply means that approaches need to be revised and refreshed. Failure matters and those responsible need to be answerable – and eventually accountable – for failures. But attitudes to shortcomings matter more. If Cabinet Office and departmental leaders see failure as an opportunity to work together and improve approaches, then the reforms have a much better chance of being developed and delivering in the long term. It would be highly destructive if the overall drive to improve commercial standards faded out at the same time as government is dealing with big issues such as the break-up of HM Revenue and Customs' huge Aspire contract, and DWP's commissioning of a new work and health programme.

There are many routes to ensuring reforms are developed and energy is maintained. However, our discussions and previous work suggest that some of the priorities for the next phase of reform include the need to:

- **Ensure reforms are fully understood by everyone affected, in particular:**
  - **Those in commercial roles.** Uncertainty among commercial staff risks reducing the speed and enthusiasm with which existing commercial staff move into the GCO. Addressing questions and concerns, including from staff who will not move into the GCO, will help build the group, which has a stake in ensuring the broader reforms succeed.
  - **Those working with commercial professionals now and in the future.** Reforms are right to focus initially on recruiting and supporting the development of commercial professionals in the core disciplines of procurement and contract management. However, the next step is to ensure that those in commissioning roles become much clearer on whether they will be expected to become GCO employees, and in what ways they are expected to be involved in the wider reforms. Policy and operational staff generally agree with the overall goal of the reforms and there has been considerable effort to ensure permanent secretary support. However, levels of active support for specific changes vary across departments, as seen in varying levels of support for staff joining the GCO. Many are still adopting a 'wait and see' attitude to the changes.
- **Demonstrate improved Cabinet Office capability.** If they continued, historic problems in the Cabinet Office controls process and other Cabinet Office interventions could critically undermine the credibility of the current reforms. The fact that the Cabinet Office and the CCS have recruited new staff who will have to meet the same standards as government departments provides a valuable signal

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that the Cabinet Office intends to lead by example. But there will need to be relentless focus on both skills and styles to ensure that behaviour is consistent with a narrative which emphasises that the Cabinet Office must add value to departmental work, not just monitor it. Linked to this, we would expect the results of the reforms to be transparent both across government and, in time, to the public. Future assessments of departmental commercial capability should be made public.

Improving government's commercial capability is a vital component of building the 'brilliant civil service' that the Cabinet Secretary has promised to create.<sup>54</sup> It is important to build on progress to date and ensure that any future setbacks lead to refinements and improvements, not to an admission of defeat



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