

Procurement and Supplier Relationships: Guidance 16

Increased dependence on IT to help deliver business objectives raises the importance of effective IT procurement. Clearer articulation of Government IT procurement policy will improve relations between the Government and its suppliers and improve the success rate of projects. Mechanisms that encourage more mature co-operation between client and supplier can have a significant impact on project success. Scrutiny of supplier plans throughout the procurement process is important in ensuring that objectives are delivered. There are key actions that must be taken by suppliers to help improve performance.

Actively managing market intelligence across Government can help improve procurement decisions.

Definition of procurement

The Cabinet Office's recommendations are based on the Gershon Report's wide definition of procurement as involving "the whole process from identifying a business need to fulfilment of contract". Seen in this context, procurement draws in all the activities around the ongoing management of a contract throughout its life and the development of long-term relationships with suppliers, as opposed to just the formal processes of arriving at a contract.

The Cabinet Office have grouped together work on procurement and ongoing relationships with suppliers, as the two are inextricably linked. Good or bad experience in one area will invariably influence performance in the other.

Procurement policy and IT

Government has become increasingly reliant on the private sector for much of its IT capability. Procuring IT has therefore become an increasingly significant activity for departments and agencies, and the demands of the Modernising Government agenda mean that it will continue to be so.

The wide range of procurement options that are available, and the complex ways in which they may be applied to IT, have led to a lack of clarity about how Government procurement policy supports departments, agencies and IT suppliers, and an inconsistent application of recommended best practice across Government. There are several issues here:

- keeping policy and guidance up to date and consistent;
- re-focusing existing policy and guidance to reflect changing business needs;
- understanding the implications of procurement policy for IT;
- improving access to policy and guidance material; and
- improving compliance with best practice guidance.

Keeping policy and guidance up to date and consistent

The speed of change in technology, and the growing variety of ways in which it is used across Government, has made it difficult for procurement policy to keep pace and to respond quickly to experience on the ground.

The Government's policy is to ensure value for money in procurement through competition. Over the last 10 to 15 years it has applied a number of procurement approaches to achieve this, and these continue to evolve in the light of experience. Recently, for example, the Better Quality Services initiative has re-positioned some elements of policy, highlighting the need for departments and agencies to take a pragmatic approach and to consider a range of procurement options. In this climate of change, policy and guidance need to be regularly reviewed and consolidated, to ensure that they are still consistent, current and applicable.

Evidence

Current guidance includes the Central Unit on Procurement series, produced by HM Treasury, which comprises nearly 50 separate sets of notes on a wide range of topics. Examples include ethics in procurement, model forms of contract, the competitive tendering process and incentivisation. Some date back nearly 14 years.

The Central Computer and Telecommunications Agency (CCTA) provides a number of model agreements and IT-specific guidance, principally through their Total Acquisition Process (TAP) guide and, more recently, their IS Management Guide to Acquisition. Both these guides contain much valuable advice and information but their visibility is limited.

Re-focusing policy and guidance to reflect business needs

Many departments and agencies have also expressed concern that, in negotiations with IT suppliers, particularly under the Private Finance Initiative (PFI), current policy and guidance place too much emphasis on financial aspects at the expense of business considerations about the quality of new and existing services. Important questions, for example, on contingency planning, supplier capability and recent performance, and the integration of technology with business processes, have at times been overlooked in the pursuit of a financial deal.

Evidence

A project to alter radically the whole working practices of a government body, employing extensive new technology, focused too heavily on the commercial aspects of the agreement with their supplier. While the contract seemed to offer excellent value for money, the project fell into difficulties because technical and management

issues led to severe delays. The good commercial deal was not a substitute for satisfactory service.

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Understanding the IT implications of procurement policy

Although there are clearly aspects of procurement that apply in equal measure to any large purchase, the Cabinet Office have found cases where insufficient weight has been given to the unique characteristics of IT. Written policy guidance in this area is only now being worked up.

The Cabinet Office have seen a variety of IT procurement approaches used across Government to satisfy a diversity of requirements. These include, for example:

- joint ventures;
- strategic outsourcing;
- framework contracts (such as GCat and SCat); and
- PFI.

There is confusion, however, about how best to match the approach to the requirements and there are examples of projects where the selected approach, and the lack of familiarity with it, have hampered chances of success. The PFI approach, for example, which has been successfully applied in the construction industry, often works less effectively for IT. This is largely because the desired outcomes of IT projects are more difficult to articulate and agree and often involve significant issues at implementation of integrating new systems with business processes and existing systems.

The Centre needs to ensure that there is a coherent and up-to-date statement of procurement policy as it affects IT. This needs to draw out the range of procurement options available, supported by advice on when particular options should be employed.

Evidence

The HM Treasury document Procurement Policy Guidelines, issued in November 1998, provides a Senior Management Summary of Government Procurement Policy but does not refer specifically to IT.

More recently the Treasury Task Force has produced guidance on PFI contracts for IT Standardisation of PFI Contracts - Information Technology, published on 28 March 2000. While this offers extensive help for departments pursuing a PFI approach, it does not cover the reasons for choosing different methods of procurement.

Improving access to policy and guidance material

Through their network of relationships with departments, agencies, the IT industry and other organisations, CCTA has gathered a broad range of pertinent information, for example, on:

- current use of GCat and Scat;
- IT supplier performance on projects;
- impact of policy changes on departments' IT processes;
- IT skills shortages and availability; and
- IT training and development options.

This information, however, is not widely visible at present and is not always used to best advantage. The Government needs to find better ways of communicating it across departments and agencies and it needs to be kept up to date and made readily accessible to project teams and other Government stakeholders.

The current funding arrangements for CCTA require that they charge for many of the guidance materials and support services they offer departments and agencies. Although the total value may be relatively small, for example when compared against departments' total IT spend, the principle of charging is counter-productive in that it discourages organisations from making best use of available information.

CCTA's future status and relationship with the Office of Government Commerce (OGC) will be reviewed during OGC's first year of operation. This review offers an opportunity for Government to consider how to make best use of all the information that is currently available.

Improving compliance with best practice guidelines

There is concern that best practice guidance and recommended methodologies, processes and procedures, are often viewed as optional by departments and agencies. The Cabinet Office recognise that central guidance and advice cannot be universally prescribed; there will always be circumstances in which departments need to apply their own alternatives but the onus should be on them to justify any non-standard approach. One way to achieve compliance would be for the Government to declare certain key processes and/or methods mandatory. Any department or agency choosing not to use these would then be required to justify their alternative approach.

Government needs to carry out an audit of existing policy and guidance on procurement and should produce a consolidated set of material for project management and the procurement of IT.

The audit should:

- take account of current HM Treasury and Cabinet Office published statements and CCTA guidance;
- withdraw material that is no longer in step;
- consider how best to communicate policy and guidance and make best use of electronic facilities; and
- identify new material that is needed.

The consolidated material should:

- identify the range of procurement options available;
- indicate the circumstances in which each option is appropriate (i.e. according to the nature of the IT requirement);
- address the distinction between long- and short-term requirements;
- provide signposts to appropriate guidance and legislation; and
- clearly identify processes that are viewed as mandatory across Government.

OGC should audit existing policy and guidance on procurement and produce a consolidated and unambiguous set of material for IT, making it clear which elements are mandatory. This should be made available online and at no cost to Government users. The work should be completed by October 2000.

Relationships between departments and suppliers

Procurers of successful projects, IT suppliers, management consultancies and academics all cite effective communication between client and supplier as a major factor in achieving success in the delivery of complex projects.

It is essential that departments and agencies take an active approach to project management and business continuity planning throughout the lifecycle of the project, irrespective of the type of procurement undertaken. It is evident that on some PFI and outsourcing contracts, departments and agencies have failed to recognise the need to maintain an active role after contracts are signed. All parties need to be clear about their responsibilities in relation to all the key activities at the outset and throughout the project.

Evidence

A large, business-critical system was procured using PFI. Failure at the outset by the purchaser and the supplier to agree roles and responsibilities, or a mutually acceptable management structure, hampered the progress of the project and caused serious diversion of management effort, with damaging consequences.

There are several examples in Government where openness about problems has come about only when there is a serious crisis. Supplier and client have been forced to pull together to resolve issues and, even then, this may not have happened for some time. In instances like these, the relationship between supplier and client may become so strained that a deep mistrust will exist and litigation may be threatened or actually come about.

Evidence

A PFI contract encountered problems when poor technical work from a subcontractor was noted by the purchaser. However, the contractual relationship did not allow an open discussion of possible resolutions between all the parties involved, despite the critical importance of the problem to the project.

One type of procurement arrangement that is increasingly common in Government is partnering, where a department or agency commits to a long-term relationship with a supplier for ongoing services and new development work.

A central government agency has entered into a long-term partnering arrangement with a major supplier. Two aspects of the agreement overtly address the nature of the relationship between client and supplier from the outset:

- team-building events with suppliers and the agency have been arranged to accelerate their ability to work together; and
- the payment arrangement requires the supplier to propose IT-supported business process improvements. In this way, the supplier is encouraged to be innovative and is given an opportunity to understand the organisation better, helping them to form useful proposals.

A major partnership contract with one government department explicitly provides for mechanisms to allow the sharing of information: open book accounting, profit sharing and dispute resolution procedures. In addition to these contractually guaranteed mechanisms, conscious effort is put into maintaining a transparent and productive relationship. A senior official is assigned the specific role of relationship manager, with a brief to monitor the relationship, and the department has regular meetings with the supplier's board, for raising issues at the highest level.

In order to forge a long-term relationship, a utility company called on its consortium of three IT suppliers to reduce the utility's costs by 20% per year for three years. The consortium would subsequently receive a half share of any further savings made by the utility.

There are a number of mechanisms available that will facilitate communication and encourage co-operation between the procuring department or agency and their suppliers.

Mechanisms appropriate to all types of procurement

- Jointly agreed and documented change control processes, which focus on issues, impact assessment and reducing residual risks; ways of avoiding 'informal' changes that allow agreed control processes to be circumvented; and fast-track processes for identifying significant changes that need to be referred to, and approved by, senior management on both sides.
- Ways of sharing information in confidence, if a framework contract already exists, when innovative supplier solutions could bring mutual advantages.
- Tender evaluations that include a consideration of whether suppliers have a track record of openness.
- Ways of sharing contingency plans between suppliers and clients.
- Methods of ensuring that contractual commitments made at tendering stage regarding the specific skills and staff required are honoured when the project commences. Senior Responsible Owners (SROs) and supplier account managers, or their equivalents, should be responsible for overseeing these commitments and making sure that changes of key staff are not made without the consent of the other party.

Mechanisms to be considered for 'partnering' procurements

- The agreement of shared goals by top management in both the department or agency and the supplier organisation. The communication and understanding of these shared goals must go beyond their inclusion in contractual documents and be communicated to all involved in the delivery of subsequent projects.
- Producing a non-contractual 'charter' setting out agreed principles and signed jointly by top management of both organisations.
- Joint client/supplier team-building exercises, to be carried out at the earliest possible opportunity and at significant milestones throughout the project.
- Open-book accounting.
- Profit sharing.

Departments and agencies must ensure that they put in place processes that will actively encourage co-operation and an open dialogue between supplier and client. Projects already under way should immediately re-examine their communication mechanisms to ensure appropriate processes are in place.

Supplier plans

Once the procurement type has been established and the relationship between the client and supplier addressed, it is imperative to keep all parties to the project focused on ensuring that what is delivered meets the contracted specification (which covers the full needs of the business). The Cabinet Office have already recommended that departments should require detailed plans from suppliers and validate these against their own plans before signing new contracts or awarding further work under existing contracts. This recommendation is important for ensuring that suppliers understand precisely what they are expected to deliver.

The application of this discipline at an early stage in the procurement process, combined with a follow-up peer review will, over time, help departments to reduce the number of 'uncompetitive' procurements. This reduction will be achieved as a result of the increase in departments' willingness to take actions such as restarting a competition if they feel the requirements of a project will not be met.

The review of current projects undertaken during the course of this study has proved the value of subjecting suppliers' plans to ongoing examinations after contracts have been signed, in addition to applying pre-contract scrutiny.

Evidence

When examined during the course of this study, four central government projects, involving three departments, were shown to have solutions being developed that would not deliver the business benefits anticipated at the outset. In each case, had the suppliers' plans been examined and measured against the required business benefits at stages throughout the procurement lifecycle, the emergence of a significant gap would have been exposed.

Three major outsourcing projects examined in the course of this study had each agreed a number of set points in the procurement lifecycle when suppliers were required to produce plans for future stages of the development. The subsequent delivery of services was deemed to have been very successful in that they satisfied the agreed business requirements.

Before contracts are signed, suppliers must have produced a realistic plan, including timescales, resources and technology, for how they will deliver the outcomes being sought under the relationship. The same applies to evolutionary or modular phases within an existing contract. These supplier plans must be re-examined during the development stages of the project to ensure a close fit between business design, assurance and implementation intentions and the supplier activities concerned with developing the solution.

Guidance for departments on how to evaluate such plans should be developed, initially by HM Treasury Taskforce and then by OGC.

Supplier bids

The review encountered examples of underpriced or unrealistic bids from potential suppliers. In attempting to secure business in this way, suppliers have caused major problems for both themselves (low or negative profitability on delivery) and Government (poor service to the citizen). While the onus is always on Government to ensure that bids offer value for money and are realistic, it is ultimately in the supplier's best interest not to submit underpriced bids.

Evidence

The use of a fixed-price contract in one project meant that the requirement had to be reduced when the supplier's losses became too great. The price was shown to be far below actual cost. The supplier had also promised unrealistic target dates.

Other concerns

During the course of the review, departments and agencies expressed a variety of concerns about IT suppliers' approach to Government projects. The most common criticisms made of suppliers were:

- fielding a highly-skilled team of IT practitioners during the tender evaluation process but substituting weaker personnel after the contract had been awarded;
- being over-reliant on internal funding for large contracts and failing to consider third-party funding;
- managing sub-contractors ineffectively;
- failing to recognise or fully understand the business need behind the IT change;
- responding slowly to emerging difficulties; and
- not communicating well.

Supplier actions

The Cabinet Office believe IT suppliers must take the following actions if they are to improve the delivery of projects to Government:

- work with departments and agencies to ensure their proposed solutions meet business needs, not just technical or operational requirements;
- produce realistic plans, including financial, technical, personnel and communication plans, throughout the lifecycle of the procurement to ensure their activities continue to be in line with the business need;
- share information about problems at the earliest opportunity to ensure small issues do not escalate;

- agree processes at the start of the procurement that will actively encourage co-operation and an open dialogue between supplier and client; and
- ensure that they fully understand the requirements, their bids are realistically priced and the timescales they propose are achievable. (Government of course retains ultimate responsibility for assessment and acceptance of bids.)

The role of the Office of Government Commerce (OGC)

Although The Cabinet Office have seen examples of some departments approaching others to learn from their IT procurement experience, this is generally done on an ad hoc basis and is therefore of limited value in the development of a pool of experience and knowledge across Government.

The new OGC has a vital role to play in filling this vacuum and improving Government's strategic management of IT suppliers to promote better-informed procurement decisions. Central to this is the need to gather timely intelligence information and to make this available to departments and agencies. One of our early recommendations tasks the OGC with making IT suppliers its first priority.

OGC should continue to gather information about the top ten suppliers of IT to Government (by volume and value of business). The first set of intelligence data should be available by December 2000. The information gathered should include, for each supplier:

- the range of IT services supplied (as defined in the Project Profile Model)
- their recent performance with Government; and
- in time, their ongoing performance against recommendations.

There is broad agreement that there are several other issues on which the OGC needs to take action.

There is concern that some of the major suppliers in the industry are not active in the Government IT marketplace and that this has generated an over-reliance on the suppliers who are. Equally, there is evidence that Government is not making best use of second-tier and small to medium-sized enterprises (SMEs), particularly in supporting smaller departments and agencies or providing innovative approaches.

Government needs to find ways to stimulate the technical innovation that will be needed to deliver the e-government Strategy and to consider the issues surrounding Intellectual Property Rights (IPRs) that could hinder its progress. Under some recent procurement contracts, IPRs for the software developed remain with the supplier and are licensed back to the department or agency (with a view to reducing overall cost to Government). However, this may not be the most cost-effective solution where subsequent changes of use are envisaged and this is increasingly likely to be the case as departments and agencies modify their systems to improve interoperability across Government.

Government also needs to find ways of balancing the time lapse between the start of procurement and the award of contract with the associated costs incurred. The Cabinet Office have seen good examples where a proof-of-concept phase has been used to test the validity of an approach before either department or supplier is committed to the costs and effort associated with a full procurement. While this can increase the length of time before a contract is awarded, it can reduce procurement costs and improve the quality of the final solution.

This is an extract from "Major IT Projects Review. Successful IT: Modernising Government in Action. Section 7 - Procurement and Supplier Relationships" - published by the Cabinet Office, Central IT Unit.

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