Colin Cram FCIPS

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Content

1. Background to UK Government Outsourcing
2. History of Outsourcing
3. Case Studies
4. Lessons and Principles
Significance

• Illustrates how Government works (and sometimes how it doesn’t)
• Illustrates how difficult it is to achieve change
• UK experience has had major impact on other countries
• Important topic - many potential benefits
  - many risks
• Right results, wrong reasons
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• Director: Research Councils’ Procurement Organisation
• Director: Research Councils’ Purchasing Consortium
• Head of Research Equipment Affinity Group (for Universities)
• Head of Inter-departmental Group on Purchasing for Research and Development
• Member: CIPS Contracts Management Committee
  CIPS Council
  CIPS Purchasing Advisory Network
  Universities Committee on E-Procurement
  Universities Best Practice Procurement Group
  EURIM Chair Procurement Committee
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Background

- Meteorological Office
- Customs and Excise
- Cabinet Office
- H M Treasury
- Central Unit on Purchasing
- Department of Social Security
- North Western Universities Purchasing Consortium
- Research Councils
Background to UK Government Outsourcing
Tiers of Government

- Government Departments
- Agencies
- Non-departmental Public Bodies
- National Assemblies
- Local Authorities:
  - County Councils
  - Local Councils
- National Health Service
- Police
- Other

} Civil Service & Defence
Involvement of Private Sector

- Privatisation – Whole Business
- Contracting Out – Support Operations
- Private Finance Initiatives – Service Instead of Capital Investment
- Agencies – Wider Market Initiative
- Partnerships: Public Private
- Best Value – Local Authorities
Privatisation

- Rail
- Utilities – Gas, Electricity, Water, Telecoms
- Her Majesty’s Stationery Office
- Defence Research Agency (DERA)
- Air Traffic Control

Selling a business
Recent Contracting Out

- Prisons
- IT
- Estates
Private Finance Initiatives

- Prisons
- Hospitals
- IT
- Roads
- Schools
History of Outsourcing
Iron Age Settlements
The Roman Empire
Roman London
Saxon Settlements
The Bayeux Tapestry
Field of Cloth of Gold
The British Navy

Pirates!
Toll Roads

Private Canals
The Napoleonic Wars

Railways
Private Sector Involvement

- AD 50+ Roman army builds roads
- AD 100 Roman army in Dorset contracts out pottery
- AD 1100 Land in return for military service (Feudalism)
- AD 1520 Field of Cloth of Gold
- AD 1530 Start of British Navy
- AD 1588 Pirates!
- AD 1750 Toll roads (Turnpikes)
- AD 1780 Private canals
Private Sector Involvement

- AD 1799  Income Tax
- AD 1830  Private railways
- AD 1870  State education
- AD 1915  Breweries nationalised!
- AD 1930s  Nationalise transport and heavy industry
- AD 1945  Health Service
- AD 1900s  Growth of Social Services
# Growth of Central Government

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of ‘Civil Servants’</th>
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<tr>
<td>900</td>
<td>1,000+</td>
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<tr>
<td>1100</td>
<td>1,500</td>
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<tr>
<td>1500</td>
<td>3,000</td>
</tr>
<tr>
<td>1780</td>
<td>17,000 (Robbie Burns)</td>
</tr>
<tr>
<td>1870</td>
<td>50,000</td>
</tr>
<tr>
<td>1890</td>
<td>70,000</td>
</tr>
<tr>
<td>1914</td>
<td>282,000</td>
</tr>
<tr>
<td>1939</td>
<td>350,000</td>
</tr>
<tr>
<td>1945</td>
<td>500,000</td>
</tr>
<tr>
<td>1976</td>
<td>748,000</td>
</tr>
<tr>
<td>1996</td>
<td>500,000</td>
</tr>
<tr>
<td>2001</td>
<td>501,000</td>
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</table>
Public Sector Ownership

Put it into perspective

![Diagram showing the growth of government ownership from AD 0 to AD 2000]

- Government Ownership Important
Conservatives Win Election

1979 – Margaret Thatcher is Prime Minister

Radical or Reactionary?
Reduce Size of Civil Service

1981 – Solution: Contract Out

- Catering
- Cleaning  } target 100% by 1985
- Security Guarding
- Typing

Playing with numbers?
1985

- Little Progress
1985

• Minimising Stockholding Costs: Report into Commercial Practice
• Outsourcing Non-Core Activities
1985

• Central Unit on Purchasing
1986

- Competing for Quality Mark 1
- Invention of “Market Testing”
1988

- Next Step Agencies
- Introduce Greater Commercial Focus
- Another Way of Reducing Civil Service Numbers
- First Privatisations (BT, British Airways, Rolls Royce)
1991

- Compulsory Competitive Tendering in Local Authorities Proves a Qualified Success
Major Benefits!

- Clear Service / Business Objectives
- Reduced Costs
- Released Initiative
- Use of External Expertise / Business Practices
- Properly Costed Services
- Clearer Specifications
- Better Quality
- Enables Focus on Core Activities
1991

- John Major becomes Prime Minister
- Boost to Privatisation
- Competing for Quality Mark 2
- Forces Recognition of Importance of Contracting
- First Big Next Step Agencies
1995

- Setting New Standards
1997 – Tony Blair PM

- 1997: Best Value – Local Authorities
- 1998: Selling Government Services into Wider Market
- 1998: Modernising Procurement
- 1999: Gershon Review
- 1999: Bates Report
- 2000: Office of Government Commerce
- 2000: Partnerships UK

Result

- Raising Professional Standards
- Impetus to PFI
- Move to Greater Central Control of Purchasing
- More Private Sector Involvement
- Less Dogmatic on Contracting Out
- Construction
- Project Management
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1979</td>
<td>Margaret Thatcher</td>
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<tr>
<td>1981</td>
<td>First Outsourcing</td>
</tr>
<tr>
<td>1987</td>
<td>First Privatisation</td>
</tr>
<tr>
<td>1988</td>
<td>Next Step Agencies</td>
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<tr>
<td>1991</td>
<td>Private Public Initiatives</td>
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<tr>
<td>1993</td>
<td>First Big Outsourcings</td>
</tr>
<tr>
<td>1998</td>
<td>Public Private Partnerships</td>
</tr>
<tr>
<td>2000</td>
<td>Partnerships UK</td>
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</tbody>
</table>

Next Step Agencies Take-off
### Evolution of Purchasing

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1979</td>
<td>Mechanical Purchasing</td>
</tr>
<tr>
<td>1985</td>
<td>Central Unit on Purchasing</td>
</tr>
<tr>
<td>1991</td>
<td>Private Finance Initiative</td>
</tr>
<tr>
<td>2000</td>
<td>Increasingly Strategic</td>
</tr>
</tbody>
</table>

**RCPO**

*Research Council Procurement Organization*
## Top 10 Government Suppliers

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Total Spend (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consignia</td>
<td>800</td>
</tr>
<tr>
<td>Trillium / Land Securities</td>
<td>400</td>
</tr>
<tr>
<td>EDS Ltd</td>
<td>300</td>
</tr>
<tr>
<td>Siemens</td>
<td>200</td>
</tr>
<tr>
<td>Sema Group</td>
<td>150</td>
</tr>
<tr>
<td>Carillion</td>
<td>130</td>
</tr>
<tr>
<td>Costain</td>
<td>120</td>
</tr>
<tr>
<td>Group 4</td>
<td>110</td>
</tr>
<tr>
<td>ICL / Fujitsu</td>
<td>100</td>
</tr>
<tr>
<td>Mediavest Ltd</td>
<td>80</td>
</tr>
</tbody>
</table>
# Top 10 Government Commodity Areas

<table>
<thead>
<tr>
<th>Commodity Area</th>
<th>Total Spend (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management, Business Professionals &amp; Administration</td>
<td>3,100</td>
</tr>
<tr>
<td>Highway, Street or Road Construction</td>
<td>1,100</td>
</tr>
<tr>
<td>Transportation, Storage &amp; Mail</td>
<td>1,100</td>
</tr>
<tr>
<td>Building, Construction &amp; Maintenance</td>
<td>1,000</td>
</tr>
<tr>
<td>Research &amp; Science Based Services</td>
<td>1,000</td>
</tr>
<tr>
<td>Editorial, Design, Graphic &amp; Fine Art Services</td>
<td>700</td>
</tr>
<tr>
<td>Labour Training &amp; Development</td>
<td>700</td>
</tr>
<tr>
<td>Communications &amp; Computer Equipment</td>
<td>600</td>
</tr>
<tr>
<td>National Defence, Public Order, Security &amp; Safety</td>
<td>400</td>
</tr>
<tr>
<td>Healthcare Services</td>
<td>300</td>
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</tbody>
</table>
Best Value - 1997

Local Authorities

- Compulsory Competitive Tendering ➔ Best Value
- Lowest Price ➔ Clear Objectives
Best Value: Summary

• Best Value is tackling the things that matter
• Best Value is changing the way Councils do business
• Good management needs good procurement
• Innovation in services needs innovation in procurement
Best Value: Tackling the things that matter to local people

Good refuse collection 60%
A ‘tidy’ locality 46%
Good libraries 32%
Clean streets 31%
Well repaired roads 20%
Best Value: Changing the ways Councils do business

- Procurement as part of every review
- Better Project Management
- More Partnerships
- E-Services, E-Government, E-Procurement
- More complex and valid procurement methods
Best Value: Tackling the big themes in public services...

- Building prosperous local economies
- Giving children a good start in life
- Making the place attractive, clean and green
- Tackling crime and making people feel safe
- Delivering good health and care services
- Celebrating all the communities’ cultures
Case Studies
History of Private Sector Involvement in Department of Social Security (DSS)

A Radical Experiment!
Department of Social Security

90,000 Staff

£3,000m  Running Costs

£1,500m  Purchasing Spend
1987

Review of Potential for “Market Testing”

- Cleaning
- Security
- Printing
- Catering
- Publishing
- Audit
1989

- Working Party to Examine Market Testing
A Radical Experiment

1991

• Next Steps Agencies: Major Boost
• DSS Split into:
  ▪ Benefits Agency
  ▪ Contributions Agency
  ▪ Information Technology Services Agency
A Radical Experiment

1991

• Benefits Agency Management Board recruited from outside Civil Service
A Radical Experiment

1992

• Benefits Agency Develops Market Testing Implementation Plan:
  ▪ Audit
  ▪ Publishing
  ▪ Office / Building Services
  ▪ Catering
  ▪ Printing
  ▪ Debt Recovery
  ▪ Fraud Investigation
A Radical Experiment

1993 / 1994

• Accommodation and Office Services (£100m)
• Internal Audit In-House

1995

• BA Publishing – Privatised
• Printing – In-House
• IT Processing Centres – Privatised

1996

• “PRIME” Project Conceived
• Child Benefit Centre Project Started
• “ADAPT” Conceived and Started
A Radical Experiment

1997
- IT Services – Privatised

1998
- “PRIME” Completed – Consortium Bid
- BA Medical Services – Outsourced
- Child Benefit Centre Project Cancelled
Prime Outsourcing

of DSS Estate in Biggest Estates

Outsourcing in UK

£1,500m
Why Prime?

- Estate Often Unsuitable
- Much Unused Space
- No Development Funds
- Little Estates Management Expertise
- Expensive to Run
- Inflexible Accommodation
1995

- Studies Abroad
- Identifying Interest
- Development of Objectives / Plan
1997

- Consortia Formed:
  - Construction
  - Service
  - Finance
- Expressions of Interest
- Shortlist
- Final Selection
- Completion of Negotiations
April 1998

- Hand Over Estate
Benefits

To BENEFITS AGENCY:

• Immediate Cash
• Upgrading of Estate
• Service Quality Guaranteed
• Potential to Reduce Estate
• Incentive for Suppliers to Reduce Energy Costs
• Overall Cost Savings
Benefits

To SUPPLIER:

• Commercial Use of Estate
• Potential for Redevelopment
• Profit
Accommodation & Services

Accommodation and Office Services

£100m Annually

35 Contracts
Office Functions

Office Functions included in FM Exercise:

- Cleaning
- Typing
- Catering
- Security Guarding
- Post Opening
- Messengerial Services
- Porterage
- Reception
- Storage of Leaflets & Forms
- Accommodation Tasks
- Purchasing of Services & Office Supplies
Accommodation & Office Services

Issues:

- High Contracts Management Costs
- Procedural Specifications
- Inconsistency
- Unsatisfactory Supplier Performance
- Unhappy Suppliers
Accommodation & Office Services – Why?

• Timescales too short
• Inputs not Outputs
• Specifiers:
  ▪ Over anxious
  ▪ Tried to keep previous method of operating
  ▪ Different cost options not explored
• Failure to use market expertise
• Lack of understanding of service developments
• BA Geographic Areas not suited to market
• Different specifications for different contracts
• No strategic approach
Accommodation & Office Services

Solution:

• Develop Solutions with Suppliers
• Introduce Outcome Specifications
• Standardise
Expected Benefits

Benefits Agency:

- Further Cost Reduction £7m
- Reduced Contracts Management £1m
- New Technology
- Quality
- Real Customer Needs Met

Suppliers:

- Showcase Contracts
- Acceptable Profits
ADAPT Project

• Benefits Agency
• Partnership between Public and Private Sector to deliver modern Social Security System
ADAPT Project

Costs of Administering Social Security
= £3,000m Annually
Two Stage Competition

- Select three Business Partners to identify better ways of service delivery
- Business Partners to propose formally how BA’s service can be delivered more effectively
Proposals to include:

- Investment in Information Technology
- Transferring parts of business to Private Sector
- More *efficient* systems and ways of working
Progress To Date

Ministers backed off
Lessons and Principles
Major Outsourcing/Privatisations - can go disastrously wrong

Success Factors:

- Understand Business to be Outsourced
- Need Clear Objectives – agreed at outset
- Developed Supplier Base (incl. potential for supplier consortia)
- Involvement of Suppliers / Understanding of Private Sector
- Clear Execution Plan
- Modular Approach
- Excellent Project Management
- Must be Seen in Context of Overall Outsourcing Strategy
- Strong Independent Audit
- Accountability
- Sensible Timescale
Major Outsourcing/Privatisations - can go disastrously wrong

Failure Factors:

• Political Fudge – Unclear Objectives
• Internal Politics
• Loss of Nerve
• Unrealistic Expectations of Private Sector
• Too Much Haste
• Inadequate Business Analysis
• Retention of Existing Poor Management
• Too ambitious
• Lack of Success Factors
BEWARE!!

- Low Skilled Services – benefits mostly from lower wages
- IT Companies Can Take You Over
- Political Expediency
- Over-Confident Suppliers
- Over-Ambition
**MUST HAVE!!**

- Strong Supplier Base
- Competition
- Contracting Expertise
- Strong Probity Controls
- Consistent Support From The Top
- Clear Performance Measures
- Time
Outsourcing/Private Sector Involvement

- Business Objectives
- Political Objectives
- Realistic Timescale
- Availability of skills
- Analysis of spend
- Analysis of supply market
- STRATEGY
- Practical Programme
Develop Strategic Plan

Vision

Mission

STRATEGY

INITIATIVES

Enablers / Infrastructures / Resources
Reduce Risk (1)

Retain Some In-House Expertise
Reduce Risk (2)

Size of Supplier
Competition
Amount of Spend
Expertise Supplier / Customer
Difficulty / Complexity
Uniqueness
Dependence

SUPPLIER POWER

PURCHASER POWER

MULTI-NATIONAL
Reduce Risk (3)

SUPPLIER CAPABILITY

CUSTOMER CAPABILITY

HIGH RISK

MEDIUM RISK

LOW RISK
Reduce Risk (4)

Solution: Go Modular
Reduce Risk (5)

Prepare ‘Exit’ Strategy as part of Outsourcing Strategy
Reduce Risk (6)
Apply ‘Gateway’ Approach

0. Strategic Assessment
1. Business Justification
2. Procurement Strategy
3. Investment Decision
4. Readiness For Service
5. Benefits Evaluation
Good Contract Management

Contracting – A Total End-To-End Process
Contracts Management

LONG TERM

<table>
<thead>
<tr>
<th>Market Conditioning</th>
<th>Need Identified</th>
<th>Contract Let</th>
<th>Contract Starts</th>
<th>Re-Tendering Starts</th>
<th>New Contract</th>
</tr>
</thead>
<tbody>
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</table>
Poor Contracts Management

Consequences of Poor Contract Management:

- High Contracts Management Costs
- Unsuitable Service
- Unsatisfactory Service
- High Contracts Costs
Good Contracts Management

- Outcome Specifications
- Performance Not Procedural
- Contractors Provide Data
- Monitor Only Key Outputs
Good Contract Management

• Buy-in by Internal Customers
• Managing Internal Customers
• Outcome Specifications
• Resources
• Should be done by Personnel who let Contract
• Mutual Respect between Supplier and Purchaser
• Right Supplier
• Contracting – a Total End-to-End Process
• Reputation for Professionalism
Personnel Who Let Contracts

• Have Developed Relationships with Key Supplier Personnel
• Understand Specifications and Products
• Understand how Suppliers Operate
• Understand Contract Structure
• Have a Vested Interest in Getting Contract Right First Time
Key Obstacles

Key Obstacles to Good Contracts Management:

• Internal Politics
• Insecurity
Thank You!
Next slide is merely for printing to replace slide 38
Private Sector Involvement in Central Government

- 1979: Margaret Thatcher
- 1981: First Outsourcing
- 1987: First Privatisation
- 1988: Next Step Agencies
- 1991: Private Public Initiatives
- 1993: First Big Outsourcings
- 1998: Public Private Partnerships
- 2000: Partnerships UK