

Procurement Policy Note – ICT Contracts less than £100m

Information Note 02/12 30 March 2012

Foreword by the Minister for the Cabinet Office, Francis Maude

The Government believes that business is the driver of economic growth and innovation, and that we need to take urgent action to boost enterprise and build a new and more responsible economic model. We want to create a fairer and more balanced economy, where we are not so dependent on a narrow range of economic sectors, and where new businesses and economic opportunities are more evenly shared between regions and industries. This guidance is founded on a desire to minimise the risk around high value contracts and ensure that Government always seeks the best possible value for money when procuring large ICT contracts.

In the Coalition Programme the Government made a commitment to promote small business procurement in particular by introducing an aspiration that 25% of government contracts by value should be awarded to small and medium sized businesses. To deliver this aspiration the Prime Minister and The Minister for the Cabinet Office announced, on the 11th February 2011, a far reaching package of measures to open up public procurement to small and medium sized enterprises. The Government ICT Strategy, published at the end of March 2011 outlined a new approach to ICT procurement that improves contract delivery timelines and reduces the risk of project failure, enables greater use of SMEs, a much shorter timescale and lower costs to all parties.

We will end the practice of attempting to cover every requirement in great detail and cover every legal eventuality in every project and contract, thereby increasing the procurement cost and timescales to all parties to unacceptable levels. We will do this by focussing on the 80/20 rule, simplifying to the core components of the requirements at every level and at every stage of a project.

This document sets out our Government policy on the presumption that individual ICT contracts or projects should be less than £100m lifetime cost.



Rt Hon Francis Maude MP

Issue

1. The Government wishes to reduce significantly the delivery risk of very high-value projects which use ICT to deliver their business objectives and also to achieve better value for money overall from its investment in those projects.
2. All future ICT projects will be designed from the outset with the presumption that they will have a total lifetime cost of less than £100m, unless a strong case can be made that doing so increases the overall cost to the taxpayer, notably increases the risk of failure or increases the security threat to the public body or Government as a whole.
3. The policy set out in this PPN complements Government's new approach to ICT procurement announced by Francis Maude on 9 March 2012: In future, government IT contracts will be more flexible, starting with two areas (application software and infrastructure IT). The Government is introducing set breakpoints in IT contracts so there is less money locked into large lengthy contracts. The Government will look to disaggregate future contracts and deliver more flexible, cheaper solutions. This opens up opportunities for SMEs and reduces the cost to taxpayers.

Timing and Scope

4. This guidance takes effect from 1st April 2012 and applies to all central government departments, their agencies and non departmental public bodies.

Dissemination

5. Please circulate this Procurement Policy Note (PPN) within your organisation, agencies, non-departmental public bodies (NDPBs), and any other bodies for which you are responsible, drawing it to the particular attention of those with a purchasing role.

Contact

6. Please direct your response and any general enquiries to the Service Desk: 0845 000 4999 servicedesk@cabinet-office.gsi.gov.uk .

Background

7. The £100m threshold relates to all ICT contracts or projects where the total value over the life of the contract exceeds £100m regardless of how the contract is funded. It includes frameworks as well as individual call offs from frameworks. A case may be made for exemption from this policy on the grounds of national security or continuity of a critical Government service. Based on this, the policy aims are as follows:
 - To reduce the risk of single supplier failure within a large project;
 - To increase competition and innovation by enabling more suppliers to bid and take part in projects, thereby increasing value to the taxpayer;
 - To procure contracts in a way which ensures maximum possible benefit to the maximum number of parties - for example, ensuring that infrastructure/services which are procured can be used by more than one department.

Next Steps

8. To implement this policy Government will improve the acquisition of services, technology and outsourcing activities to ensure maximum value for money through the existing ICT Spending Control process. This will be strengthened to take account of the following approaches.

Encouraging re-use of existing resources

9. We will encourage departments to:

- 9.1 Review all options available elsewhere in Government before any procurement activity is undertaken, to ensure that their needs cannot be met 'in-house'. This approach may not offer a complete solution, but may offer savings on elements of the overall programme - for example; sharing space in an existing data centre, rather than buying from new.

- 9.2 Ensure their finance directors, procurement directors and chief information officers (or equivalents) approve and verify that, before any procurement is started and concluded, they have satisfied themselves that what is being proposed by suppliers maximises re-use of government assets in the first instance, where feasible, and conforms to all other Government ICT strategies and policies such as open source and open standards.

- 9.3 Ensure that their procurement processes support the Government's overall approach to ICT policies and standards and achieve business requirements; and that products and services procured are aligned to meet Government requirements and standards in the medium-long term.

Improving the way in which we procure goods

10. In parallel we will work to:

- 10.1 Ensure that government becomes an intelligent and capable customer able to manage such procurements and on-going project management in-house as well as ensuring we hold each other accountable for delivery to time, budget and quality.

- 10.2 Encourage and facilitate multi-departmental procurement of products and services to ensure further standardisation and simplification, and to drive down overall costs through higher volumes. There may be cases where it can be justified to deliver better value for money through a multi-departmental procurement, even if it is above the £100m threshold.

- 10.3 Reduce the complexity of projects for ICT suppliers and costs to them and the taxpayer, by ensuring all contracts are procured on the basis of accessibility and reusability for the whole public sector.
- 10.4 Through applying a “Lean” approach to the procurement process, we will significantly reduce the cost and time of procurement activities. We will also look to simplify terms and conditions, standardise contracts and processes and use common pricing/benchmark rates.
- 10.5 The appointment of ‘Crown Representatives’ to improve the way that Government deals with its major suppliers, will ensure that Government receives the best value for money, by ensuring that the Government acts as a single customer. They will maintain oversight of significant new contract awards to key suppliers, using their knowledge of a supplier’s performance across its portfolio of contracts with central government to feed in, where appropriate, to the negotiation/procurement process involving these suppliers.

Encouraging greater competition and innovation

11. The procurement approach we will adopt will:

- 11.1 Use evidence to determine the optimal contract size and specification which will optimise value for money. This will require early market engagement with large, medium and small suppliers.
- 11.2 Ensure value for money, competition and innovation by ensuring that small and medium sized enterprises (SMEs) are freely able to bid. Ensuring that any procurement process we use does not unnecessarily exclude them due to price, risk or resource associated with bidding activity. This includes reviewing our criteria and evidence required as part of the contract award process for items that might be relevant to a large company only. However, SMEs will be treated no differently in evaluation of capability, financial stability, or their ability to provide ongoing support, etc.
- 11.3 Ensure visibility of innovation and encourage mass purchasing of solutions available from both within the public sector and the private sector by creating a quality assured Government Cloud based procurement vehicle for Government, which enables all sizes of organisations to showcase their products, services, solutions etc. This service would also enable government to market and sell any unwanted assets it might own.

- 11.4 Encourage and maximise the use of Open Source/Open Standards whenever possible and where it represents a value for money solution, allowing department to re-use code, designs, templates etc. ensuring that work is not duplicated.

Constructing contracts and projects in a different way

12. In order to fulfil this policy's clear objectives of de-risking projects and achieving maximum value for money, it is likely that departments will need to construct projects and resultant tenders in a more modular and flexible way, with a greater link between core business needs and specified requirements. For example:
 - 12.1 Create explicit development feedback "loops" between policy makers and those responsible for implementation;
 - 12.2 By reducing contract lengths but taking into account the need to retain knowledge and expertise;
 - 12.3 Separating out client side consultancy support from the project;
 - 12.4 Purchasing consultancy on the basis of delivering clearly specified outcomes and outputs with defined time-limits;
 - 12.5 Separating out the purchase of hardware, software and often commodities from the bid. This can be done separately through framework contracts and commodity purchasing;
 - 12.6 Ensuring that telecommunications are removed from scope as Public Sector Network (PSN) is mandated and can be purchased separately;
 - 12.7 Removing the design and building of additional data centres;
 - 12.8 Separating out business change, this should be done by the department in-house or under a separate contract;
 - 12.9 Contracting live services/Business Process Outsourcing (BPO) operations separately as they are out of scope;
 - 12.10 For bespoke software development, software should be divided into discrete functions. Capable, stable and financially secure SMEs and larger organisations should be invited to bid. An integration supplier could act as the integration partner within a transparent supply-chain structure.

12.11 Build up the required calibre of skilled civil servants who can manage complex projects.

12.12 An example project for a desktop refresh of 10,000 users:

- A separate e-auction/commodity procurement of 10,000 devices;
- The winning supplier will load on a government approved operating system, with no customisation or design requirements. The operating system will be purchased directly by Government under a Crown deal;
- The winning supplier will then load onto the operating system one of a series of desktop office software packages, again purchased by Government under a Crown deal;
- A supplier will then be selected to handle application porting onto the new environment, potentially with a support and/or live services contract.

The Benefits

13. Positive benefits as this policy is adopted should include:

- A reduction of temptation to 'Gold Plate' projects as this is likely to exceed the £100m total value;
- An overall reduction in the risk of over complicating projects, thereby increasing the probability of success;
- An increase in contracts being let to individual companies rather than consortia, thereby minimizing layered integration risk and costs and at the same time increasing transparency;
- A reduction in the ability of parties to transfer inappropriate risk to the supply chain without visibility to the project owner;
- A greater sharing of contracts around the supplier market and increased numbers of qualifying bidders;
- A reduced risk of paralysis due to single failure of a supplier on a project;
- Lower individual contract procurement costs; and
- Reduced overall costs as suppliers factor in less risk premium.

The Implications

14. There are also some implications that flow from this policy. They include:

- Integration risk retained by the public sector which might increase risk of failure. This will need to be managed which might increase departmental costs as they develop this capability;
- A potential reduction in benefit from economies of scale within individual contracts, offset by more innovation, competition and greater benefits of scale from frameworks and commodity procurement for the whole of government;

- An initial potential increase in overall procurement costs due to larger numbers of suppliers bidding. This will be offset by suppliers having to bid for fewer components as the effects of Crown deals, commodity procurements and common ICT infrastructure take effect; as well as a faster procurement process
- Increased requirement for an intelligent customer function and associated costs;
- A greater number of potential points of failure and supplier to supplier litigation as more suppliers are used, but offset by a greater ability to replace suppliers;
- Increased contract management costs until this policy is embedded as business as usual;
- A shortage of public sector capability in the range of expertise required to deliver this new approach that could lead to project failures;
- Greater risk of failure of small suppliers where they are reliant mainly on one contract, and
- A potential risk that departments may choose to use a number of suppliers to mask the overall cost of a project.