

DECC Procurement Strategy

July 2012

Context

1. The Department of Energy and Climate Change (DECC) works to power the country and protect the planet and it is responsible for all aspects of UK energy policy, and for tackling global climate change on behalf of the UK. DECC exists to head off two risks – catastrophic climate change and a shortfall in secure, affordable energy supplies and it does this through four main policy areas: save energy with the Green Deal and support vulnerable consumers; deliver secure energy on the way to a low carbon energy future; drive ambitious action on climate change at home and abroad; and manage our energy legacy responsibly and cost-effectively .
2. In working towards these aims DECC has an annual budget of about £1.4 billion, excluding its NDPBs, and in 2010-11 spent £188millions, with suppliers, contractors and service providers, excluding grants. This represents a procurement spend of more than 12% of its Departmental Expenditure Limit Budget. The department employs about 1600 staff, including analysts, scientists, policy advisers and business specialists. DECC operates on a de-centralised procurement basis with a small team of specialist purchasing staff who were extracted from a shared services agreement with BIS and Defra in December 2010; the function is located in the Finance Directorate.
3. The development of this strategy creates the opportunity to refocus and to enhance procurement activity and to integrate and strengthen the function and its impact across DECC.
4. Whilst the strategy applies to the central Department we will convene an NDPB forum to share our strategy and best practice and to drive the Government Procurement Agenda. However a key deliverable of the central department will be ensuring that the NDPBs increase their spend under management with Government Procurement to meet the targets set by Her Majesty's Government Chief Procurement Officer.
5. On 26 April 2012 the Minister for the Cabinet Office announced the next steps in implementing the Government's radical and ambitious programme to ensure that the huge purchasing power of the public sector is used to support growth. This programme of reform is designed to support growth and UK businesses, including SMEs and this strategy will address this.
6. As part of the Reform Strategy, in December 2011, PEX approved Government Procurement Reform commendations as a result of which the following initiatives are being implemented
 - Strategic Procurement Project Support (SPPS); a central Cabinet Office resource of high quality, senior procurement professionals with experience and credibility, backed up by panels of interims and niche market consultants, for use on a cost recovery model by Departments in their high risk:high value programmes and projects.
 - Consolidation arrangements amongst smaller departments;12 smaller Departments (starting with DfE and DECC) to work together to share capacity and resource to support sector-specific procurements; the consolidated pool will add strength and depth to the procurement capacity and to the competence and resilience of the consolidated small departments.
 - GPS are managing, on behalf of all Central Government Departments and their ALBs the 9 categories of spend that are common. DECC are fully committed to putting all relevant spend through these contracts and have been given a target of 10% of all commercial spend to become spend managed by GPS through these agreements.
 - GPS2; an expanded service to provide Category Management for the common goods and services bought by many departments. The service offered will include consultancy and transactional sourcing (e.g. mini competitions from frameworks, spot buying at low levels, eAuctions) and services will be chargeable by levy.

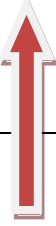



Vision for this Strategy

7. DECC's procurement activity and the procurement function should:
 - Support DECC to get the most it can out of the public money that it spends on the goods and services used to meet the business objectives; this includes the whole-life costs of those goods and services and ensuring that they make a contribution to DECC's overall objectives
 - Support DECC by ensuring that procurement activities comply, align and integrate with legal requirements, with cross government initiatives, and with best practices
 - Ensure that DECC is fully informed about its expenditure on goods and services and can respond to requests for data and analysis
 - Inform and develop suppliers and markets so that they are able to respond to DECC's requirements
 - Develop and deploy skilled resources in support of its work

The Procurement Strategy

8. Procurement means the acquisition of goods and services, and in the public sector, the term includes maximising value for public money, taking into account the requirements for quality, the initial and long term costs and risks, the business objectives and any wider policy requirements, such as sustainability and ethical perspectives. For the purposes of this strategy, the term 'procurement activity' means all the activity across DECC to acquire those goods and services, whether or not the specialist procurement team is involved; and the term 'procurement function' refers to the work and resources of that team.
9. This strategy sets out what DECC should expect from its procurement activity and from the function and indicates how it will achieve it. It gives the direction and impetus which is then further set out in detailed guidance such as the Procurement Code, in Letters of Delegation and in day to day operational work.
10. The strategy builds on the systems, processes and resources already in use in DECC, and it seeks to strengthen and reinforce them so that procurement in DECC is more effective, and the procurement function has a higher profile and greater impact.
11. This strategy is set during a period of significant change for DECC, for the procurement function and for the public sector in general and it is intended to be reviewed after March 2015.
12. The strategy directs that resource should be applied where it can have most impact, and impact is generally seen in terms of risk and value. Risk should be assessed in accordance with the DECC standard operating model for Risk Management. Value can be seen in monetary terms or as an intrinsic value, such as results or achievements. The following model indicates how risk and value interact. For the purposes of this strategy, value is monetary and the cutover is set as £113,000 (the threshold sum for EU procurement regulations, which varies in accordance with £:EU exchange rates)

Risk : Value Segmentation model

 Risk	Low Value / High Risk BOTTLENECK <ul style="list-style-type: none"> • Specialist providers • Business critical work • High barriers to entry • Complex to manage 	High Value / High Risk STRATEGIC <ul style="list-style-type: none"> • First of a kind • Major programmes and projects • Impacts directly on key DECC deliverables • Complex 		
	Low Value / Low Risk ROUTINE/COMMON <ul style="list-style-type: none"> • Common or Routine requirements • Number / scale difficult to manage 	High Value / Low Risk LEVERAGE <ul style="list-style-type: none"> • Potential medium impact to DECC deliverables • Abundance of suppliers so substitutes available • Frameworks 		
	Value			

- One of the key deliverables will be to analyse spend in each of the segments and plan how each will be supported either through self-service, Government Procurement Service or the consolidated procurement from DECC and DfE.
- Procurements in the **routine/common** segment must be directed towards the collaborative frameworks offered by the Government Procurement Service (GPS). Use of collaborative frameworks ensures good vfm and compliance; where none exist business groups should use the self service procurement tools available through the intranet. The role for the DECC procurement team should be minimal in this area. We will investigate options for electronic catalogues to simplify the process for the business.
- Procurements in the **bottleneck and leverage** segments will benefit from the involvement of the professional team at key stages to promote real competition, secure good long term value for money and ensure compliance. However, wherever possible this spend should be directed to GPS contracts or the GPS Spot Buy Team.
- Procurements in the **strategic** segment will be part of major programmes or projects and the specialist skills of the professional procurement resource should be fully involved from the earliest opportunity; the resource may be taken from the DECC/DfE consolidated team or may be bought in, through the cross government initiative SPSS (shown at para. 5 above).

Benefits of this Strategy

13. The application of this strategy and the associated delivery plans will have three major results:
 - Increase the opportunities for procurement activity with added value and more impact
 - Raise the profile of DECC's procurement activity and of the procurement function
 - Reinforce and strengthen DECC's role in procurement in government and in the sector

Risk of this Strategy

14. Although this strategy is focussed on DECC's procurement activity and function, there is believed to be an underlying issue, in some parts of the organisation, of poor appreciation of financial responsibility. This may be because of expediency, of ignorance or of neglect, but it has the effect of some officials being less careful with DECC's money than they would if it were their own money. This has recently been evident in the sign-off process for consultancy business cases, where cases have been poorly researched and presented. Alternative sign-off processes are now being implemented, however, for this strategy to realise the benefits listed above at para. 11, there will need to be a change of behaviours around financial responsibility, together with significantly better knowledge and understanding of the issues, which include but are not limited to procurement issues. This will require an education and skills programme across the department (perhaps targeted according to a pareto analysis), to address this risk. The outline delivery pack includes a sketch for training in procurement matters for business groups.

Implementing the strategy

15. There are two strands of work to implement the strategy and so delivers its benefits; strengthen procurement activity and strengthen procurement function. An outline delivery pack has been prepared which sketches the work needed to implement this strategy, and it includes
 - Methodology for delivery (incl. Brakes & Barriers, Accelerators & Open Doors)
 - Action plan (incl. prioritised actions), assessing impact and measuring results
 - Involving users (incl. User Training, Communicating the Strategy, Sample User Agreement)
 - Enhancing the team
 - Quick wins
16. A vital first step is to fill the vacant Head of Procurement post so that the function has strong and visible leadership. Some of the quick wins and early actions could be completed before this post is filled, but it would be more effective to have the new post holder shape the role to meet the strategy.

Effect of the strategy on DECC

17. The table overleaf shows the types of procurement in DECC and what effect the strategy will have.

DECC's requirements for goods and services fall into the following groups:

Type of procurement	Key features	Procurement input	How the strategy effects this type of procurement
<p>Low Value:Low Risk - Routine and Common Common goods such as print, fuel, office consumables and services such as transport, accommodation and temporary / consultant manpower. Low level sector specific reqts. e.g. TRN 381/03/2012 £9,999 Update to AD, wind, hydro and micro-CHP cost/performance assumptions for DECC FITs model Parsons Brinckerhoff</p>	<ul style="list-style-type: none"> • Category management • Could be high volume • Could be many users • Transaction process • Commonality means economies of scale across govt • Lots of suppliers available 	<p>Ideal candidates for central contracts and frameworks, big values mean big leverage but also needs strong contract and contractor management <i>[NB DECC spends a lot of time and £ buying consultants –not off central contracts but alone either STA or competitive because they are specialists e.g. nuclear]</i> Procurement Business Partner role is to signpost identify and point to collaborative frameworks</p>	<p>Specialist team should not be involved</p> <p>These requirements should be met from GPS2 or through self service intranet tools Change to a monitoring and enforcement role.</p>
<p>Low Value:High Risk , High Value:Low Risk Bottlenecks and Leverages Project work above EU thresholds where professional procurement input is needed, and no central frameworks or contracts are available e.g. TRN 362/02/2012 £150,000 Green Deal Redress Ombudsman service for 5 years with Energy Ombudsman Servicee.g. TRN 390/03/2012 £98,000Low Carbon Innovation Survey 2012</p>	<ul style="list-style-type: none"> • Either high value or high risk. • Often business critical • Could be specialist markets • Often with SMEsavailable 	<p>Aim is to enable Business Groups to procure, but with</p> <ul style="list-style-type: none"> • Procurement Business Partner targeted intervention, • Oversight/visibility, • Good monitoring /enforcement tools • High quality data/information. 	<p>Only apply procurement resources at key points where there can be most impact. EU thresholds are the triggers and access points such as business plan, business case, approvals committee, contracts register</p> <p>Candidate area for consolidated pool service</p>
<p>High Value / High Risk Strategic Major, first of a kind, complex projects and programmes; high risk and high value, critical to the achievements of DECC objectives. e.g. TRN 359/02/2012 £16m Strategic Outline for a Green Deal Oversight Body/Contractor e.g. TRN 363/02/2012 £1bn commercialisation of carbon capture, transportation and storage services (CCS)</p>	<ul style="list-style-type: none"> • High profile, complex, innovative, • Needs a warmed-up market • NOT standard or routine • Niche markets, • new technology, collaborative projects • Long lead times which are in conflict with the aim of reduced pipelines 	<p>High end procurement professionals make a real difference by</p> <ul style="list-style-type: none"> • preparing the market • shaping the approach and the offering to market, • informing commercial issues, • shaping how the tenders will be evaluated • shaping the contract management regime • ensuring compliance 	<p>This role is often filled by bought-in interims. The strategy should allow more of this work to be delivered by DECC procurement team, but will still need periodic additions, sourced from SPPS (so they will be either OGD staff or private sector interims bought at good vfm, through SPPS).</p>

Structure and resources of the procurement function

18. Procurement in DECC is decentralised; that is, business groups are supplied with authority, responsibility, systems and processes to undertake procurements directly. Information is provided on the intranet including interactive flow charts, forms and templates and the Procurement Code sets out the detailed requirements for each level and type of purchase. The role of the small team (8 FTE posts including an SCS post as Head of Procurement (vacant at the point of inception of this Strategy)) of professionally qualified staff in the procurement team should be to:
 - Provide advice, guidance and support to business groups to ensure that value for money is maximised for goods and services
 - Develop and support the markets which DECC will rely on to supply its goods and services
 - Monitor, enforce and report on procurement activity to ensure compliance across DECC
19. The provision of advice, guidance and support is delivered through the Business Partner role, where each Business Group is assigned a senior member of the procurement team who has knowledge, understanding and visibility of the Group's objectives and requirements. The Business Partner role is critical to optimising the impact of the procurement function, and there is a synergy available as the Finance function operates on a similar Business Partner role and the two partners should work in cooperation.
20. Depending on the value and risk of specific projects the application of a dedicated resource may be appropriate and this can be made directly from within the procurement team or by call down from the other available cross government resources (see above para.5 Initiatives). In the past, the procurement resource for specific projects has been secured by the use of interims, bought-in members of contractors' staff, who while they fill the need are not adding to overall DECC procurement capability or capacity, by way of skills transfer. The cross government initiative SPPS will deliver skilled procurement staff to support capacity and because the resources are maintained within the wider government procurement community, will also help to build capability.
21. This strategy directs that some activity currently delivered by the DECC procurement team should be passed back to the business by signposting to the collaborative frameworks or to the self-service intranet tools, and that skilled resources should be applied only to the higher value higher risk requirements. However, there remains a considerable task in ensuring that records are complete, that returns are made, that data is uploaded and verified, and this work is currently done by members of the procurement team at senior level. The strategy therefore directs that additional administrative resource should be added to the team to support the monitoring and enforcement roles.

Markets

22. The goods and services bought by DECC are delivered by businesses and markets in the UK, in the EU and internationally, and differing levels of specialism /risk/ value means that there will be differing levels of competition available for the project or purchase. In the public sector, competition is seen as the most effective way to enhance value for money and is also the most effective way to ensure that UK and EU businesses have fair opportunity to secure valuable government contracts.

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23. DECC as a customer must recognise that these businesses also have a choice about which work they bid for and this business strategy is affected by the quality and reputation of the customer. As a customer DECC must be
- intelligent and knowledgeable,
 - proactive and prepared,
 - robust, equitable and rigorous in all its dealings with the markets.

24. In particular, the growth opportunities of small and medium enterprises (SMEs) are vital for the recovery of the UK economy and government initiatives aimed at enhancing the contribution of these businesses are in place; DECC must comply with these initiatives by early engagement with the market, by shaping specifications and commercial deals (for example in small phases, batches or lots) so that small businesses can compete effectively for the work.
25. On 21 November 2011 the MCO unveiled a package of measures to change how Government buys from the private sector, supporting business and promoting economic growth. To comply with this DECC will need to:
 - Provide industry with greater visibility of Government demand through publishing rolling pipelines of upcoming procurement opportunities and the capabilities needed to deliver them;
 - Adopt an open door policy to enable industry to discuss requirements pre-procurement;
 - Make it 40% faster to do business with Government through a presumption against the competitive dialogue process except in the most complex procurements and mandating the adoption of lean sourcing principles.
 - Taking further steps to open up procurement to SMEs.

Roles and responsibilities for procurement

26. Directors General and Directors are responsible for procurement activity carried out in their business areas. Responsibility may be delegated through the Scheme of Delegation and for each project a Senior Responsible Office is appointed, with specific responsibilities and accountabilities including sound procurement. The Procurement team acts to support these responsibilities and the Procurement Code <http://lis/decc/procurement/index.html> provides more details on this topic.
27. DECC's structure includes a Commercial Group/Team whose primary function is Electricity Markets Reform, and there is potentially some blurring of responsibilities where the Commercial Group is called on for advice and support with procurements. The Procurement function must lead and must be seen as leading the Department in securing value for money in its procurement activity. Clearly, on strategic, major or complex projects, then all available expertise should be called on, in multidisciplinary teams, including the commercial knowledge and experience of members of the Commercial Group as well as the procurement specialists.

Monitoring and Enforcement

28. As part of the implementation of this strategy DECC must ensure that it has comprehensive, accurate and reliable systems to record data and information about all its procurement activity, including that made through self-service tools, collaborative frameworks and Government Procurement Card (sometimes called the "Gray Spend"). DECC currently holds some information about procurements and contracts on a Tender Reference Number spreadsheet (TRN) which is maintained manually by procurement team staff and is held in Matrix. The spreadsheet is not comprehensive or accurate. Some analysis functionality is available to DECC through the Finance reporting tool supplied by Bravo Solutions and through Mentor, but DECC is not able to monitor all its procurement spend. The requirement here goes beyond the information normally generated in a standard Purchase to Pay system such as will be available through the DEFRA shared Finance service arrangements because data must include information on pre-tender information (such as pipeline developments), bidder analysis (for example the number of SME bidders and their performance), timescales where specified by regulations and directives, contract management data, and contractor performance information.
29. All procurements over £10,000 are publicised in the Government's Contracts Finder database, and the publication of this information supports the growth of businesses and the interests of

transparency, but the effort and cost of supporting this database is disproportionately high in DECC, because of the lack of secure data feeds.

30. This strategy therefore directs that DECC must invest in effective and secure data tools to provide a “Golden Source” of management information about all its procurement activity; the procurement data tool must:
- be directly linked to the self service intranet procurement tools
 - have built in validity checkers
 - be capable of development and stretch (e.g. into management information reporting)
 - ideally a common system with the OGD’s in the consolidated pool [*Melinda*]
31. These tools will support the monitoring and enforcement activities which are a fundamental part of the service the procurement function must deliver to DECC.

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