

Efficiency Review by Sir Philip Green

Key Findings and Recommendations

“The Government is failing to leverage both its credit rating and its scale”

I was asked by the Prime Minister in mid August to carry out an efficiency review of Government spending, focusing on commodity procurement, property and major contracts.

Since that time, I have worked with different teams of senior Civil Servants to understand some of the processes and gather as much information as possible. I believe that with their help, we have covered a significant amount of ground, despite the sheer scale and complexity of the task.

This report gives a fair reflection of the inefficiency and waste of Government spending, which is due mainly to very poor data and process. In the following pages I have set out some illustrations together with some recommendations.

Having carried out this review and discussed it with the senior Civil Servants I have worked with, they all believe that it is impossible for the Civil Service to operate efficiently with the current processes in place.

There is a huge opportunity that has been clearly identified both in central Government and beyond, but without a clear mandate, energy, focus and commitment, this cannot be delivered.

I am deliberately not going to place a total number on the waste and/or the saving. I think from this report it is clear that the prize for the taxpayer is too big and significant not to chase.

I would like to thank all the Civil Servants I have worked with over the past few weeks. I believe they are both willing and committed to take on the vitally important task of delivering efficiency.

Sir Philip Green

11 October 2010

The Government is failing to leverage both its credit rating and its scale

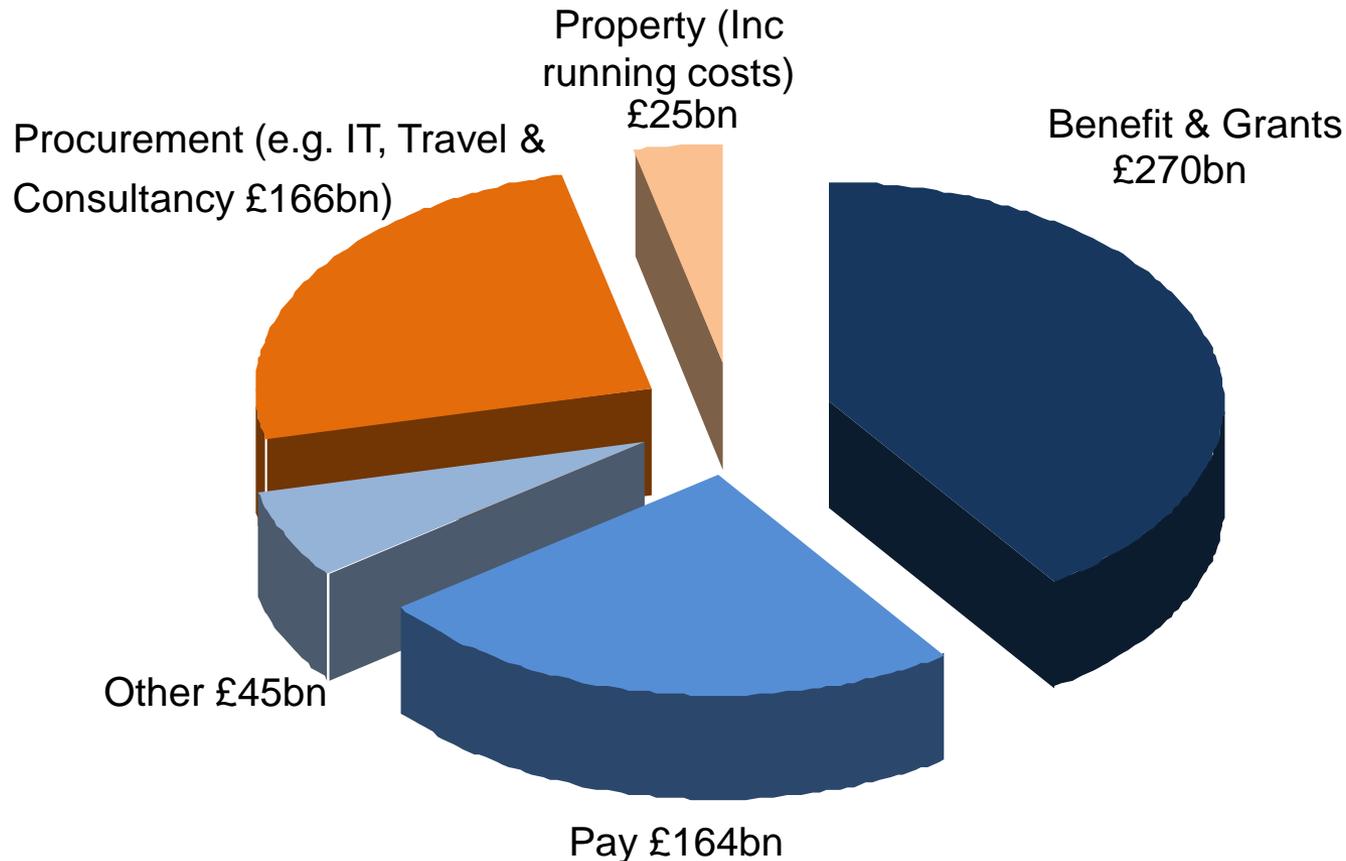
- Basic commodities are bought at significantly different prices across Government departments.
- Multiple contracts have been signed with some major suppliers by different departments at different prices.
- The Government is the largest tenant/owner in the country, yet the use and management of space is wholly inefficient.
- Expensive IT services are contracted for too long with no flexibility.

There are clear reasons why Government conducts its business so inefficiently

- Data is very poor and often inaccurate.
- Government acts as a series of independent departments rather than as one organisation.
- There is no motivation to save money or to treat cash “as your own”.
- There is no process for setting and challenging detailed departmental budgets.
- There hasn't been a mandate for centralised procurement.
- There are inconsistent commercial skills across departments.

Total Government Spending 09/10 - £670bn

We have examined central Government, but the whole public sector should be able to take advantage of better procurement by the centre



There is no mandate to purchase even basic commodities through a central team

- Government does not leverage its buying power, nor does it follow best practice.
- Procurement data is shocking - it's both inconsistent and hard to get at.
- There is inefficient buying by individual departments, with significant price variations across departments for common items.

Energy is a good example of what can be achieved, although it took four years to implement

- The annual spend on electricity and gas is £473m in central Government and £2.8bn across the whole public sector.
- Over the last four years, the purchase of 75% of Government electricity and gas requirements has been centralised in an expert team, resulting in cumulative savings of £500m.
- Savings would have been realised much more quickly with a central mandate.
- There are still significant savings to be made by putting the remaining spend through the central purchasing team.

Fixed line telecoms is the best example of where the Government fails to leverage its scale

- Departments purchase telecoms separately from various suppliers.
- An external report estimated total Government spend to be in excess of £2bn per annum. (Source: Kable, UK public sector ICT overview).
- It could be 30-40% cheaper for the Government to buy its own capacity.
- **We have requested an urgent review of fixed line telecoms cost.**

Government is in many cases paying above the market price for printing

- Central Government spends £104m per annum on printing.
- The capability of buyers varies across departments.
- Specifications are high and buying processes are inconsistent.
- Prices achieved are not competitive, as is illustrated below:

Government leaflet A

Cost: £1.31 per unit

Market price: 26p per unit

Differential: 80%

Government leaflet C

Cost :11p per unit

Market price: 6p per unit

Differential: 45%

Government leaflet B

Cost:14p per unit

Market price: 11p per unit

Differential: 21%

Government leaflet D

Cost: 20p per unit

Market price: 17p per unit

Differential:15%

Data is inconsistent and hard to get at, making it impossible to buy efficiently

- Central Government data is dependent upon each department submitting a manually produced return, or asking suppliers to provide cross Government data.
- The quality of data provided by departments is inconsistent - there needs to be a central mandate to provide accurate and timely data.

Example: travel

- We were initially advised that the annual travel spend for central Government was £2bn; the second estimate was £500m; the third estimate was £768m. A thorough review revealed that the actual spend was **£551m**.
- **There is considerably more spent on travel outside central Government but we were unable to confirm actual spend.**

Multiple contracts and policies for travel management and hotel booking have led to significant price differentials

- **Travel:** the central Government travel spend is £551m per annum. Departments contract separately with travel management companies, with different contract terms and conditions and operating to different travel policies.
- **London hotel nights:** Government uses 400,000 room nights in London each year at a cost of £38m.
Highest price per night: £117
Lowest price per night: £77
Differential: 34%
- **Halving the number of room nights by mandating the use of video conferencing and other solutions could save £50m (estimating travel and accommodation at £250 per person per night).**

There are significant price variations across central departments for the same product

Example: office supplies

- The total annual central Government spend is £84m. There are five principal suppliers and 83 individual contracts for office supplies.

Box of paper

Highest price: £73

Lowest price: £8

Differential: 89%

Printer cartridges

Highest price: £398

Lowest price: £86

Differential: 78%

If you were to buy a laptop for yourself, would you pay £2,000 when the same item can be bought on the internet for £800?

- Central Government spends £61m per annum on laptops and desktops.
- There are 460k desktops and 60k laptops in central Government, supplied by 13 different IT services providers, often not buying direct from manufacturers.
- There is no standard specification across departments.
- We found the following variations in price for laptops:
 - Highest price: £2,000
 - Lowest price: £353
 - Differential: 82%.
- **At this level of volume, the Government should buy direct from a multinational manufacturer.**

If you were going on holiday, would you search for the best deal for car hire, or take the first price offered?

- Annual central Government spend on vehicle hire is £29m.
- There is no standard policy for vehicle hire.
- We completed a benchmark on a sample of four departments.
- We found the following daily rates for hire of a Category D vehicle (Ford Mondeo 1.6 equivalent):

Highest price: £119

Lowest price: £27

Differential: 77%

Mobile phones - one of the best examples of multiple contracts with the same supplier

- The total annual spend on mobile phones in central Government is £21m.
- There are 105k devices in use and 98% of central Government spend is with one provider.
- This provider has 68 contracts with Government departments and arms length bodies, typically negotiated by each department separately and not ending at the same date.
- This makes the process very inefficient and again fails to leverage scale.

Procurement cards do not allow Government to control or monitor spend efficiently

- There are 140,000 procurement cards (payment cards) in circulation, with 71,000 in central Government provided by four main suppliers.
- The total Government spend on these cards is approximately £1bn per annum; central Government spend is £520m.
- They are used where there is no procurement system to purchase low value commodities such as travel and office supplies.
- Consolidated data by spend category is not available for all card-holders.
- **This means that there are 71,000 central Government buyers who in the main have a monthly spending limit of up to £1,000, which is not monitored.**

There is no consistent approach to thresholds for approving and monitoring spend across all departments

- In general, central Government allows expenditure up to £1,000 without monitoring or authorisation
- **All transactions should require authorisation.**

If you don't have consistent pricing for products that your staff buy with their own money, how is your business going to be efficient?

Example: office catering

- Vending machines and staff cafés in Whitehall are operated by at least eight different facilities management companies operating 16 different contracts, one for each department.
- There is no consistency over very visible prices paid by staff.
- For example, we found the following prices for a cup of coffee from staff cafés:
Highest price: £1.45
Lowest price: £0.90
Differential: 38%
- **There appears to be no centralised food purchasing.**

Government must leverage its name, its credit rating and its buying power

- Mandating centralised procurement for common categories to leverage this buying power and achieve best practice.
- Producing accurate spend and consumption data.
- Pricing common items at the same level for all central Government departments (and making contracts available to wider public sector).
- Managing down demand and specifications.
- When purchasing on behalf of Government, Civil Servants must focus on cash, applying the same principles as if the money were their own.
- **There is no reason why the thinking in the public sector needs to be different from the private sector.**

A process of asserting control over major suppliers has begun

- Historically there has been no central coordination of contracts. Major long term contracts have been set up by each department, often with the same supplier.
- Government contracts have been financed using inefficient commercial rates.
- Poor negotiation has led to inadequate flexibility of service levels for many contracts.

Six years remaining on a long term IT contract of more than £100m per annum

- This is a contract for provision of hardware and software development. The principal contractor subcontracts the majority of work to another major supplier. Therefore there are two profit margins.
- Work is charged for at a rate of more than £1,000 per person per day, which is well in excess of market rates.
- It is a poor quality contract with no provision in the contract to reduce the annual amount payable should the development work not be required.
- **This contract includes services that are no longer required. There should have been an optional element written into the contract.**

IT services from one supplier, with several contracts with at least three years to expiry, together worth more than £300m per annum

- The contracts are for the provision of IT services across several departments.
- The contract details, including terms, rate cards and prices differ across all contracts and departments involved.
- Higher costs have been incurred because the contractor has been unable to standardise services across departments.
- **The costs are significantly greater than they should be.**

There needs to be an audit of all contracts with more than £100m remaining value (estimated total £16bn) by a central, experienced negotiating team

The remit should be to investigate:

- The current demand for services.
- The cost of delivering the service, and the relationship between cost and price (open book).
- The financing arrangements.
- The subcontracting arrangements.
- The contractual flexibility.
- The ability to break the contract.

Property is not managed as a commercial estate

- Government property costs £25bn per annum.
- Only 6% of the estate is benchmarked by the central team.
- The public sector estate (excluding Ministry of Defence and the NHS) occupies 2bn net square feet and costs £12.4bn.
- Historically departments are free to make their own property decisions, although a lease moratorium is now in place.
- 484 leases expire or break in the next six months, with a rent roll of £47m per annum. We understand that a process has commenced to expire these.

A missed opportunity to break a lease in central London cost £20m

- The annual rent for this central London property was circa £5m.
- There was an opportunity to break the lease during the last six months.
- The department was not advised to break the lease despite there being space available elsewhere in central London, in another under-utilised building, that could have accommodated existing staff.
- The opportunity was missed to save circa £5m per annum, meaning an additional four years of unnecessary rent which will cost £20m.
- **There needs to be a better dialogue and a more coordinated approach between the central Government Property Unit and all departments.**

Where there is no mandate it costs money

Agency headquarters in West London:

- The property cost £1m; the lease expiry was in 2009.
- The building is 30% larger than required and does not comply with occupancy or energy standards.
- A suitable, vacant, alternative property was found nearby.
- The agency went ahead and signed a new 15 year lease with no break clause.
- The alternative office is still vacant.
- **This decision has cost at least £15m.**

Property decisions are not joined up

Government agency headquarters

- The rent is £1.2m.
- The agency relocated from London to the Midlands, signing a 20 year lease with no break for 15 years.
- The building is too large.
- The agency was abolished after nine months.
- **At a minimum, the unnecessary rental commitment is £18m.**

There is inefficient management of the estate, even within one department

Department regional offices

- In 2009 a department had 149 regional offices (administration only) in 10 regions, with 27 in London.
- The central property function recommends downsizing to 30 offices.
- The department has recognised the issue and is trying to rectify the situation.
- **Effectively 119 of these properties are not needed. We have been unable to confirm the cost.**

A property strategy must be written and implemented

- The moratorium on signing leases should be extended and the approval process streamlined.
- Government property should be managed centrally. Individual departmental requirements need to be flagged well in advance.
- The strategy must be implemented by property experts and must include a plan to retain freeholds, reduce space occupied and rent.
- A mandate is required to allow accurate data collection by the centre.
- Government must react quickly to take advantage of market changes.
- All properties in the estate must be benchmarked so that they can be proactively managed.

The Government does not effectively monitor costs and efficiency at the centre

- There is no effective mechanism to regularly challenge efficiency outside the department.
- Budgets are only reviewed by the centre at the highest level and rarely against any key performance indicators.
- Departments are not incentivised to spend less than the cash budgeted.

The Government budgeting method

- The Treasury devolves budgeting to departments.
- Departmental overhead and project spend is set for multiple years at the Spending Review. This is usually for three years, but the current review will be in place for four years.
- Budgets are not usually prepared “bottom up”.
- Change can be made, but only exceptionally (for example, the Emergency Budget in May 2010).
- Spend and forecast data are returned to the centre monthly, but are often not challenged if they are in line with budget or the previous year’s spend.

Recommended approach to budgeting, monitoring and forecasting

- A team of three to four individuals, with financial and commercial expertise, should review departmental spend with an emphasis on efficiency and accountability.
- A proper quarterly review process, including spend to date and forecast should be submitted to the centre, detailing spend against budget, previous forecast and last year.
- Reporting should be standardised, to give a total Government view across categories.
- Budgets should be prepared “bottom up” where appropriate.