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PROCUREMENT REFORM

How Selected Countries Perform Certain GSA Activities

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The Honorable Stephen Horn
Chairman, Subcommittee on Government Management,
Information and Technology
Committee on Government Reform
House of Representatives

The Honorable Tom Davis
House of Representatives

This report responds to your July 30, 1998, request for information on how foreign governments perform procurement activities that in the United States fall under the responsibility of the General Services Administration's (GSA) Federal Supply Service (FSS) and Federal Technology Service (FTS). FSS and FTS act on behalf of federal agencies as central buying agents for a wide range of goods and services. FSS has four "business lines": supply and procurement, vehicle acquisition and leasing, travel and transportation, and personal property management. FTS has two business lines: network services, for telecommunications, and IT solutions, for IT (information technology) systems and related services. Your offices wanted us to focus on the supply and procurement and vehicle acquisition and leasing business lines in FSS and the two FTS business lines.

As you know, FSS and FTS have undergone reforms in recent years aimed at incorporating commercial practices to improve the level of service they provide to federal customers. In addition, with the exception of vehicle acquisitions through FSS, FSS and FTS are now nonmandatory sources, meaning that agencies are not required to use them. Despite these reforms, you were concerned that because of current government rules and regulations, FSS and FTS face several barriers—such as the inability to recruit top-level staff and various financial management requirements—that can impede the effectiveness of their operations.

To aid the Subcommittee in its discussions about future FSS and FTS reforms, you wanted to know whether other countries had organizations similar to FSS and FTS and how they performed similar activities. As agreed with your offices, we selected Canada, the United Kingdom (UK), Australia, and New Zealand because our preliminary work showed they had made a major commitment to procurement reform, and some of the reforms were in activities similar to those carried out by FSS and FTS. Our objective was to identify the organizations, policies, and programs that these countries had in place to assist agencies with the procurement of supplies, vehicles, telecommunications, and IT.

Results in Brief

None of the countries had organizations that completely mirrored FSS and FTS. Canada and the UK had the closest models in that they had organizations available to assist agencies in the procurement of supplies, vehicles, telecommunications, and IT. However, these organizations had different features from those of FSS and FTS. For example, in Canada, the organization that performed many activities similar to those of FSS also had a large role in assisting agencies with the acquisition of IT systems and related services, a function performed by FTS in the United States. The two organizations in the UK differed from FSS and FTS because they were given more flexibility than traditional government departments in the personnel and financial areas. Australia and New Zealand had very different models from the United States. Australia had only an organization that performed activities similar to those of FTS, and its role in assisting agencies with the acquisition of IT systems and related services was minor. New Zealand had no government organizations that performed activities similar to those of FSS and FTS because it sold its central procurement agency to the private sector several years ago. This private sector business assisted government agencies with the procurement of supplies, vehicles, telecommunications, and IT and did business only with the government.

Our analysis also showed that there were similarities and differences in the programs and policies these countries used in the procurement of supplies, vehicles, telecommunications, and IT compared to those of FSS and FTS. In supply, the procurement organizations in Canada and the UK had prenegotiated contract arrangements, as does FSS, under which agencies deal directly with vendors, to procure goods and services. Australia and New Zealand did not have such arrangements. Also, none of the countries had distribution centers or government stores, like FSS does, that stocked common-use supplies for resale to agencies.[1] In the vehicle area, only Canada had a requirement that vehicles be purchased through its central procurement organization, like the U.S. requirement for FSS. The other three countries allowed their agencies to acquire vehicles directly from the private sector. None of the countries had a central vehicles fleet, like FSS does. Australia recently sold its fleet to the private sector.

In telecommunications, agencies in Canada and the UK—like in the United States—had the option to either use contract arrangements with private

[1] On July 8, 1999, as this report was being prepared for printing, GSA announced that it was phasing out its distribution centers.

carriers offered by their organizations with activities similar to those of FTS or to go directly to the private sector, which was the only option in New Zealand. In Australia, officials told us that agencies were required to use service providers that had agreed to certain terms and conditions with the organization like FTS. For IT systems and related services, agencies in the UK, like agencies in the United States, could either use the organization like FTS or go directly to the private sector to meet their needs. However, Canada was unique because major IT projects had to be procured through the central procurement organization if they exceeded certain dollar thresholds. In Australia, there was no major, central government effort to assist agencies in acquiring IT systems and related services because of a new government initiative to phase out IT systems ownership and instead have the private sector own and maintain the systems and the government contract for IT services. In New Zealand, a government committee was to review and monitor high-dollar, high-risk IT system acquisitions. Appendix I identifies the key organizations in these countries and summarizes their activities.

According to officials in these countries, procurement reform evolved over a number of years and was primarily influenced by a desire to rely more on the private sector to perform activities of a business nature so that government could operate more efficiently, improve its services, and focus on its core mission. As part of their broad reform efforts, Canada and the UK were using techniques aimed at transforming the way major procurements are designed and managed. Canada's benefits-driven-procurement approach asks the private sector to deliver certain agreed-upon results instead of following what Canadian officials viewed as the traditional approach in which a government blueprint with detailed specifications was used. The UK's private finance initiative (PFI) is designed to meet major capital investment needs by having the private sector finance capital assets and having the government or users pay for the services.

Information on the various approaches used by these countries provides insight into how they performed activities similar to those of FSS and FTS. However, it is important to recognize that such factors as differences in political and economic environments, the role of social objectives in the procurement process, and the volume of contracting activity would have to be considered in a discussion of whether these approaches had applicability to FSS and FTS operations in the United States. Furthermore, some reforms were very recent, and performance data on the effectiveness of the various reforms were generally unavailable or were in the early stages of development. Consequently, we could not, from an overall perspective, gauge how well these reforms were working. Nonetheless, officials we interviewed who were end-users of the procurement organizations and policies we observed said they were generally satisfied with the reforms and believed their governments were operating more efficiently than under old policies.

Background

GSA was established by the Federal Property and Administrative Services Act of 1949 to serve as a central procurement and property management agency for the federal government. GSA's diverse activities and programs have governmentwide implications that, according to GSA, affect over $52 billion, which is more than one-fourth of the federal government's total procurement dollars. Through various revolving funds, GSA buys goods and services from private vendors and resells them to agencies. GSA has four major components—the Public Buildings Service, FSS, FTS, and its Office of Governmentwide Policy (OGP)—to carry out its various programs and activities.

FSS provides contract arrangements for commercial products and services worth over $17 billion per year through its four business lines: supply and procurement, vehicle acquisition and leasing, travel and transportation, and personal property management. As previously indicated, we did not focus on the travel and transportation and personal property management business lines. FTS provides reimbursable services for local and long-distance telecommunications. It also assists agencies with acquiring, managing, and using IT systems. FTS accomplishes this through two business lines: network services, for its telecommunications activities; and IT solutions, for its IT systems-related activities.

In carrying out their duties, FSS and FTS are to follow the Federal Acquisition Regulation (FAR), which is the uniform set of policies and procedures executive agencies[2] are required to follow in procuring goods and services. The FAR implements various statutory requirements intended to advance national social and economic goals, such as giving preferential treatment in awarding contracts to certain groups, such as the blind and severely handicapped, small and disadvantaged businesses, and the federal prison work program. Governmentwide procurement policy is overseen by the Office of Federal Procurement Policy (OFPP) within the Office of Management and Budget (OMB). OFPP is responsible for prescribing policy and coordinating the development of governmentwide

[2] In the United States, an executive agency is a civilian or military department, or an independent establishment within the meaning of 5 U.S.C 101, 102, and 104(1) respectively, and any wholly owned government corporation within the meaning of 31 U.S.C. 9101.

procurement standards. OGP within GSA has a supporting role by creating networks of agency procurement representatives and by providing guidance and policy related to specific areas, such as vehicles, aircraft, and electronic commerce. Each year, the U.S. government spends approximately $200 billion in acquiring goods and services.

FSS Supply and Vehicle Activities

FSS finances its supply and vehicle activities though the General Supply Fund, which is a revolving fund that is sustained by revenues received from customer agencies for goods and services. Through its supply and procurement business line, FSS offers federal agencies a choice of more than 4 million commercial products and a range of technology-oriented, financial, environmental, management, and administrative services. FSS' three methods of supply are (1) the stock program, (2) special order sales and (3) federal supply schedules. In the stock program, FSS stores approximately 19,000 common-use items for resale to agencies in 4 major distribution centers, 3 smaller centers, and 19 government stores located throughout the country and overseas. This program had sales of $817 million in fiscal year 1998. The special order program, which had sales of $477 million in fiscal year 1998, provides products for special needs or when stocking is not desirable, such as office furniture and appliances. The federal supply schedules program is similar to a commercial catalog business and provides agencies with access to over 6,800 contracts to obtain various goods and services. In addition to covering a vast range of commercial items, the schedules cover IT products and services. FSS prenegotiates terms, conditions, and ceilings on price with vendors; agencies deal directly with the vendors to negotiate final prices and establish deliveries. Supply schedule sales were about $8 billion in fiscal year 1998.

The vehicle acquisition and leasing business line in FSS provides agencies with one-stop shopping for purchasing vehicles or leasing them from the FSS-managed interagency fleet. FSS is the federal government's mandatory source for the purchase of new, nontactical vehicles.[3] Although leasing vehicles through the interagency fleet is not mandatory, agencies that choose this option get scheduled replacement, full-service management, and a fleet services card for fuel and repairs, for a fixed monthly fee, as well as a cost per mile charged by vehicle type. In fiscal year 1998, the vehicle acquisition and leasing business line purchased about 56,800 vehicles worth about $1 billion; one-half of the vehicles were for the

[3] Nontactical vehicles, which are referred to throughout this report, are motor vehicles primarily of commercial design that are used in support of general transportation services and facility maintenance functions not directly connected with combat or tactical operations.

interagency fleet, with the rest reflecting vehicle purchases for agencies. The interagency fleet comprised over 160,000 automobiles, passenger vans, trucks, buses, ambulances, and special-purpose equipment in fiscal year 1998. FSS relies on the private sector for vehicle delivery, fuel, maintenance and repair, and vehicle auctions.

FTS Telecommunications and IT Activities

FTS finances its telecommunications and IT activities through the Information Technology Fund, which is a revolving fund sustained by revenues received from customer agencies for goods and services. In fiscal year 1998, FTS had revenues of $3.4 billion. The network services business line in FTS provides customer agencies with telecommunication services, including global voice, data, and video services, supporting both the local and long-distance needs of the federal government. According to FTS officials, the network services business line had revenues of about $1 billion in fiscal year 1998. Until the end of 1998, FTS long-distance services—under its FTS2000 arrangements with AT&T and Sprint—were a mandatory source for federal agencies. Under the FTS2001 arrangements with MCI and Sprint that were recently awarded, agencies are able to select their own service provider. According to FTS officials, these are the largest non-Defense government contracts, valued at between $5 and $8 billion over 8 years. FTS local telecommunications services also used to be mandatory; however, FTS now offers a range of nonmandatory services in this area, where revenue totaled $266 million in 1998.

The IT solutions business line in FTS provides agencies with a range of assistance related to acquiring, managing, and using IT. In fiscal year 1998, the IT solutions business line had revenues of about $2.4 billion. FTS prides itself in this area on being an objective and trusted third party that can provide independent assistance to agencies. For a fee, FTS acts as a consulting agent for agencies in the acquisition of large IT systems and related services, systems integration, software definition and design, and office systems development. It also supports federal systems through risk analysis and information security support. Its Federal Acquisition Services for Technology (FAST) program is intended to provide quick procurement assistance for IT products and services. The FAST program had revenues of $973 million in fiscal year 1998. According to FTS officials, FTS services differ from the IT products and services offered by FSS under the supply schedules in that FTS is involved as a third party. Agencies deal directly with vendors under the FSS schedules. An FTS official added that FTS views its role as that of a value-added reseller of telecommunications and IT. In addition, this official said that FTS recognizes the significance of the evolving integration of telecommunications and IT in meeting customer agency needs, now and in the future.

Government Reform Has Affected FSS and FTS

The federal government has undergone reform and downsizing in response to efforts like the National Performance Review and congressional initiatives to promote efficiency and economy in contracting, such as the Federal Acquisition Streamlining Act of 1994. More recently, the Federal Activities Inventory Reform Act of 1998 (FAIR) required executive agencies to identify functions they perform that are not inherently governmental and could be performed by the private sector.

This environment of reform has affected FSS and FTS. GSA, as a whole, has gone from 39,000 employees in 1971 to fewer than 14,000 employees in 1999. It also realigned itself organizationally to mirror the private sector and incorporated commercial practices to improve the level of service provided to agencies and to enhance its relationships with the private sector. These changes were evident in FSS and FTS with the establishment of the aforementioned business lines. The changes also manifested themselves in the shift from being a mandatory to nonmandatory source for agencies in such areas as supply procurement, vehicle leasing through the interagency fleet, telecommunications services, and IT acquisition. Also, the Government Performance and Results Act of 1993 increased FSS' and FTS' focus on performance measurement as a vital component of operating in a more business-oriented environment.

Despite the changes that occurred, FSS and FTS believe that several barriers still exist that impede their ability to compete in this new environment and operate in a businesslike manner. Barriers cited by FSS were the inability to recruit and train top-level staff because of various federal personnel requirements, prohibitions on its ability to enter into cooperative purchasing arrangements, the extensive bid protest processes available to federal contractors, and its inability to deal effectively with poor-performing vendors. FTS also cited personnel-related barriers but had more concerns about financial-related barriers, such as the inability to consider accounts receivable the same as cash in managing the Information Technology Fund. An FTS official said this limits FTS' ability to commit to new business opportunities because payments to FTS from some agencies can take up to 90 days. Another barrier FTS cited was that federal rules related to disposal of property can make agencies less efficient because they cannot exchange the equipment they own for like services. FTS also cited being prohibited from using the standard of "adequate" competition as an alternative to "full and open" competition, which is required by law, in certain multiple award contracting situations as another barrier to operating effectively.

In the past, Congress has amended laws to allow agencies to overcome various barriers when they were shown to impede effective performance. For example, government corporations, including the Tennessee Valley Authority (TVA), and dozens of others, serve public functions of a business nature and were given some flexibility related to the applicability of federal statutes to overcome barriers caused by the laws and implementing regulations. Congress authorized TVA, a government corporation, as well as federal agencies such as the Department of Veterans Affairs (VA) and the Federal Aviation Administration (FAA), to adopt alternative personnel systems. Congress also gave FAA authority to implement a streamlined procurement system so FAA could more easily deploy new technologies. Agencies have also outsourced[4] a wide range of functions that typically were done in-house. For example, the Office of Personnel Management (OPM) now contracts for investigative services, which were formerly done in-house until OPM privatized[5] its investigative unit.

The United States is not alone in its efforts to make its agencies more businesslike and to address barriers to efficient and streamlined government. Governments around the globe have reassessed the role of government and have made organizational and operational changes to improve the level of service to citizens. Changes that have taken place have included greater reliance on the private sector through such methods as outsourcing, empowering civil servants to make business decisions, adopting a more results-oriented focus, and developing and monitoring data on performance.

Scope and Methodology

To meet our objective, we obtained information on FSS' and FTS' procurement activities and federal procurement in general. We primarily relied on interviews with, and documents obtained from, officials from FSS, FTS, GSA's OGP, and OFPP within OMB. We conducted research, primarily using the Internet, to select countries for the review. We identified countries where the government had made a commitment to procurement reform and where preliminary work showed reforms were made in activities similar to those carried out by FSS and FTS. On the basis of this work, we selected Canada, the UK, Australia, and New Zealand. We confirmed our selections primarily through discussions with our

[4]Under outsourcing, the government remains fully responsible for a service or function and retains control over management decisions, while another entity, usually the private sector, performs the function or operates the service.

[5] The terms privatize and privatization have generally been defined as any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector.

counterpart organizations—the Auditor General offices—in each of the countries.

To collect information on the organizations, programs, and policies in these countries, we visited the countries, interviewed key officials about their operations, and obtained a wide range of material. After collecting the information, we compared these countries' operations to the way FSS and FTS assist agencies with the procurement of supplies, vehicles, telecommunications, and IT.

We performed our work between July 1998 and May 1999 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Director of OMB, Administrator of GSA, and responsible officials in the countries we visited. On June 4, 1999, OFPP's Associate Administrator for Procurement Law and Legislation told us that OMB had no comments. In response to our request for comments from the Administrator of GSA, FSS and FTS officials provided comments. Our FSS liaison orally provided the comments of various FSS components on June 11, 1999, and FTS' Chief of Staff provided oral comments on June 16, 1999. Various officials from the four countries provided comments via e-mail, facsimile, or letter during June 1999. These comments are discussed near the end of this letter. Appendix II contains a more detailed description of our objective, scope, and methodology and identifies the organizations discussed in this report and their Internet addresses.

Canada: Central Procurement Agency Has Functions Similar To FSS and FTS With Some Differences

Canada, with a population of about 31 million, is a federation of 10 provinces and 3 territories and has a central government that operates as a parliamentary democracy. Canada's central procurement department—Public Works and Government Services Canada (PWGSC)—had two organizations—the Supply Operations Service (SOS) and the Government Telecommunications and Informatics Services branch (GTIS)—with activities similar to those carried out by FSS and FTS. Procurement in the Canadian government centered on purchase authority thresholds, which were delegated by the Treasury Board.[6] That is, agencies had authority to automatically buy goods and services up to certain amounts. For goods purchases above a $5,000 Canadian threshold ($3,425 U.S., assuming that $1 U.S. = $1.46 Canadian), agencies generally were required to use PWGSC as a central purchasing agency.

[6] The Treasury Board is a committee of the Cabinet that sets procurement policy.

SOS arranged governmentwide contracts for supplies, including IT products and services, similar to FSS' function. However, it no longer operated a stock program with distribution centers or government stores. As with FSS in the United States, agencies were required to use SOS for vehicle acquisitions, although unlike FSS, it did not manage a central vehicle fleet. SOS differed from FSS in the IT area in that it had a unit that provided IT systems acquisition services, similar to FTS' role. GTIS also provided some services in the IT area, where it assisted mostly smaller agencies in defining their needs, but it was primarily involved in the procurement of telecommunications services, like FTS. In the IT area, the government of Canada was starting to use benefits-driven-procurement (BDP), under which the government asks the private sector to deliver certain agreed-upon results, instead of a more traditional approach under which the private sector is asked to follow a government blueprint with detailed specifications. Greater use of BDP was part of a broad vision for reform being developed by the Treasury Board Secretariat (TBS).[7] Appendix I identifies the key organizations in Canada and summarizes their activities.

Central Purchasing and Delegations of Authority

The central government of Canada meets its procurement needs through a combination of central purchasing and delegated authority to agencies. PWGSC is the central purchasing agent for the government of Canada. PWGSC's activities covered both civilian and defense purchasing for approximately 100 departments and agencies of the central government and other jurisdictions. Employing about 11,800 people, PWGSC, among other things, managed approximately 63,000 contracts and was responsible for purchasing some 17,000 categories of goods, services, and construction, with a total annual value in excess of $8 billion Canadian (about $5.5 billion U.S.). This amount is more than one-half of the total amount of all federal government contracting in Canada. In addition, PWGSC had several other governmentwide responsibilities, including those related to real property, personnel, consulting and audit, public information, and translation services. It also banked and dispersed government funds and maintained the government's accounts.

The Treasury Board sets contracting authority levels for departments in the Canadian government. As a central procurement agency, PWGSC had much higher authority than other departments. In addition, the Public Works and Government Services Act of 1996 gave PWGSC exclusive responsibility to purchase goods on behalf of the Canadian government

[7] The Treasury Board Secretariat (TBS) is the central agency that advises the Treasury Board and communicates its decisions.

and also for delegating purchase authority for goods to other departments. PWGSC's standard delegation of authority for goods to other departments was $5,000 Canadian ($3,425 U.S.) and according to an official with TBS, some departments had authority of $25,000 Canadian ($17,123 U.S.). Each department could procure services within its own authority, although the departments could ask PWGSC to do the procurement for them. Departments had authority to purchase services up to $2 million Canadian (about $1.4 million U.S.) if they used the government's electronic tendering service.[8] Purchases above contracting authorities set by the Treasury Board required approval by the Treasury Board.

Government policy in Canada requires that contracting be conducted in a manner that will, among other things, ensure competition and the preeminence of operational requirements. According to TBS officials, government policy also seeks to advance certain national objectives, including regional development and award of some contracts to aboriginal populations. Canada did not, however, appear to use its procurement system to advance social objectives to the extent this is done in the United States.

SOS Supply, Fleet, and IT Activities

SOS—a major component of PWGSC—arranged governmentwide agreements with suppliers through its standing offers and supply arrangements. Standing offers provide goods and services to departments at prearranged prices, under set terms and conditions, without specifying delivery schedules or quantities required up front. Standing offers are employed when one or more purchasers repetitively order the same good or service. Common products offered under the standing offers are food, fuel, plumbing supplies, tires, stationery, and office equipment. Services include repair and overhaul of equipment and temporary help services. Supply arrangements are nonbinding agreements between SOS and suppliers to provide a range of goods or services on an as-required basis. With supply arrangements, departments solicit bids from a pool of prescreened vendors based on their specific scope of work; in this way supply arrangements differ from standing offers, under which departments accept a portion of a requirement already defined and priced. Many supply arrangements include ceilings on prices, which allow departments to negotiate the price downward on the basis of the actual requirement or scope of work.

[8] Known as MERX, this service lists contract opportunities at all levels of government in Canada and includes hundreds of hospitals, universities, and school boards.

Although we did not do a comprehensive comparison of the supply activities of SOS and FSS, they were similar in that they aim to simplify the buying process for the government purchaser by prenegotiating terms, conditions, and sometimes prices with suppliers. We also noted that like FSS, SOS had on-line catalogues that purchasers could use to find products and services. There was, however, a difference in SOS and FSS supply operations in that SOS no longer operates a stock program with distribution centers or government stores as FSS does. According to SOS officials, the government had operated distribution centers at one time, but they were considered inefficient and the government stopped operating them several years ago. SOS' current supply activities rely primarily on direct delivery from the vendor. According to these officials, the government also used to operate government stores that at one time were found in most of the major federal buildings. However, for ideological reasons, the government decided that it should not be in competition with the private sector and privatized the stores several years ago. Another difference we noted was that SOS can be a mandatory source of supply if the purchase amount exceeds the buyer's threshold. FSS, in contrast, is a nonmandatory source of supply, regardless of the purchase amount.

In the vehicle area, SOS' activities were similar to FSS' activities in that departments were required to use SOS for nontactical vehicle acquisition. According to TBS officials, the Canadian government purchases over 2,250 vehicles each year. The most common method of supply for vehicles is standing offers, whereby manufacturers provide prices for different models with different option combinations. For urgent requirements, departments could access SOS' inventory of vehicles that were already purchased by SOS through standing offers and were being held by manufacturers until needed. The least common method, which required special approval by the Treasury Board because it was the most expensive, was direct purchase from dealer stock. Departments could also lease vehicles from the private sector through SOS.

According to SOS officials, departments generally managed their own fleets and had arrangements with dealerships and private garages for vehicle servicing. Under this framework, SOS differed from FSS in that it did not manage a central fleet like FSS' interagency fleet. As with most other goods and services in which PWGSC was involved, SOS acted as the contract authority on behalf of the buyer and was not involved in delivery of the goods and services.

Like FSS' schedules, SOS contracts also covered IT goods and services. However, SOS had a role in the IT area that went beyond what FSS offers through its IT schedules and more closely resembled what FTS offers in assisting agencies with the acquisition of IT systems and related services. SOS had a branch called the Science, Informatics, and Professional Services Sector (SIPSS) that managed the IT goods and services contracts mentioned earlier. These contracts included consulting services for IT systems design, research and development, and training as well as goods, such as IT systems infrastructure, electronic data processing systems, hardware, and software. In addition to managing these contracts, which was similar to what FSS does through its IT schedules, SIPSS provided direct assistance to departments with major IT systems acquisitions, similar to what FTS does. A difference between SIPSS and FSS/FTS activities in this area, however, was that SIPSS was often a mandatory source for departments because of the purchasing thresholds. FSS and FTS, on the other hand, are always nonmandatory sources in the IT area.

GTIS Telecommunications and IT Activities

Like FTS, GTIS managed governmentwide telecommunications contracts and sought to aggregate government requirements to save costs. In fiscal year 1997/1998, GTIS spent about $275 million Canadian (about $188 million U.S.) on telecommunications services. According to GTIS officials, the telecommunications industry in Canada has undergone a great deal of change since the mid-1990s. In 1995, the Canadian Radio-Television and Telecommunications Commission deregulated large segments of the telecommunications industry. According to these officials, prior to this time, the Stentor alliance of regional carriers was the dominant service provider; Bell Canada was the largest provider of services in the provinces of Ontario and Quebec. The deregulation resulted in a more competitive environment and required GTIS to develop a competitive telecommunications supply arrangement.

In general, most departments procured local and long distance service through GTIS, although its services were not mandatory. GTIS officials said it was more convenient and less expensive for departments to use GTIS. At the time of our review, however, GTIS officials were evaluating the ongoing impact of deregulation on their optional status and governmentwide bargaining position as departments began procuring services directly from the private sector.

GTIS also provided services related to IT systems acquisition that were similar to services offered by FTS. Small agencies or agencies that did not have IT expertise could get assistance from GTIS in defining their needs and procurement objectives. GTIS then interfaced with SIPSS on behalf of these agencies and could bundle their requirements to get a better price. GTIS also was involved in several governmentwide IT initiatives, which included fostering electronic data interchange and electronic transactions within government.

Benefits-Driven Procurement

We noted during our review that in the IT procurement area, the government of Canada was starting to use an approach called benefits-driven procurement (BDP). BDP stresses the results and benefits that the government and suppliers mutually seek to gain from each acquisition. Although we did not do a detailed comparison, BDP has concepts similar to performance based service contracting (PBSC) in the United States in that contractors are given more freedom to determine how to meet the government's performance objectives. Arising from recognition by the Canadian government that one of the major reasons IT projects fail is that the procurement process is too inflexible, BDP is an alternative to traditional approaches. According to Canadian procurement officials, under traditional procurement approaches, departments could spend months, even years, developing a detailed requirement that, when completed, is often outdated and did not reflect changes that have taken place in the organization. Instead, the BDP approach is to ask the private sector to deliver certain agreed-upon results rather than follow a blueprint with detailed specifications. The private sector is also invited to submit ideas on what sort of project should be undertaken before a formal request for proposals is issued.

Another key feature of BDP is up-front planning to remove or mitigate potential problems in the procurement process. Both the front-end planning and the management of the entire acquisition are based on four elements: (1) a solid business case, (2) risk analysis, (3) clear delineation of accountabilities, and (4) a compensation structure tied closely to the contractor's performance. Appendix III provides a more detailed description of these elements and the BDP approach.

Future Reforms Are Planned

At the time of our review, TBS was in the midst of developing a broad agenda for procurement reform. TBS officials said that the main problem with Canada's procurement system was that it was still too focused on rules and process and not streamlined and results-oriented. The officials said that although key departments had made a good start at modifying and streamlining their processes and focusing on their core missions, more could be done. TBS was planning to take a leadership role in reforming procurement processes and was aiming to create a system in which central policy focused on principles instead of on developing prescriptive rules. In addition, TBS officials said they would support applying BDP principles to other types of acquisitions and would attempt to coordinate the other reforms under way in PWGSC and other departments. TBS and PWGSC officials said that the government was in the early stages of applying performance measurement principles in assessing the reforms that have taken place and therefore did not have much data available to gauge results.

A top procurement official with the Department of National Defence (DND) whom we interviewed agreed that there had been some positive gains as a result of recent procurement reforms. This official cited examples where DND had privatized support functions so it could focus more on its core mission. These included maintenance of vehicles and some weapons systems and pilot training. DND had also used the BDP process for a new information system for its supply network. Also, this official said that DND and PWGSC had a good working relationship. He added that skilled procurement staffs were crucial as departments focused more on their core missions and increasingly relied on the private sector for activities that were traditionally done in-house.

United Kingdom: Agencies Like FSS and FTS Have More Flexibility Than Traditional Government Agencies

The UK, with a population of about 59 million, encompasses England, Wales, Scotland, Northern Ireland, and several dependent areas, and has a central parliamentary government that operates under a constitutional monarchy. The central government had two organizations—The Buying Agency (TBA) and the Central Computer and Telecommunications Agency (CCTA)—with activities similar to those of FSS and FTS. However, these agencies had more flexibility in how they managed their financial and personnel affairs than if they were traditional government departments. Known as executive or “next steps” agencies because they represented the next steps in reforming government management, they were structured like private businesses and were one part of a broad government reform effort being led by Her Majesty’s Treasury (HM Treasury), which sets procurement policy.

Like FSS, TBA had contract arrangements for supplies that departments and agencies could use on a nonmandatory basis. However, TBA did not operate a stock program with distribution centers or government stores as FSS does. Also, the UK did not have a central vehicle fleet like FSS; however, TBA could assist agencies in obtaining fleet management services or with vehicle acquisition. Agencies also could use vehicle acquisition arrangements held by the Ministry of Defence (MOD) or go directly to the private sector. Like FTS, CCTA arranged telecommunications contracts for governmentwide use and provided services in IT systems acquisition on a nonmandatory basis. Across the government, HM Treasury was leading a public-private partnering initiative known as the private finance initiative (PFI) and had other efforts under way to encourage knowledge sharing and performance measurement in procurement. Appendix I identifies the key organizations in the United Kingdom and summarizes their activities.

Decentralization of Procurement and the Evolution of "Next Steps" Agencies

In recent years, the central government of the United Kingdom has undergone a continued program of government reform, where, according to UK government officials, the emphasis has been on cost consciousness, value for money, downsizing, and greater concentration on the core businesses of government. With these reforms, the government has decentralized procurement authority to its agencies and ministries, which spend over £20 billion each year for goods and services (about $32.3 billion, assuming that $1 U.S. = £0.62).

According to officials with HM Treasury, most procurement prior to the reforms went through several central procurement departments, which supplied everything from pencils to large computer systems. Now, agencies and departments are, for the most part, responsible for their own procurement, although they are expected to adhere to standards that are part of HM Treasury's broad strategy for procurement. These standards include achieving value for money; emphasizing fair competition; incorporating best practices; and carefully assessing and managing business cases, risks, and contracts. HM Treasury officials told us that their procurement system was generally not used to advance any social objectives. However, UK officials pointed out that in the procurement area, the UK cannot act unilaterally and is required to implement laws compatible with directives promulgated by the European Community, such as ensuring that relevant contracts are awarded objectively.

As part of the trend toward decentralization and getting government to run more like business, the government separated its service delivery and policy formulation functions. In February 1988, the government launched the "Next Steps" initiative, referring to the next steps in improving government management. Under the initiative, the government identified areas of departmental work that could be grouped together into operational units under single officials who would be accountable directly to their ministers[9] for delivering specific objectives, services, and results. The government looked critically at its service delivery functions and determined whether each should be retained, reengineered, privatized, contracted out, or abolished. As a result of this process, several next steps agencies were established.

[9] In parliamentary systems, ministers are high level officers in the government and usually are charged with managing a department or major segment of government activities.

Next steps agencies operate within a framework with targets set by ministers for the task to be done, the results to be achieved, and the resources to be provided. The day-to-day responsibility for running the organization is delegated by ministers to a chief executive, who is to have the management tools and freedoms needed to do the job. Each next steps agency has a public framework document, so that everyone can know the framework within which the agency operates. It includes the aims and objectives of the agency, its financial and accounting processes, and its approaches to pay and personnel issues. The frameworks for each agency vary; however, they generally are intended to provide the chief executive with much greater flexibility than if the units were operating within a traditional government department. As of October 1997, there were about 120 next steps agencies with staff numbering about 362,000, or about 77 percent of the civil service.

The Buying Agency Is a Supply Procurement Source

TBA was established in 1991 as a next steps agency and is part of the Cabinet Office, which is the UK's central department for policy formulation, government management, and the civil service. TBA was similar to FSS in that it offers departments and agencies nonmandatory supply arrangements for common-use goods and services. TBA sought to provide a center of procurement excellence within the public sector and to help customers secure better value for money than they could otherwise achieve. TBA's framework document included objectives to provide procurement services so that agencies could receive better value for money than they would otherwise and to bring about improvements in cost effectiveness and the quality that agencies receive from suppliers.

TBA offered a range of procurement services that were similar to FSS' supply activities. These included pretendered "direct call-off" contracts covering over 50,000 products and services; the "Pathfinder" service for larger or more complex procurements; and direct sales and spot buying, where TBA coordinates volume purchases or assists with complex items or items that are difficult to source. TBA had a catalogue of goods and services for its direct call-off contracts. TBA was to be self-sufficient financially and derived its income from commissions paid by departments and agencies related to the direct call-off arrangements and direct charges for services. In 1997, TBA had sales of £272 million (about $439 million).

A difference between TBA and FSS was that TBA appeared to have more managerial and financial flexibilities because of its status as a next steps agency. Although we did not do a comprehensive analysis of TBA's status as a next steps agency and FSS' status within the U.S. government, next steps agencies generally have greater flexibility with regard to how they manage their finances and human resources than traditional government departments in the UK that operate within a government structure.

In the case of TBA, its framework document specifies that the chief executive has the authority to seek flexibility in the personnel area, subject to approval by HM Treasury. According to TBA's Procurement Director, some specific personnel flexibility that TBA had included the ability to seek its own staffing levels by taking on or releasing staff as the business need arose. TBA also could set its own pay scale. According to this official, if TBA needed to increase the pay of procurement specialists to compete with a tight labor market, it could obtain approval to do so rather quickly.

Like FSS, TBA operated on what is called a "trading fund basis" in the area of financial management, which means it was self-supporting and received no revenue from the central government. Unlike FSS, however, TBA could retain its revenue after covering operating costs and other financial obligations. In contrast, FSS generally had to return excess revenue to the U.S. Treasury after recovering its costs. TBA also had the authority to commit to capital expenditures or asset disposals up to £250,000 ($403,226). Another difference between FSS and TBA was that TBA did not operate distribution centers or government stores. Also, unlike FSS, TBA provided its services to local government.

In addition to TBA, we noted that for some types of office supplies, departments and agencies could use a former government agency that was privatized. In 1996, the government privatized Her Majesty's Stationery Office (HMSO), now referred to as The Stationery Office (TSO). In addition to being the official publisher of government documents, similar to the Government Printing Office in the United States, HMSO provided letterhead stationary and other office supplies to departments and agencies. Today, TSO is a nonmandatory source in the private sector that departments can also use to meet some of their office supply needs, a function similar to that of FSS.

Vehicle Procurement and Fleet Management Are Decentralized

In the UK, departments and agencies purchased and maintained their own vehicles and could go directly to the private sector. According to a TBA official we interviewed, TBA could assist agencies with vehicle purchases, if requested. However, these services were not required like they are with FSS. TBA also did not operate, nor does the government have, a central fleet that is similar to the FSS interagency fleet. It is important to note that according to HM Treasury and MOD officials, MOD had the majority of the nontactical vehicles and had purchasing arrangements with vehicle suppliers. These officials said that other departments and agencies often "piggyback" these contracts to take advantage of the favorable prices MOD gets. We also noted that the government had a small fleet of 160 cars within the Cabinet Office known as the Government Car and Despatch Agency; however, these cars were to be used for courier services and to transport top officials only.

In the vehicle area, MOD was in the midst of developing an arrangement that was like a public-private partnership[10] for its entire "white fleet" vehicles that were used for nontactical, administrative, and support functions. This project was being done as part of a major UK procurement reform effort, known as the private finance initiative (PFI). PFI is designed to meet major capital investment needs by having the private sector finance capital assets and having the government or users pay for the service. HM Treasury had established a special task force to improve the PFI procurement process and to assist departments and agencies with implementing PFI projects. The PFI project for the entire white fleet was under development at the time of our review, and test projects for two portions of the white fleet were among 115 PFI projects that were in progress. According to MOD officials, preliminary data on these test projects showed reductions in cost of 15 and 27 percent for these two portions compared to in-house alternatives. Under the planned PFI arrangement for the entire white fleet, the private sector was to invest in, manage, and operate the vehicles necessary to deliver an agreed-upon level of service to MOD under a long-term contract. MOD officials said that they were pleased the government has given them tools such as PFI and had moved to a decentralized purchasing environment. Appendix IV provides an overview of the PFI initiative and a more detailed description of MOD's white fleet PFI efforts.

CCTA Offers Telecommunications and IT Services

CCTA, which is also part of the Cabinet Office and became a next steps agency in 1996, was similar to FTS in that it assisted departments and agencies in acquiring telecommunications services and IT systems and related services on a nonmandatory, cost recovery basis. CCTA's main objective in its framework document was "to develop, maintain, and make available, expertise about IT which public sector organizations will draw on in order to operate more effectively and efficiently." According to a CCTA official, its new mission statement emphasized "championing electronic government." CCTA managed contracts to operate about 80 percent of the government's telephone lines, involving almost 45,000

[10] Under a public-private partnership, a contractual arrangement is formed between public and private sector partners that can include a variety of activities that involve the private sector in the development, financing, ownership, and operation of a public facility or service.

extensions. Similar to the FTS telecommunications contracts, CCTA was to charge government users a flat fee for each line. According to the chief executive of CCTA, departments and agencies, especially the smaller ones, liked the simplicity of dealing with CCTA. Some larger agencies, such as MOD, have chosen to procure their own telecommunications services. The telecommunications industry in the UK is dominated by British Telecom, which is a major supplier to CCTA. We noted that unlike FTS, CCTA could provide its services to local government.

In the IT area, CCTA was similar to FTS in that for a fee, it advised departments and agencies on, and identified vendors that could assist with IT management, systems analysis and design, and procurement. CCTA's work also involved full Internet service, including Internet site provision, development, maintenance, and consulting; and advice on electronic commerce. It also had written many publications to help departments and agencies on such topics as IT systems strategy, benchmarking, and business process reengineering. According to an FTS official, GSA's Office of Governmentwide Policy has activities similar to these. CCTA also had a catalogue of IT products and services, like FSS. We noted that TBA also had contract arrangements for IT products and services; however, a CCTA official told us that CCTA and TBA see the goods and services they offer in the IT area as complementary, with little overlap.

Despite the similarities between CCTA and FTS in the telecommunications and IT areas—and FSS in the case of the catalogue of IT products and services—there was a difference related to CCTA's status as a next steps agency. That is, like TBA, CCTA appeared to have greater managerial and financial flexibility because of its status as a next steps agency. For example, like TBA, responsibility for personnel management, including developing its own pay and grading system, was delegated to CCTA's chief executive. The chief executive was given the freedom to manage CCTA on a quasi-commercial basis within the framework of government accounting rules. According to a CCTA official, CCTA was, for the most part, left alone to run its own affairs so long as its operations ran smoothly and in accordance with its business plan. Because it was a government organization, however, there were some requirements CCTA had to meet. For example, the business case for its pay and grading system had to be approved by HM Treasury.

Procurement Performance Measurement Is Viewed as Important

According to HM Treasury officials, the government of the UK views performance measurement as crucial to any core business activity, including procurement. However, HM Treasury and the Cabinet Office recognized that, in the past, developing performance measures for procurement was difficult. Difficulties arose over defining universally applicable measures and questions were raised about whether the effort was worth it. In July 1998, HM Treasury and the Cabinet Office jointly reported that changes in the procurement environment, such as the shift to purchasing services instead of investing in capital assets, had opened the door of opportunity for refining and improving procurement performance measurement. This report, entitled Efficiency in Civil Government Procurement, noted that although most departments and agencies measured procurement performance, their practices varied. The majority were using measures that were not very sophisticated, although some progress had been made in the prior 12 to 18 months.

As a result, HM Treasury and the Cabinet Office were planning to develop a performance measurement system for procurement that would allow benchmarking across government and would increase the sophistication of the measures used by modeling the government's efforts after the private sector. The report contained several other recommendations aimed at setting a new agenda for improving the efficiency of government procurement. Also, at the time of our review, HM Treasury was starting an effort to determine how, in a decentralized environment, departments and agencies could share knowledge, capitalize on lessons learned, and ensure that efficiencies gained in one area are utilized in other areas.

Although HM Treasury's report did not address the adequacy of specific performance measures, we noted that TBA and CCTA had some key performance measures that they used to compare performance from year to year. TBA had performance measures that included total sales volume, customer satisfaction, and cost per £1 of savings achieved. For example, TBA reported it cost 4.38 pence for every £1 saved (100 pence is equal to £1), exceeding its 1997 target of 4.40 pence. CCTA had performance measures that included the reduction in cost of support services per £1 of salary of project staff and percentage of assignments or services delivered to customers' satisfaction. CCTA reported a 97 percent customer satisfaction rating for 1998, although it noted that more feedback from customers was needed to make the results statistically significant.

Australia: No Agency Like FSS but Has Some Central Efforts in FTS-Related Areas

Australia, with a population of about 18 million, has a federal-state system with a central government that operates as a parliamentary democracy. The central government, which has devolved purchasing responsibilities for goods and services to its agencies, did not have an organization with activities like those of FSS, but did have an agency that performed some activities similar to those of FTS. In purchasing goods and services, agencies in Australia were encouraged to follow broad principles—such as achieving value for money—that were set by the Department of Finance and Administration (DOFA). DOFA also administered a vendor certification program for certain goods and services. However, unlike FSS, it did not enter into governmentwide supply contracts with vendors, administer supply schedules, or run a stock program with distribution centers or government stores. Also unlike FSS, Australia did not own and operate a central vehicle fleet, because it had been privatized.

In the telecommunications and IT areas, however, Australia did have an agency with activities similar to those of FTS. In telecommunications, officials with the Office for Government Online (OGO) said that OGO had agreements with service providers on certain terms and conditions; however, unlike with FTS in the United States, agencies were required to use these providers. Like FTS, OGO also assisted agencies, on a nonmandatory basis, with IT projects; however, this role was relatively minor. In fact, agencies were moving away from operating and maintaining their own IT infrastructures. The government had undertaken a major initiative to phase out IT systems acquisition and ownership—except for some systems related to national security—and instead have agencies purchase IT services from the private sector. This outsourcing effort was being done through a multiyear, phased process being administered by the Office of Asset Sales and IT Outsourcing (OASITO). To assess the outcomes of these and other procurement reforms, a committee of the Australian parliament had begun a review of government purchasing policies and practices. Appendix I identifies the key organizations in Australia and summarizes their activities.

Devolution of Purchasing Responsibilities

The government of Australia has devolved purchasing responsibilities to its agencies, which spent about $9 billion Australian for goods and services in fiscal year 1997-1998 (about $6 billion U.S., assuming that $1 U.S. = $1.51 Australian). With enactment of the Financial Management and Accountability Act of 1997, the government gave agencies the responsibility to handle their affairs and to ensure that the government's procurement policies were observed. DOFA's Competitive Tendering and Contracting branch had a key role in Australia's procurement reform agenda. This branch, among other things, provided assistance to agencies in implementing reforms, surveyed and reported on agencies' implementation efforts, and developed and maintained the government's purchasing policy framework.

The government's procurement policies were set by DOFA in its March 1998 guidance entitled Commonwealth Procurement Guidelines: Core

Policies and Principles.[11] The guidelines stated that the fundamental objective of procurement in the Australian government was to provide the means to efficiently and effectively deliver the government's programs. This objective, according to the guidance, was supported through several core principles: value for money, open and effective competition, ethics and fair dealing, accountability and reporting, national competitiveness and industry development, and support for other government policies. The guidance also encouraged agencies to provide opportunities for Australian and New Zealand industry. However, DOFA officials said that their procurement system was not used to advance other social objectives.

When developing instructions for procurement within their agencies, agency executives were expected to take these core policies and principles into account. According to DOFA officials, the government decided that its agencies should be involved only in core, mission-related activities and should not be performing functions that could be performed by the private sector. DOFA officials said that most agencies were pleased with the devolution that had occurred. An official from a large agency we interviewed, the Department of Family and Community Services, said that they liked having more control over purchasing decisions and were very satisfied with the reforms.

No Centrally Administered Supply Program

As a result of the devolution of purchasing responsibilities to agencies, Australia did not have an organization like FSS to assist agencies with the procurement of supplies. In the supply area, DOFA administered a vendor certification process for IT, office machines, office furniture, and auction services known as the Endorsed Supplier Arrangement (ESA). The ESA was to rely on a good faith, self-assessment approach where vendors submitted information about key factors, such as delivery performance and financial viability. According to DOFA officials, DOFA was to assess vendors' applications in terms of financial capability and compliance with industry standards. These officials told us that DOFA also did random and targeted vendor reviews. A key difference between the ESA and FSS' schedule programs was that DOFA did not establish governmentwide supply contracts with the vendors, as does FSS. Another difference was that unlike FSS' schedule programs, agencies were required to buy IT from ESA vendors.

[11] These guidelines apply to the procurement of "property and services," which cover all goods and services, including consulting/professional services, real property activities, construction, equipment and real property leases, training services, public utility services, and outsourcing or contracting-out services.

According to DOFA officials, DOFA and one of its predecessor departments, the Department of Administrative Services (DAS),[12] used to administer "common use arrangements" that were replaced with the ESA. The common-use arrangements more closely resembled FSS supply activities in that they were governmentwide contractual agreements administered centrally. The non-IT arrangements were ended in June 1998, and IT and major office machine arrangements were ended in September 1998. The officials said that the primary reason for eliminating these arrangements was the government's ideological decision to devolve financial accountability to agencies. In addition, they said that the arrangements generally were not achieving a level of savings that would justify continuing them. Also, the officials added that the government did not administer a stock program, like FSS does, with supply distribution centers or government stores.

Government Fleet Was Privatized

In the vehicle area, DAS used to manage the government's vehicle fleet, known as DASFLEET, up until its privatization in 1997. DASFLEET was established in the 1920s and was expanded to become the sole supplier of passenger and commercial vehicles for the Australian government. DASFLEET operated three main business areas: long-term vehicle leasing, short-term vehicle rental, and fleet management and maintenance services. Prior to its sale, agencies were free to use private sector operators for their short-term rentals and fleet management and maintenance requirements. In practice, however, these customers used DASFLEET for much of these needs. In early 1997, DASFLEET's total fleet was valued at $376 million Australian (about $249 million U.S.) and comprised over 17,000 vehicles. DASFLEET owned these vehicles, except for about 700 that were privately financed or managed by DASFLEET for other parties. DASFLEET's workforce totaled 376 people, and its yearly profits were about $23 million Australian (about $15.2 million U.S.).

In 1996, the Department of Finance reviewed DASFLEET's finances and operations and determined that the government should either refinance the fleet or privatize the business. The privatization option would include a tied contract commitment by the government whereby agencies would be required, for 5 years, to use the new entity for their long-term leasing needs. The short-term vehicle rental business would not be included in the tie. The government ultimately determined that the privatization option provided the best option and assigned responsibility for the sale to the Office of Asset Sales (OAS). In September 1997, DASFLEET was sold to

[12] In 1997, the Department of Finance and Department of Administrative Services merged, creating DOFA.

Macquarie Fleet Leasing Pty. Limited, a wholly owned subsidiary of Macquarie Bank.[13] The sale produced proceeds of about $407 million Australian (about $270 million U.S.). At the time of our review, DOFA had responsibility for monitoring the tied contract.

Whole-of-Government Telecommunications Arrangements Centrally Managed

As with other goods and services, agencies in Australia were responsible for acquiring their own telecommunications services. However, officials told us that agencies were required to use service providers that had agreed to certain terms and conditions with the Office for Government Online (OGO), formerly known as the Office of Government Information Technology (OGIT). Each year, government agencies spend about $365 million Australian (about $242 million U.S.) to meet their telecommunications needs, including voice, data, and mobile services. Telstra is the major service provider, accounting for just over 75 percent of government expenditures on telecommunications services, although a number of other smaller companies also compete for the government's business.

OGO sought to aggregate the government's buying power to achieve a better price for the government as a whole, like FTS does. According to OGO officials, OGO managed centrally administered "whole-of-government" telecommunications arrangements where service providers agreed to certain terms and conditions in "head agreements" negotiated by OGO. The officials said that agencies were to purchase services directly from the service providers under the umbrella of the head agreements and the latest prices negotiated in those agreements. The officials added that for agency-specific requirements, agencies could seek the assistance of OGO in negotiating favorable terms and conditions that became part of the whole-of-government arrangements and were available to other agencies, as appropriate. In this way, the officials said that the government used its aggregated purchasing power to achieve lower prices, competition, and economies of scale. According to the OGO officials, the government has saved in excess of $30 million Australian (about $20 million U.S.) in the last 3 years through the leverage of these arrangements.

All IT Systems to Be Outsourced

OGO was also a central agency for IT. OGO's primary objectives in the IT area related to bringing a governmentwide perspective to IT management. The agency's main focus was to promote efficient access to government information and services, help agencies avert problems related to the year 2000 crisis, and provide policy advice to the government related to online

[13] According to an Australian official, the government retained a fleet of limousines for members of Parliament.

services. Like FTS, OGO officials said that OGO also acted as a third party in providing agencies with advice on the development and implementation of their IT projects, although this role was relatively minor.

A major development in the IT area was that agencies were moving away from in-house implementation and management of IT systems. In April 1997, the government announced a major initiative to outsource all of its IT systems infrastructure, with the exception of some systems related to national security. The initiative was to be accomplished through a multiyear, phased process currently being administered by the Office of Asset Sales and IT Outsourcing (OASITO).[14] Appendix V provides a more detailed description of Australia's IT outsourcing initiative.

Parliamentary Review of Purchasing Policies and Practices

In December 1998, the Australian parliament's Joint Committee for Public Accounts and Audit announced that it would conduct an inquiry into Australian government purchasing policies and practices. The inquiry was to have two general purposes. First, the Committee was interested in whether government entities had achieved effective outcomes, such as value for money, through the new purchasing policies. Second, the Committee was interested in whether the Australian business community had achieved more equitable outcomes as a result of these policies. To determine how government entities had performed, the Committee planned to collect and analyze statistical and performance information showing trends in purchasing opportunities and outcomes and planned to hold a series of hearings.

According to DOFA officials, the extent to which agencies maintained this type of information, including information on performance goals and measures, likely varied across government, with some agencies having better data than others. There has, according to these officials, been no central effort to collect and report this type of information. Separate from the parliamentary inquiry, DOFA officials said they had begun surveying agencies on the types of performance data they collected.

[14] In November 1997, information technology outsourcing functions formerly managed by OGIT were transferred to OAS, which was renamed OASITO.

New Zealand: No Central Procurement Agencies but Uses a Private Business Like FSS and FTS

New Zealand, with a population of about 3.6 million, has a local government structure with counties and districts and a central government that operates as a parliamentary democracy. The central government has decentralized purchasing authority for goods and services, and did not have any government organizations similar to FSS or FTS because it privatized its central procurement agency in 1992. With the exception of some central monitoring for major IT projects, agencies were given complete discretion over how they acquire goods and services while still being expected to follow some general principles, such as ensuring that domestic suppliers were treated fairly. In meeting their needs for goods and services, agencies could go directly to the private sector and had the option of using the private sector business that was created when the central procurement agency was privatized. This business, called GSB Supply Corporation Ltd. (Supplycorp), acted as a purchasing agent for the government by assisting agencies with their procurement needs and did business only with government organizations. Supplycorp was similar to FSS and FTS in that it negotiated contracts on behalf of the government for supply, fleet, telecommunications, and IT products and services, yet it operated completely outside the government sector.

One exception to New Zealand's highly decentralized approach to procurement was in the IT area, where the Treasury and the State Services Commission (SSC) were responsible for examining and monitoring IT projects. SSC was also responsible for assessing overall agency performance with a focus on measuring outputs rather than inputs. Because procurement was viewed as an input, performance data were not readily available to measure progress or gauge the results of the various procurement reforms. Appendix I identifies the key organizations in New Zealand and summarizes their activities.

Agency Accountability Without Centralized Procurement

Over the last decade, reform in the central government of New Zealand has centered on shifting accountability for results to departments and relying more on the private sector to perform activities of a business nature. The New Zealand government spends about $3 billion New Zealand for goods and services each year (about $1.7 billion U.S., assuming that $1 U.S. = $1.78 New Zealand). With enactment of the State Sector Act of 1988 and Public Finance Act of 1989, departments were given complete discretion over how they managed their affairs, including how they acquired goods and services. The reforms also set up a relationship between each department and SSC, which is a central management agency that reviews and reports on agency performance. Departmental chief executives, who are civil servants who manage the day-to-day affairs of departments, enter into agreements with SSC to deliver results that are defined as an agreed-upon level of outputs. Generally speaking, outputs are measurable units of whatever the department produces, whether it is policy advice or direct services to the public. In return, departments had nearly complete freedom over how much of their budgets they spent on the different types of resources—inputs they need to produce the outputs—and from where they would be purchased.

Although departments had these freedoms, they were still expected to operate open, fair, and competitive procurement processes. Guidance by both the Treasury and the Ministry of Commerce outlined the government's open purchasing policy and principles and recommended procedures that are considered to be consistent with sound business practices. The government's general purchasing policy was based on the commercial principle of best value for money through open and effective competition and full and fair opportunity for New Zealand and Australian suppliers. According to SSC officials, the policy did not seek to advance any social objectives, which instead were usually funded directly. New Zealand and Australian suppliers could register with the New Zealand Industrial Supplies Office (NZISO), a unit within the Ministry of Commerce. NZISO provided information to purchasers on domestic suppliers and their capabilities. Prospective purchasers were urged, but not required, to contact NZISO, which did not get involved in actual purchasing negotiations or decisions.

Within this policy framework for procurement, the government of New Zealand did not have any central procurement agencies. In meeting their supply, fleet, telecommunications, and IT needs, departmental purchasers did not have the same options that exist in the United States with FSS and FTS. That is, within the government, there were no central supply schedules, stock programs with distribution centers or government stores, vehicle acquisition and fleet management services, governmentwide telecommunications arrangements, or IT-related services that were available for governmentwide use like there are in the United States through FSS and FTS.

Central Procurement Function Was Privatized

The government of New Zealand once had a central procurement agency, but it was reorganized as a state-owned enterprise (SOE) in 1989 and privatized in 1992. Prior to this time, the Government Stores Board (GSB) acted as a central purchasing agent within the government. Chaired by the Secretary of the Treasury, it consisted of representatives from other departments and was administered by a division of the Treasury. The function of GSB was to act as a central controlling, supervisory, and coordinating authority for the purchase, custody, distribution, use, interdepartmental transfer, and disposal of public stores. GSB's main service was to award contracts for the supply of goods to government departments. It did not stock goods; rather, it acted as an agent for the government by arranging bulk purchase contracts under which departments were required to purchase specific goods from selected suppliers. GSB also issued binding instructions to departments to regulate their purchasing activities.

In 1989, the government reorganized GSB from a government agency to an SOE, renamed it the Government Supply Brokerage Corporation (NZ) Ltd. (GSBC), and made its services nonmandatory. The Treasury assumed responsibility for the former GSB's control functions but did not issue any purchasing instructions to departments, leaving these matters to each department to determine. As an SOE, GSBC gained the ability to act as a private sector firm, but the New Zealand government owned all the shares of the corporation. The government eventually sold its shares in 1992 and a new private business—GSB Supply Corporation Ltd. (Supplycorp)—was established.

At the time of our review, Supplycorp performed activities similar to those carried out by FSS and FTS in that it assisted agencies with procurement, yet it was a private sector business that operated completely outside the government sector. In fact, Supplycorp only did business with government organizations, defined as those that receive at least 50 percent of their funding from a government source. Supplycorp also provided its services to local governments as well, unlike FSS and FTS. Each year, Supplycorp has sales of about $350 million to $450 million New Zealand (about $197 million to $253 million U.S.). According to Auditor General staff we interviewed, more than 90 percent of government departments and local authorities continued to use Supplycorp after it was privatized to meet at least some of their needs for goods and services. In the supply area, it managed over 800 contracts with 1,200 suppliers for a wide range of common-use commodities, including IT products and services. These included national purchase contracts, as well as local purchase contracts tailored to individual regions of the country. It did not, however, operate distribution centers or government stores like FSS does. In the vehicle area, Supplycorp services covered the purchase, disposal, and management of new and used motor vehicles, similar to FSS' services. Supplycorp arranged for the purchase of about 3,750 vehicles each year. Unlike FSS, it did not manage a central fleet for the government.

Like FTS, Supplycorp arranged bulk rate telecommunications contracts. It is important to note that prior to the formation of Supplycorp as a private sector business, departments did not use GSB for telecommunications services because the government owned the sole telecommunications provider in New Zealand, Telecom Corporation. Departments simply went to Telecom for telecommunications services. In 1990, the government privatized Telecom and departments began arranging their own telecommunications contracts. In the IT area, like FTS, Supplycorp had a technology team that offered advice and consultations to departments and also had contract arrangements for IT products and services. Supplycorp also prided itself on being positioned to meet the future technology needs of the government. Before GSB was privatized, its Computer Services Division (CSD) was a nonmandatory source that assisted departments with procurement of large IT systems. In 1994, the government privatized CSD separately from Supplycorp. CSD was fully absorbed by the buyer and no longer exists.

Major IT Projects Centrally Monitored

One exception to New Zealand's highly decentralized approach to procurement was in the IT area, where SSC and the Treasury recently set up a monitoring team to conduct joint reviews of departments' major IT projects. According to SSC officials, the frequency of review was determined by the monitoring team and depended on the complexity of the project and the capability of the department. Departments were expected to submit external quality assurance reports to the IT monitoring team, which assessed project risks and mitigation strategies, and SSC and Treasury provided program officials with feedback. In addition to this monitoring, SSC and the Treasury conducted higher profile reviews of high-risk projects and reported directly to ministers through what was called the Ad Hoc Officials IT Committee. According to SSC officials, projects reviewed by this Committee cost over $5 million New Zealand (about $2.8 million U.S.), involved strategic and mission-critical application systems, and generally posed a high risk to the government.

Performance Measurement Efforts Focus on Outputs

The State Sector Act of 1988 was designed to introduce the government of New Zealand to many of the positive features of the private sector. The key principle was that managers, if they were permitted to make all input decisions—pay, appointments, organizational structures, production systems, etc.—would respond by accepting personal responsibility for producing substantially higher quality outputs—the goods and services provided by the government.[15] As mentioned before, SSC played a key role by entering into performance agreements with departmental executives

[15] It is interesting to note that in New Zealand, the government made a conscious decision not to focus on outcomes—what the government is trying to achieve—because it believed that holding departments accountable for outcomes would be too difficult. That is, there would be endless debate over measurement and the reasons for outcomes, making accountability enforcement difficult.

and monitoring performance. According to SSC officials, however, information that would enable an assessment of New Zealand's approach to procurement was generally not available. According to these officials, procurement processes and approaches were viewed as inputs and accordingly were not routinely measured or assessed.

Officials we contacted who operated in this environment—from the Ministry of Health, Health Funding Authority, and Ministry of Defence—were very satisfied with being held accountable for outputs while having the freedom to control inputs, including how they procured goods and services. They said that the reforms have made their departments more efficient and effective. It is important to note that although New Zealand's management approach did not focus on regulating procurement practices, there were other controls over abuse of purchasing freedoms. These included parliamentary inquiries, audits of procurement practices by the Auditor General, and obligations set in law for departments to respond to any requests for information.

Conclusions

Information on the various approaches used by these four countries provides insight into how they performed activities similar to those of FSS and FTS. These countries had reassessed the role of their central procurement agencies and procured goods and services in a variety of ways. None of the countries had government organizations that completely mirrored FSS and FTS. For example, in the UK, the government organizations that performed activities similar to FSS and FTS were different in that they had more flexibility to manage personnel and financial matters than traditional government departments. New Zealand sold its central procurement agency to the private sector, and agencies now could use the private sector business that was created to help meet their procurement needs. Also, there were similarities and differences in the programs and policies these countries used in the procurement of supplies, vehicles, telecommunications, and IT.

Amending laws and regulations under which agencies operate and reforming procurement processes are not new concepts in the United States. For example, Congress authorized TVA, a government corporation, and some federal agencies such as VA and FAA to adopt alternative personnel systems. In addition to modifying requirements to help agencies accomplish their missions, the U.S. government has also reformed its procurement practices. The Federal Acquisition Streamlining Act of 1994 was enacted in part to promote efficiency and economy in contracting. In recent years, agencies have outsourced, or contracted for, a wide range of functions that had been done in-house. For example, the investigative unit of OPM was privatized and OPM now contracts for investigative services. To identify future candidates for privatization or outsourcing, the FAIR Act of 1998 requires agencies to identify functions they perform that are not inherently governmental. These reforms and streamlining efforts in the United States, as well as those in the four countries, were designed to make government operate more efficiently, improve service delivery, and focus on government's core mission.

In considering the merits of the approaches used by the countries and their applicability to FSS and FTS, it is important to recognize that such factors as differences in political and economic environments, the role of social objectives in the procurement process, and the volume of contracting activity would have to be considered. Furthermore, although the officials we interviewed in the four countries were generally satisfied with the reforms and believed their governments were better off with them in place, performance data on the effectiveness of the various reforms were generally unavailable or were in the early stages of development. Nonetheless, considering the experiences of these countries in reforming similar activities can serve as a starting point for examining what, if any, alternatives there are to the way FSS and FTS are currently organized and operate.

Agency Comments

OFPP's Associate Administrator for Procurement Law and Legislation told us that OMB had no comments. Our FSS liaison, FTS' Chief of Staff, and several responsible officials from each of the four countries provided technical comments on a draft of this report to add clarity and context to how we describe their procurement approaches. We incorporated their comments into the final report where appropriate.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Honorable David J. Barram, Administrator of GSA; the Honorable Jacob J. Lew, Director of OMB; the Honorable Deidre A. Lee, Administrator of OFPP; and the key officials in each of the countries we visited. We will also make copies available to others on request.

Major contributors to this report were Gerald Stankosky, David E. Sausville, and David W. Bennett. We also greatly appreciate the assistance provided by the Auditor General staffs in each country as well as the willingness of the other officials to meet with us and provide information.

If you or your staffs have any questions, please contact me on (202) 512-8387 or at ungarb.ggd@gao.gov.

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Director, Government Business
Operations Issues

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Abbreviations

BDP	benefits-driven procurement
CCTA	Central Computer and Telecommunications Agency
CSD	Computer Services Division
DAS	Department of Administrative Services
DND	Department of National Defence
DOFA	Department of Finance and Administration
ESA	Endorsed Supplier Arrangement
FAA	Federal Aviation Administration
FAIR	Federal Activities Inventory Reform Act of 1998
FAR	Federal Acquisition Regulation
FAST	Federal Acquisition Services for Technology
FSS	Federal Supply Service
FTS	Federal Technology Service
GSA	General Services Administration
GSB	Government Stores Board
GSBC	Government Supply Brokerage Corporation (NZ) Ltd.
GTIS	Government Telecommunications and Informatics Services
HMSO	Her Majesty's Stationery Office
MOD	Ministry of Defence
NZISO	New Zealand Industrial Supplies Office
OAS	Office of Asset Sales
OASITO	Office of Asset Sales and IT Outsourcing
OFPP	Office of Federal Procurement Policy
OGIT	Office of Government Information Technology
OGO	Office for Government Online
OGP	Office of Governmentwide Policy
OMB	Office of Management and Budget
PFI	private finance initiative
PWGSC	Public Works and Government Services Canada
SIPSS	Science, Informatics, and Professional Services Sector
SOE	state-owned enterprise
SOS	Supply Operations Service
SSC	State Services Commission
TBA	The Buying Agency
TBS	Treasury Board Secretariat
TSO	The Stationery Office
TVA	Tennessee Valley Authority
VA	Department of Veterans Affairs
RAF	Royal Air Force
NAO	National Audit Office

Organizations With Activities Related to Supply, Vehicle, Telecommunications, and IT Procurement

Country	Procurement organizations	Procurement policy-setting organizations	Supply activities[a]
United States	General Services Administration's Federal Supply Service (FSS) and Federal Technology Service (FTS)	Office of Management and Budget's Office of Federal Procurement Policy (OFPP); GSA's Office of Governmentwide Policy (OGP)	FSS has nonmandatory, prenegotiated contract arrangements under which agencies deal directly with vendors to acquire a range of supplies, including IT goods and services; FSS also stocks supplies for resale to agencies from its distribution centers and government stores.
Canada	Public Works and Government Services Canada's Supply Operations Service (SOS) and Government Telecommunications and Informatics Service (GTIS) branch.	Treasury Board and its operational arm, the Treasury Board Secretariat	Like FSS, SOS had prenegotiated contract arrangements under which agencies dealt directly with vendors for supplies, including IT products and services; however, unlike FSS, they were mandatory over certain dollar thresholds; also unlike FSS, SOS had no distribution centers or government stores.
United Kingdom	The Buying Agency (TBA);[b] Central Computer and Telecommunications Agency (CCTA)[b]	Her Majesty's Treasury (HM Treasury)	Like FSS, TBA had nonmandatory, prenegotiated contract arrangements for supplies, under which agencies dealt directly with vendors for supplies, including some for IT products and services; unlike FSS, TBA did not have distribution centers or government stores.
Australia	Office for Government Online (OGO); Office of Asset Sales and IT Outsourcing (OASITO)	Department of Finance and Administration (DOFA)	Unlike in the United States with FSS, the government did not have any centrally administered supply contract arrangements and had no distribution centers or government stores; DOFA did, however, administer a vendor certification program that was mandatory for IT.
New Zealand	GSB Supply Corporation Ltd. (Supplycorp)[d]	Commerce Ministry; The Treasury[e]	Unlike in the United States with FSS, the government did not have any centrally administered supply contract arrangements and had no distribution centers or government stores; Supplycorp was a nonmandatory source in the private sector that, like FSS, had similar arrangements under which agencies dealt directly with vendors to acquire a range of supplies, including IT products and services; Supplycorp also did not have distribution centers or government stores.

Vehicle activities	Telecommunications activities	IT activities[a]
FSS is the mandatory source for vehicle purchases and operates a nonmandatory, interagency fleet for short-term agency needs.	FTS has nonmandatory, local and long distance telecommunications service arrangements with private carriers that agencies can use.	FTS assists agencies, on a nonmandatory basis, with acquiring IT systems and related services; FSS has an IT products and services schedule; FTS services differ from those of FSS in that FTS acts as a third party; with the FSS schedule, agencies deal directly with the IT vendors.
Like FSS, SOS was the mandatory source for vehicle purchases but did not operate a central fleet.	Like FTS, GTIS had nonmandatory, local and long distance telecommunications service arrangements with private carriers that agencies could use.	SOS had a mandatory role in assisting agencies with IT systems acquisitions if they exceeded certain dollar thresholds; SOS also had prenegotiated arrangements for IT products and services, like FSS; GTIS assisted smaller agencies and those without IT expertise, on a nonmandatory basis, with identifying their IT needs.
Unlike in the United States with FSS, agencies could go directly to the private sector to purchase vehicles and there was no central fleet agencies could use; TBA could assist agencies with vehicle acquisition and agencies could use vehicle purchase arrangements held by the Ministry of Defence (MOD).[c]	Like FTS, CCTA had nonmandatory, local and long distance telecommunications service arrangements with private carriers that agencies could use.	Like FTS, CCTA assisted agencies, on a nonmandatory basis, with acquiring IT systems and related services; like FSS and its sister agency TBA, CCTA also had a schedule of IT products and services.
Unlike in the United States with FSS, agencies went directly to the private sector for vehicles and there was no central fleet; the government used to have a central fleet, but it was privatized in 1997; agencies were required to use the privatized fleet for a 5-year period to meet their vehicle needs.	Like FTS, OGO sought to aggregate the government's buying power through agreements it had with telecommunications service providers; however, unlike with FTS in the United States, agencies were required to use those providers.	OGO had a minor role assisting agencies in the acquisition of IT systems; there was no major government initiative to assist agencies in acquiring IT systems because of a new initiative to phase out IT systems ownership and instead outsource, or contract for, IT services; this initiative was being done through a multiyear, phased process being administered by OASITO.
Unlike in the United States with FSS, agencies went directly to the private sector for vehicles and there was no central fleet; Supplycorp had prenegotiated contract arrangements for vehicle purchases that agencies could use, and could assist agencies in obtaining fleet management services.	Unlike with FTS in the United States, agencies went directly to the private sector for telecommunications services; Supplycorp had prenegotiated contract arrangements for telecommunications services that agencies could use.	Agencies went directly to the private sector for IT systems and had the option of using Supplycorp for assistance; Supplycorp had a technology team that offered advice and consultations, like FTS has, and a schedule of IT products and services, like FSS has; major IT projects were to be examined and monitored by SSC and the Treasury.

[a]"Supply activities" can include commercially available IT products and services; "IT activities" refer primarily to the acquisition of IT systems and related services.

[b]TBA and CCTA are executive or "next steps" agencies, which means they had more flexibility than traditional government departments in how they managed their finances and personnel.

[c]In the vehicle area, MOD was in the midst of implementing a privately financed partnering arrangement for its nontactical and administrative support fleet. This effort is described in more detail in appendix IV.

[d]Supplycorp is a private sector business that sells only to government agencies.

[e]The State Services Commission is also a key central agency that is responsible for reviewing and reporting on agency performance, but it does not set procurement policy.

Source: GAO analysis of information on organizations with activities related to supply, vehicle, telecommunications, and IT procurement in the United States and selected countries.

Objective, Scope, and Methodology

Our objective was to identify the organizations, policies, and programs that Canada, the United Kingdom (UK), Australia, and New Zealand had in place to assist agencies with the procurement of supplies, vehicles, telecommunications, and IT. To meet this objective, we obtained information on FSS' and FTS' procurement activities by interviewing top FSS and FTS officials as well as program officials in the four business lines. We also held discussions with GSA's OGP and OFPP within OMB. We collected information on federal procurement through research on the Internet and by reviewing our past work. We also reviewed procurement-related laws and regulations, such as the Federal Acquisition Streamlining Act of 1994, the Federal Activities Inventory Reform Act of 1998, and the Federal Acquisition Regulation.

To select countries for the review, we first determined, on the basis of available resources and the time frames for the assignment, that we could collect and analyze information on four countries. We then conducted research, relying heavily on the Internet, as well as discussions with officials at the World Bank and Department of State, to identify Western industrialized countries that had made a commitment to procurement reform and would be candidates for selection. On the basis of this work, we selected Canada, the UK, Australia, and New Zealand because they had made such a commitment, and preliminary work showed they had reformed activities similar to those carried out by FSS and FTS. Our work was limited to the activities of the central or federal governments in these countries.

We confirmed our selections primarily through further discussions with our counterpart organizations—the Auditor General offices—in each of the countries as well as the Department of State offices for each of the countries. We also held discussions with the embassy of New Zealand in Washington, D.C. and the U.S. embassies in Ottawa, Canada, and London, UK. It is important to note that the four countries were judgmentally selected and were not intended to be representative of how countries around the world were reforming similar activities.

To collect information on the organizations, programs, and policies in these countries, we visited them and interviewed key officials about their operations. To identify which officials would provide information that would help us best meet our objective, we relied heavily on advice from the Auditor General staffs. The Auditor General staffs then arranged the interviews, provided us with relevant material, and assisted us with other logistical matters related to the visits. In Canada, the central procurement department also played a vital role in identifying key officials and arranging the interviews. In each country, we interviewed officials in any central procurement organizations involved in the procurement of supplies, vehicles, telecommunications, and IT. We also interviewed knowledgeable officials in organizations that set procurement policy such as each country's Treasury department or equivalent; selected agencies that were the end-users of the procurement organizations, programs, and policies in place; and the Auditor General offices. In Australia, we held discussions with staff from a parliamentary committee conducting an inquiry into procurement practices. We also interviewed the general manager of a private sector business in New Zealand that assisted the government with procurement. In doing our work, we also analyzed a wide range of material on the organizations, programs, and policies in the four countries. Tables identifying the organizations in each country discussed in this report and their Internet addresses appear at the end of this appendix.

After collecting the information, we compared these countries' operations to how FSS and FTS assist agencies with the procurement of supplies, vehicles, telecommunications, and IT. It is important to note that we did not do a comprehensive comparison. That is, in each of the four FSS and FTS business lines, we focused on the major activities that FSS and FTS perform and determined how each country carried out similar activities. For example, for supply and procurement, we determined whether there were central supply contracts in the countries that agencies could use that were similar to those available through the FSS supply schedules and special order arrangements and whether the countries had operations similar to the FSS stock program.

For vehicle acquisition and leasing, we focused on whether vehicles were purchased centrally and whether each country had a central fleet like the FSS interagency fleet. For network services and IT solutions, we focused on whether, in general, the countries had central sources from which agencies could obtain telecommunications services or assistance with the acquisition of IT systems and related services. In using this approach, we recognize that we did not focus on all the specific characteristics of the activities FSS and FTS perform in each of the business lines. Resource and time constraints prevented us from doing a detailed comparison, nor did they allow us to assess the applicability of the approaches used by these countries to FSS and FTS operations.

We also did not analyze or verify the laws cited by the foreign officials or contained in documents they provided. Although we did ask the countries for performance data related to their procurement organizations and activities, we did not independently verify any data we obtained or assess the effectiveness of the reform initiatives. Finally, we did not verify the barriers cited by FSS and FTS or assess the effectiveness of reforms implemented in the United States.

We did our work at FSS and FTS offices in Arlington and Falls Church, VA, respectively, and OGP and OFPP offices in Washington, D.C. In our visits to the countries, we did work in the cities of Ottawa and Hull in Canada; London and Bath in the UK; Canberra, Australia; and Wellington, New Zealand. In discussing the organizations in the countries, we used terms such as “agency” and “department” interchangeably. The exchange rates used throughout the report were as of May 2, 1999; we obtained them from the Federal Reserve Bank of New York and rounded them to the nearest cent. We performed our work between July 1998 and May 1999 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Director of OMB, Administrator of GSA, and key officials in the countries we visited. OMB had no comments. In response to the request for comments from the Administrator of GSA, FSS and FTS officials provided comments on a draft of this report, as did responsible officials from the four countries. Tables II.1 through II.5 identify the organizations in the United States and each of the four countries discussed in this report and their Internet addresses.

Table II.1: United States

General Services Administration (GSA)	http://www.gsa.gov
GSA/Federal Supply Service (FSS)	http://www.fss.gsa.gov
GSA/Federal Technology Service (FTS)	http://www.fts.gsa.gov
GSA/Office of Governmentwide Policy (OGP)	http://www.policyworks.gov
Office of Federal Procurement Policy (OFPP)	http://www.whitehouse.gov/OMB/procurement/index.html

Table II.2: Canada

Department of National Defence (DND)	http://www.dnd.ca/
Department of Public Works and Government Services Canada (PWGSC)	http://w3.pwgsc.gc.ca/
PWGSC/ Government Telecommunications and Informatics Services (GTIS)	http://w3.pwgsc.gc.ca/gtis/
PWGSC/ Supply Operations Service (SOS)	http://w3.pwgsc.gc.ca/sos/text/sosext-e.htm
Office of the Auditor General of Canada (OAG)	http://www.oag-bvg.gc.ca/
Treasury Board Secretariat of Canada (TBS)	http://www.tbs-sct.gc.ca/

Table II.3: United Kingdom

Central Computer and Telecommunications Agency (CCTA)	http://www.ccta.gov.uk/
Her Majesty's Treasury (HM Treasury)	http://www.hm-treasury.gov.uk/
HM Treasury's task force on PFI	http://www.treasury-projects-taskforce.gov.uk/
Ministry of Defence (MOD)	http://www.mod.uk/
National Audit Office (NAO)	http://www.open.gov.uk/nao/home.htm
The Buying Agency (TBA)	http://www.open.gov.uk/tba/menu.htm
The Stationery Office (TSO)	http://www.tsonline.co.uk/

Table II.4: Australia

Australian National Audit Office (ANAO)	http://www.anao.gov.au/
Department of Family and Community Services (DFaCS)	http://www.facs.gov.au/
Department of Finance and Administration (DOFA)	http://www.dofa.gov.au/
Joint Committee for Public Accounts and Audit (JCPAA)	http://www.aph.gov.au/house/committee/jpaa/index.htm
Office of Asset Sales and IT Outsourcing (OASITO)	http://www.oasito.gov.au/
Office for Government Online (OGO)	http://www.ogo.gov.au/

Table II.5: New Zealand

GSB Supply Corporation Ltd. (Supplycorp)	http://www.gsb.co.nz/
Health Funding Authority (HFA)	http://www.hfa.govt.nz/
Ministry of Commerce	http://www.moc.govt.nz/
Ministry of Defence (MOD)	http://www.defence.govt.nz/
Ministry of Health	http://www.moh.govt.nz/moh.nsf
Office of the Controller and Auditor-General of New Zealand	http://www.netlink.co.nz/~oag
State Services Commission (SSC)	http://www.ssc.govt.nz/Welcome.asp

Sources: The sources for tables II.1 through II.5 are the Internet addresses identified, as of the time of our review.

Canada's Benefits Driven Procurement

Benefits Driven Procurement (BDP) is a new approach the Canadian government has started to use to help ensure the success of complex acquisition projects traditionally characterized as having significant risk. BDP stresses a focus on results and on the benefits that the government and its suppliers can gain from each acquisition project. Developed by the Canadian government in collaboration with Canadian industry, the BDP approach is designed to avoid the pitfalls that beset many complex projects—delays, cost overruns, and end results that often fall far short of expectations. BDP was first developed to solve problems with major IT acquisitions; but according to Canadian government officials, the concept has a broad application and is relevant to a wide range of complex, high-risk acquisitions.

According to information on BDP from Public Works and Government Services Canada (PWGSC),[1] Canada's central procurement agency, major IT projects, which are among its most complex procurement projects, have a history of failure. Research done in the United States and Canada support this assertion. For example, in 1990, the President's Council on Management Improvement cited the "unwieldy procurement process" as a reason IT projects often failed. Other reasons cited in this report included lack of top management commitment, inadequate planning, inadequate user input, and flawed technical approaches. In 1997, KPMG Consulting conducted a survey of IT projects in Canada and reported that the reasons for failure among IT projects were poor planning, a weak business case, and lack of top management involvement. A study by the Standish Group in the United States showed that 31.1 percent of U.S. IT development projects were cancelled before completion; about 53 percent of the projects were likely to cost 189 percent of their original estimates; and only 16.2 percent of software development projects were completed on time and within budget.

Concerned about problems with IT acquisition, the Treasury Board of Canada developed a framework of management policies in 1996 that comprised best practices, principles, methodologies, and tools and standards aimed at ensuring a better success rate. Part of this framework addressed the procurement process, which the Treasury Board described as "too inflexible" and "not conducive to cooperation." BDP evolved as a response to this Treasury Board framework.

[1] This appendix draws heavily from a PWGSC paper on BDP presented on June 10, 1998, before the International Public Procurement Association.

The BDP Philosophy

BDP focuses on the big picture—the overall desired outcomes—rather than on detailed project requirements. The traditional approach to procurement in a complex IT project was for an organization to spend months, even years, developing a detailed requirement—thousands of pages of specifications to present to the private sector. However, according to Canadian officials, the specifications may be outdated before they are complete, can be out of step with the latest technology, and the organization's goals may even have changed during the long, drawn-out process of developing specifications. Finally, according to these officials, the private sector may know the project is not feasible, but may present bids anyway in order to obtain work.

As a result, the traditional approach tends to be too lengthy, rigid, prescriptive, and costly in terms of time and human resources that have to be dedicated to each project, according to Canadian officials. BDP attempts to address this problem by asking the private sector to deliver certain agreed-upon results rather than follow a government blueprint with detailed specifications. The private sector is also invited to submit ideas on what sort of project should be undertaken before a formal request for proposals is issued. Another feature of BDP is that it is to incorporate rigorous up-front planning to remove potential problems in the procurement process.

Elements of the BDP Process

Both the front end planning and the management of the entire acquisition life cycle are based on four elements: a business case; risk analysis; clear delineation of accountabilities; and, a compensation structure closely tied to the contractor's performance. Under BDP, a department is to prepare a business case justifying the project at the highest level and identifying the outcomes and benefits to be achieved. The business case is also to look at such issues as how much the project will cost, whether there are cheaper ways to realize goals, and what the benefits will be to the taxpayer. According to Canadian officials, under traditional methods, a project was often launched prematurely without a determination of whether it was really needed, whether it fit with the organization's long-term goals, and without having the support of top management.

Risk analysis is used to identify what could go wrong with the project and how to deal with the consequences. The goal is essentially to minimize risk and be prepared with contingencies for containment when problems do arise. Departments are to conduct risk assessments not just during the planning phase, but also throughout implementation. This helps ensure that projects with little chance of success are cancelled or modified as early as possible. Delineation of accountabilities is used to protect the client department from service delivery problems by identifying the specific risks each party assumes. For example, if the contract states that the supplier is responsible for delivering a certain outcome, or level of service, by a certain date but fails to do so, the supplier could be required to bear the cost of the delay. Relatedly, BDP encourages the use of a compensation structure closely tied to the contractor’s performance. For example, bonus payments may be made for finishing earlier than expected. A nonmonetary incentive could be intellectual property rights to a technology developed under government contract.

Although BDP has been used primarily in the IT area, PWGSC and Treasury Board Secretariat (TBS) officials told us they anticipated greater usage of BDP in other areas in the future. BDP is part of a broad framework for procurement reform that TBS was developing at the time of our review. These officials said, however, that BDP should not always be used; in many cases, traditional procurement approaches are quite appropriate. They said that rigorous up-front planning by departments is done to help identify the most appropriate method. More information on BDP can be accessed at the PWGSC and TBS Internet addresses, http://w3.pwgsc.gc.ca/ and http://www.tbs-sct.gc.ca/, respectively.

The UK's Private Finance Initiative

The Private Finance Initiative (PFI) is a procurement reform approach being used by the United Kingdom to provide services requiring a major capital investment. Under a PFI project, the private sector finances the capital assets and the government or users pay for the services. Similar to what are commonly referred to as public-private partnerships in the United States, PFI contracts require the private sector to invest in, manage, and operate a capital asset necessary to deliver a defined level of service. By way of example, in a PFI project to fill the need for a highway, the government would pay for the service of having a fully maintained and functional highway instead of constructing and maintaining the highway itself. In the IT area, the government would seek an arrangement in which the private sector would meet a department's IT needs through services, instead of having the government own and manage an IT system and software. An example where the user of the services and not the government pays for the service would be a privately financed bridge that is paid for directly by tolls from motorists using the bridge.

The thinking behind PFI includes transfering the risks and rewards of ownership of an asset to the private sector, along with the need for capital funding. According to HM Treasury officials, it requires government to consider not only whether it can afford to pay for the capital asset, but also to rigorously consider the long-term financial implications of the asset being properly maintained and operated over a period of, frequently, 25 years or more. PFI also aims to allocate procurement risks more appropriately between the supplier and the government customer to ensure that the risks rest with the appropriate party. For example, in a construction project, the risk of delay or cost overruns would rest with the private sector supplier. Alternatively, the risk of changes in legislation that could affect the contract would rest with the government customer, who is better placed to influence any such changes.

Under PFI projects, the government also believes it can also potentially benefit from the innovation and skills of the private sector. By concentrating on the end service required, the government allows the private sector supplier to determine innovative ways of delivering the service—the government customer specifies the outputs but leaves the inputs to the supplier. To ensure value for money under PFI projects, the government customer is to demonstrate that the PFI method of procurement is likely to be better value for money than alternative means of supply—in particular, conventional means of procurement. This comparison is to be done by comparing the quality and cost of the service required under the different alternative means of supply.

At the time of our review, the UK was at various stages of implementing 115 PFI projects for capital assets valued at about £10.9 billion (about $17.6 billion U.S., assuming that $1 U.S. = £0.62). These projects covered a wide range of services, including highways, prisons, IT services, and part of the Ministry of Defence's (MOD) vehicle fleet. To improve the PFI procurement process and to assist departments and agencies with implementing PFI projects, HM Treasury had established a PFI task force.

The task force sought to ensure that departments' projects were not placed on the market until it was confident that the service was affordable, project teams had adequate resources, output specifications had been developed, and an acceptable risk allocation had been proposed. The task force issued guidance for carrying out PFI projects and also provided direct assistance to departments and agencies. At the time of our review, task force officials told us they had hired several individuals from the private sector to ensure that the government had high-calibre legal, financial, and other professional skills available to assist departments. HM Treasury's guidance for PFI projects, as well as more detailed information on the PFI process, can be found at its Internet address that is dedicated to PFI, http://www.treasury-projects-taskforce.gov.uk.

MOD's White Fleet PFI Project

At the time of our review, MOD was in various stages of implementing 20 PFI projects for capital assets with a total estimated value of about £967 million (about $1.6 billion U.S.). These projects included services involving IT systems at the Army Logistics Agency and Army Training and Recruitment Agency, training for the Defence Helicopter Flying School, water and sewage at certain Royal Air Force (RAF) bases, and housing at two other MOD bases. Related to the vehicle acquisition and fleet area, two projects involved MOD's "white fleet" of nontactical, administrative, and support vehicles. The two projects were for white fleet vehicles used by British forces in Germany and a portion of the RAF white fleet vehicles in the UK. This year, MOD planned to expand this project to include all of the white fleet vehicles in the British military.

The white fleet PFI project had its origins in 1994, when MOD began a study to identify methods for encouraging greater commercial involvement in vehicle funding and management. The study concluded that there were both the capacity within the private sector and the potential for financial and operational benefits for MOD to expose the support vehicle fleet to industry competition. It was recognized that adopting a PFI approach to the supply of the white fleet would involve the private sector providing complete vehicle service, not just the funding for a substitution of new assets. MOD believed that through PFI, it would be exposed to private sector innovation and management skills and progressively would benefit from the latest commercial techniques in vehicle management.

MOD selected two portions of the white fleet to test the PFI approach: the support vehicles for British forces in Germany and a stratified group of RAF support vehicles in the UK. According to MOD officials, preliminary data showed that both of these projects were delivering efficiencies in terms of the number of vehicles operated and the cost of operation. At the time of our review, MOD officials estimated that in Germany, savings of 27 percent were being realized compared to in-house operation; and in the UK, savings under PFI were estimated to be about 15 percent. In both cases, MOD believed it was getting a newer and more reliable fleet, along with a better information system and commercial fleet management expertise.

According to MOD officials, they drew on the experience gained from these two test efforts, did detailed research, and held extensive discussions with the leading service providers to develop a strategy for subjecting the rest of the white fleet to competition. Five regional projects covering approximately 12,000 vehicles were developed inside defined boundaries to cover all the requirements of all three services (Royal Navy, Army, and RAF). Each project covered the full range of vehicles in the white fleet and encompassed short and medium term needs. Under the PFI arrangements, MOD staff were to assess fluctuating vehicle needs, and the industry providers are to be under contract to meet all levels of demand, even on short notice. This was a departure from the traditional procurement philosophy MOD had in the fleet area, in which vehicle holdings were to be matched to anticipated maximum usage requirements. Instead, MOD would be paying for vehicle services as an alternative to owning and operating them.

As of October 1998, the time of our discussions with MOD officials, the projects had been advertised and MOD had received expressions of interest and proposal outlines from a number of leading vehicle suppliers who were backed by international financial institutions. Binding bids were to be obtained by the early part of 1999, which would lead to the selection of a preferred supplier and detailed negotiations before projected contract signings in September 1999. Implementation of the contracts would then commence and would be completed in 6 months.

To ensure value for money, MOD has established an in-house cost benchmark that reflected the best of several other in-house options MOD has considered for managing the fleet. Should the bids MOD receives be above the in-house benchmark, MOD officials said they would instead implement the in-house alternatives. Also, MOD was planning to provide the in-house benchmark to industry to prevent providers from submitting bids if they could not provide the required service at a price below the in-house benchmark.

National Audit Office Role

The National Audit Office (NAO), our counterpart organization in the UK, reports to the British parliament on whether individual PFI projects represent good value for money. NAO supports the PFI concept because it offers, in appropriate cases, the prospect of improved value for money. NAO also recognizes that successful implementation will require well-thought innovation and risk-taking by public servants, which it supports. According to NAO officials, the merits of the PFI initiative will be judged on the success of individual projects. To date, these officials said that some projects could have benefited from better up-front planning; as a result, it was questionable whether some projects were achieving value for money. On the other hand, other projects have represented clear value for money and other benefits to the government. Overall, NAO officials said that as time went by, public servants likely would become more adept at using the PFI approach, and the overall gains would be positive. Information on NAO’s findings for individual projects can be accessed at its Internet address, http://www.open.gov.uk/nao/home.htm.

Australia's IT Outsourcing Initiative

In April 1997, Australia's Minister for Finance announced a major initiative to outsource, or contract for, the government's IT infrastructure. The initiative was to cover everything from the large mainframe computers agencies operated to the equipment for over 140,000 desktop computers across the government.[1] According to officials with the Office of Asset Sales and IT Outsourcing, this infrastructure had an estimated value of between $6 and $7 billion Australian (between about $4 and $4.6 billion U.S., assuming that $1 U.S. = $1.51 Australian). Under the initiative, the government committed to achieving best value for money for its information technology dollar in order to support the delivery of services at the lowest cost to the taxpayer.

This major announcement had its origins in 1996, when the government tasked the former Office of Government Information Technology (OGIT) with studying the potential savings that could accrue through consolidation of systems and potential outsourcing. The resulting study indicated that a very strong case for outsourcing existed and led to a decision that agencies should undertake extensive market testing. Potential savings of $1 billion Australian (about $662 million U.S.) were estimated over 7 years if agencies shifted to outsourcing. The April 1997 announcement reflected the government's commitment to apply the outsourcing concept for IT across government, with the exception of some systems related to national security. In November 1997, IT outsourcing functions managed by OGIT were transferred to the Office of Asset Sales, which was renamed OASITO.

OASITO was given responsibility for leading and managing the implementation of the initiative, with the aim of delivering savings, developing the Australian IT industry, and improving service delivery. The initiative had clear objectives related to the Australian IT industry. That is, OASITO was committed to ensuring substantial and sustainable development of the domestic IT industry, encouraging the industry to achieve a global focus, and assisting regional development and the creation of jobs. OASITO's executive coordinator told us that in addition to the Australian IT industry, firms from overseas, including the United States, had been, and would likely continue to be, active participants in the initiative.

[1] In March 1999, we reported that several agencies in the United States were studying the outsourcing option for their information systems (Outsourcing and Privatization: Private Sector Assistance for Federal Agency Studies (GAO/GGD-99-52R, March 26, 1999).

OASITO was managing the initiative through a multi-year, phased process where agencies' IT needs were being grouped together and the requirements offered to the private sector for bids. The government originally estimated that the initiative would be completed by mid-1999. At the time of our review, the schedule for outsourcing had to be adjusted to accommodate the capacity of agencies to prepare for outsourcing and the capacity of industry to absorb the requirements. OASITO was responsible for identifying the groupings and structuring them to maximize the benefits of outsourcing. It also provided guidance and assistance to agencies and managed the sequence and timing of the offerings to maximize competition. In addition, OASITO was the central coordinator for development of project documentation and was to oversee the financial evaluation of the offers. After contracts were signed, OASITO planned to remain involved to ensure that issues affecting the overall success of the initiative were effectively addressed.

In close consultation with OASITO, each agency was responsible for defining its business and technical requirements, assisting with the evaluation of bids, participating in negotiations, and otherwise preparing the agency for transition to an outsourcing relationship and subsequent contract management. At each step of the process, agencies were expected to ensure that sufficient resources were dedicated to the process to enable the project timetable to be met. Agencies were also expected to implement strategies for internal matters, such as human resource transition, and to execute the change to the new operating environment. The government anticipated that IT professionals within government would transfer to the private sector, thus enhancing their skills and furthering their career opportunities.

OASITO's executive coordinator told us that the government undertook this initiative because of a belief that agencies should focus on their core missions and allow the private sector to perform government activities of a business nature. Further, he said that in meeting their IT needs through purchasing IT services, agencies, and the government as a whole, would also benefit from access to the latest technologies and current commercial expertise in information management.

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