

HOUSE OF COMMONS  
ORAL EVIDENCE  
TAKEN BEFORE THE  
PUBLIC ADMINISTRATION COMMITTEE

**PROCUREMENT**

TUESDAY 22 JANUARY 2013  
COLIN CRAM AND JON HUGHES

Evidence heard in Public

Questions 1-46

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## Oral Evidence

Taken before the Public Administration Committee

on Tuesday 22 January 2013

Members present:

Mr Bernard Jenkin (Chair)

Alun Cairns

Kelvin Hopkins

Greg Mulholland

Steve Reed

Lindsay Roy

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**Examination of Witnesses**

*Witnesses:* **Colin Cram**, Managing Director, Marc1 Limited, and **Jon Hughes**, Chairman, Future Purchasing, gave evidence.

**Q1 Chair:** I am not allowed to refer to people in the public gallery, but it would be very nice if I could welcome a large delegation of Chinese visitors who are the guests of the University of Essex, which happens to be in my constituency.

Could I ask each of our witnesses to identify themselves for the record?

**Jon Hughes:** Good morning. I am Jon Hughes. I am the Chairman of Future Purchasing.

**Colin Cram:** I am Colin Cram. I am the Managing Director of Marc1 Limited.

**Q2 Chair:** In particular, Colin Cram, you are the author of a paper called *Towards Tesco*, and you are a former civil servant who worked in public procurement for 30 years.

**Colin Cram:** Yes, that is right. Thirty years ago I was in the Thatcher Government equivalent of the Efficiency and Reform Group.

**Q3 Chair:** Mr Hughes, your consultancy is a specialist and procurement consultancy.

**Jon Hughes:** That is correct.

**Chair:** Thank you very much indeed for joining us for this first public evidence session in our inquiry on procurement.

**Q4 Alun Cairns:** Mr Hughes, I will turn to you to begin with, and then I will ask you, Mr Cram, for your view as well. Does the Government have a clear strategy for transforming public procurement? If they do have a strategy, is it the right one?

**Jon Hughes:** The answer to that is very, very clear: the answer is no. They do in part, but definitely not in totality. If you look at the total amount of third party annual public procurement spend in the UK, it is £243 billion. If you look at the current amount of spend being influenced by the Government Procurement Service, it is around about £10 billion, which is 4% of the total. Is there an overarching strategy? No. Is there a clear strategy across the main areas of spend? No. Are there some pockets of good practice? Yes. I would argue that the absence of a clear strategy, clear leadership and clear accountability remains one of the major inhibiting factors to transforming public procurement.

**Colin Cram:** I would agree with Jon. There are certainly some good things happening, and there are some areas of excellence, but overall I would describe the attempts as a desperate attempt to patch up a flawed design. Unless one really addresses the design and structure of public sector procurement, and ensures that one has a clear set of agreed objectives, we are, at best, going to get very, very patchy results. I think that is what we are getting.

**Q5 Alun Cairns:** How would you like to see the structure change?

**Colin Cram:** If we are talking about public sector procurement as a whole, I think there are a number of prerequisites. We need agreed objectives. Once you have agreed objectives and once you understand the purchase spend, you can then design an organisation to deliver those objectives. We need an integrated, coherent procurement organisation for public sector procurement. At the moment, if we take central Government, where the purchase spend is about £60 billion a year, it is still very much along departmental siloed lines. So, for example, some of the criticisms made by this Committee, when you looked at ICT procurement, recognised that Departments were actually not talking to each other and they were going out and letting contracts independently of each other. We need to get rid of this silo working, not only within central Government, but right across the public sector. There is huge commonality in purchase spend across the public sector—I know this from my own experience. There is huge commonality of the expertise, skills and knowledge that are needed right across the public sector. We need to build it up and harness it on behalf of all.

**Q6 Alun Cairns:** Mr Cram, are you saying that centralised, negotiated contracts of procurement are much more efficient than those negotiated locally?

**Colin Cram:** Yes, but you can do much more than centralise. You are looking at procurement strategies and how we manage the supply chains. If you are letting a local contract for a supplier that has a supply chain to the far east, you are not going to manage that supply chain. You do not have a chance to manage that supply chain, particularly if you are dealing with a global company. What you can do, though, if we get the aggregated spend of the whole of the public sector, is really start to address the fundamental things such as the supply chain and the security of the supply chain. Some of those supply chains are very insecure. You can start to look at ways of taking costs out of the supply chain. You can start to ask questions about whether we could do things better and whether we could start to develop a supply chain based in this country. There are a whole lot of things you can do that we are simply not capable of doing at the moment, so our contracting, if you like, is almost reactive: we want this; how do we go about it? We follow a process and the process chucks out the right answer, and then, fingers crossed, it will work.

**Q7 Alun Cairns:** I will come to you in a moment, Mr Hughes, about structural leadership in particular, because you mentioned that earlier, but I just want to try to pursue this a little bit further, Mr Cram. We heard earlier that centralised, negotiated contracts will generally deliver greater efficiencies. The question was also raised about flexibility and the need for flexibility. I made the point that that a central negotiated contract will only work providing there is a tension whereby a purchaser could go elsewhere in order to seek to drive the cost down. Otherwise, the main suppliers will end up forming a cartel and effectively holding the purchasing Department over a barrel.

**Colin Cram:** We have had cartels in the past, which have existed precisely because public sector procurement is not structured properly. There was an example at the Office of Fair Trading in 2010 or 2009. A construction cartel was discovered, and that construction cartel was for local government and the NHS. Construction companies had got together, and

it was reckoned that they had overcharged the NHS and local government by about £300 million. If procurement is fragmented, it is much easier to create a cartel and agree who is going to win each contract than if procurement is not fragmented. If you have the right procurement expertise, you expect people to be on the alert for cartels.

Public sector procurement is so big that it ought to be able to stop any cartels from happening. It really is massive. We are not actually quite sure of the procurement spend, which I think is dreadful because it is around about a sixth of UK GDP and yet we do not really know how much it is. We do not actually know where it is being spent overall in locality. If procurement is fragmented, it is very much easier for cartels to form than it is if you have a single organisation managing it and an expert team whose job it is not just to go out and contract in the traditional way, but to start to understand the market, tackle the market and be looking for alternatives. By the way, I tried that approach in breaking cartels a little over 20 years ago. I broke some cartels. Those cartels existed because of the way procurement had been fragmented. We saved a lot of money from breaking those cartels.

**Q8 Alun Cairns:** Mr Hughes, do you want to talk about the leadership of the structure? You mentioned leadership earlier and it was Mr Cram who mentioned structure.

**Jon Hughes:** If we take the structural one first, I think that structure is one of the four big levers for change in public procurement. It is only one of four, but it is a very important one. The debate about centralisation and decentralisation is clearly right at the heart of that. I would actually recommend that you use the word “consolidation” rather than “centralisation”, and I will expand a bit on that in a moment. If we look at this huge beast of public procurement, we are talking about 20% of UK GDP. If we take a very simplistic model, which would be to centralise all of it into one single entity and one single point, I would argue that that is completely, totally and absolutely impossible. What we are talking about is that there is huge scope for consolidating public procurement spend into a number of points and a number of entities that will give public service the power, influence and leverage in the marketplace. I would argue that, across the whole of the service, one of the key questions that all major leaders should be asking themselves is what a fit-for-purpose, structural change would be that would consolidate the spend.

Let me give you some quite specific examples, purely to try to bring it to life. If, for example, we looked at public procurement inside the M25—that is a nice, clear, straightforward geographical focus—there is probably £100 billion of spend controlled by people inside the M25. Could we consolidate inside the M25 across, for example, local authorities? Yes. Could we consolidate across NHS trusts? Yes. Could we consolidate across Whitehall Departments? Yes. The question is not whether we should or should not centralise; the issue is that we need to consolidate the expenditure. The challenge then is what the most effective way of actually doing that is. Unfortunately, the sector has a pretty poor record when it comes to consolidation, centralisation, forming hubs, outsourcing spend and all the rest of it. I would argue that, strategically, there most definitely should be major consolidation.

My advice to the Committee is that I believe that 50% of all public procurement spend needs to be consolidated. In other words, it needs to be lifted from its current point of geographical management into something that is bigger and greater. Without making it too complex, one of the challenges is that there are quite a number of ways of doing that consolidation. One example is that you can, clearly, get neighbouring councils or trusts to collaborate. You can get them to form joint ventures. You can get them to merge. You can get them to do collaborative sourcing together. You can get them to set up shared services. You can have independent shared services. You can outsource the shared services. You can form GOCOs, which is the sort of model being proposed in the Ministry of Defence. You can

even put it into a procurement plc. You could float it on the stock exchange. There are many, many, many different types of structural options. As one of the key levers, I believe it is absolutely essential. It needs to be done with a proper strategy and a proper framework, and critically important are proper leadership, proper skills and proper processes—otherwise it would be a disaster. It is one very powerful lever for change and I think it should happen.

**Q9 Chair:** Can I press you on the issue of leadership? My suspicion—and we have some evidence that suggests this—is that we spend far too much time thinking and talking about structures and process and not nearly enough thinking about leadership and skills. If everybody in government procurement did their job extremely well, regardless of what shortcomings are in the structures and processes, would we be much better off than we are today?

**Jon Hughes:** I said there were four levers. I would actually put structure as the fourth one, not the top one.

**Chair:** That is interesting.

**Jon Hughes:** My whole career is based on trying to help big organisations change procurement. It starts with leadership, it starts with accountability, it starts with governance, it starts with focus, it starts with incentives and it starts with penalties. If leaders do not address it in the right way, not much happens. It is almost impossible to drive significant transformation and change in any procurement activity from the bottom up. It has to come from the top down.

**Q10 Chair:** When you are looking at the Cabinet Office—Francis Maude and Stephen Kelly, the chief operating officer—what more can the Government do to improve leadership of this process? What is lacking from it?

**Jon Hughes:** Even if we were at our most generous, we would say that no more than £60 billion is under focus. We do not have an overarching leadership strategy across a small number of key people. Let me illustrate that. I believe that a very small number of Ministers—and by the way, I am extremely complimentary of the leadership that Mr Maude has provided—and a very small number of junior Ministers can put their hands around this animal of public procurement. Secondly, I believe that it is exactly the same with a small number of the larger Departments, the permanent secretaries and the CEOs. Thirdly, it is in terms of the procurement community itself. At the moment, I do not believe that there is that concerted focus across that small group of key leaders, from politicians down to permanent secretaries and down into the chief procurement officer group. Regarding that final group, at the moment we have one person, called the CPO for Government. I do not believe that person is the CPO for Government. I believe that person is the CPO, essentially, for parts of Whitehall.

**Q11 Chair:** Who is that person?

**Jon Hughes:** That is Mr Crothers. Huge parts of the whole piece of public procurement do not get a concerted leadership focus. There are no clear plans. There are no clear goals. There are no clear targets. Therefore, it is almost impossible to track progress.

**Q12 Chair:** Is this an issue about where the power is held to direct?

**Jon Hughes:** Power and control are definitely part of it. You do not bring about change in procurement in large organisations by collaboration and soft influencing. You bring about the change by leaders focusing and taking accountability for what they have agreed to do.

**Q13 Chair:** The fundamental structure of Whitehall means that the Prime Minister is hardly mentioned in statute; it is the Secretary of State and Departments that count. If they cannot be persuaded to co-operate, they tend not to. Is that is the fundamental problem?

**Jon Hughes:** Active engagement of the key people who really control public procurement is absolutely essential. Equally, those people have to sign up to change it and they have to be held to account for what they are committing to.

**Q14 Chair:** Are you saying we need some legislation? Is the legal structure inadequate? You may write to us about that question.

**Jon Hughes:** I am just reflecting on that question. Is legislation required to drive transformation of public procurement? I do not think it is. Is there a requirement for a major change in leadership and governance? Absolutely. As an illustration, this Committee—and, I would argue, several other Committees in the House—ought to have in front of them a clear five-year plan of exactly what is going to happen, who is going to drive it forward, what the goals and the targets are, and what the deliverables ought to be in terms of service transformation, major efficiency savings and social value contribution.

**Q15 Chair:** Is that a kind of business plan that needs to be across all Government Departments and their agencies?

**Jon Hughes:** Correct, and then it needs to be consolidated and integrated into a total picture, with someone in the Cabinet who has that brief of the scrutiny of total public procurement-wide spend.

**Q16 Kelvin Hopkins:** It strikes me that there could be a Cabinet Minister responsible for public procurement—possibly in the Cabinet Office but possibly with their own Department—and a central organisation, accountable to Parliament, whose job it is to get the best possible deal for the public sector.

**Jon Hughes:** Yes, I think the point was made by my colleague. Traditionally the public service looks at procurement vertically. In other words, it looks at it down into a Department. Some of those Departments have looked at some aspects. No Department has looked at all of it. So we have a very partial model vertically. When we look at it horizontally, almost no one takes that broader perspective. So if we look at the total categories of expenditure—the big areas of spend of the public sector—15 categories of expenditure represent 90% of that quarter of a trillion spend. So we have tremendous amounts of overlap across that expenditure. If you do not give it the governance, leadership and scrutiny, do not be surprised if things do not really move forward.

**Q17 Steve Reed:** I am struck by the very interesting read-across to the Civil Service work we have been doing as well, where we have talked about horizontal versus vertical. One of the objectives of the Government is to tackle the monolithic, inflexible and top-down nature of some, if not most, public services. Does that sit alongside centralising procurement in the way that you are describing?

**Jon Hughes:** I would go back to the key word of “consolidation”, rather than “centralisation”. I think that one of the reasons why you cannot centralise is that the complexity of total public-wide procurement is just too great. If you tried to do that, I absolutely agree that you will end up with a massive, inflexible, monolithic structure. Some of the big private sector companies tried to do that and it actually failed. It is about getting the balance right. It is a complex balance and a challenging balance, but you have to get the balance right between what is done on a consolidated basis—not necessarily here in Whitehall; you can consolidate anywhere in the country—and what you would actually be

doing on a decentralised basis, but within a proper, integrated plan of campaign. Slicing and dicing which elements of expenditure and which suppliers are managed at which points around the UK and by whom is a vitally important part of the structural change—that is the structural lever, as opposed to the leadership and accountability lever. Getting those two right is absolutely vital. If it is done simplistically and without proper care and consideration, you could have a complete fiasco and mess on your hands.

The second feature of it is that on the localism agenda, among some of the goals of public procurement, we want to see a substantial amount of work going out to innovative SMEs, and I am completely in favour of that. It is hard to manage that from the centre. Again, I subscribe to the view that we ought to be supporting alternative structures such as mutuals and social enterprises. It is hard to do that from the centre. I have also argued that I think there is a regenerative aspect of public procurement about where it is done and where you set up some of those consolidated groups; I would argue that they should be well away from London. I could argue that there is a potential economic growth hub model that you can develop where you actually set up some of those consolidating groups in some of the less developed parts of the UK. So do not bring it all into London; do not centralise it all into London. It is fit for purpose and it is a hybrid model. What works for which types of spend, and the complexity of them, and for which types of suppliers, will tell you, against a small number of criteria, where you ought to be putting those consolidating points.

**Steve Reed:** That is reassuring.

**Q18 Chair:** Mr Cram, is there any of that you particularly disagree with?

**Colin Cram:** I think there are some nuances. I would argue for an integrated procurement structure for the public sector, because I think you actually need to have clear accountability and someone who is accountable for delivering public sector policies and objectives. They also have to be accountable for delivering departmental and local government policies as well, so I would argue for an integrated structure.

That does not mean that it all has to be in London. I have argued in the past that there does need to be some centralised procurement organisation. The obvious place to build it is on the Government Procurement Service in Liverpool, because we have something we can build on there. That should be along with regional hubs, which fit in with what Jon is saying, and also some local procurement.

If we look at the way public sector procurement is organised, you can see the argument for the regional. Take Greater Manchester and look at a number of public sector procurement collaborative organisations: we have the Crescent Purchasing Consortium; we have NHS Shared Business Services at Salford; and we have North Western Universities Purchasing Consortium. There is huge commonality between them. We have HM Revenue and Customs Procurement at Salford as well. We have a collaborative organisation for local government procurement, we have all the local government procurement organisations, we have the university procurement organisations and so on. Some of those will be buying things that need to be bought centrally on behalf of everyone, where the country has to use its leverage. Other things will much more sensibly be supporting the local community. So we have to get the balance right. There are some things that need to be done centrally; there are things that can be done regionally; and there are things that can be done locally. The balance will change from time to time because very often we are dealing with global markets, and Government policies may change. One needs to be able to look at the balance.

The reason I argue for an integrated procurement organisation is that there needs to be accountability for delivering, which there is not at the moment, and there needs to be a clear means of delivering Government procurement policies and Government procurement objectives. If you have disparate procurement organisations it simply will not happen. All

those things are very important. When Jon said that there were a certain limited number of Ministers who could influence this, he was right—there are. The Ministers responsible for the very big spends include those in the Department for Communities and Local Government, which can influence local government as well as DCLG. You also have the NHS and the Department for Education.

**Q19 Chair:** Can I just cut through? Forgive me but we are going to be limited for time. You are proposing a Crown procurement organisation.

**Colin Cram:** Essentially, yes.

**Q20 Chair:** What exactly is this? Is it another NDPB, or is it something that is embedded in the Cabinet Office?

**Colin Cram:** It is the integrated procurement organisation that would do centralised purchasing, but there would also be regional procurement hubs as part of it. There would also be specialist procurement hubs, because there are specialist procurement—

**Q21 Chair:** But this would not be a creature of statute; it would just be something that has grown within the existing structure of government.

**Colin Cram:** You could make it grow if you got the support of the key Secretaries of State. Then you could actually develop it.

**Q22 Chair:** That would always be transient, would it not?

**Colin Cram:** I think that once the organisation was created, and once there were service agreements with it, definitions of the service it was to provide and what was expected of central Government Departments, local government organisations and so on, you would be able to create it that way. I do not think you would ever succeed in statute, but you could build it up as long as you got the support of about five Secretaries of State for that organisation. I think it would probably need to report in to the Treasury but, essentially, I would see it as an independent organisation. It would have a management board consisting of representatives from the key stakeholders to ensure it actually does deliver what is required. Obviously there would be oversight by the National Audit Office.

**Q23 Chair:** Mr Hughes, did I see you indicating some doubts about this?

**Jon Hughes:** Yes, I just do not agree with the model at all. It sounds horribly monolithic and bureaucratic to me. It sounds like rewinding the clock to a model that failed 30 years ago. I do agree with the notion of having integration, but not in a single structure. If we take the big areas of spend: Whitehall—£60 billion.

**Q24 Chair:** Let us just have a little discussion about this structure. What would you have in its place?

**Jon Hughes:** I would focus on the four big areas: Whitehall, health, local authorities and the MOD. Those four areas, together, represent something like 80% of the public procurement spend of the UK. Focus on those four. I think there should be a very clear procurement leadership structure for each of those four groups.

**Q25 Chair:** What is this structure?

**Jon Hughes:** I would definitely like to see a chief procurement officer for health. I would like to see a chief procurement officer for local authorities, for the MOD and for Whitehall.

**Q26 Chair:** Let us just stick to Whitehall for the minute. We have a chief procurement officer. You mentioned him earlier.

**Jon Hughes:** You have someone with the title of chief procurement officer; they definitely would not meet the job specification that I would create for a chief procurement officer.

**Q27 Chair:** Is that a personal criticism of him?

**Jon Hughes:** It is a criticism of the way in which the role is currently defined. I believe the role is far too narrow. I mentioned the four levers. If one is leadership and another is structure, there are two other absolutely critical levers and I just do not believe we are getting the focus on those.

**Q28 Chair:** And they are?

**Jon Hughes:** The second of my levers is a real focus on the overall capacity, capability and competence of procurement people. The third one is the adoption of best-in-class procurement processes tools and techniques, comparable with world-class organisations.

**Q29 Chair:** Let us just concentrate on the leadership question. Do we have two different models of leadership? They sound awfully the same to me. Mr Cram, what is the difference, do you think?

**Colin Cram:** I am arguing that the leadership model is that one person should have the authority and be accountable for delivering government procurement policies and best value.

**Q30 Chair:** Would your model require a statute?

**Colin Cram:** No, it would not; I think it could actually be created by agreement. I suspect that if the case was argued strongly enough—and I have been listing all the benefits of the approach I have recommended—one could get agreement with the key Secretaries of State as to how they could bring their departmental families into this organisation, including local government and the NHS.

**Q31 Chair:** I want to move on, and I can see you both have more to say. Could each of you provide a wiring diagram to show how you think your organisation would work so that we can compare those two?

**Colin Cram:** Yes, I would be pleased to do that.

**Q32 Kelvin Hopkins:** To what extent does the need to comply with EU procurement directives inhibit efficient public procurement, and how can this be addressed?

**Colin Cram:** I have been familiar with EU procurement directives for 30 years now. I do not think they inhibit good practice very much; they have been used as a scapegoat for very poor practice. We have illustrations of how it takes the UK three or four times as long to do tenders as is required by the EU procurement directives, so we can hardly blame the EU directives for that. EU procurement directives allow for some quite innovatory approaches to procurement that are barely used in the UK public sector. If we do not make use of the provisions that are there for innovation, for doing things differently, and for introducing things like social requirements into contracts, how can we blame the EU procurement directives? Certainly they can be reformed in some ways. I do not think they need to be changed too much, but they can be reformed. They are being changed to increase the opportunities for SMEs and so on. Overall I think that this country has benefitted an awful lot from the EU procurement directives.

I can go back 30 years. Public sector procurement 30 years ago in this country, in central Government and elsewhere, was truly appalling. I went around doing reviews of government organisations. The EU procurement directives did not exist, there was not fair competition and, basically, we dealt with the same old suppliers requiring the same old products and services from them as before. EU procurement directives have actually started to force discipline into the proceeds. They forced a lot of public sector organisations to start recruiting procurement professionals. There can be improvements, but we need to be very careful not to throw out the baby with the bathwater.

**Q33 Kelvin Hopkins:** We do know that the public sector has been regarded as a soft touch by suppliers, who have made billions out of the public purse and which they should not have done, over many years. Even when I worked in industry, I knew what was going on. We have heard a different view about EU procurement directives in that they do cause an extra burden. In a sense, you have brought in another component of the problem we are looking at saying that it is not the EU directives, but the incompetence of our public sector negotiators.

**Colin Cram:** That is right. That is certainly the real problem: the way we have handled it. The fact that we are not getting value for money we cannot blame on EU procurement directives. For example, one of the things we have not been doing, which has been Government policy for 25 years—and one of my arguments about changing the structure of procurement is that we have had the same public sector policies for 25 years that have never been implemented—is pre-commercial procurement. We engage with the market before we start the proper procurement process, we engage with suppliers and we actually understand what is out there. That has been Government policy for 25 years. It is allowed under the EU procurement directives. We have not been doing it and we get ripped off. Another reason we get ripped off is, quite simply, because public sector procurement, as a whole, is pretty chaotically structured, so the right hand does not know what the left hand is doing. We do not act in a co-ordinated way to deal with these markets. We are going to get ripped off.

**Q34 Kelvin Hopkins:** We are told—I am sure it is the case—that Germany buys German products, the French buy French products and Italians buy Italian products, and that we import. We have a gigantic trade deficit—an absolutely enormous trade deficit—with the European Union, mainly with Germany, and the others seem to get around these things. What has gone wrong?

**Colin Cram:** First of all, these stories tend to be apocryphal and I find very little evidence to support them. I have dealt with France. It is apocryphal.

**Kelvin Hopkins:** One billion pounds a week is a lot of money.

**Colin Cram:** Secondly, we actually do not know very much about our procurement. One of the reasons is that we might spend £200 billion a year, but there has never been a complete purchase-spend analysis about where our procurement goes. The Government Procurement Service is trying to do one at the moment, but we have never understood where our procurement goes. It is very easy to say that the French and Germans are doing this, that and the other, but where does our procurement money go? It is about time that we found out. Once we have found out, we might be able to do a genuine comparison.

**Q35 Kelvin Hopkins:** You only need to look at the police riding BMW motorcycles to see where it goes, but there we are.

**Jon Hughes:** There is one way that I tend to look at EU rules: with four options, two of which are not going to happen and two of which might. We could burn them, which I

would be very much in favour of; secondly, we could evade them, which I am not in favour of, either. There are only really two sensible things that we can do. One is to speed them up and the other is to try to change them fundamentally. We can try and change them through the EU, and I know there are plans to apply EU pressure. I am absolutely in favour of one rule in, one rule out. However, we need to speed them up. My evaluation is that a lot of people hide behind the EU rules and regs. There is no reason at all why we cannot simplify a lot, speed up a lot and take a lot of bureaucracy out. It has a terrible effect on the mindset of many people working in procurement—they develop a mindset of compliance.

**Q36 Chair:** Let us talk about a real example: the Crossrail trains that went to Siemens. We build trains in this country. I cannot imagine France or Germany ordering trains from a British supplier; it would just never happen. We are being mugged by the procurement directive.

**Jon Hughes:** The English approach is to criticise other people's rules, but then follow them.

**Q37 Chair:** What are we doing wrong?

**Jon Hughes:** I have a very clear view. We should be using the EU rules. We should be applying the principles of those rules, but we should most definitely be putting the UK economy first and foremost, and we should make sensible sourcing decisions that are in the interests of this country and find a way to achieve them.

**Q38 Chair:** Those are very general statements, but they do not analyse what we are doing wrong. What are we doing wrong that means we lose our contracts to Siemens?

**Colin Cram:** One of the things we are certainly doing wrong is not doing what the EU calls pre-commercial procurement. We are not investigating the market properly, having discussions with suppliers, or understanding what is out there and what the opportunities are.

**Q39 Chair:** This underlines the previous point I was making. We talk about processes and rules when we should in fact be talking about the quality of execution.

**Colin Cram:** Yes, it is the quality of execution, and that is where we have gone very badly wrong. We are making the rules an excuse for poor quality of execution. If you actually look at the rules, there are some very simple things where you would say, "Why would we not want to do that?" Why would we not want to tell suppliers what the evaluation criteria are so that they actually understand what we want and so that we actually work out what we want beforehand? Why would we not want to tell them how they are weighted? That means we have to do the work beforehand to work out exactly what we want. Those are required under EU procurement directives, so why would we object to that? It is good practice in any event. There is a lot of good practice there that we simply have not applied.

**Jon Hughes:** We definitely are 100% in agreement on that. The notion of following rules and hiding behind rules invariably leads to some very poor decisions. One of the key things we have not touched on at all is that the public sector does not have the most modern, best-in-class procurement processes. It has a lot of compliance on the EU front, but it does not have sensible, excellent sourcing and sensible, excellent supply and management, where it makes decisions against three or four absolutely critical criteria, one of which needs to be the economic well-being of the UK.

**Q40 Kelvin Hopkins:** The potential for appeals against public procurement decisions, as provided for by the EU remedies directive, inhibits effective public procurement—is that the case?

**Chair:** Is it going to make it worse for us, given our bad practices?

**Colin Cram:** I happen to know that EU procurement directives are broken by public sector procurement organisations quite a lot anyway. If the chief executive of an organisation wants something from a particular supplier, they will make sure they get it—EU procurement directives or not. If they need to change the specification partway through the process, that will sometimes—

**Q41 Chair:** So one of the questions we should be asking, when we go to Brussels to investigate this, is: what is their evidence that Governments comply with these directives?

**Colin Cram:** Yes, I think so. Certainly the evidence I have heard is that central Government Departments tend to comply much more than local government in other countries. Take Poland, for example, which has to follow the EU procurement directives. If you speak to anyone in Poland, they will say that local government does not deliberately ignore them, but it simply does not have the capability of complying with them or complying with reasonably decent practice. Supposing we did not have a remedies directive: what would have happened with the west coast main line contract award? We had to have a standstill period of 10 days. That gave Virgin the time to appeal, and it was able to appeal successfully thanks to the EU procurement directives.

**Q42 Chair:** I am sure the Prime Minister is delighted.

**Colin Cram:** Maybe, but the point is that had we not got the EU procurement directives and had the UK not introduced something similar—because I think we would need to introduce something similar if we did not have them—appeals like that would fail, so why should we not have a remedies directive?

**Q43 Chair:** There would be remedies in English common law anyway. If the Government are deemed to have behaved not in accordance with their own procedures, there would be judicial review in any case.

**Colin Cram:** I think that is fine but, apart from the EU procurement directives, there are no government procedures that extend across the public sector.

**Q44 Chair:** We could provide that for ourselves. We do not need the EU to impose that upon us.

**Colin Cram:** We could, but we did not before the EU procurement directives. Would we have done if we did not have EU procurement directives? I doubt it.

**Jon Hughes:** Both on the EU regs and on the remedies, there is huge apparatus and massive bureaucracy that are driving completely the wrong mindset. I am very much the same as several members of this Committee. Fundamental change is needed.

**Q45 Alun Cairns:** Many of your answers have focused on skills and the lack of them within various Government Departments or the public sector in general. How should that be bridged? Is it through buying in skills or through up-skilling, or is it a mixture of both? How can that be met?

**Colin Cram:** I think we are putting things the wrong way around. We are asking about what skills we need before we have decided what the objectives of public sector procurement are and how we can structure public sector procurement to deliver those objectives. Once we have done that, we are then in a position to start deciding exactly what skills we need. The training up to now has been rather a scattergun approach. We have to train as many people as possible in all sorts of things, rather than actually asking the fundamental questions. Once we know what we are trying to do, and once the objectives are

there—and those objectives could include supporting economic growth; I am strongly in favour of that—and we have an organisational structure, we can then do a gap analysis and see exactly what needs to be developed. What happens is that until we have a coherent organisation, we are not going to be able to develop and use some of the very high-level procurement skills that are needed.

So we can keep on investing in procurement, but the investments that we put in would be about how to do lean procurement, which is good stuff, under the EU procurement directives, whereas what you need to do is say, “How do we actually take cost out of the supply chain? How do we make supply chains secure? How do we build up relationships with suppliers? How do we actually manage markets?” These are some of the higher-level skills that we need to train people in. The problem we have at the moment is that, if we trained people in those, they would not be able to use them, so we have to get the objectives right and we have to get the structure right. Once we have got that, we can really do a proper gap analysis and get people trained in the skills that we do not have at the moment—or we can buy them in, but at least we would know what we needed to buy in.

**Jon Hughes:** I certainly subscribe to the view that goals and requirements drive the definition of the competence, capacity and capability you actually need. I do not disagree with that at all. I think there are various ways in which you can accelerate this, and accelerate it quite considerably. I argued earlier that we do need to see the injection of a number of very high-level chief procurement officers. I would not have it totally centralised; I would have it within the major Departments.

Secondly, there needs to be investment. Interestingly, the Government Procurement Service puts a 0.25% commission on the contracts it makes to suppliers. That money goes into an improvement fund, which is currently about £5 million. We need to ask how much money should be found to invest in procurement competence. To accelerate it, there is a proposal for the commissioning academy, which again I completely subscribe to, but I would like to see a similar academy in other areas. For example, I am already talking to some people in the NHS. They would like to see a national health service academy of procurement excellence, which would focus on three groups: first, it would help build insight and awareness at CEO, CFO and chairman level in trusts; secondly, it would also actively support clinicians, because they are so central to a lot of procurement for the NHS; and, thirdly, it would raise the calibre and competence of the procurement professionals in the NHS. For a relatively small amount of money—let us say £5 million—you could get a fabulous return on that investment very quickly inside the second half of this Parliament.

My advice to the Committee is that there are medium and longer-term goals and strategies, but you do need to do some things in the shorter term. There is a real need to raise morale, raise competence and raise capability, but to do it on a focus basis. There should be x number of people going through performance, service-oriented programmes in high-quality academies to give them the sorts of skills and toolkits that you would find in the private sector. Virtually every large procurement organisation I know in the private sector—in other words, anything with a spend of greater than £10 billion—has had this in place for the past decade. I do not know why the public sector does not do exactly the same.

**Colin Cram:** The only difference I would make is that those organisations in the private sector will have clear objectives, the procurement people will have the authority, and they will be sitting in an organisation that supports them, which is why I come back to the fact that you need those things to be able to make good use of the procurement people’s skills. If they have the skills but they do not have the authority and they do not have the responsibility for sufficient procurement spend, those skills are wasted. You have to make sure that the investment is really well used.

**Jon Hughes:** I think we agree.

**Q46 Chair:** It is always brilliant when the witnesses spark off each other; it means we get far more out of these sessions.

Lastly, I would like to ask about outsourcing procurement. One of the conclusions of our inquiry into IT procurement was that the Government had outsourced so much to the big systems integrators that too few people in the Government had any real notion of what they were really buying when they were making these very big contracts by very large systems. Certainly, nobody understood the intricacies. That means it is too easy for the suppliers to recommend enhancements, changes and improvements, which of course put up the cost of these framework contracts. I am wary about outsourcing the expertise to procurement. What are the key skills that need to be owned by the Government in order to keep control? I am wary of the GOCO for the Ministry of Defence because it would create another profit motive that, in the end, conflicts with the public interest. You can turn it into a constructive tension, I hope, but, in the end, somebody profits at the public expense, if those profits are being made and projects are not being delivered in time.

**Jon Hughes:** The golden rule is that the real control over outsourcing cannot be outsourced, so the public sector must have its own black-belt specialist in outsourcing to manage those outsourcing deals properly. With the outsourcing of procurement to third parties, if it then loses transparency, scrutiny and proper examinations of all the financials and service outcomes, I am sorry but the public sector is going to get ripped off. So you have to have internal capability of a very high quality to manage those outsourcing deals. Going back to the notion of the academy, if there is one area where you could get very rapid return on investment, it would be to put your arms around a number of key people and raise their skills and insights properly to manage those outsourcing contracts.

**Colin Cram:** I certainly think that the public sector needs to have the skills actually to manage the outsourcing contracts and manage the outsourcing industry. It is why I argue that one needs to pull procurement together. Individual Departments, by and large, will not have the skills or clout to manage the outsourcing industry, or to manage some of those outsourcing contracts. If you can put the expertise together in one place, it can act on behalf of the whole public sector. The current approach, where it is very fragmented—it is quite fragmented in central Government, but horrendously fragmented in the wider public sector—means that organisations simply do not, and never will have, the capability on their own to be able to address this. You need to build up a cadre of people that do. That will be very much cheaper than even attempting to give each organisation its own expertise. Do not forget that there are thousands of public sector organisations. We cannot possibly attempt to give them the expertise they need, so we need to harness it in-house. We need to create a central team that is able to deal with the industry, that will be the focal point for dealing with the industry, that will be aware of the options, that will be aware of how the industry works, and that will be able to work out what the most cost-effective and best strategies are for dealing with it.

**Chair:** Thank you both very much indeed for a very informative and stimulating evidence session. Do keep an eye on our inquiry and send us any further information you think might be useful, particularly those wiring diagrams of how you think we should organise it. Thank you very much indeed.