



House of Commons  
Committee of Public Accounts

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**Cabinet Office:  
Improving government  
procurement and the  
impact of  
government's ICT  
savings initiatives**

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**Sixth Report of Session 2013–14**

*Report, together with formal minutes, oral and  
written evidence*

*Ordered by the House of Commons  
to be printed 24 June 2013*

**HC 137 [Incorporating HC 1024, of Session 2012-13]**  
Published on 20 September 2013  
by authority of the House of Commons  
London: The Stationery Office Limited  
£11.00

## Committee of Public Accounts

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### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at [www.parliament.uk/pac](http://www.parliament.uk/pac). A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

### Committee staff

The current staff of the Committee is Adrian Jenner (Clerk), Sonia Draper (Senior Committee Assistant), Claire Cozens (Senior Committee Assistant), Ian Blair and James McQuade (Committee Assistants) and Alex Paterson (Media Officer).

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## Summary

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Central government spent a total of around £45 billion on buying goods and services in 2011-12, including an estimated £6.9 billion on ICT. Since 2010, the government has introduced a range of procurement reforms designed to save money. These include centralising the procurement of goods and services bought by all departments, such as energy and travel, on which central government spent an estimated £7.5 billion in 2011-12. Specifically on ICT, the government has introduced a process by which all ICT spending over £5million must be approved by the Cabinet Office, and a programme to develop ICT infrastructure which can be shared across government organisations.

We welcome these reforms, and recognise the recent progress made by the Cabinet Office, the Government Procurement Service and departments. The changes are beginning to have an impact: the proportion of spending that goes through central contracts has increased steadily; the ICT initiatives have resulted in some savings; and there are signs that departments are starting to think more intelligently about why and how they use ICT.

There are still weaknesses which will need to be addressed if the government wants to improve value for money in the long term. The accountability arrangements for centralised procurement remain a barrier; the centre manages the contracts yet departments remain liable for their own spending decisions so they are reluctant to cede authority to the centre. Management information on spending and savings is incomplete, so departments do not always trust the figures on savings claimed. These gaps in accountability and data make it harder than it should be to make the case for procurement across central government and in the wider public sector to be centralised. The Cabinet Office and the Government Procurement Service will need to work with departments to address these problems, and build shared plans, including much more stretching targets for centralised expenditure and ICT savings.

The commitment to localism seems to be at odds with buying through central contracts, and government's desire to give more government business to small firms does not appear to have changed the way large procurements are managed and designed. The Cabinet Office needs to set out how it will resolve these issues, and clarify how it intends to deliver sustainable reform in its priority areas of procurement, digital services, shared services and management information over the next few years. The current economic position presents a unique opportunity to change the way government does business. It is therefore vital to build on early successes and move towards sustainable change with urgency.

The Government is not using its buying power to ensure that its suppliers, particularly in the ICT industry, pay their fair share of tax on the profits they secure from business activity in the UK. The development of more coherently managed procurement protocols provides an excellent opportunity for Government to exert appropriate pressure on its suppliers

whose income on public contracts comes from taxes paid.

On the basis of two reports by the Comptroller and Auditor General,<sup>1</sup> we took evidence from the Cabinet Office, the Ministry of Defence and the Ministry of Justice on progress with government's procurement and ICT reforms.

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1 C&AG's Report, *Improving government procurement*, Session 2012-13, HC 996

C&AG's Report, *The impact of government's ICT savings initiatives*, Session 2012-13, HC 887

## Conclusions and recommendations

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- 1. The accountability arrangements remain a barrier to the growth of more efficient, value for money centralised procurement.** The Government Procurement Service manages the central contracts, but departments are ultimately responsible for their own spending decisions. The Cabinet Office requires departments to use the central contracts, but there are currently no consequences for departments which do not comply. If departments are to move their procurement to the centre, they need to have trust and confidence in the centre's ability to get a better deal, to manage it well, and that the centre will be accountable for failure. Without the means for bodies to hold each other to account, the impact of these reforms will always be limited. The Cabinet Office should set out formal accountability arrangements supported by detailed service level agreements for each category of procurement managed by the Government Procurement Service. With these in place there should then be sanctions for departments which do not comply.
- 2. The procurement and ICT reforms lack the discipline of stretching targets over time and proper data to inform decisions. Despite efforts to improve the availability and accuracy of management information, considerable gaps remain.** A lack of detailed and accurate data has led to the Cabinet Office setting inappropriate targets; expected proportions of spending through central contracts have been unrealistic, and the savings asked of departments in ICT procurement have not been sufficiently stretching. Also the departments do not always trust the data from the centre so it is more difficult to demonstrate the value for money of central contracts. The Cabinet Office and the Government Procurement Service should work with departments to improve the quality of procurement data, and use this to agree detailed plans and targets with each department for the next three years.
- 3. There is a tension between the government's drive to centralise procurement and its commitment to localism.** The Cabinet Office has focused its efforts on central government, covering around £45 billion of goods and services in 2011-12. However, this is a small proportion of total procurement spending across the public sector. This is estimated to be around £200 billion when you include the wider public sector, covering bodies such as local authorities, schools, and NHS trusts. The principles of localism inhibit the Cabinet Office's ability to force public bodies outside of central government control to buy goods and services through central contracts. This is especially important on ICT contracts as the localism agenda could inhibit Government ambitions like achieving a paperless NHS. The Cabinet Office and the Government Procurement Service need to ensure greater use of the central contracts in local bodies by providing robust data to demonstrate the benefits, and by improving their communication with the wider public sector.
- 4. The Government is not using its buying power with suppliers to get the best deal for the taxpayer. This includes ensuring that large government suppliers are paying enough tax on UK profits.** While it is long overdue, we welcome the co-ordination of the management of major suppliers across government. However, government is still not fully using its negotiating position as a large customer to

challenge those who pay little UK tax on their profits or those who have failed to deliver effectively in previous contracts. The Cabinet Office should consider how suppliers' performance and record of paying their fair share of tax impact on procurement decisions. EU public procurement laws should not be interpreted as a barrier to making common sense decisions on procurement.

5. **The government has not yet done enough to provide greater opportunities for SMEs to win government business.** The government has a long way to go in its aspiration to achieve 25% of its procurement spending with small businesses by 2015. Current data suggests that, despite clear commitments, only 10% of government spending is currently with SMEs. However, there are also major gaps in SME data, which means that it is not possible to confirm this figure. This limits the Cabinet Office's ability to measure progress. Recent large government procurements have had negative consequences for SMEs, for example in the Work Programme where many are now leaving the market or going out of business. The Cabinet Office should develop a detailed strategy for how it intends to increase government spending with SMEs, including which services could and should be provided by small businesses, and how the data collected on SMEs can be made more robust.
6. **Government still lacks the capability and capacity to commission services, and in the past has acted as if simply buying ICT is a solution in itself.** Government is moving away from thinking first about what ICT is needed, towards delivering a better service and using ICT to support its delivery. This approach should cut costs. However, we have seen several recent examples where the traditional approach still prevails, such as buying BlackBerrys for police officers without first working out what improvements to services were expected. The Cabinet Office should strengthen its capability and capacity to challenge departmental proposals for ICT procurements, identify failure quicker, and work with departments to accelerate the change in culture from buying ICT to commissioning services.
7. **There is much more to do if the government is going to realise lasting and significant savings from its reforms.** The Cabinet Office identified priority areas for further improvement, including more cost effective procurement, the expansion of digital services, making the most of potential savings from shared back office services, and better management information. These areas are inter-dependent, and will need a coherent approach to gain the trust of departments and suppliers and make the reforms work. The Cabinet Office should set out in its Treasury Minute response the improvements it expects in these areas, the money it hopes to save, how it will measure progress, and how the initiatives will be integrated.

# 1 Governance and accountability

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1. Central government spent a total of around £45 billion on buying goods and services in 2011-12. These range from items common across departments, such as energy, office supplies and travel, through to specialist areas such as defence equipment and welfare to work services. Since 2010, the government has introduced a range of procurement reforms intended to achieve savings, to take advantage of government's buying power to stimulate growth and innovation, and to improve the government's approach to commissioning ICT services.<sup>2</sup>

2. The initiatives include centralising the procurement of common goods and services, on which central government spent an estimated £7.5 billion in 2011-12. The central contracts are managed by a new body, the Government Procurement Service (GPS). There are also reforms specific to ICT, on which central government spent an estimated £6.9 billion in 2011-12, buying a range of items and services, from desktops to large, bespoke ICT systems. The initiatives in the ICT sector include a process whereby ICT spending over £5 million must be approved by the Cabinet Office, and a shared infrastructure programme across government.<sup>3</sup>

3. The government's reforms have brought about improvements, including more expenditure being channelled through central contracts and savings which have been generated through the ICT initiatives. However, progress has, on occasion, been hampered by ineffective governance, including weaknesses in planning and target-setting.<sup>4</sup>

4. In its ambition to centralise the procurement of common goods and services, the Cabinet Office accepted that it had not worked with departments to agree appropriate targets, instead adopting an approach that "might have appeared a bit heavy-handed". It told us that this approach has caused some damage to its relationship with departments, but that it was necessary in order to achieve some savings quickly.<sup>5</sup> The 2012-13 targets for two of the ICT initiatives, spending controls and shared infrastructure, were met in the first six months of that year, suggesting that they were not sufficiently stretching. The Cabinet Office said that it was important for it to work closely with departments to develop shared plans, including challenging targets which are recognised by all parties.<sup>6</sup>

5. Planning and target-setting should be informed by reliable management information. Considerable efforts have been made by the Cabinet Office, working together with departments, to improve the quality of procurement data. The GPS told us that its tool for collecting and analysing spending data now has coverage of around 90% of central government, providing an improved picture of prices paid for standard items across

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2 C&AG's Report, *Improving government procurement*, para 1,2; C&AG's Report, *The impact of government's ICT savings initiatives*, para 1-5

3 C&AG's Report, *Improving government procurement*, para 8; C&AG's Report, *The impact of government's ICT savings initiatives*, para 3-4

4 Qq 69-71

5 Qq 69-71

6 Q70; C&AG's Report, *The impact of government's ICT savings initiatives*, para 2.18-2.20

government.<sup>7</sup> However, it is clear that there are still considerable gaps in data which need to be addressed— to ensure that government is getting the best deal and because a lack of confidence in data can also have a negative impact on GPS’s relationships with departments. The Ministry of Defence expressed doubt about some of the GPS’s reported savings, reporting issues with the visibility of the data and the relevance of the data to the Department.<sup>8</sup>

6. Departments are obliged to use GPS’s centrally managed contracts but this is not enforced in practice, and departments are finding excuses not to participate. The Cabinet Office explained that it tried to build a coalition of interests and work with departments, because departments hold the budgets and are therefore ultimately responsible for their own spending decisions.<sup>9</sup> The Ministry of Defence told us that it did not disagree with being obliged to use central contracts, but that there needs to be mutual accountability and responsibility attached to it.<sup>10</sup>

7. There is a tension between GPS delivering a service and the particular needs of individual departments as service users.<sup>11</sup> Departments need to be more confident that central contracts represent value for money and that they are able to hold GPS to account for its performance.<sup>12</sup> The Ministry of Defence told us that departments have a customer service arrangement with GPS, which sets out in principle the style and nature of service that they can expect. However, most categories of spending do not have a detailed Service Level Agreement (SLA)—a document which sets out roles and responsibilities, the specific benefits, and requirements around the exchange of data. Where an SLA has already been put in place, such as the travel category, it has increased departments’ confidence in the service.<sup>13</sup>

8. The majority of public sector spending is not from central government. Total government procurement, including the wider public sector, was around £200 billion in 2011-12, of which only £45 billion was in central government. There is therefore considerable potential for savings which lies beyond the initial focus of the government’s reforms. However, there is a tension between localism and the government’s drive to centralise procurement.<sup>14</sup> Local authorities, for example, are not subject to Cabinet Office measures such as being obliged to use central contracts for common goods and services.<sup>15</sup> The Cabinet Office acknowledged that, not only does it need to make the case more strongly for central contracts within central government, but that it also needs to engage more pro-actively with the wider public sector.

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7 Q 42

8 Qq 3,7

9 Q 44

10 Q 18

11 Q 16

12 Qq 18, 96; C&AG’s Report, *Improving government procurement*, para 1.15, 2.21

13 Q 14

14 Qq 32-36

15 C&AG’s Report, *Improving government procurement*, para 2.28-2.29

## 2 Wider aims of reform

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9. In addition to the main aim of saving money, the procurement reforms have wider objectives, which include co-ordinating the management of major suppliers across government, and encouraging smaller businesses (SMEs) to bid for government work.<sup>16</sup>

10. We expressed concerns about the government's record of co-ordinating the procurement of goods and services from the same supplier across departments, and sought reassurance that steps are being taken to get a better handle on this from the centre.<sup>17</sup> The Cabinet Office referred to the recent introduction of the Crown Commercial Representatives, which are senior individuals responsible for negotiating and managing the relationship with government's strategic suppliers. Each department which requires services from that company must go through that individual, who is equipped with all the relevant information, and will help government use its bargaining power in these commercial negotiations. We questioned why it had taken so long to introduce what appears to be a relatively obvious step.<sup>18</sup>

11. This central oversight is important if the government is to use its buying power to ensure the best deal for the taxpayer overall. Little or no attention has been paid to past performance when making procurement decisions; for example, we were surprised to be told in another hearing that A4e's poor performance record with government could not be taken into account in future procurement exercises for legal reasons.<sup>19</sup>

12. Since our hearing, the Cabinet Office submitted written evidence to us that it now keeps a central record of strategic suppliers' performance across government, allowing action to be taken where contracts are already in place. The Cabinet Office also told us that departments will now set and publish minimum standards for supplier reliability based on past performance. It will require bidders to obtain certificates of past performance from both public and private sector clients. However, this does not mean that government will be able to compare all bidders based on its own judgement of a supplier's past performance; it only allows for ruling out those companies which do not meet a minimum standard. At present this system also only applies to some sectors (ICT, Facilities Management, and Business Process Outsourcing), and where the contract value is of £20 million or more.<sup>20</sup>

13. Some of government's strategic ICT suppliers, such as Microsoft and Accenture, are reportedly paying low levels of corporation tax in the UK. The Cabinet Office told us that the Crown Commercial Representatives did have conversations with suppliers around "good UK Citizenship", which included tax, as well as other factors such as the employment the company creates in the UK. The Cabinet Office said that it would like to encourage a culture where these matters were on the agenda in every conversation, to send

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16 Qq 70, 91

17 Qq 91-92

18 Qq 92-93

19 Q 111

20 Ev 22

a message that if suppliers wanted to do business with government, “you have to be a good citizen”. However, it told us that it was not able to stop procurements because of these factors, as this would be unlawful.<sup>21</sup>

14. The Cabinet Office told us in separate written evidence that it is taking steps to ensure that suppliers understand their responsibilities in terms of tax, proposing a process at selection stage whereby firms would declare their history of tax compliance. Ministers are currently considering the proposals. However, the Cabinet Office told us that it would be unlawful to ask, and consider, at selection stage how much tax is paid in the UK. Assessing potential suppliers based on how much UK tax they pay may also discriminate against suppliers from other EC member states and as such would breach EC Treaty principles.<sup>22</sup>

15. Another aim of the reforms is to boost participation of SMEs in government business, on which there has been some progress. For example, in the ICT sector the government introduced the ‘G-Cloud’ in 2012, a system whereby public sector organisations can purchase a range of IT services from an online catalogue. This system is a positive step in reducing the burden on SMEs, although take up is relatively low so far.<sup>23</sup>

16. However, the way that government designs its large procurement exercises conflicts with achieving the aspiration of 25% of government’s business going to SMEs.<sup>24</sup> We recognise that the suitability for SMEs will vary between sectors but it is our experience that the way large procurements, such as the Work Programme or the Probation Service, are managed and designed favours large suppliers and does not create an environment where smaller businesses can thrive.<sup>25</sup> Furthermore, there are questions over the government’s ability to measure SME participation against its own aspiration. The Cabinet Office claims that 10% of all central government procurement expenditure goes to SMEs; however it is not possible to confirm this data due to gaps and inconsistencies in how the information is gathered by departments.<sup>26</sup>

17. We challenged the Cabinet Office to set out its plans for improving the data on SMEs and to demonstrate further how it plans to achieve the 25% aspiration. The Cabinet Office has subsequently told us in written evidence that it and the Government Procurement Service are assisting departments to verify whether their suppliers are SMEs or not, and taking steps to ensure that suppliers are paid promptly.<sup>27</sup>

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21 Qq 104-110, 112, 113

22 Ev 23

23 Qq 73-79

24 Q 98

25 Qq 97-99

26 Qq 98-100; C&AG’s Report, *Improving government procurement*, para 2.41

27 Ev 21

### 3 Delivering sustainable change

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18. In the field of ICT, the Cabinet Office told us that the government is moving away from thinking about what ICT is needed, towards commissioning services and using ICT to deliver cost savings.<sup>28</sup> The change required is a cultural one; rather than considering what ICT to buy, government should be seeking to deliver a better service.<sup>29</sup> There are examples which demonstrate this change, such as the Government Digital Service's work with the Department for the Environment, Food and Rural Affairs, which developed a new product in-house, saving the need for an expensive and lengthy procurement.<sup>30</sup> However, we have seen examples recently where this approach is clearly lacking; the procurement of BlackBerrys for police forces is a case in point, where there was little consideration of how police officers would get the most benefit from using them.<sup>31</sup>

19. In order to deliver these reforms and to improve the way it does business, government will need to ensure that it has the right skills in place.<sup>32</sup> The Cabinet Office pointed to a number of initiatives to develop the skills it needs; the Major Projects Leadership Academy, for example, aims to build commissioning skills, and the government has put 800 procurement staff through 'Lean' training. The Chief Procurement Officer has also launched an initiative to bring together the skills for managing large ICT contracts at the centre.<sup>33</sup> The Cabinet Office told us that it will be investing in skills at the centre, but we are concerned that key skills are being lost, with some staff using government as a stepping stone to a career in the private sector. Incentives will need to be in place to retain those people with the skills government needs.<sup>34</sup>

20. Progress has been made but the challenge remains regarding how to make further improvements, and how to sustain these reforms. The Cabinet Office set out four priorities on which it will need to deliver in order for the reforms to be sustainable: more cost effective procurement, the expansion of digital services, making the most of potential savings from shared back office services, and better management information. The Cabinet Office explained that the goal was for departments to understand what can be bought centrally and what they should buy themselves, to deliver on the digital and shared services strategies, and to obtain consistent clear management information so that all departments know what they are spending and where they are using their resources. These four areas are inter-dependent; for example, accurate management information is essential to implementing successful shared services.<sup>35</sup> The Cabinet Office also recognised that it needed to work closely with HM Treasury, and that it will be important to deliver on its priorities to maintain the trust of departments, whose participation is crucial to success. In

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28 Q 63

29 Qq 50-52

30 Q 51

31 Qq 50, 84

32 Q 11

33 Qq 58-63

34 Qq 60-61

35 Q 96

addition, the tight economic environment creates a favourable opportunity for implementing changes, so it is crucial to act with urgency.<sup>36</sup>

# Formal Minutes

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**Monday 24 June 2013**

Members present:

Mrs Margaret Hodge, in the Chair

Mr Richard Bacon  
Guto Bebb  
Jackie Doyle-Price  
Chris Heaton-Harris  
Meg Hillier

Mr Stewart Jackson  
Fiona Mactaggart  
Nick Smith  
Justin Tomlinson

Draft Report (*Cabinet Office: Improving government procurement and the impact of government's ICT savings initiatives*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 20 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

*Resolved*, That the Report be the Sixth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Monday 1 July at 3.00 pm]

## Witnesses

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### Monday 4 March 2013

Page

**Mike Greatwich**, MoD Defence Equipment and Support, Commercial Director, Ministry of Defence and **Andy Nelson**, Chief Information Officer, Department for Work and Pensions

Ev 1

**Richard Heaton**, Permanent Secretary, **Stephen Kelly**, Chief Operating Officer, Cabinet Office, **David Shields**, Managing Director, Government Procurement Service and **Mike Bracken**, Executive Director, Government Digital Service

Ev 6

## List of printed written evidence

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1 Cabinet Office

Ev 21

# List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

## Session 2013–14

First Report	Ministry of Defence: Equipment Plan 2012-2022 and Major Projects Report 2012	HC 53
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# Oral evidence

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## Taken before the Committee of Public Accounts on Monday 4 March 2013

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon  
Chris Heaton-Harris  
Meg Hillier

Mr Stewart Jackson  
Austin Mitchell  
Justin Tomlinson

**Amyas Morse**, Comptroller and Auditor General, **Gabrielle Cohen**, Assistant Auditor General, **Sally Howes**, Director, and **Keith Davis**, Director, National Audit Office, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

### REPORTS BY THE COMPTROLLER AND AUDITOR GENERAL

#### The impact of government's ICT savings initiatives (HC 887)

#### Improving government procurement (HC 996)

#### Examination of Witnesses

*Witnesses:* **Mike Greatwich**, MOD Defence Equipment & Support, Commercial Director, Ministry of Defence, and **Andy Nelson**, Chief Information Officer, Department for Work and Pensions, gave evidence.

**Q1 Chair:** Welcome. This initial hearing is with the two of you, who are users of both the central procurement service and the central IT procurement aspect of it, so we want to pick your brains as to how it is going. These two complementary Reports from the NAO—one on IT and one on general Government procurement—demonstrate an improvement in both those areas: there is a long way to go, but things are getting better.

One of the interesting things that came out of it for me was this slight communication breakdown, in that the Departments appeared unconvinced that the savings claimed by the Cabinet Office really existed. Can you explain to me how you came to feel that? I will start with you, Andy Nelson, because you are the chief information officer for Government. Can you explain a little bit about why things have not gone as well as you would have wanted, and what would you hope to see as improvements?

**Andy Nelson:** Okay. Looking at the Report in terms of the savings put in there, I will just make a general comment about how they are presented on page 7. The NAO did an analysis showing, in terms of the ICT savings—the controls piece—that they found good evidence for the vast majority of the savings, but they expressed a view about whether they agree they are sustainable, one-off and so on. I would say that that is fair and that, anecdotally, around the Department, other CIOs would frankly have that sort of view of such a mixture, so that is a fair presentation.

To take MOJ as an example, I would say that it has achieved incremental savings overall in terms of some of the initiatives, which should be right in terms of Departments doing a good job of driving savings themselves. Certainly, the larger ones should have the scale to drive that. I would pick maybe two areas where there are good examples. In software deals,

when Government have a single Microsoft licence or Oracle licence across the board or a Department has been able to take advantage of that, that is very positive. Some of the experiences in working with Crown Representatives to try to drive further incremental saving as a joint activity has been positive too. It is a mixed story, but there has genuinely been some benefit.

**Q2 Chair:** Why was there this lack of confidence in the Department? What that reads like—both Reports allude to this—is that, although it is only going to work if everybody trusts each other and works together, which is obvious, that trust was not necessarily there. That was demonstrated in a lack of confidence in the figures, but also in Departments thinking that they knew better—not thinking that the Cabinet Office necessarily knows best, but that they knew better. Why, and how can you tackle it?

**Andy Nelson:** So, I have two suggestions or things I would comment around. There is more work to do around the figures. If you look at the figures cited here in terms of the total spend, that is primarily through the Government Procurement Service, so you are picking up third-party spend, which is the vast majority of IT spend. There is more that the Cabinet Office and Departments can do to align those spend figures.

**Q3 Chair:** Would that help confidence?

**Andy Nelson:** I think it would. It would help confidence in terms of getting alignment on figures. If you take a view of what the Cabinet Office view is of the figures by Department in total spend terms and what the departmental view is, that would help. There is work to do there on the mechanisms of gathering those data that would help.

The other thing I have heard is maybe a behavioural feeling of double counting concern. Some Departments feel that the Cabinet Office is claiming this versus us all collectively going, "That's irrelevant. The Government are saving money." Actually the money gets saved in Departments. I have heard that some people feel that the Cabinet Office is claiming it. I have not personally seen evidence from my colleagues that they are doing that in the Cabinet Office, but that feeling is out there. There is a little worry about double count, but it is not double count as all the money is in the Departments, not the Cabinet Office.

**Chair:** Mike, you are from MOD.

**Mike Greatwich:** That is correct.

**Q4 Chair:** MOD has very little confidence in these new structures—it does not really employ them at all according to the procurement Report. I do not know how much they are employed in IT, but if I go to the procurement Report, you procure more now than anybody—

**Mr Bacon:** In fact, you have procured so much, we discovered recently that your warehouses are stuffed to the gunnels.

**Chair:** Quite. I am looking at figure 2 on page 13 of the procurement Report, which shows absolutely massive procurement. I accept that much of that is equipment, and obviously you may not need your own stores but you have probably got to buy your own equipment, but nevertheless there is a feeling throughout the Report—do not ask me to point to individual sentences—that MOD is very resistant to doing anything with Cabinet Office. Why is that? You look puzzled.

**Mike Greatwich:** Yes, because generally our reaction to the procurement reform agenda has certainly been very positive; we have tried very hard to engage with the Government Procurement Service and the Efficiency Reform Group to identify what spend we could transition to the new arrangements and do that as fast as possible.

**Q5 Chair:** So how much of your £20 billion have you transitioned?

**Mike Greatwich:** The forecast for this year is between £1.2 billion and £1.5 billion.

**Q6 Chair:** And how much did you do last year?

**Mike Greatwich:** Last year was £909 million and the year before that was £342 million. So over the two years that the process has been running we have had a very large increase in the volume going through the central deals.

Going back to your original question about benefits, I will take that in two parts. One is that in terms of the number of staff freed up as a result of the central initiatives being in place, our in-house estimate is that we have saved about 17.5 staff who we no longer need to do this kind of commodity procurement.

**Q7 Chair:** Out of? What does that mean to me?

**Mike Greatwich:** Good question. I will put it this way: we currently have about 1,600 commercial staff across all of Defence, and that is after a very

significant reduction over the last couple of years—we had about a 20% reduction in numbers. We are currently running with about 160 vacancies as well. We need those staff to deliver the core programme and support operations, so getting 17.5 staff freed up—however it is done—is a very welcome step forwards. That is a real benefit and very useful to us.

In terms of cash savings, the confidence varies depending on how much visibility we have had of the data and whether it is benchmarked against the deals that we used to have. In the case of fleet, where we have got that data, I have got confidence that we are saving something like £11 million per annum on that deal. In the other areas, we have not had that same degree of visibility of the data or the benchmarking against our overall spend, so while I have no issue with the overall statement made in the Report about the general position, until that is made real by reference to our own in-house contracts that were in place, we do not have the visibility that shows us how much has been saved in my Department. That hopefully answers your question.

**Q8 Chair:** Yes, that was very clear. Amyas, did you want to come in?

**Amyas Morse:** I am sorry, if you look at figure 8 on page 26, you will see that, in fact, the amount that the Cabinet Office targeted to have under management for 2011–12 was just £0.966 billion, and they actually achieved quite close to that. So, compared to some other Departments, I have got to say honestly that it is admittedly a small proportion of total spend, but given that that is what they planned to do, and we know that there is a lot of specialist spend, I do not think that the Report shows that the performance was bad vis-à-vis the MOD. I am not contradicting you, Mike, I am just saying that, in fairness, that is what the Report shows.

**Mike Greatwich:** You also asked how we might improve confidence. Confidence in the savings and the benefits in the round is best when the engagement is best with the Departments, when there is a close working relationship with the customer to make sure their requirements are met by the offering that is brought forward by GPS, and when it is available when the business needs it. Confidence is highest when you have that kind of quality relationship. When it is done in isolation from the customer, confidence is eroded by definition.

**Q9 Mr Bacon:** That is startlingly obvious, in a way; I mean, you would expect that. The question is, why doesn't it happen? Why are there situations where there is not a good relationship and a proper dialogue, in which people do not think, "It would be a good idea to find out what our customers want"? Why do you get that absence of engagement?

**Mike Greatwich:** It varies across the categories, to be fair to GPS. It has not been as good in some categories as in others. In fleet, energy and travel there is a particularly good relationship, and our team has worked directly with the GPS team on the requirement and how the procurement is done. We have in-house expertise in those areas, so together we can work out the best approach. I am not sure why it does not

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happen in all cases. We would recommend that as the best way ahead, and we should learn from the past as we go forward. There is not a lack of willingness on GPS's part or our own to do better on the next categories, and to learn from what we have done.

**Q10 Mr Bacon:** Mr Nelson, do you have any idea why it isn't always done?

**Andy Nelson:** I would add capacity and capability, and I have said that to my Cabinet Office colleagues. I think some aspects of what they are trying to do—although my colleagues in Departments might not welcome this—is about saying if they had a bit more capacity and capability on the initiatives they are trying to drive, it would help them on the huge agenda they have set.

**Q11 Chair:** So you mean in ICT—

**Andy Nelson:** Yes.

**Chair:**—the capability is not necessarily there to drive the best bargain for you at the centre?

**Andy Nelson:** It is about having capacity and capability across the broad range of initiatives. The Cabinet Office would recognise that. The Report talks about getting the Crown Representatives' skill and capability into the areas, or the infrastructure strands, through which we have driven the ICT strategy. Some of those have been resourced very well. PSN was notably brought out in the Report as the one that made the most progress on the infrastructure strands; it had the greatest capacity and capability to drive that initiative. I think more can be done there to help drive that. There is such a huge agenda because of all the parts that are going to drive this, so you need that capacity and capability centrally to do it.

**Q12 Chair:** Do both of you use all the GPS contracts?

**Mike Greatwich:** For each of the category areas we have a plan for when we move spend to GPS arrangements. If there is a GPS arrangement available that is appropriate for what we need, we would move to that as quickly as we could.

**Q13 Chair:** Give me one that isn't, and why.

**Mike Greatwich:** Fuels, right now, because we are working with marine and aviation fuels. That is imminently going to become a GPS arrangement, simply because it takes time to create the deal to move to working together to get that position.

**Q14 Chair:** Are they going to add value on that one?

**Mike Greatwich:** Interestingly, on that one the MOD is the largest single customer. The people who will get the value will be other customers who can now benefit from our volumes. While that may not be a direct benefit to the MOD, it is the right thing for the Government to do.

**Amyas Morse:** Just to be clear, that all sounds great, but I want to make sure I understand whether you are satisfied that you have sensible customer service level agreements in place, or whether you want to see those driven up. It is critical for people to feel comfortable with these agreements and that their sense of what they can expect in return from Government

Procurement Services is really clear and set out in clear terms. Would you say that is in place?

**Mike Greatwich:** It varies. We have in place what I call a customer service arrangement—a top-level agreement between ourselves and GPS—about the style and the nature of services and the broad breadth of MI that would move between us. What we need in place for every category is a service-level arrangement which sets out in more detail the roles, the benefits that will accrue from it and how the information is gathered in a much more specific and detailed way. When you know that, you have more confidence in what you can do. Travel is a good example of where we have one of those in place, and it helps confidence. But we do not have that in place in all of the categories.

**Andy Nelson:** I agree with that.

**Q15 Chair:** Why is this better than the previous system? One of the reasons given is that there is a mandate, but there are no sanctions if the mandate is not met. Do you have views on that?

**Andy Nelson:** So, sanctions against the Government Procurement Service if they do not deliver the service? Is that your question?

**Chair:** I think, actually, the sanction is against the Department for not using the facility that has been offered.

**Andy Nelson:** The tension you get into in some circumstances, and we and the MOD have done so, is where you reach the point of asking who is accountable. You get to a point where you are trying to balance.

**Q16 Chair:** Who is accountable? Is it you, because it's your money?

**Andy Nelson:** It is our money and our service, yes. That is the point where you reach a tension between delivering a service and the timeliness and appropriateness of the procurement vehicle, and the centre is trying to push that. In my private sector experience, I have had a head office role pushing such things centrally. How do you balance that with timeliness and service need? You get tensions around that, and you have to work through them on a case-by-case basis.

**Q17 Chair:** Can you see any systemic way of resolving that tension? Do you just have to accept it?

**Andy Nelson:** Whether or not it is systemic, what we could do to help should be done jointly—let's follow through the IT infrastructure initiatives such as the Public Services Network or hosting, for example—is to look forward over two to three years and for Departments and the Cabinet Office to work together to plan how they will be adopted. Taking a personal bias from my private sector experience, I would try to sit in a global role and arm wrestle with the timeliness of that plan by monitoring its progress, rather than bumping up against the next transaction or time line, to have a forward look. I think it would really help if both parties worked through that to get plans together that they could both agree on and work against.

**Q18 Chair:** What would you feel about being told, more forcefully than you are at the moment, that you have to use this stuff, these contracts, that they negotiate centrally?

**Mike Greatwich:** I think the key, as my colleague said, is understanding the art of the possible. In any particular category, we must look at what we have that should be transferred and whether we are transferring it as fast as we can. That helps people to understand whether we are behaving in the right way, whether we are following the agenda and whether we are meeting ministerial intent. If the instruction is simply to do what we are already trying to do, it is not an issue.

Perhaps another angle on what Andy was saying is that there is mutual accountability. Let's say we switch to a centrally provided service and we no longer have our own team within the Department to do that procurement. What happens if that service fails? There are a number of things in place to help that not happen. We have talked about early engagement with the Departments and the GPS, which will build confidence that a deal is commercially robust and covers off the risks we might want to cover. GPS already has a good customer relationship management function in place, which is improving and is helping us to spot and sort out problems.

But what happens when that service fails? Let's say that that happens. What happens then? What can Departments do? The service provider needs to help us to understand what we do in that circumstance, but I would no longer have that procurement expertise to put a deal in place myself unless I redirected something from the core activity. A mandate is fine as long as you are trying to do it as part of meeting ministerial intent. I have no qualms about that, but there is mutual accountability and responsibility in this group, and the NAO's Report reflects on that.

**Q19 Mr Bacon:** Mr Nelson, you mentioned your private sector experience. I have the witness biographies here, and there is slightly more than half a page beneath your name. I have read it carefully, and there are 26 lines of text, but there is absolutely nothing about your experience. It says "In role at Ministry of Justice since 2007."

**Andy Nelson:** Does it?

**Mr Bacon:** You have been there for five years?

**Andy Nelson:** No, I have been in the Ministry of Justice since late 2009. Prior to that, my experience was entirely in the private sector.

**Q20 Mr Bacon:** Where? I don't know who supplied this to the office, but there is nothing about your biography at all. There is something about what Accenture says the shared services platform was expected to help the Ministry of Justice to do, but I am not sure why that is there. Were you at Accenture?

**Andy Nelson:** I was at a number of places. If you would like a quick tour, I spent some time at the very beginning of my career at what is now Accenture, but was Andersen Consulting then. I spent some time at PricewaterhouseCoopers. I spent a number of years at Asda, where I ran computer services. I was a CIO at GE Capital. I was part of the group executive team that turned around Royal and Sun Alliance between

2003 and 2006, and I have also worked independently. Transformation roles and big CIO roles—

**Q21 Mr Bacon:** It sounds like you have lots of experience. It would be helpful to have that in your bio.

**Andy Nelson:** I can assure you that it is in biographies. Why it has not landed with you—

**Mr Bacon:** Not the one that was sent to us.

**Andy Nelson:** Bizarrely.

**Chair:** You have now moved to the DWP, where you are going to have to handle universal credit. I saw an article on digital Government that really brought it home to me. It said that universal credit will merge six systems into one that will be used by 19 million people around the country.

**Q22 Mr Bacon:** Are you at the DWP now?

**Andy Nelson:** I started last week. I literally just started.

**Q23 Mr Bacon:** There was some rumour going around that you might have moved to DWP, but, again, the briefing paper that we have been sent says nothing about that at all. It says you are at the Ministry of Justice. That is wrong, is it?

**Andy Nelson:** I am appearing here, as I understood it, on the behalf of my time in the Ministry of Justice and Government CIO.

**Mr Bacon:** That's fair enough. We just like to know where you are coming from.

**Andy Nelson:** My comments are a mix of that private sector background and this. I am hopefully trying to add for you.

**Q24 Chair:** On your current challenge, which is of great concern to the Committee as to whether it can be delivered, what use at all will you make of any Cabinet Office expertise?

**Andy Nelson:** If I think through the initiatives in here, a number of them would apply. The one to pick would be using Crown Representatives when working with major suppliers. An obvious example would be—

**Q25 Chair:** You would not do that yourselves in DWP.

**Andy Nelson:** You can do it together. Going back to my private sector experience—in fact, let me use MOJ as an example, if I may. When I came to the MOJ, IT would have been separate in prisons and in courts and so on. If you looked at suppliers working in the Ministry of Justice, it was not clear to them and, frankly, they did try to do some "divide and conquer" around the place. When we internally in the MOJ assembled a single IT function, we in effect created a local Crown Representative—for want of a better phrase. There was a single point of contact managing that supplier business. On occasions where we did deals at the Ministry of Justice, I absolutely pulled in the Crown Reps and we worked together to try to work with suppliers, because it was a completely sensible thing to do. I would expect to do the same and follow the other initiatives in DWP in due course. I trust that you will appreciate that it is the case that I arrived literally last week.

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**Q26 Chair:** So you would negotiate jointly. Go on. What else?

**Andy Nelson:** You would use the other policies. You would expect to be using the control policies and following the procurement framework. The DWP, like the Ministry of Justice, has an agenda where its contracts are coming up for renewal, so there is a question of how you would expect actually to do those and re-contract them. I would expect to be working with the Government Procurement Service, as we have at the Ministry of Justice. If you look at the same programme there—David Shields, who is appearing before you shortly, is actually on the programme board at the Ministry of Justice for that future contracting programme—I expect to adopt a similar model for the DWP.

**Q27 Mr Bacon:** On that point, is it right that you have gone into DWP essentially because of the need to help with universal credit?

**Andy Nelson:** I am there as a CIO across the board.

**Q28 Mr Bacon:** You are big gun, if I may say so, and you have been put in there. There is another big gun, Mr Pitchford, whom we thought was doing a different job, but we are now told he has been moved from that job at what seems to us to be short notice. He is now there as well on universal credit. What you were just saying about getting in the Crown Reps and the negotiations with suppliers and everything else is pretty generic. That does not specifically relate to universal credit, does it? That is just about your job generally.

**Andy Nelson:** It is about the job generally and how I would expect to do it and how, taking you back to my private sector experience, I would expect to play the same role. Having the right skilled people around the table and having a cross-Government, departmental view to bring to the table is healthy in major negotiations.

**Q29 Chair:** If I look at the IT section of procurement, quite a lot was done by just delaying projects and stopping them. There is a limit to how much of that you can do. We are about to have a hearing on cyber-security, for example. The growing concern across Government with cyber-security means that, I assume, there will have to be quite a lot of updating of systems across Government. One can assume that there will be a lot of delay, so you will have to do a catch-up, either with obsolescence or cyber-security. At the same time, money is tight, you want to do it in a different way, and the Government do not have the world's best reputation for managing IT projects. What confidence do you have? What has changed that makes you think that in the new environment it will work better? You are responsible for one of the biggest projects. What has changed in the years you have been here?

**Andy Nelson:** Could I pick up a delayed comment and then come back to the money situation, because you are right. My experience in the Ministry of Justice is that some of the moratorium process invoked in the early days as administration was a healthy thing to do. One of the things that has changed through that

process was much better discipline around the portfolio projects. It was not controlled well enough, and that was probably true in many Departments, so it is healthy and better with a greater focus on what needs to be done.

On money being tight, and continuing to be tight, that is a big challenge for many of us. On investing that money, there are probably two levels of investment. One is the infrastructure investment. In the Ministry of Justice Department there has been underinvestment for years, so much of my capital money in the last three years has been quite basic stuff. But having got past that, it is in a much better place.

The third thing is what has changed. We are looking more healthily at how to deliver far the applications. Following me in the Committee you happen to have Mike Bracken, who runs the Government's digital service, and in terms of different ways of building systems, and building them faster and most cost-effectively, certainly after my private sector experience, I am seeing Mike and others bring that, so that is healthy.

The last thing, which remains a challenge for the Government, is building their internal IT capability, and they need to do more. If you compare that to some of the major private sector organisations, we have historically—probably for a decade—outsourced a lot more than the private sector has done, so we genuinely face a challenge of building greater capability internally in Government. Am I encouraged in terms of the steps we have made in the last year or two, both in existing IT functions, and building something like the Government's digital service that is starting to build that capability? Yes I am, but I would not underestimate our challenge.

**Q30 Chair:** Jeremy Hunt has said he wants to go paperless—this is with your old hat on of chief information officer—by 2018, or something like that. Richard in particular oversaw the complete and utter total disaster of the attempt to go paperless on patient records. Why should we believe anything will be any different?

**Andy Nelson:** My personal perspective is that I like to think the money situation helps, and I will tell you why. If you look at some of the major programmes, I find that the culture is over-complicating. We are not very good at the 80:20 rule, and the essential things we should automate and drive at. We tend to try and automate everything. That is a natural style, whether it is risk aversion or whatever it may be, so we spend too much money doing that. Secondly, getting rid of paper is not just about technology. It is about culture and behaviour and they way people operate, so you must deal with that as well.

**Chair:** That was a problem last time round. I think we have probably covered everything. Does any one want to add anything?

**Q31 Mr Bacon:** Has anyone done any studies on whether getting rid of paper is always the best thing to do? We are a paperless Committee now, as you can see.

**Andy Nelson:** I have turned up with—

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**Mr Bacon:** Everyone has been issued with an iPad, although I already had mine, so to save public money I did not claim a second one, which would have been rather silly. Physically trying to find your way round one of our excellent reports—we do loads—on an iPad is slower ergonomically than doing it like this. You can't stick yellow tags in. I am sure there are tools to highlight things, because I found them used in PDFs and so on, but it is physically slower. I do not know whether any work has been done—perhaps you know and hence my question—on whether, just to take this one example, going paperless is always the right thing to do. It might be less effective, as well as more expensive.

**Andy Nelson:** I don't know. In the past when people have tried that they have not come up with a good answer. I have also turned up with a pile of paper today. I am not familiar with any recent studies on whether that works. My personal perspective is that I genuinely feel that the advent of the technology that many of you are using here—the iPad is a good

example—could help that. It has genuinely moved on, and if you use the Courts Service or the Crown Prosecution Service, the Crown prosecutors now appear in Crown courts with a clunky—to be fair—tablet device. I watched Crown prosecutors take it on quickly and genuinely use it and abandon the paper, and do it quite quickly. I am seeing encouraging signs that newer technologies and user interface can make a real difference. That is an example. Have I seen a study recently? No I haven't, but I have seen some encouraging signs, and I think that the technology can make a real difference.

**Chair:** Good. Thank you very much for giving us that helpful and direct short contribution.

**Mr Bacon:** We will see you again in due course.

**Chair:** We will see you often, Mr Nelson.

**Andy Nelson:** I suspect you might, yes.

**Chair:** And thank you, Mr Greatwich. It wasn't as painful as you thought it was going to be, was it, Mr Nelson?

**Andy Nelson:** No, it was fine.

### Examination of Witnesses

*Witnesses:* **Richard Heaton** Permanent Secretary, Cabinet Office, **Stephen Kelly**, Chief Operating Officer, Cabinet Office, **David Shields**, Managing Director, Government Procurement Service, and **Mike Bracken**, Executive Director, Government Digital Service, gave evidence.

**Q32 Chair:** Welcome. I will start the ball rolling, and no doubt my members will want to come in. These are two good Reports, and we welcome them. It is good to see the progress that has been made. All our comments are within the context of, "So far so good. Where do we go to get things better and sustained?"

Let me take the first thing. Whether you look at the ICT procurement Report or the general procurement Report, what they both show is success—that if you centralise procurement, you save money. That is not a surprise to us, particularly with the NHS, where we have done quite a bit of work. What does that tell you, Mr Heaton, about localism and trying to ensure that we get best value by cutting back-office costs and focusing money on the front line? There seems to be a tension—you look puzzled on this—between the Government's policy on localism and their desire to save money in back-office procedures.

**Richard Heaton:** Mrs Hodge, thank you very much for your opening remarks. This is difficult stuff we are engaged in here. This is an area where public sector spend has been unmapped and wasteful, where suppliers, in the past, have run rings around Government and where we have been stuck into long contracts with big suppliers and found it impossible to negotiate from a position of strength. So we are proud of the progress that we have made with Departments—in respect of the last conversation, it is with Departments, not just in the Cabinet Office—in mapping spends, saving money, bringing things into the centre where appropriate, making Government a more intelligent buyer of services and customer, stopping wasteful or pointless projects—we might come back to that—and producing better services. We are proud of all that stuff.

We are grateful to the NAO, not just for the help but for the challenge as well, particularly the challenge over the rigour on numbers. We don't want to claim numbers that can't be stacked up, and we are pleased that, by and large, our numbers can be stacked up. We might talk about the areas where that has been difficult.

So we are really proud of the work we have done. Having said that, this is really difficult stuff, and there is a long way to go in some important areas. Mrs Hodge, you touched on one—

**Q33 Mr Bacon:** Can I just stop you for a second? You have said several times now that this is really difficult stuff. When I was reading the Report, one of the first thoughts that I had was, "Actually, this isn't rocket science." We've got a man to the moon; it is now 44 years ago. That was rocket science, and they were pretty primitive rockets compared with the ones we have these days. This is, by comparison with getting a man to the moon, pretty simple.

I know that there are lots of different categories of things. I know that in the Ministry of Defence alone—Mr Greatwich has gone—there are 710 million items across 900,000 categories, which is a lot more than in your average supermarket. I am not saying that it is trivial—it is plainly not trivial, and I am not trying to trivialise it—but you shouldn't try to overcomplicate how difficult it is either. This is about the Government buying goods and services that they need in an efficient and effective way. In passing, in your introduction, you said, "So, one of the benefits is that we have been stopping pointless projects." I am thinking, "How did we get to the point where we were doing pointless projects? How? Why?" How did we

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ever get there, with no one saying, “Hang on a minute. It’s pointless”?

**Richard Heaton:** Just to give you a personal reflection, I have not been in this area for long, but I have been a civil servant for 20 years and—this is purely personal and speaking off the brief—I remember as a junior civil servant, my Department, which I won’t name, was stuck into an IT contract and no one in the Department could find the contract. Government was bad at contracting and you had this extraordinary position where the big suppliers providing services to us were really good at it and had a crack team on to it. Every four years they would come round the Departments which every four years did a bit of IT and we were amateurish in response. So our collective ability to do this stuff was not as great as the people on the other side of the table, which is why I mentioned that thing about being run rings around. So it shouldn’t be difficult, but we started in a bad place. That was all I was saying by way of introduction.

**Q34 Chair:** Can you answer my question? I allowed you some leeway. Normally I would interrupt Perm Secs if they did that to me. I allowed you some leeway because I think it is your first appearance.

**Richard Heaton:** I had 20 minutes on the Olympics.

**Chair:** I want an answer to my question. I agree with Richard that this is common sense stuff. But there is a tension between localism and taking advantage of central purchasing and bulk and therefore the power of the centre. There is a tension. How are you resolving it?

**Richard Heaton:** Most of our energy, but not all, is about bringing the centre of Government together and doing things for the centre of Government better. There is no conflict there with localism at all. So centre of Government ought to be a single customer. So when you hear about Crown commercial suppliers it is centre of Government doing things once and best for Government. When you talk about procurement for the broader public sector then you get into the localism tension. But that is, for example—

**Q35 Chair:** I don’t agree with that. If it was just about central Government you would not be at £3 billion. If you look at purchasing on the whole it is £200 billion and whatever it is. It is massive. Here we are talking about a very small sector. It is a lot of money—£7.5 billion—but it is very small sector of the totality. Out of that sector, you have been at it now for two years and you are edging up to £3 billion, so less than 50% of these very basic services such as your travel agent and your fuel. I think there is a tension. I would rather you were open and honest and shared with us the problems than pretended that the whole of central Government is with you on this.

**Richard Heaton:** Sorry, no, I did not say that at all. I said there is no tension with the localism agenda. Localism does not mean we allow central Government Departments to do things differently and their own way whenever they please. Localism is about the relationship between the centre of Government and local communities and local authorities. So I am

saying, the centre of Government, we haven’t got there. We haven’t achieved the whole—

**Q36 Chair:** Actually there is a tension with localism. Just think about Jeremy Hunt and his IT system. If he really wants to be paperless by 2018 and he has however many NHS trusts all having to go paperless, that is a tension. There is a tension. You have to acknowledge that and I want to pull that out of you. There is a tension however you look at it.

**Stephen Kelly:** What we are seeking to do here is fundamentally allow Departments to enhance public services at a fraction of the cost of the old one. We will get on to the context of that. I have a slightly different hat when you asked that question because I am chairman of the premises committee for an academy school. We just put in an AstroTurf tennis court. If we could have done that for 20% cheaper I would be delighted because I could employ another teacher. If I can leverage more intelligently the way I spend and invest locally on behalf of pupils and schoolgirls down in Kingston, then we should celebrate that. What we are doing is focused on central Government but one of the challenges we face is how we make that more available and better communicated to the wider public sector so that it supports the provision of better services for education, health and those areas.

**Chair:** Okay. I think we are all with you on that.

**Q37 Mr Bacon:** On that point, what you really meant was that they would be able to buy the services of another teacher for one year, unless you are putting in an AstroTurf court every year.

**Stephen Kelly:** Yes, but candidly, the level of competence out there in academy schools like ours is woeful in terms of commercial skills. We get consultants and contractors in and they speak in a different language and bamboozle us with jargon.

**Q38 Mr Bacon:** So surely you say, “Stop bamboozling me. Speak in English or I’ll talk to someone else and buy from someone else.”

**Stephen Kelly:** Fortunately, I guess that is why they chose to put me on the board of the governors. Many schools are doing similar things. I don’t think there is a clear dichotomy. At the end of the day what we all want is to deliver better public services at the front line and we think there is a way to deliver them.

**Q39 Chair:** Of course we want that. It is motherhood and apple pie. But actually the behaviour of Departments, whether you are talking about central Government or about academy schools and foundation trusts, is different. They think they know better than you and you think you know better, and that is where there are the tensions between Departments and the Cabinet Office, and between schools and hospitals and the Cabinet Office or central procurement. You have got mandation, but you are not using it—you daren’t use it. You’re still working on the basis of, “Let’s all have a nice conversation and agree this stuff.”

**Stephen Kelly:** One other area where, again, we are in the foothills is the transparency agenda, data and benchmarking. There has been a lot of work around—

you have probably had some visibility about it—Departments and the wider public sector in terms of the cost of things such as IT, desktops, laptops and estate. Speaking from an academy point of view, we try to judge ourselves and get the best, lowest-cost provision.

**Q40 Chair:** Could we now know across Government? Could you know, NAO, the cost of what everybody pays for laptops across the whole of central Government?

**Sally Howes:** I would start by looking at Cabinet Office sources, frankly, and they are transparent and visible to us all.

**Q41 Chair:** So you could let us see those figures?

**Sally Howes:** Yes, we could.

**Q42 Mr Bacon:** What is the variety in cost now? I know, having been to the disease control centre in East Anglia, that there are different kinds of printers. If you are trying to do an enormous map—a plotter, essentially—to plot outbreaks of classical swine fever or foot and mouth, you need something that is half the length of a table. It is not the same, but there is none the less such a thing as a vanilla, bog-standard black and white printer. Do you now have comparable information at the centre on the variety of different prices that are paid for such a bog-standard item, in the way that you certainly did not have relatively recently?

**David Shields:** We have an improved picture of unit pricing from the spend analytics work that we are doing at the moment. In terms of the spend analytics, we analyse £45 billion worth of spend data across Departments. We are currently at about 90% of that data. We have an improved understanding of unit prices. In some areas it is quite complicated. If it is deep in the supply chain, in a big outsourced contract, we do not necessarily have the same visibility.

**Q43 Chair:** Just a small Department like DCMS will not spend £5 million on laptops. The MOJ will not spend £5 million on laptops. Maybe even the level is wrong.

**David Shields:** Just to finish the point, in all areas of expenditure across the piece we have a growing set of information on actual specific unit prices, which we can compare and contrast.

**Q44 Chair:** Let me raise an issue with you. I accept that *The Daily Telegraph* may get it wrong, but Sue Cameron, whose sources are usually quite sound, talks about this absurdity of Francis Maude trying to get the MOD into a recycling contract on paper. Her article said that departmental responses included: “we don’t have the colour of the paper”, “we don’t think it will work in our printers”, and “it’s strategic for us”. That last response was thought to be from the MOD, although I should have asked them. The DWP said that “they needed top-quality paper to write letters of condolence.” I know that it is a pittance—it is not a lot of money across the piece—but it is pathetic.

**Stephen Kelly:** I do not know whether this is on the bio, but before this I was for 10 years the CEO of a

London stock exchange public company running across 50 countries. We centralised everything. There was mandation and it was a simple directive world. We took 20% of the operating cost out in the first three months, and everybody said that that was impossible. Any company you can walk into, in terms of comparables, you can take 10% out. Fortunately, revenue leapt by 20%. Previous to that I was in the US doing similar things.

In terms of where we are now, candidly, we have to build a coalition of interests and work with the Departments, because they fundamentally hold the budgets and the sovereignty. Anything that you can do to support the mandate in terms of centralisation, particularly of spend categories, would be really helpful. Anything that you could do to support the incentives and the alignments would also be really helpful. We are doing a lot of stuff that you may have some visibility on, such as departmental planning, getting better-quality data and self-certification of audits, but we could certainly do with additional help in sharing the alignment, the agenda, the departmental—

**Q45 Mr Bacon:** When you say, “We could do with additional help in sharing the alignment,” I am not quite sure I know what that means. Do you mean helping them to agree with your point of view?

**Stephen Kelly:** No, I think maybe we would bridge on to it. I think the opportunity for us—

**Q46 Mr Bacon:** Bridge to me is something you drive over in a car. It is not a verb. I am not being pedantic; I am just trying to understand what you are saying.

**Stephen Kelly:** Let’s start with the fact that we spend £6.9 billion in Government on ICT, which is equivalent to about £15,000 per civil servant. That is five times the equivalent of GlaxoSmithKline, Tesco or any comparable organisation in the private sector. We spend too much. Do we get the value out of that? I came in this morning to the Cabinet Office, and it took seven minutes for me to boot up—just to get to the first screen. That is three person days a year I waste waiting for that machine to come on. So I think our IT systems are poor. Mike, who runs digital, may have the data to directly answer your question.

**Mike Bracken:** Maybe we can help out on similar data sets. One of the challenges we faced in Government was to find out the cost of a transaction with an end user or business, of which there are 672 transactional services on the Government estate. Stamp duty is the highest by volume and the licence to be buried at sea, which we used 11 times last year, is the lowest.

**Q47 Mr Bacon:** How much were those each?

**Mike Bracken:** I cannot remember. But we do have the data.

**Q48 Mr Bacon:** You have the data on that?

**Mike Bracken:** We do, and we publish it all. It is all in the public realm. We have a tool called the transactions explorer. If you look on the Cabinet Office GDS website you will see the transactions explorer, and you will see the data by class of

transaction. Many of the transactions are similar things; a licence to do something is a good example. Then we publish the cost per transaction to the end user and the volume of transactions and so on.

The top 50 transactions in Government account for 97% of volume. You can probably guess the major ones: driving licences, passports and so on. We have a plan with Departments, which we announced before Christmas, to transform 23 exemplars plus two other services, so 25 of those top 50. The reason why we can go at those, and the reason why I think it is valid to look with an optimistic view about transforming those, is that we spent the best part of a year finding the data and putting it on to common standards to make it mostly directly comparable, trying to use the same indicators. That took us a year of hard work. We had to build a consensus with colleagues and an auditing regime that helped us collect that data in the same way, which was supported by many cross-Government colleagues and areas.

You asked about the unit price of laptops and computers, which is, frankly, too high in many cases. Often we do not have the motivation to get the cross-Government comparable dataset, and I think that is one thing that has proven to be so valuable.

**Q49 Chair:** Okay. What I am hearing from you is that mandation in theory is a good idea. Mandation in practice—they have got to be told they have got to do it, which means ownership and accountability, and you can see where they run in—

**Mr Bacon:** Our Chair is very good *précising* what people say, but I just want to be clear that that was an accurate *précis*, because you were frowning during the *précis*.

**Stephen Kelly:** The only contest I would make is that the reality of Britain has been, up until five years ago, 50 years of growth on and off with a few recessions thrown in. The spend going from £315 billion in 1997 to almost £700 billion today in the public sector sets a whole culture around grow, grow, grow—bigger budget. Candidly, having been a CEO, I have never had the CIO come into my office and say, “I want a smaller budget.” When they go for the next job interview, what do they talk about? The size of their budget and the number of people they managed, and they get a bigger job. We have to break some of these elements down around the culture because we want them to do a lot more with less.

**Q50 Meg Hillier:** I want to probe a couple of areas. If you look at the recommendations on page 10, in the summary, there is this big issue about—

**Chair:** Which Report, please?

**Meg Hillier:** Sorry—on the ICT savings initiatives. There is this big issue about the fact that it is all very well saving money on the IT, but it is the processes. The NAO gives you some credit for having set these broader transformation objectives to measure progress against. One example we had recently was the issuing of BlackBerrys to police officers, and the varying degree of benefit. In some cases, it was a waste of money because they were just used like mobile phones, but in other places they were properly plugged into an intelligent IT system that decreased

paperwork and so on. How much progress are you making in that area? Are there good Departments and bad Departments that you would like to hold up as examples that we might want to look into further?

**Richard Heaton:** I will hand straight over to Mike, but quickly, I think that the worst, old-world outcome would be for us to get better at buying great big services from BlackBerry or anyone else. The best world is working out what services we are trying to deliver and how digital IT can be deployed intelligently to deliver those services.

**Meg Hillier:** We agree on that then.

**Mike Bracken:** I’m afraid I am not familiar with the police and BlackBerry—the same with Apple.

**Meg Hillier:** No, don’t worry, we know about that.

**Mike Bracken:** The point is right. It is a third order question really. The first order is what service we are trying to have. So often, we are asking and then answering the wrong question: “How can we reform IT?” It is not IT that we are trying to reform; we are not trying to get better BlackBerrys, we are trying to work out what is going to be a better service. We are therefore often capturing the wrong data. The unit cost of a BlackBerry, if we opt for the cheaper one, is not going to address the fundamental point that if it is not used properly, it is not worth having it at all, or nearly not worth having.

The point is about looking at service provision. One of the bigger challenges there on creating a consensus among colleagues is to move away from IT thinking and thinking first about what IT we want, because we often do not actually want any. At the same time as all this has been happening and, as Stephen said, the Government spend on things such as BlackBerrys and more and more features has been increasing, the consumerisation of technology has been taking place at such a speed that we all recognise from our non-working lives that we cannot keep up with the speed of that. Because we are locked into that thinking about IT, many of our answers to those questions are, frankly, sovereign answers in a world that is run on platforms. Those platforms, based on open standards, are driving costs right down. The cost of hosting goes down roughly 50% every 18 months, and yet in Government, we are locked into contracts where it is actually going up.

So it is about thinking differently about how we structure contracts—whether we buy a BlackBerry, or people bring their own device, which would be much more preferable—but we will only crack that if we think about the user need and what they are actually using things for. Often, looking at the unit price is only one metric; we need to look at what these things are being used for.

**Q51 Meg Hillier:** I don’t think that any of us would disagree with that, so the question is, what about the progress? Is there a good Department and a bad Department, or a good project that you could highlight and one where you think there is room for improvement? Some of us have been in Government and dealt with IT, and I hear exactly what you are saying, but you are in the driving seat really, Mr Heaton, to ensure that this change winkles through the rest of the results.

**Mike Bracken:** Can I just run through it, then? If we want to look at an estate that did not start in a great place, look at the student loans sign-in process.

**Meg Hillier:** We all had the casework.

**Mike Bracken:** Yes, that is still not a great service, but we have made user satisfaction with the sign-in for the basic loan go from minus 60% satisfaction to plus 80% satisfaction. People are more satisfied with the sign-in process and having to do fewer phone calls. Look at gov.uk—that service is getting a million more users than Directgov and Business Link combined, and it costs about 25% of the cost of both of them. So we are making good progress there.

Perhaps the best transaction example—to be fair, we only started going at transactions towards the end of last year, once we had got the gov.uk platform out—is at DEFRA. There, we have a permanent secretary who is driving a new way of working and is not looking at the technology first, and an empowered chief operating officer who is driving change. Previously, we had a programme that looked at doing a huge, paper-based procurement, which took around a year and cost several million pounds. There were lots of consultants and they literally ended up with lots of binders full of paper.

We dropped a team in there with them and helped them to drive a new product and we had an alpha version—a sort of prototype of that product—up and running in three and a half weeks. We are now a few months into that. Everyone has worked with that product to develop it, and that whole fear that things have got to be ready by, in their case, 2014–15 has now gone. Although there are still issues there, there is no longer the huge fear that they have to run out and procure—you can get these services ready really quickly. The history of the last 10 years tells us that all the apps and digital services that we use can be created in a snap. The speed of creation is much, much quicker than the speed of procurement.

**Q52 Meg Hillier:** Can you tell us yet what cost savings that will have led to? Could you give us a guesstimate at this point? I am sure it will come out for that particular project.

**Mike Bracken:** No, on the final cost I cannot, because we do it in stages. But the cost of making the paper-based business case to go through procurement and buy something that doesn't exist—you are trying to buy something that the market has got to create—was £6.5 million. I will have to check that, but I am pretty sure it is right. It cost £125,000 to create the actual product.

**Meg Hillier:** Wow, so it is significant.

**Mike Bracken:** It is a significant fraction of the cost to create the thing, rather than creating paper to go and buy the thing. The orders of magnitude are huge here.

**Q53 Meg Hillier:** We will go on to skills in a moment, but I want to touch on “Tell us once”, Mr Heaton. That was DWP-led, but a Government-wide process. It was very much consumer driven, and was about using IT intelligently, to make better products and services for the customer. Where has that got to?

**Richard Heaton:** “Tell us once” is still hosted by GDS.

**Mike Bracken:** Well, it is actually with DWP. It is coming over at the moment and is in review. It is something that gets marks for the right thinking at the start. We have looked clearly at the execution. I still think we do not have the evidence about the datasets and how successful it has been, because there is no real cost per transaction. We applaud the direction but are trying to help them to reset large parts of that project.

**Q54 Meg Hillier:** I ask partly because when the permanent secretary answered a similar question, he seemed to think it had been done already because the very first step had been done. There were much bigger ambitions for “Tell us once”, as a proper, democratic digital interface for the public. Are you saying that it has come over to you—answer carefully—and that it is that limited vision, or is it actually going to be ramped up in the way that it was originally envisaged?

**Mike Bracken:** It is a very limited service right now.

**Q55 Meg Hillier:** I know about right now. Where is it going to go?

**Mike Bracken:** It is under evaluation for how we—

**Chair:** Which service is this?

**Meg Hillier:** It is “Tell us once”. If someone dies, you tell once and the rest of the Government do not have to ask you 20 times more, for example.

**Mike Bracken:** We support the aspiration but we think there are many platform services that we can provide that will fulfil large parts of that aspiration.

**Chair:** Golly, that was started years ago.

**Q56 Meg Hillier:** Exactly. I also want to chip in about ID cards. I used to lead on this for the Government and one of the areas that we missed was selling this as an opportunity to use fingerprint identification as a way of very quickly accessing services for those who chose it—it was never mandatory that you had to have one anyway. I don't know if there is any thinking about the use of fingerprint technology anywhere in Government at the moment, or if that has been junked. Lots of people use their fingerprints to get into individual PCs—that is quite common—and my children will be using it to get their school lunches; but somehow in Government it has hit a bit of a wall. Do you take some responsibility for that?

**Richard Heaton:** Again, Mike can answer that. The ID project looked at one point as if it was a big database, Big Brother mechanism in order to provide identity authentication. I don't think that's the way that GDS currently view it. That is not the best way of doing it.

**Meg Hillier:** Identity verification, I suppose we could call it.

**Mike Bracken:** It is one valid format for doing that. Looking at some parts of Government, the Home Office, obviously, have agencies that use services like that, but we are going on a federated model. We use a model of identity that first, already exists in the market, and secondly is appropriate for the transaction that you are doing. So we are seeking to get a trust network; we have moved away from building IT and technology-based services that cost a lot of money and

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are bespoke to that application. We have 672 transactions; we obviously cannot have 672 silos of technology to service that. We are looking at market-making models. We have created a small number of providers who are already in an interoperability group called the OIX, or open identity exchange. There is a link between PayPal and the Post Office, so that you can match a service—it could be trying to buy a fishing licence, right through to the more fundamental services that the state offers—and we can match the identity network, so there is a trust network for that service. For instance, should you as a consumer feel that you want to select the identity that you already have with the Post Office or with PayPal, then you can do that and we will take their validation of you as a person to complete the transaction; but they will not know which transaction with Government you are asking to do.

**Q57 Meg Hillier:** Pardon me, Chair; I am not being mischievous by raising the issue of fingerprints. Only this morning I tried to contact a bank and was told I did not have a six-digit PIN; I don't think I ever had a six-digit PIN. Every organisation now is coming up with ever-increasing layers of security. From what you say and from what I know of that system, it is a very valid way of doing things—certainly for low-level transactions it is much less hassle—but there are certain transactions where the one way I know I'm me for sure is that I have registered my fingerprint. It is the one thing that no one else can pretend to do. Is that on the cards at all for high-level transactions, or is it really out of the window?

**Mike Bracken:** For some transactions, and again I would point you towards the Home Office for agencies that are looking at that first; but we do not really deal with that. We are trying to have a standard, so if the provider of that service meets the OIX standard for interoperability, they can provide it to Government and they do not have to repeat that every time with a different procurement.

**Q58 Meg Hillier:** I really cannot wait for this to happen. It has been a long time coming.

On the skills issue, we talked earlier about making sure that people could learn lessons, basically, about what works best, looking at it from the service end rather than the IT end. We always have this issue of people who were brought into a job—I saw it myself when I was a Minister—and they led a procurement or dealt with a project and then they moved on, because that is what the civil service career ladder demands. We obviously have experts coming in now—Mr Kelly and others—but how are you driving it from the Cabinet Office to make sure that we get really good IT procurement, and not people who are just coming in to cleanse their CV for a couple of years, but who stick with it long enough actually to deliver the value for money across Government that we all want to see?

**Richard Heaton:** That's a great question. The civil service reform plan will deliver a capability reform plan shortly. Commercial skills, including procurement and major project skills—both of which have been of interest to this Committee in the past—

digital skills and leadership for change are the four big areas that we realise we are weak on. The reforms will cover the major projects leadership academy, which I know you know about, and the commissioning academy, which is about buying the skills and is perhaps the major response to your question, Ms Hillier.

**Q59 Chair:** So you are going to pay people more? Are you going to make them stay in the same job longer? These are all plans and things that we hear endlessly about. What is actually going to happen to build the skills? What are we going to do to build the skills that we all know, recognise and understand?

**Richard Heaton:** The MPLA is about building skills.

**Q60 Chair:** So you are going to train new, bright people coming into the civil service. How are you going to hang on to them?

**Richard Heaton:** And on commissioning as well.

**Chair:** How are you going to hang on to them?

**Richard Heaton:** The pay system may have to reflect that.

**Chair:** Is it going to? We are trying to get some nuts and bolts on this stuff, rather than theory.

**Q61 Mr Bacon:** I am a great fan of the MPLA, as you may know, but do you accept that it is potentially a great way for people to burnish their CVs, become greatly more employable and then get snaffled up by the private sector after a few years?

**Richard Heaton:** We have to make the government service absolutely something that people want to stick at by a combination of reward, progression and development.

**Mr Bacon:** By having computers that don't take seven minutes to boot up. I am still struggling to get over that, to be honest.

**Q62 Chair:** How long has the GPS being going now? How long has the organisation been there?

**Stephen Kelly:** It was effectively Buying Solutions beforehand. It was launched in its current guise a couple of years ago.

**Q63 Chair:** How many people have left in the last couple of years?

**David Shields:** Less than 5%. We had a voluntary redundancy scheme. Outside of that we have relatively low levels of staff turnover.

**Stephen Kelly:** We managed the cost down from about £43 million a year.

**David Shields:** Can I answer the question on procurement reform? The current chief procurement officer is launching a procurement reform agenda, part of which is to bring together the scarce skills for big IT contracts and outsourced contracts and to manage them from the centre, although they will still be within Departments. One of the big challenges we have is, if someone does a major IT outsourcing contract or a facilities management contract, and that might be the only one they do in five, six or seven years, and we lose that skill set. The idea of the reform is to maintain those skills—most people doing those projects find them rewarding and attractive—and then to deploy

them back into Departments for future agreements and build the capability and resources. That is part of the reform agenda that we are moving towards now.

**Stephen Kelly:** Can I just add one thing on commissioning? I think the infrastructure is going to be in place with MPLA. About 800 people have gone through lean training in terms of procurement. The key strands are commercial skills, project skills, commissioning academy, MPLA, digital skills and digital champions, but that sort of misses the point. What we are about, to be successful, is changing it from gold-plating everything and having systems where we use only 5% of the functionality and have multi-year contracts. It is all about changing the culture from buying IT to really good commissioning. It is about what we need in terms of user services, which goes to Mike's point. That strips a lot of the complexity and cost out.

**Q64 Meg Hillier:** I am reminded of the MOJ interpreting service, which was basically a contract with a private provider to build an IT system, which at least they had the wit to hold the ownership of. It was a very expensive and clunky way of going about it, it seemed to us. We were not very positive about it or what it achieved. What would that look like under the regime that you have all beautifully described, but which is clearly not happening at the moment in lots of places?

**Stephen Kelly:** Do you want to answer?

**Richard Heaton:** You will hear more about procurement reforms. Some of it is about simple kit that everyone buys being bought centrally. That is pretty straightforward. Some of it is about complicated kit that Departments are specialist in, such as battleships, and you will not see centralisation there. The bit in the middle is the really interesting bit, as I described earlier, where Departments from time to time need to engage with specialist suppliers. How does the Department perform against the supplier? Stephen, would you like to say something?

**Stephen Kelly:** Our thinking about procurement reform that is in flight at the moment, as Richard alluded to, has been through PEX and is going through the Civil Service Board. It is about volume and aggregation going through GPS and that is with the support and mandate of the civil service community. I will come back to that.

**Q65 Chair:** But Meg has chosen a very good example. It went completely wrong. What will change now? I assume you know the history of this. It is absolutely ridiculous. They didn't look at the financial due diligence; they went for somebody who just couldn't cope with it, and it ended up costing this much. What has changed in the way that you procure?

**Richard Heaton:** MOJ would not be left to themselves negotiating with a big IT supplier, for the first time in seven years.

**Q66 Chair:** It wasn't a big IT supplier; it was tiny. That was one of the problems.

**Richard Heaton:** They would not be left to do complex things that are not in their core area of

business expertise. They would not do that. They will receive significant help from the centre.

**Stephen Kelly:** Yes. Volume procurement, battleships and complex stuff, is MOD. But this area where it is complex or ICT or business transactions, services, we would have central teams working with the Departments to manage the commissioning associated with that.

**Q67 Meg Hillier:** And speed it up, from what Mr Bracken said.

**Mike Bracken:** Yes. The short answer is you almost certainly wouldn't procure it.

**Q68 Meg Hillier:** There you go. We came to much the same conclusion.

**Mike Bracken:** The problem here is procurement. You procure, you buy once. You have all talked about iPads, yet I inherited a situation when I came to this job where the vast majority of people came to me with signed contracts that predated the launch of the iPad and wondered why the services would not work on it. It was because we had procured it. We keep procuring things for longer and longer terms. Not the commodity stuff that we have got to do, but the specialist services. I do not know that one but I am sure it sounds like one of those.

What we have got to do is fail much quicker. We have got start doing 10 or 12-week little sprints to see if we can make that service really quick, then ask, "What does that look like?" We should find out what doesn't work, and then fix it. We have massively reduced our risk exposure. We have hugely increased our speed of market. Everyone came to work this morning, and you will all have used a digital service of some kind. I guarantee that they will have been created in that way.

The generation that we are in now, you look at your users all the time, you look at behaviour and you keep changing. We in Government are still talking about procuring big stuff. Big stuff needs procuring, whether it is a battleship—and we know how to do that—or whether it is commodities services, and we increasingly know how to do that. But the stuff in between is—

**Mr Bacon:** You might be able to get a big ship but if you look at the F45, there were no weapons. If you look at the carrier, there were no jets. No, we don't know how to do it actually.

**Q69 Austin Mitchell:** I will come back to that in a minute but I want to ask this. The Cabinet Office seems to have adopted a somewhat hobnail-boots approach when it comes to targets for spend coming under central management. You have a fixed target, a total, edged up each year, and it has been doled out to Departments. The Report on improving Government procurement says at 1.28, "The Cabinet Office did not consult with departments in developing these targets. As a result, it had little knowledge of departments' circumstances and little or no account was taken of the feasibility of transferring expenditure." It goes on, "The targets also did not take into account the wider context of departments reducing overall procurement expenditure."

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So why did you go about it in such a clumsy fashion?

**Richard Heaton:** I think it's a fair cop on that one. In the sense, that the amount of stuff brought into the centre has gone up.

**Q70 Austin Mitchell:** Do you agree, first of all, that you were a bit clumsy about it?

**Richard Heaton:** Well, yes. It could have appeared top-heavy. It could have appeared a bit disengaged with Departments. Certainly, an area for improvement and something Stephen is concentrating on is how to do this better with Departments and not appear quite so remote.

We went in and did some things very quickly and achieved some success pretty quickly, but it might have appeared a bit heavy-handed. We got some easy wins that way. It is not going to be so easy to get the next round of savings, except by engaging with Departments, which is why we are investing so much in that relationship. You have heard from the earlier two witnesses, it isn't all bad. The Departments recognise they are working well with us, but to get the really hard stuff, the next round of savings, we are going to have to work better with them. Stephen, do you want to expand on that?

**Stephen Kelly:** Yes, if that had not happened, the first £800 million savings in the first 10 months of the Government would probably not have materialised. The SME penetration probably would not have gone from 6% to 10%, which was £4.4 billion. And I am pleased to say that I think we now have the data across all the spend categories that David talked about, so we can break out things like SMEs in Grimsby and different locations and geographies so that we can get a lot smarter about this.

However, we hold our hands up to say that we need to a better job in terms of getting your plan—our plan with the Departments—of setting targets that are ambitious collectively, and working much better as a corporate centre with Treasury in terms of the feedback around the spending review. There is a lot of work to do, and a lot of it is in train now: for example, looking at the intelligence around things like expiry of contracts, when they come up for renewal and all the intelligence that feeds into the planning process whereby we can get more intelligent with Departments.

I think that, around this agenda, we would hold our hands up. There are some significant benefits to be found by moving fast and I think that, candidly, with the data in terms of the savings, improvement in SMEs and some of the things highlighted in the Report, it actually says that, sadly, there has been a bit of damage to the relationship, but now there is a good platform on which to say that this is very achievable and we need to do a better job of aligning the plans so that the consolidation of the departmental plan is our plan.

**Q71 Austin Mitchell:** Okay. I could summarise that by saying that shock and awe worked and you made some big gains. Was that done by breaking up incestuous relationships between Departments and suppliers? I imagine that, in Defence, the relationships do get pretty incestuous.

**Richard Heaton:** There were certainly some contracts stops that were difficult which caused noise and friction at the time, so it might have felt quite brutal. I think that that probably did happen because there were some shocking contracts either about to be let or under way, so—

**Q72 Mr Bacon:** That could probably have been done only with a bit of a central fist.

**Richard Heaton:** Yes, I think that that is fair.

**Stephen Kelly:** I sit here as a poacher turned gamekeeper in this respect, as I ran some of these companies for 10 years as chief executive. I would say, candidly, for customers like us and Barclays, Marks and Spencer and other big companies where we have talked to the chief operating officer and executive team are on the same journey as us. The impact—this is quite interesting to know—is that our business model as a customer is on a collision course with some of the old IT oligopoly who have almost an addiction to revenue and long-term contracts. When we break those contracts down, where we are looking for value and we are not prepared to pay for 95% redundancy and functionality, we are coming from very different places; we need to do a lot more for a fraction of the cost. Mike's reference is not 5% or 10% savings: we can put in some of these new systems, which are much better for users, at 90% savings.

**Q73 Mr Bacon:** We saw this in the national NHS programme where there was an enormous overspend and I spoke to IT entrepreneurs who said: "Instead of giving this organisation £800 million or £1.2 billion, they should give a company like mine £1.5 million and we would come up with something that was better," but they just did not get the chance.

What you have just described—it depends on how it works out, but, fortunately, the financial climate is so unbelievably tight that there might just be the chance for this—suggests that there are huge opportunities for agile and nimble people who can supply really useful things that have all the functionality you need and none that you do not. The question is that, because there are likely to be lots of those people, they are likely to be in lots of different places—quite possibly in unusual places—so how do you get to the point where you are on the same page, talking and buying?

**Mike Bracken:** A quick way, and two of the things that we have done already through the G-cloud—

**Q74 Chair:** The what?

**Mike Bracken:** The G-cloud, the Government's cloud purchasing system, is so that we can have as close to a friction-free purchase as we can. We could introduce those small companies to the opportunities that Government have. I have run an SME and one of the things that you have not got time to do is to go through all the procurement stuff for a very large contract when you are after a small one, so introducing the G-cloud was good. The second thing is to make sure that all the pieces of work that we do, particularly around IT, are on an open standards basis.

**Q75 Mr Bacon:** Could you slow down a bit? What you said about the G-cloud was interesting, but you said “introducing”, so I infer that it is ongoing now. How far has it got and how long will it take before lots of SMEs can use it? How many SMEs will use it? By when will how much be purchased this way?

**David Shields:** We have got over 350 suppliers. It is refreshed every six to nine months; 75%—

**Mr Bacon:** Doing what every six to nine months?

**David Shields:** It is refreshed. It is, if you like, a framework contract that we turn through the procurement cycle.

**Q76 Mr Bacon:** And how many of those 300 to 350 are turning over every nine months? Is it a new lot of 350?

**David Shields:** No, about 80% were maintained from the first iteration to the second iteration, and we have got 1,000 expressions of interest for the next one that is due: part three. The interest is growing—

**Q77 Mr Bacon:** What is the spend at the moment through it?

**David Shields:** The spend at the moment is actually invoiced at some £6 million, which is growing. The number of pipeline transactions is growing.

**Q78 Mr Bacon:** But you would be unsurprised if that was a much bigger number in two, three or eight years’ time.

**David Shields:** I would be amazed if it is not a bigger—

**Q79 Chair:** That is £6 million out of—what is the Government IT spend?

**David Shields:** It is a fraction—

**Chair:** Quite. It is tiny.

**Q80 Mr Bacon:** It is absolutely tiny, but what interests me is whether—I think it was Lenin who said that predicting is always difficult, especially of the future—you would expect that, in a few years’ time, to be a magnitude order bigger? £60 million? £600 million?

**David Shields:** Significantly bigger. Certainly over £100 million, because we are already seeing major Departments starting to use—

**Q81 Mr Bacon:** It is still tiny. If you take C-NOMIS, which I am sure Mr Heaton will remember—does it ring a bell?

**Richard Heaton:** Sorry, I do not think it does.

**Q82 Mr Bacon:** Were you not in the MOJ area at the time?

**Richard Heaton:** Not in my time.

**Q83 Mr Bacon:** C-NOMIS was a project—the NAO has done a study of it—where £161 million disappeared, which still cannot be accounted for. No one can tell us where it is. I do not suppose that it will ever be found. When you say, “Whoopie! We’ll get from £6 million to £100 million,” that is good—£94 million bigger than now—but we are talking about £161 million from one project that disappeared

and was never seen again. That is just one little corner of somewhere. When is it going to get to serious levels? Can it, given the scale of what government does?

**David Shields:** It can do, but it is a huge change of culture and in the way we acquire. What Mike has been doing is describing how we are buying services, not IT. It is a fundamental shift in buying culture. It will take some time.

**Q84 Mr Bacon:** You have just reminded me of a question I had for Mr Bracken. When you are trying to buy services, not IT, there is always a slight problem that, in theory, a Prime Minister might come along and say, “I know. The police need mobile phones. They need BlackBerrys. That is what they need.” Someone might then say, “B-b-but, Prime Minister, have you thought—” but they are interrupted by the Prime Minister, who says, “No. My speech is next week.” Lo and behold, a speech appears with a line in it saying, “The police shall have BlackBerrys.” Then you are stuck, because you are going to buy BlackBerrys—the Prime Minister has said so. What education processes are in place to make sure that that kind of thing can be minimised?

**Mike Bracken:** Two things. First, we have a digital-by-default service standard that is in alpha now. It is live, and you can see it. For the first time, what is good, how you commission and what you should and should not buy are all based on open standards and how we deliver services. It is an open service. Members of the public can see it. Crucially, in all Departments it provides a guide and a forum to connect with those who have done it before to help to guide people through the process of moving from being a procurer to being a commissioner. We are providing that as a central resource.

Secondly, we are in a process of doing the same thing with back-office IT and working on how to let that out in smaller chunks and how to refresh it based on cloud-based services. There is of course a switching cost involved—

**Q85 Mr Bacon:** I have just one more question while Mr Bracken is on about digital by default. It is possible that there is an answer out there somewhere that I have failed to research. The thing that worries me—perhaps you can explain this—is that we all know that there are some 8 million or 9 million people who do not have access to the internet, who are disproportionately likely to be poor and old and rural. How does digital by default help them? What do you do about them?

**Mike Bracken:** The first thing to do is to make services so good that people want to use them to ensure that you get the majority of people using the service right now. If you take the familiar brands that are very good digitally, you will find that their audience for both assisted digital and included digital are actually quite small, because they have more than 90% of people and because people want to use them and learn how to use them. None the less, every service will have two bunches of people: people who cannot use them; and people who will not use them. We have a clear assisted digital strategy, where we are

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looking for external providers of service to help users on board with digital, and to give them help and assistance with whatever the reason is that they cannot get on the internet now. While valid, those numbers still need to be bottomed out. Many services and Departments right now will say that they have very high numbers of people who are not connected. The definition of being connected needs to be looked at.

**Q86 Chair:** Let me just pursue that, because it is an area that I was going to talk about. On universal credit, about which I hope they are doing a tenth of what you say, the whole financial model is based on over 80% of clients interacting with them digitally. Yet all the data shows that the people who will want to interact with DWP are the least likely to have access to or be online. I have figures here from the Low Incomes Tax Reform Group: 70% of those not online are also not working. If you look at people with a disability, 41% of them used the internet in 2011 compared with 78% of non-disabled people. So all this spiel that it's great and more want to use it, works for the likes of me and you but doesn't work for those who will be dependent on a new DWP system to access their universal credit. I just don't get how you are going to transform that from the 16% or 17% going online now to the 80% which is the DWP's financial model.

**Stephen Kelly:** Just a couple of points and then I'll pass to Mike. From 2006 to 2012 there were 16 million adults in the UK who used the internet regularly and now it is 33 million. Of 55 to 64-year-olds now over 60% do online shopping. Ten years ago we would not have believed that. In the two years from 2011 to now, the level of mobile devices, rather than desktop, going on the internet for transactions has gone from 25% of users to 50%. I had the privilege last Thursday of going to Oldham, Ashton-under-Lyne and Bolton Jobcentres, sitting with front-line staff and claimants. What surprised me is that that they have this thing called internet access devices—IADs—and they are booked out solid. There are queues for booking out the internet because people see that as a very useful way to refine their CVs, to get online help, to see what jobs are out there. There is great stuff with things like Universal Jobmatch where employers are feeding in. Then we did a round table for employers in Oldham. Again there was a huge appetite, right in the heart of the north-west, for digital solutions. So it is one of these things where if you look back in time, but certainly looking forward, and we are probably all voracious users of very sophisticated—

**Q87 Chair:** All the stuff on digital exclusion always shows that it is rural, poorest, out-of-work, unemployed and disabled—

**Stephen Kelly:** We are not advocating closing contact centres for people—

**Q88 Chair:** Their financial model is 80% plus going digitally. This is a very vulnerable group. They are the least likely. Of course, if you look at the totality of Britain we are all getting much more digital and much more comfortable with it. But where is it that we are

not? It is the ones who are always going to be the customers of Government because they are the ones who are most dependent on public services.

**Mike Bracken:** You are absolutely right. If you look at some comparable statistics from the marketplace and some of the more successful services which are digital, such as vehicle licensing and vehicle tax, that is done 52% on line. It is a very odd number. Generally with digital services a Pareto law applies. If you can get to 20% you should be able to get to 80% or thereabouts and then you start hitting assisted digital and so on. Yet even in our more successful services we don't get—

**Q89 Chair:** But having a car you are already—

**Mike Bracken:** My point is that if you look at the very same demographics—people who use that service who are 55 and over—74% of them register for car insurance online. What we are seeing is that there is a delta between people in those hard-to-reach demographics, who are older or whatever, who can use services that we are not reaching, simply because our mainstream services are not good enough. So what we are saying here is that we are trying to get our mainstream services used as widely as possible and then focus all our efforts on those people in the delta between there, whether assisted digital or digital inclusion. I don't know exactly what those percentages will come to for each individual service such as the services within UC, but I suspect it will be nearer to 80% than it will be to 50%.

**Stephen Kelly:** With respect, if we think of this as a business, if we can deal with the 80% of citizens out there—farmers, students or claimants—and do that at an 80% reduction in costs, so at 20% or 25% of the original costs, then it gives so much more latitude to invest in the really vulnerable people. When I talk to front-line staff in job centres, that is what they get very excited about. It means that, instead of seeing everybody, they can focus their efforts—

**Q90 Chair:** Did they feel confident in that job centre that they can get to 80% online?

**Stephen Kelly:** I did not ask them that specific question, but candidly I was so invigorated by the energy, passion and commitment of those guys on the front line.

**Q91 Austin Mitchell:** From what Richard was saying, we have the makings of a good "Yes Minister" script with computer purchasing. I wanted to clear up one thing. A lot of the Departments that Richard has exposed in the past on this Committee were in relation to problems where ICT became the great must-have for Departments. Firms oversold what their systems could achieve and Departments over-specified what they wanted and then changed their minds halfway through the process, and we got the kind of problems that Richard has been exposing over the years. Can you tell us that with central supervision that will not happen again, or that it is far less likely to happen again? What reassurance can you give us?

**Richard Heaton:** We are in a far, far better place now. The other thing that I would add to your list, Mr Mitchell, is the sheer money that we paid out on

changes. It may not have immediate costs, but when a specification was changed, it ended up costing £50,000. It was stunning. I will say two things. First, the presumption is not to procure. If we can make a request to the Committee, if you see the words “procure” and “ICT” next to each other, it is worth challenging. No. I is we should not procure in the first place. Secondly—sorry, I have lost my train of thought.

**Stephen Kelly:** A couple of things. I will just give you some data, because I love data. We are paying things like—madness—£64 on a power cable for a PC. I can go down to PC World and buy that for £20. This is a multi-year contract. To your point, Mr Mitchell, there are things where—shame on us—we are representing the taxpayer. Can we completely assure? I am sure, because it is the way it is, that there will be some roadblocks and there might be an isolated couple of incidents, but the momentum is definitely challenging. The control environment we have established with the Treasury is a fundamental tenet to ensure that the right questions are asked and that services are commissioned much more wisely, representing the taxpayer’s best interest around this.

**Richard Heaton:** The second thing I was going to mention was that the big IT companies no longer face off against seven, 10 or 22 different negotiating Departments. This thing about having a single Crown commercial representative means that every single top company has one person who faces off against them. Everyone who wants services from that company—if we do have to procure—goes through one person who knows all the tricks that that company has at their disposal.

**Q92 Mr Bacon:** And all the contracts that they already have.

**Richard Heaton:** Exactly. It is equality of bargaining power. It is a tremendous irony that the Government are the big spender, but in these commercial negotiations we did not have the bargaining power and the other side did. That is an extraordinary irony. The simple proposition of having a single Crown customer representing all the buyers in Government for that one company is transformational.

**Q93 Mr Bacon:** If it is such a simple idea, why did it take so long until Francis Maude came along and said, “This is what we’re going to do”? I remember hearing him tell a story where—I forget the name of the supplier now—they were shooting the breeze about the value of the relationship. Somebody thought it was £40 million and somebody else thought it was £60 million, and it kept being bid up and up and up. Someone else said, “No, that is wrong, because we do over £80 million with them just ourselves.” The true number turned out, I think, to be £1.2 billion. I can’t remember which supplier it was. Since it is so obvious, why has it taken so long?

**Richard Heaton:** The honest answer is that I do not know. My impression is that it is particularly visible on ICT. I remember that when I joined the civil service, we did not have computers on our desks. I came from the Bar, and even the Bar had computers. I remember asking for computers, and we were told

that it wouldn’t happen in my boss’s lifetime, which is an extraordinary proposition. There is a sense that we are always behind on ICT—that the Government are always 10 or 20 years behind on ICT, including their own purchasing team, who are brilliant at purchasing other services. There was a sense that we were just behind the game. I cannot give you a more precise answer as to why, historically, we did not do Crown commercial reps before, but this idea of the Crown as a single supplier is transformational.

**Amyas Morse:** This is all excellent and the right direction of travel. I do not think that the Committee is disagreeing with that, and nor do our Reports. However, I am going to ask you something a bit different, which is whether you are ever going to arrive there. You have got five people in your ICT spend control team right now. We have got a uniquely favourable set of conditions for driving these changes through. A lot of these are not new ideas, actually, to be brutally frank with you. They have been there before and they have been successfully resisted. You must know that’s true. Now it is happening because there is no money, and there is a really brutal crashing pressure, which is like, “If we do not change now we are in big trouble.” The question is this: if you can’t get it to somewhere where the way the civil service sees itself and thinks of itself as radically changed—I think IT is probably the most important single enabler to that—and if you do not get it over the crest and down the other side, we will not see it all go back, but we will not make all the progress that we could make. My only concern is the relatively slow pace of some of it. I know you can move IT forward, but things like setting up these academies and so on are all great but we have got very little time. If you have a few big things going wrong, which is not inconceivable, you might find that that blows us off course. You are not going to have such favourable conditions. It may go on for a while, but the chance of embedding business competence into the way Government does business is available now. Certainly, since the time I have been watching, it has not sold many tickets before now. I just wonder whether we are going to get somewhere that is sustainable in all this.

**Richard Heaton:** I am going to spare Stephen’s blushes by saying that the energy and pace that are behind this area of central Government are pretty impressive. If the impression you have got is lack of pace, I am disappointed, if I am honest—

**Amyas Morse:** I am asking a slightly bigger question than “What about Steve?”, if you don’t mind. I am asking, “What about Government?”

**Richard Heaton:** The unified theme of civil service reform is really challenging. To give you another example that is nowhere near Stephen’s area, for 20 or 30 years we have had delegated pay in Departments, and frankly we are living with the consequences. We are living with the friction between Departments. We have different pay scales, we cannot have a single labour force, we cannot move people around strategically and we cannot have a single view of our talent because we took a decision 20 or 30 years ago to have delegated pay. Shifting to a unified civil service is really important, which is why the unifying theme in the civil service reform plan is so

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important. That is why, symbolically, anything that joins the civil service up, such as gov.uk, is tremendously important—it is tremendously important symbolically that all Departments look and feel the same and do not feel like separate organisations.

**Q94 Mr Bacon:** I am sorry. I do not want to interrupt your thread, but on that point, “Continuity and Change” in 1994—in the wake of, and somewhat in contradiction to, “Next Steps”—stated that it was very important to maintain a unified civil service. Why has it taken 19 years not to get round to getting rid of this problem that you have described?

**Richard Heaton:** Probably because there was too much money around, if I am honest. There were 10 or 15 years when, frankly, you could set a budget and it did not really matter because the spend control was not there. You are right, and Amyas Morse is right.

**Amyas Morse:** What are the irrevocable steps that have got to be taken now? You guys know what you are doing—I know that, and I am not trying to criticise you. I am trying to ask you, given the short time we have got with the wind behind us, so to speak, what has got to be done in a relatively short time to make this stay permanent. I am just interested in your views.

**Stephen Kelly:** Building on that, I think we have really enhanced the control environment significantly, and a lot more around forward planning. We have established departmental engagement to get ahead of forward plans to challenge people around what the programme work looks like for next fiscal year. A key part, Amyas, I think is a very functional and supportive relationship with the Treasury around particularly the spending teams. There is a lot of work going on where our experts are helping and supporting the Treasury around 2015–16 and looking out, and then also the next fiscal year and the fiscal year coming up as well.

From my experience of 30 years in the private sector, I think the way we do alignment around plans for success and early visibility—to back Mike’s point, if a project is going to fail, kill it quick. It happens. This notion that projects never fail is la-la land. They do fail, and you need to kill them quick. Then you really need to come back and say, “What benefits is this going to deliver to citizens?” and ask fundamental questions around ministerial policy implementation, support for stakeholders and the poor old taxpayer as well. Controls are fundamental, and alignment as a really responsible corporate centre with Treasury around the numbers.

The other factor around that is data. What gets measured gets done. Candidly—I come into this looking at departmental accounts, looking at Treasury accounts and looking at our accounts—you would never start because there is so much inconsistency around the data. That comes out in some of the reports, and we welcome your scrutiny and challenge around that.

**Q95 Chair:** But you also must provide data that they trust.

**Stephen Kelly:** Totally. I am totally on the same page.

**Richard Heaton:** I am scribbling down four things. It is a great challenge. Visibly, we need things to change so that we can see that we are doing something completely different. I listed procurement reform. It would be great for procurement reform to be out there and for people to understand really clearly what they procure centrally and what they do not. Digital is another. Whether we have delivered on the digital strategy—not just written a strategy—would be my second one. Shared services is another. At the moment, we still have Departments running their back-office services separately. We have launched the one and two shared service centres. And the fourth one, as Stephen said, is consistent, clear management information and data, so all Departments, in a common currency, know what they are spending and where they are using their resources.

**Mike Bracken:** If I can sum up, all of that is valid, but the one thing you have to do more than anything else is deliver. The delivery deficit that we have in Whitehall is so large that unless we get the trust of the end user—businesses or users—that we can deliver on some of this, the mandate falls.

**Q96 Chair:** May I just ask a couple of questions? One is around SMEs. In ICT, you talked a lot about using the G-cloud to encourage new entrants. If you look at the rest of procurement, and we look at a lot of it here, it is concentrating very much on fewer and fewer. Look at the Work programme, the example we had in the MOJ around the interpreters’ contract, and what the Justice Secretary has said about the probation contracts and how they will be regional level big. How will you ensure in the way we procure—other than ICT—that you meet the Government’s objective of 25% going to SMEs?

**David Shields:** In terms of the SME agenda, it is making sure that we have the right strategy for the market, so certain markets are more SME prevalent than others. Certainly, in contrast with what we are putting in place in GPS—

**Q97 Chair:** I am going to interrupt you on that. Sorry. If you look at the Work programme or at the probation service, it is chock-a-block full of very small organisations active in the field. In the Work programme, many of them are now either getting out of that market or going into liquidation. I hate to be a pessimist, but I see a similar thing happening in the probation field with the way those contracts are being managed and designed. It is actually happening as you have been in—you have been in for two years now. That you should be able to get a handle on, and I am not convinced that you are doing it.

**David Shields:** Across the piece, we are measuring an increase in expenditure with SMEs. It has gone from 6% to 10%.

**Chair:** That is, according to the report, unverifiable. It is part of your data thing. According to the report it is unverifiable. Even though you are saying you are doing it, the Departments do not believe it. That is what you have said; it is unverifiable.

**David Shields:** We are improving the data we have around SMEs and the identification of suppliers. Given the scale of the change, we still think it is

increasing. There are also the SME payment terms. For example, we are about to put a contingent labour contract in place, which is SME predominantly in the supply chain. We want to aggregate it at a tier 1 level, but we are using terms and conditions to flow through—

**Q98 Chair:** So why are we not seeing it in the Work programme? These are big new procurements. They are massive. The Work programme is £3 billion, £5 billion over time. It is massive. I do not know how big the probation service is. Huge, is it? It will be enormous. You know what I feel when you respond to this? It is a typical bureaucratic processy thing, which is not going to impact at all on the real world and get the outcome that the Government wish to have.

**David Shields:** We are actually passing through payment terms right through the supply chain.

**Chair:** It is not happening though, Mr Shields. We are out there, and we see that it is not happening.

**Stephen Kelly:** A lot of good things are happening, but I will come back specifically to the Work programme and MOJ. Payment down to five days. There are Crown Reps around Stephen Allott, whom I think you know. There is a lot of stuff around contracts finder, mystery shopper—300 inquiries with an 80% success rate, so much better transparency. We have kicked off surgeries in Liam Maxwell's area with SMEs so that we break down this fear. Before I joined here, in Government, I set up six companies in the UK and helped to fund them. They are all great SMEs. They would never think of bidding to Government. They have this stereotyped image: it is too hard—too difficult—we will lose the will to live; we have to go out and win business in the private sector. So we have done a lot of surgeries and outreach. Then you heard about G-Cloud.

To be candid, you have raised some fair challenges on the Work programme and the MOJ. I do not have all the answers, but we will take that away and come back to you about it.

**Q99 Chair:** All I am saying to you is that these are big Government procurements—

**Stephen Kelly:** We understand that.

**Chair:** Huge Government procurements, and actually things are going in the opposite direction—you're killing off the SMEs.

**Mr Bacon:** The bane, very often, of the large contractors that get it, like A4e, is that they then subcontract. They take a nice big fat fee and then they hand on the risk to some poor small charity that really can't bid for it itself because it has been let in too large a chunk, and then it gets squeezed. That begs a different question, which is really about the whole localism agenda, because the obvious way to make it manageable for a smaller organisation is to really drive it down much more locally, but then if you were serious about that, there would be a lot less going on in Whitehall. You would just be passporting through the money and standing back, and there would be far fewer of you. Is that where we are heading?

**Chair:** Just to add to that, Richard, Chris Grayling, if I can get the quote, was talking about what he is doing

in the MOJ. I am not going to find the quote, but he does say somewhere, "I've got to have the larger people because otherwise there's too much of an administrative burden and cost on the MOJ." So you have this tension—this is the MOJ probation services contracts. It was a statement, I think, last week, when he literally said, "I'm going for big contractors and recognising that, because it cuts my admin costs."

**Q100 Mr Bacon:** Exactly the same phenomenon is visible in the way DFID hands out money, by the way. Even if you have three branches of Oxfam in one country—you might have Oxfam UK, Oxfam Ireland and another Oxfam, all operating in Tanzania; they are actually doing something about that now. It is much easier for DFID to deal with a much larger organisation, with a country director who is spending £7 million, £10 million, £15 million or £20 million a year, than to deal with lots of small organisations. You can't really get round that so long as you—Government—are this big and doing it all at the centre, can you?

**Stephen Kelly:** It is fair to say—coming back to your point, it comes back to the commissioning and structuring of the contracts to make sure the outcomes and payment by results reward the right behaviours and are driving the programme for the Government. That is the reality, so it is back to commissioning skills and competence—

**Chair:** I would be really interested in your note on it, because I think we are moving in the direction—

**Q101 Meg Hillier:** Just two things. You mentioned, Mr Kelly, that you do surgeries, and you mentioned G-cloud, Mr Bracken. I represent what was known as Shoreditch and still is to most people, but the Prime Minister and the Chancellor call it Tech City. If you have not had a surgery there, there are plenty of IT suppliers who would be able to come up with very quick, creative solutions for some of these things.

**Mr Bacon:** Meg will put out the red carpet.

**Meg Hillier:** And I will certainly put out the red carpet and maybe even provide a cup of tea!

**Richard Heaton:** That is why accessing SMEs is so important: that is where the innovation is. It is crazy: the private sector uses SMEs; we don't. I do not want to sound bureaucratic, but—

**Meg Hillier:** They are very can-do. They have such a different approach to working—

**Chair:** But that's IT.

**Q102 Meg Hillier:** It's not IT. No, actually, Chair, if I may correct you—I get on a whole drive about this, as MP for Shoreditch—they are dealing with real-life problems. They have this technique whereby they can get into the IT behind it, but they are dealing with personal behaviours. I am thinking of things like Lingo24, which is a translation service; there are so many examples of it. They really could be shaping what we do.

**Richard Heaton:** We have examples of travel companies and nursing companies—they're not just IT companies—and the main barrier is the sheer bureaucracy of dealing with Government, so we have scrapped pre-qualification questions. We have

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scrapped it for pre-threshold contracts for almost all Government Departments. There is massive energy in Brussels to reform EU procurement law, principally because—

**Chair:** Mr Heaton, I am telling you that the way you are designing these things—Government across the piece, not just the Cabinet Office—militates against your objective. We are seeing it here every day in the reports we get.

**Meg Hillier:** But I will welcome you to Shoreditch if you would like to come along.

**Q103 Chair:** The other thing that this Committee is really concerned about is that people with whom we contract should pay their fair share of corporation tax. Let me take the IT world as an example. I hope you saw the big exposé in the *FT* at the beginning of February around all the IT companies with which the Government do business, all of which seem to be particularly effective at avoiding corporation tax, with structures in Ireland, Bermuda, Luxembourg. It's Microsoft; Oracle; Symantec, which you mentioned; Xerox; CSC, which we also know well; IBM; Dell; Capgemini; and Accenture. Between them there is a heck of a lot of business but very little back to the taxpayer. What are you doing about that?

**Richard Heaton:** Everyone in Government, everyone in public service and every taxpayer ought to feel strongly about this, and procurement—

**Q104 Mr Bacon:** Not if they have a personal services contract in Government. They are benefiting from the old world.

**Richard Heaton:** But seriously, all of us have a part to play in this. You know that the Treasury and Cabinet Office have a consultation going; I think that it closes reasonably soon, and there is a policy out there—

**Q105 Chair:** I welcome that hugely and I have talked to Danny Alexander about that, but it is very weak. It all assumes tax evasion, but all the stuff that we are talking about is aggressive tax avoidance, which is about arranging your businesses in such a way that you minimise the tax on profits from economic activity here being paid to the UK Government. So, much as I welcome Danny Alexander's intervention in this, that will not deal with any of these IT companies who get a heck of a lot of business. You have got to do something else.

**Richard Heaton:** We are open to ideas. We will—

**Q106 Chair:** Let me give you one idea, which is Charlie Elphicke's, not mine: if you let them have a contract, you make them sign and tick a box saying how much tax they will pay on the particular contract that they are about to enter into. That was his idea in the debate that I missed just after Christmas.

**Stephen Kelly:** That is a good idea. In November 2012, we introduced a measure separately around supplier performance—you may be aware of this—to make sure that, across Government, we take a view of supplier performance and if someone is in dispute or falling badly, we look at those, looking forward to the future.

The other aspect is that the Crown Reps who work for Bill Crothers have conversations around what we call good UK citizenship. That not only looks at things like corporation tax, but I would welcome any technologies registering patents in the UK, employing R&D staff and having support centres in the UK. It looks at a number of factors: not just tax, but employment, contribution to the UK, apprenticeships and all those sorts of things as well as IP and technology and patent registration.

Those conversations do go on. We have to tread carefully on the legislation with Brussels and the EU, but we will uphold, for the most responsible citizens and taxpayers, to make sure that these guys who have been given business on behalf of the taxpayer step up and contribute to the UK.

**Q107 Chair:** This is an exposé, done only in February this year, which was a good bit of investigative work done by the *Financial Times* and we may well want to call them in, as a Committee, when we have reflected on it. Are you telling me that when you next do a deal with—I could take any of them, but let me take Accenture, where they hold their intellectual property in Ireland. They are managing the IT system behind universal credit, so they have big business with us. They had turned over £10 billion in the five years to 2011 and made profits of £200 million.

They have deferred taxation because they have the intellectual properties in Ireland—that is how they do it. They do it by the transfer price, in charging something absurd to Ireland on the intellectual property. Are you telling me that Accenture will not reappear as a Government contractor until they mend their ways, so that they really do pay tax on the profits they get from the economic activity they undertake with Government, which is funded by the taxpayer?

**Stephen Kelly:** Unequivocally, I am not telling you that, but I am telling you that the conversations we have with them look not just at their supplier relationships with Government. They also look commercially at whether we get “favoured nation” terms and pricing. Some of these people have 30 rate cards for the same person—madness. We are getting loads more consistency.

The other leg of the stool would be around UK citizenship, which encompasses corporation tax, and encouraging them to disclose that and pay appropriately. However, there are other elements around patent registration and employment in the UK whereby we would encourage all those players. But do we have a mandate to stop procurements because of that? No.

**Q108 Mr Bacon:** Would a stronger way of putting it be that it would be unlawful?

**Richard Heaton:** Yes.

**Stephen Kelly:** Absolutely.

**Q109 Chair:** I think there are ways around this, with a little bit of inventiveness in the terms for whom you invite to tender for particular procurements. You write those terms. I have always believed this about this

idea about European law stopping you—I think you can find a way.

**Mr Bacon:** I have a different solution for the European problem, but let's not go into that. So does Austin.

**Chair:** Well, I don't. I think within it you can write the terms of your eligibility to tender in such a way that they write out those people who fail to meet your criteria.

**Richard Heaton:** Can we take that away? We are not risk averse when it comes to public procurement law. We take a very pragmatic approach.

**Chair:** Good. Let one of them sue us.

**Richard Heaton:** Let us take that away. Stephen is absolutely right to say that we cannot categorically give an assurance that companies that do imaginative things with tax will be excluded; we just cannot give that assurance right now. As part of the conversations that big suppliers have with Government on every level—civil servants and Ministers—it would be good to get a culture where this is on the agenda in every conversation. That starts to send the message that if you want to do business with us—if you want a foot in the door and you want access—you have to be a good citizen.

**Q110 Mr Bacon:** This is all music to our ears, although you understand, from our point of view, the low base we are coming from. It is not merely that there is no conversation yet regularly about tax; there is not even a conversation yet about performance. Robert Devereux sat where you are sitting not that long ago. We discussed A4e's performance, and the idea that surely the question of its performance ought to be capable of being taken into account. He said it would be unlawful. That left us all with our jaws down on the floor somewhere: we just could not credit it, but that is what he said. We are not unenthusiastic about what you are saying, and we are not naturally cynical, but we do have a certain scepticism because of what we have seen before.

**Richard Heaton:** Can we write to you specifically on that point—the relationship between supplier performance and eligibility to bid? We have a new policy on that. I do not want to paraphrase.

**Chair:** New policy? It could have always been done.

**Austin Mitchell:** I have been sitting here pondering on that question for three quarters of an hour, and now Margaret has gone and asked it.

**Mr Bacon:** Par for the course, then.

**Austin Mitchell:** What happens is clearly that these firms—and our Chair has listed them—are reporting lower sales in this country than they are reporting to the authorities and to their shareholders in the US. This is done because they are headquartered in Dublin, nominally, and a lot of the sales are recorded as if they were sales in Dublin. Ireland must be the most computerised country in the world according to the amount of ICT systems being sold there.

**Chair:** Apart from Bermuda.

**Q111 Austin Mitchell:** They must have it coming out of their ears. Do you actually know whether sales to Government are recorded as sales in Ireland or as

sales made in this country and therefore taxable in this country?

**Richard Heaton:** We have made fantastic progress in working out where Government spends its money, but I don't think we will be able to answer that question—unless my colleagues can?

**Stephen Kelly:** No, and what we do in the Crown Repts team is start analysing their filings in the US—10-Ks and 10-Qs—and break out all the segmentation of the data that they do disclose. If they provide it in the public domain, we will know that.

**Austin Mitchell:** Can you find out what proportion of sales to HMG is taxable in Ireland and what proportion is taxable in this country?

**Chair:** Let me give you the Microsoft details. This is according to the *Financial Times*, but I think that it does good research. In its UK business, Microsoft employs 2,500 people. It turned over £663 million to June 2011, on which it earned a pre-tax profit of £66.5 million and paid £19 million in tax. In Ireland, it employs 661 people, as opposed to 2,500, and turned over £13.4 billion as opposed to £663 million, of which £2.1 billion was sales to UK customers. In the same year, it made profits of £593 million and paid £76 million in tax. It has a headquarters in Bermuda, so it then charged royalties for branding and so on from Bermuda and lessened even its Irish taxation because of that mechanism. Shocking!

**Q112 Mr Bacon:** Then it ended up in a Caribbean island. It was transferred to somewhere in the south Pacific and phone calls were made that he did not want.

The thing I find extraordinary about your previous answers is that you are the guys paying them the money. As Austin said, it is HMG with whom they are contracting and supplying services. Surely it should not be beyond you as a buyer of these services—a customer, especially one of your size and weight—to be able to say, “By the way, one of the things we want to know is where you are booking the revenue and the profits.” Or not just the profits, but, “Where is this business being booked? In conducting your affairs with us, how are you as a business assigning the revenue that you are getting from us?” You've got to get down to a brass tacks level and then build back upwards, surely. As an enormous customer, surely you can demand that information from these suppliers, or otherwise say, “We will go elsewhere.” You have that power, don't you?

**Austin Mitchell:** And having got that information, you could then negotiate a lower price, taking into account the extra profit they are making by avoiding the tax they should be paying in this country. Why shouldn't that be used as a bargaining counter to negotiate lower prices, if you get the information?

**Richard Heaton:** It is Mr Bacon's, “Or we will go elsewhere” that I am nervous about, because of the procurement framework from Brussels, but we have covered that point. I want to take that point away, because I am intrigued by just how far we can get, within the European procurement framework, to achieve what you might call corporate social responsibility and UK citizenship obligations through procurement. I do not want to over-promise—

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**4 March 2013 Cabinet Office, Government Procurement Service and Government Digital Service**


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**Mr Bacon:** It is not like the Germans would be disagreeing with you; they would probably be coming from exactly the same place. The reason we have the phrase “Belgian dentist” in our language is because of the Germans, not us. I would have thought a lot of European Finance Ministries would be in the same place wanting the same thing.

**Richard Heaton:** Absolutely.

**Chair:** I think we have finished. Thank you very much indeed.

**Q113 Austin Mitchell:** Having taken that point away, could you send us a note on what the possibilities of getting and using the information are?

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**Written evidence from the Cabinet Office**
**SMEs**

The Government has an aspiration that 25% of spend (directly or in supply chains) should be with SMEs by the end of the Parliament. The latest figures show that in 2011–12 10% of direct spend went to SMEs—an increase from 6.5% in 2009–10. In addition, a survey of Government’s top suppliers showed that 6% went to SMEs in supply chains.

Departments did not historically collect high quality data on their spend with SMEs and it has been challenging for departments to provide accurate information. However, we have been able to verify our most recently published figures on SME spend with departments.

In order to further improve the data on direct spend, Cabinet Office and the Government Procurement Service are assisting departments by using external verification to validate whether or not their suppliers are SMEs. On indirect spend, Cabinet Office manages the collection of data from strategic suppliers on behalf of the departments concerned. However, in light of the NAO report, we are also considering what more we can do to provide assurance to the NAO and PAC.

However, data with SME spend data should not detract from the reforms that Government has introduced to improve access to procurement opportunities for SMEs. We are serious about removing the barriers that have historically prevented SMEs from supplying to Government, and have already made real progress:

- Central Government opportunities over £10,000 must now be advertised on Contracts Finder. As at the end of February 2013, 14,339 contracts had been published online of which 4398 were flagged as awarded to an SME (32%).
- To assist UK industry, we have published pipelines of upcoming procurement opportunities worth £84 billion so that UK firms can gear up to deliver Government’s needs, and placed an emphasis on pre-market engagement so that business can be involved in shaping specifications.
- We have eliminated bureaucratic Pre-Qualification Questionnaires for central Government procurements below £100,000 in 15 out of 17 departments
- We have given SMEs a voice at the top table by appointing Stephen Allott as the Crown Representative for SMEs, and putting in place an SME Panel attended by Cabinet Office Ministers which provides an additional degree of challenge to our SME Programme.
- We have made government truly accountable through the Mystery Shopper Service, which enables suppliers and other interested parties to report instances of poor procurements, including overly bureaucratic processes and the late payment of invoices for Cabinet Office to Investigate. Out of the 287 cases closed to date, 80% have resulted in a positive outcome. .

The role that SMEs can play in delivering Government contracts will vary depending on the market and contracting approach. While we are seeking to aggregate demand through the centralization of common goods and services, this does not mean that we have to aggregate supply to a single large supplier. In those markets where SMEs can compete directly and offer value for money, procurements should be designed so that they can compete. The example of Government’s travel contract being awarded to Redfern travel in 2012 is an example of a procurement being designed so that SMEs could compete to supply Government directly.

However, in some instances, it will be more appropriate for SMEs to play a role in supply chains under a prime contractor. In such situations, Government is taking steps to ensure that SMEs are not detrimentally affected by being sub-contractors. The Committee specifically asked how perceived problems with the Work Programme would be avoided on future contracts such as those for probation services. Work Programme providers are required to comply with the Merlin standard and compliance is independently assessed. The Merlin Standard is aimed at ensuring fairness in supply chains, and was introduced as a direct result of concerns raised by sub-contractors. Sub-contractors provide feedback on the prime as part of the Merlin Standard assessment. The Cabinet Office and the Ministry of Justice are working closely to ensure that a diverse range of suppliers can participate in the delivery of probation services and that the commercial arrangements, based

on outcomes, are robust. The Mystery Shopper service extends to supply chains, meaning that sub-contractors that feel unfairly treated by prime suppliers have a route of redress.

SMEs tell us that one of the most critical issues for them is to be paid on time so that they can manage their cash flow. Government contractually requires all sub-contractors to be paid within 30 days and encourages suppliers to refer instances of late payment to the Mystery Shopper service. Failure to pay on time thus constitutes a breach of contract, and as such can be taken into account by departments running procurements subject to the Cabinet Office's supplier performance policy. We have also tasked the Crown Representative network with encouraging strategic suppliers to pay more quickly than the contractual requirement.

We are also taking other steps to protect SMEs in supply chains:

- 19 of Government's top suppliers have signed up to advertise supply chain opportunities on Contracts Finder.
- We have introduced Project Bank Accounts (PBAs) on all construction contracts to ensure that all members of the supply chain are paid at the same time, with £1.4 billion already having gone through this route. All future Total Facilities Management (FM) contracts will also include the use of PBAs, as set out in the Government's new FM strategy.
- The Government Procurement Service is improving access for SMEs. In its Contingent Labour one procurement due to be awarded on 1 April, steps include requiring prime contractors to pay sub-contractors within five days, regularly refreshed supply chains so as not to lock SMEs out for the duration of the procurement and standard terms and conditions flowing down supply chains.
- The Department of Health and National Savings and Investments are stipulating the use of SMEs in supply chain and SME inclusion as part of the criteria to select suppliers.
- Departments are working with existing Prime contractors—often on a voluntary basis—to increase the number of SMEs within the supply chain.

SMEs tell us that the direction of travel is right, that they see real and genuine engagement at ministerial and senior level in government but there is much more to be done. We recognise the need to go further, and all departments have now produced action plans following direction from the Prime Minister which include specific opportunities for SMEs and set targets that demonstrate how they will contribute towards the delivery of the 25% aspiration.

#### SUPPLIER PAST PERFORMANCE

Strengthening commercial capability is a key priority right across Whitehall. One aspect of this involves building more strategic relationships with leading suppliers to ensure the Government leverages its buying power to secure best value and high quality services. This drive to build more strategic commercial relationships has already delivered a great deal, with £800 million saved in 2010–11 alone. The approach has been coordinated by Cabinet Office and supported by a network of Crown Representatives each of whom leads Government's relationships with a number of strategic suppliers.

Bringing board level experience from the public or private sector the existing network of Crown Representatives has transformed the way Government engages with our larger suppliers, receiving positive feedback from industry as well as securing cost reductions and high quality services for taxpayers.

To tackle supplier poor performance, to ensure consistently good delivery of public services and value for money, it is important that bidders with the requisite standards of technical and professional ability are selected. In the past, Government has not always taken a consistent approach to the consideration of the past performance of bidders to ascertain whether they can confidently be relied on to perform the obligations under the contract to be awarded. And Government wants assurance that when suppliers are awarded contracts, they are executed properly.

This is being achieved following the launch of two key policies in November 2012:

- A revised approach to managing risks associated with suppliers' poor performance or financial instability (Strategic Supplier Risk Management).
- Guidance on taking account of past performance in procurements. (Bidder Past Performance).

The first initiative allows government to examine the performance of its Strategic Suppliers across the contracts that they hold with Government. Where evidence of serious and/or persistent poor performance is seen, it allows for the supplier to be designated as high risk and for remedial measures to be put in place. The second initiative applies to procurements of goods and/or services in the ICT, Facilities Management and Business Process Outsourcing sectors with an anticipated total contract value of £20 million or more, and applies to central government Departments, their Executive Agencies and Non-Departmental Public Bodies.

Departments will now set and publish minimum standards (in procurement documentation) for supplier reliability based on past performance and will require bidders to obtain certificates of past performance from both their public and private sector customers for key, relevant contracts over the last three years. The role of Cabinet Office in this is twofold:

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- To support Crown Representatives in engaging with Departments to monitor compliance with the policy; and
  - To assist the assessments made by Departments by holding the certificates of performance stored in a shared central storage service.

The Government's Crown Representatives play a key role in leading the application of the new risk management approach to the Government's Strategic Suppliers. Where a Strategic Supplier has performed poorly and is designated as "high risk", they must produce a formal improvement plan and, until performance is improved, will be subject to closer monitoring.

Due to the continued success of this role, we are currently expanding this capability through running a campaign to recruit further Crown Representatives from the private sector.

#### TAX COMPLIANCE AND PROCUREMENT

The Cabinet Office is taking forward a new strategic approach in setting the standard for what we expect of Government's suppliers. We have been working on the first two points and are now starting to put an increased focus on the third:

- Terms and Pricing that reflects our status as a major buyer;
- Managing commercial performance strategically to ensure better delivery; and
- Ensuring suppliers are clear about their responsibilities, including on tax.

We are making good progress on the first two points and tax compliance falls under the third. HMRC and Cabinet Office are working together to develop policy following an announcement by the Chief Secretary to the Treasury in September.

We have proposed a process of self-certification at selection stage to ensure this policy is not overly burdensome on suppliers who are already paying the correct amount of tax. This would require suppliers to declare their history of tax compliance, covering such issues as whether they have been involved in failed avoidance schemes and so had to correct tax returns or have had to pay penalties. Ministers are considering the proposals and will make an announcement shortly.

The overarching aim of public procurement will always be to achieve value for money. We do not want to attempt to shoehorn measures into the procurement process. However value for money questions include the amount of tax paid for by our suppliers. That's why we will look at innovative ideas and pursue the feasibility of these, for example to better understand the tax paid by suppliers on new contracts or how the revenue they book offshore compares to in the UK.

In answer to the specific question raised at the PAC session on Monday 4 January, we have looked at the legal position as to whether suppliers' bids can be assessed on the basis of how much revenue they "book" in the UK on their Government contracts. In the short time available, we can confirm that the Public Contracts Regulations 2006 do not allow this type of question to be used at either selection or award stage, for the following reasons:

- Selection stage—this type of question does not fall into any of the allowable Regulation 23—25 criteria, relating to supplier selection;
- Award Stage—this type of question is not suitable as an award criterion as it is not linked to the subject matter of the contract.

In addition, questions of this type may well have a discriminatory impact on suppliers from other member states and therefore breach EC Treaty principles.

12 March 2013

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