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Public Administration Select
Committee (PASC)

**Government
Procurement**

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The Public Administration Select Committee (PASC)

The Public Administration Select Committee is appointed by the House of Commons to examine the reports of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England, which are laid before this House, and matters in connection therewith, and to consider matters relating to the quality and standards of administration provided by civil service departments, and other matters relating to the civil service.

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Summary

The public sector spends £227 billion each year buying a range of goods, services and works, £45 billion of which is spent by Whitehall Departments. The Ministry of Defence alone spends £20 billion a year. By improving the efficiency and effectiveness of procurement, the Government has an opportunity not only to save the taxpayer significant sums of money, but also to drive economic growth.

The Government has initiated steps to improve the efficiency and effectiveness of government procurement: improving its data, aggregating demand across government departments; and renegotiating the relationship with major suppliers. The stream of procurement and contract management failures, however, continues unabated—the G4S and Serco contracts with the Ministry of Justice, under which payments were made regardless of the service delivered, are just the most recent examples. There is clearly much more to be done.

Public procurement in the UK is governed by the Public Contracts Regulations 2006, which in turn implement the EU Directives on public procurement. We are concerned that these Directives reinforce a process-oriented, risk-averse culture in procurement, which in the UK has resulted in delay, increased cost and a failure to focus on outcome. It is intolerable that UK public procurement still takes 50% longer than it does in France or Germany under the auspices of the same Directives. The effort to reduce risk tends to increase risk in the form of delay and increased costs.

Not enough has been done to improve the access of SMEs and social enterprises to government contracts. We welcome the EU reform proposals, which will encourage public bodies to use procurement for wider social and environmental purposes. Similarly, we welcome the Public Services (Social Value) Act 2012, which seeks to maximise the positive impact of public spending for the UK economy. The UK has trailed other EU countries in doing this. Whilst Bombardier in Derby was not successful in securing the contract for Thameslink trains, for example, French and German suppliers have for a long time been more successful in securing contracts for domestic producers, to the benefit of their national economies.

There are clear shortcomings in the ability of the Civil Service to run effective and efficient procurement. The Civil Service shows a consistent lack of understanding about how to gather requirements, evaluate supplier capabilities, develop relationships or specify outcomes. We welcome the initiatives to improve capability and skills, such as the Major Projects Leadership Academy and those set out in the Civil Service Reform Capabilities Plan, but a more fundamental shift is required. Little is known about the skills and experience—or lack thereof—of 17 of the 61 senior procurement civil servants across Whitehall, and consequently there is little coordination of this vital resource. This needs to change, not least because these officials will be thrown into the public spotlight when the Government makes Senior Responsible Owners of major projects directly accountable to select committees.

The proposed Ministry of Defence Government Controlled Contractor Operated (GOCO)

model has been designed to get around outdated restrictions and improve Government access to commercial and procurement capability. It will, however, be difficult to implement and brings with it considerable risks. Moreover, it should not be necessary in the first place. No other civil service in a comparable country operates on the basis that the Prime Minister's salary should be a maximum and such a myopic policy makes the UK Civil Service internationally uncompetitive. We are not convinced that the GOCO concept is sound or that a cost-benefit analysis would prove its viability.

The Government has failed to set out a clear strategy for public procurement. The Cabinet Office needs urgently to address this, setting out clear procurement objectives and timescales for their achievement. The evidence base for this needs to be consistent, good quality procurement data from across Whitehall, and progress on gathering this, which has been unacceptably slow to date, needs to be significantly improved.

Whilst we welcome the Government's initiatives to centralise procurement, we note that progress so far has been painfully slow and sporadic. It is clear from our evidence that this is because, despite the centralising mandate given to the Cabinet Office by a Cabinet Committee, inter-departmental cooperation is poor. We find it astonishing that a department should be able to cite legal restrictions as a barrier to collaboration with the Cabinet Office on initiatives that could save the taxpayer money. The Government is a single customer and should behave as such. As a matter of urgency the Cabinet Office should establish clear and authoritative guidance for deciding when procurements are subject to the Cabinet Office mandate; when they can be retained under departmental control; and how disputes are to be resolved.

The present paralysis raises questions about the role of the Cabinet Office and its relationship with other departments, as part of the development of a more unified model for Whitehall which is mooted in the Civil Service Reform Plan. We will address this in our Report on the Future of the Civil Service.

1 Introduction

1. The Cabinet Office has been leading reforms to the organisation of government procurement since 2010. It is reaching a critical juncture in its reform programme as it seeks to sustain initial progress, implement wider Civil Service reform and overcome objections to further centralised control from individual departments. At the same time, the European Parliament is considering how to reform EU Directives on public procurement to allow public authorities greater flexibility, not least in response to the economic challenges facing all Member States. In light of these developments, it is timely to reflect on how much progress has been made in reforming and improving government procurement; reconsider what is inhibiting improvements to the commercial and procurement capability of the Civil Service; and to identify what is limiting the social and economic benefits from central Government's, and indeed the wider public sector's, procurement spending.

2. The public sector spends £227 billion each year buying a range of goods, services and works, £45 billion of which is spent by Whitehall Departments.¹ The stream of procurement and contract management failures, however, continues unabated— the G4S and Serco contracts with the Ministry of Justice, under which payments were made regardless of the service delivered, are just the most recent examples. At one end of the spectrum “common” goods and services, such as office supplies, computer equipment, energy and travel are purchased by all or most government departments. The Cabinet Office has estimated that £7.5 billion is spent each year by departments on such items.² Departments necessarily also procure particular goods, services and works as part of projects and programmes to implement specific policies or meet specific operational requirements.

3. The term “procurement” can be more or less narrowly defined. This inquiry considered procurement in its broadest sense, including not only the technical process of specifying requirements, seeking and evaluating bids and awarding a contract, but also the wider process of investigating and engaging with the market, and negotiating and managing contracts. We were primarily concerned with the procurement undertaken by central government departments. We recognise however that there are important parallels to be drawn with the rest of the public sector, not least the NHS and local government.

4. This report builds on our previous report, *Government and IT — a recipe for rip-offs: time for a new approach*, which examined the barriers to greater openness and competition in government IT procurement, and identified the need for measures to support SMEs' access to government IT contracts.³ It is notable that the Government has now started to

¹ HM Treasury, *Public spending statistics: April 2013*, Table 9, National Audit Office, *Improving Government Procurement*, HC 996 Session 2012–13, 27 February 2013, p 11

² National Audit Office, *Improving Government Procurement*, HC 996 Session 2012–13, 27 February 2013, p 7

³ Public Administration Select Committee, Twelfth Report of Session 2010–12, *Government and IT—'A Recipe for Rip-Offs': Time for a New Approach*, HC 1724

address many of these issues explicitly in its Government Service Design Manual advising Departments on how to prepare to change IT suppliers.⁴

5. This report also complements the Committee's inquiry into Civil Service reform which has been running in parallel with this inquiry. Both inquiries have examined the considerable challenges facing the Government in transforming and improving the Civil Service while reducing costs. This report also builds on our 2012 report *Strategic Thinking in Government* which emphasised the importance of strong strategic leadership at the centre of Government, and our 2011 report *Change in Government* which emphasised the need for increased commissioning and procurement capability in the Civil Service, not least to support effective outsourcing of public services.⁵

6. The purpose of this inquiry was to look at whether the Government was taking the right approach to reforming the organisation of government procurement, and whether it was addressing the apparent gaps in procurement and commercial capability. We held seven evidence sessions, taking oral evidence from representatives of business, small and medium-sized enterprises (SMEs), and the third sector; procurement and commercial advisors; commentators; as well as academics. We also heard evidence from the Minister for the Cabinet Office, the Rt Hon Francis Maude MP, the Government's Chief Operating Officer (and head of the Cabinet Office's Efficiency and Reform Group), Stephen Kelly, and the Government's Chief Procurement Officer, Bill Crothers. We went on a short visit to Brussels to understand better the challenges facing public procurement and plans for reform of the European procurement Directives. A note of the visit is at the Annex to this report. We are grateful to George Last, a secondee to us from the National Audit Office, for his support to this inquiry.

⁴ Government Service Design Manual, at www.gov.uk/service-manual

⁵ Public Administration Select Committee, Twenty Fourth Report of Session 2010–12, *Strategic thinking in Government: without National Strategy, can viable Government strategy emerge?*, HC1625 and Public Administration Select Committee, Thirteenth Report of Session 2010–12, *Change in Government: the agenda for leadership*: HC 714

2 Procurement Process and the European Directives

7. Public sector procurement in the UK is governed by the Public Contracts Regulations 2006. These implement the EU Directives on public procurement intended to ensure equal and non-discriminatory treatment of bidders and transparency in the procurement process.⁶ For procurements with a value above specified thresholds, the EU Directives require public bodies running a procurement to advertise in the Official Journal of the EU, and to allow minimum timescales for the completion of stages of the procurement.⁷ The Directives specify the main procurement procedures which shall be used by public sector authorities. The most complex procedures are the competitive dialogue and negotiated procedures, which are generally most appropriate where the procuring authority has not been able to determine precisely what it needs to procure.

8. The Cabinet Office has taken some steps to improve the way in which Government bodies apply the procedures specified under the Directives. In November 2011, the Minister for the Cabinet Office, Francis Maude, announced a presumption against the use of the competitive dialogue procurement procedure on the grounds that “too often [...] public procurers have relied on it as a means of engaging in dialogue with suppliers, instead of engaging in thorough pre-market engagement”.⁸ Under the terms of this presumption, departmental accounting officers must formally approve the use of the competitive dialogue procedure, before it can be used by civil servants.⁹

9. To improve procurement timescales, the Government has also introduced training in “LEAN” sourcing—a streamlined procurement process which, as Andrew Coulcher, Director of Business Solutions at the Chartered Institute of Purchasing and Supply explained to us, involves “trying to do a lot more in parallel, rather than have this highly strung-out serial process of decision-making and building consensus”.¹⁰ The Cabinet Office wrote in its evidence to us that “by November 2012, 626 staff had completed a 1 day programme and 400 had completed a 3 day programme.”¹¹ It claimed further that this improvement in technical skills had already begun to have an impact on the speed of procurements: “Partly as a result [of training in the LEAN sourcing approach] the average observed time for all but the most complex procurements in 2012 fell from 180 to 153

⁶ Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply Contracts and public service contracts; Directive 2004/17/EC of the European Parliament and of the Council of 31 March 2004 coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors

⁷ Cabinet Office, *Procurement Policy Note – New Threshold Levels for 2012 and changes in the use of the Accelerated Restricted Procedure*, Information Note 10/11, 12 December 2011

⁸ Cabinet Office, *Procurement Policy Note – Procurement Supporting Growth: supporting material for Departments, Action Note 4/12*, 9 May 2012

⁹ Cabinet Office, *Procurement Policy Note – Procurement Supporting Growth: supporting material for Departments, Action Note 4/12*, 9 May 2012

¹⁰ Cabinet Office, *Procurement Policy Note – Procurement Supporting Growth: supporting material for Departments, Action Note 4/12*, 9 May 2012, Q 351

¹¹ Ev w75

working days”.¹² By applying LEAN processes and by having a presumption against competitive dialogue, the Cabinet Office expect to achieve and sustain a reduction in the average time taken to carry out procurements by government departments and agencies to below 120 days.¹³

10. A number of witnesses to this inquiry welcomed initiatives to train civil servants in the LEAN operating model. The CBI said that initiatives such as LEAN sourcing were positive and had some impact on the time taken to complete procurements.¹⁴ Peter Smith, a former president of the Chartered Institute of Purchasing and Supply, similarly agreed that LEAN sourcing was “a useful initiative” for improving technical skills.¹⁵ He thought that “it certainly covers elements of programme and project management, and a certain amount around getting your way through the EU regulations and things like that”.¹⁶ Nonetheless, suppliers to Government continue to argue that doing business with Government can and should be made much more efficient. Jim Bligh, the CBI’s Head of Public Services Reform said that: “we still want to see a leaner, quicker process [...] Our process is 50% longer than France or Germany’s”.¹⁷

11. We commend the Cabinet Office for initiatives to make procurement practices across Government more efficient but the progress is inconsistent and business argues that processes are still slow and bureaucratic. It is intolerable that UK public procurement still takes 50% longer than it does in France or Germany; the Cabinet Office does not seem to know why this is the case. *It should reassess the impact of its initiatives to streamline and modernise procurement practices; identify what key factors in the procurement process must be addressed; and report the results of this work in response to this recommendation.*

12. The Chartered Institute of Purchasing and Supply pointed out that part of the problem has been the tendency of procurement staff in the UK public sector to focus too much on process laid down by European Directives rather than outcomes:

The public sector has always been focussed on demonstrable process and this has been underpinned by the European Procurement Directives which have left UK procurement professionals process driven and risk averse. Strict interpretation of the directives, process focus and the use of unnecessary procedures has often strangled innovation in the public sector and this has left suppliers and procurement professionals alike frustrated and trapped by prescription.¹⁸

¹² Ev w75

¹³ Cabinet Office, *Procurement Policy Note – Procurement Supporting Growth: supporting material for Departments, Action Note 4/12*, 9 May 2012

¹⁴ Qq 52-53

¹⁵ Q 352

¹⁶ Q 352

¹⁷ Q 67

¹⁸ Ev w20

13. Public procurements in the UK may also be subject to the EU Remedies Directive which requires contracting authorities to wait for 10 days after deciding who has won the public contract before it is signed.¹⁹ This allows bidders time to examine the decision and decide whether to initiate a review triggering the automatic suspension of the procurement process. The Chartered Institute of Purchasing and Supply wrote that “the combination of the standstill period and the ability of rejected bidders to start a review procedure during this period has made procurement teams more conscious of the risk of challenge and therefore more anxious about following the process precisely”.²⁰

14. Several witnesses agreed that European Directives have not been sensibly applied in the UK. Social Enterprise UK argued that:

Across the UK, many public bodies follow the full EU procurement rules where it is not necessary to do so. Applying the full set of EU rules adds complexity and cost for organisations competing for contracts, which is both unnecessary and disadvantageous to small organisations.²¹

Baroness Greengross’s Transport Forum similarly noted that: “No one would argue that there is anything wrong with the spirit of EU procurement rules [...] In practice though, particularly for SMEs, they can become rather bureaucratic and unwieldy”.²²

15. Tim Heywood, Director, Public Sector & Procurement, Burges Salmon LLP, agreed that: “there are lots of things wrong with the EU public procurement rules and yes, the regime is quite complex”.²³ But he pointed out too that “if they did not exist we would have to write them”.²⁴ The procurement consultant and former civil servant, Colin Cram, agreed that the Directives were necessary and said that the problem lay in how they had been applied. He also thought that blaming EU Procurement Directives themselves is often a cover for incompetence: “The EU procurement Directives have been responsible for increased procurement professionalism in much of the public sector. There is some room for improvement, but overall they do not inhibit the application of best practice”.²⁵

16. We recognise that the regulation of public procurement serves a valid purpose. However, we are concerned that the EU Directives, and the fear of breaching them, have driven a process-oriented, risk averse culture within the Civil Service which has inhibited efficient procurement and lengthened procurement times. The application of LEAN procurement training does not seem to have fully addressed this problem. The Cabinet Office should identify the factors which add to complexity and delays in government procurement. The Cabinet Office must also ensure that civil servants apply

¹⁹ Directive 2007/66/EC of the European Parliament and of the Council of 11 December 2007 amending Council Directives 89/665/EEC and 92/13/EEC with regard to improving the effectiveness of review procedures concerning the award of public contracts.

²⁰ Ev w20

²¹ Ev w38

²² Ev w45

²³ Q 334

²⁴ Q 334

²⁵ Ev w56

the minimum required by EU directives. The EU should not be used as an excuse for over complex process and delays which do not seem to affect other Member States.

17. In December 2011, the European Commission set out proposals for reforming the EU Directives on procurement, with a view to making them simpler and more flexible. The proposals to revise the existing public procurement rules are currently being negotiated through the EU Competitiveness Council and are subject to debate in the European Parliament. A draft of the reform proposals was approved by the European Parliament's Internal Market and Consumer Affairs Committee in December 2012.²⁶ The European Parliament is due to have its first reading of the proposals in autumn 2013.²⁷

18. Among the reforms advocated by the UK Government in negotiations is an increase in the value thresholds above which the EU Directives should apply. The CBI and others, such as Social Enterprise UK, representing smaller businesses welcomed this.²⁸ During our Brussels trip, we learned that many would like to see EU procurement thresholds raised, but that the scope for changing the EU thresholds is circumscribed by wider international agreements—in particular the World Trade Organisation “plurilateral” Agreement on Government Procurement (GPA). We were advised that the Commission intends to defer any decision on this pending further analysis.

19. The European Commission is also proposing to implement the adoption of electronic procurement systems, or “e-procurement” within a target two year timeframe. In April 2012, the Commission published “a Strategy for E-Procurement” noting that “contracting authorities and entities that have already made the transition to e-procurement commonly report savings between 5% and 20%”.²⁹ The Cabinet Office's response to the EU reform proposals supported the wider take up of e-procurement, but raised concerns over the achievability of the two year target.³⁰ A number of MEPs expressed the view to us that an ambitious declaration of intent was however needed in order to achieve progress.³¹

20. We welcome the principle that the European Commission should act to streamline public procurement, and we welcome in particular their plans to make procurement more efficient through the use of e-procurement technology. The Cabinet Office should publish its implementation plan for e-procurement in the UK in its response to this recommendation to ensure the public sector in the UK is able to meet the agreed timescale for completing the transition to e-procurement.

21. The Chartered Institute of Purchasing and Supply broadly welcomed the reforms to the main EU procurement directives in its evidence to us. It pointed out however that the

²⁶ Press Release, *Towards greener and more responsible public procurement*, European Parliament, Internal Market and Consumer Protection Committee 18 December 2012

²⁷ Press Release, *Procurement package: New deal to ensure more responsible public spending*, European Parliament, Internal Market and Consumer Protection Committee, 26 June 2013

²⁸ Q 109, Q 148

²⁹ European Commission, *A strategy for e-procurement*, April 2012

³⁰ Cabinet Office, *Procurement Policy Note – Progress Update on the Modernisation of the EU Procurement Rules*, Information Note 08/12, 24 August 2012

³¹ See annex

European Commission has not proposed any reforms to the Remedies Directive. Therefore, while reforms to EU Directives on procurement may make processes simpler, the fear of a challenge under the Remedies Directive, may continue to prompt unnecessarily strict adherence to process.³²

22. The EU Remedies Directive has made civil servants risk averse and adhere too rigidly to process. There is however value in a mechanism for challenging erroneous procurement decisions. *The Cabinet Office must monitor the impact of the Remedies Directive and issue guidance on how its negative effects can be mitigated. If this is not effective, the Cabinet Office should insist that the Commission amend the Remedies Directive to minimise its potential to inhibit effective public procurement.*

³² Q 334

3 Using government procurement to support the UK Economy

23. Where and how the Government spends taxpayers' money on purchasing goods, services and works has considerable wider economic impact. Lord Heseltine explained in his recent report "No Stone Unturned":

By any standard, central government's effect on the economy is overwhelming. Its impact derives not only from the scale of the expenditure involved but from the way in which the money is spent. Consider government procurement. It is not just about securing value for money. It can significantly affect the attitudes, efficiency and competitiveness of suppliers in the private sector.³³

24. The CBI told us further that:

Government departments can do more to harness the growth potential of public procurement expenditure by engaging more effectively with the market to promote the development of new products. This is particularly beneficial in sectors where government is a major customer as it has the ability to stimulate industrial activity from the demand side through more strategic policy making. A focus on innovation can also help ensure that the focus on value for money does not revert to lowest cost as the default award criteria.³⁴

25. The Trades Union Congress suggested that "at a strategic level, the UK has failed to make full use of the potential for procurement policy to support both the quantity and quality of employment, to assist economic inclusion and to underpin a modern industrial strategy".³⁵

26. The Cabinet Office stated in its evidence that it had taken action to support UK industry through government procurement policy. In particular, it had published "pipelines of likely future needs: providing long-term visibility to allow UK industry to target R&D [research and development] decisions and be well prepared to bid for government contracts. To date, 17 pipelines have been published with a total value of £84 billion".³⁶

27. These pipelines have been widely welcomed by business, albeit with the caveat that further information over the longer term would be still more beneficial.³⁷ The UK Contractors Group noted that while the Government had established an infrastructure plan, showing the pipeline of national infrastructure projects which it expected to support, the plan "actually only runs for three or four years. The pipeline goes to the end of the

³³ Lord Heseltine, *No Stone Unturned*, October 2012, p.62

³⁴ Ev w87

³⁵ Ev w147

³⁶ Ev w75

³⁷ Qq 52-57; Ev w17

current Spending Review. It does not go beyond that [...] that plan needs to be much longer term”.³⁸

28. We endorse the efforts that the Government has made thus far to give industry greater visibility of future procurement. *The Cabinet Office should work with other government departments, not least the Department of Business, Innovation and Skills to ensure the data in the procurement pipelines is as full and up to date as possible and identify what further information Government can provide to help industry to innovate and prepare to deliver future government contracts as effectively as possible.*

Supporting small businesses

29. SMEs provide six out of ten private sector jobs in the UK economy and are most associated with growth and job creation, notably having increased their jobs by two million since 2002 while larger businesses have not created any more net jobs.³⁹ The Government has identified that facilitating SME access to government contracts is one way it can use procurement policy to support wider economic development, while diversifying the market and enabling greater competitive tension. It has set itself the “aspiration” that at least 25% of government procurement spending will flow to SMEs by the end of the Parliament in 2015. The Cabinet Office told us that direct spend had increased from 6.5% in 2009/10 to 10% in 2011/12 and that “more is being done to understand indirect spend and ensure these numbers are robust”.⁴⁰

30. To help achieve this aspiration, the Cabinet Office has introduced a number of measures to remove barriers facing SMEs seeking to win government contracts. These include a policy to remove “pre-qualification questionnaires from lower value contracts, except where security is consideration” and “the introduction of Contracts Finder” to allow “unprecedented transparency to the range of opportunities available”. The Cabinet Office added that “the appointment of a Crown Representative for SMEs and voluntary bodies has ensured that the voice of both is heard at the heart of Government”.⁴¹ The Chief Operating Officer expressed confidence that significant progress against the aspiration to achieve 25% of direct and indirect spending with SMEs would be achieved: “if I come back here in two years and we have not seen significant uplift in those numbers then we will be hugely disappointed”.⁴²

³⁸ Q 68

³⁹ Department for Business, Innovation and Skills, *Business population estimates for the UK and regions*, October 2012

⁴⁰ Ev w75

⁴¹ Ev w75

⁴² Q 519

The G Cloud/Cloudstore Framework

The G Cloud/Cloudstore framework provides an online catalogue of ICT services for the UK public sector managed centrally by the Government Procurement Service.

Sally Collier, the Deputy Chief Procurement Officer told us that: “it is a framework procurement like none we have ever seen before. It is dynamic and it is fast; suppliers come on and off. The suppliers are telling us they love it. It is a very quick accreditation process”.⁴³

The Government expects that CloudStore will help small and medium-sized businesses to contract directly with the public sector, as it has simplified the requirements for joining this framework.

According to a recent National Audit Office report: “Of the 250 suppliers on the first CloudStore framework, which went live in February 2012, around 75 per cent are small and medium-sized businesses. In August 2012, the Cabinet Office reported that 75 per cent of contracts let between April and July 2012, had gone to small and medium-sized businesses. In its first six months of operation, government spent £2 million in the CloudStore with 27 suppliers. The second CloudStore framework went live in October 2012, with 458 suppliers, including 201 of the original suppliers from the first framework”.⁴⁴

31. Many witnesses welcomed the Government’s activities to support SMEs. However, they argued that obstacles to achieving this target remain. The Federation of Small Businesses argued that part of the problem was the prevalence in the public sector of unnecessary selection practices such as disproportionate turnover and insurance requirements. They said that “we would like to be seeing far more evaluation on experience and ability”.⁴⁵

32. As we argued in our report *Government and IT — a recipe for rip-offs: time for a new approach*, the key risk is that government procurement policy to concentrate demand into national and central contracts can make it harder for small businesses to win government contracts.⁴⁶ Peter Smith told us:

If you are going to do national contracts, however hard you try to some extent to break them up and so on, you will end up with fewer companies doing business with different bits of the public sector. I do not have an answer to that but we have to recognise that there are agendas pulling in different directions.⁴⁷

⁴³ Q 512

⁴⁴ National Audit Office, *The impact of government’s ICT savings initiatives*, HC 887 Session 2012–13, 23 January 2013

⁴⁵ Ev w91, Q 125

⁴⁶ Public Administration Select Committee, Twelfth Report of Session 2010–12, *Government and IT—‘A Recipe for Rip-Offs: Time for a New Approach’*, HC 1724

⁴⁷ Q 344

33. As we said in our report, *The Big Society*, large contracts exclude most third sector providers.⁴⁸ Social Enterprise UK confirmed this, writing that: “many contracts are just too large for most [social enterprises] to compete for [...] centralisation of procurement that results in further aggregation [...] runs entirely counter to the aim of fostering a plural market of providers that includes Social Enterprises”.⁴⁹

34. The quality of Government data on how much Government spends with small business is poor.⁵⁰ Francis Maude recognised this:

We have much better data than we had, but they are far from perfect [...] I give fair warning that these numbers will do some odd things over the years ahead, because we are still only able now to start to bottom out what the numbers are going to do.⁵¹

35. The Chief Procurement Officer admitted that much depended on the definition of what constitutes an SME, and noted that the definition used thus far was being amended.⁵²

36. **In our 2011 report *Government and IT— a recipe for rip-offs: time for a new approach*, we noted that the way procurement currently operates favours large companies. We remain sceptical that, since then, sufficient change has been achieved. However we support reforms to improve SMEs and social enterprises’ access to government contracts and note that the Government’s Chief Operating Officer is confident that small business will win a much greater share of government business over the next two years.**

37. **We are also concerned at the apparent weaknesses in the Government’s data on the level of spending with SMEs. *Government must improve its data on spending with small businesses. The Cabinet Office should publish regular quarterly updates on progress towards its “aspiration” of 25% by value of government contracts being won by SMEs, giving a clear indication of how it has defined a small and medium-sized business and how reliable the data are.***

Achieving social and economic objectives within the rules

38. There is a widespread view that government procurement has not been used to support the UK economy as effectively as possible, not least because of the UK public sector’s tendency to take a narrow view of what is allowed under EU procurement directives. Lord Adonis made this point in discussion with Lord Heseltine at a discussion at the Institute for Government in November 2012 about his report “No Stone Unturned”.⁵³ Lord Adonis referred to his success in bringing Hitachi to the UK to manufacture trains and to open a train manufacturing plant in North-East England.

⁴⁸ Public Administration Select Committee, Seventeenth Report of Session 2010–12, *The Big Society*, HC 902-I

⁴⁹ Ev w38

⁵⁰ Q 123

⁵¹ Q 558

⁵² Qq 522-523

⁵³ www.instituteforgovernment.org.uk/events/no-stone-untuned-implications-whitehall-lord-heseltine-and-lord-adonis#

The Thameslink Rolling Stock Procurement

This rolling stock procurement managed by the Department for Transport prompted renewed debate on whether the Government was doing enough to ensure public procurement spending achieved wider economic benefits to the UK.

The Thameslink Rolling Stock project aims to achieve the acquisition of a fleet of approximately 900 to 1300 passenger rail vehicles (making up c.110 trains) for services on Thameslink lines. In June 2011 the Department for Transport announced that Siemens plc and XL Trains had been awarded preferred bidder status.⁵⁴

Bombardier Transportation was named as reserve bidder. Bombardier owns the UK's last remaining train manufacturing facility, at Derby, and the Department for Transport's decision prompted protest, particularly from Derbyshire MPs, business interests and trades unions amid concerns about Bombardier's future in the UK and the sustainability of the domestic supply chain.⁵⁵

The original Invitation to Tender, published in 2008 by the previous Government, was widely criticised for not including socio-economic factors, such as the impact on employment and growth in the UK. The Department for Transport was urged to reverse its decision, if necessary by terminating the current procurement exercise and starting afresh.⁵⁶

On 27 June 2013, the Department for Transport announced that Siemens Plc with Cross London Trains had been awarded a contract of around £1.6 billion to build 1,140 carriages for use on the Thameslink rail line. Conscious of the previous criticisms, the Department for Transport highlighted in its press release that Siemens expected the award of the rolling stock contract to create up to 2,000 jobs across the UK supply chain.⁵⁷

39. Lord Heseltine made this point forcefully when he gave evidence to our 2012 inquiry on strategic thinking in Government:

If you look at procurement on the continent, they have exactly the same European Directives governing them as we do, but they do not seem to have a problem, in practice. The question has to be asked: why is there no complaint on the continent of Europe in the way that there is vociferous complaint here? There could be two

⁵⁴ HC Deb 16 June 2011 c85-6WS

⁵⁵ Transport Committee, Eleventh Report of Session 2010–12, Thameslink Rolling Stock Procurement, HC 1453, 16 December 2011 p.5

⁵⁶ Transport Committee, Eleventh Report of Session 2010–12, Thameslink Rolling Stock Procurement, HC 1453, 16 December 2011

⁵⁷ Department for Transport, Press release: "Siemens Thameslink deal to create up to 2,000 new jobs", 27 June 2013

reasons. One is that they are cheating, which is the common allegation. The other is that we may have screwed it up.⁵⁸

40. Peter Smith told us that using procurement to support particular local economic or social objectives could be “a difficult and complicated area”.⁵⁹ He said that:

[...] it is an area where the public sector has been risk averse, I think. I am not sure it is driven by any philosophical love of free trade; I think it is more often driven by the lawyers or the procurement people saying, ‘You cannot do that, because we might get challenged by someone from another country.’⁶⁰

41. A number of witnesses felt that the Directives could be applied more cleverly in the UK. Tim Heywood noted that: “I think we do generally miss a trick sometimes in the way we specify what we want to buy”.⁶¹ Peter Smith elaborated on this explaining how procurements could be pragmatically designed to ensure that procuring authorities could give some consideration in their evaluation to whether the bidder is based in the UK:

There are things you can do; for instance, you cannot stipulate that it has to be a British firm, but you can have a criterion in the evaluation that says, ‘Tell me how you will provide support within 30 minutes’ or ‘We want to be able to meet your managing director at eight hours’ notice. Tell us how you will achieve that’, which might just favour local firms rather than somebody from the other side of Europe.⁶²

42. Other witnesses told us however that there was in fact significant scope within the existing Directives to allow local social and economic objectives to be taken into account. Professor Bovis of Hull University explained:

France, Germany and Italy use procurement for specific purposes, without breaking the laws. In Germany every Land has specific laws designated for the promotion of SMEs. In France, there is a specific overarching umbrella legal principle concerning economic development, which means tremendous flexibility and discretion in the hands of contracting authorities to award public contracts [...] We have seen that quite often in Europe. The Court of Justice has recognised on a number of occasions over the last 40 years the ability of Governments to procure and deliver public services in the way they see fit, provided they preserve some elements of competition.⁶³

43. Analysis undertaken for the European Commission on cross-border procurements in 2011 suggests that there is a general tendency for each country’s public sector to award

⁵⁸ Public Administration Select Committee - Minutes of Evidence, Oral evidence taken before the Public Administration Committee on 5 December 2012, HC 756, Q 29

⁵⁹ European Commission, *Cross-Border Procurement above EU Thresholds*, March 2011, p 41 Table 19

⁶⁰ Q 374

⁶¹ Q 336

⁶² Q 374

⁶³ Q 270

contracts to bidders from that country.⁶⁴ The data also suggests that the UK public sector behaves similarly to the rest of the EU with the proportion of UK public sector contracts awarded to firms based in other Member States close to the average for the rest of the EU, and similar to the levels in both France and Germany.⁶⁵

Table 1: Cross-border procurement above thresholds within the EU

Contracting authority's home state	Awards by number		Awards by contract value	
	Direct Cross Border	Indirect cross border	Direct Cross Border	Indirect cross border
UK	1.5%	16.5%	3%	13.8%
France	0.9%	14.8%	1.5%	19.3%
Germany	1.5%	8.1%	1.7%	9.6%
Ireland	15.4%	9.0%	8.8%	0.5%
EU - Average	1.6%	11.4%	3.5%	13.4%

Source: European Commission⁶⁶

44. Reforms to European Directives currently being considered by the European Parliament are intended to encourage public bodies to use procurement for wider social and environmental purposes. The relevant Committee of the European Parliament has said:

Instead of simply accepting the lowest bid, public authorities should go for the ‘most economically advantageous tender’ (MEAT) which could also include environmental considerations such as sustainability and life cycle costs or social objectives such as buying from firms with a particular social profile.⁶⁷

45. To some extent anticipating the EU reform proposals, the Government has also supported the introduction of a Private Member’s bill—the Public Services (Social Value) Bill—which received Royal Assent in March 2012 and came into force in January 2013. The resulting Public Services (Social Value) Act 2012 requires public bodies commissioning public services to consider social value before undertaking the procurement process. Evidence we received welcomed the Act and applauded its intentions but felt that it did not go far enough in ensuring public procurement maximised social benefit.⁶⁸ Social Enterprise UK suggested that “the Act should be strengthened” so

⁶⁴ Direct cross-border procurement is defined as firms operating from their home market bidding for and winning contracts in another Member State. Indirect cross-border procurement is defined as situations where foreign firms bid for and win contracts through local subsidiaries; where domestic bidders include foreign subcontractors; or foreign bidders submit offers in consortia with local firms.

⁶⁵ European Commission, *Cross-Border Procurement above EU Thresholds*, March 2011, p 41 Table 19

⁶⁶ European Commission, *Cross-Border Procurement above EU Thresholds*, March 2011, p 41 Table 19

⁶⁷ European Parliament, Internal Markets and Consumer Protection Committee, Press Release: “[Towards greener and more responsible public procurement](#)”, 18 December 2012

⁶⁸ Ev w38, Ev w68

that “public bodies should be obliged to include social value in their commissioning and procurement and account for how this is generated” and extended so that it “applies to the purchasing of goods and works and the management of assets as well as services”.⁶⁹

46. The Minister for the Cabinet Office told us that the Government had no plans to promote the Social Value Act, explaining “[it] is a permissive rather than a mandatory regime, so it is very much for public contracting authorities themselves to see how they want to use this, rather than for us to require it”.⁷⁰ He went on to explain that:

[...] my predilection generally is that you should not load procurement with values and requirements other than getting what you want at the best price. There is always a temptation to use procurement to deliver other desirable objectives. My preference always is to keep it as stripped down and limited as it can be.⁷¹

He clarified further that “our primary—not the sole—objective that we are serving through procurement is buying the goods and services that are needed for the citizen at the best price”.⁷² He accepted however that “where it does not interfere with good value for money, it makes every kind of good sense”.⁷³

47. While Bombardier in Derby was not successful in securing the contract for Thameslink trains, for example, French and German suppliers have for a long time been more successful in securing contracts for domestic producers, to the benefit of their national economies. We welcome the EU reform proposals which encourage public bodies to use procurement for wider social and environmental purposes. These reforms alongside the Public Services (Social Value) Act 2012, allow the public sector to take a much more considered approach to procurement which seeks to maximise the positive impact of public spending in ways which are already used by other EU Member States. We understand however the Minister for the Cabinet Office’s concerns about “loading procurements with values and requirements other than getting what you want at the best price.” *The Cabinet Office should bring forward proposals as to how it can ensure that proper consideration is given to the potential to promote the UK economy in all government procurement exercises, without losing sight of the fundamental purpose of procurement regulation: to get best value for the taxpayer.*

48. One potential means of ensuring government procurement spending is used to support wider social and economic objectives, while remaining compliant with EU Directives, was highlighted by the Trades Union Congress. EU Directives specifically indicate that terms may be included in contracts requiring the contractor to meet certain performance requirements while providing the good or service procured.⁷⁴ The Trades Union Congress

⁶⁹ Ev w38

⁷⁰ Q 564

⁷¹ Q 564

⁷² Q 568

⁷³ Q 567

⁷⁴ Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts

notes for example that this clause allows public bodies to include contract performance conditions requiring contractors to “introduce apprenticeships, or to stipulate that some under-represented workers, such as those with disabilities or who endure long-term unemployment for other reasons must be employed”.⁷⁵ The Department of Work and Pensions has already introduced an “Apprenticeship and Skills Requirements” contract schedule into its standard model terms and conditions for services contracts to enable its procurement spending to be used to support the creation of apprenticeships. The schedule requires that contractors, and in turn their subcontractors, “take all reasonable steps to ensure that 5% of their employees are on a formal apprenticeship programme”.⁷⁶

Crossrail rolling stock procurement

In the Crossrail rolling stock procurement, the Government has attempted to learn the lessons from the controversy surrounding the Thameslink rolling stock procurement and ensure that wider social and economic impacts are considered as part of the procurement process.

In March 2011 Crossrail Ltd, the private public partnership delivering Crossrail on behalf of the Department announced its intention to put out an Invitation to Tender by the end of 2011, to award the contract to build the Crossrail train fleet in late 2013.⁷⁷ However, following the political fallout of the decision to award the Thameslink contract to Siemens in June 2011 (see box above), the Government decided to delay the procurement process.⁷⁸

In February 2012, Crossrail Ltd announced that four bidders; Bombardier Transportation (UK) Ltd.; CAF; Hitachi Rail Europe Limited; and Siemens plc had received an Invitation to Negotiate. The then Secretary of State for Transport, the Rt Hon Justine Greening, welcomed the announcement and highlighted that the Invitation to Negotiate included requirements for “responsible procurement”, stating that “this means that bidders are required to set out how they will engage with the wider supply chain and provide opportunities for training, apprenticeships, and small and medium-size businesses within their procurement strategy. Bidders are also required to establish an appropriate local presence to manage the delivery of the contract.” She also announced that “Bidders are being asked, in the Invitation to Negotiate, to specify from where each element of the contract will be sourced. This is not an assessment criterion in the decision process however the successful bidder will be required to report against their proposed estimates.”⁷⁹

The contract is expected to be awarded in Spring 2014.

⁷⁵ Ev w14

⁷⁶ Ev w117

⁷⁷ Crossrail press notice, “Crossrail confirms shortlist for rolling stock and depot facilities”, 30 March 2011

⁷⁸ HC Deb 21 October 2011, col 1198W

⁷⁹ HC Deb 28 February 2012, col. 28WS

49. Setting wider contract performance measures—such as the creation of apprenticeships—is one means of ensuring procurement spending achieves additional social or economic impact which could be employed more widely across Government. *The Cabinet Office should provide guidance to government departments on how to use the scope within the existing EU procurement directives to maximise value for the UK economy, for example through greater use of appropriate contract performance measures.*

4 Procurement Capability

50. There are clear shortcomings in the ability of the Civil Service to run effective and efficient procurement.⁸⁰ Tim Heywood, expressed a view common to many witnesses:

[...] the Civil Service is having to adapt, and this has been true over a number of years, to a role that is more focused on commissioning and procuring the delivery of services, goods and such like, as opposed to being a delivery organisation itself. I think the skill sets have not kept pace. If there was one thing I would change, to try to bring about that cultural and other structural change, I would make commercial skills, commercial awareness and procurement skills one of the core skills for being employed in the Civil Service.⁸¹

Francis Maude acknowledged this view; he told us that there were “too few” civil servants with the right knowledge and skills, stating that that was “a serious deficiency which has been long recognised”.⁸²

51. Sir Peter Gershon’s 1999 review of civil procurement indicated the need for more “strategic procurement skills” in government, for example, to run private finance initiatives, outsourcing and the management of very large complex projects.⁸³ Witnesses told us that the Civil Service has become more commercially skilled since then, although felt that there was still some way to go.⁸⁴ Tim Heywood noted that:

[...] there are lots of centres of excellence. There are lots of civil servants who are very, very good in terms of commercial nous, procurement skills and so on, but there are not nearly enough of them for the scale of procurement being undertaken.⁸⁵

52. One key deficiency which witnesses highlighted was civil servants’ lack of understanding of commercial risk. Discussing procurements by the Ministry of Defence, Professor Bovis of Hull University suggested that “the inability to understand risk” was a systemic problem and that a more nuanced understanding of risks in each contract was needed. Robin Southwell, Chief Executive, European Aeronautic Defence and Space UK, and president of the defence industry trade organisation, Aerospace Defence Security, reinforced this view noting that “the effort to take no risk means you end up taking huge risks”.⁸⁶ The Chief Operating Officer for Government recognised this problem and accepted that when contracting, civil servants should be more aware of the genuine limits on transferring risk from the public to the private sector: “The reality is we [the public

⁸⁰ Q 278, Ev w17, Ev w20, Ev w87

⁸¹ Q 324

⁸² Q 585

⁸³ Sir Peter Gershon, *Review of Civil Procurement in Central Government*, April 1999

⁸⁴ Q 278-9

⁸⁵ Q 278

⁸⁶ Q 168

sector] carry the risk [...] the elimination of any naivety in that is fundamental to us making wise decisions”.⁸⁷

The Competition for a Carbon Capture and Storage Demonstration Project

In November 2007, the Department for Business, Enterprise and Regulatory Reform (BERR) launched a competition for industry to run a project to design, construct and operate the UK’s first commercial-scale carbon capture and storage demonstration project at a coal-fired power station, by 2014, with Government funding.

Four years later, in October 2011, the Department of Energy and Climate Change, which was by then the department with responsibility for this project, withdrew from negotiations with the last remaining bidder in the competition as the Department considered it could not agree a deal that would represent value for money.

A National Audit Office report considering the lessons to be learned from this ultimately unsuccessful procurement exercise noted that: “the Department and its predecessor did not engage sufficiently early with the commercial risks involved and their consequences on cost”.⁸⁸ It proposed that in future competitions: “the Department needs to understand fully its commercial proposition to industry [...] To do this, the Department will need appropriate commercial skills in place from the outset of its new programme”.⁸⁹

53. Another deficiency highlighted was civil servants’ unwillingness to exercise judgement. So, while commercial ability exists within the Civil Service, it is constrained by a culture of adhering to processes. With regard to defence procurement, Dr Moore of Cranfield University noted that:

[...] the system is such that you have to follow the processes. An individual cannot be wrong if they follow the processes. If they use their judgment to say, ‘This is a better value-for-money item’, however you define that, the system may well show them that they cannot do that, and they therefore follow the system.⁹⁰

54. Francis Maude similarly said that existing commercial nous had been suppressed by the process-oriented culture of the Civil Service:

I have seen some, who have been lifer, mainstream civil servants, exposed to the commercial world and interacting with suppliers and potential suppliers, and they absolutely light up and discover a commercial part of their DNA that they did not know existed. [...] I have on too many occasions heard, or heard reports of procurement people in Government saying, ‘Well, of course we are not allowed to

⁸⁷ Q 510

⁸⁸ National Audit Office, *Carbon capture and storage: lessons from the competition for the first UK demonstration*, HC 1829 Session 2010–2012, 16 March 2012, p 8

⁸⁹ National Audit Office, *Carbon capture and storage: lessons from the competition for the first UK demonstration*, HC 1829 Session 2010–2012, 16 March 2012, p 11

⁹⁰ Q 186

make a judgment about choosing a supplier. It is all reduced to some sort of mechanistic process.’ You would never do that in a commercial setting. You would be making a commercial judgment about what is the best overall value.⁹¹

55. Another key area for improvement is the Government’s engagement with business and the way it identifies and specifies what it wanted to procure and how.⁹² The International Association for Contract and Commercial Management commented that: “The world of procurement has changed dramatically in recent years” but noted that:

[...] most [government] Procurement professionals appear to have been trained to deal with commodity purchases and have little appreciation of the methods or techniques that are needed to effectively gather requirements, evaluate supplier capabilities, develop relationships and oversee contract outputs or outcomes. This is a serious deficiency in a world that has moved increasingly to services and solutions, where outcomes matter far more than inputs.⁹³

56. Sally Collier, the Deputy Chief Procurement Officer, said that efforts to improve the level of pre-procurement engagement with suppliers were starting to pay off. “We have still got a long way to go [...] but I think we have got some evidence that suppliers out there do think it is changing”.⁹⁴ Nonetheless, businesses in some sectors told us of recent failures by the Government to consult properly with potential suppliers. The Institute of Practitioners in Advertising wrote with regard to a recent procurement exercise run by the GPS that:

there was no consultation with the industry on the relevance to advertising of the questions asked [in the Invitation to Tender]—nor their intelligibility—prior to publication, while the resource available to explain and answer queries was limited and lacking in detailed knowledge of the industry.⁹⁵

57. Suppliers to Government emphasised that government bodies needed to become more flexible. Instead of narrowly specifying the outputs they want they should specify outcomes, so that businesses can help to identify and provide the most effective solution.⁹⁶ Kevin Craven, Chief Executive of Balfour Beatty Services and Chairman of the procurement sub-committee of the CBI, told us that the Government has tended to find it difficult to reach an agreed position on what it wanted to procure. By specifying outcomes rather outputs, they could make the whole procurement process more efficient, passing the challenge of finding an effective solution to a particular problem to the bidder. He noted that: “it is easier to describe what you want to achieve rather than the methods by which you want to achieve it”.⁹⁷

⁹¹ Q 592, Q 585

⁹² Q 52

⁹³ Ev w17

⁹⁴ Q 510

⁹⁵ Ev w4

⁹⁶ Ev w32, Ev w36

⁹⁷ Q 54

58. Nonetheless the CBI, among others representing suppliers to Government, argued that Government should go further and give greater consideration to procurement issues as part of policy making.⁹⁸ Andrew Coulcher, Director of Business Solutions at the Chartered Institute of Purchasing and Supply, told us that: “There is an opportunity to have a much earlier and closer involvement of procurement and commercial teams in the policy-setting process, but I also think that the policy professionals need a better commercial understanding of the implications of those policies and knowing when to get the professionals engaged at the right time”.⁹⁹

59. Peter Smith argued that part of the problem is the lack of senior leaders within the Civil Service with experience of procurement:

[...] there is no Permanent Secretary that I am aware of who has come through the procurement route, in any sense. There might be the odd one who has done a bit of programme management, but we do not have anyone who has come all the way through procurement.¹⁰⁰

60. The Civil Service shows a persistent lack of understanding about how to gather requirements, evaluate supplier capabilities, develop relationships or specify outcomes. The effort to reduce risk tends to increase risk in the form of delay and increased costs. Policy making remains divorced from the practicalities of procurement, while few policy makers or senior leaders in the Civil Service have relevant procurement experience or training. The Cabinet Office has responsibility for leading procurement training across Government. It should publish a procurement training plan demonstrating how it will increase the understanding of procurement issues among civil servants engaged in policy development.

Improving Commercial Capability

61. The Cabinet Office has already launched a number of initiatives to improve civil servants’ commercial skills, not least in relation to the management of major projects—many of which involve a significant procurement. In 2012, the Cabinet Office announced plans to develop and run the Major Projects Leadership Academy in partnership with the Saïd Oxford Business School and Deloitte, to train 150 Project Leaders over four years from October 2012. In January 2013, the Government also announced the creation of a virtual Commissioning Academy: an online development programme for senior commissioners from all parts of the public sector to improve skills in commissioning others to deliver services.

62. The Chief Procurement Officer, Bill Crothers, argued that existing training and development initiatives, such as the Commissioning Academy and Major Projects Leadership Academy, have “made a big difference” but said that more needed to be done,

⁹⁸ Ev w11, Q 79

⁹⁹ Q 359

¹⁰⁰ Q 365

in particular to improve commercial and contract management skills.¹⁰¹ The Cabinet Office has stated that “further work to strengthen commercial capability within the Civil Service remains an important priority” going on to remark that “the Civil Service Reform Plan [...] committed to the development of a five year plan on how the Civil Service as a whole would develop the necessary capabilities in this (and other priority areas)”.¹⁰² We understand this is still being developed.

63. As part of its Civil Service reform capabilities plan, the Cabinet Office has committed to a number of further actions by summer 2013, which should help to develop commercial and procurement capability. These include the creation of a new unit within the Cabinet Office of commercial specialists to assist departments in buying and managing the commercial delivery of complex ICT services, and mechanisms to allow greater interchange of personnel between the Civil Service and private sector organisations.¹⁰³

64. Alongside the Chief Operating Officer, Stephen Kelly, and the Chief Procurement Officer who have considerable private sector expertise between them, the Cabinet Office also named five other senior civil servants “with a broad range of commercial experience” recently recruited to drive the efficiency and reform agenda. It also pointed out that it has now recruited “a number of highly experienced commercial negotiators from the private sector”. They are the Crown Representatives” who “lead the strategic relationship with a number of suppliers to secure better value for taxpayers and improve the way services are delivered”.¹⁰⁴

65. Tim Cummins, Chief Executive of the International Association for Contract and Commercial Management, sounded a note of caution and suggested that a more fundamental reform of Civil Service culture would be needed:

There is a real risk that skills development can be, in a sense, a sticking plaster as opposed to a real remedy or cure [...] It may be creating a group of people who will, in a sense, be frustrated by their inability to shift the organisation.¹⁰⁵

66. A range of valuable initiatives to improve capability and skills have already been launched, such as the Major Projects Leadership Academy, which should improve the commercial and procurement skills within the Civil Service. The Civil Service Reform Capabilities Plan has also proposed a number of further initiatives to build commercial and procurement skills and the Cabinet Office has successfully recruited a small number of experienced procurement and commercial personnel to senior roles. We commend the Cabinet Office for its efforts to develop commercial skills. We are concerned however that a more fundamental culture shift is required within the Civil Service if those with commercial skills are to be allowed to operate effectively to feel appreciated and rewarded accordingly by the Civil Service, so they wish to remain.

¹⁰¹ Q 493

¹⁰² Ev w75

¹⁰³ Cabinet Office, *Meeting the Challenge of Change A capabilities plan for the Civil Service*, April 2013

¹⁰⁴ Ev w102

¹⁰⁵ Q 324

67. The Government has only limited information on the state of skills and capability within the Civil Service. The International Association for Contract and Commercial Management noted that: “there seems to be an innate resistance to skills analysis and benchmarking, so while work to identify required skills has been undertaken, it is not evident how gaps will be addressed”.¹⁰⁶ Francis Maude acknowledged that “we do not absolutely know how many procurement professionals there are across Government”.¹⁰⁷ In response to our request, the Cabinet Office has collected information from sources in the public domain and by individual “follow up” on the number, skills and experience of Senior Civil Servants in procurement leadership roles within central government. The Cabinet Office provided us with the table below.

Table 2: Commercial expertise of senior civil servants within departmental procurement teams.

Number of SCS	Sector Experience	Nature of experience/ typical commercial roles	Typical length of private sector experience
32 have private sector experience	Banking Services Utilities Consultancy Retail Manufacturing Insurance Services Telecomms/ICT	Senior Purchasing Manager Senior Logistics Director European/ Global Supply Chain Director Company Director Operational Manager Senior consultant	49% >10 years 45% > 5–10 years 6% < 5 years
12 have public sector experience only	-	-	-
17 not known	-	-	-

Source: Cabinet Office¹⁰⁸

¹⁰⁶ Ev w17

¹⁰⁷ Q 585

¹⁰⁸ Ev w102

68. Even though there are only 61 senior civil servants in procurement leadership roles within central government, there is little known about them, their skills and experience, or lack of them, across Whitehall. There is no departmental breakdown and the fact that the Cabinet Office does not know the experience of 17 of the 61 senior procurement cadre indicates a serious lack of coordination of this vital resource. These officials will be thrown into the public spotlight, now that the Government is to make Senior Responsible Owners of major projects directly accountable to select committees.

69. In its Capabilities Plan for the Civil Service, published in April 2013, the Cabinet Office has committed to establishing “a central database of commercial specialists, starting with procurement professionals by summer 2013, recording each person’s experience and skills”.¹⁰⁹ It notes further that “Departments will need to populate this database and ensure that records are kept up to date”.¹¹⁰

70. We welcome the Government’s proposals to establish a central database of commercial specialists, starting with procurement professionals by summer 2013 as a first step, but not much has been achieved. *The Cabinet Office database should include all key procurement positions and functions in the Civil Service. The database should be updated each quarter so that progress in improving commercial capability can be monitored effectively. Departments should be required to provide this information. This information should also be provided as part of the response to this recommendation. This should include a list of Senior Responsible Owners of procurement projects, who the Government now propose should be accountable to select committees of Parliament.*

71. *Consideration should be given to regenerating the professional Civil Service, so that highly qualified professionals—scientists, engineers, manufacturers, retailers—can be deployed to deal with purchasing, and with projects, managed by the Permanent Secretary, but with a symbiotic relationship to the head of those professions, of which procurement should be one.*

Accessing private sector expertise

72. The Chief Operating Officer told us that:

If we look at most of the Senior Civil Service today, it is probably dominated by policy people. Some of the skills [...] can be done through training, but also you can need a lot of ‘university of life’ experience, having dealt on one side of the table managing large, complicated commercial constructs.¹¹¹

73. A number of witnesses pointed out the difficulty of recruiting and retaining staff with the necessary skills and the importance of the public sector offering salaries which can compete with the private sector.¹¹² For example, Tim Cummins said that:

¹⁰⁹ Cabinet Office, *Meeting the Challenge of Change A capabilities plan for the Civil Service*, April 2013

¹¹⁰ Cabinet Office, *Meeting the Challenge of Change A capabilities plan for the Civil Service*, April 2013

¹¹¹ Q 494

¹¹² Ev 35 (PMI), Q 190 (Mr Southwell), Q 313 (Mr Cummins)

The challenges, probably around procurement, are in part to do with relative status. They are partly to do with confidence over career path and career potential. Of course, they are somewhat related to perceptions around salary, particularly the correlation between salary and contribution. There is often a feeling by more talented people that they will just operate within an environment where their particular contribution is not necessarily acknowledged or rewarded.¹¹³

74. As an alternative to direct recruitment or employing consultants on an ad-hoc basis, the Government has considered whether it can outsource procurement and commercial functions to the private sector.

75. We highlighted the risks of outsourcing in IT in our report *Government and IT — a recipe for rip-offs: time for a new approach*. We found in particular that the outsourcing of the government's IT service means that many Civil Service staff, along with their knowledge, skills, networks and infrastructure had been transferred to suppliers.¹¹⁴ Witnesses confirmed our findings in that report that for outsourcing to be effective, the Government still must have its own commercial and contract management skills to manage the relationship with the chosen provider. Jon Hughes, a procurement consultant, commented:

[...] if [outsourcing] then loses transparency, scrutiny and proper examinations of all the financials and service outcomes, I am sorry but the public sector is going to get ripped off. So you have to have internal capability of a very high quality to manage those outsourcing deals.¹¹⁵

76. A number of witnesses discussed the risks of the Ministry of Defence proposals to contract out their management of procurement, through a "Government Owned Contractor Operated" (GOCO) model.¹¹⁶ This was first proposed in a review by Bernard Gray published in 2009, before his appointment as Chief of Defence Materiel, as a solution to improving defence procurement.¹¹⁷ In this model, a private company would be contracted to act as a parent body for the section within the Ministry of Defence responsible for procurement and logistics (Defence Equipment and Support (DE&S)), while the Government retained overall ownership. Lord Levene told us that the intention behind the GOCO model was:

[...] to give that [procurement] process to a commercial company which will not be constrained by Civil Service limits on pay and conditions which can then recruit the best possible people and pay them well, on the basis that they will produce a better result.¹¹⁸

¹¹³ Q 313

¹¹⁴ Public Administration Select Committee, Twelfth Report of Session 2010–12, *Government and IT—A Recipe for Rip-Offs: Time for a New Approach*, HC 1724

¹¹⁵ Q 46

¹¹⁶ Qq 221-227

¹¹⁷ Ministry of Defence, *Review of Acquisition for the Secretary of State for Defence: An independent report by Bernard Gray*, October 2009,

¹¹⁸ Ev w120

77. This was recently confirmed by Bernard Gray in an interview with Civil Service World: “If industry wants to go out and hire the best lawyers, the best programme managers, they can; and all the choices they make create costs that we bear. So we’re paying them to upgrade their side of the equation, but we don’t pay to have those skills available to our own side”.¹¹⁹ With regard to the GOCO, Francis Maude told us that: “it is definitely easier in that kind of arrangement to hire people at competitive private market rates; that is undoubtedly the case. It is certainly not impossible, but it is more difficult, to do it within Civil Service constraints”.¹²⁰

78. Lord Levene warned however that outsourcing defence procurement “could well result in the GOCO employing the same civilian and service individuals, but paying them considerably more, which with a further mark-up would then be added to the bill that MOD would have to pay”.¹²¹ He added that he had some fairly fundamental concerns about the whole concept:

even if it is true that a small number of people need to be brought in on a higher rate, [...] it seems to me to be an extraordinary price to pay necessitating the change of the whole system of Government procurement, by transferring it to a private company, in a move which has not been carried out in any other country in the world, simply in order to be able to pay a handful of people more money. The figures that I have seen showing how much can be saved by handing over to a commercial company are, I believe, fanciful, particularly when set against the real cost of introducing a GOCO.¹²²

79. Sir Jeremy Blackham, former Deputy Chief of the Defence Staff at the Ministry of Defence, told us that he was not convinced the GOCO model for DE&S was “a good thing”, but said that it was necessary to await the final details of the proposals before reaching a judgement.¹²³ Nonetheless he echoed Lord Levene’s comments stating that the GOCO operating model:

appears to be trying to repair deficiencies that could be repaired by other means, notably the balance and level of skills [...] There is a feeling that a commercial operator can buy them and reward them more appropriately, and attract the right people. It would be possible to do this in another way, I would have thought.¹²⁴

80. A decision on whether the GOCO model will be adopted was initially expected at the end of 2012. However in April 2013, the Rt Hon Philip Hammond MP, the Secretary of State for Defence, announced the start of a 12 month assessment phase. During this phase, the Ministry of Defence proposed to work with HM Treasury and the Cabinet Office “to explore the extent of change that could be delivered whilst keeping the organisation fully

¹¹⁹ Civil Service World, ‘Interview: Bernard Gray’, Matt Ross 2 July 2013

¹²⁰ Q 608

¹²¹ Ev w120

¹²² Ev w120

¹²³ Q 224

¹²⁴ Q 224

within the boundaries of the public sector”.¹²⁵ Mr Hammond also announced that in parallel “a commercial competition will be launched that will enable us to determine with potential private partners how a GOCO would work in practice, and what the costs and benefits would be”.¹²⁶ By the end of the assessment phase in 2014, Mr Hammond expects to have a comprehensive set of qualitative and quantitative data with which to evaluate the options and make a final decision about the future of DE&S.¹²⁷

81. Civil Service reform should aim to deliver an organisation that can recruit, train and retain people with the necessary procurement and commercial skills. Reforms such as the Ministry of Defence’s “GOCO”, designed to get around outdated restrictions on Civil Service salaries and conditions in order to improve Government access to commercial and procurement capability should not be necessary. A decision has yet to be taken on whether to contract out the management of the Ministry of Defence’s procurement and logistics arm to a GOCO. There are risks with this model, not least the complexity of another relationship which the Ministry of Defence will have to be able to control. We are not convinced that this concept is sound or that cost-benefit analysis will prove its viability.

82. The very fact the Ministry of Defence is seeking to contract out the procurement function, which is a fundamental reason for the Ministry of Defence’s existence, underlines how counterproductive it is to maintain the existing restrictions on salaries and conditions for leading professionals in a modern Civil Service. No other Civil Service in a comparable country operates on the basis that the Prime Minister’s salary should be a maximum. Such a myopic policy makes the UK Civil Service internationally uncompetitive. *In the meantime, Government should make an assessment of what salaries must be offered to recruit and retain the senior and experienced procurement professionals it needs.*

¹²⁵ Written Ministerial Statement, HC Deb 25 April 2013, Col 61-62ws

¹²⁶ Written Ministerial Statement, HC Deb 25 April 2013, Col 61-62ws

¹²⁷ Written Ministerial Statement, HC Deb 25 April 2013, Col 61-62ws

5 A strategy for reforming government procurement

83. In August 2010, the Prime Minister commissioned Sir Philip Green, Chief Executive of the Arcadia Group, to conduct a review of government efficiency. The Green Review, published in October 2010, found that the Government was “failing to leverage both its credit rating and its scale” and that there was inefficient buying by individual departments, with significant price variations across departments for common items, such as printing or computers.¹²⁸ The Review highlighted a fundamental problem: that “Government acts as a series of independent departments rather than as one organisation” and that “there hasn’t been a mandate for centralised procurement”.¹²⁹ We discuss the efficiency of the Cabinet Office “mandate” later in this report.

84. Responding to the findings of the Green Review, the Cabinet Office has established the Efficiency and Reform Group (ERG) to coordinate initiatives to increase efficiency across Government, and re-established the Government’s central buying agency, the Government Procurement Service (GPS), formerly known as Buying Solutions. The Cabinet Office has set itself a target of reducing the £13 billion cost of central Government’s procurement of common goods and services by 25% over four years from 2009/10.¹³⁰

85. The Cabinet Office’s written evidence to us stated that it was implementing reforms on three broad fronts:

- a) buying common goods and services, with the GPS expanding its role in centrally managing procurement spending;
- b) strategically managing major suppliers to enable Government to act as a single customer; and changing procurement policy “to simplify processes to make them swifter and cheaper”; and
- c) making it easier for businesses, in particular small and medium-sized enterprises (SMEs), to do business with Government.¹³¹

86. The Chief Procurement Officer, Bill Crothers, explained in oral evidence his objectives for reform: “One is spending less—getting the inefficiency out and getting better performance. Another objective is better competition. Competition is key [...] A third is sustaining the change”.¹³² The Chief Operating Officer for Government, Stephen Kelly, reinforced this position. He argued that “overall what we want is to ensure that we

¹²⁸ Cabinet Office, *Efficiency review by Sir Philip Green: Key Findings and Recommendations*, October 2010, p 4

¹²⁹ As above, p 5

¹³⁰ National Audit Office, *The Efficiency and Reform Group’s role in improving public sector value for money*, HC 887 Session 2010–2011 25 March 2011, p 20

¹³¹ Ev w75

¹³² Q 468

continue to improve public services to citizens but at a much reduced cost”.¹³³ Mr Kelly went on to emphasise the importance of a “much more consistent, consolidated, and holistic view of the supply market place”.¹³⁴ Among the future plans for procurement reform were “expansion of the Crown function for [...] larger suppliers” and continued focus on “aggregation and volume purchasing acceleration”.¹³⁵

87. The Cabinet Office also has plans to expand the role of the GPS beyond management of central contracts for common categories of goods and services. The GPS’s performance review for 2012/13, published in May 2013, comments that “one of the key ambitions for next year is the delivery of an end-to-end managed service offering whereby GPS will undertake responsibility for departments’ procurement activities. This will start with Cabinet Office and HM Treasury transitioning their in-house procurement functions to GPS, followed by other departments”.¹³⁶

88. A number of witnesses highlighted however that the Cabinet Office has not published their strategy for how procurement across Government and the public sector should be organised. Andrew Coulcher, Director of Business Solutions at the Chartered Institute of Purchasing and Supply, told us that there was, as yet, no “blueprint for procurement success”.¹³⁷ He said that:

[...] there needs to be an overarching view of how government procurement needs to organise itself [...] I do think we need to be far more joined up than we are at a national, regional and local level in order to deliver a service that is more capable, provides better outcomes and better value for money, and is more sustainable than it is today.¹³⁸

89. We received a mix of views on what that blueprint might be and in particular what role might be played in the future by the Government’s central purchasing agency, the GPS. The Government’s Chief Operating Officer endorsed in his evidence to the Committee an expanded role for the GPS, with greater formalised control over the procurement of all but the most complex and unique items purchased by Departments. He argued that “it would offer much better value for the taxpayer, much better transparency, better data, better negotiating power, better competition, and it would be better for Departments”.¹³⁹ Francis Maude, agreed that:

[...] there is a case for a much more cohesive Crown commercial service [...] we are talking about whether we should end up with something much more like a Crown commercial service, which would be more cohesive with a stronger mandate to the

¹³³ Q 428

¹³⁴ Q 428

¹³⁵ Q 469

¹³⁶ Government Procurement service, *Performance Review 2012/13* June 2013, p 9

¹³⁷ Q 4, 344, 368

¹³⁸ Q 368

¹³⁹ Q 470

centre, and where we would not have the same sort of duplication that we have currently across the system.¹⁴⁰

90. He nonetheless also implied that the roles and responsibilities of the Cabinet Office versus that of individual government departments within a reformed system of central government procurement remained under discussion. He said:

[...] we are talking about a much more unified and cohesive service; it is not a single agency. Things would still be done in some departments, but smaller departments should not have their own commercial service [...] I do not think that there is a standard, one-size-fits-all approach.¹⁴¹

91. The procurement consultant and former civil servant Colin Cram argued for the establishment of a central Crown procurement agency with far-reaching powers to organise, coordinate and aggregate procurement spending across the public sector. He told us that “an integrated, coherent procurement organisation for public sector procurement” would “get rid of this silo working, not only within central Government, but right across the public sector”.¹⁴² The Chartered Institute of Purchasing and Supply provided some support to Mr Cram’s case, stating that:

[...] the notion of a centrally managed professional procurement capability could deliver other direct and indirect benefits such as: a common approach to professionalization [...] Improved resource management [...] Alignment on common processes, contracting methodologies, tools and improved data management.¹⁴³

However the Institute echoed the view of other witnesses pointing out that there are limits to the benefits of centralisation. They stated that other forms of consolidation of spending such as “the use of consortia, shared services and commissioning” and “cross-Department working” could be very effective.¹⁴⁴ Peter Smith was more critical of the idea of a Crown procurement agency, pointing out that its size and complexity would necessarily make it inefficient, stating “how difficult and time consuming it has been for the Government Procurement Service to put together frameworks in areas such as professional services to satisfy just central Government”.¹⁴⁵

92. The Government has failed to set out a clear strategy for public procurement. There remains a lack of clarity about the Government’s longer term policy for the consolidation of government and wider public sector procurement. The future role, responsibilities and accountability of the Cabinet Office and the Government Procurement Service and its relationship with government departments and the wider public sector also remain unclear. The issue of accountability will be addressed in much

¹⁴⁰ Q 551

¹⁴¹ Q 552

¹⁴² Q 5

¹⁴³ Ev w20

¹⁴⁴ Ev 9, Q 8 [Mr Hughes]

¹⁴⁵ Spend Matters Blog, *Why central procurement for the UK public sector can’t work*, at <http://spendmatters.co.uk>, 7 February 2013

more depth in our inquiry into the Future of the Civil Service but failures of procurement or contract management are ultimately a failure of Government whatever the failures of contractors may be. *The Cabinet Office should issue a clear strategy on the organisation of procurement across Government and the wider public sector which sets out its objectives for procurement and how and when they are to be achieved, in response to this report.*

Data and Management Information

93. We heard in evidence that good data and management information was vital if the Government was to make defensible, evidence-based decisions on what the structure of Government procurement should be.¹⁴⁶ The Chief Procurement Officer told us that sharing data—for example on spending, prices, margin and performance—and developing robust analysis across government departments was vital to hold suppliers to account and ensure the best deals can be reached.¹⁴⁷ This view was echoed by the Chief Operating Officer, who said that “to act in the best interest of the taxpayer, we have to have really good quality management information and data at the centre [...] then we need to have capability and really good analysis”.¹⁴⁸

94. Historically, access to data on procurement spending across Government has been poor, and the need for progress on improving cross-government procurement data has long been recognised.¹⁴⁹ Sir Peter Gershon’s 1999 review of civil procurement pointed to the lack of “good common measurement systems” across Government and hence the lack of appropriate data on which to base strategic decisions.¹⁵⁰ To remedy these shortcomings, Gershon recommended the establishment of the Office of Government Commerce to act as a central organisation to coordinate procurement policy. This body, he suggested, should define, in conjunction with departments, “common ways of recording what is bought, the associated prices and sources of supply”.¹⁵¹

95. The Minister told us about difficulties he had faced:

They have different [management information] systems in different departments. The first problem is that a lot of departments did not collect in one place what they were spending and with whom. When we formed the coalition Government three years ago, we did not know who our biggest suppliers were. I had to write to the chief executives of the 20 companies we thought were the biggest suppliers to Government to ask them how much business they were doing with Government. When the returns came in, the results were very different from what we had speculated about.

¹⁴⁶ Ev w17; Ev w20; Ev w56; Qq 445, 501

¹⁴⁷ Q 501

¹⁴⁸ Q 445

¹⁴⁹ Ev w20

¹⁵⁰ Sir Peter Gershon, *Review of Civil Procurement in Central Government*, April 1999

¹⁵¹ Sir Peter Gershon, *Review of Civil Procurement in Central Government*, April 1999

In one case, the actual amount of business a particular company was doing was about 15 times more than we had thought.¹⁵²

96. Since 2010, the Cabinet Office has taken steps to improve the quality of management information available to it from departments on procurement across central Government. In its written evidence, it drew attention to its recent work to address shortcomings in the quality of the data, “including setting clear data standards; simplifying and strengthening the quarterly data summary reporting formats; improving quality assurance mechanisms; establishing clearer accountabilities for management information quality; and improving the management reporting of data”.¹⁵³ The Cabinet Office told us that the quality and timeliness of management information which Government had collected on procurement spending within central Government had:

improved dramatically [...] As a result Government has visibility of procurement spend by category, sub-category and supplier for the first time, ensuring performance against individually established targets and aspirations can be tracked and managed. To aid transparency Departments publish key procurement data on a regular basis.¹⁵⁴

97. Nonetheless the Cabinet Office recognised that there remains “a lot more that could be done” and “there is still much better data and [management information] capability that we need to improve”.¹⁵⁵ Bill Crothers told us that there remained various improvements which he would like to make to the Cabinet Office’s database on procurement spending across government departments:

It is not as timely as we would like [...] It is not complete; it is at the 90% level, so it I would like it to be complete, and it has got some aspects in it that need to be normalised. Suppliers appear in several places as different types of suppliers, because they use different names [...] It is also quite linear. It is not easy to visualise and use it, it is just clunky.¹⁵⁶

98. We received evidence from a number of sources pointing to more fundamental limitations of the Cabinet Office’s procurement data and analysis. For example, Colin Cram suggested that the data analysis carried out by the Cabinet Office should cover much more of public sector procurement “given the importance of the £200bn public sector procurement spend, one would expect such an analysis to be done at least once a year throughout the public sector”.¹⁵⁷ The CBI argued that within government procurement “there is a need for an increased focus on internal performance assessment”.¹⁵⁸ The International Association for Contract and Commercial Management pointed out the

¹⁵² Q 573

¹⁵³ Ev w75

¹⁵⁴ Ev w75

¹⁵⁵ Ev w75, Q 478

¹⁵⁶ Q 501

¹⁵⁷ Ev w56

¹⁵⁸ Ev w87

Government's tendency to focus on collecting data on how spending is managed and noted that "there is little consolidated data relating to outcomes", not least because the technical systems are not in place and that therefore the "required management information is lacking".¹⁵⁹

99. We recognise that from a very low baseline the Cabinet Office has made progress in collecting and improving the quantity and consistency of data available to it on the procurement spending by individual government departments. Nonetheless it is appalling that after three years of trying, the Cabinet Office database remains incomplete, "clunky" and does not use the latest data. *The Cabinet Office should publish a plan and timeline of no more than a few months for the complete implementation of a system to collect consistent and comparable data on procurement spending across government departments and agencies.*

100. *Once this is complete, the Cabinet Office should also plan to extend its data collection exercise beyond central Government to identify what further data it could collect to improve its understanding of the performance of government procurement. The Cabinet Office should publish its analysis of the performance and spending data it collects on procurement activity by departments and agencies on a quarterly basis and where possible the wider public sector. It should use this analysis to inform and justify its proposals for the future organisation of government procurement.*

¹⁵⁹ Ev w20

6 Leadership of procurement reform

101. The Cabinet Office has claimed some significant achievements as a result of the reforms it has implemented to date. It has overseen the re-negotiation of contracts with major suppliers to Government claiming savings worth £800 million in 2010–11, £430 million in 2011–12 and £800 million in 2012–13 and has established Crown Commercial Representatives to manage the ongoing commercial relationship with major suppliers to ensure coordination across departments.¹⁶⁰ It has claimed further efficiencies worth over £400 million in 2011/12 and £1 billion in 2012/13 from centralising contracts for categories of commonly used goods and services—such as ICT, energy and travel.¹⁶¹ It has also steadily increased the quantity of public procurement expenditure managed centrally by the GPS, which has risen from £8.4 billion in 2011/12 to £11.4 billion in 2012/13.¹⁶²

102. Despite these successes, government departments are yet to comply fully with the obligation to direct spend on common goods and services through the central contracts managed by the GPS. They have not fully implemented Cabinet Office procurement policy. Reflecting on the Government’s progress in implementing reforms, Francis Maude recognised that the Cabinet Office had not achieved its current plans for reform, commenting that “I still find examples of very old-fashioned procurements, even in central Government, where, theoretically, our writ runs”.¹⁶³ He also said that the procurement of “common goods and services, centrally—not necessarily at the centre, but in one place, for the whole of Government— [...] has not happened to the extent that it can and should”.¹⁶⁴

103. The Chartered Institute of Purchasing and Supply echoed this concern over the lack of progress:

Whilst the volume of common goods and services spend flowing through frameworks negotiated by central organisations such as the GPS has increased significantly over the past two years, it is estimated they are still only managing a third of the total spend for these categories so procurement authorities continue to ‘opt out’ resulting in duplication of effort and resources on a large scale.¹⁶⁵

104. Only one of 17 Departments met targets in 2011–12 set by the Cabinet Office for transferring management of procurement spending to the GPS.¹⁶⁶ In the Government’s Civil Service Reform Capabilities Plan, the Government re-iterated its intentions,

¹⁶⁰ “Supplier representatives to cut costs for Government”, Cabinet Office Press Notice, 13 April 2011; “Francis Maude reveals further savings that beat expectations”, Cabinet Office Press Notice, 9 August 2012; Cabinet Office, *Efficiency and Reform 2012/13 summary report*, May 2013; “Supplier representatives to cut costs for Government”, Cabinet Office Press Notice, 13 April 2011.

¹⁶¹ “Francis Maude reveals further savings that beat expectations”, Cabinet Office Press Notice, 9 August 2012; Cabinet Office, *Efficiency and Reform 2012/13 summary report*, May 2013

¹⁶² Government Procurement Service, *Mid-year performance review 2012/13*, November 2012

¹⁶³ Q 536

¹⁶⁴ Q 537

¹⁶⁵ Ev w20

¹⁶⁶ National Audit Office, *Improving Government Procurement*, HC 996 Session 2012–13, 27 February 2013, Figure 8

identifying a target to “transition all spend on common goods and services to the Government Procurement Service by December 2013”.¹⁶⁷

105. We commend the Government’s initiatives to reform government procurement and welcome the substantial efficiencies which have been achieved to date. We also support the Government’s objectives to make savings in government procurement and to improve public services, not least through better management of suppliers, increased competition and greater aggregation of spending where appropriate. We are concerned however that progress is painfully slow and sporadic.

106. The Cabinet Office operates in conjunction with HM Treasury as the strategic centre of Government and provides support to the Prime Minister and Deputy Prime Minister. It therefore has a cross-government role working with and through other departments. In this cross-government role the Cabinet Office employs what has been described as a “tight-loose” operating model, exercising tighter central control in some areas and allowing departments greater freedom in others.¹⁶⁸

107. As part of its reform programme, the Cabinet Office has sought to establish tighter control over procurement by central government departments. The Ministerial Public Expenditure Committee (PEX) brings together senior cabinet ministers to consider decisions on the allocation of spending across government departments. In March 2011, the PEX sub-committee for Efficiency and Reform approved a procurement reform strategy proposed by the Cabinet Office to make savings on procurement of common goods and services. To implement its strategy, Departments are mandated to direct their spending on common goods and services through central contracts managed by the Government Procurement Service.¹⁶⁹

108. Despite this “mandate”, individual departments’ accounting officers retain ultimately responsibility for managing departmental spending on procurement and securing value for money.¹⁷⁰ HM Treasury guidance notes that “Public sector organisations should collaborate with each other [...] in order to secure economies of scale, unless they can demonstrate that better value can be achieved in some other way”.¹⁷¹ But it also recognises that “central government bodies are not tied to central purchasing bodies or agencies”.¹⁷² Francis Maude told us: “We have a very dispersed structure. Permanent secretaries are accounting officers. Finance directors, commercial directors and HR directors, at present, have a solid reporting line to their permanent secretaries, and the very sketchiest of reporting lines [to the centre]”.¹⁷³ For the Cabinet Office to implement its “mandate”, it

³⁰ Cabinet Office, *Meeting the Challenge of Change: A capabilities plan for the Civil Service*, April 2013, p 24

¹⁶⁸ National Audit Office, *Departmental Overview: A summary of the NAO’s work on the Cabinet Office 2011–12*, November 2012, p 7

¹⁶⁹ National Audit Office, *Improving Government Procurement*, HC 996 Session 2012–13, 27 February 2013, p 12

¹⁷⁰ HM Treasury, *Managing Public Money*, October 2007, p 19

¹⁷¹ HM Treasury, *Managing Public Money*, October 2007, p 84

¹⁷² HM Treasury, *Managing Public Money*, October 2007, p 83

¹⁷³ Q 545

must therefore convince departmental officials that the Government Procurement Service and central contracts can provide improved value for money.¹⁷⁴

109. It is clear from our evidence that the Cabinet Office has failed to convince senior civil servants responsible for procurement that complying with its centralising mandate will bring greater value for money. Francis Maude told us that in relation to aggregating demand across government departments, “there is a lot of inertia” and he recognised “the need to drive all that further”.¹⁷⁵ Mr Maude also stated that there had been some active resistance to the centralising agenda, and that “senior mandarins” were “obstructing what is agreed Government policy”.¹⁷⁶

110. We are not convinced that the Cabinet Office has the authority to assert the Government’s policy on the procurement of common goods and services. It is doubtful therefore whether targets for transferring responsibility for procurement of all common goods and services to the Government Procurement Service by December 2013 will be met. It is inexplicable to us that the Ministerial Public Expenditure Committee’s Subcommittee on Efficiency and Reform should give a mandate to the Cabinet Office which has proved unenforceable in practice. The Cabinet Office must have the unequivocal support of Number 10 and the Treasury if it is to fulfil and effective leadership role in cross government procurement operations and policy.

111. The present paralysis raises questions about the role of the Cabinet Office and its relationship with other departments, as part of the development of a more unified model for Whitehall which is mooted in the Civil Service Reform Plan. We will address this in our report on the Future of the Civil Service.

112. Bill Crothers said: “The truth is there has been a habit—a culture, an established norm, a practice; call it what you will—across the system where departments have primacy, and departments are used to having the total relationship with a supplier”.¹⁷⁷ He gave a pertinent example: in one particular case a department had refused, on the basis of legal advice, to share contract data with colleagues in the Cabinet Office on the grounds of commercial confidentiality.¹⁷⁸

113. The Government is a single customer and should behave as such. We find it astonishing that a Department should be able to cite legal restrictions as a barrier to collaboration with the Cabinet Office on initiatives that could save taxpayers’ money. *All government contracts should make clear that suppliers should expect Government to act as a single customer. The Cabinet Office should clarify to us the legal position regarding the sharing within Government of data deemed commercially confidential,*

¹⁷⁴ The National Audit Office’s report on Government Procurement described Departments’ concerns over the central contracts managed by the Government Procurement Service. National Audit Office, *Improving Government Procurement*, HC 996 Session 2012–13, 27 February 2013, pp 27–30

¹⁷⁵ Q 537

¹⁷⁶ Q 540

¹⁷⁷ Q 447

¹⁷⁸ Qq 449–451

and, in conjunction with the Government Legal Service, issue clear guidance to departments on the issue, with the presumption that data should be shared within Government.

114. The Chief Operating Officer noted that some of the cultural barriers to effective leadership from the centre could be overcome by ensuring that all those involved in procurement were incentivised in the same way “to deliver better outputs for less cost” and ensuring that “the lesser performing, less capable people are removed from the system”.¹⁷⁹ Having recognised the importance of aligning incentives, the Cabinet Office has sought to amend the relationship between the centre and departmental commercial/procurement directors. In particular, the balance of reporting lines will be shifted so that departmental commercial directors have a stronger “reporting link into the head of the commercial function at the centre of Government”.¹⁸⁰

115. There is general agreement that strong, collective, leadership from both ministers and permanent secretaries across government departments is important if reforms are to be achieved.¹⁸¹ However, our evidence differed on the extent to which change could be achieved from the top down—and the Government itself is unclear. Jon Hughes, a procurement consultant, argued that change has to happen “from the top down” and that at present there is not that “concerted focus across that small group of key leaders, from politicians down to permanent secretaries and down into the chief procurement officer group”.¹⁸²

116. Peter Smith told us however that procurement reform could not be simply imposed on civil servants, arguing that there needed to be persuasive reasons for further centralisation:

There should be more collaboration, identification of common categories and, arguably, more centralisation than there currently is, but it has to happen for the right reasons, and I just do not see that there are mechanisms whereby we can impose it from the top down.¹⁸³

117. There are of course legitimate reasons for objecting to the procurement of certain goods and services through central contracts where aggregating demand might be considered impractical or likely to diminish the wider value for money of the goods or services procured. We received evidence from a number of sources registering practical concerns about the use of central contracts, such as the loss of subject matter expertise or a direct connection between the supplier and the end user of a product.¹⁸⁴ Evidence from suppliers to Government commented that it is highly debatable which goods and services

¹⁷⁹ Q 480

¹⁸⁰ Q 544

¹⁸¹ Ev w28, Ev w56

¹⁸² Qq 9, 10

¹⁸³ Q 349

¹⁸⁴ Ev w33), Ev w87

could and should genuinely be treated as “common” for the purposes of aggregating demand across Government.¹⁸⁵ The Market Research Association wrote, for example, that:

Research is not a widgets business, it is an intellectual capital professional service, and its procurement cannot be standardised or centralised without loss of efficacy or value for money [...] One of the key issues with centralised procurement is that government departments may be restricted to requesting particular (and ‘lower cost’) research methodologies, without reference to whether these methodologies will obtain the appropriate insight and evidence to meet the required information, policy and business needs.¹⁸⁶

118. The Cabinet Office has recognised that there may be differences of opinion over what can be more efficiently and effectively procured through central contract contracts. The Chief Procurement Officer and Deputy Chief Procurement Officer told us how they had sought to work consultatively with departments to increase the quantity of procurement spending on common goods and services channelled through central contracts. For example, the Cabinet Office consults with departments on how to set specifications for central deals. The Deputy Chief Procurement Officer said that there was, however, necessarily a need for compromise from Departments:

Can we always meet 100% of Departments’ requirements in a standard contract? No, we probably cannot, because [...] one person’s strategic need is another person’s common good and service, so part of the savings that we will make in some of these categories is through standardisation [...] I think it is horses for courses.¹⁸⁷

119. We welcome the Cabinet Office’s plans to ensure greater alignment of objectives across Government and agree that there are likely to be further efficiencies which can be gained from greater consolidation of procurement spending on common and non-specialised goods and services across central Government and indeed across the wider public sector. However it cannot always be easily determined what goods and services are better procured through a standardised central contract. Aggregation of demand must be clearly justifiable in terms not only of price but also in terms of the impact on the value for money of the goods and services being procured. *This underlines why the Government must establish a clear and authoritative mechanism for deciding when procurements are subject to the Cabinet Office mandate; those that can be retained under Departmental control; and how disputes are to be resolved.*

¹⁸⁵ Ev w4, Ev w64

¹⁸⁶ Ev w64

¹⁸⁷ Q 477

7 Conclusion

120. The Cabinet Office, under the leadership of Francis Maude, should be commended for seeking to tackle the inefficiencies of government procurement and for making some significant savings. There is widespread support for the direction of travel, in particular: the consolidation of government spending on common goods and services; more coordinated relationships with major suppliers; the recruitment of highly capable leaders from the private sector—such as the Chief Operating Officer, Stephen Kelly; and the various initiatives to improve procurement and commercial capability, not least the Major Projects Leadership Academy.

121. However, three years into the reform programme, there is still opposition to further reform within government departments and doubts about the value for money offered by central contracts; businesses report that UK government procurement remains too often process driven and needlessly bureaucratic and there is widespread concern that Government is still not doing enough to use its procurement spending to achieve wider social and economic benefits for the UK. The Cabinet Office must recognise the limitations of its approach to achieving reforms so far—such as the lack of a clear policy and plan for a reformed system of procurement across government and the wider public sector—and actively address them.

122. Unless the Cabinet Office shows strong leadership, with the full support of the Prime Minister and the Cabinet, the impetus for further reform and improvement to government procurement will fail and the gains made so far will be eroded.

Conclusions and recommendations

Procurement Process and the European Directives

1. We commend the Cabinet Office for initiatives to make procurement practices across Government more efficient but the progress is inconsistent and business argues that processes are still slow and bureaucratic. It is intolerable that UK public procurement still takes 50% longer than it does in France or Germany; the Cabinet Office does not seem to know why this is the case. It should reassess the impact of its initiatives to streamline and modernise procurement practices; identify what key factors in the procurement process must be addressed; and report the results of this work in response to this recommendation. (Paragraph 11)
2. We recognise that the regulation of public procurement serves a valid purpose. However, we are concerned that the EU Directives, and the fear of breaching them, have driven a process-oriented, risk averse culture within the Civil Service which has inhibited efficient procurement and lengthened procurement times. The application of LEAN procurement training does not seem to have fully addressed this problem. The Cabinet Office should identify the factors which add to complexity and delays in government procurement. The Cabinet Office must also ensure that civil servants apply the minimum required by EU directives. The EU should not be used as an excuse for over complex process and delays which do not seem to affect other Member States. (Paragraph 16)
3. We welcome the principle that the European Commission should act to streamline public procurement, and we welcome in particular their plans to make procurement more efficient through the use of e-procurement technology. The Cabinet Office should publish its implementation plan for e-procurement in the UK in its response to this recommendation to ensure the public sector in the UK is able to meet the agreed timescale for completing the transition to e-procurement. (Paragraph 20)
4. The EU Remedies Directive has made civil servants risk averse and adhere too rigidly to process. There is however value in a mechanism for challenging erroneous procurement decisions. The Cabinet Office must monitor the impact of the Remedies Directive and issue guidance on how its negative effects can be mitigated. If this is not effective, the Cabinet Office should insist that the Commission amend the Remedies Directive to minimise its potential to inhibit effective public procurement. (Paragraph 22)

Using government procurement to support the UK economy

5. We endorse the efforts that the Government has made thus far to give industry greater visibility of future procurement. The Cabinet Office should work with other government departments, not least the Department of Business, Innovation and Skills to ensure the data in the procurement pipelines is as full and up to date as possible and identify what further information Government can provide to help industry to innovate and prepare to deliver future government contracts as effectively as possible. (Paragraph 28)

Supporting small businesses

6. In our 2011 report *Government and IT*— a recipe for rip-offs: time for a new approach, we noted that the way procurement currently operates favours large companies. We remain sceptical that, since then, sufficient change has been achieved. However we support reforms to improve SMEs and social enterprises' access to government contracts and note that the Government's Chief Operating Officer is confident that small business will win a much greater share of government business over the next two years. (Paragraph 36)
7. We are also concerned at the apparent weaknesses in the Government's data on the level of spending with SMEs. Government must improve its data on spending with small businesses. The Cabinet Office should publish regular quarterly updates on progress towards its "aspiration" of 25% by value of government contracts being won by SMEs, giving a clear indication of how it has defined a small and medium-sized business and how reliable the data are. (Paragraph 37)

Achieving social and economic objectives within the rules

8. While Bombardier in Derby was not successful in securing the contract for Thameslink trains, for example, French and German suppliers have for a long time been more successful in securing contracts for domestic producers, to the benefit of their national economies. We welcome the EU reform proposals which encourage public bodies to use procurement for wider social and environmental purposes. These reforms alongside the Public Services (Social Value) Act 2012, allow the public sector to take a much more considered approach to procurement which seeks to maximise the positive impact of public spending in ways which are already used by other EU Member States. We understand however the Minister for the Cabinet Office's concerns about "loading procurements with values and requirements other than getting what you want at the best price." The Cabinet Office should bring forward proposals as to how it can ensure that proper consideration is given to the potential to promote the UK economy in all government procurement exercises, without losing sight of the fundamental purpose of procurement regulation: to get best value for the taxpayer. (Paragraph 47)
9. Setting wider contract performance measures—such as the creation of apprenticeships—is one means of ensuring procurement spending achieves additional social or economic impact which could be employed more widely across Government. The Cabinet Office should provide guidance to government departments on how to use the scope within the existing EU procurement directives to maximise value for the UK economy, for example through greater use of appropriate contract performance measures. (Paragraph 49)

Procurement Capability

10. The Civil Service shows a persistent lack of understanding about how to gather requirements, evaluate supplier capabilities, develop relationships or specify outcomes. The effort to reduce risk tends to increase risk in the form of delay and increased costs. Policy making remains divorced from the practicalities of

procurement, while few policy makers or senior leaders in the Civil Service have relevant procurement experience or training. The Cabinet Office has responsibility for leading procurement training across Government. It should publish a procurement training plan demonstrating how it will increase the understanding of procurement issues among civil servants engaged in policy development. (Paragraph 60)

Improving Commercial Capability

11. A range of valuable initiatives to improve capability and skills have already been launched, such as the Major Projects Leadership Academy, which should improve the commercial and procurement skills within the Civil Service. The Civil Service Reform Capabilities Plan has also proposed a number of further initiatives to build commercial and procurement skills and the Cabinet Office has successfully recruited a small number of experienced procurement and commercial personnel to senior roles. We commend the Cabinet Office for its efforts to develop commercial skills. We are concerned however that a more fundamental culture shift is required within the Civil Service if those with commercial skills are to be allowed to operate effectively to feel appreciated and rewarded accordingly by the Civil Service, so they wish to remain. (Paragraph 66)
12. Even though there are only 61 senior civil servants in procurement leadership roles within central Government, there is little known about them, their skills and experience, or lack of them, across Whitehall. There is no departmental breakdown and the fact that the Cabinet Office does not know the experience of 17 of the 61 senior procurement cadre indicates a serious lack of coordination of this vital resource. These officials will be thrown into the public spotlight, now that the Government is to make Senior Responsible Owners of major projects directly accountable to select committees. (Paragraph 68)
13. We welcome the Government's proposals to establish a central database of commercial specialists, starting with procurement professionals by summer 2013 as a first step, but not much has been achieved. The Cabinet Office database should include all key procurement positions and functions in the Civil Service. The database should be updated each quarter so that progress in improving commercial capability can be monitored effectively. Departments should be required to provide this information. This information should also be provided as part of the response to this recommendation. This should include a list of Senior Responsible Owners of procurement projects, who the Government now propose should be accountable to select committees of Parliament. (Paragraph 70)
14. Consideration should be given to regenerating the professional Civil Service, so that highly qualified professionals—scientists, engineers, manufacturers, retailers—can be deployed to deal with purchasing, and with projects, managed by the Permanent Secretary, but with a symbiotic relationship to the head of those professions, of which procurement should be one. (Paragraph 71)

Accessing private sector expertise

15. Civil Service reform should aim to deliver an organisation that can recruit, train and retain people with the necessary procurement and commercial skills. Reforms such as the Ministry of Defence's "GOCO", designed to get around outdated restrictions on Civil Service salaries and conditions in order to improve Government access to commercial and procurement capability should not be necessary. A decision has yet to be taken on whether to contract out the management of the Ministry of Defence's procurement and logistics arm to a GOCO. There are risks with this model, not least the complexity of another relationship which the Ministry of Defence will have to be able to control. We are not convinced that this concept is sound or that cost-benefit analysis will prove its viability. (Paragraph 81)
16. The very fact the Ministry of Defence is seeking to contract out the procurement function, which is a fundamental reason for the Ministry of Defence's existence underlines how counterproductive it is to maintain the existing restrictions on salaries and conditions for leading professionals in a modern Civil Service. No other Civil Service in a comparable country operates on the basis that the Prime Minister's salary should be a maximum. Such a myopic policy makes the UK Civil Service internationally uncompetitive. In the meantime, Government should make an assessment of what salaries must be offered to recruit and retain the senior and experienced procurement professionals it needs. (Paragraph 82)

A strategy for reforming government procurement

17. The Government has failed to set out a clear strategy for public procurement. There remains a lack of clarity about the Government's longer term policy for the consolidation of government and wider public sector procurement. The future role, responsibilities and accountability of the Cabinet Office and the Government Procurement Service and its relationship with government departments and the wider public sector also remain unclear. The issue of accountability will be addressed in much more depth in our inquiry into the Future of the Civil Service but failures of procurement or contract management are ultimately a failure of Government whatever the failures of contractors may be. The Cabinet Office should issue a clear strategy on the organisation of procurement across Government and the wider public sector which sets out its objectives for procurement and how and when they are to be achieved, in response to this report. (Paragraph 92)

Data and Management Information

18. We recognise that from a very low baseline the Cabinet Office has made progress in collecting and improving the quantity and consistency of data available to it on the procurement spending by individual government departments. Nonetheless it is appalling that after three years of trying, the Cabinet Office database remains incomplete, "clunky" and does not use the latest data. The Cabinet Office should publish a plan and timeline of no more than a few months for the complete implementation of a system to collect consistent and comparable data on procurement spending across government departments and agencies. (Paragraph 99)

19. Once this is complete, the Cabinet Office should also plan to extend its data collection exercise beyond central Government to identify what further data it could collect to improve its understanding of the performance of government procurement. The Cabinet Office should publish its analysis of the performance and spending data it collects on procurement activity by departments and agencies on a quarterly basis and where possible the wider public sector. It should use this analysis to inform and justify its proposals for the future organisation of government procurement. (Paragraph 100)

Leadership of procurement reform

20. We commend the Government's initiatives to reform government procurement and welcome the substantial efficiencies which have been achieved to date. We also support the Government's objectives to make savings in government procurement and to improve public services, not least through better management of suppliers, increased competition and greater aggregation of spending where appropriate. We are concerned however that progress is painfully slow and sporadic. (Paragraph 105)
21. We are not convinced that the Cabinet Office has the authority to assert the Government's policy on the procurement of common goods and services. It is doubtful therefore whether targets for transferring responsibility for procurement of all common goods and services to the Government Procurement Service by December 2013 will be met. It is inexplicable to us that the Ministerial Public Expenditure Committee's Subcommittee on Efficiency and Reform should give a mandate to the Cabinet Office which has proved unenforceable in practice. The Cabinet Office must have the unequivocal support of Number 10 and the Treasury if it is to fulfil an effective leadership role in cross government procurement operations and policy. (Paragraph 110)
22. The present paralysis raises questions about the role of the Cabinet Office and its relationship with other departments, as part of the development of a more unified model for Whitehall which is mooted in the Civil Service Reform Plan. We will address this in our report on the Future of the Civil Service. (Paragraph 111)
23. The Government is a single customer and should behave as such. We find it astonishing that a Department should be able to cite legal restrictions as a barrier to collaboration with the Cabinet Office on initiatives that could save taxpayers' money. All government contracts should make clear that suppliers should expect Government to act as a single customer. The Cabinet Office should clarify to us the legal position regarding the sharing within Government of data deemed commercially confidential, and, in conjunction with the Government Legal Service, issue clear guidance to departments on the issue, with the presumption that data should be shared within Government. (Paragraph 113)
24. We welcome the Cabinet Office's plans to ensure greater alignment of objectives across Government and agree that there are likely to be further efficiencies which can be gained from greater consolidation of procurement spending on common and non-specialised goods and services across central Government and indeed across the wider public sector. However it cannot always be easily determined what goods and

services are better procured through a standardised central contract. Aggregation of demand must be clearly justifiable in terms not only of price but also in terms of the impact on the value for money of the goods and services being procured. This underlines why the Government must establish a clear and authoritative mechanism for deciding when procurements are subject to the Cabinet Office mandate; those that can be retained under Departmental control; and how disputes are to be resolved. (Paragraph 119)

Annex: Committee's visit to Brussels

Programme for visit

Wednesday 30 January 2013

UKREP Ambassador's Residence **Briefing with Jon Cunliffe, Permanent Representative to the European Union, UKREP and Martin Jones, Counsellor, UKREP**

Thursday 31 January

UKREP Building
Avenue d'Auderghem 10
1040 Brussels **Mr Constantijn van Oranje, Deputy Head of Neelie Kroes Cabinet, and Mr Jean-Francois Junger, Deputy Head of Unit for Public Services in the Directorate for Communications Networks, Content and Technology (DGCNET)**

UKREP Building
Avenue d'Auderghem 10
1040 Brussels **Mr Jonathan Faull, Director General for Internal Market and Services Directorate General (DG MARKET), and Ms Joanna Szychowska, Head of Public Procurement Unit in DG MARKET**

European Parliament
Rue Wierzt
1000 Brussels **Andreas Schwab, MEP for Baden-Württemberg and member of the Internal Markets and Consumer Protection Committee (IMCO)**

European Parliament
Rue Wierzt
1000 Brussels **Working lunch hosted by Dennis de Jong, MEP for the Netherlands and member of the Internal Markets and Consumer Protection Committee (IMCO), and staff**

European Parliament

Martin Callanan, MEP for North East England

Rue Wierzt

1000 Brussels

UKREP Building

Mrs Elisabetta Zanon, Director of the NHS European Office

Avenue d'Auderghem 10

1040 Brussels

UKREP Building

Anna Constable, Adviser, Internal Market Department Business Europe

Avenue d'Auderghem 10

1040 Brussels

Summary of findings

- Problems that individuals and organisations raised in relation to procurement included the complexity of the rules; burdensome processes; a lack of clarity around processes; and a tendency to be risk averse in carrying out procurements.
- There were a number of actions suggested that could help to improve procurements. These included avoiding the need to re-compete should a procurement need to be run a second time; the use of e-auctions; and increased informal discussion and market consultation.
- Whilst many would have liked to see EU procurement thresholds raised, it was accepted that these thresholds were hard to change. There was also some opinion that raising the thresholds could preclude small businesses from competing for contracts across borders.
- E-procurement is an important focus for the European Commission. The target of 100% e-procurement by 2016 is a stretching one.
- The UK wins 17% of foreign contracts which are let across the EU, the second most successful EU state (Germany wins 26%). By some measures, some other EU countries are more successful at “buying local”. For example, 3% of UK contracts (by value) go to companies from other EU states, compared to only 1.5% in France.

- The majority of smaller contracts tend not to be traded cross-border. Concern was raised as to whether procuring authorities could break contracts into small pieces, in order to award to contracts to national companies.
- There was a perception that the UK tends to act in a more risk averse way in order to minimise non-compliance. It appears to be a two stage issue; the first when enshrining EU rules into national legislation and the second when procurers are risk averse in their application of the rules.
- The new provisions under the Social Values Act 2012 present a number of opportunities to take into consideration a range of factors in procurements, to look at the whole life cycle of a contract, goods or service. Some however are concerned that the Act will result in protectionist tendencies and a reduction in cross border trade.

Formal Minutes

Tuesday 16 July 2013

Members present:

Mr Bernard Jenkin, in the Chair

Alun Cairns
Charlie Elphicke
Paul Flynn
Kelvin Hopkins

Greg Mulholland
Mr Steve Reed
Lindsay Roy

Draft Report (*Government Procurement*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 122 read and agreed to.

Annex and 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 published on the internet.

[Adjourned till Tuesday 3 September at 9.15am

Witnesses

Tuesday 22 January 2013

Page

Colin Cram, Managing Director, Marc1 Limited, and **Jon Hughes**, Chairman, Future Purchasing

Ev 1

Tuesday 5 February 2013

Jim Bligh, Head of Public Services, CBI, **Kevin Craven**, Chair of the CBI Procurement Panel, and **Stephen Ratcliffe**, Director, UK Contractors Group

Ev 10

Mike Cherry, National Policy Chairman, Federation of Small Businesses, **James Allen**, Head of Public Services and Partnerships, National Council for Voluntary Organisations, and **Peter Holbrook**, Chief Executive, Social Enterprise UK

Ev 18

Monday 25 February 2013

Sir Jeremy Blackham KCB, former Chief Executive, EADS UK, and former Deputy Chief of the Defence Staff, MOD, **Professor Christopher Bovis**, University of Hull, **Dr David Moore**, Director, Centre for Defence Acquisition, Cranfield University, **Robin Southwell**, Chief Executive, EADS UK, and President, ADS, and **Professor Trevor Taylor**, Professorial Research Fellow, RUSI

Ev 26

Tuesday 12 March 2013

Tim Heywood, Director, Public Sector & Procurement, Burges Salmon LLP, **Tim Cummins**, Chief Executive, International Association of Commercial and Contract Management, and **Dr Paul Chapman**, Academy Director, UK Government Major Projects Leadership Academy

Ev 44

David Noble, Chief Executive, and **Andrew Coulcher**, Director of Business Solutions, Chartered Institute of Purchasing and Supply, and **Peter Smith**, Managing Director, Procurement Excellence Consultants

Ev 52

Monday 18 March 2013

Lieutenant Colonel Dan Ward, Duty Acquisitions Officer, US Air Force

Ev 62

Monday 25 March 2013

Stephen Kelly, Chief Operating Officer and Head of the Efficiency and Reform Group, Cabinet Office, **Bill Crothers**, Chief Procurement Officer, Cabinet Office, and **Sally Collier**, Deputy Chief Procurement Officer, Cabinet Office

Ev 70

Monday 13 May 2013

Rt Hon Francis Maude MP, Minister for the Cabinet Office and Paymaster General

Ev 84

List of written evidence

(published in Volume II on the Committee's website www.parliament.uk/pasc)

1	Leo Burnett	Ev w1
2	Panlogic	Ev w2
3	Institute of Practitioners in Advertising (IPA)	Ev w4
4	Lt Col Dan Ward, Duty Acquisitions Officer, US Air Force	Ev w6
5	Open Source Consortium	Ev w9
6	David Chassels	Ev w11
7	Trades Union Congress (TUC)	Ev w14
8	International Association for Contract & Commercial Management (IACCM)	Ev w17
9	The Chartered Institute of Purchasing and Supplier(CIPS)	Ev w20
10	Social Research Association	Ev w24
11	The Future Purchasing Consulting Ltd and Henley Business School, University of Reading	Ev w28
12	Mediareach	Ev w32
13	Stonewall	Ev w32
14	Callcredit Group	Ev w33
15	Nationwide Association of Fostering Providers (ASFP), Independent Children's Home Association (ICHA) and the National Association of Independent Schools and Non-Maintained Special Schools (NASS)	Ev w36
16	Social Enterprise UK	Ev w38
17	MSQ Partners	Ev w43
18	Baroness Greengross's Transport Forum and the International Longevity Centre	Ev w45
19	Community Matters	Ev w51
20	Urology Trade Association	Ev w53
21	The Associated Society of Locomotive Engineers and Firemen (ASLEF)	Ev w55
22	Colin Cram	Ev w56
23	MRS Policy Unit	Ev w64
24	National Council for Voluntary Organisations (NCVO)	Ev w68
25	The UK Contractors Group (UKCG)	Ev w73
26	Cabinet Office	Ev w75
27	Supplementary Colin Cram	Ev w82
28	Confederation of British Industry (CBI)	Ev w87
29	Supplementary UKCG	Ev w91
30	Federation of Small Businesses (FSB)	Ev w91
31	Professor Christopher Bovis	Ev w95
32	Cabinet Office	Ev w102
33	Openforum Europe	Ev w107
34	Recruitment and Employment Confederation	Ev w110
35	Project Management Institute	Ev w111
36	Ask us Drain Services	Ev w113
37	Cabinet Office	Ev w115
38	Robert Halfon MP	Ev w117

39	Lord Levene	Ev w120
40	Department for Transport	Ev w122
41	Ministry of Defence	Ev w124
42	HMRC	Ev w124
43	National Audit Office	Ev w125

List of Reports from the Committee during the current Parliament

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

Session 2013–14

First Special Report	Public Trust in Government Statistics: A review of the operation of the Statistics and Registration Service Act 2007: Government and UK Statistics Authority Responses to the Committee's Ninth Report of Session 2012–13	HC 77
Second Special Report	Special advisers in the thick of it: Government Response to the Committee's Sixth Report of Session 2012–13	HC 515
First Report	Communicating statistics: not just true but also fair	HC 190
Second Report	Public engagement in policy-making	HC 75
Third Report	The role of the Charity Commission and "public benefit": Postlegislative scrutiny of the Charities Act 2006	HC 76
Fourth Report	Engaging the public in National Strategy	HC 435
Fifth Report	Appointment of the Chair of the Committee on Standards in Public Life	HC 516

Session 2012–13

First Special Report	Public Appointments: regulation, recruitment and pay: Government Response to the Committee's Fourteenth Report of Session 2010–12	HC 18
Second Special Report	Leadership of change: new arrangements for the roles of the Head of the Civil Service and the Cabinet Secretary: Further Report: Government Response to the Committee's Twenty Third Report of Session 2010–12	HC 313
Third Special Report	Strategic thinking in Government: without National Strategy, can viable Government strategy emerge? Government Response to the Committee's Twenty Fourth Report of Session 2010–12	HC 573
Fourth Special Report	The Role of the Cabinet Secretary and the Resignation of the Chief Whip: Government Response to the Committee's Eighth Report of Session 2012–13	HC 968
Fifth Special Report	The Prime Minister's Adviser on Ministers' Interests: independent or not? Government Response to the Committee's Twenty Second Report of Session 2010–12	HC 976
First Report	The Big Society: Further Report with the Government Response to the Committee's Seventeenth Report of Session 2010–12	HC 98
Second Report	The Honours System	HC 19

Third Report	Business Appointment Rules	HC 404
Fourth Report	Appointment of the Chair of the Charity Commission	HC 315-I
Fifth Report	End of term report: 2011–12	HC 316
Sixth Report	Special advisers in the thick of it	HC 134
Seventh Report	The Honours System: Further Report with the Government Response to the Committee's Second Report of Session 2012–13	HC 728
Eighth Report	The Role of the Cabinet Secretary and the Resignation of the Chief Whip	HC 864 (HC 968)
Ninth Report	Public Trust in Government Statistics, A review of the operation of the Statistics and Registration Service Act 2007	HC 406
Session 2010–12		
First Report	Who does UK National Strategy?	HC 435 (HC 713)
Second Report	Government Responses to the Committee's Eighth and Ninth Reports of Session 2009–10: Goats and Tsars: Ministerial and other appointments from outside Parliament and Too Many Ministers?	HC 150
Third Report	Equitable Life	HC 485 (Cm 7960)
Fourth Report	Pre-appointment hearing for the dual post of First Civil Service Commissioner and Commissioner for Public Appointments	HC 601
Fifth Report	Smaller Government: Shrinking the Quango State	HC 537 (Cm 8044)
Sixth Report	Who Does UK National Strategy? Further Report with the Government Response to the Committee's First Report of Session 2010–11	HC 713
Seventh Report	Smaller Government: What do Ministers do?	HC 530 (HC 1540)
Eighth Report	Cabinet Manual	HC 900 (HC 1127, Cm 8213)
First Special Report	Cabinet Manual: Government Interim Response to the Committee's Eighth Report of Session 2010–12	HC 1127
Ninth Report	Pre-appointment hearing for the post of Parliamentary and Health Service Ombudsman	HC 1220-I
Tenth Report	Remuneration of the Parliamentary and Health Service Ombudsman	HC 1350
Eleventh Report	Good Governance and Civil Service Reform: 'End of Term' report on Whitehall plans for structural reform	HC 901 (HC 1746)
Twelfth Report	Government and IT — "a recipe for rip-offs": time for a new approach	HC 715-I (HC 1724)
Thirteenth Report	Change in Government: the agenda for leadership	HC 714 (HC 1746)
Fourteenth Report	Public Appointments: regulation, recruitment and pay	HC 1389
Fifteenth Report	Smaller Government: What do Ministers do? Further Report with the Government Response to the Committee's Seventh Report of Session 2010–12	HC 1540 (HC 1746)
Sixteenth Report	Appointment of the Chair of the UK Statistics Authority	HC 910

Seventeenth Report	The Big Society	HC 902
Eighteenth Report	Change in Government: the agenda for leadership: Further Report, with the Government Responses to the Committee's Eleventh, Thirteenth and Fifteenth Reports of Session 2010–12	HC 1746
Nineteenth Report	Leadership of change: new arrangements for the roles of the Head of the Civil Service and the Cabinet Secretary	HC 1582
Twentieth Report	Government and IT—"a recipe for rip-offs": time for a new approach: Further Report, with the Government response to the Committee's Twelfth Report of Session 2010–12	HC 1724
Twenty First Report	Future oversight of administrative justice: the proposed abolition of the Administrative Justice and Tribunals Council	HC 1621
Twenty Second Report	The Prime Minister's adviser on Ministers' interests: independent or not?	HC 1761
Twenty Third Report	Leadership of change: new arrangements for the roles of the Head of the Civil Service and the Cabinet Secretary, Further Report, with the Government Response to the Committee's Nineteenth Report of Session 2010–12	HC 1914
Twenty Fourth Report	Strategic thinking in Government: without National Strategy, can viable Government strategy emerge?	HC 1625

Monday 25 March 2013

Members present:

Mr Bernard Jenkin (Chair)

Paul Flynn
Kelvin Hopkins

Greg Mulholland

Witnesses: **Stephen Kelly**, Chief Operating Officer and Head of the Efficiency and Reform Group, Cabinet Office, **Bill Crothers**, Chief Procurement Officer, Cabinet Office, and **Sally Collier**, Deputy Chief Procurement Officer, Cabinet Office, gave evidence.

Q421 Chair: May I welcome our three witnesses to this session on cross-governmental procurement? Could I ask each of you to identify yourselves for the record, please?

Stephen Kelly: Stephen Kelly, Chief Operating Officer, UK Government.

Bill Crothers: Bill Crothers, Chief Procurement Officer, UK Government.

Sally Collier: Sally Collier, Deputy Chief Procurement Officer, UK Government.

Q422 Chair: Thank you for being with us today. Could I just ask for a brief explanation of what each of your remits actually is, so that we are absolutely clear about that?

Stephen Kelly: I am responsible on behalf of the Cabinet Office for driving the Efficiency and Reform programme. That is a quite wide-ranging programme, from things like property consolidation, trying to reduce the cost of construction, right through to all of the areas we are talking about today in procurement. The big focus there obviously is that we are targeting, by 2015, a reduction of central Government expenditure by £20 billion, while, in parallel, improving public services. That is a significant challenge, and there are lots of things you might have read about and are very familiar with, in terms of some of the digital agenda, moving government services to a more modern, digital-user focus.

Bill Crothers: I work for Stephen within the Efficiency and Reform Group within the Cabinet Office. I run an area that is called Efficiency, which is driving all of the efficiency savings within the context that Stephen just described. In particular, that covers all spend across central Government, so £45 billion of spend on commercial policy, monitoring the Cabinet Office controls, as well as some direct spend through an entity called the Government Procurement Service; there is £11 billion of spend there, some of which is wider public sector.

Sally Collier: I support Bill in his role, as Deputy Chief Procurement Officer, but I also have some specific responsibilities for the UK Government's procurement policy, such as the European procurement directives and the Government's SME programme.

Q423 Chair: So you have a policy remit, as well as a delivery function.

Sally Collier: Yes.

Q424 Chair: That is very useful; thank you. How is progress? Every Government has been constantly

trying to reform procurement. What is different? Why is it going to be different this time?

Stephen Kelly: That is a good question, and it is something we exercise ourselves with. Our report card would be—and I fear in some respects it may sound like a broken record—that I think we have made some good starts, made some good progress, but we are still in the foothills, and there is a huge amount more to do. Some of the achievements across procurement, in terms of aggregation and volume, and getting better management data, and the disciplines you would expect, Mr Chairman, are well on track. We have seen significant savings reported with the National Audit Office, but we still feel there is a long way to go. Maybe we will touch on some of those areas during this Committee hearing.

Q425 Chair: Is there anything to add? You have been in government much longer than Mr Kelly. Do you notice any difference?

Bill Crothers: Yes, I do. I have been in the Civil Service for six years.

Q426 Chair: Where did you come from, before that?

Bill Crothers: Accenture; I had 22 or 23 years in Accenture, and three years before that in Peat Marwick as a chartered accountant. I have been here for six years. I have noticed quite a dramatic difference with this Government's policies, introduced two years ago, which I can illustrate. For example, the way we now manage the commercial relationships with the very large suppliers across Government is dramatically different. What surprised me when I joined six years ago was that I was in an agency in the Home Office, we were running a big procurement, and we were not allowed, as a matter of policy and practice, to look across the rest of Government to understand the rest of the business that a supplier was doing with the Government, or where it was in dispute or where it had not performed well. Today, the approach is completely different. We look across Government, we take past performance into account and we look at the totality of the relationship across the whole of the system. It is how the private sector would do it. Previously a Department was a client. Today, we refer to the Crown—the whole of this system—as being the client, and we look at the totality of the relationship. It is a big change.

Q427 Chair: Sally Collier, do you want to add something?

Sally Collier: I have been a civil servant for 20 years now, and I can honestly say that I do not think the

25 March 2013 Stephen Kelly, Bill Crothers and Sally Collier

focus on public procurement has ever been as intense as it has been in the last two years. The economic situation has necessitated that, and I think we very much welcome that, in order to drive forward our reforms.

Q428 Chair: Could you just outline what your long-term objectives are? Can you put that in granular terms so that it means something, so that we get an idea of what you are actually going to do, rather than what you are just aspiring towards?

Stephen Kelly: If we stand back, Mr Chairman, what we are trying to do, obviously, is a lot more for less. It is easy to say. What that explicitly means is we want suppliers to offer outstanding services, and do what they need to do to delight the departmental customers. Overall what we want is to ensure that we continue to improve public services to citizens but at a much reduced cost. One of the strategies to do that—and this is where I would say it was a work in progress—is that we have a number of elements around the procurement reform strategy in plan to bring together, as Bill said, a much more consistent, consolidated, and holistic view of the supply market place; firstly, that is to get the best price. People loosely talk about value for money, but I think we want absolute best value for money, not comparative value for money, because I think Government has been paying too much in the past for some services. We want absolute best value for money; we also want suppliers to step up in terms of providing consistent service across government. The other area, which I think is quite topical, is around suppliers—to provide good, professional engagement in the UK and with UK citizenship, and some of those other elements as well. An element you are aware of is around the SME strategy, where the procurement reform over the last couple of years has had some progress, growth and support for SME companies, and elevating that as part of the narrative, and as part of the operational execution is starting to make a difference.

Q429 Chair: I am not madly enthused by this. It lacks that granularity.

Bill Crothers: Let me try. Let us give some examples. Central Government will spend approximately £45 billion this year with suppliers.

Q430 Chair: That is purely what is going through GPS and the Cabinet Office.

Bill Crothers: No, that is central Government.

Q431 Chair: We hear a lot of things. We hear that we spend £200 billion a year.

Bill Crothers: That is including the wider public sector.

Stephen Kelly: That is devolved administration, including Health, Education and so on.

Bill Crothers: Central Government Departments—17 Departments, including agencies—will spend approximately £45 billion.

Q432 Chair: That includes Defence?

Bill Crothers: Yes. Defence is about 42% of that. Of that £45 billion, in approximate terms, are—

Q433 Chair: Forgive me, so that does not include schools or hospitals, which are off the balance sheet.

Bill Crothers: No, it does not.

Chair: That explains it.

Bill Crothers: Of the £45 billion, approximately half of that is with a very small number of suppliers, between 50 and 100. The other half is with a supply base of several hundred thousand suppliers. Of the small number of suppliers, the scale of the commercial relationships that we have is huge. We have total relationships of £500 million, £1 billion, £1.5 billion, or £2 billion a year. Previously, we did not know that; we did not know who the suppliers were, we did not know what we spent and we did not know where we spent it.

Q434 Chair: This includes all the G4S expenditure, for example, through the Home Office and the Foreign Office.

Bill Crothers: That is right.

Chair: That includes the prison service and NOMS.

Bill Crothers: Yes, all of that. Now, from my experience in the private sector, I think the scale of commercial relationship, i.e. how much business we give these suppliers, is enormous. Typically we are their largest customer globally—if not their largest, we are in the top five or 10—yet oftentimes the performance is worse than for clients who have a much smaller-scale relationship. One objective we have is to spend less and get better performance, or, that which we spend, make the spend more efficient. We have examples—and this is on the agenda today; we have been actioning it and we continue to—where we have been paying higher prices than the private sector from the same suppliers for smaller-scale relationships.

Q435 Chair: Can you give an example?

Bill Crothers: Yes. It is probably not appropriate to name the supplier, but I can give you an example. We engaged with a supplier in the IT industry. This was about 18 months ago. Our scale of relationship with them is such that we are material in their UK accounts. We had a conversation with them, and they told us what the gross margin was that they were enjoying, which is essentially the surrogate for the pricing. We could see by inference what the total margin was in their UK accounts—the non-UK Government part—so we could see the margin they were charging the private sector. We were paying a higher price.

Q436 Chair: How much higher?

Bill Crothers: I cannot remember, but it would have been a number of percentage points. From memory, it would have been four, five or six percentage points. In my view, and it may not be a perfect descriptor, that is supernormal profit. It was an example of there not being competition, it not being a competitive market, and we were paying supernormal profit.

Q437 Chair: This was a large supplier, supplying a large contract.

Bill Crothers: A number of contracts. The scale of business was over £500 million per annum,

predominantly across four or five Departments; it was a number of contracts across different Departments.

Q438 Chair: You discovered this purely by centralising the data.

Bill Crothers: Yes, by bringing data together. And this, by the way, was a typical story. We asked Departments how much business they had done with that supplier in the previous year. We then asked the supplier how much business we had done. The supplier told us several hundred million. When we asked the question differently, which was how much is the total business they derive from Government including sub-contracts, special purpose vehicles and so on, the number more than doubled.

Q439 Chair: This leads to a conversation about how consolidated the purchasing function should be, and how much should be centralised. To the outsider, it still looks a bit of a muddle. It looks as though there are people in the Cabinet Office that know what is going on, but you cannot get a grip of what is going on in the Departments because, for whatever reason, the Departments do not want to relinquish control. How is this being resolved?

Bill Crothers: Let me try, and then Stephen might add. I do think it is a work in progress. Two years ago, we had no data on who our top suppliers were or what we spent with those suppliers. We now have a system—computer interfaces to accounts payable systems across Departments—and whilst the information is not as timely as we would like, because it sometimes takes three months to get the data, we have—

Chair: Three months to get the data?

Bill Crothers: Remember, we did not have it before. We now have a spend analysis by Department, by supplier, by time period. That is something we did not have at all. That is why I say it is a work in progress; we did not have that.

Q440 Chair: When did we first ask for this?

Bill Crothers: No, this is systematic. This is us getting it from the interfaces.

Q441 Chair: When did we first ask for this data?

Stephen Kelly: Summer 2010.

Q442 Chair: Mr Crothers, you have been in government for much longer than that period. Were you asking for it before and it was just not coming?

Bill Crothers: It was not my role then.

Chair: It was not your role then.

Bill Crothers: I was in a Department. I was in the Home Office.

Q443 Chair: Oh, I see; I beg your pardon. Was nobody asking for this data then?

Bill Crothers: Before 2010? No. In my experience, it was a matter of policy and practice not to gather the data.

Q444 Chair: Because of the federal nature of Government Departments.

Bill Crothers: A Department had primacy.

Q445 Chair: Can I give you a more generic question? Where should the dividing lines be between what is centralised purchasing and what is departmental responsibility? How should that be decided, because that seems to be constantly in flux?

Stephen Kelly: To act in the best interest of the taxpayer, we have to have really good quality MI and data at the centre. The other thing that has been alluded to is that obviously then we need to have capability and really good analysis, not just of the data. Many of these companies are public companies. We have started developing, under Bill, having some analysts in-house who are looking at their public filings—

Q446 Chair: Sitting in the Cabinet Office—sorry to interrupt you, but it is because of the pressure of time—are you champing at the data and indeed the control you want over purchasing policies in Government Departments which they will not give you? Is that a constant tension?

Stephen Kelly: In terms of where things are, it is still an issue. I will give you a real example, to your point, Mr Chairman, that brings it to life. I appreciate your point, but Bill has led discussions with suppliers within what we call the oligopoly of the large, dominant players, where we are buying PC power cables for £60, whereas we can go to PC World and Dixons and buy that for £20. We could probably buy it wholesale for less than £10. Bill has led negotiations with one supplier, and in 24 hours saved the taxpayer about £25 million. It all comes through data and intelligence, and capability and analytics.

Q447 Chair: Is this being resisted?

Bill Crothers: There is a tension. When we met previously here, before the public session, you gave a quote from an American official that talked about the importance of attitude. The truth is there has been a habit—a culture, an established norm, a practice; call it what you will—across the system where Departments have primacy, and Departments are used to having the total relationship with a supplier.

Q448 Chair: Have you got the powers, centrally, to deal with this?

Stephen Kelly: Probably it is worth noting, Mr Chairman, that in the last two months there has been an incident where our Chief Technology Officer has not had access provided to departmental data on a commercial bid, by legal advice within that Department. There are still residual issues, whether they are legal issues, which prevent us quickly moving on data and a consolidated one-Crown relationship with industry.

Q449 Chair: Is this just departmental sloth, or is there some agenda behind it?

Bill Crothers: This is legal advice.

Stephen Kelly: In this case it was legal advice given to the Department.

Q450 Chair: What, that they should not give you the information?

Bill Crothers: Yes, which we are challenging.

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Q451 Chair: You are telling me that within the Government, which is a single legal personality, there is an argument between different branches of Government, fuelled by lawyers, which we are paying for, no doubt?

Bill Crothers: No, these are internal lawyers.

Chair: I appreciate that, but they are still being employed at public expense to tell different Government Departments to not share information with each other?

Bill Crothers: Yes.

Stephen Kelly: It is still an issue. Absolutely.

Chair: This is absolutely astonishing.

Stephen Kelly: We likewise find it astonishing.

Q452 Chair: Can you imagine any corporate headquarters having the same difficulty?

Stephen Kelly: No, and having worked with many corporate functions and private sector organisations, this would be a nonsense in the private sector.

Q453 Chair: Why is it not a nonsense in our own Government?

Stephen Kelly: That is a good question to ask, Mr Chairman, and we have written letters, as of today, to try to remove these roadblocks. This is to the point: there has been some good progress, but there is still a lot more to do, and a lot of it comes back to Bill's point around attitudes, cultures and acting as one Crown, representing the best interests of the taxpayer.

Q454 Paul Flynn: You were very vague about the case you referred to, Mr Crothers: 5% to 6%, £500 million. That is a rip-off of the taxpayer of about £30 million above the profit that the company, presumably, made anyway. Is this right, and we are not allowed to know about it because of jealousies between Departments and a legal gag?

Bill Crothers: I am just uncertain about providing commercially sensitive information about different suppliers. I can provide it to you separately, and we can decide on the commercial construct. Time would not allow me to give all of it, but in the interests of balance I could give a number, because actually it is not about one particular supplier. I could give you examples across most of our, in this case, IT suppliers—there are only a few of them—where you would have similar examples. I will quickly give you one. There is a supplier who has told us in writing that the margin they enjoy is X%. That is what they book. They have similarly told me that the margin they price is 5% or 6% higher than what they enjoy. The difference is cost for poor quality, i.e. there are IT non-deliveries, performance problems. We pay for the non-performance. The price we pay is 5% or 6% higher than what that company enjoys, and the difference is us paying for poor quality. That is another supplier.

The point is not naming the suppliers here; I could name several of them, to be fair, because it is not about one or two. It is poor performance across most of them.

Q455 Paul Flynn: We have a long story, particularly with the Ministry of Defence, of contracts always

coming in way over budget, usually late, usually changed, and this has gone on under all Governments for 50 years now. Hardly any have ever delivered on time or on price. You have just given us an example of how the public purse is being ripped off, apparently with the collusion of lawyers working for Government in insisting on secrecy, which means it hides the rip-offs. Is that right? Are we understanding that right?

Stephen Kelly: It is fair to say that significant progress has been made. To put it in perspective, before this Government came in, in 10 months, £800 million cashable savings were taken out of the top suppliers.

Q456 Chair: Is that on an annual basis: £800 million a year?

Bill Crothers: No, it was £800 million from what we would have otherwise spent in a six-month period.

Q457 Chair: So you saved £800 million in the space of six months? It was not about a 10-year contract on which £800 million has been saved?

Bill Crothers: Quite a lot of it was capital spend. However, the following year we then saved £400 million or £450 million. This year, probably in the same number, it will be £600 million or £700 million.

Q458 Chair: Can I be absolutely clear: those savings you are counting are the savings that would have been spent in the year in question? They are not accumulated savings on a contract of more than that.

Stephen Kelly: Correct. They are cash in that fiscal year.

Bill Crothers: Now we bring across Government the power—we are levelling the playing field in our favour, as we should have done for years.

Q459 Chair: I just want to get to the bottom of this. What are the grounds upon which lawyers are able to advise Government Departments to withhold information from the Cabinet Office? What is the generic term they use: commercial in confidence?

Bill Crothers: No. By the way, I do not want to give you the impression that every lawyer in every Department is resisting. That is not the case.

Chair: One will do for our inquiry, thank you very much.

Bill Crothers: There is at least one, and it is live. An argument that is made centres around what is referred to as the contracting authority; the Departments are the contracting authority. One argument that is made is that you have a privacy of contract. The contract is between the supplier—

Q460 Chair: The United Kingdom Government is a single authority.

Bill Crothers: Remember, I am not arguing this case. We argue against it; I am just telling you the argument.

Q461 Chair: May I ask a very loose and open question? This could not arise in the United States, because they do not have commercial in confidence in contracts in the United States. What would happen if

we recommended in our report that the Government should abandon this system of hiding the true margins that commercial suppliers are making by saying that we are going to publish all financial information, everything that is at the moment held commercial in confidence? What would be the effect?

Bill Crothers: Perfect competition requires perfect information; I think that approach is perfect information. It would be a good thing.

Q462 Chair: It would be a good thing to abandon commercial in confidence for all Government contracts.

Bill Crothers: Yes, because perfect competition requires perfect information. In theory, this moves towards perfect information. It would help competition.

Q463 Chair: Every time a contract is let, we would see all the detail of the pricing, the margins and all the negotiations and everything.

Sally Collier: Indeed, the Government have already mandated that all contracts should be published, and so all contractual information. That happened when they came into power. We have gone some way in publishing contractual information on Contracts Finder. What happens currently is that some of that commercial in confidence information is redacted on those grounds of commercial in confidence.

Q464 Chair: In the United States it would not be redacted, would it? Mr Kelly, you have contracted to—

Stephen Kelly: I did not deal with the federal Government, I dealt with state government, so at the time—this is about eight or nine years ago—it was a state-by-state decision around that.

Q465 Chair: But you have had experience in a much more transparent market. What was it like?

Stephen Kelly: I can say quite clearly that there is significant evidence of where suppliers have enjoyed supernormal profits from the Government—shame on us, from a taxpayer's perspective. Information, transparency and openness around data and commercial terms, as well as a lot of other things we might consider around capability and stopping gold-plating things to ensure that we get what we need, make a big difference positively.

Q466 Chair: Mr Crothers, in your professional opinion, it would not be damaging for all of this information to be put into the public domain.

Bill Crothers: Others may advise me that there are facts I cannot think of, but instinctively it seems a good thing.

Q467 Kelvin Hopkins: If this was happening in, shall we say, a dubious middle eastern regime, one would assume it would be corruption—5% over the top for the contract, 1% finds its way back to the person making the order. We assume that is not the case in Britain, and I find it astonishing that there is an attempt to protect these over-the-top prices on

behalf of suppliers, when they should actually be protecting the public purse.

Bill Crothers: Yes. Well, we agree. Remember, some of the examples we are giving you are old, and the agenda and the improvements we have made are precisely to take that out and level the playing field. We have stopped those practices. We have taken money out; however it is a continual battle. I do not think the suppliers have quite got there yet. But we know of no evidence of criminal thinking.

Q468 Paul Flynn: We are told at the moment by the national press that the strike price for nuclear power that is being negotiated with Électricité de France is £97 per megawatt hour. The going rate was £50, so they negotiated twice the rate, and EDF are asking for a guarantee over the next 35 years.

Chair: This does not fall within your remit, though, does it?

Paul Flynn: No, but this is an example that is happening now, today, but we are not allowed to talk about it. We are not allowed to discuss it in this House because it is commercially confidential. Is this not party to economic problems in the future? We know, for instance, that in America fracking has reduced the price of energy. Nobody knows what the price of energy is going to be next week, let alone in 35 years' time. Are there similar examples that you can tell the Committee? Would anyone commit themselves to a contract for 35 years?

Bill Crothers: There are many examples. You mentioned last time attitude, and what our future agenda is. One is spending less, in the way we have described—getting the inefficiency out and getting better performance. Another objective is better competition. Competition is key; there are lots of examples of pro-competition. A third is sustaining the change, and the way we will sustain this change is by getting people into our system—commercial officers—who have the right attitude to get a good deal. That is another key point.

Q469 Chair: What about a Crown procurement organisation? What do we think of this idea? You actually formalise your cross-departmental authority. Is that necessary?

Stephen Kelly: Maybe that leads us on to the future plans, one of which is the procurement reform strategy that Bill has been lead in, which has expansion of the Crown function for these larger suppliers. We are part-way through hiring teams of people to do that, and are also very focused around the aggregation and volume purchasing acceleration, that agenda.

Q470 Chair: So the answer is that yes, you want a Crown procurement organisation.

Stephen Kelly: Yes, because I think ultimately, Mr Chairman, it would offer much better value for the taxpayer, much better transparency, better data, better negotiating power, better competition, and it would be better for Departments.

Q471 Chair: And nibbling away at different categories of expenditure is too slow.

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Bill Crothers: Yes. I think you need to make an exception. There are items that Government buys that are unique to Departments, and they are probably, by the way, complex and unique.

Q472 Chair: What about the unique supply chain problems faced by the Ministry of Defence, where you have to make an exception?

Stephen Kelly: Yes, that is exactly right.

Bill Crothers: I have a little phrase that I use which is, “Guns and tanks and planes and boats”, yes.

Chair: Photocopier paper to the front line?

Bill Crothers: That is not.

Q473 Chair: That is not a proper challenge. You can do that.

Bill Crothers: I would think that is common, would you not?

Q474 Chair: It is not a strategic issue.

Bill Crothers: Some would say, but, seriously, you do need to draw the line. Food is common; however once food is packaged and going to Afghanistan, it perhaps becomes less common. The answer to your question is yes, we should acknowledge that some points need to be unique and they should stay with Departments that have expertise in that.

Q475 Kelvin Hopkins: In its recent report, the National Audit Office highlighted concerns about the way in which GPS is run, particularly around the inconsistency of contract management, the quality of customer service and in meeting Departments’ operational needs. What has been going wrong at GPS, and what are you doing to put it right?

Bill Crothers: If it is the report I think you are referring to, I thought it was generally complimentary about GPS.

Stephen Kelly: There were savings of about £400 million, I think, and then £700 million projected this year. Again, I think there is work in progress, and Bill is overseeing changes to support that.

Bill Crothers: Generally, it was positive; none the less, the point you made was about customer service. GPS has been largely managed on one metric, which is a metric called SUM: spend under management. GPS has been incentivised to have more spend under its management, regardless of the savings and the service it offers Departments. We are going to reset GPS’s incentives and KPIs—key performance indicators—in the next few weeks, so that it has to be focused on giving good service, getting savings, as well as increasing the spend that it has under its management.

Q476 Kelvin Hopkins: Just to clarify the point, this is this year’s report, “Improving Government Procurement”. How are Departments consulted when the Cabinet Office is developing specifications for central contracts? Could you elaborate on that a bit?

Bill Crothers: I am not sure I understand the question.

Kelvin Hopkins: How are Government Departments consulted when the Cabinet Office is developing specifications for central contracts? Presumably, Cabinet Office makes specifications.

Q477 Chair: Are these just departmental excuses for not complying with what the Cabinet Office wants?

Bill Crothers: The only kind of example I can think of is that there does exist, although it is four or five years old, a standard contract that was developed in the centre for all Departments to use for complex services. I think it is out of date. We are working to develop new contract terms, a new contracting basis, for all Departments to use. In doing that, we have consulted with the Departments. In all cases, Departments do not always agree, but we are taking what we think is best practice. An example would be to have full transparency in a contract, so even if we are not going to make it public, the Department should know what the margin target is. They should get the margin reported regularly and the margin should be within a set of allowed costs. That is not standard practice today. If you go to industry, that would be standard practice.

Sally Collier: If I can try to get underneath the point you are making, are Departments consulted when GPS draws up specifications for central deals? Yes, of course they are. Can we always meet 100% of Departments’ requirements in a standard contract? No, we probably cannot, because, as I think we have already alluded to, one person’s strategic need is another person’s common good and service, so part of the savings that we will make in some of these categories is through standardisation. That means 100% of needs will not be met. In other circumstances, can we and should we do more to meet specialist niche requirements in some categories? Undoubtedly we can, and I think that the report reflects that. I think it is horses for courses, but do we consult? Of course we do.

Q478 Chair: Mr Kelly, do you think this system that you have stepped into and inherited works? Is it sensible?

Stephen Kelly: Mr Chairman, I think it is the start, as we have said. We are very conscious of the road ahead, and the challenges and the roadblocks. There is still much better data and MI capability that we need to improve.

Q479 Chair: Is what we are talking about—this consultation with Government Departments—a constructive exercise, or is it obstructing what you need to achieve?

Stephen Kelly: Generally it is constructive, but it would be even more efficient if we had aligned incentives, and if we were all trying to deliver better outputs for less cost.

Q480 Chair: How do you align the incentives?

Stephen Kelly: Mr Chairman, that is something that has been a focus of Civil Service procurement reform probably since before my birth. Let us be very specific: in the private sector, what “good” would look like here is delivering the outputs for less money and incentivising the people touching procurement with better commissioning skills, and rewarding them, although not with the crazy money you have heard about in parallel in the private sector. But the contrary of that is performance management, so that the lesser

performing, less capable people are removed from the system.

Q481 Chair: Can I just ask: what is the Procurement Investment Fund, and why are people asking what has happened to it?

Bill Crothers: GPS—so a group of 400 people that works directly for me that buys some common goods and services for Departments.

Q482 Chair: So you operate as a profit centre?

Bill Crothers: It is a trading fund, so it makes a profit, and it makes a surplus each year.

Q483 Chair: How much?

Bill Crothers: The systematic surplus is about £7 million.

Q484 Chair: What do you do with it?

Bill Crothers: My predecessor set up a mechanism, which was called the Procurement Investment Fund, whereby that surplus would be reinvested to the benefit of all. In fact, about £6 million or £7 million was committed, for example, gathering data.

Q485 Chair: What has happened to it now?

Bill Crothers: I suspended it, because I wanted us to take a pause and see the effectiveness of what had been spent, and make sure that what we were going to spend was being spent strategically. What had happened is we were taking £200,000 here, £500,000 there, so I have suspended it and taken a pause. I have a governance group, which is across Departments, which will in fact tomorrow morning be looking at this on the agenda.

Q486 Chair: When did you pause?

Bill Crothers: Probably before Christmas. Three or four months ago, or so.

Stephen Kelly: What has happened now, therefore, is that any of the surplus will be returned to the Cabinet Office, and the Finance Director would return any monies to the Exchequer.

Q487 Chair: Right. I rather wondered if that was what had happened to it. Is that a disappointment? Should we be being more creative with these savings? Is that actually reducing the incentive to make savings? Is this the right destination for the money?

Bill Crothers: You have heard us refer to the procurement reform programme, so under Civil Service reform we are looking at commercial capability across Government. Within that context, I want us to look at GPS and whether a trading fund is the right construct. Is the scope right? Should it have a £7 million systematic surplus, should we put more scope into it, or should we dismantle the trading fund? We should not look at the whole system but that area to improve it.

Stephen Kelly: The essence would be, Mr Chairman, that unless we are really sure that any investments we make have a significant return then we should return the monies to the Exchequer.

Q488 Chair: Is there a difference of opinion between you on this?

Bill Crothers: No, because we have done that.

Chair: Resolved. Good. I like friction; it is creative.

Stephen Kelly: No, we are totally in sync.

Bill Crothers: We get lots of friction, but not between us. This year, we have returned it, by and large. I say “by and large” because as a trading fund it has to have some reserves. I do not think it makes sense to systematically have a unit that is making a £7 million profit. It just feels like an odd construct, and we are looking to see whether the construct is correct. The revenue comes from suppliers. It is a levy we impose upon suppliers.

Q489 Chair: Perhaps you could send us a little note about what the plan is for the future on this, please.

Bill Crothers: Okay.

Q490 Greg Mulholland: I would like to carry on with that point, if I may, because I want to ask a few questions about the skills needed for successful procurement, which is clearly essential to good procurement. Is it not the case that the Procurement Investment Fund was largely supposed to be reinvested in skills and in capability building?

Bill Crothers: Nearly all of the money invested to date has been in software, so not in skills. A small amount we have put into something called the Commissioning Academy, which is training some people—a relatively small amount. Most of the money to date—£3 million, £4 million, £5 million, £6 million—has been largely on software.

Stephen Kelly: And MI.

Sally Collier: And also Lean sourcing and training has been funded from there.

Stephen Kelly: So there were about 700 folks gone through Lean training; you have probably seen the data about a 40% reduction in the procurement timelines. Some of the best procurements now in GPS are taking about 82 days, rather than the old world where they took nine or 12 months.

Bill Crothers: We will drop you a note on the PIF mechanism and also where it has been spent, but it is relatively small on people, a lot on software.

Greg Mulholland: Training software, is that?

Bill Crothers: No, software to gather better data.

Stephen Kelly: Data/MI.

Q491 Greg Mulholland: Was there a vision that it would be used for training capability?

Bill Crothers: It was positioned on improving capability. “Capability” is a broad term. There is no question that the money that has been spent has improved our capability. A small amount has been spent on two types of training.

Stephen Kelly: The Commissioning Academy is probably the centrepiece, in terms of improving the capability and driving better skills around commissioning and procurement.

Q492 Greg Mulholland: Now that that fund has been stopped, what is the Cabinet Office plan for further capability building and for further training?

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Bill Crothers: Again, this is a key element of the Civil Service reform plan—commercial capability, or what I am calling procurement reform. I think this an important bit of context: if you look at where the procurement professionals in Government spend their time, they spend most of their time in regulated procurements, i.e. from when we issue an OJEU notice to when we award a contract. Actually, most of our opportunity for value is before we start an OJEU and when we are managing a contract. Arguably, they do not spend their time predominantly where there is most value, so before we train people on doing better European-regulated procurements, I think we should think about where they should be spending their time and the specialist capabilities that they should have. We do not have, for example, a lot of people who have deep experience in negotiating with big suppliers, or of being involved in a dispute. Whenever we say we have a pre-market engagement—engaging with the market to really generate competition, to try to not just go to the oligopoly—our people typically are not very experienced in that. We are developing a set of capabilities that our people should have, and then we will develop the training that they need in those specialist areas.

Q493 Greg Mulholland: Obviously there has been a move towards the Lean sourcing process and training around that, presumably. You have already mentioned the Commissioning Academy and the Major Projects Leadership Academy. Are you confident that these things are delivering the skills that are needed and the skills that were identified as being the skills that were not there sufficiently before?

Bill Crothers: I think what they have done has been really good. They have made a big difference. I think they are not complete. For example, a skill and capability that not everyone but a group needs to have is to understand how to contract-manage a large, complex contract. Part of that would be, for example, managing an open-book arrangement, so if you are a commercial professional, you should understand the difference between gross margin, net margin and overhead; you should know what costs are allowable, and so on. We are moving to train people on other specialist areas as well. Those two initiatives have been very effective, but it is not the end.

Stephen Kelly: Both Mr Flynn and you have raised a point about managing projects. One of the things under my responsibility is the Major Projects Authority. Again, I think it has done a great job since it was established about 18 months ago. The data suggests that when the coalition came to power, 33% of projects were delivering on time and on budget. Now that has risen to about two thirds of all projects, so there has been significant progress there. Just to remind you of the data, the project portfolio managed by central Government is over £400 billion, so it is very material that we do an extremely good job of managing to time and to less than budget. We have made some progress there.

Bill Crothers: It is about training or education in the broader sense, so it is not just classroom training. These contracts or relationships are some of the largest any commercial professional would come

across. You are having a conversation with somebody who has a commercial relationship of £1 billion a year with us, so it is not just classroom training. It is getting people working with other experienced people from outside. It is having roundtables with practitioners from outside. A point that we wanted to make here is that the system traditionally has been quite insular. “Stagnant” is probably too strong a word, but with the suppliers who have supplied to us, the people typically have only experience in the public sector. The consultants who previously consulted to us had only experience in the public sector. The officials, to a very high degree, have experience in the public sector, so it is a system which looks in to itself and does not look out.

Stephen Kelly: Whereas, to look at another example, if you have dealt in purchasing and commissioning in the retail sector, you will have some very acute, excellent skills in negotiation, as you will know, because they are on wafer-thin margins of a couple of per cent., and therefore they demand much better performance from their suppliers, at a much lower cost.

Q494 Greg Mulholland: Does the training go down far enough in the Civil Service? The CBI has suggested that procurement should be seen as part of the policy-making process; therefore are we involving people at all levels to make sure that that is part of the thinking?

Bill Crothers: Yes. An example of that is that the Minister for the Cabinet Office and I plan to go and talk to this year’s Fast Stream cohort, and essentially recruit five or 10 of them to come and work in the commercial function. What you find is, for example, that the fast streamers do not get attracted to commercial in Government because it is not seen as a dynamic place to work. Policy is dynamic. I think if we get more interchange between people in commercial and people in policy and so on, we can make the system more vibrant. I absolutely agree: we need to go deeper and wider.

Stephen Kelly: The commercial skills need to be recognised for the value they provide. If we look at most of the senior Civil Service today, it is probably dominated by policy people. Some of the skills Bill has alluded to can be done through training, but also you can need a lot of “university of life” experience, having dealt on one side of the table managing large, complicated commercial constructs.

Sally Collier: I think some of the foundations have been laid. The new Civil Service competency framework has for the first time a commercial competency, so every civil servant coming into the system will be assessed on this competency. I think that is a fundamental change too.

Stephen Kelly: It is getting recognition for the Civil Service Reform Plan, which you have profiled before, has capability, and for which Bill sits on the commercial stream as well. We are gaining momentum and recognition, but honestly, if we had a magic wand we would be a lot further ahead on this today.

Q495 Chair: We are all making these generalisations that we do not have the skills and we do not have the people we need in these jobs. Have you got a register of procurement professionals across central Government? What data are we working on here? What data have you got?

Bill Crothers: No, we do not. That is probably one of the points in front of you that one of the bloggers made. Again, it goes to the system working as a single system. We talked about dealing with suppliers as a single Crown. Under the reform agenda, we have had it approved by the Civil Service Board—that is the highest governance group in the Civil Service at official level—that we will set up a scheduling system.

Q496 Chair: That is not what I am asking. I am asking: where are these people in government who have procurement experience? Have you got a database of them? Have they been put into the right jobs?

Bill Crothers: We have had approval to put those names, and their experience and skills, into a central database.

Q497 Chair: It sounds, as usual, like central Government is making a very simple thing very complicated. You must be able to ring up each Government Department and say, “Can you just send us a list of your procurement professionals? Who are they and what jobs are they doing?” Is it very difficult? Mr Kelly?

Stephen Kelly: Where we are today, Mr Chairman, is that we have got a lot of officials who are very diligent but the reality is that we have got a lot of suppliers out there whose business model is on a collision course with us, where we want to take money out of the system and they want to, effectively, operate in a proprietary model that is pretty closed, and we need some people with a lot of self-confidence. It is not just the competence and skills; I would broaden it, because it is probably the case that of the commercial professionals in Government, some of those have come from the private sector. My worry is that, in some cases, I would argue, the Civil Service structure in the past has actually stifled innovation and the confidence of those individuals to do the right things.

Q498 Chair: But if I asked you to produce some numbers for us on how many procurement professionals there are in each Government Department, could you produce that for me?

Bill Crothers: Not today.

Stephen Kelly: Not today. We know there are 3,500.

Q499 Chair: We know there are 3,500 people doing procurement jobs. The new Director-General Rail is in charge of a big procurement programme, but I understand he has very limited—certainly no private sector—experience of procurement or project management.

Bill Crothers: It is a she.

Chair: I do not want to malign the individual in any way; that is what I have been advised. Is that what we expect to happen in the public service now, or should the Cabinet Office be more determined to make sure

that people with relevant experience finish up in the relevant jobs?

Stephen Kelly: I think, Mr Chairman, you are right. I would love to tell you that we have done that already, but that is not the case. We have the procurement reforms to ensure—

Q500 Chair: So a recommendation to that effect from us would be quite helpful.

Stephen Kelly: That would be very helpful, and that is part of the work plan Bill is working on, to have Department-by-Department skills of those 3,500, where they are broken down: what makes sense to be centralised; what makes sense to support their specialist buyers; and these large, multi-year-type complex negotiations, where Bill’s central team of really expert negotiators can do a great job for the Department delivering contracts that do what they say at the best, most favourable commercial terms.

Chair: Excellent.

Q501 Kelvin Hopkins: You have touched on my question, but I will give you a chance to elaborate further, if you like. Management information on procurement across the whole of Government has, apparently, improved, but to what extent? How far have we still got to go?

Bill Crothers: It has improved, as I said. Two years ago, it was just unbelievable that at the centre we did not know what we spent on which suppliers in total. We just did not. We have now, through this PIF, this investment fund, got a database in the centre where we know spend by supplier, by Department, by time period. It is not as timely as we would like; we would like it to be at least monthly, given that it is being fed off accounts payable, so it is a monthly cycle. It is not complete; it is at the 90% level, so it I would like it to be complete, and it has got some aspects in it that need to be normalised. Suppliers appear in several places as different types of suppliers, because they use different names. It can be improved in that way. It is also quite linear. It is not easy to visualise and use it, it is just clunky, and I think we can improve that. That is how we can go. We can make it more timely, we can make it complete and we can make it easier to use.

Stephen Kelly: The other thing linked to that, which you may have heard of, is QDS—the quarterly data report—which we would love to give you copies of. That started off probably about six months ago. That is at the Crown level, and now we are going at the departmental level, so you can compare, Department by Department, what they pay for a laptop or what they pay for their estate costs. Effectively, again, I think through transparency and shining the spotlight on how much various Departments are paying for their goods and services, it will drive the right behaviour in terms of getting more for less.

Bill Crothers: I made the point about perfect information helping perfect competition. We are in the market all the time. UK Government, central Government, is in the market all the time, essentially for the same services. If we could get that information flowing back easily throughout the system then we would be better placed. It is not just spend; it would be things like prices, margin, performance data and so

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on. We are working to get that sort of information moved around the system more easily and then used. You get the data, but you have to draw insights and take action, and if you are not used to having the data you do not know what to do with it. Part of it is getting the data and part of it is training people to make use of it, and also not be frightened, because people feel it is a bit unfair to use that information against a supplier. We get information from Department A to use in Department B against a supplier, and they feel that is not quite right, just because it is not the way it has been done.

Stephen Kelly: Mr Hopkins, it is the case that for the same consultant they leave one Department one day and they go on a different charge rate the next day. That is the sort of thing we need to stamp out.

Q502 Chair: Can we just register that point? You have got the same consultant charging different day rates to different Departments.

Stephen Kelly: In the past, yes.

Q503 Chair: Percentage variances?

Stephen Kelly: There is one company that probably has, what, 30 different rate cards?

Bill Crothers: I will give you an example. This is a slightly different example, not the same individual. We do have examples of individuals—I could not give you the variances, but we have the same company charging different prices to different Departments.

Q504 Chair: Order of magnitude variation?

Bill Crothers: In some cases 40% or 50%—big variances. We have one particular contract with one particular supplier in a Department, where the number of day rates in the contract is in excess of 200 or 250 separate day rates.

Q505 Chair: The problem is a culture of thinking it is indecent to ask about the price.

Bill Crothers: Yes. It is not my culture, but yes.

Chair: There is that reticence.

Bill Crothers: It is more about confidence. Remember, you have suppliers who are highly paid and highly remunerated, based on performance. If they do not perform, they will be gone, and they are on repeat. This is what they do for a living, against a mid-level official who is not earning that much and does not have the confidence, naturally, to take these guys on.

Q506 Chair: This confidence is what we mean by lack of commercial skills, is it not?

Bill Crothers: It is a work in progress, but we are redressing the balance.

Stephen Kelly: To give you some colour, these suppliers typically have complete knowledge and data about all their relationships with the 17 Departments, and in the first phase, when the Minister brought people like Bill in, I would say the suppliers' natural reaction was that some of them got on board and are starting to understand there has got to be a new way of working with Government, but some of them are playing possum, as I would describe it—folding their arms, sitting back and hoping we will go away.

Q507 Kelvin Hopkins: It reminds me of experiences 40 years ago, when I was a councillor. On one occasion we had some contractors and some consultants from the commercial sector talking about business matters, and it dawned on me suddenly that the officers were completely out of their depth. They started saying “Councillor, what would you like to do?” At the same time, in the same period, I had information that the builders who were building our council houses were charging us 10% more than they should do. When I raised this in the council chamber, virtually slandering the local builder, I expected a writ and I expected to be challenged. There was not a dicky-bird—nothing. It was reported in the press; not a single word came back to me, either from the builders or from the council offices. Nobody said a word.

Anyway, on the balance of problem, obviously there is a problem with processes and systems on one side, but what you are suggesting really is that the problem is largely with civil servants, not so much the systems. Where does the balance lie between the problems?

Bill Crothers: I do not think that is right. I was getting a bit concerned that we are giving you the impression that it is all about the civil servants. I do not think that is fair. We have given you lots of examples of bad practice, a number of which we have addressed. The fact that we know the bad practice is good, knowing there is stuff you can address. Being a commercial guy in the Civil Service is quite challenging. The scale of the relationships, the complexity, and the public scrutiny are all harder than if you are in the private sector. I do really think they have a hard job, and I spent 25 years in the private sector. I also think we have, just by habit, told them to do the job in a certain way. We are now telling them to do it in a different way, and some are adapting quicker than others. Given the fact that we, as a matter of policy, said, “Treat each Department separately and do not share information”, it is hard for people suddenly to act differently. I had a reasonably senior procurement chap say to me “You do not understand. We cannot apply judgment.” That is what he thought.

Chair: Crazy.

Stephen Kelly: On that, we have spent a lot of time and money investing in managing the process of procurement, but as Bill said, actually, it is the specification and commissioning where you save the money, and then the contract management. We have not focused on those areas at all. You can run the best procurement, but you are buying something that is gold-plated, you are paying too much for it, and then you are getting managed by the supplier downstream through change control notices.

Q508 Chair: That moves us neatly on to engagement with suppliers, and risk management and risk transfer. I think you have just said it: there is not enough constructive engagement with suppliers because of a kind of reticence, that they must not get too close. Endlessly we hear suppliers saying, “If only the customer would talk to us a bit more we could help them more.” Is this just suppliers talking their own book, or do you have some sympathy?

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Bill Crothers: I do not think there is much truth in that. I do not know which suppliers have been speaking to you, but if they are the large oligopoly suppliers, the suppliers with lots of business—

Q509 Chair: No, I think we are talking about the people who are not in the magic circle.

Bill Crothers: I think then that that is true.

Chair: Which is most of them, of course.

Bill Crothers: In this buying and managing stuff, you divide it into three. There is pre-procurement, there is procurement, and there is contract management. Before we start a formal procurement, generally the habit has been not to talk to suppliers, because people think you have to have a level playing field. If you talk to one, you have to talk to them all in the same duration, and so engagement tends to be 80 suppliers in a room, a PowerPoint deck of 80 slides. We should do much, much more with the innovative, the small and the new entrants to make a market.

Q510 Chair: How do you do that without getting all tied up in legal knots?

Bill Crothers: There are no legal knots. It is what a private company would do. If you apply good practice, it is fine. You just need a skill in doing it.

Sally Collier: We have made progress in this area. The CBI, in their recent report, gave us a pretty good mark in terms of implementation of what they call pre-procurement dialogue. The whole ethos of running a Lean procurement is you do much more pre-market engagement, pre-procurement dialogue, and I think the CBI has confirmed that practice is changing. We have still got a long way to go, as Bill said, but I think we have got some evidence that suppliers out there do think it is changing.

Stephen Kelly: Mr Chairman, the last bit of that is some good news. Where we have done that and done it intelligently, we have taken a contract from the oligopoly worth £4 million and got the same service and better outputs for less than £100,000.

Chair: There you are.

Stephen Kelly: It does work. The other thing I would say is that you started off your statement about risk transfer and responsibility. Candidly, I do not know what happened 15 or 20 years ago, but we seem to have passed the keys to the castle across to the other side of the table in a naive assumption that all the risk would transfer as well. The reality is we carry the risk. We will be back in front of you guys if things go wrong, and I think the elimination of any naivety in that is fundamental to us making wise decisions.

Q511 Chair: We are defeating the naive idea that all risk can be transferred.

Bill Crothers: Absolutely. The risk will always stay with us.

Stephen Kelly: Absolutely. It always stays on this side of the table. Fundamentally, I think, the other thing that is really important is that we remember who our stakeholders are: the Ministers, Secretaries of State, taxpayers and citizens.

Q512 Paul Flynn: We were told last week by Dan Ward, a serving officer in the American Air Force,

that his remedy for reducing the cost of procurement was a system with the acronym FIST: fast, inexpensive, simple and timely. The system we have is complex, random, asinine and prodigious, which spells “crap”, significantly. Do you think if we reached this target of 25% small and medium enterprises, we could simplify the system?

Sally Collier: The first acronym is exactly the one we are aspiring to, and exactly the one that we are trying to put in progress. We absolutely need to change from large, monolithic, complex contracts to chunking contracts up, particularly in the ICT and digital space. We are putting in place mechanisms to allow that to happen, so G-Cloud, for example, is a framework procurement, but it is a framework procurement like none we have ever seen before. It is dynamic and it is fast; suppliers come on and off. The suppliers are telling us they love it. It is a very quick accreditation process. Some of the barriers that we have removed for SMEs aim to do exactly the things that you suggest, taking out bureaucratic processes, abolishing pre-qualification questionnaires for low-value contracts; all of those things aim to do what you suggest. It is a fundamental opportunity; what we need for that to be more systematic throughout the entire system is this culture change that Bill and Stephen talk about. We need people to have the confidence to say, “I do not need to let that contract in the way I have always let that contract”. Coming at it from a completely different perspective actually could release an order of magnitude difference in savings from that which they would have got if they had just done the same thing.

Q513 Paul Flynn: One of the appealing arguments that Dan Ward had was about someone coming along and saying, “I will explain this with my PowerPoint presentation”, and the PowerPoint presentation was like a painting by Picasso, with literally hundreds of lines, drawings and connections, but utterly incomprehensible. The suggestion was that by convincing the audience of the depths of their stupidity, you encourage them to be passive and accept something that they do not understand. Does this happen particularly in IT?

Sally Collier: Absolutely, I would say, and I think that Bill illustrated that with his rate card as well. If you have got 200 rates, how do you possibly get to the bottom of what the real price is? Yes, there are many examples of where this complexity has stifled the innovation that Stephen talks about.

Stephen Kelly: When you get that complexity, you get played three-hand card tricks, and you have no clue what is going on. I think it is probably the case historically that we have seen gold plating on everything, boiling the ocean, over-specifying, and then we are, candidly, victim to suppliers who are much more commercially astute running change control processes, whereas things like e-auctions, the pre-procurement process and early market engagement—is it moving fast enough? Probably not. Could we go faster? Probably. However, we need support to drive that attitudinal change and cultural change. Where we have used SMEs, there have been significant benefits. The other thing we have to say,

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Mr Flynn, is that occasionally one will go wrong, because that is the reality of managing billions of pounds of procurement. If you are actually encouraging and using SMEs, particularly across the UK, which is fantastic, it is not going to be perfect all the time. We have to be realistic and grown-up about that.

Q514 Paul Flynn: I am sure there was an inquiry in this place into the groundnuts scheme, in about 1949, where they came along and said, "It was the last lot. It wasn't me, it was someone else, and it will be all right in the future." However, it rarely is. Can you give me an example of the Contracts Finder website? Has this had a positive impact on the ability of SMEs in the third sector to compete for Government contracts? Is it working?

Sally Collier: Yes, it has. Many, many thousands of contracts have been advertised. It is a free service; that did not exist before. Suppliers had to pay to get access to opportunities. I think something like 30% of those contracts have been flagged as being awarded to an SME. The fact is that we have it and that there are many thousands of documents. There is some really great commercial intelligence on there; what we need to get better at is mining it. Suppliers need to get better at mining it, because there is a lot in there. Is the search engine perfect? No. Can it be better? Yes. Are we working with the Government Digital Service to improve it? Yes. Contracts Finder is great; it has enabled more SMEs to have visibility of contracts. Do we need to continue to improve it? Yes, of course.

Q515 Paul Flynn: It is 30% of what?

Sally Collier: Of the contracts that were advertised on Contracts Finder, flagged as awarded to an SME.

Q516 Paul Flynn: As I understand it, the target is 25% of total contracts, is it not?

Sally Collier: The target is 25% by value.

Q517 Paul Flynn: What would your 30% of those advertised contracts be?

Sally Collier: It is two different things. The target is measured by value, and the NAO report confirmed that we are increasing the amount of business that is going to SMEs by value. What I talked about is number of contracts on Contracts Finder.

Q518 Chair: Looking at the table that DWP has furnished us with, it is 10% in 2011–12 of value went to SMEs. What figure are you expecting in the current year?

Sally Collier: We are currently collecting the data for the third quarter. We would expect to see that direct figure—that 10%—continue to improve. We are also getting more and more data all the time on the indirect, so the supply chain data. We cannot tell you at this point in time what the outturn would be for the end of the year, but we are of course continuing to track progress against the 25%.

Q519 Paul Flynn: Do you look forward with optimism to your returning in two years' time and saying that it is 25%-plus?

Sally Collier: Yes.

Stephen Kelly: Yes. It is easy to sit here as Government looking at the market and saying, "Wouldn't it be great for all these SMEs to work with us?" but before I joined the Government, I was a board director of six SMEs that created about 150 jobs in the UK in the last two years. When I talked to the chief executives of those companies, they would never for a day think about bidding for Government, because they think it is difficult, it takes years to bid and they have no chance of getting business. We need to break down attitudes out there in the marketplace that make us appear very difficult to do business with. Things like checkpoints and checks and balances like mystery shoppers are starting to help do that. I think I had 328 enquiries or complaints under that, of which over 80% have been resolved. In one case, interestingly enough, there was a company that lost a contract and was investigated. They were in the process of making people redundant and because of the mystery shopper process that was not necessary. Again, we are starting to, but it is early days on this. It has been two years. I think we have gone from 6%—£3.2 billion—to 10% now, but absolutely, Mr Flynn, if I come back here in two years and we have not seen significant uplift in those numbers then we will be hugely disappointed. We would have detailed questions from you accordingly, I am sure.

Paul Flynn: We will live for the moment when you return and report great success.

Q520 Chair: Do you think PFI special purpose vehicles should be included in the figures for SMEs? Because they are not really SMEs; they are the creatures of very big businesses, very often.

Bill Crothers: It is an error, really.

Sally Collier: The answer is that if a special purpose vehicle is owned by a larger company—

Q521 Chair: Obviously if it is not owned then it is a standalone company and you count it as a small company. I am just saying that that is rubbish, really. I mean, Tube Lines would have been an SME on that basis, even though it was owned by major companies.

Sally Collier: I think this is the process of getting better at our data all the time.

Q522 Chair: Is that a yes or a no?

Bill Crothers: It would not be appropriate to have SPVs treated as a SME.

Q523 Chair: You say "would not be appropriate"—

Bill Crothers: It is not appropriate. We gathered data, and we had a technique that included them; the technique was wrong and we are filtering it out.

Q524 Kelvin Hopkins: How do we look after the UK's interests while staying within the boundaries of EU directives? It is suggested that on the continent they use every trick in the book to avoid EU directives bearing down on their economies, whereas we get stuffed every time.

Stephen Kelly: Let us start with some good news that Sally told me on the way. Sally said we, the UK, are second in the league of all contracted business across

European Union countries, second only to Germany. However, it is a fair question, and I think we have got some views on this.

Sally Collier: I am not going to sit here and say that we are perfect at this; of course I am not. Would we like a much simpler set of rules? We would like no rules at all—potentially. I think there has to be some framework by which you judge how to award a company business, and that happens in the private sector. We have these rules. What my job and my team's job has been over the last 12 months is to influence the Commission and the Parliament to the greatest extent to get a simpler and more flexible set of rules. I think we have been pretty successful. We are not over the line yet: we have still got parliamentarians to get over the line in the next three months. It is a constant battle to put our interests forward in Brussels, but also—as I think we have talked about earlier this afternoon—traditionally, procurement people like process. I think it gives them the kind of power of knowledge. The vacuum we talked about earlier is filled. Procurement officials in the public sector know how to run this process.

Chair: Do they?

Sally Collier: We need to switch that culture. We need to stop talking about the process, and talk about the bits outside that. The process is the process.

Q525 Chair: What you are saying is, sadly, public officials love process, when in fact they should be thinking outside the box.

Sally Collier: Outcome. We need to be thinking all of the time about outcome and money, and not the process.

Bill Crothers: It is not as much of a constraint as it is thought to be. We could make more value and more savings, and still keep within the rules.

Q526 Kelvin Hopkins: Does it need special training for civil servants, though, to do the best job they can for UK plc?

Bill Crothers: Yes.

Sally Collier: Of course.

Q527 Chair: We are all very keen to get good value. Do these rules help us get good value, or do they gum up the system and make it more complicated?

Bill Crothers: They make it more complicated. However, we could also conduct activities that are not covered by the rules that would give better value. The example I gave about pricing multiple rates is nothing to do with the rules. That is how the system is applied. Us spending time encouraging new entrants, and not just going to the oligopoly, is not about the procurement process.

Q528 Chair: How much time do you spend trying to explain to officials that they do not need to over-interpret the rules, and that actually they are much freer to use their commercial judgement than they think they are?

Bill Crothers: That is true. That is true. It is a limiting factor, probably, in their attitude because they feel constrained—not all of them, but they feel more

constrained than they actually are by the rules. They can do more activity than actually they realise.

Q529 Chair: Anything else you would like to add?

Bill Crothers: It is probably just worth mentioning that we are in the process of recruiting a number of Crown representatives. These are the senior people who will take responsibility for each of the large suppliers, and we are going out to the private sector, recruiting at quite a senior level, to bring people in. It is a way of bringing in board-level experience, part-time, to face off to the suppliers and to help us train the people in the system, so that they learn by doing, not just classroom-based. That is an important initiative in the next month or so.

Q530 Chair: Anything, Mr Kelly? The last word.

Stephen Kelly: The last word is a quick summary: work in progress, some good progress; however, some ambitious plans for the future, and a real awareness what the roadblocks are around capability, culture, confidence, and data. Any support this Committee could give us to break those roadblocks down would be greatly and warmly appreciated, most of all by the taxpayer.

Q531 Chair: I have just remembered one other thing I wanted to ask. This £4 million procurement that turned into a £100,000 contract. What was going wrong? Why was it going wrong?

Bill Crothers: We are in the land of IT.

Chair: Surprise, surprise.

Bill Crothers: The larger number was an incumbent. I would assert that at least one reason is that they had become complacent. They were comfortable with their position.

Q532 Chair: Were they just trying it on?

Bill Crothers: We went out and engaged 20 or so small, more innovative companies. They all came in with a similar price. When we awarded it, the incumbent said, "That's not what you asked us for", and they were right. It was not exactly the same, but actually what we got was good enough. They did not think—using the jargon—outside the box and think, "How could I make it the cheapest?" They just thought, "Well, it is a few million". We achieved it by engaging with people outside the system.

Q533 Chair: This is exactly what we heard during our IT inquiry, particularly about how to convert legacy data on old ICL systems into modern systems. We had SMEs telling us, "This is quite straightforward. You do not need to spend a huge amount of money," but you have got other people telling us, "No, no, no, it is extremely dangerous and you will have to do it very, very carefully, it takes a very long time, it is very complicated and will cost you a very great deal of money." How do we crack through these problems?

Stephen Kelly: Actually, one of the things our Minister is very keen on is having almost a top 10 of examples of, "It was X and now it is a tenth of X".

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Q534 Chair: If you want to send us any more examples—

Stephen Kelly: We will do.

Bill Crothers: We will send you the examples.

Stephen Kelly: We will send you the complete list.

Chair: Thank you very much indeed. It has been extremely helpful; you have been very frank with us.

Monday 13 May 2013

Members present:

Mr Bernard Jenkin (Chair)

Alun Cairns
Charlie Elphicke
Paul Flynn

Robert Halfon
Priti Patel
Mr Steve Reed

Examination of Witness

Witness: **Rt Hon Francis Maude MP**, Minister for the Cabinet Office and Paymaster General, gave evidence.

Q535 Chair: Welcome to today's sitting on two of our current inquiries—Government procurement and the future of the Civil Service. I wonder whether our witness could identify himself for the record, please.

Mr Maude: Indeed. I am Francis Maude. I am Minister for the Cabinet Office.

Q536 Chair: Thank you for being with us. We are going to start with procurement. The Cabinet Office is being praised by many for its reforms to public procurement, but some commentators have suggested that the Government need to be more ambitious about implementing reform. Do you think this is ambitious enough, and if not, why not?

Mr Maude: No, I do not think it is. Well, I think we have not done everything that we aim to do, even under current plans. I still find examples of very old-fashioned procurements, even in central Government, where, theoretically, our writ runs.

Q537 Chair: And what does an old-fashioned procurement look like?

Mr Maude: Long, expensive and militating massively against the ability of small, newer, younger, innovative businesses to bid at all, let alone to win the business, with long contracts, very locked-in, very expensive, very opaque. There are still too many of these procurements happening in that out-of-date format, so we need to drive that.

We are committed to buying commodity goods and services, or common goods and services, centrally—not necessarily at the centre, but in one place, for the whole of Government—so we can leverage the scale of the Government as a customer to reduce cost and price. That has not happened to the extent that it can and should. There is a lot of inertia on that front, so we need to drive all that further.

There is a general view that we should be doing more procurement on a common basis across Government, and not necessarily just the real commodity goods and services. If you look at IT procurements, which are complicated, you need the same sort of skills in one part of Government as you do in another to manage an IT procurement, but we manage procurements separately in different Departments. Having new people learning on the job all the time is not a very good way to do things.

Chair: But this bid to do more at the centre is seen by some, and reported in last week's *Daily Telegraph*, as a power grab, which is meeting some resistance. The headline was "Even the Whitehall bonking

machine is in revolt"—that was a reference to a stuffing and stamping operation.

Paul Flynn: Bonking machine?

Q538 Chair: You will have to read the article, Mr Flynn. They take a giro cheque, stuff them into an envelope, seal them and—bonk!—stamp them. I am told they are known as licking and bonking machines.

Mr Maude: It sounds much more interesting than it actually is.

Q539 Chair: The point is that you are caricatured as the odds and sods Department, "aka the Cabinet Office".

Mr Maude: Is that the Sue Cameron article?

Q540 Chair: The Sue Cameron article: that you are trying to micro-manage very complicated big contracts, by insisting on approvals for £5 million or £10 million tranche draw-downs; that you are trying to extend your remit beyond the basic commodity contract, as you say, and this is interfering with the running of Whitehall Departments, and causing a lot of resentment.

Mr Maude: Yes it is, very beneficially, and it is interfering in the running of Government Departments to the tune, in the last financial year, 2011–12, of saving £5.5 billion of taxpayers' money; and in the year just ended we have said that we expect, when the numbers are complete, that the savings, most of which come through the application of these controls, will be more than £8 billion. So we are saving billions of pounds of taxpayers' money through doing this.

Actually, those two things are interesting examples. This stuffing machine that is referred to: it sounds like a very trivial thing, but we have done a deal with a single provider of recycling and paper supply. It has actually not been done by the centre; it has been done by the commercial department of the Revenue, but for the whole of Government. At the moment our recycling paper goes to Germany to be recycled, because there is no suitable recycling mill in Britain. If we can get the volume of recycling through the same supplier across the whole of Government in what is called a closed loop recycling deal—we get all our paper from them; they take all of our recycling—it will trigger the operation or the opening of a new recycling mill in Britain, which will create new manufacturing capacity in Britain and several hundred jobs, and be much greener as well as cheaper.

The reason we have not got to the volume? Because senior mandarins, as I believe they were referred to in

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that Sue Cameron article, are obstructing what is agreed Government policy by maintaining that their machines—which actually wouldn't have been taking that paper anyway—cannot accommodate it.

Q541 Chair: You may want to recycle *The Daily Telegraph*; but the objective point here is that some of these machines inevitably require a certain quality of paper—otherwise they get gummed up. So how does your one-size-fits-all contract fit the different requirements of investment that has already been made in machinery around Whitehall?

Mr Maude: I am told that actually that machine that is referred to there—which I think must have been in the DWP, because it refers, I think, to posting giro cheques: the ordinary standard copying and printing paper wouldn't be used in that machine anyway. So, as far as I can tell, that is a completely bogus pretext, in any event.

Q542 Chair: So judging from your response—your letter to the *Telegraph* of a day or two later—you refer to most civil servants being hard-working and deserving “the support of ‘senior mandarins’, rather than being trashed in poisonous anonymous briefings.” Who do you think is responsible for these “poisonous anonymous briefings”?

Mr Maude: I have no idea, but they are referred to by Sue Cameron as senior mandarins, which is a kind of catch-all description. It is such a pity. It does such damage to the Civil Service, because I come across so many really brilliant civil servants, who absolutely have the interests of the taxpayer and the citizen at heart; who work really hard, go well above and beyond the call of duty and do difficult things, to which there is official resistance.

Chair: Is this—

Mr Maude: Let me just finish. To see them being trauduced in this way in the public prints is very unpleasant.

Q543 Chair: But is this not an example of where there is inevitably friction generated by change programmes? The key to containing this friction and succeeding with the programme is leadership. Are you confident that the leadership is effective? It would suggest that you are not carrying Whitehall with you on this change. Do you have enough authority, and are you getting enough backing, for people to understand that this is the direction the machine wants to go?

Mr Maude: There was a meeting not long ago where exactly this issue was addressed. I asked why a decision that had been made by a Cabinet committee some 12 months before had not been implemented. One of the officials there said, “Well, we didn't think it was a very strong mandate.” It was an absolutely clear mandate decision made by a Cabinet committee chaired by the Chief Secretary and myself, so it is quite hard to see what stronger mandate could have been needed.

Q544 Chair: If there can be a meeting of a senior group of officials in Whitehall who do not understand that a considered decision has been reached and

requires implementation, what is wrong with the leadership? Isn't there something wrong with the communication? This does not happen in well-functioning organisations, because people feel they want to be led. What is wrong with this system that it does not want to be led, and what has gone wrong with the leadership? In the end, if an organisation is not functioning, it is down to the leadership. I am not just pointing the finger at Ministers or officials; I am pointing at the collective, because this is a common feature across the whole Whitehall machine.

Mr Maude: We have effective official leadership in the commercial function. I think you have had Stephen Kelly and Bill Crothers in front of your Committee. They are both extremely experienced operators in the commercial world, but relatively new in the Civil Service. I think Bill has been some years in the Civil Service now, but most of his career has been in the private sector. They give a very clear direction to the commercial service, but it is very dispersed. In all these functions, such as procurement, commercial directors have a relatively weak reporting link into the head of the commercial function at the centre of Government.

That is changing. That mandate is being strengthened, and rightly so. That is a decision made jointly by myself, Bob Kerslake and Jeremy Heywood. The ability for leadership exercised from the centre to be felt through the system has been strengthened, but it needed to be, because you cannot have, as you say, a functioning organisation where people in the Departments feel able to ignore a decision made collectively.

Q545 Chair: So who do you think these officials who do not understand the mandate feel they are actually responsible to? They must feel that their responsibility does not lie towards this process, but why do you think that is?

Mr Maude: We have a very dispersed structure. Permanent secretaries are accounting officers. Finance directors, commercial directors and HR directors, at present, have a solid reporting line to their permanent secretaries, and the very sketchiest of reporting lines—

Q546 Chair: But permanent secretaries are responsible to their Secretaries of State, and Secretaries of State are responsible to the Cabinet, in which you sit. There is something wrong that they do not get the message that they are all meant to be on the same team working towards the same objective. What is wrong with the structure of Whitehall that people do not feel this? Is it a structural problem, or is it a different problem?

Mr Maude: It is a very dispersed structure.

Q547 Chair: So you are a centraliser?

Mr Maude: Not centralised, but more collective responsibility right through the system. We have a very siloed system.

Q548 Chair: This is an interesting conversation and I hope the Committee will forgive me for extending this point. We have had a siloed system of government

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that has got us through world wars, economic crises, the 1970s and the 1980s, and no one has ever questioned it. Why do you now feel the need to do so? Is the siloed system really the problem, or is there some other problem that is challenging the effectiveness of our Civil Service? We are getting into the second half of this session already. Do you accept that there is a legitimate question?

Mr Maude: A question about whether it should be—

Q549 Chair: Is the diagnosis structural, or is it wider than structural?

Mr Maude: These things are never just structural. We are making a lot of demands on the system that have not been made before. The Civil Service is already at its smallest since the second world war and it will get smaller still. The old ways of doing things, with a lot of masking of things not being done well, can no longer persist. There are no hiding places any more. We need to do things better, in a way that there has not been the compelling necessity to do things better before.

Chair: We will return to that in the second half of our session. That is an interesting set of answers, and I am grateful to you.

Q550 Alun Cairns: Taking what you just said in response to the Chair, Minister, what are your views on a Crown procurement agency? That is the logical conclusion to centralising issues, is it not?

Mr Maude: It does not all have to be done in one place. As I said, the closed loop paper contract has been negotiated and run by HMRC's commercial director and his team, but it has been done for the whole Government. My point is not that everything has to be done in some centralised agency, but that it must be done once for Government, not in a lot of different places, which is where a lot of the extra cost is coming from.

Q551 Alun Cairns: How would you see such a Crown procurement agency operating, if it was not to centralise everything in one place? Do you see that there is merit for a body? We have had conflicting evidence about that. Or do you see some other logical solution that comes out of the evidence that we have received and that you have gathered yourself?

Mr Maude: I think there is a case for a much more cohesive Crown commercial service. We have an agency—the Government Procurement Service—which is based mostly in Liverpool. They do a certain amount of actual buying for Government. They buy, for example, 75% of the energy that is bought for the whole public sector. Quite a lot of what they do is in the arena of doing framework contracts, which is a concept not known outside the public sector. Over time, it will move more towards buying for the whole Government and for some of the wider public sector, to the extent that wider public sector bodies want to participate.

There are large numbers of people involved in procurement across the Government—many more than you would have in an organisation of comparable size, because a lot of the functions are duplicated in different parts, which is why we end up with the

phenomenon that Sir Philip Green identified: different parts of Government paying massively different prices for the same, bog-standard commodity.

Q552 Alun Cairns: How do you square your view with that of the Government's chief operating officer, who was quite sympathetic towards the establishment of a Crown procurement agency?

Mr Maude: I think we are talking about a much more unified and cohesive service; it is not a single agency. Things would still be done in some Departments, but smaller Departments should not have their own commercial service—that does not make any kind of sense.

I do not think that there is a standard, one-size-fits-all approach. No one would suggest that you would want to take the purchasing and commissioning of very specialised services or goods into the centre. With commissioning new prisons and Chris Grayling's rehabilitation revolution, these are very specialised things. Rail franchising and a lot of defence procurement are very specialised, but a lot of what is done is much more common and identifiable.

Q553 Alun Cairns: I accept that and I do not necessarily disagree with what you are saying. Are you saying that your response closely concurs with what the Government's chief operating officer gave as evidence to this Committee? His report showed sympathy towards a Crown procurement agency.

Mr Maude: It is not a Crown procurement agency; it is much more—

Alun Cairns: That is the point I am making. Is your view absolutely at one with that of the Government's chief operating officer?

Mr Maude: Absolutely. We are talking about whether we should end up with something much more like a Crown commercial service, which would be more cohesive with a stronger mandate to the centre, and where we would not have the same sort of duplication that we have currently across the system. We are completely on the same page.

Chair: We will move on. Mr Reed.

Mr Reed: Minister, the Government have set themselves a target—

Chair: Mr Reed, I apologise. Mr Elphicke wants to come in on the Crown agency.

Q554 Charlie Elphicke: Just on the Crown procurement agency idea, is it possible to go faster with the centralisation of procurement standards? There have been, and still are—for example with IT procurement—disasters, particularly with places such as HMRC. These Departments can go off and do their own thing and everyone else can get lost, and it ends up as a complete car crash. The more one has a centralisation of standards, the more efficiencies there can be and the more control of the contractor, because the relationship is in essence less cosy and less provider-captured. I urge you to go faster on that and focus on it, so that we can make even more efficiency savings and have even better contracts that are more cost-effective and effective, and actually work.

Mr Maude: We do need to go faster and we have some controls to prevent the Revenue, to take one

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example, from going off and completely doing its own thing, because of exactly the controls that “senior mandarins” were complaining about to Sue Cameron in *The Daily Telegraph* last week. We have a hideous legacy of incredibly expensive and opaque IT contracts and an oligopoly of multinational IT suppliers, with systems that are both expensive and insulated from each other.

The kinds of things that we need to have are much more visibility into contracts, with the contracts broken up so that you can see what you are buying and what you are getting, and smaller contracts so that some of the very disruptive—in the best sense—new suppliers can compete effectively. The standards that we should be militant about are standards of interoperability so that there is proper connectivity. Across the criminal justice system, for example, there is little connectivity between the IT systems and their different parts. Data have to be entered and re-entered at every stage in the criminal justice process, with a huge amount of error coming in along the way, as well as redundant cost.

Q555 Charlie Elphicke: May I very briefly say how much I welcome these complaints by “senior mandarins” and how I hope we will see more of them in the future?

Mr Maude: I think I take that as a compliment.

Charlie Elphicke: It is indeed.

Chair: We are going much too slowly, which is entirely my fault, because I am chairing this meeting. I must now do something about it. Mr Reed, as quickly as you can.

Q556 Mr Reed: I thought you were going to carve me out then.

Minister, the Government set themselves a target of directing 25% of procurement spend through small businesses by 2015. How are you doing in progressing towards that target?

Mr Maude: It is not a target; I am not sure that it would be legal for it to be a target. It is an aspiration, because if we said it was a target, that would mean that we would have to skew procurement in a particular direction, which would be contrary to EU law, and perish the thought that we would even contemplate such a thing.

Mr Reed: Let’s not go there.

Mr Maude: And we are making progress. We started from an uncertain base because the data were not at all clear. There were no clear data on how much of the spend was with SMEs, but some of the data are becoming clearer as time goes on. The baseline from which we were starting has been a somewhat moving target, but we are doing better. Will we get there? I don’t know, but I hope so.

It is crucial that there is a full engagement from the Departments that carry a huge proportion of Government buying—the MOD is the biggest, but it is not the only very big Department. Of course, we can look down into the supply chain—this is not just at the top level. There are some areas of purchasing where there will be quite a long supply chain, and the further you get into the supply chain, the more likely it is that there will be SME suppliers. I suspect there

will always be a higher degree of SME participation than is easily measured. The key thing from my point of view is that we make it as easy as we can for SMEs to be able to bid and to be able to win the business. I still hear of too many small businesses that do not even try because word of mouth says that it is very difficult to win the business.

Chair: I am sorry, but we must have shorter answers because otherwise we will not get through, which might be your objective, but it is not mine.

Mr Maude: I never want to talk myself out.

Chair: Quite.

Q557 Mr Reed: On the data that are available, over the past two and a half years, procurement through SMEs has risen from 6.5% to 10% in Government overall—a 3.5% increase. On that rate of growth in the next two years, you will be way short of the 25% aspiration, and the picture is not consistent across the whole of Government. In the Department of Health, over that period, the percentage of procurement through SMEs has fallen from 18% to just 9%. What remedial action are you taking to push all Departments towards the stated aspiration?

Mr Maude: We have asked them all to come up with a plan—a strategy for how they do it—and it is fair to say that those are mixed. If there are particular problems in a Department, we will work with them. The figures will always look a bit lumpy, because there will be one Department for which the figures may go down in one particular quarter or one particular year, so it will never be an absolutely consistent even flow. The key thing for me is that the general direction is towards more being spent with SMEs, which is not about skewing it in favour of SMEs. Generally, SMEs will give us very good value for money, as well as being good for growth and jobs.

Q558 Mr Reed: I am worried, Minister, from your opening gambit to the initial question, that if Ministers do not have a total grip on this and other areas, it will never happen. Are you comfortable that you know who is responsible, by what deadline they are to meet what targets, what monitoring processes are in place, and what reporting mechanisms are in place so that you can get a grip as a Minister?

Mr Maude: We have much better data than we had, but they are far from perfect. There were virtually no data at all when we started. What we inherited was a position where there were no central data on spend; most Departments did not know how much of their spend was with SMEs, even at the top level of the prime contractor, let alone deeper in the supply chain. I give fair warning that these numbers will do some odd things over the years ahead, because we are still only able now to start to bottom out what the numbers are going to do.

Q559 Chair: So you do not trust the numbers.

Mr Maude: Yes, a fairly common feature in Government is that the quality of data is not good. It is better than it was, but it is still not good.

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Q560 Chair: Just at the risk of making this meeting topical, you did mention the EU thing. In a word—yes or no—

Mr Maude: I sense a trap.

Chair: Do you think the EU procurement regime has helped public authorities in the UK to purchase more effectively—yes or no?

Mr Maude: I cannot give you a yes or no. It is quite bureaucratic. We have made it over the years, in terms of the way we have implemented it—not in the way we have put it into law, but the way we have implemented it through guidance—more bureaucratic and complex than it need be. I am glad to say that the European Commission is in the process of reforming public procurement directives in a way that will streamline the arrangements and make them more flexible and simpler. They will still be pretty complex, but those arrangements are currently undergoing scrutiny at the European Parliament. The Commission and the Council of Ministers are very content with the simplifications, but they are not yet through the European Parliament.

Q561 Chair: We had some briefing on that when we went to Brussels. Basically, you are saying that we might have made it more complicated for ourselves.

Mr Maude: Yes.

Q562 Chair: And it might be our fault if it has been made more difficult.

Mr Maude: Some of it is, absolutely. We have stripped it right back.

Q563 Chair: It seems that the EU procurement regime plus our administrative system has made it more difficult for public authorities, not less difficult.

Mr Maude: Yes, absolutely.

Q564 Robert Halfon: The Social Value Act came into force this year—in January, I think. What are you doing to make use of its provisions in terms of procurement and to enact the Act, in essence?

Mr Maude: My recollection of the Act that Chris White took through Parliament—great credit to him—is that it is permissive rather than mandatory, in that it enables public authorities, particularly at the pre-procurement stage, to build in an assessment of social value as well as pure financial value. My predilection generally is that you should not load procurement with values and requirements other than getting what you want at the best price. There is always a temptation to use procurement to deliver other desirable objectives. My preference always is to keep it as stripped down and limited as it can be. This is a permissive rather than a mandatory regime, so it is very much for public contracting authorities themselves to see how they want to use this, rather than for us to require it.

Q565 Robert Halfon: Are you saying that you are not in favour of using procurement to promote apprenticeships?

Mr Maude: Yes.

Q566 Robert Halfon: You are not in favour.

Mr Maude: I am not, no.

Q567 Robert Halfon: The DWP changed its contracts in July 2011 to encourage, but not require, its supply chain to hire apprentices as at least 5% of the work force of any contractors and subcontractors. Some 2,000 extra apprentices have been hired including, as you know, many young people. Are you aware of that programme, and what do you think of it?

Mr Maude: I am. My view is that where it does not interfere with good value for money, it makes every kind of good sense. It can be appropriate for a contracting authority to look at the wider value that can accrue to the economy through a particular supplier with a particular approach to, say, apprenticeships. You would always want your suppliers, where that is relevant, to be committed to training and the quality of the work force so that it can do what you want reliably and resiliently.

Q568 Robert Halfon: Given that those 2,000 extra apprenticeships have been at very little cost and that this has not impacted on procurement costs, do you not think that that should be rolled out across every Government Department, as guidance from you, so that every other Department has the same kind of procurement contracts?

Mr Maude: It is kind of horses for courses, really. There are places where that will be relevant and places—kinds of contracts—where it will not. I am generally wary when taking what is a desirable objective, which is to promote the use of apprenticeships—we have just launched an apprenticeship scheme in the Civil Service itself, and it is early days but it looks encouraging. I just think that our primary—not the sole—objective that we are serving through procurement is buying the goods and services that are needed for the citizen at the best price.

Q569 Robert Halfon: And you think that outweighs the possibility of thousands of people getting skills and apprenticeships, with the opportunities that that would bring? Most of these companies would be up for it if they knew it was part of their procurement contract.

Mr Maude: I do not think it should be allowed to trump value for money. I do not think, to slightly mix a metaphor, that it is an ace you can play to clinch it. Other things being at all equal, obviously one would prefer suppliers who add social value by committing to take on apprenticeships.

Q570 Robert Halfon: Would you object to greater transparency in the Whitehall supply chain, so you could, for example, ask Whitehall contractors to report once a year on the number of apprenticeships and young apprenticeships or whatever that they may employ who are working in Government contracts?

Mr Maude: We could do, and I am certainly happy to look at that as an option. Again, I am wary about imposing ever more burdens on suppliers when the key thing I want them to do is to do what we pay them to do cheaply and well.

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Q571 Robert Halfon: Going back to the DWP contracts, would you look at extending that to other Departments?

Mr Maude: I will have a look at it. It is something I know you have promoted very vigorously and eloquently, and I will absolutely look at the experience with DWP to see whether there is something we could apply more widely.

Q572 Chair: Could I ask, Minister, if you would accept a memorandum from Mr Halfon that he has prepared for the Committee, and provide a response to it as part of our evidence base?

Mr Maude: Absolutely.

Chair: Thank you very much. Moving on, Mr Flynn—data and transparency.

Q573 Paul Flynn: Your Department sought to address the problem of the lack of good-quality procurement information in Government by a spend analysis. Three years into government, it is not complete yet; it is still 10% short, I understand. Why is it so difficult for the Cabinet Office to collect procurement data from Government Departments?

Mr Maude: It is a whole range of different things. They have different systems in different Departments. The first problem is that a lot of Departments did not collect in one place what they were spending and with whom. When we formed the coalition Government three years ago, we did not know who our biggest suppliers were. I had to write to the chief executives of the 20 companies we thought were the biggest suppliers to Government to ask them how much business they were doing with Government. When the returns came in, the results were very different from what we had speculated about. In one case, the actual amount of business a particular company was doing was about 15 times more than we had thought.

Q574 Paul Flynn: Stephen Kelly has quoted one Department where the lawyers had advised against sharing data with the Cabinet Office on the grounds of the privacy of contractual information between the Department and its contractor. Is that on? Is that reasonable?

Mr Maude: No, it is completely unreasonable.

Q575 Paul Flynn: So what are you going to do about it?

Mr Maude: We are addressing the issue.

Q576 Paul Flynn: What is it?

Mr Maude: It is objectionable that one part of Her Majesty's Government, which is the Crown, should be withholding information from another part of the Government.

Paul Flynn: Thank you. When you get information—

Q577 Chair: May I just press that point for a minute? Surely the Attorney-General would agree that the Crown is a single legal entity, that the Government is a single legal entity? How can part of a single legal entity withhold information from itself? It is a nonsense.

Mr Maude: There are different contractors. The Crown is not the contracting authority. The relevant Department will be the contracting authority, or an arm's length body, or a quango or whatever it may be.

Q578 Chair: There is only one Secretary of State. In law, the Secretary of State is the Secretary of State.

Mr Maude: Be that as it may, there are different legal personalities and the contracting authority is the Department. Notwithstanding that, it is a nonsense that one part of Government should feel it is acceptable to withhold information from another.

Chair: I am sorry to have interrupted that point, Mr Flynn. Carry on.

Q579 Paul Flynn: When you discover that unsatisfactory situation and get the information on it, which you are not happy with, what can you do to persuade the Department to change behaviour?

Mr Maude: Make an enormous fuss and invoke better legal advice to require the Department to do what people would assume is its obligation anyway. We are a very dispersed system.

Q580 Paul Flynn: Baroness Greengross's Transport Forum and the International Longevity Centre told us, "Too much vital information by which the public can judge the value of public procurement is hidden behind the curtain of commercial confidentiality."

Under your leadership the Government has mandated the publication of Government contracts. Should the Government remove the barriers so that all data can be published, including data that are currently withheld or redacted as being commercially confidential?

Mr Maude: Our default position now is that we should not have provisions that create commercial confidentiality. That can't be universal. There are plenty of circumstances where you have to have confidentiality, maybe for national security reasons, and maybe there are genuine commercial reasons. However, the presumption should be against that, and is. We now publish many more of the contracts than have ever been published before, and that is a trend that will continue. We do have a massive legacy, a backlog of contracts, negotiated in terms that would make it legally, sadly, questionable to publish them.

Q581 Paul Flynn: Are you happy that there is one contract about which the public are being kept in the dark that involves a future spend of £99 billion to a foreign Government—to a company that is £33 billion in debt, at double the price originally proposed—which is the contract for the nuclear power station at Hinkley Point? The public have no knowledge of what is going on. In a future market, where energy prices are falling—spectacularly in America, frankly—is it sensible to contract a fixed price for 40 years? That is what EDF is demanding.

Mr Maude: I am not familiar with the detail of that contract, because that falls outside the range of things for which I have responsibility. The Government in that case is not the customer.

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Q582 Paul Flynn: Taxpayers are the ones who will be paying for a long time.

Mr Maude: Well, electricity customers.

Q583 Paul Flynn: You did stress that the Government is one unified entity.

Mr Maude: No, I didn't say it was one unified entity. That is far from being the case.

Paul Flynn: We will check. Okay. Thank you.

Q584 Charlie Elphicke: Briefly, on that point, do you not think that Government has a legitimate interest in ensuring that there is security and continuity of power supply in this country, rather than just massively and woefully neglecting power stations, so that the lights would go off?

Mr Maude: I would point to something where we, as the Government as customer, have done something to stimulate this. In our first Energy for Growth project, which we announced the result of recently, we are effectively using the Government as a long-term purchaser of electricity to sign a 20-year power purchase agreement at a fixed price. That will give us cheaper electricity without volatility because we are buying UK-based renewable electricity, so it has neither currency volatility nor carbon fuel price volatility. On the back of the Government's purchase agreement and the Government's credit, it will unlock investment in new, green, UK-based generating capacity which will create jobs and new generating infrastructure.

Chair: This is slightly energy-oriented. Can we move on to skills please?

Q585 Charlie Elphicke: Moving on to skills, Minister. The Civil Service capabilities plan recognises that procurement and commercial skills are a priority area for improvement. The Committee was told by the chief procurement officer that he is currently compiling a register of procurement thresholds across Government. How can you determine how to reform the Civil Service and the skills that are needed if you do not have a detailed understanding of the existing skills base, and how do you ensure that you can get better procurement skills so that smaller businesses get a better slice of the contract pie?

Mr Maude: You are quite right that we do not absolutely know how many procurement professionals there are across Government. Our estimate is that there are in the region of 3,500. Too many of them are people whose expertise is in procurement process, rather than in the commercial outcome. I have on too many occasions heard, or heard reports of procurement people in Government saying, "Well, of course we are not allowed to make a judgment about choosing a supplier. It is all reduced to some sort of mechanistic process." You would never do that in a commercial setting. You would be making a commercial judgment about what is the best overall value. Part of this is that it is done in too many places and the commercial expertise is spread far too thinly. We probably need over time to have fewer but better people. Many of them will be people who are already here and are capable of being skilled up with more

commercial knowledge and confidence. Part of that will be through our commissioning academy. Commissioning is about much more than procurement. It is about knowing the market of potential suppliers. Procurement is the relatively narrow, and should be very short, technical part in the middle. And then there is contract management. But we have too few people in the Civil Service who have the confidence and the knowledge to engage with a market of suppliers and potential suppliers and then have the knowledge and capability to manage contracts after they have been awarded. That is a serious deficiency which has been long recognised. But over a long period too little has been done to address it.

Q586 Charlie Elphicke: Can I press you a bit more on the small business side of things? The Government have done well in that on one measure they have doubled the amount of small business procurement from about 6.5% of the total to 10% today. The target is 25%. The fact is that small businesses account for six out of 10 jobs in this country. In terms of job creation, small businesses have created a couple of million new jobs over the last decade or two, whereas large businesses have not created any more jobs whatever overall, so can I urge that we look even harder at how we can get more contracts to small businesses, particularly as they seem to be at the cutting edge of innovation, want the work, and want to do a decent job?

Mr Maude: I completely agree. We had a fairly recent example where a hosting contract for one part of Government was being retendered. The incumbent supplier bid £4 million. A UK-based SME bid £60,000 for it, so we got the thing done at a 98.5% saving. Too many procurements have been done with restrictions built in that automatically exclude many contenders. If you say that you always have to have three years' audited accounts, most of tech city would be excluded from the very outset. They would not even get to the starting gate. Being required to post massive performance bonds and to show at the very earliest stage all of your insurance cover and such, even to get into the bidding race, those are big constraints that we need to strip away. We need to do it in a way that focuses on the right commercial outcome, because that is what will help smaller businesses, which will often be younger, newer and, as you say, innovative and disruptive—in the best sense—to give them the best chance of getting into the race and winning it.

Q587 Mr Reed: That is an excellent point, but it is no good just as an aspiration. Can you give us a date by which those things will be stripped away and we can start to contract with these small, innovative organisations?

Mr Maude: Yes, I can for central Government. It should be the case now. I suspect that, because we do not actually exercise total central control-freakery on this front, I cannot guarantee that none of it happens, but we do say to bidders, "When you see a procurement that is being done in that old-fashioned, restrictive way, please tell us," because—certainly for

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central Government—we will get it changed straight away. If it is in the wider public sector, we will engage with the contracting authority, which may be a local authority, a police authority, an NHS provider or whatever, to try to persuade them to do it the modern, progressive way. I cannot guarantee that it will all change, even in central Government, but we want to hear of the examples where it is being done in the old way and we will get on the case very quickly.

Q588 Chair: It is a slightly odd way to run an organisation to ask your suppliers to blow the whistle on the customer, who is working for you. This is a last-resort technique to try to improve the procurement method, rather than managing and improving the process internally.

Mr Maude: I will take any means there is of stimulating change.

Q589 Chair: So we are desperate.

Mr Maude: This is not at all uncommon in the private sector as well, because in big organisations, where you might easily have distant parts that are less responsive to new strategic directions from the centre, you want to know whether such things are being pursued.

Q590 Chair: It is not the way that the purchasing function worked when I worked for Ford, but there we are.

Mr Maude: When I was in embarking on this process way back, Lord Browne, our lead non-exec, recounted how when he was chief executive of BP he personally picked up the phone to one of its biggest suppliers to say, “We don’t know how much business throughout BP we do with you, but we do want to know and I would like to get your judgment and clear numbers on that, so that we can check them against our own.” Our knowledge of what gets done right across the whole of Government is not perfect. This is far from being a unified system. It is very dispersed, more so than almost any other that I know of. Our information at the centre is far from perfect.

Q591 Priti Patel: Coming back to the point about skills, in particular commercial skills, clearly there is a capability plan in place, but notwithstanding the fact that we have had, for example, the west coast issue, which was a failure in one Government Department, what can be done to address the short-term skills deficit that exists in the commercial sphere within the Civil Service?

Mr Maude: There is no single answer to that. Some of it is upskilling existing people by putting increasing numbers of senior leaders through the new major projects leadership academy at the Saïd business school in Oxford. That helps. We have just recruited half a dozen Crown commercial representatives, who are senior figures from the private sector, mostly on a part-time basis, to act as our interface with the major suppliers. They will work with Departments, and our aim is that the expertise that they bring will rub off on permanent officials in those Departments. We can do some upskilling and some mentoring, but we will also need to do some recruiting, which we should be clear about. There are actually some very good

commercial people around Government—I have been enormously impressed with some, but it is mixed.

Q592 Priti Patel: Do you sense that there is a real appetite—a real hunger and desire—to learn new skills in this particular area and commercial sphere among those in the Civil Service who have not so far had experience in this area?

Mr Maude: Again, it is mixed, but with some, absolutely. I have seen some, who have been lifer, mainstream civil servants, exposed to the commercial world and interacting with suppliers and potential suppliers, and they absolutely light up and discover a commercial part of their DNA that they did not know existed. That is great, because people generally like knowing stuff; they like knowing how to do things and having new skills. However, some will feel intimidated by it, because it is a different world and one that can be quite scary. There has been a bit of a sense that everyone from the private sector comes along and immediately fleeces the Government. That has happened in the past—not universally, by any means—but there has also been some tough negotiating by the Government, and exposing more existing civil servants to that, alongside experienced commercial people, like Stephen Kelly and Bill Crothers, who you questioned, is great experience.

Q593 Robert Halfon: Do you mind if we go back to the apprenticeship issue? If the Government had said, “This is our policy. This is something that we believe in: companies that have contracts with Whitehall should promote apprenticeships, and that is a central plank of our policy,” do you not think that companies would cut their cloth accordingly, because they would be desperate to win Government contracts?

Mr Maude: Rightly, you won an award as campaigner of the year for your tenacity in pursuing particular causes. You are probably right that that would have that effect, and I absolutely undertake that I will look really carefully at the experience at the DWP and see whether it is more widely applicable.

Q594 Chair: May I ask a question about skills? We have known for years that we have a skills gap in the Civil Service. We know that there is not consistency in the responsible ownership of large contracts over the period of those contracts. Why is it taking so long to address these problems? Why is a Minister having to force civil servants to address these problems? What has gone wrong with the system so that it is not addressing these problems itself?

Mr Maude: I am probably the wrong person to ask.

Q595 Chair: You are—or rather you speak for—the Minister for the Civil Service, who is the Prime Minister.

Mr Maude: I do have day-to-day responsibility for it. As for why it was not addressed before—

Q596 Chair: More particularly, why has the system not addressed itself—why is it having to be fixed?

Mr Maude: I really am the wrong person. I think you had Lord O’Donnell in front of you—it is really something that you should be asking him.

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Q597 Chair: Okay. Are we going to be able to promote skilled people in post so that they can develop their career managing one contract or one project?

Mr Maude: Yes.

Q598 Chair: At the moment that is not possible.

Mr Maude: We are introducing a specific change to make it easier to do that. I cannot remember what it is called, but it is a special provision, which I do not expect to be used in a huge number of cases. It is for precisely the position you are talking about, where you have someone in a key role on a major project that carries a big financial, operational and reputational burden. If someone is able, and has an opportunity to move on and do something else, we will now be able to say, "We want you to stay in that job, and we will pay you more in post to stay and do that job."

Q599 Chair: And increase their grade so they get their seniority?

Mr Maude: That should be possible too. It is possible at the moment.

Q600 Chair: But it requires a change in the regulations, doesn't it?

Mr Maude: It doesn't require a change in the regulations.

Q601 Chair: I was told that it can't happen.

Mr Maude: Well, a lot of things you are told can't happen, when it comes to it, turn out that they can happen.

Q602 Chair: Could you send me a note about that, because we regard it as absolutely crucial?

Mr Maude: I will.

Chair: Finally, the question about—

Mr Maude: When people really want it to happen, it can and does happen, I promise you.

Q603 Chair: Well, that is encouraging. The Ministry of Defence is introducing a GoCo. It is proposing basically to contract out its procurement. Why isn't that proposal being considered elsewhere in Whitehall?

Mr Maude: The potential GoCo is for much more than procurement. DE and S covers quite a lot of operations in dockyards, for example, and other areas. So it isn't just procurement. You could contemplate—

Q604 Chair: Do you favour this? Are you a radical? Do you support this?

Mr Maude: I am generally thought to be reasonably radical.

Q605 Chair: But do you think it is something that could be extended across Whitehall?

Mr Maude: It could be, but we are making a lot of progress with procurement anyway. It could well be that the right answer is some sort of mutual or a mutual joint venture. The scale of what we do through, for example, the Government Procurement Service is much smaller. It has many fewer people than you are talking about in the MOD.

Q606 Chair: Almost the sole justification for having a GoCo or a private company doing procurement and facilities management for the MOD is that it is impossible to recruit and retain the necessary skills on public sector contracts' limitations of pay and that sort of thing. Wouldn't it be better to address that problem directly, rather than go through the elaborate business of setting up an arm's length company, which may or may not be owned by an existing defence contractor, may or may not be more effective than the existing set-up, and certainly will be under less ministerial control and less accountable, despite the fact that it is responsible for spending very large sums of public money?

Mr Maude: Of course we can recruit people at higher rates of pay, and we do.

Q607 Chair: So why do we need a GoCo then?

Mr Maude: That is not by any means the only reason for doing it. You would need to talk to—

Q608 Chair: But you are saying it need not be a reason at all. You would have flexibility of contracts and terms of employment and be happy to pay Levene-style salaries to recruit the necessary public sector skills to be able to do this. That is not a reason for going for GoCo?

Mr Maude: It is more of a hassle to get agreement to hire at commercial pay rates. It really isn't just about it being easier. It is definitely easier in that kind of arrangement to hire people at competitive private market rates; that is undoubtedly the case. It is certainly not impossible, but it is more difficult, to do it within Civil Service constraints.

Q609 Chair: So what other gains do you get from a GoCo? You actually lose control over the contracting process as a Government or a Department. It will all be done at one remove, which is what we thought went wrong with IT procurement—handing over to the systems integrators instead of controlling it ourselves.

Mr Maude: You would need to talk to Philip Hammond, Jon Thompson and Bernard Gray about how it will work in detail. I have been a bit involved, but really only tangentially, but I think the case for getting a hard boundary, with a clearly defined contract, and a management highly incentivised to drive out cost, is quite a strong one.

Chair: There is a lot more that we could pursue there, but we will not for now; we will move on to our next session.