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UKTI and the contract with PA Consulting

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to the report*

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The Committee of Public Accounts

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Summary

In January 2016 UK Trade & Investment (UKTI) terminated its specialist services contract with PA Consulting (PA). The story of the original procurement and subsequent operation of the contract is one of a series of failings for which both parties must share the blame. UKTI displayed poor governance and did not keep proper records. It made a simple matter as complex as possible. It negotiated significant changes to the contract with PA when it should have gone back to the market. It pushed to sign the contract before it had finished these negotiations. All this was unfair to other bidders and left UKTI exposed to being exploited by PA. For its part, PA fell well short of the appropriate duty of care that we expect contractors to demonstrate when in receipt of taxpayers' money; instead of looking out for its client, PA took advantage of UKTI's poor decision making. It sold UKTI a service it is not clear it needed and failed to give the fair breakdown of its costs and profit that UKTI asked for. Instead, it used the negotiations to pass on costs to UKTI that it had said in its bid that it would bear, and to increase its profit from the contract while telling UKTI that its profit had not increased.

The contract between UKTI and PA Consulting is a sorry saga from beginning to end. Our inquiry has been hampered by the lack of proper records from all parties concerned. We cannot remember a previous inquiry in which so many witnesses corrected their evidence after a public session. These events do not inspire us with confidence that we have got to the bottom of what happened. The incompetence by all parties involved in letting the contract, managing the contract and keeping records is an extraordinary coincidence. Such a lack of competence across the board leaves us with serious concerns.

We recommend that the Government commission the National Audit Office to conduct an independent forensic audit of both UKTI and PA Consulting to get to the bottom of what happened. It is not enough to describe incompetence at a Parliamentary committee especially when information and explanations have changed before, during and after our public session. We need to see a rigorous pursuit of the truth.

PA has not convinced us that it takes full responsibility for its actions. Its many explanations of its charges both at the time and since have been loosely worded, inconsistent and seemingly designed to obfuscate. It is unclear to us how such behaviour would be possible in a well managed professional practice.

UKTI appears to have learnt some of the lessons, but it is worrying that it has taken this episode to make it realise it needs better commercial capability. Government's lack of commercial expertise to get the best deals on behalf of the taxpayer has been a regular cause for concern for this Committee. We and the previous Committee of Public Accounts have heard several times from Government about how it is seeking to improve the commercial capability of central government departments and we concluded in our March 2016 report *Transforming Contract Management: progress review* that it is making some good progress. But it is worrying that these capability-building initiatives have not been extended to arm's-length and devolved bodies like UKTI when such bodies do a large proportion of procurements carried out on behalf of the taxpayer. In the last year we have reported on NHS Digital's *General Practice Extraction Service*, where the contractor also took advantage of a weak client: and the Cambridgeshire and Peterborough clinical commissioning group's *UnitingCare Partnership contract*, which collapsed after the rush to sign a contract before resolving what it would actually cost.

Introduction

UK Trade & Investment (UKTI) is the UK's international trade and inward investment promotion organisation. Since July 2016 it has formed part of the Department for International Trade. It provides a network of advisers and experts to support UK exporters of goods and to help overseas-owned firms locate and build business in the UK. In May 2014 UKTI entered into a three-year contract with PA Consulting Services Limited (PA) for the provision of trade and investment specialists, and paid £18.8 million for the first 11 months of services. After the contract had started, UKTI became concerned about the way PA had priced the contract and about PA's transparency in its communications with UKTI. The contractual relationship eventually broke down and UKTI terminated the contract in January 2016. In May 2016, UKTI and PA reached a commercial settlement under which it was agreed that UKTI would pay the balance of PA's outstanding invoices less a £3.0 million reduction.

Conclusions and recommendations

Conclusions

1. **UK Trade & Investment did not have the right governance, skills or experience to procure the contract.** UK Trade & Investment (UKTI) failed to keep proper records to support the procurement, for example there is no formal record of the final contract price agreed with PA Consulting Services Limited (PA). UKTI does not appear to have produced a final business case for this procurement, so there is no evidence the procurement was properly considered within a formal governance structure. The business case that did exist could not be found until several months after the contract had ended. The person leading the procurement had no relevant training, had a poorly-resourced team and was reliant on a part-time procurement adviser. UKTI does not appear to have received sufficient advice to prevent it from making some questionable procurement decisions.
2. **UKTI's handling of the procurement significantly breached good practice, was unfair to other bidders and left UKTI open to being exploited.** Despite negotiating significant changes to the contract, including transferring in part of another contract, UKTI did not re-open the competition and the signed contract was based on PA's original bid rather than the negotiated terms. The current UKTI team believe the negotiated changes were material and that the procurement should have been re-opened to other bidders to see if UKTI could have secured a better price. Failing to do so reduced UKTI's leverage in its negotiations with PA and was unfair to other bidders. UKTI and PA also signed the contract before they had finished negotiating details such as specialists' rates and the staff mix. At nearly 600 pages, the contract was overly complex for a relatively simple service and the pricing template provided to bidders did not fully define the cost categories. This created confusion and left UKTI in a vulnerable position, which was worsened by its failure to challenge PA sufficiently when discussing the contract pricing.
3. **PA obfuscated about its costs and profits and allowed UKTI to believe that PA had not increased its profit when it had.** PA was repeatedly unclear about the breakdown of its costs and profits, as asked for by UKTI. Several of its explanations were contradictory and changed over time, including such questions as whether the specialists' day rates included overheads and whether certain costs were fixed or variable. Despite having underbid on the back-office costs and having won only three of the available work packages instead of all five, PA decided to proceed with running a full back office and to charge the extra costs to UKTI. PA did not make it clear to UKTI that this was happening; instead it presented the extra costs as part of the specialists' day rates. When the final specialist rate card was agreed, UKTI believed that PA's profit had fallen slightly when this was not the case.
4. **On termination of the contract, UKTI's previous carelessness left it unable to recoup from PA the full amount that it considered it was owed.** UKTI believes it lost £5 million on hidden overcharges in the contract, however, it was only able to recover £3 million in the settlement it agreed with PA following termination of the contract. UKTI told us it considered the settlement to be the best it could have achieved given the state of its documentation and record keeping. If UKTI had been

clearer originally about how the contract should have been priced, and if it had kept better records about agreed changes to the contract price, it is likely it could have achieved a more favourable settlement.

5. **We are not convinced that PA accepts the seriousness of its misrepresentations to UKTI or its failure to honour its duty of care to UKTI and the taxpayer.** PA showed a serious lack of due care for its client in a number of ways: it failed to tell UKTI it was procuring the wrong thing; it failed to provide a full and clear explanation of its costs to UKTI when asked; and it described passing extra back-office costs to UKTI as being in UKTI's interest. PA has told us it accepts it could have been better at communicating and providing explanations to UKTI. However, its inconsistent and unclear submissions and explanations, to us and the National Audit Office as well as to UKTI, seem to us to be more designed to obfuscate and confuse than to provide clarity and do not give the impression of an organisation that is facing up to its responsibilities and accepting of the need for change. PA changed its explanation of what happened frequently, both ahead of and during our public session.
6. **These failures indicate inadequate quality assurance, internal control and commercial and relationship management within PA.** PA's repeatedly inconsistent explanations are indicative of poor record keeping and a lack of corporate understanding of what happened. It beggars belief that this would have got through proper quality assurance and management review processes. We are also concerned that PA's bonus scheme for its partners risks incentivising poor behaviour in the absence of proper controls. PA has acknowledged that the team negotiating with UKTI did not have the right skills to undertake a commercial negotiation or to make fair representations to UKTI. It has also acknowledged that the issues with the UKTI contract should have been escalated sooner internally. PA has informed us that it has now made changes to its procedures, controls and training in an effort to address some of these issues but, in our view, it needs to do more to provide reassurance that its internal controls are adequate.

Recommendations

7. Although, in government terms, this was a relatively small contract, there are some serious lessons that need to be learned by all government bodies undertaking procurements. Suppliers hoping to contract with government should also take note. With this in mind, we make the following recommendations.
 - i) PA Consulting Services Limited (PA) should provide the Government with formal assurance that its failure to give a full and accurate account of its costs and profits will not happen again because of control problems or for any other reason. That assurance should be applicable to all contracts it holds with government. In providing that assurance PA should satisfy itself that it has a sufficiently good system of internal control that will not allow individual members of staff to act contrary to company policy. Obtaining the required level of assurance may require PA to commission an independent review of its practice management and internal controls.

- ii) The Department for International Trade needs to satisfy itself that all its contracts will in the future be run with people with the required level of experience. It must put processes in place to ensure that all senior responsible owners (SROs) are properly qualified and given appropriate support.
- iii) The Cabinet Office and the Government Commercial Function should extend their capability programme so that it supports arm's-length bodies, and should ensure that all government bodies have arrangements to ensure SROs are properly qualified and given appropriate support.
- iv) The Cabinet Office and the Government Commercial Function should prescribe a minimum level of documentation that all public bodies should maintain for all procurements and contracts.
- v) The Cabinet Office and the Government Commercial Function should write to government bodies reminding them to procure simple things in simple ways.
- vi) The Committee will want to review the efforts of the Department for International Trade to improve its commercial capability in the future and satisfy itself that adequate action has been taken. In response to our report in March 2016 on *Transforming Contract Management*, the Cabinet Office undertook to develop and agree a Capability Blueprint with each department, which will contain a future operating model for commercial activity and a plan to build that future model. Once the Department has completed its Capability Blueprint, it should write to the Committee to inform us of the outcome and its plans for further development.
- vii) The Government should commission the National Audit Office to conduct an independent forensic audit of both UKTI and PA Consulting to get to the bottom of what happened. It is not enough to describe incompetence at a Parliamentary committee especially when information and explanations have changed before, during and after our public session. We need to see a rigorous pursuit of the truth.

1 UKTI's commercial competence

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from current and former staff of UK Trade & Investment (UKTI), and from PA Consulting (PA).¹

2. UKTI is the UK's international trade and inward investment promotion organisation. Since July 2016 it has formed part of the Department for International Trade. It provides a network of advisers and experts to support UK exporters of goods, and to help overseas-owned firms locate and build business in the UK. These specialist advisers have been outsourced since 2006. Originally the services were packaged in three separate contracts covering different specialisms; PA won all three in 2010. In 2014, UKTI established a bespoke framework agreement and reconfigured the three contracts as five work packages (call-offs) under the framework. Part of the rationale for this was to reduce UKTI's reliance on a single provider. Three of the five work packages were awarded to PA under a three-year contract which started in May 2014. UKTI paid PA £18.8 million for the first 11 months of services.²

3. After the contract had started, UKTI became concerned about the way PA had priced the contract and about PA's transparency in its communications. In June 2015 it commissioned RSM UK Consulting LLP (RSM) to conduct an external contract investigation. RSM concluded that PA had "consistently made incorrect and misleading representations relating to £3.9 million of the overheads charged".³ PA disputed RSM's findings, stating that it had invoiced according to the agreed charging mechanism.⁴ The contractual relationship with PA eventually broke down and UKTI terminated the contract in January 2016, moving the specialist provision in-house.⁵ In May 2016 UKTI and PA reached a commercial settlement, under which it was agreed that UKTI would pay the balance of PA's outstanding invoices less a £3.0 million reduction.⁶

4. UKTI's record keeping and its governance of the procurement were weak.⁷ It produced a business case ahead of the procurement process starting in 2013; but, there does not appear to have been any final business case once the prices from the tenders were known, which would normally be expected.⁸ The business case that was produced before the procurement began was lost in UKTI's filing system and was only found again just before the National Audit Office published its report in June 2016, several months after the contract had ended.⁹

5. The former UKTI Chief Executive told us "we were quite thorough in our governance. We had monthly executive team meetings and we brought important decisions to them. They were minuted." However, there is no formal record of the final procurement decision being made by such a decision-making group.¹⁰ Similarly, there was no record of the final

1 C&AG's Report, *Investigation into the UKTI specialist services contract with PA Consulting*, Session 2016–17, HC 20, 10 June 2016

2 C&AG's Report, paras 1, 1.1, 1.4

3 C&AG's Report, para 3, Appendix 2

4 C&AG's Report, para 5

5 C&AG's Report, paras 4, 17

6 C&AG's Report, para 1.27

7 C&AG's Report, paras 8–9

8 Qq 9, 195

9 Qq 189, 192, 194

10 Qq 5, 205

contract pricing agreed between UKTI and PA: the contract was not updated to reflect the final rate card for the specialists which was agreed two weeks after the contract started; and the National Audit Office was unable to verify the amounts agreed between UKTI and PA for other elements of the pricing.¹¹

6. The senior responsible owner (SRO)—the person leading the procurement—told us that he had no formal procurement training and that he had one project manager working for him and was reliant on professional advice. This professional advice came from a part-time procurement adviser from UK Shared Business Services, on whom UKTI was relying to make sure it did not breach the public procurement regulations.¹² However, a number of UKTI’s actions during the procurement brought into question its compliance with the regulations.¹³ Despite this, the SRO maintained to us that he thought the “procurement and the governance during the procurement process was actually strong”, and the former UKTI Chief Executive agreed the SRO had done a good job, whilst acknowledging “it seems bizarre to say that now we are here”.¹⁴

7. It is clear that, at a minimum, UKTI breached good practice in a number of ways.¹⁵ One way in which it did this was to negotiate significant changes to the contract with PA, primarily by transferring in work and resources from another UKTI-PA contract.¹⁶ The contract that UKTI and PA signed was based on PA’s original bid and did not reflect the agreed changes that the two parties had already agreed to.¹⁷ This led PA to ask UKTI for a letter of comfort alongside the contract, which set out the revised volume of work and cost of specialists.¹⁸

8. When we suggested to UKTI and PA that this had been unfair to other bidders, UKTI’s former Chief Executive said that at the time it had not seemed like a material change, and PA’s Chief Executive said “if I was Chief Executive of another firm ... I would not have been uncomfortable with that.” The current UKTI team considered that the change was material.¹⁹ The National Audit Office concluded that “UKTI’s decision to negotiate a significant change to the contract after the bids were submitted and then award the contract on a basis it had already agreed to change was extraordinary”, and UKTI’s current Commercial Managing Director told us “I think [UKTI] acted pretty commercially naively at that point. With the material change of about 40% to the contract from taking on [part of the other contract] and the other changes that were made, the better commercial thing to do at that point would have been to ... re-compete all that work, to see if we could get a better price and a better deal with the other suppliers, including PA. That would have been more sensible and a better thing to do, both commercially and with regard to the regulations on procurement”.²⁰

11 Q 86; [C&AG’s Report](#), paras 3.9–3.10

12 Qq 7–9, 33

13 [C&AG’s Report](#), para 12

14 Qq 9, 33, 214–216

15 [C&AG’s Report](#), para 12

16 Q 59

17 [C&AG’s Report](#), paras 11, 3.8

18 Q 83; [C&AG’s Report](#), para 3.8; [PA Consulting](#) (CPA0004) page 2

19 Qq 57–60

20 Q 62; [C&AG’s Report](#), para 18

9. At the time the two parties signed the contract they were still negotiating some of the details of the contract price such as the volume of work, the staff mix, the specialists' day rates and some of the fixed elements of the price. Signing the contract before these details were agreed further reduced UKTI's leverage in the negotiations with PA.²¹

10. The contract itself was almost 600 pages long and sat underneath a framework contract, so in total the documentation detailing the contractual arrangements between UKTI and PA was over 800 pages long.²² The SRO observed that most of the document comprised the invitation to tender, PA's bid and "standard government terms and conditions", so the substantive contract was less than 50 pages in length.²³ PA concurred with this assessment, while also acknowledging that "In creating a thing of such scale, a degree of confusion was created on both sides".²⁴ The National Audit Office found that different parts of the contract contained contradictory information and found the document "difficult to read, understand and use".²⁵ UKTI's Commercial Managing Director told us it was one of the most complex contracts he has seen, describing it as "overly complex" and "unacceptable".²⁶

11. The pricing template that UKTI asked bidders to complete was not clear about whether costs should be fixed or variable, and did not fully define the cost categories.²⁷ This led to differences in understanding between UKTI and PA about how the contract price was constructed.²⁸ UKTI also failed to challenge PA sufficiently when negotiating the details of the contract price. For example, the average day rates for a specific group of specialists increased by over £142 (29%) a day between PA's bid and the final rate card, but UKTI did not appear to pick this up.²⁹ Similarly, UKTI did not question PA when it introduced a new element (the 'subsidy') into the pricing mechanism.³⁰

12. As a result of the conclusions reached by RSM, and the subsequent work of the National Audit Office, UKTI considered that it "lost just over £5 million on hidden overcharges in the contract" and attempted to recover as much of that as possible from PA in the settlement reached following termination of the contract.³¹ PA disputed UKTI's position and told us it should have been "at most, a £0.5 million settlement".³² Under the settlement that was agreed in May 2016, PA paid UKTI £3 million.³³ UKTI told us it had been advised that that "was the best settlement that we could hope to achieve, given the level of documentation and other matters in this case", and that "the negotiation on the settlement was made harder ... because we did not have all the documentation."³⁴

21 Qq 86–90; [C&AG's Report](#), para 3.7

22 Q 37

23 Q 25

24 Q 36

25 Qq 38–39; [C&AG's Report](#), paras 10, 1.10

26 Q 37

27 Q 34; [C&AG's Report](#), paras 10, 4.2

28 Q 38; [C&AG's Report](#), para 2.5

29 Q 75; [C&AG's Report](#), para 3.12

30 [C&AG's Report](#), para 2.7

31 Q 55

32 Qq 49, 173

33 Qq 49, 128; [C&AG's Report](#), para 1.27

34 Q 224

2 PA Consulting's charges and profit

13. During the negotiation of the contract, UK Trade & Investment asked PA Consulting about various aspects of its costs and its expected profit from the contract. It also asked for details of what the specialists' day rates covered, in order to check whether individual specialists were receiving large increases from the previous contract.³⁵

14. PA was repeatedly unclear to UKTI about the breakdown of its costs and profits, with a number of its explanations being contradictory or changing over time.³⁶ For example:

- It was not until June 2015, over a year after the contract had started, that PA confirmed its specialists' day rates included an element of corporate overheads, when a number of earlier communications had implied otherwise.³⁷
- The way that PA described the infrastructure charge changed between what is implied in PA's bid from 2013 and what it told RSM and the National Audit Office in 2015 and 2016.³⁸
- PA has provided a number of conflicting explanations for the subsidy element that it introduced into the pricing model. PA has since described its use of the term subsidy as "unhelpful" and admitted that "The terms used were consistently wrong".³⁹ We discuss this further below.
- Information provided by PA that forms part of the contract is unclear, and in places contradictory, about whether some costs were fixed or variable.⁴⁰

15. During the contract negotiations between PA submitting its bid and the contract being awarded, the average specialist day rate proposed by PA increased from £547 in the bid to £561 on the final rate card.⁴¹ For those specialists who were named in both the bid and the final rate card, the average rate increased from £498 to £640 a day.⁴² PA's profit margin was 6.1% in its bid, whereas its profit margin on the amounts actually invoiced was 10.2% (assuming it made no profit or loss on the fixed-price elements of the contract).⁴³ As PA told us, "if you take it on a like-for-like basis and ignore the additional cost of the project office and the management, the profit would have risen somewhat".⁴⁴

16. PA argued that the increase in profit implied by the higher day rates was justified by a mixture of its overrun on the cost of providing a back office and its loss of incentivisation fee. When PA submitted its bid to UKTI, there were five packages of work available. PA bid for all five and won three of them.⁴⁵ It then realised that "the programme management of the contract [was] going to cost more than the fixed price being charged to UKTI".⁴⁶ However, instead of scaling back the back-office function to the level intended for three

35 Q 42; [C&AG's Report](#), paras 3.17, 4.12

36 Q 130; [C&AG's Report](#), para 10

37 Q 132; [C&AG's Report](#), Figure 4

38 [C&AG's Report](#), Figure 5

39 Qq 40, 42, 273; [C&AG's Report](#), Figure 6; [PA Consulting](#) (CPA0004) page 2

40 [C&AG's Report](#), para 3.15

41 Q 45

42 Q 75

43 Qq 45, 49

44 Q 104

45 Q 47; [C&AG's Report](#), para 1.4

46 Q 41

work packages (and without any discussion with UKTI) PA decided to maintain its resourcing of the back office at the level intended for all five work packages.⁴⁷ PA justified this decision to maintain a full back office function by explaining to us that it “decided that there was a very good chance of meeting and exceeding our targets as a result of putting extra energy in there”.⁴⁸

17. PA explained that it was this overrun on its back office that accounted for £34 of the cost per specialist day in the rate card, which it described as a ‘subsidy’. This acted to deflate the calculation of profit quoted to UKTI. PA introduced the subsidy into its contract pricing discussions with UKTI shortly before they signed the contract. Although the subsidy was presented in a way which implied it was part of the calculation of cost that led to each specialist’s daily rate, PA maintains that it was not an additional charge to UKTI.⁴⁹ PA’s latest explanation for the subsidy is that it was a “cost memo item” and was “intended to demonstrate the impact of the unrecovered [back-office] costs on the ... ‘profit per specialist’ in line with the overall contract profit”.⁵⁰ PA told us the £34 per day was calculated by taking the £930,000 of unrecovered back-office cost and dividing it by the expected number of specialist days (27,274) in the first year of the contract.⁵¹

18. However, the back-office charge was supposed to be fixed, meaning that PA should have borne any costs it incurred above the charge agreed with UKTI.⁵² PA effectively transferred that excess cost to UKTI by incorporating the ‘subsidy’ into the variable element of the price.⁵³ Mathematically, the subsidy increased PA’s overall contract profit (as invoiced) from the 5.6% that PA claims to 10.2%.⁵⁴ PA contends that “it was money actually spent on over-delivering on the contract, and was not money that went to PA profit”.⁵⁵ However, it was not a cost that UKTI had agreed to bear and it was solely PA’s decision to “use some of that otherwise excess profit on resource”.⁵⁶

19. The inclusion of the subsidy allowed PA to present successive versions of its rate card to UKTI as representing reductions in profit, and UKTI took these reported reductions at face value. At the time the SRO thanked PA for “taking the hit” on its profit margin and he told us he had had no reason to believe that the figures were misleading. UKTI does not appear to have understood the implication that this ‘subsidy’ was a direct increase in PA’s net profit.⁵⁷

20. PA told us in a letter before our evidence session that while its decision to maintain the same back-office configuration as it had budgeted for five work packages “meant that PA would not recover the additional £930,000 of [back-office] cost, PA expected to cover the cost through earning a proportion of the originally agreed outcomes-based incentive payments”.⁵⁸

47 Qq 45, 48; [C&AG’s Report](#), paras 3.22–3.23

48 Q 49

49 Q 40; [C&AG’s Report](#), paras 3.20–3.23

50 [PA Consulting](#) (CPA0004) page 2

51 [PA Consulting](#) (CPA0004) page 2

52 [C&AG’s Report](#), para 1.11

53 Qq 49, 103

54 Qq 43, 49, 99

55 Q 104

56 Q 49

57 Qq 101–102; [C&AG’s Report](#), paras 13–14

58 [PA Consulting](#) (CPA0004) page 2

21. PA also told us that, before the contract was signed, it had “waived the vast majority” of ‘incentivisation’ payments.⁵⁹ The incentivisation scheme was originally designed so that PA would be paid between 90% and 117.5% of what it would otherwise be due, depending on the specialists’ achievements against certain performance targets. There were separate incentivisation targets for the two sides of the business: Trade and Investment.⁶⁰ PA told us the Investment incentivisation arrangements had been agreed prior to contract signature.⁶¹ On the Trade side, an element of the incentivisation had been negotiated away before the contract was signed.⁶² The contract documentation left the remaining arrangements outstanding and both parties agreed they would negotiate and agree terms by 1 August 2014.⁶³ In October 2014, PA agreed to waive the Trade payments for the first year of the contract altogether, because of budget constraints within UKTI.⁶⁴ In a note to us PA has acknowledged that, although it had waived a significant amount, “the incentive payment arrangement for Trade remained a valuable point of leverage for UKTI up to and after contract signature”.⁶⁵ This means that PA did not know that it would not be receiving incentivisation payments for Trade when it decided to maintain the full back office.⁶⁶

59 Q 83; [PA Consulting](#) (CPA0004) page 1

60 [C&AG’s Report](#), paras 1.7, 2.2

61 [PA Consulting](#) (CPA0006) para 1.3.1

62 Q 95

63 Q 96

64 [C&AG’s Report](#), para 2.2; [PA Consulting](#) (CPA0006) para 1.4

65 [PA Consulting](#) (CPA0006) para 1.4

66 Q 96

3 PA Consulting's internal controls

22. We expect contractors in receipt of taxpayers' money to demonstrate an appropriate duty of care to the government as a client and to the taxpayer as the funder of that client.⁶⁷

We note that:

- PA Consulting (PA) did not question whether UK Trade & Investment (UKTI) was buying the right thing. UKTI's current Commercial Managing Director told us "what we bought was not what the business needed. The commercial model was not the right one for the thing that we desired", and UKTI must take responsibility for its lack of commercial expertise at the time.⁶⁸ However, PA also missed the opportunity to be a good contractor and to discuss with UKTI whether the proposed contract model was the right one, either at the time of the procurement or later. PA told us "we were attempting to do our very best in the structure that we were contracted, around outcomes charged per day in fixed costs, and we should have asked, 'Is that absolutely what you want?'" ... "our error was not to ask additional questions over and above simply delivering brilliant work and great outcomes".⁶⁹
- As we set out in the previous part of this report, PA repeatedly failed to provide a full and clear explanation of its costs in response to requests from UKTI. A number of its explanations were contradictory or changed over time.⁷⁰
- When we asked PA about its unilateral decision to spend more than UKTI had agreed to on the back-office function, and its introduction of the 'subsidy' into discussions on the contract price, PA asserted that it had not been attempting to deceive UKTI. Rather, it claimed that it had been acting in UKTI's best interests: "simply trying to balance the books in order to deliver the best they [the PA contract team] could for the client".⁷¹

23. PA wrote to us about improvements it had made to its procedures, controls and training since the National Audit Office published its report in June 2016. Examples include: requiring consultants to ensure that information about costs or profitability is approved by a finance manager before being released to a client; finance managers now keep a full audit trail of bid pricing information and all subsequent changes; and project consultants must respond to any organisational changes in clients, specifically to ensure that all new client contract personnel are fully briefed on the contract pricing and outcomes.⁷²

24. PA has acknowledged that many of its communications to UKTI could have been clearer. Examples include: "The terms used were consistently wrong";⁷³ "the language was a little bit sloppy";⁷⁴ "[the subsidy] is unclear throughout this entire process";⁷⁵ "we should have sat down and explained it clearly to the UKTI team and had a proper discussion with them and afforded them the opportunity to ask us to over-resource the programme

67 Q 125

68 Q 254

69 Qq 271–273

70 Q 130; [C&AG's Report](#), para 10

71 Q 141

72 Qq 120–121; [PA Consulting](#) (CPA0003) page 2

73 Q 42

74 Q 132

75 Q 136

office”;⁷⁶ “the PA project team introduced an additional cost-memo item in the rate card and described it, unhelpfully, as a subsidy”;⁷⁷ and “PA may have caused UKTI difficulty in understanding”.⁷⁸

25. PA has made numerous attempts to explain the subsidy since it first introduced it into its negotiations with UKTI. The National Audit Office report lists seven representations made by PA between 2014 and 2016 (to UKTI, to RSM and to the National Audit Office) during the course of which PA’s explanation of the subsidy changed significantly.⁷⁹ PA then wrote to us before our evidence session with a further explanation and saying “We have set out below our chronological analysis of our calculation of the subsidy which has led us to believe that it was never invoiced to UKTI”.⁸⁰

26. PA told us that the reason for the numerous different explanations of the subsidy was that one member of staff had left, and that “it was necessary for us to go back through quite a volume of information to try to understand exactly how it had been constructed and whether it was invoiced or not invoiced”.⁸¹ PA has acknowledged that the commercial negotiations with UKTI were being undertaken by the team who would be delivering the contract, and that they did not have the necessary skills to carry out such negotiations or to communicate effectively with UKTI.⁸² The team made decisions about how to balance the budget for the contract and about how to present information to UKTI, apparently without reference to any wider group of PA colleagues.⁸³

27. PA operates a bonus system for its staff; it told us “any team in PA that performs work for a client is rewarded on the combination of the satisfaction of the client and the profitability of the work”.⁸⁴ In addition, the partner responsible for the work would receive further compensation in relation to any additional contract profit. PA maintains that the UKTI contract did not make any additional profit, so the partner responsible would not have received extra payment.⁸⁵

28. The UKTI contract was significant for PA; it represented around 4% of the firm’s business and PA told us that government is an extremely important client.⁸⁶ Yet, the fact that UKTI had concerns about the contract was not escalated within PA until relatively late. When UKTI announced in June 2015 that it had commissioned RSM to investigate the contract, the PA project team notified some senior colleagues and its High Risk Assignment Steering Committee.⁸⁷ In our evidence session, PA told us that “the team saw a problem at the time that UKTI requested an audit, and the audit was being performed”.⁸⁸ However, in a subsequent note to us PA stated that contract audits are not unusual and that no major concerns were reported at that time.⁸⁹ PA also told us in our evidence session that the Chief Executive became aware of UKTI’s concerns around August 2015, during

76 Q 136

77 [PA Consulting](#) (CPA0004) page 2

78 Q 105

79 [C&AG’s Report](#), Figure 6

80 Q 41; [PA Consulting](#) (CPA0004) page 2

81 Q 134

82 Qq 42, 107, 140

83 Qq 135–136

84 Q 108

85 Qq 111, 122

86 Qq 49, 123, 173, 175

87 [PA Consulting](#) (CPA0006) para 1.1

88 Q 142

89 Q 266; [PA Consulting](#) (CPA0006) paras 1.2–1.4

the RSM audit, but its subsequent note says it was not until PA's Head of Consulting was asked in early October 2015 to meet with the Cabinet Office that the Chief Executive was notified.⁹⁰ PA has acknowledged that its project team should have escalated matters sooner.⁹¹

90 Qq1 113, 263; [PA Consulting](#) (CPA0006) paras 1.5–1.6

91 Qq 107, 119, 136

Formal Minutes

Wednesday 22 March 2017

Members present:

Meg Hillier, in the Chair

Philip Boswell	Anne Marie Morris
Charlie Elphicke	Bridget Phillipson
Caroline Flint	John Pugh
Kevin Foster	Karin Smyth
Kwasi Kwarteng	Mrs Anne-Marie Trevelyan

Draft Report (*UKTI and the contract with PA Consulting*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 28 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Fiftieth 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.

[Adjourned till Monday 27 March 2017 at 3.30pm]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Monday 28 November 2017

Question number

Bob Driver, Former Director of Technology, Innovation & Events, **Dr Matt James**, Managing Director, Commercial, **Crispin Simon**, Acting Chief Executive, December 2013–June 2014, UKTI, **Alan Middleton**, Chief Executive Officer, PA Consulting, and **Dr Catherine Raines**, Director General, International Trade & Investment, Department for International Trade

[Q1–274](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

CPA numbers are generated by the evidence processing system and so may not be complete.

- 1 Crown Commercial Service ([CPA0001](#))
- 2 Department for International Trade ([CPA0002](#))
- 3 PA Consulting ([CPA0003](#))
- 4 PA Consulting ([CPA0004](#))
- 5 PA Consulting ([CPA0006](#))

List of Reports from the Committee during the current session

All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2016–17

First Report	Efficiency in the criminal justice system	HC 72 (Cm 9351)
Second Report	Personal budgets in social care	HC 74 (Cm 9351)
Third Report	Training new teachers	HC 73 (Cm 9351)
Fourth Report	Entitlement to free early education and childcare	HC 224 (Cm 9351)
Fifth Report	Capital investment in science projects	HC 126 (Cm 9351)
Sixth Report	Cities and local growth	HC 296 (Cm 9351)
Seventh Report	Confiscations orders: progress review	HC 124 (Cm 9351)
Eighth Report	BBC critical projects	HC 75 (Cm 9351)
Ninth Report	Service Family Accommodation	HC 77 (Cm 9351)
Tenth Report	NHS specialised services	HC 387 (Cm 9351)
Eleventh Report	Household energy efficiency measures	HC 125 (Cm 9351)
Twelfth Report	Discharging older people from acute hospitals	HC 76 (Cm 9351)
Thirteenth Report	Quality of service to personal taxpayers and replacing the Aspire contract	HC 78 (Cm 9351)
Fourteenth Report	Progress with preparations for High Speed 2	HC 486 (Cm 9389)
Fifteenth Report	BBC World Service	HC 298 (Cm 9389)
Sixteenth Report	Improving access to mental health services	HC 80 (Cm 9389)
Seventeenth Report	Transforming rehabilitation	HC 484 (Cm 9389)
Eighteenth Report	Better Regulation	HC 487 (Cm 9389)

Nineteenth Report	The Government Balance Sheet	HC 485 (Cm 9389)
Twentieth Report	Shared service centres	HC 297 (Cm 9389)
Twenty-first Report	Departments' oversight of arm's-length bodies	HC 488 (Cm 9389)
Twenty-second Report	Progress with the disposal of public land for new homes	HC 634 (Cm 9413)
Twenty-third Report	Universal Credit and fraud and error: progress review	HC 489 (Cm 9413)
Twenty-fourth Report	The sale of former Northern Rock assets	HC 632 (Cm 9413)
Twenty-fifth Report	UnitingCare Partnership contract	HC 633 (Cm 9413)
Twenty-sixth Report	Financial sustainability of local authorities	HC 708 (Cm 9429)
Twenty-seventh Report	Managing government spending and performance	HC 710 (Cm 9429)
Twenty-eighth Report	The apprenticeships programme	HC 709 (Cm 9413)
Twenty-ninth Report	HM Revenue & Customs performance in 2015–16	HC 712 (Cm 9429)
Thirtieth Report	St Helena Airport	HC 767 (Cm 9429)
Thirty-first Report	Child protection	HC 713 (Cm 9429)
Thirty-second Report	Devolution in England: governance, financial accountability and following the taxpayer pound	HC 866 (Cm 9429)
Thirty-third Report	Troubled families: progress review	HC 711 (Cm 9429)
Thirty-fourth Report	The Syrian Vulnerable Persons Resettlement programme	HC 768 (Cm 9429)
Thirty-fifth Report	Upgrading emergency service communications	HC 770
Thirty-sixth Report	Collecting tax from high net worth individuals	HC 774
Thirty-seventh Report	NHS treatment for overseas patients	HC 771
Thirty-eighth Report	Protecting information across government	HC 769
Thirty-ninth Report	Consumer-funded energy policies	HC 773
Fortieth Report	Progress on the Common Agricultural Policy Delivery Programme	HC 766

Forty-first Report	Excess Votes 2015–16	HC 954
Forty-second Report	Benefit sanctions	HC 775
Forty-third Report	Financial sustainability of the NHS	HC 887
Forty-fourth Report	Modernising the Great Western Railway	HC 776
Forty-fifth Report	Delivering Restoration and Renewal	HC 1005
Forty-sixth Report	National Citizen Service	HC 955
Forty-seventh Report	Delivering the defence estate	HC 888
Forty-eighth Report	The Crown Commercial Service	HC 889
Forty-ninth Report	Financial sustainability of schools	HC 890
First Special Report	Protecting the Public's Money: First Annual Report from Chair of Committee of Public Accounts	HC 835



Public Accounts Committee

Oral evidence: UKTI and the contract with PA Consulting, HC 772

Monday 28 November 2016

Ordered by the House of Commons to be published on 28 November 2016.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Mr Richard Bacon; Philip Boswell; Charlie Elphicke; Chris Evans, Caroline Flint, Nigel Mills, Bridget Phillipson; John Pugh.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Joshua Reddaway, Director of Cross-Government Studies, National Audit Office and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-274

Witnesses

I: Bob Driver, Former Director of Technology, Innovation & Events, UKTI, Dr Matt James, Managing Director, Commercial, UKTI, Alan Middleton, Chief Executive Officer, PA Consulting, Dr Catherine Raines, Director General, International Trade & Investment, Department for International Trade, and Crispin Simon, Acting Chief Executive, UKTI, December 2013 – June 2014.

Written evidence from witnesses:

[Department for International Trade](#)

[PA Consulting](#)

[PA Consulting \(supplementary\)](#)

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Investigation into the UKTI specialist services contract with PA Consulting (HC 20)

Examination of witnesses

Bob Driver, Dr Matt James, Alan Middleton, Dr Catherine Raines, and Crispin Simon.

Chair: Welcome to the Public Accounts Committee on 28 November 2016. We are here today to look at the NAO investigation into the UKTI specialist services contract with PA Consulting. We have a number of witnesses: Crispin Simon, the former chief executive officer at UKTI; Dr Catherine Raines, who is now director general and CEO for international trade and investment at the Department for International Trade; Alan Middleton, chief executive of PA Consulting; Dr Matt James, commercial managing director at the Department for International Trade; and Bob Driver, the former senior responsible officer at UKTI for this specialist services contract. We have had a number of bits of correspondence from you. Dr Raines, thank you for your comments about what the Department will be doing now. We will touch on that towards the end, but that is not really the focus today.

We are particularly keen to look at what happened with this contract. It was signed in April 2014, started in May and terminated by the then UKTI in January 2016. At a cost of £19 million, it is not the size of contract that this Committee would normally take such a big interest in; although it is a lot of money, it is not the billions we would normally look at—in Government terms, it is a smallish contract. The NAO Report and the fact that there have been other investigations into this paints a sorry picture of how the procurement of the contract was handled and suggests, frankly, disappointing behaviour by both parties involved.

I want to be really clear that we are looking at both parties in this. Mr Middleton, we will probably spend some time discussing the role of PA Consulting, as you defend how you were able to increase the profit on a contract while telling UKTI that you did not. You will get a chance to answer those questions during this hearing. UKTI is now at the heart of the new Department for International Trade and is supposed to understand business, yet there were a number of issues around this contract, which my colleagues will probe.

It is important to remember that, whether it is millions or billions of pounds of taxpayers' money being spent, this Committee's job is to hold you all to account for how that money is spent, protect taxpayers' money and ensure that it is being spent with probity and honesty. That is what we are trying to get to the bottom of today. We are here to hold you to account, and that is our role. I will ask Chris Evans to kick off with the



questioning.

- Q1 **Chris Evans:** Mr Simon, I would like to start with you. Could you walk us through the process of governance when signing contracts? What would you expect to see?

Crispin Simon: The contract would have specified what we were trying to purchase. We would have written a business case that was agreed with the Cabinet Office and that we had submitted to the Cabinet Office under the controls that were prevailing at the time. We would then have initiated the bid process that is described in the NAO Report. We selected PA as a preferred bidder and then we brought the final proposal from PA to our management group at UKTI for authorisation.

- Q2 **Chris Evans:** Why wasn't the contract published with the *Official Journal of the European Union*, as would be expected?

Crispin Simon: I am afraid I cannot answer that question.

- Q3 **Chris Evans:** Okay. This question is to Mr Middleton. Do you think the problems with this contract are ones of competence, a lack thereof, a lack of ethics, or simply a case of both?

Alan Middleton: It is not a question of ethics. PA is very proud to be a very ethical firm. It has worked for the Government for 70 years and has delivered fantastic results over thousands and thousands of contracts. The contract in question was delivered exceptionally well. It delivered 167% of the contracted outcomes and it was billed in line with the contract value. I was clear on this in my letter to the Committee that we, during the course of the contract negotiation, could have been clearer on a number of points. The framework itself could have been clearer, and as a result both parties could have understood where they were at each stage. But at the point of contract signature, with the letter alongside, PA contracted in a certain manner, delivered financially against that, and delivered the outcomes at a rate of 167%.

- Q4 **Chair:** So you're saying that it's neither a lack of competence nor a lack of ethics?

Alan Middleton: There is a competence issue in that early discussion period, but it is certainly not an issue of ethics.

Chris Evans: What is your opinion on that same question, Mr Driver?

Bob Driver: It is a competence issue.

- Q5 **Philip Boswell:** Mr Simon said it was signed off by an ex-CEO, but in its investigation the NAO saw no evidence of that. Paragraph 8 on page 5 of the Report says, "UKTI's governance of the procurement was weak. It is not clear that there was an agreed-upon commercial strategy. The procurement team had a poor understanding—". Mr Simon, are you saying that you signed off on this?

Crispin Simon: Yes. I read the Report and was shocked to see it say, "There is no evidence that a number of key decisions were approved by



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any formal UKTI decision-making body”, because they would have been. We were quite thorough in our governance. We had monthly executive team meetings and we brought important decisions to them. They were minuted. We had a very capable company secretary—chief of staff, I think they were called—and there were two assistants, so there was always that person plus an assistant taking minutes. I can’t explain why there are no minutes.

Q6 Philip Boswell: In which case, could you possibly write to us and provide that evidence? What you are speaking about is due diligence—normal protocol and processes; a stage gate process—whereby a submission is made, a review is carried out and the box is ticked for it to go to the next phase, which we would expect. Like yourself, I was surprised to see that, so if you could write to us and pass that on, that would be helpful.

Crispin Simon: I can’t provide the evidence, I’m afraid. I accept that the NAO has said that there is no evidence. I presume that it looked for it. I am sorry that there is no evidence but, as far as I am concerned, the contract was authorised by our executive management team.

Philip Boswell: Okay.

Q7 Chris Evans: Mr Driver, I want to go back to the point you made earlier. What do you mean by “competence”? Mr Middleton has been very defensive of his position. According to him, there was neither an issue of competence, nor one of ethics, so why did you pick up on competence?

Bob Driver: It certainly wasn’t an ethical issue; I think it was to do with competence. Certainly, I picked up this job to do this contract, but I had no formal procurement training and was reliant on professional advice.

Q8 Chris Evans: What was the professional advice that you were reliant on?

Bob Driver: I had a part-time procurement adviser.

Q9 Chris Evans: What about the things that I have laid out, such as the business case before the contract that Mr Simon set out? Was an investment committee formed and was due procedure followed in this case?

Bob Driver: Yes. The procurement and the governance during the procurement process was actually strong. I chaired a wide committee formed of a number of different directors from across the organisation, including finance managers and other people, along with the Shared Business Services’ specialist on procurement. I had one project manager to deal with this. It was quite a substantial framework contract that required the evaluation of 35 separate bids, so it was quite a complicated process. I was satisfied that all the bids were satisfactorily tested. We kept that wider group together during the negotiating period.

I was also involved earlier on—in late 2012 and early 2013—with getting the business case sorted out and the necessary approvals from the Cabinet Office. I don’t understand why this documentation has not been available. Throughout the procurement process, I did recommend a formal



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and separate governance structure for the contract management of the framework contract. That was very important because more than one supplier was going to be involved in the delivery of the framework. That was something UKTI needed to sort out. I have to say that I don't think that cross-departmental management structure within UKTI was established at the time.

Q10 **Chris Evans:** So you are saying that your concerns about a formal and separate governance structure were not listened to then.

Bob Driver: No, they were not.

Q11 **Chris Evans:** So you were on your own.

Bob Driver: No, I wasn't on my own; I was chairing—

Q12 **Chris Evans:** Could you help me then? Who did you report to when you said this, and why did it fall on deaf ears?

Bob Driver: I was chairing that procurement process, and reporting to two separate managing directors and, effectively, the executive team.

Q13 **Chris Evans:** And they just ignored that proposal completely.

Bob Driver: It was a little bit more complex than that, in that I put my proposals through on a number of occasions to the central finance hub of UKTI at the time.

Q14 **Chris Evans:** I asked this question to Mr Simon earlier: why was the contract not published in the *Official Journal of the European Union*, as is legal requirement?

Bob Driver: I am surprised, because I have only just found that out.

Q15 **Chris Evans:** But that is a very crucial element in this.

Bob Driver: Yes, it is very normal for these contracts to be published.

Q16 **Chris Evans:** It is not normal; it's—

Bob Driver: Yes, it is mandatory. I agree. It is something that one would normally expect the procurement adviser to deliver. That is something that they did, usually. I have not been able to look into that—I am no longer a civil servant—but I would be very surprised if the framework was not published in the *Official Journal*. Whether this lot within the framework was published, I simply do not know. I am surprised it was not.

Q17 **Chair:** Dr Raines, we have heard about procedures that were followed and that should have been documented. You now have overall responsibility for this organisation. What has happened to that paperwork? Did it ever exist?

Dr Catherine Raines: I can't answer the question about what happened to the paperwork, but I can tell you that we have now procured a document management system.

Q18 **Chair:** Forgive me. I am privileged enough to have been a Minister, so I



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know that one thing the civil service is usually very good at is holding on to bits of paper and ensuring that records are intact. Are you saying that there was not a good record keeping system in UKTI?

Dr Catherine Raines: I do not know what record keeping system was in place at that time. I can only tell you what we have put in place, which is a document management system that will ensure that in future—

Q19 **Chair:** But you have taken over. You must have put a document management system in place because you didn't think that what was there was good enough.

Dr Catherine Raines: On the basis of the NAO Report, with which we fully concur, we believe that the document management system cannot have been good enough, and therefore we have put in place something better.

Q20 **Chair:** Mr Simon, you were there at the time.

Crispin Simon: I can only repeat what I said earlier. I believe that it was approved, and it looks as if the document management system was not adequate if we cannot find the piece of paper. I am sorry for that.

Q21 **Chris Evans:** Was your relationship with the contractor far too close on this?

Crispin Simon: The contractor?

Chris Evans: Yes.

Crispin Simon: My personal relationship with the contractor was not particularly close. I do not think that was a factor at all.

In relation to the points Mr Boswell was alluding to earlier at the bottom of page 5, because I said that I believed that the contract was appropriately authorised, I do not want to give the Committee the impression that we are not accepting any of the NAO's observations, particularly the middle one where it says, "There was no effective handover to the contract management team." I think that was a weakness that I put my hand up to. It is true that Bob Driver recommended more effective governance of the contract after it had been signed. Obviously, with the benefit of hindsight, that was the wrong call. We should have had a better handover, as the NAO said, and more formal governance of the contract after it had been signed.

Q22 **Chris Evans:** But as chief executive at the time, the buck stopped with you.

Crispin Simon: Yes, I agree.

Q23 **Chris Evans:** Was this a one-off, or is this a systemic failure of UKTI?

Crispin Simon: I believe that we were making significant improvements to the effectiveness of our operations. One of the problems that the NAO observes, for example, is that we introduced the FDI contract on to the top of the contract that we had been negotiating, and it was critical of



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that. At the time, it seemed like a good idea. With the benefit of hindsight, it was not. But what we were trying to do, for example, was in the FDI contract we had an aerospace specialist in investment and one in trade. In automotive, we had one in investment and one in trade. By putting the two contracts together, it looked like we were improving the efficiency and effectiveness of the process.

Q24 **Chair:** You did that after you started letting the first one.

Crispin Simon: We believed—the NAO have told us that we may have been mistaken—that the transfer of people associated with the FDI was effectively—

Chair: Sorry, just explain FDI.

Crispin Simon: I'm sorry—FDI is foreign direct investment. UKTI, as the name suggests, is divided into T for trade, which is exports, and I for investment, which is inward. So we transferred some of the people associated with the foreign direct investment work to this contract. As I said, we believed that that was done for good commercial reasons.

Q25 **Chair:** One of the interesting things that struck us was that, for what is a relatively simple contract in essence, it was a 596-page contract. Mr Driver, was that really necessary for something that was potentially quite a straightforward trading contract?

Bob Driver: It was not a straightforward contract, actually. It was a—

Chair: It could have been.

Bob Driver: Yes. I only got the requirement to come here two weeks ago, and I had a look at the contract—I managed to get my hands on a copy of it over the weekend—and 92% of it is actually the instructions for the tender, PA's bid and standard Government terms and conditions. The substantive contract is actually 45 pages in length. That is not that long for a contract of £66 million over four years. Also, on page 542 of the contract it is crystal clear that the contract is subject to changes in volumes and prices.

Chair: That brings us back to the bit where it becomes more complicated.

Q26 **Philip Boswell:** Just to go back to an earlier line on questioning, Mr Simon, when we spoke about point 8 on page 5, that, "There is no evidence that a number of key decisions were approved by any formal UKTI decision-making body", what document could not be found? Did you approve the original contract or the Version 11 rate card agreed shortly thereafter? Which one was approved, or was it both?

Crispin Simon: The first contract would have been approved. We had been working on it for months, and it involved a huge amount of the organisation. That certainly would have gone to the executive board. Rate card 11 may not have done, although I personally will have authorised it, because Bob Driver would not have made any significant commercial judgment without involving me. Approving that rate card was a mistake,



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with the benefit of hindsight. I cannot honestly tell the Committee that I know that that would have been approved. It seemed at the time to be—

Q27 **Chair:** Just repeat that last bit for us, to be clear.

Crispin Simon: The original contract was approved—I stick to that, despite the lack of evidence to that effect. The Version 11 rate card, which became the basis for PA charging, was an amendment to the contract. Because it was an amendment that seemed exactly in line with the commercial aspects of the deal, it is possible that that did not go to the executive committee, and again I accept responsibility for that.

Q28 **Philip Boswell:** Mr Driver, fair play to you: you said earlier that you had no formal procurement training and you had a part-time procurement adviser. Did that mean that you were often or occasionally left to make commercial decisions on your own, as it was only part-time cover that you had?

Bob Driver: I wouldn't say that I was making any commercial decision on my own; it was a collective decision-making process.

Q29 **Philip Boswell:** With part-time support.

Bob Driver: Yes. If you are talking about having expert advice on procurement issues, that was not available all the time.

Q30 **Philip Boswell:** So you would save up the questions for 50% of—

Bob Driver: Yes. I have to say, though, that towards the end of the process, the adviser was pretty full-on, so he was around a lot.

Q31 **Philip Boswell:** He became pretty much full time, latterly during negotiations?

Bob Driver: In the closing stages, yes.

Q32 **Philip Boswell:** Again, these are questions about why there was no proper governance of this procurement. Mr Driver, what were the roles of UK Shared Business Services and BIS during this process?

Bob Driver: UK Shared Business Services provided the procurement adviser that I relied on. BIS, at the time, was not really involved, apart from in one instance. On Christmas Eve, I got a challenge for the framework that we had just published the results for, from one of the bidders that had been unsuccessful in winning some of the lots. That meant we had to extend what was then called the Alcatel period, which is the standstill period. I remember at the time we had to utilise legal advice from BIS. I can't remember whether it was BIS Legal, internal BIS lawyers, or lawyers that were brought into BIS from the Treasury, but there was legal advice from BIS that looked at the challenge and went through all the documentation and the decision making that we had done as part of the tendering, and I remember being congratulated at the time on the thoroughness of our paperwork, ironically.

Q33 **Philip Boswell:** The same question to Mr Simon—or is there anything you



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would add to that response from Mr Driver?

Crispin Simon: No. I was aware that SBS were there. I actually felt that Bob Driver did a good job. It seems bizarre to say that now we are here, but I think he did a very good job, particularly on the initial phase of the contract up to the point where we introduced the foreign direct investment element. I felt that the commercial aspects were well managed. I did rely on SBS to ensure that the bit that I wasn't familiar with, because I had spent most of my career in the private sector, which was Government procurement rules—we were relying on them to make sure that we did not breach Government procurement rules, and obviously we relied on lawyers to draft the final contract.

Q34 **Philip Boswell:** Let's look at the poor documentation again, Mr Simon. There was poor documentation, a failure to properly record negotiations and the almost complete switch-out of the initial contract management team, including the procurement specialist, shortly after the contract commenced. Why was there all this change?

Crispin Simon: May I provide a little background detail? I know you don't like digression.

Chair: Very briefly.

Crispin Simon: As I said a moment ago, I believe that the contract was the right one, up to the point where we introduced the foreign direct investment element. I think that was a mistake, as I said. I explained the reasons why we did it, but the reason that that turned out to be a problem was, as the NAO observes, that in the contract there is not a clear enough definition of what are fixed and variable costs. That meant that when we added the extra volume, it opened the door to PA charging more for the overhead, and that had not effectively been negotiated. That was not apparent at the time and it was an oversight. I still think that that could have been corrected with good will on both sides, because there would have been more overhead. I am not qualified to judge whether it would have been as much as PA eventually charged, but there could have been a fair negotiation. But at that point we had lost the contractual leverage, and that would have been a much better place to be.

Q35 **Chair:** Thank you. Mr Middleton, we were talking about the size of the contract earlier. You as a company contract often with the Government and other Governments. Do you think 596 pages was the right sort of length for this, or was it more complicated than other contracts that you had signed?

Alan Middleton: First of all, Government contracts tend to be larger—in many cases, significantly larger—than we see in the private sector.

Q36 **Chair:** Would this have been a standard size? Do you think it was too long for what it had to do?

Alan Middleton: I think it was a very large contract. The key part of the contract, which, as Mr Driver says, was some 50 pages, was probably fine. In the private sector, you would see a contract like this being some 30



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pages. That component was fine. In creating a thing of such scale, a degree of confusion was created on both sides. Certainly on our side, there was a misunderstanding of certain terminology.

- Q37 **Chair:** Dr James, you are a commercial expert. You are now in charge of this sort of operation. How complex was this contract compared with others that you have seen?

Dr Matt James: I think it was one of the most complex contracts I have seen a Government Department let in 20 years of doing my job. I have been involved in the billion-pound contracts that this Committee deals with and I have seen contracts that are far slimmer and more articulately written than this one. This was overly complex. Actually—to correct a point—there were almost 600 pages to this contract which were the order, but overpinning the order was also a framework contract of nearly 300 pages. So actually, this was 800-and-something pages—in two contractual documents—and looking at it, I would say that is unacceptable.

- Q38 **Chair:** If I can ask Alan Middleton this first, this contract contained contradictory information about the price of services. Why?

Alan Middleton: There were a few and, as I said in the letter I sent to you and to the Committee, we apologise, and we got elements wrong in the midst of all this. As you look through it, you can see that many different terms are being used, both within the ITT and in our response. As you look at ways in which things are calculated, it could have been better agreed between both parties how calculations should be performed. If I am honest, we ended up in a 12-week period in February, March and April, as we went through to contract signature, when the teams on both sides were doing their very best to get things sorted out and get things right, but errors crept in.

- Q39 **Chair:** Mr Driver, why was this contradictory information about the price of services not picked up on the UKTI side when you were looking at signing or negotiating the contract?

Bob Driver: I really don't have an answer to that. I looked at the contract over the weekend and it seemed fairly explicable to me. What it included was what PA was offering—the bid—and, clearly, what we were buying—the ITT. On top of that was a price schedule. Often, what happens in the public sector is that there is a lot of churn in personnel as they go through, so having the full account of what was let and what was bid is useful for people taking over the management of a contract.

- Q40 **Chair:** Can I go back, Mr Middleton? You mentioned the letter that you sent me on 10 November, and the one on 22 November. In total, there have been nine letters from PA Consulting either to this Committee, via me, or to the National Audit Office, trying to explain the changes post hoc. In the letter of 22 November, you quote—paragraphs are not numbered, but this is several paragraphs in part 3, the third paragraph up from the bottom of page 2, under item 3. It says: "On the 25th of April, the PA project team introduced an additional cost memo item in the rate card, and described it—unhelpfully—as a 'subsidy'", in inverted



commas.

It seems extraordinary to me that an organisation with PA Consulting's experience of contracting so often with Government could be so loose in its language as to call something a subsidy and then spend several letters trying to explain—not that; that is one term that I am picking out—other terms. Either you got it very badly wrong in the first place, through incompetence or worse, or you have a team that does not know how to put together a rate card and a charging system. Which is it?

Alan Middleton: I will be honest. As I started to look at this contract, I found this quite difficult myself. I spent quite a lot of time going through this, and there has been a degree of confusion around it. I want to describe the first area of difference of opinion that we had with the NAO, because it might be very helpful. The annual report could be read as saying that PA incrementally charged an additional £34 per specialist day as a result of introducing a subsidy. The confusion comes about because from the point when PA bid, PA bid a certain charge per day per specialist on an outcomes-based contract. In other words, we committed to deliver outcomes for a certain charge per day. The charge per day changed ever so slightly during the contract negotiation, but stayed largely the same. There was never any addition to that charge per day for a specialist of an incremental £34.

Q41 **Chair:** You talk about it being “unhelpfully” described as a subsidy. That is loose wording, at the very least. Earlier in the same section of the letter, you say: “We are setting out below our chronological analysis of our calculation of the subsidy, which has led us to believe that it was never invoiced to UKTI”. I am curious about that form of words: “led us to believe”. Either you think it was invoiced to UKTI, or it was not. If, after nine attempts to explain this, you still cannot tell us what actually happened, how do you work as an operation billing other clients?

Alan Middleton: We are very clear on this. Our language may not be clear enough, but we are very clear. What happened was that we agreed with Mr Driver a charge per day. The charge per day, in the contract and with the letter of comfort alongside, is the charge that was charged to UKTI throughout the contract. At the time of the bid, the charge per day was £547. That was the estimated charge; it has to be, when you are responding to a bid. Once we had signed the contract with the letter of comfort alongside it, the charge per day was £561 per day. That was the charge we were making for the specialist resources. Alongside it, as you have noted, there were a series of fixed costs.

What was happening among the team during the contract negotiation period was that they recognised that the management of the contract and the programme management of the contract were going to cost more than the fixed price being charged to UKTI. In the meantime, as most private organisations do, it attempted to look at the costs of the specialists and manage those as tightly as possible. In bringing the two together, although there was overspend on this side for good reason—I can talk about that later, if the Committee is interested—PA was bearing that cost



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and was managing down the cost on the other side of the equation, on the specialists. Again, I can take you through the details.

- Q42 **Chair:** But it's not really good enough, is it? The way that you are held to account in a contract is that it should be separated into parts, as was attempted in this contracting, yet the appendix to that letter—figure 6 on page 38 of the Report—gives all your explanations and the NAO's analysis of a number of these questions. I won't go through every detail at this point, because we could get mired in that, but it is extraordinary that you cannot get the language or the charging in each element right. Is it just normal practice that you amalgamate it so that the bottom line adds up, whether or not the individual elements are actually charged at the right rate?

Alan Middleton: To be clear, the bid, the request, the thing that PA won was on the basis of a charge per specialist day. When we bid, we bid at £547 per day. During the contract negotiation, Mr Driver wanted further confirmation of the cost to underpin that, and we were happy to provide it. Not least he was interested to ensure that the subcontracted specialists and other specialists, should they ever return to UKTI, did not return at cost-inflated prices. As we tried to break that down among the project team, and as I have fully accepted in the letters, the project team was not sufficiently skilled to do that and to ensure that everything added up. The terms used were consistently wrong.

- Q43 **Chair:** That doesn't sound very competent to me, but what did this do to your bottom-line profit? It increased it, didn't it?

Alan Middleton: No, it did not.

Chair: Didn't it?

Alan Middleton: No, it did not.

Chair: You didn't have an extra cost?

Alan Middleton: Again, the contract profit is laid out. We need to draw a distinction between the profit of the specialists and back office and the overall contract profit. In terms of our invoices, we made 5.6%. At the contract level, we had intended to make some 6.2%. In both cases, those are low percentages for work performed in government, but it was less over the life of the contract.

- Q44 **Chair:** Joshua Reddaway from the NAO, perhaps you could cast some light on those figures.

Joshua Reddaway: I believe all these numbers flow from figure 1 in our Report. Are there any numbers in figure 1 that you wish to dispute?

Chair: Can you give us a page number, please?

Joshua Reddaway: This is on page 15.



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Alan Middleton: We are comfortable. As you know, we have written to the Committee to point out that there is a difference in the average cost per day actually invoiced, but we agree with the figures.

Q45 **Chair:** You keep saying that, Mr Middleton. You talk a lot about letters that you have written to the Committee in the past two weeks. The NAO have been looking at this in detail for some months and have been in discussions with all the relevant parties, so it is odd that only now are you referring to the recent letter that you sent, whereas seemingly you couldn't provide that information to the National Audit Office—the NAO is not a two-bit investigator—when it came looking for the information. Can we just focus on the Report? That is my point.

Joshua Reddaway: The only number I am aware of on which you can test figure 1 is the one at the bottom right: 25,279. Is that right?

Alan Middleton: There are more days than that. As a result, the average charged cost per day per specialist is less than that in the Report.

Joshua Reddaway: Because you dispute it in your evidence, we won't use that number. You have just said in your testimony to the Committee that the charge per day was moved, between the bid and the version 11 rate card, from £547 to £561? Is that correct?

Alan Middleton: That is correct.

Joshua Reddaway: In the Report we said that it moved from £561 to £573 between the contract and what was actually invoiced.

Alan Middleton: That is the number that you and I have discussed. There is a point about it being a different number.

Joshua Reddaway: We will put that to one side. You have just said that the profit on the contract at bid was 6.1%. Is that correct?

Alan Middleton: It was intended to be 6.2%.

Joshua Reddaway: Okay; and you have also just said that the profit on the invoice was 5.6%. Is that correct?

Alan Middleton: That is correct.

Joshua Reddaway: Now, 5.6% you can get by dividing row c on our table in figure 1, the last column—that is £1,058,383—by the revenue. Is that how you have got that?

Alan Middleton: Correct.

Joshua Reddaway: Okay, because the point that we make in the Report is that the amount invoiced under the day rate is £14,486,896. That is an audited number. We have looked at the invoices.

Alan Middleton: Correct.



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Joshua Reddaway: The £7,751,687 is the amount that you were charged for the subcontractors—yes?

Alan Middleton: Correct.

Joshua Reddaway: So that is the amount we have audited, and we have had a look at that number and seen that you have received that. The £4,817,340—

Chair: Can you just point out which column it is?

Joshua Reddaway: I am still going down the “amount invoiced”, line b, £4,817,340: that is an amount that we have audited, according to your internal system, as the amount that you charged, including overhead, for your employees. Therefore, surely the amount that you have just said is your profit—the £1,058,383, plus this balancing figure of the subsidy, must also be profit.

Alan Middleton: The issue that occurred in the time frame from February through to May was we determined that we were going to put more time and effort and work into the role called e, back office, which was the programme and the management of the contract and the specialists. So our view of the £859,000 is that that was money actually spent on resource, managing this contract.

Q46 **Chair:** So that figure—line d in that final column—was effectively spent on line e, back office.

Alan Middleton: Correct.

Q47 **Chair:** But you bid originally for five elements of this; but you only ended up with three.

Alan Middleton: Correct.

Q48 **Chair:** So you had more resource in the back office anyway; because you didn't reduce it.

Alan Middleton: No, the amount actually reduced. Our choice was to raise it. That was for a number of reasons—specifically, initially, to ensure that we would do our very best against the stretch objectives. Subsequently it was to make sure that we were able to manage within the UKTI environment, where there was, after EY winning two lots and PA winning two lots, more to do. It was our decision to continue to operate at that higher level of programme management, against an agreed day rate for specialists and against agreed fixed costs, and thereby reduce our profit.

Q49 **Chair:** I will just bring in the Comptroller and Auditor General.

Sir Amyas Morse: I am just going to check something from what you have just said: are you saying that you have priced going into the competition on the assumption you win all the lots? You just said, “We found that because we didn't win all the lots, because some were won by other people”; I mean you knew this was a competition divided into lots



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with at least five competitors, so you couldn't possibly have gone into it assuming—or did you? Why did you think you might win all of them?

Alan Middleton: We didn't go in assuming we would win all the lots. We went in as any organisation would do, best estimating what was required in each of the buckets of cost. In the area of the programme management and management team area, we decided that there was a very good chance of meeting and exceeding our targets as a result of putting extra energy in there. The other thing is—and Mr Driver has commented on this—

Sir Amyas Morse: Sorry, just to be clear: what target is that? Which target were you meeting and exceeding?

Alan Middleton: There were two targets. There was a target of full 100% completion of the contract; and there were also at the time of the bid stretch targets with an incentive payment against them.

Sir Amyas Morse: Not your profit target then.

Alan Middleton: These incentive targets were negotiated away by Mr Driver and his team in the time period February, March, April and into May. Nevertheless, PA took the decision—and this, Madam Chair, is the one area where I am putting my hand up and saying I think we got it absolutely wrong: we decided we were going to continue to aim for the stretch targets; we were going to manage this contract closely and well, the specialists closely and well, and over-deliver, which is what in fact we did.

Sir Amyas Morse: The method of managing it closely and well related to the amount of consultant time spent on the contract relative to delivering the contract, did it? It cannot have been the overheads, because the overheads had gone up, so it must have been managing down the cost of the consultants' time input against their performance—getting more out of less. Is that right?

Alan Middleton: No, getting more out of what we had.

Sir Amyas Morse: But covering the stretch targets with a fixed amount of resource.

Alan Middleton: Correct. Just to be clear, Sir, what I am saying is that we ran this contract at the price agreed. The revenue price is the revenue price that was agreed all the way back to the bid—give or take a little bit. As you say, we further managed the resource pool that we had, at the cost that was being charged to Government, to deliver 167% of the outcomes—not 100%. The figure of £800,000—I do not want to get into the intricacies, but it is not a like-for-like profit between the two; it is very slightly less—was the amount of extra money we were spending on the programme and management in order to deliver 67% more outcomes against the target we had been set.



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Joshua Reddaway: I do want to get these numbers out there. If you were to take the subsidy and the disclosed profit together—it is important for the Committee to see—that would make a margin, on this contract, of 10.2%. As I understand it, your argument is that you were making a loss of approximately £0.9 million on your back office, and therefore it is okay to deduct that amount from the rate card element when calculating your profit. Is that right?

Alan Middleton: Mathematically, that is exactly what happened at the contract level.

Joshua Reddaway: My question is that—mathematically, that is what you are doing—when the loss was your loss under a fixed price contract, or a fixed price element you had bid on the basis of, why is it appropriate to add that to a variable rate?

Alan Middleton: First, Mr Reddaway, you have to remember that the bid was for a fixed price per day, per specialist. If you choose to hold us to a fixed price on one element, and a fixed charge on the other, the mentality, whether right or wrong—I believe it was not wrong—of the project team was to say, “We have committed a certain number of days at a fixed fee rate per day. That is what we are charging.” Indeed, that is what we charged throughout. As you say, that would, as a result of us very carefully managing the cost inputs to specialists, have resulted in more profit, had we left it alone. The decision of the team, in the interests of over-delivering against the performance criteria set, was to choose to use some of that otherwise excess profit on resource to deliver 67% more outcomes.

Sir Amyas Morse: To put that in context, why did you end up paying UKTI a settlement amount as a penalty, if you had actually over-delivered and everything had been done just as you say? What was the reason for agreeing to pay them a penalty? What had you done to deserve a penalty?

Alan Middleton: It is a question I ask myself. Let me be very clear, there are three areas that I am sure we will discuss in the Committee: one is the one that we are covering, another is infrastructure, which we can come to discuss, and the third is overheads. As I looked through each of those, the only one where I—morally, not contractually—could see that there was a delta was infrastructure; I could see no delta anywhere else. I could see a moral argument that could be made by UKTI saying, “You contracted with us. You said you would charge us a fixed fee on infrastructure. In fact, it came in slightly less. Would you like to make a repayment?” I offered, and I would have done—in fact, when Mr James came in later, we had exactly that discussion; I am sure that Mr James will confirm. My view was that this was, at most, a £0.5 million settlement. Why did we settle beyond £0.5 million? We settled because Government is an extremely important client to PA. PA always seeks to, and I believe does, behave ethically. Frankly, the £3 million was the cost of having our other invoices paid and having it settled and moved on. I did not want this to be a slur on PA’s name. That is the reason we ended up like that.



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Q50 **Chair:** Mr Driver, when did you first become aware of pricing anomalies in this contract?

Bob Driver: I did not become aware of it. I had stopped, I was not responsible for the management of the contract; I was responsible for the procurement of the contract. I was also responsible for the negotiation just before we signed off on the contract. So, I was not responsible for the management of the contract.

Q51 **Chair:** Had anyone raised any concerns with you in the organisation about PA Consulting's work here or in any other previous contract, in terms of the way it invoiced?

Bob Driver: Not in a formal way, no.

Q52 **Chair:** When you say not in a formal way, that leaves a question begging.

Bob Driver: I left the civil service in March 2015 and I do remember towards the end of 2014 or early 2015 I was told about an attempt to move towards a cost-plus structure.

Q53 **Chair:** What did you do when you heard that?

Bob Driver: Other people were dealing with it. It wasn't my direct responsibility.

Q54 **Chair:** You were clear that other people were dealing with that and taking it on?

Bob Driver: Yes, it was other people's responsibility. I wonder whether the Committee would like to hear about the negotiation and the attempts we made to save public money.

Q55 **Chair:** Not at this point, thank you very much. Dr James, Mr Middleton was just saying that he had some discussions with you. Is that how you recollect it?

Dr Matt James: We certainly had those discussions but I do not agree with what Mr Middleton said. As far as I was concerned, having looked at the Baker Tilly/RSM audit that we had commissioned in UKTI, and subsequently the work that NAO had done, I believe the organisation lost just over £5 million on hidden overcharges in the contract. It was that figure that we tried to recover as much as we possibly could for taxpayers in the settlement agreement that was signed earlier this year. I don't agree with what Alan said, although I agree that we certainly had that conversation.

Q56 **Chris Evans:** Mr Simon, could you explain your understanding of the restricted procedure model used in this contract?

Crispin Simon: I believe that what was involved was a tender. We invited bids in five lots. PA previously effectively had all this work. To the NAO's point that it was not clear that there was an agreed-upon commercial strategy, we did want to introduce an element of competition with more suppliers. Therefore, we established five lots and we procured it under the system that you described.



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If, Mr Evans, you are alluding to the fact that we introduced the foreign direct investment element to that, we were certainly aware that we needed to check. I cannot remember the exact chapter and verse but I know that there was a discussion. I believe it was run past SBS and the BIS lawyers and they did not object. Indeed, in the conclusion on page 10, the NAO, I think, stops short of saying that we breached procurement regulations. As far as we were concerned at that point, we were trying to do something that we believed would be commercially beneficial for UKTI and, therefore, it was justified.

Q57 Chris Evans: I think you have given us too much information there. I simply asked what your understanding of the restricted procedure was. The magic words I was looking for from you, Mr Simon, were, "There should be no further negotiation." The question I've got to ask myself—I will go into the foreign direct investment contract, the specialist service contract—is, even though there is no further negotiation, as you understand it, would you believe that that was not a material change?

Crispin Simon: Yes, I do believe that was not a material change.

Q58 Chris Evans: I am interested to hear from the other witnesses. Dr Raines, do you believe that was a material change?

Dr Catherine Raines: I certainly think it wasn't best practice, so I agree. It may well be interpreted as a material change.

Alan Middleton: Our understanding of the contract was that it allowed for additional specialists to be added to it. We saw that happening. I am not a specialist in public sector contracting, so I cannot answer personally, but our view was to take a letter of comfort, to ensure we were doing the right thing.

Dr Matt James: I think it is a material change.

Chris Evans: Do you agree, Mr Driver?

Bob Driver: I certainly believed I was not straying from the scope of the overarching framework that had been agreed—the framework to which all five suppliers who were part of it had agreed. One of the key criteria for that framework—15% of the criteria under which they had won the right to be on the framework—was the ability to flex. That is a really important point. You have to bear in mind that at the time, we were not just talking about procuring new services. We were transitioning services from one contract to another into two different suppliers: PA and EY. The number of specialists and who they were had changed from the time of the bid. So we were also dealing with operational matters at the time.

Q59 Chris Evans: How do you feel about that, Mr Simon? It seems to contradict what you said. Paragraph 11 on page 6 of the Report says: "UKTI and PA agreed to transfer resources from another contract, the Foreign Direct Investment Services contract, to the new contract. In substance, this acted to extend that part of the other contract beyond its allowed term. It also changed the terms under which PA was paid for the



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transferred specialists from a cost-plus basis to a banded day rate.” My interpretation—correct me if I am wrong—is that that is a material change, so why did you not open up the contract to competition? Surely that was unfair to others who may have bid.

Crispin Simon: At the time, it did not seem like a material change.

Q60 **Chris Evans:** Correct me if I am wrong, Mr Middleton, but did PA not seek an assurance from UKTI that it was not considered a material change? Paragraph 12 on page 7 of the Report says: “These actions bring into question compliance with the public procurement regulations, and whether or not these changes were a material change to the bid and contract. PA sought assurances from UKTI that they were not considered a material change, suggesting that PA was concerned they may be viewed as such.” Could you explain why you sought that advice?

Alan Middleton: The FDI contract did not move into the specialist contract. Some 30 out of 150 resources who were performing a specialist role did move, and therefore they were resources that were identical to the contract we were managing. Had EY or any other party won lots 2, 3 and 4, which were the obvious ones for them to align to, it was our expectation that we would have to move our specialist resources from FDI towards them over time. We were concerned to ensure that UKTI was comfortable and that it was the right thing to do for business purposes and for contracting.

Chris Evans: Let us imagine for a moment that you are not the chief executive of PA Consulting but the chief executive of one of the consultants. Would you believe you had been treated unfairly by UKTI if you had discovered that, after the contracts had been bid and signed?

Alan Middleton: The easy answer is no, I would be fine with it. The honest answer is that if I was chief executive of another firm and was looking at a contract of some 150 resources—an FDI—and a set of them were clearly and best aligned to work and be managed under the framework, I would not have been uncomfortable with that. The UKTI did not move the FDI contract into the specialist contract. It moved a set of resources who were performing a like service. In doing so, it negotiated hard to get good value for money across those 30.

Q61 **Chris Evans:** Did that change have any impact on your revenue or profit?

Alan Middleton: Again, there is the ability to infer that it materially changed it from the various data sets. What happened was that we had revenue in FDI and we had revenue in specialists. The revenue and profit moved from here to there. So put simply, yes, one number went up from 15 to about 18 and the other number dropped as a result. The absolute amount of revenue did not materially change; actually, it went down very slightly—Mr Driver may have some of the figures—as a result of moving the resources into the new banded framework that he had negotiated. But substantially the revenues remained the same, and therefore the overall revenues and profit remained the same.



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Q62 **Chris Evans:** Having heard that, Dr James, are you comfortable with what you have heard so far about the transfer of one contract on to another without the other one ending first?

Dr Matt James: No, for the reasons you have outlined, Mr Evans: the contract that it transferred from was ending sooner than the one that it was transferring to. I would be concerned about that.

The more fundamental point is one for UKTI, I guess. I think it acted pretty commercially naively at that point. With the material change of about 40% to the contract from taking on FDI and the other changes that were made, the better commercial thing to do at that point would have been to go back to the framework, which had five suppliers on it, and re-compete all that work, to see if we could get a better price and a better deal with the other suppliers, including PA. That would have been more sensible and a better thing to do, both commercially and with regard to the regulations on procurement.

Q63 **Chris Evans:** Mr Driver, what was your advice at the time? Did you think it was allowable?

Bob Driver: I thought it was allowable, and it made operational sense too.

Q64 **Chris Evans:** Did you take advice on that or did you act alone?

Bob Driver: I cannot remember taking specific advice on the procurement point at the time.

Q65 **Chris Evans:** And you never spoke to Mr Simon?

Bob Driver: No.

Q66 **Chris Evans:** Mr Simon, can we have your views? Did you believe it was allowable? Did you take advice?

Crispin Simon: I did believe it was allowable—

Q67 **Chris Evans:** Or did Mr Driver act in total isolation from you, even though you were the chief executive?

Crispin Simon: I recall differently. I believe that Bob Driver and I did speak about that, and I accept responsibility for the decision that was made. I don't know that we would have got a better deal had we done it the other way, but I accept that—given where we are today—it was ill advised.

Q68 **Chris Evans:** I feel like you are a divorced couple; Mr Driver is saying one thing and you are saying another. Did you speak to each other about this? It is quite simple.

Crispin Simon: I recall that we did.

Q69 **Chris Evans:** And you do not have any recollection at all, Mr Driver?

Bob Driver: I reported all the time on what we were doing, widely. We copied in huge amounts of correspondence all the time. This move of—I



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think—15 to 30 individuals from the foreign direct investment services contract saved over £100,000.

Crispin Simon: I also will have drawn some comfort from the fact that this will all have had to go into the documentation that went through the BIS lawyers. If we were acting inappropriately, we felt they would have told us.

Q70 **Philip Boswell:** I want to pick up on a couple of points and tie up a few loose ends. Thank you for some of these answers. Mr Driver, you mentioned a clause on page 542 that permits changes in volume and personnel. I have not seen the contract, but I presume that that is the variation clause that would be implemented after the contract that was awarded. It does not justify renegotiating a core term of the contract when the contract is in the negotiation phase. It is quite separate.

I think Dr James has the right of it: this was a material change. It was a change in the condition of the contract. A key section of any contract is the remuneration section; why all the bidders were not re-engaged on a revised remuneration section I do not understand. I cannot see why that was not picked up. It is a serious failure on behalf of the administration of this contract.

I have another question to UKTI—Mr Driver and Mr Simon. When PA was selected as the preferred bidder, before the contract negotiations were completed—you must have attained an apples v. apples analysis of all bidders to be able to select a preferred one—what was understood as being the remuneration terms of PA's bid relative to what was requested in the ITT? Were the other bidders compliant with the ITT? If PA was different, why and how could you possibly have a preferred bidder, if it was not apples v. apples? Mr Simon first.

Crispin Simon: I presume that it was apples v. apples. That would be the right way to do it.

Bob Driver: Yes, all bidders had been analysed exhaustively. The bids were analysed against varying baskets of specialists.

Philip Boswell: So that's the original contract.

Bob Driver: The deal had been struck. The structure of the deal that had been agreed was firm. We were talking about the individual volumes of specialists going through that contract. With the benefit of hindsight, there were clearly issues around procurement regulations. I was not aware of that.

Q71 **Philip Boswell:** So with the original contract that was signed, the mechanism and the remuneration section requested in the ITT and submitted by all bidders were completely compatible.

Bob Driver: Yes.

Q72 **Philip Boswell:** And it was only later that there was an introduction of a revised remuneration section. How did they change in the second



submission—version 11?

Bob Driver: The only thing that changed was the quantity and remuneration of individual specialists. We were negotiating on quite a complex area of the transfer of a large number of people. We were arguing about what prices they should be within bands and we were negotiating to get the best deal for the taxpayer at the time—sorry, we were not negotiating, we were having contract discussions. The move of the foreign direct investment specialists over to the framework contract—lot 2, 3 and 4—did change the overhead. But in total, the transfer of those people moving over saved us money on the other contract.

Q73 **Philip Boswell:** And that was the £100,000.

Bob Driver: About £100,000. At the time, we were adjusting specialist remuneration to fit with strategic requirements. I remember having arguments about quite large amounts of money at the time. We negotiated on banding structures and removed the liability for IT costs. We removed, as Mr Middleton said, the planned inflation rate allowance and the incentivisation arrangement. That reduced an upside of, I think, £2 million down to £825,000. We also reduced the planned inflation rate adjustment. In total, all that came to quite a considerable amount of money saved for the public purse.

Q74 **Philip Boswell:** So you saved £100,000 a year, but against—was it an extra £1 million that was charged?

Bob Driver: The extra amount on the overhead that was charged on the new contract—

Q75 **Philip Boswell:** As a result of the negotiation—

Bob Driver: There was a material change, which has been correctly identified by the NAO. The overhead rate on the other contract—the foreign direct investment services contract—was higher.

Joshua Reddaway: Were you expecting the price of the specialists who were already in the bid to change as a result of bringing FDI people in? There were some specialists in this bid, and then you brought extra specialists from the FDI contract into this contract. Were you expecting the price of the people who were in the bid to change as a result of this negotiation?

Bob Driver: Yes. The specialists themselves were individually remunerated. We were going to a banding structure, as has been described in the NAO documentation. The issue that I was interested in pursuing during this period of contract discussions was precisely how each individual specialist was going to be remunerated, and which band they were effectively being placed in. I took that as a requirement to make sure that we were looking after the public purse, but it was also a convenient method of seeing whether we could save the Government money.

Joshua Reddaway: If I can refer you to paragraph 3.12 on page 25, are you therefore comfortable that the average day rate for the 52 individual



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specialists who were named in both the contractors—that is, the bid—and in version 11 rose from £498 to £640? Are you comfortable with that?

Bob Driver: I was not looking at average day rates; I was looking at individual specialists compared to what we were paying now, and compared to what we had paid in previous contracts. The deal had been done; the overall framework had been agreed. I was looking at individual prices for specialists. Obviously, as the specialist mix changes, then the average price might go up or down.

Sir Amyas Morse: Let me make sure we have understood that properly. If the average day rate for the number of specialists who were in the original contract has gone up by that much, even if you were not looking at it, it must mean—it is the same group of specialists that we are talking about, in the previous version of the contract and the final one—that the aggregate amount being paid for that same group of people has gone up materially. That must be true, mustn't it?

Bob Driver: Yes, that's true.

Sir Amyas Morse: Are you saying that was the result of a banding exercise?

Bob Driver: No, it is to do with a lot of changes.

Sir Amyas Morse: But doesn't it add up to being taken for a bit of a ride?

Q76 **Chair:** Didn't you question the overall increase? That's what we are trying to understand.

Bob Driver: Yes, we questioned every single price against every single specialist, and saved quite a lot of money as a result, but the change—the move of specialists from the other contract, the foreign direct investment contract—changed the overall overhead rate.

Q77 **Chair:** Dr James, do you have anything to say on this from your perspective as a specialist? I will ask Mr Evans afterwards.

Dr Matt James: I was slightly confused by the answer, Chair, if I'm honest.

Chair: Yes, I think we were all a little confused by the answer, and we may well come back to it.

Q78 **Chris Evans:** I have two quick, short questions. One is to Mr Driver and then Mr Middleton. You signed the contract on 30 April 2014. It was signed before staff, volume and price had been negotiated. It was signed based on the staff, volume and price in the previous bid rather than what was currently under discussion. Why was that date picked out? Why so soon? Why didn't you wait for even more negotiation before the contract was signed?

Bob Driver: At the time, the current contract, under which the specialists were deployed, was running out on 1 May. We had already extended the previous contract three times. There had been delays because of the



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complexity of the framework bid, and also because the challenge from the other supplier had extended the process. A large number of specialists, all of whom were subcontracted through PA, repeatedly got notices that their contracts were being extended. I was concerned that the overall operations of UKTI, which were my primary job, should continue. I didn't want to extend the contract any further. It had already been extended a number of times, so that was the prime reason.

Q79 Chris Evans: So you jumped into a contract because you didn't want to extend the other contract. Is that absolutely right? Yes or no? You jumped into a contract you knew very little about.

Bob Driver: I did know about the contract that we were signing. It had been thoroughly tested.

Chair: Mr Evans, do you want to repeat the bits that were missing?

Q80 Chris Evans: The staff, volume and price had not been negotiated at the point that you signed the contract.

Bob Driver: Yes, they had been negotiated.

Q81 Chris Evans: So are you contradicting the Report then?

Bob Driver: They had been negotiated, yes. We signed off the contract on 1 May.

Q82 Chris Evans: But it was signed on 30 April 2014.

Bob Driver: On 1 May the actual signature came back from PA, if I remember rightly.

Q83 Chris Evans: What is your opinion on that, Mr Middleton? Why the rush?

Alan Middleton: UKTI wished to sign. We had been in negotiation for quite some time. As Mr Driver said, over that period we had reduced annual price rises. We had sorted out bands and mix. We had come up with a complex spreadsheet showing the individual costs for each person—each specialist. We had waived the vast majority of our incentive payment and in fact, further waived it after it was signed. From 15 April, we had a version 6 rate card, which spoke to 27,274 days and £15.3 million. That did not change through the various rate cards thereafter, through to version 11. Version 11 has the same number of days and the same number of fees. As we came into the end of the month, at the end of April we asked for a letter of comfort indicating that there was the FDI element and different days and different fees.

Q84 Chris Evans: So if everything was so fantastic, Mr Driver, why did PA Consulting want a letter of comfort? Is that common practice?

Bob Driver: I did not know whether it was common practice or not at the time.

Q85 Chris Evans: Did you take any advice for your procurement adviser?

Bob Driver: He actually agreed the terms of the letter of comfort.



Chair: I am going to bring Dr James in here because of his expertise.

Dr Matt James: On Mr Evans' question, there are times when continuity of service is clearly important, but in this situation, we have the same supplier delivering the old contract as on the new contract. The specialists were not going anywhere. They were in our offices working on UKTI work supporting businesses on trade and investment. So the continuity of supply would not have been my foremost issue. What I think should have been on everyone's mind is, "Have we got the deal right? And when it's right, we'll move forward with it."

Q86 **Philip Boswell:** I want to tidy something up. Dr James, can you confirm that typically, in any contract negotiation, the key and core terms and conditions—the most difficult terms and conditions—are always the last ones that are completed? All the liabilities are typically in the remuneration section and this should not be any different. On page 11 there is the "Timeline of key events". It says that on 30 April, "UKTI sends signed call-off contract to PA. The contract does not reflect the increased volume of provision and UKTI issues a letter of comfort"—something we have all spoken about. It then says that 16 days later, on 16 May, "PA sends new rate card to UKTI, which UKTI accepts by email." How can you sign on a contract when the most onerous and significant terms and conditions—staff, volume and price—are still in flux and negotiation, not to be closed 16 days later? Surely any competent individual or reasonable professional ought to have known that that would at least create a battle of forms scenario further down the line or, at the very least, seriously weaken the negotiation position of UKTI—or was this award to PA a foregone conclusion?

Bob Driver: The award under the framework contract had been agreed, yes. We were negotiating on the volume within the contract.

Q87 **Philip Boswell:** With absolutely no leverage at all in your negotiating position because the contract had already been awarded, yet core issues, such as staff, volume and prices, were not agreed or finalised until 16 days after the award.

Bob Driver: At the time, I felt I was having pretty tough contract negotiations.

Q88 **Philip Boswell:** With what leverage? With what could you counter PA's position? The contract was awarded on these core terms and conditions, which run to the heart of the contract. These are conditions of contract. They are not innominate terms; they are conditions of contract. What leverage could you possibly have when the contract had been awarded and these conditions had yet to be finalised? How can you be hard or tough on any contractor? There is no alternative. All the other contractors had gone, and the core conditions were still up in the air. What leverage could you bring? How could you be tough?

Bob Driver: My opinion at the time was that the core conditions had been established and we were negotiating volume.



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Q89 **Philip Boswell:** It said “staff, volume and price.”

Bob Driver: The prices had been agreed, but the volume had not.

Q90 **Chair:** Dr James, do you want to come in? We are a bit puzzled, as you can gather.

Dr Matt James: As I read the procurement story—obviously, I was not integral to it at the time—the intention to award the contract to PA came before Christmas in late 2013, because it was in December that the organisation issued what is called a standstill or Alcatel period, telling all the suppliers in the competition who has won it. PA could therefore have expected that, if it got through the standstill period of 10 working days, it would be awarded the contract—that would be the natural course of things. The contract was intended to be awarded at the back end of 2013, so the leverage had been lost at that point, as I read it. Obviously, I wasn’t there at the time.

Chair: I think you read it in much the way that we read it.

Q91 **Philip Boswell:** Moving on, Mr Middleton, would you have made a profit on this contract if it had been based purely on your original bid?

Alan Middleton: This goes back to the heart of the question on programme management and the management of the contract. Had we operated that aspect only to the cost that we charged UKTI, we would not have made a profit had we taken no further action. In that case, we either would have had to reduce the amount of management that we chose to put in and deliver nearer the 100% of outcomes, and not 167%—we could have made a profit in that case—or we could have made a profit in the way we did, which was to very carefully manage the cost base on the specialist side.

Q92 **Philip Boswell:** We will come on to that, Mr Middleton. So the answer is that there would have been no profit under the original bid. Do you accept that the negotiation after the bid allowed you to increase both your revenue and your profit margin?

Alan Middleton: Yes. Again, as Dr James said, we had won the right to negotiate around the contract.

Q93 **Philip Boswell:** Yes is fine. Thank you very much for that. Is bidding low and then negotiating to increase your revenue and profit on this contract part of a wider strategy to land and expand, as some would call it? You land a deal and then renegotiate.

Alan Middleton: No, that is not a PA strategy, and I don’t believe it is what we did in this case.

Philip Boswell: Last one. Did you buy this contract in terms of price and deliberately include a remuneration mechanism, in contradiction to the ITT, in the knowledge that preferred bidder status would allow you to renegotiate previously existing terms, in complete contradiction to those explicitly set out in the ITT?



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Alan Middleton: No.

Philip Boswell: Thank you.

Q94 **Chair:** Mr Middleton, we have talked a bit about the incentive payment and we will probably come back to the claim of the 167% performance. Because you keep repeating that and we need to bottom that out. We will leave that for now. You claim in the letter you wrote to me on 22 November that you had given up the incentive payment at the time that your rate card increased, so that there was a quid pro quo balancing out, I suppose. If you look at the Report, page 13, paragraph 1.9, that highlights that that did not happen until the after the rate card had increased. Is that true?

Alan Middleton: Page 13, paragraph?

Q95 **Chair:** Paragraph 1.9. I will quote it: "However, the contract left the incentivisation scheme on the trade side still to be determined." So, that had not actually gone at the point at which you were increasing the rate card.

Alan Middleton: So, there were two sides to the contract and this one rightly speaks to the trade side. An element had been negotiated away during the period up until 1 May when the contract was signed. The remaining element did carry on beyond that. Beyond that date, UKTI pointed out that they had budget constraints and PA decided at that stage not to pursue incentivisation on that side either.

Q96 **Chair:** At the point that the rate card went up you did not know that you would have lost the incentivisation payment.

Alan Middleton: On one part of the contract but, yes on the other, correct.

Chair: Perhaps Joshua Reddaway could explain that briefly.

Joshua Reddaway: What element was negotiated away during the period between the bid and the version 11 rate card?

Alan Middleton: At that point we were not clear on absolute incentivisation targets and we were not seeking to write it formally into the contract at that time. It was left outstanding.

Joshua Reddaway: "It was left outstanding." That is very different, isn't it? I believe, from the documentation I've seen, it was left outstanding subject to further negotiation, which both parties agreed they would do and agree by 1 August 2014. Is that right?

Alan Middleton: I don't know, I will need to come back to you on that.

Joshua Reddaway: That is what both the contract and letter of comfort say. Would you agree that, if it says that, you had not actually formally withdrawn it from the table?

Alan Middleton: It is certainly the view of the team that they had, but let me check.



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Chair: If you could write to us on that.

Joshua Reddaway: Finally, Dr James, this came up as part of your negotiation and settlement, did it not? Was this an issue?

Dr Matt James: Yes, it was.

Joshua Reddaway: So, it was still outstanding at the end in 2016.

Dr Matt James: It was, correct.

Q97 **Philip Boswell:** I would like to look back on calculation of profits, please, Mr Middleton. Why did the way your company calculate profit on the contract change as negotiations proceeded? In a nutshell, please.

Alan Middleton: Because it was never actually clearly laid out at the beginning. As we pursued the period through to May there were various requests for various elements of cost and profit. As I say, originally it was a fixed price per day per specialist, and it was not something that we had determined correctly at that time.

Q98 **Philip Boswell:** Do you have a standard way of calculating profit on contracts?

Alan Middleton: We do. This was an unusual contract for PA. I am sure later we will talk about what we changed. We have made significant changes as a result. It is more common; 80% of our Government work is under more standard frameworks. This was more like a managed service. We were new to it and we were calculating it in the way that we always calculate.

Q99 **Philip Boswell:** What would you expect to see UKTI do to understand the economic balance of a contract and changes to that contract? Do you think the level of understanding was clear or that you saw problems in the understanding of this contract earlier than perhaps you owned up to?

Alan Middleton: No, I don't think so. I think we made a single error which, as I say, was to over-resource relative to what we had planned. The programme office, I think, UKTI was clear on the infrastructure charge. The FDI contract included PA's overheads, which was another question. There was precedent there and it was understood. Therefore, as a result, the only question was this difference between losing money on the programme office side, making a bit more on the specialist side and the two coming out at 5.6% overall.

Q100 **Philip Boswell:** I may come on to something about that later. Mr Driver, what led you to believe that you had negotiated PA into reducing their profit?

Bob Driver: Is that the email?

Q101 **Philip Boswell:** Just to reiterate—just to cover it—I know that your team sent an email to PA thanking them for taking a hit on profit during the negotiations for the contract.



Bob Driver: Yes, the email said, "These all seem entirely reasonable to me, and thank you for taking the hit on your profit margin." It was from me and it was in direct response to an email in which PA said, "While there is no impact on UKTI, the impact on PA is that PA's profit is further reduced from 7.38 to 7.03%." This was in an email exchange where we were discussing the remuneration of six individual specialists—their direct remuneration—and where they would sit within a band. Effectively, the discussion was about how those specialists should be receiving a slight increase in their direct remuneration; the band itself was not changing. So it was an entirely accurate statement, and it is taken out of context in the Report.

Q102 **Philip Boswell:** Did the statements from PA about a perceived reduction in profit—that is, taking the hit—induce you or your team to determine to accept the revised terms of contract and enter—

Bob Driver: Yes. PA had already reported a reduction of 7.49 to 7.38%. This was a further reduction to 7.03%. I had no reason to believe that these profit figures were misleading.

Q103 **Philip Boswell:** Thank you. Mr Middleton, do you accept that the introduction of the subsidy acted to deflate your stated profit?

Alan Middleton: Our contract profit was unaffected by the introduction of the subsidy. It was an attempt to show the profit at each line of each specialist, so for every specialist it was an attempt to show the profit per specialist at the contract level. With the benefit of hindsight, I wish we had been clearer. I wish we had simply stated that that was what it was, rather than using the term "subsidy", but nevertheless it neither inflated the fees charged nor changed the overall profit; it simply moved it, as the Report says, from the middle section of figure 1 to the top.

Q104 **Philip Boswell:** Okay. Do you accept that your profit on the contract rose during the negotiations, while you reported to UKTI that it stayed broadly the same?

Alan Middleton: No, we believe that our profit stayed broadly the same. What did happen was that we sought to put more time and effort in on the programme office and we sought very hard then, and through the life of the contract, to reduce the cost of specialists. If you take it on a like-for-like basis and ignore the additional cost of the project office and the management, the profit would have risen somewhat, but it was money actually spent on over-delivering on the contract; it wasn't money that went to PA profit.

Q105 **Philip Boswell:** Did PA intend to deceive UKTI about the amount of profit on this contract? I think I know the answer.

Alan Middleton: The answer is, absolutely not. PA may have caused UKTI difficulty in understanding, but there was no malice intended and there was nothing else other than a desire to deliver for the client.

Q106 **Chair:** Not malice, but a lack of competence.



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Alan Middleton: I think on both sides there was a good degree of confusion and, as I say—I'm putting my hand up for our error—had PA put their hand up and said, "We are spending more money on managing this project and programme. It's more complex. Some of the profit that we have managed to eke out on the specialist side by very careful management of that resource base," which is what a private sector company does and should do, "we are reinvesting into this contract in order to over-deliver," that would have been a sensible conversation for us to have had.

Q107 **Philip Boswell:** But Mr Middleton, Mr Driver has already freely admitted that his background is not in commercial management and he had part-time support. I am sure you would agree that any professional—you had full-time professional commercial people on this—should, if they were competent, which I'm sure they were, have been aware that you actually were getting more profit on this. It is not necessarily too complex for a seasoned professional to understand, particularly the remuneration sections within negotiations and contracts. Those are often deliberately complex because they are easier to get profit out of, and you are trying to allow for many different possibilities. So would you agree that your professional staff should have been aware of this and, had they been aware of it, should have spoken up earlier?

Alan Middleton: There are a number of points there. May I take each in turn? We believed that Mr Driver was being advised by professionals. He was being advised by SBS and, in fact, that negotiation was tough. This was not a client that rolled over; it was a tough negotiation. I believe Mr Driver ultimately saved the taxpayer money over the bid price and certainly, as I have said, on the performance basis as well. The bulk of the request to PA, over and above what was originally contracted, which was a price per day per specialist, was being driven by Mr Driver and SBS. They were asking for data in certain frameworks and in certain ways, and we were seeking to provide that. There was no attempt to hide anything; there was no attempt to be cute.

I am sure we will come to this later, but the team on our side should have escalated this and got more commercially competent people involved, given that there was a degree of complexity there. They did not. The project team—the qualified and brilliant consultants who were delivering for UKTI—were getting themselves embedded and embroiled in this. That was an error on our part. They failed to comment on the project management piece. That was an error on our part.

Q108 **Philip Boswell:** Finally, Mr Middleton, I understand your organisation has changed somewhat since then, but at the time of the negotiation of this initial contract, did you provide the performance contract related bonus system for managers and/or staff, so that when profits increased on projects, on an annual or other periodical basis, so did their bonus? In other words, where did any increased profit go?

Alan Middleton: The profit on this contract did not increase in our model; in our model, there was no benefit. However, yes, our people are

rewarded on delivering excellent work for clients—so it includes client satisfaction and everything else—and the profitability of that work. Any team in PA that performs work for a client is rewarded on the combination of the satisfaction of the client and the profitability of the work.

Q109 **Chair:** How do you measure the satisfaction of a client?

Alan Middleton: We go and ask them; we perform formal client satisfaction surveys and reviews.

Q110 **Chair:** So any dissatisfaction would be a very serious matter for one of your consultants personally, as well as for the company?

Alan Middleton: It is a more serious matter than remuneration; it is a very serious matter.

Q111 **Philip Boswell:** Could you explain the partner's bonus in relation to additional contract profit?

Alan Middleton: On any contract that recognises additional profit—this one did not—the partner would receive additional compensation.

Q112 **Chair:** I will return to Mr Boswell in a moment, but I want to touch on this. Mr Middleton, you have talked throughout with a great deal of detailed knowledge about this contract, but you just said that you felt the team on the ground should have escalated it up. What was your personal involvement with this contract? What was the level of detail that you had knowledge of at the time?

Alan Middleton: I will try to answer briefly, but obviously the contract went through a series of stages.

Q113 **Chair:** How hands on were you?

Alan Middleton: Not at all, in the early stages. The way our firm works, like most professional service firms, is that partners in our firm—people we call “partners”, the senior managing directors—have responsibility for selling and operating profitable work and satisfying the client. They have a great deal of scope in doing that, within certain bounds that we set, and when originally contracted, this was within those bounds. For a programme of work that is ongoing, we have a series of speaking outs that can be done both within the firm and by clients. So, as a client, Government can call out to me at any moment—there is a very clear way of doing it. That did not occur. This first came to my attention when UKTI requested an audit, and the audit was actually ongoing by the time I discovered that.

Q114 **Chair:** Clearly, you are the only one from your organisation here today. Who in your organisation was dealing with the day to day negotiation over this contract?

Alan Middleton: The partner in charge.

Q115 **Chair:** Who was that?

Alan Middleton: It was a partner called Mr Reilly.



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Q116 **Chair:** Does Mr Reilly still work for PA Consulting?

Alan Middleton: No, he does not.

Q117 **Chair:** Have you taken any action internally as a result of the negotiations over this contract and the subsequent investigations?

Alan Middleton: The negotiations, by and large, were performed appropriately. I think they worked well. There were a couple of areas that I didn't like, with the benefit of hindsight—among them the performance-related element going away. Mr Reilly, as I said, is no longer with the firm. He left at the end of last year during the first audit, so we have taken no action there. To be honest, the team at the time were following our process and procedures. They had bid. They had gone through. They were in the negotiation period and they were seeking to negotiate in an appropriate fashion. There was no attempt to do anything but.

Q118 **Chair:** I think it has been widely acknowledged to have been a complex contract.

Alan Middleton: It was.

Q119 **Chair:** Given that your team, you now tell us, were not contract negotiators—they were the people on the ground doing the delivery—were they, in your view, competent to do this, and should they have escalated it up the line to you sooner?

Alan Middleton: There were a variety of levels that this contract would escalate through before it would ever arrive to me. Should they have escalated it? With the benefit of hindsight, I wish they had. At the time, did it require them to know—

Q120 **Chair:** So you are absolutely confident that they behaved properly within the rules of your organisation.

Alan Middleton: They behaved within the rules that we had in place then, not the rules we have in place now. We have had to put something in place to ensure that we do not see this happen again. We have better guidelines.

Q121 **Chair:** So by changing the rules, you have acknowledged that they weren't great, and that something was wrong with the rules and the way that it worked at the time.

Alan Middleton: The one issue that we had was that they chose to offset some incremental profit in one part against a loss in another without clearly communicating to the client. We have now made it clear in our processes, rules and code of conduct that we do not do that without making it absolutely explicit to the client. Their view, which I agree with, was that at this stage it remained a price per specialist day and a set of fixed charges, and they had flexibility within that. Whether they were right or wrong, that was their view. We have now changed so that that cannot happen again.

Q122 **Chair:** Mr Boswell has touched on payment schemes and performance pay



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and so on. Was there any personal financial benefit to the team on the ground in their negotiations as a result of this contract?

Alan Middleton: No, and this is the most difficult part. The overall billing—the charges—remained the same. The charges for the specialists did not materially change. The cost base was managed to introduce a degree more profit on that side of the equation. The team—this is heartfelt—of consultants at PA who work in the UK public sector do it because they love it. They do not do it to rip people off. The team determined that they could use some of that—still within the overall profit of the contract, and not reducing anything or making bonuses difficult—to deliver more on the programme side and deliver a better result. That was the intention of the team.

Chair: Dr James?

Dr Matt James: On non-escalation, while I believe Alan completely, I think it is only right to tell the Committee that the public sector business of PA was very important to PA and is today. UKTI was their biggest account for a number of years. Given that, my experience of other suppliers is that a contract here would very much be raised to the very top level of the organisation.

Q123 **Chair:** Mr Middleton, I was surprised, looking at your last couple of annual reports and accounts, that there is no mention of the UKTI contract, and yet it accounts for about 5% of your overall business. Is that right?

Alan Middleton: Yes, 4% or so of the business.

Q124 **Chair:** But it is not mentioned with pride in your annual reviews. Is there any particular reason for that? You keep telling us that you performed at 167% of the outputs that you were expected to achieve.

Alan Middleton: To be honest, in the same time period, we were saving troops in Afghanistan and cutting hospital waiting lists, and that is just looking at the UK public sector. We have celebrated this work repeatedly—not, admittedly, in the annual report. We operate in a series of regions around the world and provide a lot of different services. In any annual report, you try to strike a balance between all of them. It was certainly something that we were very proud to deliver alongside, in each of those three years, some other very important pieces of work for the Government.

Q125 **Chair:** I will go back to Mr Boswell in a moment, but first, you have highlighted the significance of this contract and Dr James has underlined the fact that you do a lot of work with the British Government. Do you not feel that you had a duty of care, both to the Government as a client and to the taxpayer as the funder of that client, to have picked up these problems and to have been clearer about the issues sooner?

Alan Middleton: You raise two points. One is the problems and the other is duty of care. What I have described to you today, I believe, is that we absolutely applied a duty of care. We identified the opportunity to better drive this programme to better deliver outputs—



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Q126 **Chair:** A duty of care is more about the contracting. You had a team, as you have just acknowledged, that effectively decided to balance out the overpricing on one side and unilaterally decided to put it into the performance.

Alan Middleton: A single error.

Q127 **Chair:** But you acknowledge that there is a problem with that.

Alan Middleton: Yes.

Q128 **Chair:** Do you not think that you had a duty of care to explain that much more clearly? You pretty much said so just now, but I just want it to be absolutely clear for the record. Do you think that you did not really act as you should have done, ethically, as a client that works so much across Government?

Alan Middleton: I think it would have been good for us to have better explained that. That said, we were working in an environment of a fixed charge per specialist day, and fixed charges beyond that, so we were—

Chair: You did bid on that basis. Let me bring in the Comptroller and Auditor General before I bring in Mr Boswell.

Sir Amyas Morse: I think you are having a tough day at the office, Mr Middleton, which is what you are paid for, after all. I think a lot of people in the professional world will be familiar with that. That is the only sympathy I am about to extend.

Look at it another way. You paid £3 million in damages. We know that the Department for International Trade was looking for £5 million. The contract has been terminated. Mr Reilly is no longer with the company. At some time in the recent past, you became owned a very well known company, the Carlyle Group, which I dare say has a considerable lack of appetite for any damage to your brand name. So if I wanted to approach this in a slightly less charitable way, I could say that you want to get this thing shut down. You are giving good answers. You are doing everything you can to preserve the reputation of your consultancy, which by the way I consider overall to be good—let me say that. But you know and we all know that this is a pretty bad story and the actual hard facts do not quite comply with the positive tale. You keep saying, “We over-delivered by 175%.” What would have been great would have been to deliver what I dare say was actually required under the contract.

I just think that I am listening to something, and I am looking at the hard facts of the case—and when the Department looked at the evidence of what you had done, it decided that it did not want to continue with you. You paid to try to get to an amicable end to this as quickly as possible. That is what this looks like, to be quite frank. It is very difficult, objectively and with a reasonable amount of experience, to see it any other way. It is not a triumph. You got into pretty hot water and now you are getting PA Consulting out of it in as good order as you can manage. Is that a reasonable description of what is going on here, Dr James?



Dr Matt James: Yes.

Sir Amyas Morse: I thought so.

Q129 **Philip Boswell:** Just to close, Mr Middleton, you have been open that additional profit equates to extra bonus, which of course is industry standard—I do not have an issue with that. You have bigged up your commercial team, quite rightly—I would do the same. But I put it to you that your company was knowingly double-charging on this contract, and that it deliberately kept that knowledge from your client. Given the situation, given the expertise within your team and given the negotiations, what would you say to that?

Alan Middleton: I strongly disagree, Mr Boswell. It is not clear to me which element of the Report you refer to in terms of double-charging. We didn't overcharge through the allocation of corporate overhead, which is an industry norm and was applied to PA staff. The infrastructure charge was known at the time of the bid and continued right through to the contract. That was known to UKTI and was clear. One area which I have repeatedly said we could have been clearer upon was the additional costs for the programme management. Those were not profit elements because there were people applied to do the work. The work was done. The cost was there, and that was the very thing that generated the cost.

I agree—I have repeatedly agreed—that the firm should have been clearer in making that information around the programme management case available to UKTI. Nevertheless, the corporate overhead cost, which is an industry standard, was being charged to FDI specialists and the FDI contract—indeed it is the norm across the work we do with Government—was there. Should we have made it absolutely crystal clear? We have changed our process and procedures to do so, but there is a limit to everything that you can lay out in a submission. So that was clear. The infrastructure was clear; it was actually requested in the ITT, and we bid against that. There was a difference of view as to the elements that make that up, but it was there and it was clear.

Q130 **Philip Boswell:** Moving on to figures 4, 5 and 6 on pages 36-38 of the NAO Report, do you accept that PA's explanations given to UKTI, RSM and the NAO on discharges and profit have changed significantly over time?

Alan Middleton: Yes, they have changed over time, as have the questions around how they are made up.

Q131 **Philip Boswell:** Dr Raines, referring to part five on page 35 of this Report, which misleading representations does UKTI accuse PA of making?

Dr Catherine Raines: It is very difficult to understand why there were hidden columns in a spreadsheet. If those were not misrepresented I don't understand why they would not be open to view. The matter of the subsidy is something which I would question. If that was indeed for additional overheads that enabled delivery of 167% of outcomes, then it is



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difficult to understand why the level of outcome delivery remained largely the same after the contract terminated.

Q132 **Philip Boswell:** Mr Middleton, can you explain why, in response to a request from UKTI for details of the specialist direct remuneration, the email sent on 25 April 2014 stated that the day rate contained “specialist pass-through rate (what they are paid...)” when that was not the case?

Alan Middleton: Yes, certainly. I have to be clear. To get there we had to go back through all of this and reconstruct it, so it is not an answer of knowing at the time. However, first, the spreadsheet had a number of hidden columns and, to be clear, all you had to do to look at them was to highlight them and unhide them. It is not uncommon to do that on a spreadsheet so you can get the content on one screen. It is a normal thing to do. On the rates and what they are paid, the vast majority of individuals on that spreadsheet were subcontractor specialists. In fact, it may be worth asking Mr Driver because it was that which he was most concerned about and that which we were pursuing at the time. This was a single email sent during this negotiation, sent from a PA person to a UKTI person. I think the language was a little bit sloppy. He was referring to the specialists who were subcontractors and that is exactly what they are paid.

The intent in raising this point in the NAO Report was, I think, to say there were also PA specialists in there who had a full absorption cost rate. In other words, they had some overhead and what they were paid. In our view, it was certainly the intent of the individual who was talking about the subcontractor specialists; there was no attempt in his mind to deceive.

Furthermore, if we wanted to be appropriate yet slightly pedantic, the bid itself responded to the ITT, and the ITT refers to two kinds of specialists: a specialist—and a specialist is a subcontractor specialist—and a second kind of specialist, who is an employee specialist. Therefore, if we wanted to be entirely pedantic, although I am sure it wasn’t in the mind of the writer at the time, the term “specialist” refers to two—

Philip Boswell: May I stop you, Mr Middleton? Mr Driver—

Chair: I think Dr James just wanted to comment on that.

Dr Matt James: I just want to comment on Alan’s evidence about a single email on the 25th. My understanding was that it wasn’t just a single statement; it was also represented by PA in presentations that they gave the following week and in subsequent weeks and conversations. In fact, it wasn’t until the following year—in June 2015, I think—that PA said, “Actually, that wasn’t the case,” and that there were additional overheads in the day rate. So it wasn’t a single email; it was a number of correspondences.

Q133 **Philip Boswell:** Okay, that is figure 4. Moving on, Mr Middleton, why did PA give so many contradictory explanations of what the subsidy was?

Alan Middleton: The honest answer is because the person who had worked on this had left. The team itself was relatively clear as to the



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intent, and no one could get their head around it. We got ourselves in a complete twist.

Q134 **Chair:** Sorry. So you were running a rogue operation here? Somebody chose to use the word “subsidy” and explained what it meant but nobody in the organisation understood?

Alan Middleton: No, no, it was understood as to what it was. It was difficult to get our heads around what the issue was around the subsidy, because the team had determined that they were going to balance it in this way. At the time of the audit, it was necessary for us to go back through quite a volume of information to try to understand exactly how it had been constructed and whether it was invoiced or not invoiced, and to work it out the whole way through.

Q135 **Chair:** Mr Middleton, as I said before, you are CEO of a medium-sized but large consultancy company that is getting a lot of taxpayer-funded business around the world, yet you had to go and work out what all these terms meant in your organisation. There was a team on the ground that was making it up as they went along.

Alan Middleton: There was a team on the ground who had agreed a contract on a price per day for a specialist and a set of other fixed charges, and within the team itself had determined how it was going to balance the moneys on the specialist side and the moneys on the programme side, and it had determined that it would represent it as a subsidy—in other words, a cost.

Chair: Mr Boswell will finish off, and then we will come back.

Q136 **Philip Boswell:** There are a couple of things that I find disconcerting. For absolute clarity, we are talking about figure 6 on page 38: “Representations by PA: the ‘subsidy’”. Mr Middleton, I understand that you are the only one left from this team. Was this the first person to run away? I also have concerns about the number of contradictory explanations. It contradicts what you said earlier about your having a very strong, excellent team, that one person could go away and suddenly there was a big mystery that no one could solve. It doesn’t ring with what you said earlier about a cohesive team of high-standard professionals who were very worthy of the job, fit and capable. Something doesn’t add up there.

Alan Middleton: I readily admit that this is the most difficult area—I don’t feel proud about it—and it is unclear throughout this entire process. What happened was that it was created during the negotiation by the individual responsible for commercial during the negotiation, who did leave. My point is that the project team picked it up. It was not wise. At that point in time, we should have escalated it and dealt with it appropriately. Most importantly, we should have sat down and explained it clearly to the UKTI team and had a proper discussion with them and afforded them the opportunity to ask us to over-resource the programme office. With a full understanding of the client or not, we should not have taken an arbitrary decision to do that without informing the client.

Q137 **Philip Boswell:** Thank you. You have pretty much covered my next question, which was about being capable of providing clear, consistent explanations for different elements, because of the explanation you have just given me. What I don't get is, was this team bespoke for this project or do you have a central bid team that works on ITTs and generally submits bids, and you build your project teams partially from some of them? How does it work?

Alan Middleton: I have spoken to this earlier but to reiterate: the answer is the latter. However, this was an unusual contract for PA. It was not of the type that we regularly do. Since then we have completely changed and we have a team capable of doing that. Back then we did not.

Q138 **Philip Boswell:** For absolute clarity, "the latter" was what at the time? Can you explain what the position was?

Alan Middleton: At the time we had everything you described. We had bid teams and commercial capability and so on, capable of performing the regular kind of business that we deliver, time and materials—

Q139 **Philip Boswell:** So when this commercial person ran away, why didn't the bid team step in, or someone who should have understood what it was all about?

Alan Middleton: The commercial person left.

Q140 **Philip Boswell:** The commercial person from the bid team and the project team?

Alan Middleton: No, sorry. I'm saying they did not run away. The commercial person left the firm. At that time, this was a very complex arrangement. We have agreed and understood that. It was a non-standard commercial arrangement for PA and a different kind of piece of work. The partner in charge should have raised this and we should have applied a competent individual to run with it through the latter part of 2014. We should have done that, Mr Boswell.

Q141 **Philip Boswell:** We obviously have a concern, given that the explanation is changing so much all the way through this with such high calibre personnel, allegedly. Did it change so much because you did not really know the truth of it? Or, as we may be concerned about, do you think that someone in your organisation deliberately attempted to deceive UKTI in this respect?

Alan Middleton: No. In answer to the latter part of your question, I do not believe anyone was attempting to deceive UKTI at any time, nor actually deceive anyone within PA to enhance bonus or anything else you may have asked about before. I think they were simply trying to balance the books in order to deliver the best they could for the client.

Q142 **Philip Boswell:** Given that alarm bells were clearly going off at this time, was this escalated to your department? Were you involved or engaged at this period? Was this when you became aware that there was or could perhaps be a problem?



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Alan Middleton: No, because the team itself did not see a problem at that time. The team saw a problem at the time that UKTI requested an audit, and the audit was being performed. Had my team escalated to me in advance of that, obviously I would have engaged. Likewise, actually had UKTI escalated within PA, I would have engaged.

Q143 **Philip Boswell:** I have got to ask this question now. Mr Simon, do you listen to Mr Middleton's explanation—who, fair enough, was not hands on at the time—and feel that at this stage of the negotiation UKTI was deceived?

Crispin Simon: I don't have the information to know whether we were deceived. It does appear from the Report that we were overcharged.

Philip Boswell: And the same question to Dr Raines.

Dr Catherine Raines: Clearly, I was not there at the time, and I am not a commercial expert, but the idea that this was balancing the books to deliver the best for the client is not something that I find credible. If we had wanted 167% of outcomes—not that I would ever complain about getting increased outcomes—I would not expect to pay in a non-transparent way an additional fee in order to achieve that, without it being agreed with me.

Philip Boswell: And the same question to Dr James.

Dr Matt James: Looking back, I believe UKTI were misled by PA.

Philip Boswell: Mr Driver, I am giving you the most time on this one, quite deliberately: the same question.

Bob Driver: At the point of the procurement I was satisfied with its conditions. I had left by the time the disagreements emerged. I had left the civil service.

Q144 **Chair:** I am going to bring in Mr Elphicke in a moment, and then move on. But before I do that, Mr Middleton, you said that you would have expected somebody at UKTI to have escalated it if there had been any problems. Would you necessarily know if that had happened—if someone had escalated it? Presumably, it would go straight to the person on the job and not necessarily straight to you. What would it have taken to have escalated it up to you—it would be quite a breakdown in PA's relations, wouldn't it?

Alan Middleton: I am not sure, actually. I do get calls from time to time when clients have concerns—

Q145 **Chair:** So do you know if there were any concerns raised with your team on the ground at the time?

Alan Middleton: We are talking about a very long period of time, at the time, so my belief is that in the period up until May there were no material concerns raised, all the way through signing the contract. And for the avoidance of doubt, the charges that PA made never increased. The charges that we made, which were fixed and were on a—



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Q146 **Chair:** The subsidy appeared, didn't it?

Alan Middleton: The subsidy was simply to indicate the fact that the profit levels were at a certain level; there was no additional charging over and above that which was already set out. Therefore, the team—

Q147 **Chair:** That is an extraordinary way of accounting. Can I just be clear, then? Were there any other complaints about PA Consulting at any point during the other contracts that you were running for UKTI?

Alan Middleton: No.

Q148 **Chair:** None at all?

Alan Middleton: None that came to me and none that were ever escalated to me. And this one came to me at a point in time when UKTI determined it wished to audit.

Q149 **Chair:** Mr Driver, were there any other complaints that you or anyone in your team raised about PA Consulting in this contract or prior to this contract?

Bob Driver: Not that I am aware of. There was an issue with the previous contract that somebody raised, but—

Q150 **Chair:** What was that issue and how was it resolved? Did it get resolved?

Bob Driver: I believe it was resolved. I was aware of it. It was a whistleblower issue.

Chair: Sorry; I can't hear you very well.

Bob Driver: It was a whistleblower issue. I wasn't aware of it, really. That's something that Mr Simon will be able to comment on.

Crispin Simon: Yes, I do remember something but I'm afraid I don't remember the detail. Somebody did come to me about a problem. It appeared to be a personal interaction issue rather than a commercial issue.

Q151 **Chair:** So there was no issue raised about fees or anything like that?

Crispin Simon: No.

Q152 **Chair:** So it didn't raise any alarm bells with you about the conduct of PA Consulting?

Crispin Simon: Not PA Consulting, no. There was a comment about an individual consultant.

Chair: An individual PA consultant?

Crispin Simon: Yes, but it wasn't a commercial matter.

Dr Matt James: There was a whistleblower, as Bob has said, and while it was about an individual, it was around a commercial issue about the level of pay that an individual PA specialist was getting. So, it wasn't a personal matter; it was a commercial matter about remuneration.



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Q153 **Chair:** So that's different to your recollection, Mr Simon?

Crispin Simon: It appears to be. In that case, I apologise.

Q154 **Chair:** You just can't remember?

Crispin Simon: What I said was what I recall. If Matt James has better information, then I think that's more likely to be accurate. I apologise.

Q155 **Chair:** Mr Driver, do you have anything to add?

Bob Driver: It was a whistleblower issue and I wasn't involved. I mean, I knew about it.

Chair: So you knew about it but you weren't involved?

Bob Driver: Yes. I was not involved.

Chair: You knew about it, but you weren't involved. What does that mean? Can you just be clear, and then I will move on to Mr Elphicke?

Bob Driver: I was aware that it was going on, but I wasn't aware of the details.

Q156 **Charlie Elphicke:** Mr Middleton, I've been listening with great interest to what you've had to say. I just want to pick up on one thing. You have spoken about a man who was involved in this who left—if I quote your words correctly—"around the time of the first audit", the back end of last year.

Alan Middleton: Correct.

Q157 **Charlie Elphicke:** Were the two things connected?

Alan Middleton: To be absolutely honest, Sir, I don't know.

Q158 **Charlie Elphicke:** Right. And you talk about this person taking this subsidy as a balancing scenario—of taking costs from here to here. Why do you think he did it?

Alan Middleton: Just to correct on a point of fact, and then I will absolutely answer the question. The person who led the math during the commercial discussions left shortly thereafter. That would be in the time frame of May 2014. The partner in charge of the work left at the end of 2015; there were two different people. I think your question refers to the former, the person who did the commercial, although actually the partner would also have looked at it.

Q159 **Charlie Elphicke:** Was there any issue with the partner in charge? Was there, in your mind, a concern about his handling of this matter and leadership of the team?

Alan Middleton: I think the only material error that the partner made was to fail to be absolutely transparent in this mix between programme and management delivery and specialists, and the relative profits thereof. I think it was done with the best of intentions; I don't think there was malice. I think his intent was to get the programme to deliver, and indeed



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significantly over-deliver. If I think about it, initially, his desire for it to over-deliver would have been because of the performance and incentive payment, but subsequently, his desire would be to over-deliver anyway. I have said it before, but all the consultants in PA, particularly those who work in the public sector—

Chair: We have heard that before, sorry.

Q160 **Charlie Elphicke:** One last thing. I hear what you are saying on that, but I also heard both representatives from UKTI basically saying they just don't buy this. What do you think has really happened here?

Alan Middleton: I genuinely think it is as simple as that our team set out to deliver a programme of work on a charge per day. The charge per day at bid time was £547, it was £561 by the time they signed the contract and it was £558 by the time we invoiced it. It was all broadly within the same range, to within a few pounds, and their view was that they could balance overspend to over-deliver, by managing the cost base of the specialists very carefully and by having a very strong central team.

Q161 **Charlie Elphicke:** Is there any other kind of contract that PA has done where you have had that kind of process?

Alan Middleton: Yes, because the client contracted on a charge per day and other infrastructure costs. Therefore, it was a known fee for a known number of days. Initially, at the bid time, the balance of how that was performed was somewhat more flexible. I don't think it represents best practice, and my earlier answer is that we have changed our process and procedures to ensure that even if we are working something on a revenue basis or a charge per day, we manage to build it up from the bottom and share with the client with much more clarity what will make up the cost element, and therefore the overall profit.

Q162 **Chair:** I will bring in Mr Boswell, but I wanted to pick up on the point that I raised earlier about the annual review and not mention UKTI. You have told us there are lots of things you do, but did you raise with the board at any point the concerns about how this contract had been handled, in order to bring in the new arrangements that you have talked about?

Alan Middleton: Did I?

Chair: Yes.

Alan Middleton: The board was informed of this within a week of me knowing about it, and we discussed it in some depth at the board. We sought external QC advice—forensic audit advice—and they gave us that advice. We progressed on that basis. We discussed with UKTI how we might be able to settle. It was aware from the moment I knew.

Q163 **Chair:** Did you actually set forensic auditors on the task?

Alan Middleton: Yes, we asked their opinions. We had them look at the audit report and what we were doing. We asked them a specific question: in a court of law, were this not for a very important public sector client,



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have we done anything materially wrong? Their view was no. There is obviously no point in getting into a debate about whether they were right—

Q164 **Chair:** Did the forensic audit go into the detail of individual people's bank accounts in your organisation? Is that the level of audit?

Alan Middleton: No, not at all. It was, as you yourself have suggested, Madam Chair, to go through the rather convoluted data set that we were presented with from that important period in the February to May time frame.

Q165 **Philip Boswell:** There is a combination of issues that a few colleagues have brought to my attention and other questions that we have. As I am sure you have seen yourselves, we have prepared questions, and we are following a process, although it may not feel like it at the time. Your answers have been quite comprehensive, and some of these questions have already been answered. I will leave it to the Chair to determine where we go after this, but Mr Middleton, earlier you denied that the infrastructure charge was double-counting of overheads, because there were real costs on subcontractors, but then PA or you had to prepare an estimate of those for your letter of 22 November to the Chair. Did you have those records on the internal system? If not, how were they taken into account in partner bonuses or profit? Were these profits for partners but not for then talking to the client?

Alan Middleton: Could you repeat the last sentence?

Q166 **Philip Boswell:** Were these profits for discussion among partners, but not the kind of thing you talk about when you are discussing things with your clients?

Alan Middleton: First of all, I think you are referring to appendix A in the letter.

Philip Boswell: Yes. Not everyone has that.

Chair: Sorry; I will circulate it.

Alan Middleton: Just briefly, this comes from figure 3 in the NAO Report. We provided a little more information about this. We and the NAO have a difference of opinion. This is the construct that was put in the ITT. UKTI let the ITT with this construct there and asked for numbers. I assume that the other bidders, like PA, put numbers in there. Again, from an honesty perspective, when a supplier has to bid and has to put values in, it has to do its best to estimate what those values will be, which we did. The question is, "Did we incur any real cost against them?" That is a moral question, because actually, we were absolutely allowed to invoice these charges. It was in the ITT. We bid for it and it carried its whole way through the negotiations. What we have sought to do in the letter is describe why we think the vast majority of these are valid charges. Those charges represent additional headcount brought into PA over and above our corporate centre, separate from the contracted programme resources, in order to fulfil the contract—so, people to hire, the provision of IT,



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people to provide a degree of training, people to negotiate the contracts with the subcontractors, and people to process the 7,500 invoices that the subcontractor resources were submitting. So I happily admit that the NAO and PA have a difference of view in terms of whether these should have been absorbed by the rest of the firm or not. These costs did not land on the job and nor did the revenues. They went to pay for the extra work that was being performed.

Q167 Philip Boswell: Thank you, Mr Middleton. My next question is to you again. Do you consider that you have a duty of care towards your clients—I am sure you will agree that you do—and especially public sector clients who are funded by the taxpayer to be transparent about how you make your profit?

Alan Middleton: I can give a short answer: clearly, yes I do.

Q168 Philip Boswell: Have you met that duty of care? Has your company met this duty of care?

Alan Middleton: In all aspects, other than one I have reiterated a number of times—on programme additional costs—I believe that we have. The other thing is that we look forward to understanding better the concept of duty of care, because as soon as we can codify it, we will spend the time ensuring that we also adhere to it.

Philip Boswell: Thank you.

Q169 Chris Evans: The contract is worth £19 million, and your annual turnover in 2014 was £423 million. This contract equates to only 5% of your turnover. Are there any other contracts of this nature held with Government bodies?

Alan Middleton: This was an unusual contract. After this event, I went immediately to see Gareth Rhys Williams to discuss this. We have asked our auditors, Ernst and Young, to audit an audit that we ourselves performed across all contracts. Some 80% of the contracts that we perform for Government are in a standard format—a standard framework contract—so, broadly speaking, time and materials. A small number of contracts were not the same as this one, but slightly different to absolutely standard. We checked those and those are deemed fine. We have reported that to Mr Rhys Williams and his team. He has confirmed that he is satisfied.

Q170 Chris Evans: Are you in a position to tell us in how many contracts you charge for overheads at both a day rate and a fixed rate, or do we have to wait for the audit of the audit?

Alan Middleton: If I understand the question, you asked how many contracts we charge overheads on—

Chris Evans: At a day rate and a fixed charge, as in this case. Do you know, or do we have to wait for the audit? You might have to write to us.

Alan Middleton: I will write to you on that. However, the simple point is that when we charge people on a time and materials basis, we charge our



corporate overhead to them. In those projects where we have additional costs over and above the standard, we will charge those project costs to the client, as is the industry norm.

Q171 **Chris Evans:** What I am trying to get at, Mr Middleton, is whether these issues came about because of a cultural problem within PA Consulting—the culture you fostered—or whether it is just a case of ironing out procedures.

Alan Middleton: Again, you have wrapped a whole set of things under this. As I have said, it is absolutely the industry norm to recharge corporate overheads. We were contractually able to charge for our infrastructure. We did not have a framework against which the bid was clear in terms of how to calculate profit and so on. What we have done since is put extra effort into understanding cost plus and put the correct processes and procedures in place to address complex requirements like this.

Q172 **Chris Evans:** Mr Middleton, you have to accept that trust and confidence in PA Consulting across Government Departments has at least been rocked. I can see Dr James nodding his head. You have to give the Committee that; the trust and confidence that this Committee or Government bodies may have in PA Consulting is now very, very low, and you have work to do on that.

Alan Middleton: I am disappointed that the lack of understanding between the two parties has caused us to be in a position where UKTI felt it had to terminate the contract for convenience and that PA had to hand it over. I am delighted we have handed over something that continues to run well. The vast majority of our work is not in this construct. We have put in place a new business unit to run this kind of work. I am deeply disappointed to be here, particularly given that it is a relatively simple misunderstanding between the two parties.

Q173 **Chair:** Mr Middleton, it was around this time that 51% of your organisation was sold to the Carlyle Group. It would have been quite embarrassing if you had not settled and had had a long drawn-out action. Was that not a factor in deciding to settle on the FDI?

Alan Middleton: I think it would be worth asking Mr James about the settlement. At the time, my view was that a settlement range of zero to half a million pounds made sense for PA. As an indication of its loyalty to Government and its moral obligation, it was willing to settle on it. We do not recognise the £5 million, and in fact if you were to take off £5 million from the contract value, there is pretty much nothing left after you have paid salaries, expenses and the like.

Q174 **Chair:** My question was whether it was not easier to settle, whatever the cost, because you were selling at the time 51% of your organisation to the Carlyle Group.

Alan Middleton: No, it was not the case. At the time, we were owed a substantial amount of money by UKTI. We had a very significant number



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of subcontractor bills to pay. We had settled all the bills that we had with the specialist subcontractors.

Q175 **Chair:** You chose to settle, not to take legal action.

Alan Middleton: I don't think any consulting firm should strive to go to court with a client. I certainly don't think we should go to court with a very important client. I certainly think it is a very difficult thing to do with the UK Government, who are a very important client and represent the citizens of this country. I would rather, as I did, reach a settlement with UKTI that satisfied them, even if it was a different number to the one I felt comfortable with.

Q176 **Philip Boswell:** In figure 4 on page 36, in part five of the Report, you can see in the left-hand column representations by PA on whether the day rates included an allocation of general overheads from 21 October 2013. It is denied that overheads were included until 4 June 2015, where it is admitted. Mr Middleton, it may be the industry standard to charge overheads, but until the admission of 4 June, it is not what PA told UKTI.

Alan Middleton: I agree. I think there is a huge amount of confusion between employee specialists and specialists, specialists being the sub-contracted specialists. For the avoidance of doubt, the sub-contracted specialists never attracted a corporate overhead charge. The employee specialists were passed through at cost, as Mr Reddaway pointed out in his figure—table 1. The only overhead that was applied was applied to the PA members of staff working as specialists, so employee specialists as defined by the ITT and the bid. It is unfortunate, I agree. It shows that we struggled with nomenclature on both sides. All I can say again is that there was no malice intended, no deceit intended.

Q177 **Mr Bacon:** Mr Driver, you said, "I was involved in getting together the business case and I cannot understand why it is not available." During the getting together of the business case, what happens? Does somebody write it on a computer?

Bob Driver: Yes.

Q178 **Mr Bacon:** Who did that writing? You?

Bob Driver: No, it was a member of my staff, a person called Luke Ryder, I think.

Q179 **Mr Bacon:** So it was on his computer.

Bob Driver: Well, it was on the Department's computer.

Q180 **Mr Bacon:** I am not talking about personal ownership. I am talking about upon whose machine the work was being done. It was on Mr Ryder's machine, the one he was working on.

Bob Driver: Yes, and I think it was finished off by his successor.

Q181 **Mr Bacon:** When a business case is produced, what happens to it? Does it get shared around and people look at it and make comments and then it



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gets changed and goes through various iterations? Is that what happens?

Bob Driver: At the time, there were two committees that a business case like that would have gone to. The first was an operations committee—

Q182 **Mr Bacon:** Stop there. You have jumped ahead. For it to go to a committee, it must be sent from somewhere. I am still back at the previous stage. When the business case is being drafted, does it go through a series of iterations in which the people who are drafting it share their ideas and come up with something they are happy to present to the committee?

Bob Driver: Absolutely, yes.

Q183 **Mr Bacon:** And how is that shared between them? Is it emailed from one to another?

Bob Driver: Yes.

Q184 **Mr Bacon:** And how many iterations did it go through before it got to the point where there was something that people felt was okay enough to present to the committee?

Bob Driver: I cannot recollect.

Q185 **Mr Bacon:** But several. Five or 55?

Bob Driver: Probably somewhere in between the two.

Q186 **Mr Bacon:** Okay, so 20, 25. Why then was it so difficult to find a copy of the business case to give to the National Audit Office?

Bob Driver: I am baffled by that, frankly.

Q187 **Mr Bacon:** You don't understand why.

Bob Driver: I don't understand. There was an electronic filing system—I think it was called Matrix—that was used at the time, and why the business case is not there I don't know.

Q188 **Mr Bacon:** Did someone go in and delete it, or what?

Bob Driver: I don't know.

Q189 **Mr Bacon:** I understand from the NAO that the sentence in the Report on page 6, "Core documents, such as the business case, were not available to the contract management team", was phrased like that because the business case was given to the NAO the day before the Report was published.

Bob Driver: I am sorry, the question is—?

Mr Bacon: Is that correct? Had you left UKTI by that time?

Bob Driver: I left UKTI in March 2015.

Q190 **Mr Bacon:** Perhaps this is for you, Dr Raines. Who was it who gave the business case to the National Audit Office, when it was finally given?



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Dr Catherine Raines: I cannot answer that question. I do not know who gave it to them.

Q191 **Mr Bacon:** Do you know if it was given to the National Audit Office the day before the Report was published?

Dr Catherine Raines: If that is what the National Audit Office are telling me, I have every confidence in the National Audit Office's Report, so I think that that is the case, yes.

Q192 **Mr Bacon:** Mr Reddaway, do you remember who it was who gave you the outline business case the day before the Report was published?

Joshua Reddaway: A note has just been passed to Mr James. He might be able to answer.

Dr Matt James: I suspect it was a day or so before, because that is when we eventually found it.

Q193 **Mr Bacon:** Where did you find it?

Dr Matt James: On the IT system.

Q194 **Mr Bacon:** It was there somewhere.

Dr Matt James: Well, it was buried because we clearly had looked a lot of times before.

Q195 **Mr Bacon:** To be clear, this was the outline business case—the one that said, "We are seeking permission to go to market and this is why we feel the need to do so."

Dr Matt James: No. You would expect in a project like this that there would be a strategic business case, an outline business case and then a final business case when prices from tenders were in. You can't work the business case unless you know the prices that are being charged. This was just a singular business case that I imagine covered it all. There is no distinction between a strategic business case to outline—

Q196 **Mr Bacon:** You could not see from looking at it whether it was a final business case or an outline business case.

Dr Matt James: Correct.

Q197 **Mr Bacon:** Really?

Dr Matt James: Correct.

Q198 **Mr Bacon:** So you could not tell by looking at it—I understand that a final business case shows the results of having been to market and shows the people who you tested it with, who the bidders were, why you went with the option you went with and the justification for doing so. That information presumably either was or was not included in this one version.

Dr Matt James: My view is that it was not clear.

Q199 **Mr Bacon:** It was not clear whether it was an outline business case or a final business case.

Dr Matt James: Correct.

Q200 **Mr Bacon:** Mr Driver, did you want to say anything?

Bob Driver: Yes. The original business case that I was involved in creating was for one competition against a series of lots; it is important to remember that. What happened was that we were just about to go out to public tender on that programme when the executive board decided that we ran the risk of having one supplier take all the business against all those lots, so I was asked to go away and consider a revised framework approach, which is what we did. That is why we developed this framework.

Q201 **Mr Bacon:** Who asked you to do that?

Bob Driver: The executive board of UK Trade & Investment.

Q202 **Mr Bacon:** Right. Mr Simon, were you in post at that time?

Crispin Simon: I was.

Q203 **Mr Bacon:** You were aware of the—

Crispin Simon: That sounds familiar.

Mr Bacon: You were aware of the risk that it might all go to one supplier.

Crispin Simon: Yes, very much so.

Q204 **Mr Bacon:** Who is the supplier to whom it might have all gone?

Crispin Simon: PA was the incumbent.

Q205 **Mr Bacon:** Mr Simon, you said, "As far as I am concerned, the contract was authorised," but there is no evidence of it having been authorised.

Crispin Simon: Yes.

Q206 **Mr Bacon:** None the less, as far as you were concerned, it was. Looking at your CV, you have got a lot of experience. You spent 16 years at Rothschild.

Crispin Simon: Five.

Mr Bacon: I beg your pardon. You spent six years at Rothschild, two years at McKinsey, and then you were in commercial plcs. You were in some pretty blue-chip organisations there. Wouldn't it be normal to ensure that there was documentation and evidence of authorisation?

Crispin Simon: I don't know that there wasn't.

Q207 **Mr Bacon:** Don't go all Rumsfeldian on us. Either there is or there isn't. If there is, you can see it, look at it, touch it and feel it.

Crispin Simon: I believe that the contract was appropriately authorised. I accept that the NAO was unable to find it, but evidently there was another



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document that we thought we were unable to find that we subsequently found. Perhaps it does exist.

Q208 **Mr Bacon:** The contracts were only held in a digital form. Were they not held in a paper form?

Crispin Simon: I would imagine that they would be signed, but—

Q209 **Mr Bacon:** Yes, I would, too. What happens to them after they have been signed?

Crispin Simon: Filed.

Q210 **Mr Bacon:** Are they buried under an oak tree for a rainy day? Are they archived or scanned—what happens to them? What is the normal procedure?

Crispin Simon: I don't know. I would imagine that the paper copy would be filed.

Q211 **Mr Bacon:** There is an awful lot of imagining going on here. Mr Driver or Dr James was talking about imagining, and you are, too. Why is it so difficult to know these things?

Crispin Simon: I do not want to say something that turns out to be wrong. I believe that the documents would have been signed; we would almost certainly have had inked copy and we would have put it in a filing cabinet.

Q212 **Mr Bacon:** You were the managing director of UKTI. Wouldn't it have been incumbent on you to know—for sure you might appoint someone to manage it for you—how you had the surety or certainty that you were operating lawfully and spending public money appropriately, and that you had a system for recording what you have done?

Crispin Simon: We had a chief of staff, as I said earlier, with two assistants. I think we were appropriately manned for this kind of administrative activity. That was the assurance that I took, but I accept, on the experience that we are going through here, that next time I will ensure that I know where it goes.

Q213 **Mr Bacon:** Have you altered your practice now? In your new job you are now at a robotic legs firm that does robotic legs for spinal cord injury. Now, as a result of your experiences, do you make more effort in your present employment to check that documentary procedures are followed properly?

Crispin Simon: No. I delegate. We have a quality system and I delegate to people who know what they are doing.

Q214 **Mr Bacon:** Mr Driver, one more question. You said the procurement was strong. In paragraph 2.1 it says, "As a consequence of the way UKTI managed the procurement, it is very difficult to know exactly what was agreed". Given that sentence, how can you stand by the sentence that the procurement was strong?



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Bob Driver: I said that the management of the procurement was strong.

Q215 **Mr Bacon:** The management of the procurement?

Bob Driver: Yes.

Q216 **Mr Bacon:** By you or by someone else?

Bob Driver: By me.

Q217 **Mr Bacon:** If the management of the procurement was strong, why would the NAO conclude that it was very difficult to know what was agreed?

Bob Driver: I think that where things went wrong was in the subsequent negotiations after I had left.

Mr Bacon: Okay. That is clear. Thank you.

Q218 **Philip Boswell:** Mr Middleton, given the admission that the behaviour around about the time of the negotiation of the original contract and the transition to the additional negotiation was an error or you regret it, do you think companies should be rewarded for such behaviour?

Alan Middleton: I think what I said was that at the time of the negotiation we could have been clearer in terms of how we were dealing with the cost.

Q219 **Philip Boswell:** UKTI expects to make considerable savings by bringing these services in-house—that is in paragraph 1.28 of the NAO Report if anyone wants the reference. Why would Government Departments continue to hire private companies to provide these and similar services if it is cheaper to procure them internally?

Alan Middleton: First of all, the way UKTI is actually dealing with this now is different from the way in which it was originally procured. UKTI must have decided at the time that it was a great idea to procure this. Indeed, we put a lot of work into setting it up and configuring it in such a way as it would deliver. I am not sure that at the time UKTI had the in-house capability to make that happen. Although there may be debate around what was delivered, the NAO Report confirms that UKTI recognised what we had delivered. If the contract is reconfigured in a different way or if the team is configured in a different way, I imagine there can be some cost savings, but we should recognise there is a subcontractor cost nevertheless.

Philip Boswell: Thank you.

Q220 **Chris Evans:** This is a question to Dr Raines and to Mr Driver. You have to admit that paragraphs 7, 8 and 9 on pages 5 and 6 of the Report are downright damning and embarrassing. The question that everybody wants answered is asked in two parts. Dr Raines, who was responsible for the failure, and has anyone been held to account or faced disciplinary action for what happened? I will ask Mr Driver another question after you have answered.



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Dr Catherine Raines: My view, in terms of who was responsible, is that it was a collective failure of the organisation at the time, which was naive in its approach to commercial negotiation and contract management. No individual has been held to account. The individuals with whom we might have wanted to share learning most directly have left the organisation, as you are well aware, but we have made changes to the organisation to make sure that that naivety is not something that is carried forward.

Q221 **Chris Evans:** So you are saying the individuals responsible are now outside the organisation.

Dr Catherine Raines: That's right.

Chris Evans: Mr Driver, your opinion?

Bob Driver: I think it was a collective failure, yes. I also think there is an important point that needs to be made that the NAO Report does not look at the issue of quality; it looks at the issue of price, and 80% of the contract was based on quality. We were not just buying what is called a bodyshop capability, but a full suite of services such as knowledge, research, analysis—

Q222 **Chris Evans:** Can I stop you there, Mr Driver? Are you genuinely saying to me, in all honesty, that you were happy for paragraphs 7, 8 and 9, which are absolutely damning, to be seen in black and white in the public domain?

Bob Driver: No. I was very shocked and disappointed when I read the NAO Report.

Chair: Unfortunately, a vote is about to interrupt us. Mr Boswell?

Q223 **Philip Boswell:** To carry on from what Mr Evans was saying, I have a question for UKTI—for the two doctors and Mr Simon. In your opinion, was the negotiated settlement that was agreed in May 2016 only made because UKTI's records were so poor that it could not substantiate a more generous settlement for itself?

Crispin Simon: I believe that disputes over overhead allocation within organisations and between organisations are extremely common. I admitted in an earlier answer to Mr Evans that the point at which the FDI people were involved meant that we lost track of the overhead allocation, and that was the principal failing.

Q224 **Philip Boswell:** Thank you, Mr Simon. I will put it in slightly different terms for Dr Raines. In a nutshell, had UKTI's records been up to scratch, would UKTI have been able to negotiate a better settlement, from its own perspective, in May 2016 when this was terminated?

Dr Catherine Raines: Clearly that is a hypothetical question and therefore one cannot know the answer, but the advice that we were given by legal counsel was that this was the best settlement that we could hope to achieve, given the level of documentation and other matters in this case.



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Philip Boswell: I understand. Dr James?

Dr Matt James: As the person leading the negotiations on the settlement with PA, I agree entirely with Catherine. I think the settlement was the best that we could do in the context. The negotiation on the settlement was made harder, however, because we did not have all the documentation.

Q225 **Philip Boswell:** We will move quickly on. I have another question for Dr Raines and Dr James. How much are the "significant savings" that you say you are making under the new Green Park contract compared with the PA contract?

Dr Matt James: We have added some other supplier arrangements to the new Green Park contract, so it is not apples with apples. However, with the new contract, which is set very differently and is set for what we want to buy, the organisation will save about £9.5 million per year on all this external expenditure. What we saved against PA in the interim period was just over £4 million.

Philip Boswell: For absolute clarity, as you have said, that is part of the contract mechanism and the procurement process, not necessarily anything else.

Sitting suspended for Divisions in the House.

On resuming—

Chair: Back to Mr Boswell.

Q226 **Philip Boswell:** I was asking Dr James about the New Green Park contract, and he answered partially. In terms of apples v. apples, it will save about £9.5 million. Are those the significant savings? Are they truly efficiency savings, or are you just paying for fewer specialist things?

Dr Matt James: No, they are efficiency savings. They are essentially the difference between the day rate of subcontractors, and taking away the overheads and management charges that we used to pay PA and other contractors. They are true efficiency savings.

Q227 **Philip Boswell:** They are true efficiency savings. Do you know what the overheads and the profit on the new contract are?

Dr Matt James: The structure of the new contract is a pure cost-plus contract. We pay the actual day rate of subcontractors—what they charge—and then we pay a monthly management fee, which broadly equates to between 2% and 3%. As Alan said, it is a very different contract from the one that we had with PA.

Q228 **Chair:** Dr Raines, and maybe Dr James as well, Mr Middleton told us a number of times that the contract significantly over-delivered, and that it was 167% of the expected outcome. Do you agree with that statement, Dr Raines?



Dr Catherine Raines: Yes, but I would say that those individuals—they are excellent in the job that they do—are delivering a similar level of performance now under the new arrangements.

Q229 **Chair:** Do you think there was a problem with how the contract was set up at the beginning? That is a very big overachievement on a contract. Was it naively set at the beginning, with a lower expected outturn rate?

Dr Catherine Raines: It is difficult for me to say that sitting here today, when I wasn't here at the time. When one sets out a requirement in an ITI for 100% achievement, one expects to have a contract and to pay for it, and one would very much hope for some upside overachievement as a matter of performing well against the contract. One would expect all that to be very clear and up front, and not to come out in the wash later, as it were.

Q230 **Chair:** Obviously, we are keen to learn lessons from all of this. To your knowledge, are there problems with any other contracts under what was UKTI?

Dr Catherine Raines: We have put quite a few new arrangements in place, one of which is the appointment of Dr Matt James as our managing director of commercial. He has consolidated all of our commercial resources under him, and both the procurement and contract management teams sit together. They have undertaken a review of our other major contracts, and they have concluded that there are no other contracts with similar issues contained within them.

Q231 **Chair:** Dr James, I assume you concur with your boss on that, but just for the record.

Dr Matt James: I do not always concur with my boss, but on this occasion I certainly do. I have been in the organisation for just over a year. When I first joined, I initiated a review, reporting to Catherine and looking for any similar sorts of issues with other contracts, and concluded that it would be very unlikely that we would have similar issues with other contracts.

While I fully agree with what Catherine said, I would add to it by saying that a lot of the other legacy contracts in the organisation are not as good as they could be, in terms of value for money and actually buying what the organisation needs to deliver its business, and those are what, with Catherine's colleagues, my colleagues, we are beginning to replace over time.

Chair: Dr James, you mentioned that it was a whistleblower who raised commercial concerns. What is the process for a whistleblower in—well, I suppose it is now the Department for International Trade, but what was the process then? What protection and support was there? I ask because we have covered this quite a bit as a Committee.

Dr Matt James: Today, the process is that anyone can raise an issue, either with me, as the commercial director, or directly with Catherine, and of course through HR as well. When they come through any of those



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routes or, indeed, any of my colleagues at director level—on the one issue that we have had, which isn't really a contractual issue, I know that Catherine personally dealt with it when it came in. I think there is a good process for allowing people to express their views, but also I genuinely think that there is a culture that allows that, too, in the new organisation, and I think that is principally down to Catherine.

Q232 Chair: We may come back to you, then, the next time we look at whistleblowing, if you're telling us it is good. But there is a serious point, which was raised earlier, and I'm turning to Crispin Simon now. We were told that the whistleblower had raised concerns about the commercial side of this. You said it was a relationship issue. How at the time did you determine what the substance was of the whistleblower's, or any whistleblower's, comments and concerns? What process was in place to make sure that those concerns were analysed properly? There is quite a skill to dealing with whistleblowers and ensuring that their concerns are analysed properly and acted on properly.

Crispin Simon: The only thing that I really recall about the conversation that I had with the whistleblower was that the person said that they had developed personal feelings for one of the PA consultants and was troubled by it and felt that it might lead to a conflict of interest. I then asked the person to go and speak to the HR department, and the HR department investigated it and decided that it did not need to be escalated.

Q233 Chair: So that is the only whistleblower contact you had around the PA Consulting contract.

Crispin Simon: Yes.

Q234 Chair: Bob Driver, is that your recollection as well?

Bob Driver: As I said earlier, I understood that there was a whistleblowing incident going on, but I did not know the details, because it was whistleblowing.

Q235 Chair: How do you define whistleblowing, then? If someone raised any other concerns, would that be counted? Why was this a whistleblowing issue? It sounds like an HR issue, not a whistleblowing issue. Sorry, but I am a bit confused. We heard that commercial concerns were raised by a whistleblower. I am not sure: are we talking about the same situation?

Crispin Simon: It is conceivable that we are not talking about the same thing, but I think we might be. I think that when, as a manager, somebody comes to you expressing a concern, you deal with it, and if you feel that it does not need to be escalated because you have given what you consider to be a satisfactory and open response, that is it. But as soon as somebody says, "I would like to put myself into the whistleblowing procedure," it gets taken away from you as a manager and you have to have some element of independence.

Q236 Chair: Then let us be very clear. We are talking about a whistleblower. Did someone come to you saying, "I want to be in the whistleblowing

procedure”?

Crispin Simon: Yes.

Q237 **Chair:** They did. Okay. Dr James.

Dr Matt James: I have spoken to the whistleblower at least three times, and I have read his written evidence, which is a very detailed account of what he believes is the problem. At no time when I spoke to him or read the written evidence did I believe that there were any of the personal feelings that Crispin suggests.

Q238 **Chair:** We have quite a different set of views here.

Crispin Simon: We may not be talking about the same thing.

Q239 **Chair:** Okay, let us be clear, because I am concerned. Talking about personal feelings is nothing to do with whistleblowing, in my view. We are the Public Accounts Committee and we look at how taxpayers’ money is spent. So, Dr James, just to be clear, to your knowledge there was a whistleblower who raised concerns about how taxpayers’ money was being spent.

Dr Matt James: Correct.

Q240 **Chair:** Did you have a similar whistleblower come to you, Mr Simon?

Crispin Simon: No. The only one I am referring to is the one I described earlier.

Chair: That wasn’t a whistleblower, because that was a rather different issue.

Crispin Simon: Well, the person said that they were concerned that—

Q241 **Chair:** I think we should be a bit careful about playing out too many details in here. What I am asking is: did anyone approach you raising concerns about commercial issues around the PA Consulting contract or indeed any other commercial contracts that UKTI had?

Crispin Simon: I am referring back to the same conversation, and that person raised the issue in relation to a potential bad behaviour by PA.

Q242 **Chair:** Okay. What did you do about that?

Crispin Simon: I referred it to the HR department. I conceivably also referred it to the finance department—I am afraid I don’t recall.

Q243 **Chair:** You don’t recall. Would it be your normal practice now in your current job if someone approached you and said, “I have got a worry about fees being charged”?

Crispin Simon: I would put it into a process, either finance or HR. It seemed to be both, so I put it—

Q244 **Chair:** Would you follow it through at all? Would you be interested in the outcome as the head of an organisation spending taxpayers’ money?



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Crispin Simon: Yes, and I continued to work with this individual afterwards, and—

Q245 **Chair:** You cannot remember what happened.

Crispin Simon: I am afraid I cannot. But if—

Q246 **Chair:** You must have a short memory. Sorry, it is just that there are a lot of things you cannot remember today. We appreciate that you are no longer working in the organisation. I do believe that you can have access to your papers—is that right?

Crispin Simon: No. I have only become involved in this in the last week or so.

Q247 **Chair:** You were not involved in the NAO Report at all.

Crispin Simon: No.

Q248 **Chair:** Okay. Maybe there is a warning to us to give better notice, but nevertheless I would have hoped you would have racked your brains a bit more.

Mr Middleton, to be clear, we talked earlier about the staff in your organisation and you indicated that someone had left. Was there any disciplinary action within PA Consulting as a result of the ending of this contract?

Alan Middleton: No, there was not.

Q249 **Chair:** Not at any level?

Alan Middleton: No. There were many learnings but no disciplinary action.

Q250 **Chair:** Was that because you felt no disciplinary action was needed, or was it because the individual you talked about—the individual most directly involved with this—had already left the organisation?

Alan Middleton: The individual most closely involved had left. Had they remained, I would have said this was an error that would have required us to talk quite firmly and understand, but disciplinary would come as a result of deceitfully doing something and I don't think there was any attempt to deceive. I think—

Q251 **Chair:** You keep saying you "don't think" and you "don't believe".

Alan Middleton: Let me be more specific. Having looked at the evidence, I do not believe that the individual was seeking to deceive.

Q252 **Philip Boswell:** I will boil down five questions to Doctors Raines and James. If your answers can be concise, it will be most appreciated. What is the role of the new commercial team? How many more of these contracts will you be procuring over the next few years? Are you confident that your capability and capacity are adequate for what remains ahead? Where, if anywhere, do you still have a capability gap? Finally, in terms of your employees, have you instigated a "shut up" or "speak up"



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environment? Which do you foster? I presume “speak up”.

Dr Catherine Raines: I am happy to start on that, but let me just ensure that I have got all of your questions down. The role of the new commercial team is to ensure that we procure and manage contracts that are affordable, value for money, compliant, well governed and serve the business need.

With the appointment of Matt—if you do not have his CV, we can easily furnish you with it—we have somebody with over 20 years’ experience of managing commercial contracts in the public sector. Matt joined a year ago. He has kept me very closely informed of what he is doing to improve commercial capability. This has included bringing all of our commercial resources together under him. It means that the procurement team and the contract management teams are much closer. It means that the procurement teams understand the needs of the business. That is the first, most important thing.

The second thing that Matt has done is improve the governance. Every new procurement now has a commercial strategy before it is procured, and that is pulled together in collaboration with finance, with commercial and with the business user so that we know the tests I outlined at the beginning will all be met. Any major contract with a value of more than £1 million comes to me, and any with a value of more than £10 million would go to the Cabinet Office as well as to me.

Q253 **Philip Boswell:** Is that in terms of an approval stage-gate process or expense sanctions?

Dr Catherine Raines: Yes. It is an authority level, if you like. Anything for £1 million has to come to me, and anything beyond £10 million goes on. The other thing that Matt is doing, and is in the process of doing—it will be like painting the Forth bridge—is capacity, capability and training. Of course, there has already been upskilling, but that will always continue. The other thing he has implemented is a proper handover when people leave the organisation, and of course there is a really good documentation and recording system so that we will always have documents to hand in the future.

On shut up or speak out, the answer is absolutely speak out, but there will always be cases where people want to invoke the whistleblower procedure. It is usually when they want to remain anonymous, and I would always encourage whistleblowers, if that is the route that they want to take, to take it. I would always assure them that whistleblowing will be treated with utmost respect and complete anonymity, and it will be prosecuted, if that is the right word, until the whistleblower is satisfied with the outcome.

Q254 **Philip Boswell:** I add Dr James to this, and I might as well ask the next question because it is specifically for your good self. As commercial manager, what systems do you have in place to assure yourself that the new commercial arrangements are working effectively? For example, do you risk manage? Do you audit internally? Can you expand on that? Is there anything that you wish to add to Dr Raines’s comments?



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Chair: There is no need to repeat anything.

Dr Matt James: I have just one or two things to add to what Catherine said. In terms of the role and capability, the rub, in the situation that we have talked about this afternoon, is that what we bought was not what the business needed. The commercial model was not the right one for the thing that we desired, so the key thing about the role of the team that we are building is that we buy what the business needs to help the business deliver what it needs to do. That is a really key point for me.

In terms of capability gaps, I have tried to recruit well. We have attracted some really excellent people from elsewhere in Whitehall to come and work in this Department, and I only employ the best people. We have also employed people from outside Whitehall to give us that wider commercial experience as well.

We are part way through that journey of recruitment. When I inherited the team, there were maybe two or three people; now we are up to 20 very good people, and we have plans to take this up to 30, which is about the right number for an organisation this size.

I agree entirely with the point that Catherine made about shut up or speak up. In my opinion, this is an open organisation where people across the organisation are allowed to say their opinion, and certainly in the team that I direct.

On the systems and whether things are working effectively, the way that things are working is now good but we are still on a journey, and it needs to be increasingly better. We are 50% or 60% of the way through creating an upper quartile commercial management unit for this Department. That is the objective that I personally signed up to Catherine and the organisation for, and it is the one that I will deliver by the time I go.

Q255 **Chair:** Mr Simon, just to be absolutely clear for the record, when did you become aware when you were at UKTI of a problem or concerns about the contract? Just reminder us of the timescale when the first investigation happened.

Crispin Simon: I read it in the newspaper some months ago—the NAO Report. Then I gathered that this meeting was taking place and I wrote to the Clerk, volunteering to come as I was the person responsible.

Q256 **Chair:** So you had no knowledge of any problems prior to leaving UKTI.

Crispin Simon: No.

Q257 **Chair:** Dr James, when did you get involved and become aware of problems, concerns or questions about the PA Consulting contract?

Dr Matt James: Late June 2015.

Q258 **Chair:** And how did you become aware of that?

Dr Matt James: Because UKTI phoned me and called me in. I was working in the Cabinet Office at the time.



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Q259 **Chair:** Who at UKTI called you in?

Dr Matt James: An official called Conor McGurk.

Q260 **Chair:** And what was his position?

Dr Matt James: He was the individual managing the finances around the contract.

Q261 **Chair:** So he picked up the problem?

Dr Matt James: He and another official picked up the problems in UKTI.

Q262 **Chair:** Okay. And you were brought in to do the first look at it.

Dr Matt James: Yes.

Q263 **Chair:** And Mr Middleton, when were you first aware of these concerns? When did UKTI raise them with you first?

Alan Middleton: I believe it was around August. It was during the process of the audit by RSM.

Q264 **Chair:** You did not know then. Did your organisation have any concerns raised with them at any level prior to that?

Alan Middleton: The organisation more senior to the project team was aware at the time. They were informed that there was going to be an audit, which was in a similar timescale—

Q265 **Chair:** So the project team knew at a similar timescale to Dr James.

Alan Middleton: To Dr James, yes.

Q266 **Chair:** But they did not escalate it up the line, even at that point.

Alan Middleton: It did escalate up through the firm but it did not arrive to me immediately because, on the face of it, it was not a good piece of news, but nor was it a catastrophic piece of news. It is very regular for PA to have its work audited. Indeed, we have audited every contract to make sure that we are not in this situation elsewhere.

Q267 **Chair:** Do you have any information about when any concerns were raised in PA Consulting or could you write to us with that?

Alan Middleton: I would like to give you a note on that.

Chair: That is absolutely fine.

Q268 **Chris Evans:** This is the absolute final question and it is to Dr Raines, who has had it a bit easy this afternoon. Given the central role that the Department for International Trade will play in exiting the European Union, do you believe you have the capability to negotiate international trade deals, especially with the example we have seen this afternoon?

Dr Catherine Raines: Yes, I do. The Department for International Trade is organised in three legs, one of which is international trade and investment, who are the people you have had before you today, one of



which is UK export finance and one of which is the trade policy group. The trade policy group has a very strong and capable trade policy team, which has doubled since 23 June and will be responsible for undertaking those negotiations. In the next two years, it will be responsible for developing that team to build world-class negotiating strengths required to undertake the task that you asked me about. We have had expressions of interest from expertise not only in this country, but across the world. I am fully confident that the team will do a great job.

Q269 **Chair:** Are you planning to directly employ those people?

Dr Catherine Raines: That will be a matter for John Alty, who is the director general in charge of the trade policy group. We do not intend to create a standing army of bureaucrats because that would be expensive to the taxpayer. He will be looking at how he can most effectively create the skills to develop the cadre of negotiators we need.

Q270 **Chair:** Mr Middleton, will PA Consulting want to get some of the action on UK trade negotiations after Brexit? Are you planning to bid?

Alan Middleton: At the moment, PA has taken a very cautious view to approaching Government around Brexit. It is widely reported to be a feeding frenzy. We are looking to support clients who want our help when the time is right. Personally, I would love to work with the team again once this is fully behind us. That is certainly our objective.

Q271 **Chair:** Very well. There is a bid, Dr Raines, from PA Consulting.

You have an ethics board, I understand from looking at your annual report and accounts. Was any of this, which we have discussed for some hours this afternoon, raised to your ethics board?

Alan Middleton: In terms of internal governance, this has been raised in the period that we are discussing—so in the period from November last year through to now—and it has been debated in every board. The board remains very interested to see how the meeting of the Committee goes today. This has been at the ethics committee and at the board, and we have reviewed everything in great detail. It has run through our risk committees, and it has changed our procedures and processes. It has also changed our training because, again, as I have said before, there is a degree of naivety around trying to make the client happy in this phase—do the right thing and provide information—and in doing that I think we got it wrong. So it has been through every single governance committee, and we have checked every single contract that we are running for Government.

It has also caused us to call into question whether or not Dr James's final point is the case in any other work that we do for Government. He said, "What we bought wasn't what we needed." My fear is that PA fell slightly in the middle of that through the course of this contract: we were attempting to do our very best in the structure that we were contracted, around outcomes charged per day in fixed costs, and we should have asked, "Is that absolutely what you want?" during the course—



Q272 **Chair:** So you should have been a better customer to your client—

Alan Middleton: No, I think we should have been ever-perceptive of the fact that the client might have decided over the course of the 18 months that they wanted to do something different, and should have called time and said, “Do we need to do something different with you?”, rather than blindly pursuing making the client happy.

Q273 **Chair:** Just blindly, because you were making the client happy—that is how you see it.

Alan Middleton: No, I think our error was not to ask additional questions over and above simply delivering brilliant work and great outcomes.

Chair: We have had a long hearing this afternoon. In a minute, I will ask Mr Boswell if he has any final comments, because he has such expertise in this area. May I just say that we have seen what is, frankly, sloppy behaviour and possibly sharp practice? It is difficult to judge completely, and we will obviously be reflecting on this hearing over the next few days, and maybe even weeks, before we produce our report.

There was certainly a lot of loose language, particularly, I have to say, Mr Middleton, in many letters that winged their way from PA Consulting to the National Audit Office and to me as Chair of this Committee. As a lay person looking at this—I am not a contract specialist—those letters felt like they were designed to obfuscate. I am not surprised that there was confusion, but you have to take your share of that.

There has been a degree of naivety on the side of UKTI. I am surprised, Mr Simon, about your lack of remembering things. I would have thought, especially given the publicity around this issue, if it were me, some of those things would have been seared on my mind. I would have been replaying it, and I am surprised that you cannot remember certain things. That is regrettable.

Most of you involved at the time have been willing to admit incompetence—almost insouciantly. That incompetence has led to a loss of taxpayer money, but has not led to serious consequences for any individual, as far as we can see. That is obviously a concern.

The lost papers is a fiasco beyond belief. We were completely puzzled by it when we were looking in preparation, and I am afraid that the answers have made it even worse. We are obviously concerned about all of this and the critical role of the Department for International Trade in Brexit. Dr Raines, you made a good case, but the proof will be whether you can turn what we have seen today, in looking at this past experience, into something that will actually deliver.

I am sure that at some point that not only us, but our sister Committee—the International Trade Committee—will have you and Dr James in to explain whether you will do what you have promised. You have laid out your manifesto and you will now be held to account for that, but this Report throws up some serious shortcomings, which we hope do not play



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out in those Brexit negotiations.

That is where we are at as a Committee. Mr Boswell, you are an expert in contracts. What is your take?

Q274 **Philip Boswell:** Thank you, Chair. I would echo both your concerns and those of our colleagues, and would perhaps go further. From very early on in my review of this NAO Report and supporting documents, I was concerned as regards the negotiation and administration of this contract. Firstly and significantly, those persons directly engaged in contract negotiation and hands-on administration for and on behalf of PA Consulting are no longer here to answer key questions in this respect, but rather it is left to the CEO of the company, who is more at home with corporate governance than contracts administration—typically. That may not be the case in this instance, Mr Middleton, but it normally is.

Secondly, my initial concerns were around issues like the contract not being fit for purpose, and blatant breaches of corporate governance, procedure and industry good practice, but this quickly moved on to consideration of concerns around potential incompetence and negligence.

When we moved on to the greater detail within parts 3, 4 and 5 of this excellent NAO Report—and the NAO is to be commended for its Report—I became even more concerned. Now, I am no lawyer but I am certainly concerned enough to go on the record as suggesting that this Committee needs to consider that this investigation may be escalated to a higher authority, or if not that we certainly at least consider a further session with additional witnesses, to try and get the answers we failed to get today.

Chair: Thank you very much, Mr Boswell. I think we now need to adjourn. Thank you for a very long session to the witnesses coming today and I apologise that we were also interrupted by the vote, but that is democracy.

We will now reflect on what we are going to do and that might have a bearing on when our final report is published, but anyway it is unlikely to be before Christmas, as that is only three weeks away.

Our transcript of this hearing will be up on the website, uncorrected, in the next couple of days. It will also be sent to you, so that if you have any factual considerations—we cannot change the record, but we can make adjustments accordingly.

Thank you very much indeed.