



## Communities and Local Government Committee

Oral evidence: [Local Government Procurement](#), HC  
712

Monday 16 December 2013

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Written evidence from witnesses:

- [Cabinet Office](#)
- [Department for Communities and Local Government](#)

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Members present: Mr Clive Betts (Chair); Simon Danczuk; Mrs Mary Glindon; Mark Pawsey; John Pugh; Heather Wheeler; Chris Williamson

Questions 421–467

Witness[es]: *Nick Hurd MP*, Minister for Civil Society, Cabinet Office, and *Baroness Stowell of Beeston*, Parliamentary Under-Secretary for Communities and Local Government, gave evidence.

**Q421 Chair:** Welcome to this seventh and final evidence session on local government procurement. Thank you for coming. We know who you are, but just to make it clear for our records, if you state your specific responsibilities that would be really useful. Thank you very much.

*Mr Hurd:* Nick Hurd, Minister at the Cabinet Office.

*Baroness Stowell of Beeston:* I am Tina Stowell, PUS at the Department for Communities and Local Government, with a responsibility for procurement.

**Q422 Chair:** You are both welcome to the Committee. I think this is the first time, Nick, that you have been before us, and the second time in a very short period of time for your appearance, Baroness Stowell, so nice to see you once again. Just to make sure that we have got everything on the record, members will want to put their interests on the record right at the beginning. I am a vice-president of the Local Government Association.

**Heather Wheeler:** I am a vice-president of the Local Government Association and my husband is a council leader.

**Chris Williamson:** I have a couple of members of staff who are elected councillors.

**Simon Danczuk:** My wife is a councillor, my father-in-law is a councillor, and two or three members of staff are councillors.

**Chair:** Nearly a whole council.

**Simon Danczuk:** Nearly a majority.

**Q423 Chair:** Obviously, we are interested in trying to look at what could be made more effective about local government procurement. I suppose one of the things that gives us some concern is that, when we go back to DCLG, we keep getting told, “Well, we have got the *50 Ways to Save*.” Is that really not treating major, important issues like local government procurement seriously? Surely the Department could do better in advising local authorities than the *50 Ways to Save*, can it not?

**Baroness Stowell of Beeston:** If that was the only thing that we were doing, I might agree, but it is not. May I say first of all how much I welcome the Inquiry you are doing into local government procurement, particularly as a new Minister in this area? As you have intimated, we all share the view that there is more that could be achieved in terms of improving procurement within local government. We think that there are some good examples of good practice across local authorities, but that is not widespread enough.

As a Department, we need to certainly make the case for going further on local government, and *50 Ways to Save* was a very simple and straightforward way of giving some indications as to where progress could be made, but we are also doing some other very specific things, which I am sure you will want to talk more about as we go through the course of this afternoon. That is about, for instance, where only last week we have introduced the transparency code, which requires councils to publish more information to help encourage them in the way in which they spend money, but also allow others in their area to hold them to account. There are also other measures like the elimination of the pre-qualification certificates, which mean that we are helping ensure that the process is simpler for all concerned.

**Q424 Chair:** I am sure we will come on to some of those specific things in due course. It is nice to have Ministers from two Departments sitting together. Do you work together in practice as Departments? We do see examples from time to time of local authorities coming to us and saying, “It would be very nice if we could get the same message from two different Government Departments, but we do not.” Is there a real joined-up approach to this from the two Departments?

**Mr Hurd:** I can pick that up and I will give you one example, Chair. When we decided to take the Public Services (Social Value) Act 2012 through Parliament after picking it up as a private Member’s Bill, we wanted to make sure that it dovetailed with DCLG’s best-value guidance. That was a good example of where we did connect and made sure what we were talking about was joined up. It is never perfect, but in that case we were pretty well joined up.

**Baroness Stowell of Beeston:** From my perspective as a new Minister—it has been only two months since I have been in post—certainly what I am trying to do is make sure that,

in addition to bilateral conversations with fellow Ministers in other Departments about issues, we use the forums where various Ministers are present—Cabinet, sub-committees and so on—to raise issues of concern, where a wide range of Departments might be able to get involved and support us in our efforts.

**Q425 Chair:** We will come on to some of the details in a minute, but looking together, do you have a ballpark figure of what could be saved if local authorities really get this right?

**Baroness Stowell of Beeston:** I do not have a ballpark figure. Since 2009-10, when local government was spending about £61 billion on procurement, it has gone down to £58 billion in 2012-13. I would be reluctant to put a hard target on where I would see us getting to. The most significant point is that there is real scope for us to go further, and that is what local authorities should be focusing on doing. They should understand that it is not just about buying the relevant services at the best price possible but that this is also an opportunity to make sure that procurement is a way of getting the best service you can and that it is possible to improve the services that are provided locally. If we start putting a target on things, the focus then is on that rather than what I would see as the more important outcome, which is a better local service for local people.

**Q426 Chair:** Have you got any plans to either change legislation or guidance in terms of local authority procurement?

**Baroness Stowell of Beeston:** In terms of legislation, and in terms of things that are planned that have not already been introduced, from next year we are abolishing the pre-qualification questionnaires for contracts with values below the EU threshold and mandating the use of a standard PQQ for higher value contracts. We are also making it mandatory for all public-sector contracts to be advertised through a single website—what we call Contracts Finder. As I mentioned earlier, we have published the transparency code, which will ensure that local authorities in future have to publish any spend of £500 or more, and any contracts of £5,000 or more. That will become mandatory.

**Q427 Simon Danczuk:** Can I start by saying Merry Christmas and all the best for the New Year? Baroness, DCLG notes that, “Significant savings can be achieved from collaboration opportunities in procurement.” What are you doing to make collaboration happen?

**Baroness Stowell of Beeston:** The collaboration that needs to take place between local authorities is something that local authorities have to do themselves. That is something that they are responsible for. Along with the LGA, the Department has a role in encouraging this to happen. To give one example, we are disappointed that there has not been more progress around bins. As the Committee will know, we have a weekly collection support scheme. We held a summit earlier this year—it was before my time—and the point of that summit was to make sure authorities that are funded under that were aware of how best to make greater savings around procuring bins.

**Q428 Simon Danczuk:** Is that the emptying of the bins or the manufacture of the bins? Are we talking about wheelie bins?

**Baroness Stowell of Beeston:** We are talking procurement of bins. For instance, despite making the authorities aware that recycled grey or black bins with coloured lids are £5 per unit cheaper, quite a few authorities went ahead and bought more expensive, brightly

coloured bins. Likewise, Birmingham City Council, which did a great job in buying 400,000 bins at a historically low price, were not sadly joined by others in their bulk-buying contract. The point I am making is there is a role for us in showing some leadership and reinforcing all the time the importance of better procurement. We are doing that in many ways, and accepting your invitation here today is one of them. At the same time, when we are informing councils of this, we are still sadly seeing some examples of councils not taking advantage of the advice we are giving them.

**Q429 Simon Danczuk:** My question to you was: what are you doing to encourage collaboration? Besides the bin summit you organised, is there anything else that you have done to encourage collaboration?

*Baroness Stowell of Beeston:* In recent weeks, I addressed a group of local authority procurement offices and highlighted for them the sorts of things that we are encouraging. The Committee will know as well that we run a competition with the support of Lord Young about inviting local authorities to put themselves forward for the best local authority to do business with in terms of SMEs. We have also introduced a transformation fund of over £6 million, the purpose of that being to provide an incentive and funding, so that where there are innovative ideas coming forward from councils, where they want to try new approaches.

**Q430 Simon Danczuk:** Do you mean trying new approaches to procurement?

*Baroness Stowell of Beeston:* Yes. Where they want to try new approaches to procurement, we would supply some funding to trial some of those ideas, and clearly, because we talk so much about the collaboration, joining up and working together, we would hope that some of those applications of that kind would come.

**Q431 Simon Danczuk:** How much do you think can be saved through greater collaboration amongst local authorities?

*Baroness Stowell of Beeston:* I would not want to put a particular amount on that, but I can give you one example. In Lincolnshire, six councils collaborated to buy their refuse-collection vehicles and they saved 10% with their contract. Another good example is a bit obscure, but the London Waste and Recycling Board co-ordinated a joint procurement of food-waste caddies—I had to find out what that meant myself—for five councils to procure 250,000 of them and 9.5 million liners, and they achieved a saving of about 25%. There are real examples of good collaboration, but it is not necessarily getting rolled out across the piece.

**Q432 Simon Danczuk:** Yes, there are some good examples, but all the examples relate to rubbish, I have noticed, but I am sure that is a coincidence.

*Baroness Stowell of Beeston:* I am sure it is.

**Q433 Simon Danczuk:** Are you telling the Committee that the Department has not done any work whatsoever to establish what the savings could be, Baroness?

*Baroness Stowell of Beeston:* If local authorities are spending £58 billion a year procuring goods right now, a 2% saving on that would realise £1 billion a year. Our focus in terms of the way in which we are encouraging councils to approach this is to say, “This is about

delivering better services to local people. The reason to get better at procuring is to make sure that you can deliver the best at the lowest possible price, and because of the current economic conditions as well, there is real incentive for you, as local authorities, to work harder on this, and that is what we expect you to do.”

**Simon Danczuk:** Sorry, I missed the figure. You said 2% would equate to how much saving?

**Baroness Stowell of Beeston:** £1 billion a year.

**Q434 Simon Danczuk:** Why are you only spending £6 million a year through that competition to try to drive those savings forward? I do not understand that. Why not spend more, Baroness?

**Baroness Stowell of Beeston:** That funding is specifically to trial some new innovative ideas. If they work, we would expect local authorities to take advantage of these new ideas as they roll out. We must remember that this is about local authorities themselves using their own budgets better. This is what we are seeking to do with better procurement.

**Q435 Simon Danczuk:** Do you think they will achieve the £1 billion saving?

**Baroness Stowell of Beeston:** I hope very much that they achieve that saving and go further. There is more scope there for them to go further, and that is what we want them to do.

**Q436 Heather Wheeler:** Excellent. We are getting councils to look at all sorts of different opportunities for contracting and perhaps contracting out—outsourcing. What I am concerned about, and there are a couple of questions that flow from this afterwards, is do you really think councils have the right skill set so that, when they contract out and outsource, the level of risk to the council has been addressed? It is the ongoing work afterwards about fraud in the outsource company or inability to deliver, bonds and things like that. Do you think councils really have those skill sets?

**Baroness Stowell of Beeston:** Some have, but not all do. It is notable that for Sheffield City Council, which, if I am right in remembering, is the Committee Chairman’s council, about 85% of the procurement team—or 75%—have been through professional training and are properly accredited in terms of having achieved the professional procurement certificates. The same cannot be said for the whole of South Yorkshire. There are a couple of things here, and Nick might want to say a bit more about the access for local authorities to some of the training facilities that are available through some of the schemes he works more closely with. The LGA has a role here to extend the professionalism across local authorities, and certainly early next year they are about to launch their strategy in terms of procurement and, off the back of that, I expect to see greater emphasis coming from the LGA on extending that professionalism throughout local authorities.

**Heather Wheeler:** Do you want to add anything?

**Mr Hurd:** The honest answer is there is a massive issue about capability across Government. We have encountered this in central Government. If you look at the Civil Service Capabilities Plan, increasing commercial skills across the system is an absolute priority, because what we inherited was not fit for purpose, particularly when you have to drive a lot of savings through the system.

Procurement is one thing and commissioning services is something different. You are talking about different skill sets, and I do not think we are anywhere near where we need to be. What we are trying to do in the Cabinet Office is help. The Baroness was referring to an initiative we have just finished piloting, which has been very successful, called a Commissioning Academy. We simply said to leaders—people in senior positions inside commissioning authorities—when they were about to embark on a major commissioning or procurement exercise, “Give us eight days and we will place you on a course with other leaders so that you can learn from each other and bring in experts. You will be properly challenged at the start of your procurement exercise that you have thought of everything, and you are challenged in your plan by other people who are going through the same exercise.”

That has proved extremely effective, and various local authority leaders have run away with that. Norfolk, as we speak, are running their own academy across Norfolk for all public-sector commissioning leaders. There is a recognition, particularly against the backdrop of a lot change in terms of regulations and reform, that we are not where we need to be in terms of capability, and we need to be mindful of that and look at things like the Commissioning Academy and other initiatives to try to provide that support.

**Q437 Heather Wheeler:** That was a very helpful answer. Moving on to another area, because people profess to want to shop locally and get SMEs business etc., do you think the Government has any role at all in making sure that outsourcing does not end up with just, say, five major companies? Do you worry about that or do you not worry about that?

**Mr Hurd:** We do. Again, we inherited a situation where the outsourced market was entirely dominated by big private-sector organisations. We are trying to change that, not least because we want people who are spending taxpayers’ money to have as much choice as possible, particularly in areas I get involved in, like the purchase of IT or ICT. What is blindingly obvious is you can get much better value out of the SME sector by buying with small hosting companies or organisations at the cutting edge of technology, rather than being hooked into the old big-system integrators that frankly ripped off the taxpayer for years. It is absolutely in the interests of the taxpayer that we try to create diverse markets of supply, leaving aside the benefit to the economy of trying to encourage growth at the local SME level.

Since 2010, we have done a lot—and Lord Young has come in recently to try to help us to push harder—on trying to remove some of the barriers, particularly for smaller organisations to participate. That is why the Baroness talked about removing the need for pre-qualification questionnaires below thresholds, trying to introduce standardised forms above other thresholds, and introducing things like mystery shopper, where SMEs have the opportunity to tell us where a system is working. Again, there is the Contracts Finder, which will give much greater transparency. The opportunities are there. These are all new tools we have introduced to make it easier for SMEs to come in and compete, but again, given where we started, we are only at the start of a journey after three years, but the state is spending £1.5 billion more with SMEs than it was in 2010, so that is some progress.

**Q438 Heather Wheeler:** It is not a sucker punch, but having managed to move things on so that SMEs are getting a better bite of the cherry, what controls are there if a smaller company cannot cope with the contract? Does that make it more of a risk to the council, and so then, counter-intuitively, do you almost knee-jerk end up going back to one of the big five?

**Mr Hurd:** You are coming to one what I call of the core skills of commissioning, which is, first of all, understand the need, and, secondly, really understand your market of supply and manage that really proactively so that, when you go to procure—i.e. when you go to market—you know your market and you know you have as diverse a market as possible. You have an understanding of the risks attached to the different suppliers. For me, that is part of intelligent, skilful commissioning, which is understanding your market of supply and the risks attached to it, so that you take that into account into your processes.

**Q439 Chair:** When local authorities or central Government transfer services out, initially the employees that go with the service are protected by TUPE. That is an immediate protection, however; it does not necessarily last in the medium or longer term. Do you think Government, whether at local or national level, has a longer term responsibility to employees who transfer with the service provision?

**Baroness Stowell of Beeston:** Beyond the statutory requirements?

**Chair:** Yes.

**Baroness Stowell of Beeston:** That is a difficult question to answer in a simple way, because I would have thought that we would not want to place any legal requirements on local authorities beyond those that exist in order to protect employees who are transferred. The law is as it is in order to protect employees when they are transferred from one employer to another. I would not want to sit here and say that we should expect local authorities necessarily to go further than that. Are you talking more about when a local authority contracts with a company for a service that might previously have been provided by the local authority itself?

**Chair:** Yes. That is the normal way in which TUPE operates.

**Baroness Stowell of Beeston:** To be honest with you, I am not sufficiently knowledgeable about employment law to answer this in a meaningful way.

**Q440 Chair:** I was not really after the legal position, because as you have stated, TUPE is the legal position. Let us start with the House here: we have taken a view as an employer about zero-hours contracts. It applies to contractors—we have a proper framework that does not allow exploitation of our own staff, but it also applies to staff from contractors. Many local authorities have done that as well. Do you think Government should be encouraging authorities to look at these issues so that, when they are drawing contracts up, they do not merely follow the letter of the law, which of course they should, but think of a wider responsibility?

**Baroness Stowell of Beeston:** On zero-hours contracts in particular, as I understand it, the Business Secretary has commissioned a piece of work on their use. A consultation on this is likely to start soon, and I think the expectation is that we would want to see the conclusion of that process before considering whether it should have any impact on our procurement policies for local authorities. In advance of that, I would not really want to predict what our best position might be on that.

**Q441 Chair:** I will come back to that in a second then. Is there not a principle here that, in the end, whether it be central Government or local government, we are spending public

money? Should we be not interested in the way in which that money is spent and the impact on the treatment of employees, whether employed directly or by the contractors or sub-contractors? Should there not be a wider interest than the purely legal requirements you referred to?

**Baroness Stowell of Beeston:** Certainly in the course of considering those tenders for contracts, I would expect any local authority, in considering the criteria it uses to consider which contract offers best value for money, to take account of a whole range of different things. Certainly, as I understand how the process works, they would want to ensure that the same kind of employment expectations that local authorities apply would apply to those who are subsequently providing local services through a commercial contract.

In light of this being an area that I am clearly not well equipped at this moment to respond to you in detail, I think I would much prefer, if I may, to write, because I am not sure that I have the information in front of me that would allow me to respond in the kind of detail that you are hoping for at this time.

**Chair:** Certainly a letter would be helpful.

**Mr Hurd:** The basic requirement is to comply with the law. As the Baroness said, there is plenty of scope within existing procurement regulations for local authorities to consider a whole range of factors at the start of their process in terms of what they build into their judgment of what best value is.

The other dimension is we are operating in a completely different world in terms of transparency and accountability. Therefore, some of the practices that you are talking about are much more likely to come to light and, therefore, be a source of potential embarrassment to contractors. Everyone is aware of that, so there is a new dimension now in terms of transparency, but the basic requirement of Government must be to comply with the law, as well as to send signals of permission for local creativity around how public money is used to derive maximum value. A lot of discretion is left to contracting authorities about that. There is obviously an expectation on outsource organisations to be good suppliers and good employers, and to maintain, incentivise and engage their staff. I think all those things come together.

**Q442 Chair:** When the Business Secretary has done his review of zero-hours contracts and the Government takes a view about them, would the Government then consider giving guidance to local authorities to conform with the view the Government takes?

**Baroness Stowell of Beeston:** We will certainly consider, in light of that, whether there are any necessary amendments to be made, but we cannot commit to that prior to the consultation having concluded.

**Q443 Chair:** Maybe that is something else you will be able to get back to us on when it has concluded. A final point: on the Crown Commercial Service, which seems to be something the Cabinet Office is pioneering, how far are local authorities going to be encouraged to join in? Are we going to see very much what we are seeing in Wales now, with a sort of governmental procurement arrangement, rather than just central Government or local government working separately?



**Mr Hurd:** Thank you for giving me the opportunity to talk about it. It is an offer for local authorities. What we have discovered is that certainly central Government had a hopelessly fragmented and inefficient approach to buying goods and services, and we have centralised that. We saved £1 billion this year doing that—just through centralising procurement and aggregating demand, applying common sense. GPS as it was, and Crown Commercial Service as it will be, managed £11.4 billion worth of public spending in 2012-13 to deliver that £1 billion savings, and £1.2 billion of that £11.4 billion came from local authorities, saving them—we think—around £100 million.

We think there are around 350 local authorities working with CCS from a total of 433. There is a high level of engagement. We think it could go much broader around aggregating demand for common goods and services, where we have proved in central Government you can squeeze a lot of sensible savings by doing some very sensible things in terms of aggregating demand and buying big. We want to make that more available to local authorities. It is up to them whether they use it, but the ability and the service will be there.

**Q444 Chair:** Coming back to the previous point, given that there is a commonality obviously to procurement if it is done on a central basis in that way, if I was a local authority wanting to join, I would want to know what the Government's view of zero-hours contracts will be when they come to negotiate these central contracts, and whether there should be a way of operating them that does not substantially disadvantage those people on them. The Government must have a view. If the Government do not have a view, you are joining something and you have no idea what you are going to end up with.

**Mr Hurd:** With respect, I think we have answered on zero-hours contracts: we are going to wait and see what the Secretary of State at BIS comes up with. Our priority in terms of the CCS is trying to get better value for taxpayers and trying to bring some efficiency to a system that was hopelessly inefficient, and these are what I would call no-brainer savings. Every £1 we save by buying a bit more smartly is £1 we do not have to take off a front-line service.

We have made a decent start at CCS in terms of pan-government frameworks—which local authorities are able to draw down from—and by buying collectively such obvious things as energy. However, we have also been working on the ground, for example, with the local authorities in London in helping them to develop their collaborative strategy. I just feel there is a great deal more we can do. This is about saving billions of pounds of taxpayers' money at a time of austerity, when we have to do a much better job for them. That is front and foremost our priority. In terms of zero-hours contracts, we will just wait and see what BIS have to say.

**Q445 Mark Pawsey:** I wonder if I could ask some questions about the procurement process as it is carried out within local authorities. The Centre for Economics and Business Research in a report from July this year found that UK procurement processes were the most expensive in the EU and that they took 53 days longer—they did not take 53 days; they took on average 53 days longer than they take in other EU countries. There is clearly lots of scope for streamlining processes. We have already had a bit of discussion about the capacity issues. What other obstacles are there to local authorities streamlining their processes?

**Baroness Stowell of Beeston:** The biggest example is the PQQs we have talked about and removing the need for those for contracts below the EU threshold. It is worth noting that many local authorities have already done that, and one, Halton, has scrapped PQQs. This has sped up their procurement, with turnaround possible within 24 hours. If we have gone from the kind of example that you are describing there to being able to do something in a day, there is clearly huge scope on that.

The other thing is on the new European Directives. I am sure it is not very often that you will hear a Conservative speak enthusiastically about a European Directive.

**Mr Hurd:** This is a good one.

**Baroness Stowell of Beeston:** New European Directives are coming in on procurement, which will lead to faster processes. We are very keen to get these adopted here in the UK as quickly as possible.

**Q446 Mark Pawsey:** I am a former small-businessman, so I am no fan of businesses having to fill in lots of PQQs. However, if you get rid of them altogether, how does the procurer—the buyer—know that the intending supplier has capacity to deliver?

**Baroness Stowell of Beeston:** It comes back to the sorts of points we were making in response to an earlier question, which is that, in order to be very effective in the procurement process, one of the things the local authorities need to make sure of is that, in their original tender documents, they are very clear about what the contract is and what their expectations are, so that those who are considering whether to bid can then see quite clearly whether that is something that is worth their time and worth their while, and that they are likely to be a suitable candidate for.

The other thing that is an important step forward is what we are calling Contracts Finder, which is this new, single online place where all public-sector contracts, whether they are local authority or central Government, will be advertised. There will, therefore, be greater access for a wider range of people to potential opportunities.

**Q447 Mark Pawsey:** Can I stick with the PQQs? The evidence we have taken suggests that businesses are happy to do the PQQ once, and if it is satisfactory for local authority A, it should be satisfactory for every other local authority. I do not think we would argue, perhaps as you have suggested, that you need to get rid of it. What we are saying is that there should be a common form of PQQ, and once done it should be applied to lots of local authorities. How can Government help get that kind of principle across and prevent local authorities saying, “Whatever happens, we are going to insist on our own PQQ”?

**Baroness Stowell of Beeston:** On the PQQs for contracts under EU thresholds, that is something that we are removing.

**Q448 Mark Pawsey:** Why remove them? Please justify why you should remove it. Why not just have it done once?

**Baroness Stowell of Beeston:** Although I understand there are some people who have argued for their retention, our work suggests there is greater benefit from removing them. However, we will retain them for those contracts above EU threshold, and we will have a

single PQQ approach for those contracts to do exactly what you have asked, but for those that are above that EU threshold. We think the combination of that approach is the right one all round.

**Q449 Mark Pawsey:** Has the Government already adopted that strategy?

*Mr Hurd:* That is a suggestion of Lord Young that has come through, which we have accepted and we are going to bring through in regulations around the same time as the regulations that arise from the EU Directive, which are all about trying to make this process easier.

To your earlier point, what we are trying to do is get to a better system whereby buyers can share information about suppliers. As we aggregate and centralise what we are doing in central Government, we are going to get a lot of information about the quality of suppliers that we want to share with local authorities. As the Baroness mentioned, we are interested in ideas whereby buyers can share information about suppliers, and we are trying to bring much more efficiency to the process of procurement. You will be aware from your business background of the principles around lean systems, really trying to strip systems to reduce waste. We have done that in central Government, and we have reduced procurement times by about one-third just through that process. Again, we come back to capability, because with enhanced capability you have less process because you have more people really knowing what they are doing, rather than hiding behind process, which is what happens too often.

**Q450 Mark Pawsey:** We have heard the Chairman's concerns about silo-thinking within Government Departments. How is the experience that the Cabinet Office has gone through working its way across to local authorities? Is there a mechanism in place for that to happen right now?

*Mr Hurd:* As I said, we already have 350-odd local authorities engaged with CCS, because I think—talking to people who know more about this than I do—if you are sitting in a local authority now, you have to find savings on a very big scale. The most obvious place to start is by thinking, “How can I buy smarter?” What we are saying is that, in central Government, we have learnt some hard lessons about how you can get better value for taxpayer money by more intelligent procurement policy processes, and we would like to work with you to help you save money. The core offer is to help us to help you buy better on common goods and services, but there are other things we can do as well.

**Q451 Mark Pawsey:** Does it work in a more sophisticated way, though, than a local authority buyer ringing up his compatriot equivalent in central Government? Is there a mechanism for sharing?

*Mr Hurd:* I would put it very simply: if you are in the business of buying common goods and services for local authority A, you are not doing your job if you do not ask, “How can CCS help me?”

*Baroness Stowell of Beeston:* Of course, there are other opportunities as well beyond just CCS. That is the largest place for people to go, but there are other ways in which we would expect them to consider getting best value, and it may be from one of the other public buying organisations that are not representing groups. For instance, the north-west

has a particular group that represents councils in that area. There are other sizes of this kind of scheme that will help local authorities to buy better, and we want them to consider all of these options to get the best value for their local taxpayers.

**Q452 Chris Williamson:** How effective do you think local authorities are in linking their social, environmental and economic objectives with their procurement practices?

**Baroness Stowell of Beeston:** It is something where you will see a range of performance, some better than others. In a way, as they say in broadcasting, it is quite a nice segue from the point I was just making. Whilst these big buying facilities are hugely important, we must not forget that better procurement is not just about getting the lowest price possible. There are other factors that we would hope and expect councils will consider as they are looking at their different contracts.

I am sure Nick could say a bit more about the Public Services (Social Value) Act 2012, but there is one small example I can give you. Harrow has won one of our awards for being one of the best councils to do business with. It has just repositioned its procurement activity within the council—it is an internal cultural thing—away from “spend” to “investment”. That shift of attitude within the authority itself means that it is thinking much more holistically about the best way to get the best contract for its area. Like all these things, it is mixed. People can learn, and that is where we need to encourage people to go further.

**Q453 Chris Williamson:** I was interested in what you said about the lowest price not always being the deciding factor. Do you think those strategic objectives should trump the lowest pricing?

**Baroness Stowell of Beeston:** I would hope any local authority would get the best service possible at the lowest possible price. I would expect their attitude to buying toilet paper to be different from how they might provide a local service in their local area that people were interacting with on a daily basis. It is not possible to say that the absolutely same approach should apply for every different spending or procurement decision, and I think good councils would recognise that and would not need me to spell that out.

**Mr Hurd:** I think it is very interesting. The centre issues guidelines, but I do not think it is right to be too prescriptive and establish a hierarchy. I like the idea of allowing local authorities to determine what value for money looks like in Sheffield or Derby. What I have detected, having taken the 2012 Act through—it sends a much clearer signal of permission for commissioners to consider social and environmental value in their approach to procurement—is that there is a huge amount of interest in it. Local authorities are thinking, “How can we use this?” because, as you all know, we are operating in an environment where money is very tight and business as usual is not necessarily an option, so people are thinking, “How can we be smarter?”

The example I always use is my local authority, Hillingdon, which contracted out the management of public spaces to a social enterprise called Blue Sky, whose strapline is, “We are the only company in the country where you have to have a criminal record to work.” Basically, you get a double win, because you are helping an offender on the pathway into employment, and we all know the costs of reoffending. For me, that is smart

buying, because you get a double outcome of great service, good price, and a social benefit thrown in.

It was right to send that signal through the social value Act; it was right not to be too prescriptive about what it should mean. I wanted them to look for leadership, look for people grabbing the ball and saying, “Yes, this is what we want to do with it,” and then—easy it is to talk about, difficult it is to do—to share round the system examples of how this new law can be used to maximise value at a local level. I am a great believer that the people working with that are going to come through with great examples. I was in Cornwall the other day, where they are really serious about it. They are asking, “How can we use this to get a more intelligent approach to spending public money and making that £1 stretch that much further?”

**Q454 Chris Williamson:** It is good to see that there are some local examples that you have cited there, but I wonder if you could say a bit more about what the Government is doing to make sure that the provisions of the social value Act are working in practice.

**Mr Hurd:** I deliberately did not want to be overly prescriptive and bureaucratic at the start. I was worried that it would be just another document shoved into a drawer, another bit of instruction from central Government people have to comply with. I wanted there to be a bit of a movement that was not just about central Government but about the social enterprise movement, local authority leaders and even the private sector, who are increasingly doing this in terms of managing their supply chains, saying, “This is a better way of doing business.” I am beginning to see that, and we have appointed an ambassador for the Act and gone out and evangelised about it. We are going to publish an update on it in the New Year, which I hope will begin to showcase some of the ways in which local authorities have responded to the opportunity. It is more about encouragement than it is about being over-prescriptive.

**Q455 Chris Williamson:** I appreciate that. I wonder if you have picked up whether or not there is any need perhaps for some revision of the Act to make it work a bit better. The only reason I ask that is the NCVO, in the evidence they gave to us, suggested that in practice it seems it was only being applied to procurement that EU procurement laws apply to. The feeling was that the principle ought to be more widely applied than simply those procurements that are subject to that EU restriction.

**Mr Hurd:** We had this discussion at the time—speaking very candidly—when we had to take a decision as a Government whether we were going to accept this private Member’s Bill. You will know as well as I do that most of them do not get accepted, so I had to win this argument across Government. You are always going to get people saying, “No, we need keep life simple for commissioners; we must not overburden them with new stuff. Their mission is to deliver value for money. We cannot overcomplicate their lives.” However, we won the argument. We said, no, actually, this is the right time to send a stronger signal about permission to look more holistically and look more widely around what value for money meant and how it could be generated. We had to compromise, though: that’s politics.

My honest answer is that, at the moment, my priority is to make existing law work and hum and live and be something that people are using, rather than thinking the priority is to tinker with it. That is around commissioning services at the pre-procurement stage. It

covers a huge amount of activity and a huge amount of value underpinning it, and my priority is to spend what political capital we have trying to make the existing Act work, rather than going back into the bunker thinking, “How do we improve it?”

**Baroness Stowell of Beeston:** It is worth reminding ourselves that the social value Act has only been in force since January this year, so it is quite early days. The other thing I wanted to mention is that my Department has issued best-value statutory guidance as well, which sets out for local authorities the importance of best value and making sure that social value is considered as well in the course of the procurement process. That is available as well, hopefully in order to ensure that this is working well.

**Q456 Chris Williamson:** A final question, then: do either or both of you have any concerns about how much procurement ends up in the hands of foreign companies and, therefore, out of the UK altogether? Do you have any concerns about that?

**Baroness Stowell of Beeston:** In answering, what I do not have in front of me is data to tell me how much is going outside, so I do not know how big an issue it is in reality.

**Q457 Chris Williamson:** You often see vehicle fleets that were made in Germany—anywhere but Britain, it seems. Very often we get contractors for building work, for example, that are not British companies. I just wondered whether that was a matter that exercised DCLG or whether you are happy about money going out of the UK in that way.

**Baroness Stowell of Beeston:** If I can answer that in two parts, firstly, what you have raised is a fair point. It is one that, as a new Minister in this area, I will go away and look at, because it is a fair challenge. When we look at other European countries, it is always quite frustrating that they seem to manage their buying in a way that is usually using domestic things. I will go away and make some more enquiries on that.

Generally what I would say is that—going back to my previous point—fundamentally, what we are asking local authorities to do is to make sure that they procure what is best for their local areas and to do so at the best possible price. If local authorities think of themselves as an engine of real prosperity in their area—they are not just there to provide services; they are there to help their area be the place in which everyone wants to work and live—that will inform them in a much more wide-ranging way in how they make their decisions.

On your first point, I think that is a good one and I will take it away.

**Q458 Simon Danczuk:** I just wanted to touch on a point that Heather raised earlier around skill levels with regard to procurement. I think, Nick, you said that a Commissioning Academy had already been established by the Cabinet Office. What is DCLG doing, Baroness, around improving skills levels, which I think we all agree are not adequate in terms of procurement? What is the Department doing about it?

**Baroness Stowell of Beeston:** What we are doing is encouraging local authorities and the LGA to show some leadership here. Our fundamental point is to make sure that authorities are aware of the facilities available to them via the services that Nick has already referred to, and to make sure that they are learning from each other and taking advantage of those professional procurement companies out there to support them in their procurement. We still have some work to do in this area. From discussions I have had with the LGA in the

last few weeks, I am pleased that this is something they are very conscious of. As I say, early next year they are to launch their new strategy for procurement, and this is an area where I expect them to focus quite heavily.

**Simon Danczuk:** Could I just clarify that, Nick? The Baroness was suggesting that local authority officers could take advantage of the Commissioning Academy scheme. Is that right, Nick?

**Mr Hurd:** They do already, to be honest, Simon.

**Simon Danczuk:** They do, and they go up through the training.

**Mr Hurd:** Part of the value of the Commissioning Academy is you bring together commissioners from very different sectors and disciplines. You might get someone from the PCC, the NHS, the Department for Work and Pensions, and the leader of Staffordshire local authority, all sharing time and space together, and learning together and challenging each other. It is growing very fast; the feedback has been absolutely fantastic, because it is always best and easiest to learn from people who are doing something similar to you at a similar level of seniority.

It is amazing what has come from it. As I said, Norfolk have said, “We want a local Commissioning Academy in our area, because there is so much more we could do together to buy together more intelligently. Can we take your model and apply it to Norfolk?” We have said, “That is absolutely fine, and we are here to help if we can.” It is early days. We could spend years refining it. It was the JFDI school of Government. We said: “Let’s do it—just create the space and see if they come,” and they have, because there is an appetite to learn, and that is what we want to encourage.

**Q459 Mark Pawsey:** I wonder if I might ask about what local authorities are doing to prevent and tackle fraud within procurement. In the *50 Ways to Save* initiative the DCLG brought out, they estimated that fraud costs something like £880 million a year. Are you comfortable with the accuracy of that figure?

**Baroness Stowell of Beeston:** In terms of the accuracy of the figure, it is just estimated. We should also be clear that, in terms of procurement fraud in local authorities, if you add up all the fraud in local authorities, estimated fraud is over £2 billion. That is supposed to be a conservative estimate as well, so we think there is more that is not being tackled. This is definitely an area where there is scope for us to go further and I want us to do more.

There are a number of things we are doing in this area that it is worth me sharing with the Committee. As I have said before, the transparency code and just having more information out there in the public domain is an important step forward on fraud. Regarding action to tackle fraud, the Committee might like to be aware that only a quarter of councils detected three-quarters of the fraud carried out last year in local government, which is astonishing. Almost 100 councils said that they detected no fraud last year, which I think all of us would find hard to believe. One of the things I have found quite concerning is an attitude amongst some local authorities that admitting fraud that is carried out in their local authority is somehow a sign of weakness. I would like them to acknowledge that there is fraud happening in their area and to know how they are going to go about tackling it.

I gave a speech last week to the local government Fighting Fraud Locally seminar. As part of my speech there, one of the things I talked about was additional funding that we have made available: £16.5 million. Some of that is to replace some capacity that is going to move from local government to a DWP Single Fraud Investigation Service, focusing exclusively on benefit fraud. However, the money will allow us to recruit at least 200 more fraud investigators. I undertook at that conference last week to work with local authorities to work out how best to use that additional funding. I will also be writing to all chief executives very soon about my ambition for them to go further in this area.

**Q460 Mark Pawsey:** I wonder if your speech included the concerns of some people that, as local government procurement pushes suppliers harder for a better price, it gives a bigger incentive for contractors or their staff to commit fraud. Also, as local authorities come under pressure for resources, perhaps less resource is applied to monitoring a contract. Do those two things together mean that the potential for fraud could be even higher?

*Baroness Stowell of Beeston:* My speech did not cover that specific point, no. I do not think there is less capacity for monitoring the risk of fraud. As I say, what I have done in the last couple of weeks is announce money for an increase in that capacity. I want us to go further in combating over £2 billion of fraud every year. I want to work with local authorities to see how we can improve in this area.

**Q461 Mark Pawsey:** Nick, are there any lessons for local government from the experience of central Government?

*Mr Hurd:* The problem is massive. Some of it is around the design of services and the degree to which you can design fraud out of the process. We come back to capability and the whole status of people responsible for commissioning and procurement, because monitoring and management of contracts should be part of an efficient commissioning process. You will know better than I do, but I have a sense that, too often, you buy it and it is not right. That is, again, part of the capability issue. The other thing, which I came back to before, is that transparency is so important. We are fast moving further into an age where there is much more information and data about where the money went, and ability to redress and hold people to account for it.

**Q462 Mark Pawsey:** Given that local authorities are often using the same suppliers as central Government, where you identify an issue of fraud, do local authorities get to know about it?

*Mr Hurd:* I come back to the point I made before: we want to get towards a situation where you have the Crown Commercial Service sitting there as a very large organisation, with a very big capability, managing a great deal of money, handling relationships with a lot of suppliers, and being in a position to share that expertise and information with local authority partners.

**Q463 Mark Pawsey:** We took some evidence at an earlier session from the NAO, who expressed some concerns about the abolishing of the Audit Commission and whether or not the absence of the Audit Commission meant that there was a bit of a hole in managing fraud out of local government procurement. Do you see the absence of the Audit Commission as a problem in any way? This is where local authorities will be procuring their own audit, for



example, and the auditors that they appoint may not be as good at identifying fraud as previous bodies.

**Baroness Stowell of Beeston:** No, and I am surprised that the NAO expressed concern about that. We are very confident that the abolition of the Audit Commission is not going to change the scope of local audit. The processes around that will be as robust. I will certainly look at what it is the NAO said to you in terms of their concern.

**Q464 Mark Pawsey:** Could more private-sector companies auditing local authorities in future mean that they might be better placed to identify fraud, would you say?

**Baroness Stowell of Beeston:** That would certainly be welcome.

**Q465 Chris Williamson:** I was just interested in what you said about transparency being important, and I absolutely agree with you on that point. Obviously, we are seeing more and more contracts being externalised so that they are not the direct responsibility of the local authority. I wonder to what extent you think the provisions of the Freedom of Information Act should apply to any contractor who is undertaking a public-service contract.

**Mr Hurd:** Where public services are outsourced, we expect that contractors will fully assist public authorities in meeting their current obligations under the Freedom of Information Act. We noted that that Act went under post-legislative scrutiny by the Justice Select Committee, who did not recommend that it be extended to private providers of public services. I think, again, part of the direction of travel we are seeing and encountering is around contract management standards going forward. We are increasingly going to be requiring what we call open book accounting on major contracts, so that those managing the contracts have a much better understanding of profit and how profit is generated, and much greater visibility around those processes. I think that is very much part of the future and, again, another milestone in generating much greater transparency and accountability around these processes.

**Q466 Chris Williamson:** Transparency could become more difficult if contracts are externalised and the provisions of the Freedom of Information Act were not to apply. I hear what you say—that the recommendation was not to extend it, and that you are hoping that the open book approach would overcome some of those concerns. You may be familiar with Transparency International’s anxiety about the Local Audit and Accountability Bill that is currently before the House. Not just them but a range of other outside bodies are fearful that the potential for fraud and corruption is increased. I just wondered what your thoughts were about that. In that context, do you still think that the Freedom of Information Act ought not to apply to contractors taking on these public sector contracts?

**Mr Hurd:** I do not think I have much to add to what I said before. I have not read that report and I am not responsible for that Act, so I have limited value to add on that. My main point is that we are, in 2013, in a completely different place than we were. Let us not forget that outsourced public service markets have been around for a while, so that is not strange. We are in a much better place, and you will know as well as I do that the direction of travel is irreversible. We are only going to go one way, and that is more information, accountability and transparency. If you look at what Lord Young has recommended, we have accepted Contracts Finder and much more information about where the money is going. The direction of travel is clear and is going to make it much harder for those who

want to engineer fraud or defraud the taxpayer in some way. I think the direction of travel is really clear and welcome.

**Baroness Stowell of Beeston:** I do not really have anything to add, only to say that I would hope and expect that, in the process of agreeing contracts, as much as possible is made public via the nature of that contract. As Nick says, we are only going in one direction, and I think anyone who is resisting disclosure of information that other people feel they need to see would be very much counter to the current zeitgeist, which I do not expect to change soon.

**Chair:** You made a reference a few minutes ago in passing to your speech about centralising staffing responsibility for benefit fraud from local authorities to DWP. Should we be reassured that the efficiency of DWP is now going to be responsible for dealing with benefit fraud in that way, which local authorities seem to have been doing pretty well at for the last few years?

**Baroness Stowell of Beeston:** The Single Fraud Investigation Service—the DWP—service, is to have a single, unified approach to tackling benefit fraud. They made their case for that single service and the need for uniformity across all areas to get the best performance out of tackling benefit fraud. For me, as the Communities and Local Government Minister responsible for fraud in local government, I wanted to make sure I properly listened to what local authorities, practitioners and investigators on the ground were saying about their concerns if that single fighting-fraud service went ahead. For them, there were a couple of important things, such as making sure that there was still the ability to collaborate between the local authority investigators—they are often pursuing the same people, who carry out different kinds of fraud. Making sure that that collaboration was still possible was important, but we also took this opportunity to deal with any significant barriers around data sharing and so on and so forth.

I feel that what we have come out with is a strong result. The DWP are much better placed to do what they need to do, but we have made sure we have the resource we need to beef up our own investigator work force. Also, over the next few months, DCLG and DWP have committed to work together, and with local authorities, to break down any of the pre-existing barriers so that they can work even more closely in the future. I think there were legitimate concerns that were raised by local authorities. We have taken those on board, and I am confident we have the right attitude amongst all of us affected to get the right result. Fundamentally, what we are trying to do, whether it is on benefit fraud or corporate fraud in local government, is to try to drive fraud down. We want to make sure that there is as little fraud as possible carried out by anyone in any kind of way. It is in nobody's interest for that to continue.

**Chair:** If we go to the LGA and ask them the same question, will they give us the same answer—that they are equally content with the arrangements that have been reached?

**Baroness Stowell of Beeston:** I would not want to speak for the LGA, because I do not speak for the LGA. I know that they expressed concerns about the Single Fraud Investigation Service, but since I have been able to announce what we are doing in light of SFIS coming on board, the fact that we have more money there and that there is a commitment to tackle some of these barriers, I have been pleased at very constructive response that I have had from the LGA and others.

**Q467 Chair:** Should we not be worried in any way about a divorce between the people hands-on doing the job on a day-to-day basis, who may see fraud and spot it very quickly, and fraud investigators based somewhere centrally?

**Baroness Stowell of Beeston:** I think that there is no reason to worry, because we have identified that that is something that we cannot allow to happen. We are working together to make sure that anything that might stand in the way of that will be properly addressed before SFIS is fully operational. SFIS itself will take about 18 months to come on stream, so we have the time to make sure that everything is properly implemented.

**Chair:** I am tempted to ask whether it is on time and on budget, but I will not go there today. Ministers, thank you both very much indeed for coming this afternoon. Could I take this opportunity to wish you both all the best for Christmas and the new year? Thank you for your evidence.